VIEWPOINTS

MILKEN INSTITUTE
CENTER FOR FINANCIAL MARKETS

Millennials: Who They Are and Their Impact on the Financial Services Industry

Remarks as Prepared for Delivery to the
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A set of PowerPoint slides accompanies these remarks. Please find the available set here.

Slide 1

Good morning everyone. It's great to be back in New York City and I want to thank the Strategy Institute, its partners and the sponsors of this event for inviting me to speak at this year's Summit.
My remarks today will focus on Millennials, who they are, what they want, how their demands are disrupting the traditional financial services industry, and whether we truly are a "tech savvy" generation as multiple reports suggest.

Slide 2

As stated in the program guide, my name is Jackson Mueller and I am a senior associate, policy research analyst, at the Milken Institute Center for Financial Markets. [Mueller is now deputy director of the center's FinTech program.] At the center, we focus on promoting financial market understanding, expanding access to capital, strengthening—and deepening—financial markets, and developing innovative financial solutions to the most pressing global challenges.

And, as the self-promoting Millennial that I am, you can find me on Twitter and also sign up to receive *FinTech in Focus*, which is a weekly newsletter that I put together containing curated headlines focused on innovations within the financial services space. Our most recent release was sent out yesterday, so feel free to pass me your card and I will sign you up directly if you're interested.

Slide 3

FinTech in Focus is part of the Institute's financial technology (or FinTech) program, which was launched back in October 2014 and, as of three weeks ago, I now co-head.

When we first launched the program, very few people were focused on the emerging political and regulatory issues surrounding innovations in the financial services space. FinTech Happy Hours back in 2014 were nonexistent. Nowadays, you can't get through a workday without some regulator or policymaker mentioning FinTech.

For instance, just within the past week we've heard from Federal Reserve Governor Lael Brainard; John Williams, the president and CEO of the Federal Reserve Bank of San Francisco; Jeffrey Langer, assistant director for Installment Lending and Collections Markets at the U.S. Consumer Financial Protection Bureau; U.S. Commodity Futures Trading Commissioner Christopher Giancarlo; and Ambassador David Thorne, senior advisor to the U.S. secretary of state, on a wide range of FinTech issues. And that's just U.S. agency officials! We also have Senators Jeff Merkley, Sherrod Brown, and Jeanne Shaheen who on Monday submitted a letter to the U.S. Government Accountability Office instructing the GAO to update its 2011 report on FinTech.[1] Needless to say, FinTech is the new "hot topic" in Washington, D.C.

It's important to note that the term "FinTech" is incredibly broad. Any firm with a programmer or coder sitting in some back office now considers itself a FinTech company. At the Institute, we like to think of FinTech as referring to the use of technology to facilitate financial services. Pure and simple and yet incredibly complex.

Slide 4

As you can see on the screen, our program currently covers four verticals, which are now increasingly overlapping with each other: digital payments (everything from Venmo to coverage of the U.S. payments infrastructure), online finance (everything from marketplace lenders to online securities-based platforms, digital currencies and distributed ledger technology, and big data and machine learning (including credit underwriting, for instance). In short, there is never a dull moment in this space given the speed of innovation these days.

Before I begin, I would just like to give my standard disclaimer.

Slide 5

I am a Millennial. Born and raised since 1985. And while I fit within the timeframe of the Millennial generation…

[1] https://www.merkley.senate.gov/news/press-releases/merkley-brown-shaheen-ask-gao-for-updated-report-on-the-financial-technology-marketplace

Slide 6

… we, including government agencies, research organizations and think tanks, and large and small banks have yet to figure out exactly when my generation first started and when it ended, which I am sure makes it difficult for those of you out in the audience to figure out just who it is we're talking about when we throw around the term Millennial and derive numbers for our research based off of best guesses.

And while we can't seem to find an appropriate timeline for when this generation first began (and ended)…

Slide 7

… we are very good at connecting Millennials to a whole host of characterizations. Some of these characterizations, and maybe all of them, might be true. For instance, we already know that I am overly qualified for the self-promotion title.

With some of the terms listed in this slide, it's no wonder that some folks within the Millennial generation want to find a way to separate themselves from being called a Millennial. According to various studies, nearly one-quarter of Millennials have a negative view of their generation[2] and a whopping 60 percent don't even consider themselves to be a part of the Millennial generation.[3]

Slide 8

And apparently our generation is viewed with such distaste that there are applications in Google Chrome that will, when downloaded, replace the use of Millennial in any article with the terms "snake people" or "pesky whipper-snapper."[4]

My former boss, born in 1980 and who is in no way interested in associating himself with the Millennial generation, brought this to my attention multiple times.

Slide 9

Good and bad characterizations, the truth of the matter is, people are still trying to figure us out. As such, in preparing my remarks I contacted Clarissa Darling to help explain the importance of the Millennial generation, its impact on the financial services space, and the extent to which my generation is forever changing the traditional norms and practices of modern finance.

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[2] Austin, Manila. "5 Myths About Millennial Consumers." Fast Company. April 16, 2014. Available link: http://www.fastcompany.com/3029120/5-myths-about-millennial-consumers

[3] Doherty, Carroll, et. al. "Most Millennials Resist the 'Millennial' Label." Pew Research Center. September 3, 2015. Available link: http://www.people-press.org/2015/09/03/most-millennials-resist-the-millennial-label/

[4] https://chrome.google.com/webstore/search/millennial?hl=en-US

Slide 10

Depending on when you believe the Millennial generation first started and ended, there are 70 to 85 million Millennials in the U.S. currently. In 2015, my generation surpassed Baby Boomers as the largest generation in the U.S.[5]

And we're increasingly heading into the workforce. As the Q1 2015 bars show on the graphic provided by the Pew Research Center, we have now eclipsed Generation X as the largest labor force in the U.S. economy. In fact, more than one-third of the U.S. labor force are Millennials.[6]

In other words, go us!

Slide 11

But all is not well, as can be seen from the list of Millennial stressors in this slide.

As Millennials continue to enter the formal economy, we are carrying with us a lot of financial baggage and stress.

Beyond the listed stressors, even as we eclipse Generation X as the largest labor force in the U.S., not all of us are fully employed, or employed at all. According to reports, Millennials currently make up 40 percent of the nation's unemployed,[7] and more than one-quarter of Millennials lack a full-time job.[8] Sure, you could say that there are a significant number of Millennials that are still in school and not employed and that these numbers are fuzzy math, which is a type of math that D.C. is very good at, by the way. But for those Millennials who are not in school, roughly 28 million of them are taking home less than $10,000 a year.[9]

Meanwhile, roughly 70 percent of college graduates in 2015 carried student loan debt, averaging more than $30,000 per borrower.[10] But there are bigger problems than just the amount of student debt Millennials carry. For instance, nearly 73 percent of Millennials polled in a recent study thought Sallie Mae was a person, not a company, and 37 percent either disagreed or strongly disagreed with the question of whether they would be able to pay off their loans.[11] In a separate study, more than half of the 5,500 Millennials surveyed expressed concerns about their ability to repay their student loan debt.

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[5] N/A. "Millennials Outnumber Baby Boomers and Are Far More Diverse, Census Bureau Reports." U.S. Census Bureau. June 25, 2015. Available link: https://www.census.gov/newsroom/press-releases/2015/cb15-113.html

[6] Fry, Richard. "Millennials surpass Gen Xers as the largest generation in the U.S. labor force." Pew Research Center. May 11, 2015. Available link: http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/

[7] McHale, Brandee. "Why are so many millennials unemployed?" December 4, 2015. Available link: http://www.cnbc.com/2015/12/03/why-are-so-many-millennials-unemployed-commentary.html

[8] Bernie Marcus and Justin Dent. "Millennial unemployment: The crisis the candidates ignore." The Hill. November 18, 2015. Available link: http://thehill.com/blogs/congress-blog/presidential-campaign/260526-millennial-unemployment-the-crisis-the-candidates

[9] Wile, Rob. "Wealth gap calculator: Are you in the millennial one percent?" Fusion. February 3, 2015. Available link: http://fusion.net/story/41833/wealth-gap-calculator-are-you-in-the-millennial-one-percent/

[10] Nicolaou, Anna. "US millennials caught in the parent trap." Financial Times. February 1, 2016. Available link: https://next.ft.com/content/9253cacc-c5f8-11e5-b3b1-7b2481276e45

[11] Matherson, Nate. "January 2016 Student Loan Borrower Survey." Lendedu. January 22, 2016. Available link: https://lendedu.com/blog/January-student-loan-survey

As such, it is not surprising then to hear that 3.6 million borrowers are in default on nearly $60 billion in federal student loan debt, with 3 million more borrowers owing nearly $70 billion at least a month behind in payment.[12]

With all this in mind, it's also not surprising to hear that the homeownership rate for 18 to 34 year olds is at its lowest rate since 1982, with roughly one-third of Millennials living with their parents.[13] For Millennials that are able to get out of the basement and move to urban areas,[14] they may only be able to afford a couple hundred square feet of space, which is especially true in New York, Los Angeles, San Francisco, and Washington, D.C.[15]

While Millennials are thought of as the "tech savvy" generation, we are by no means credit savvy. Less than 60 percent of us believe that maintaining a good credit score is important, with a little more than a third of Millennials confident in their ability to manage credit.[16] Nearly 30 percent of us are overdrawing our checking accounts and more than 40 percent of us have used an alternative financial services product within the last five years, including payday loans, pawnshops, auto title loans, tax refund advances, and rent-to-own products.[17] We also currently maintain the number one ranking for lowest credit scores out of all generations.[18]

Given all that was just said, you may be wondering how it is that Millennials have been able to transform modern finance.

Beyond the financial baggage that we carry, we've also introduced new demands into the formal financial services system: speed, automation, and efficiency, in particular.

Slide 12

These demands were developed at an early age. With increased computing power, the mass production of computers and their introduction into the classroom setting, and first row seats to the potential and possibilities of the Internet at an early age, Millennials were arguably the first generation of mass consumers of such technology.

When you look back, it's amazing to think of how far we've come. We've survived through 56K modems, the spinning Hourglass that made you wait for what felt like a century, your parents' inability to get off

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[12] Mitchell, Josh. "More Than 40% of Student Borrowers Aren't Making Payments." The Wall Street Journal. April 7, 2016. Available link: http://www.wsj.com/articles/more-than-40-of-student-borrowers-arent-making-payments-1459971348

[13] Nicolaou, Anna. "US millennials caught in the parent trap." Financial Times. February 1, 2016. Available link: https://next.ft.com/content/9253cacc-c5f8-11e5-b3b1-7b2481276e45

[14] Debate continues over whether Millennials are indeed moving to urban areas or not.

[15] Wallace, Nick. "How Much House Can Millennials Afford?" SmartAsset. January 12, 2016. Available link: https://smartasset.com/mortgage/how-much-house-can-millennials-afford

[16] N/A. "The Great Credit Divide: Millennials Struggle To Manage Their Credit While Boomers Express Confidence." LoanDepot. October 6, 2015. Available link: http://www.prnewswire.com/news-releases/the-great-credit-divide-millennials-struggle-to-manage-their-credit-while-boomers-express-confidence-300154410.html

[17] Shannon Schuyler and Annamaria Lusardi. "Millennials & Financial Literacy – The Struggle with Personal Finance." January 2016. Available link: http://www.pwc.com/us/en/about-us/corporate-responsibility/publications/millenials-financial-literacy-personal-finance.html

[18] N/A. "Millennials have the lowest credit scores of all generations." Experian PLC. July 30, 2015. Available link: https://www.experianplc.com/media/news/2015/millennials-have-the-lowest-credit-scores-of-all-generations

the phone and therefore preventing you from accessing the Internet, paying for e-mail, the animated paperclip in Microsoft Word that was quite possibly the most annoying thing ever, and the fact that most of those who joined your wagon on the Oregon Trail would eventually succumb to dysentery. That was OK though, because you, yourself, ultimately completed the trek.

Slide 13

We were also introduced to mobile technology at a time when the vast majority of U.S. households were connected to landlines. And we saw how mobile phones decreased in size from the Zach Morris phone, which was about the size of an NFL football, to flip phones and now to smartphones, where the development, availability, and proliferation of mobile phone applications have revolutionized how we utilize our phones and for what purposes.

According to a recent Federal Reserve study,[19] just under 90 percent of the U.S. adult population has a mobile phone, which is roughly in line with numbers recorded in 2013 and 2014. Meanwhile, 77 percent of mobile phones are smartphones, which is up 6 percent from 2014 and 16 percent from 2013.

Slide 14

As smartphone devices become less expensive, they are becoming increasingly prevalent no matter where you live, or what your gender or race is. And smartphone penetration continues to grow in the U.S., with nearly three-quarters of the U.S. population tied to an Apple or Samsung device by the end of 2014.[20]

Slide 15

No longer are our phones merely an instrument with which to connect people, but they are increasingly turning into a small laptop allowing us to receive information in near real-time, communicate with our friends and family in different ways, play “Angry Birds” until you’re too angry to play anymore, open up new ways with which to conduct financial transactions, and become an important device for financial inclusion purposes.

Slide 16

Over the past 20 years or so, Millennials have gone from being solely digital consumers of technological advancements to now becoming its creators and developers. And we’re continuing to adopt services and products derived from FinTech firms that are meeting our demands for speed, efficiency and automation. This adoption is forever changing how my generation interacts with the formal financial services system, which is often viewed as archaic and unable to respond to our “tech-savvy” demands.

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[19] N/A. "Consumers and Mobile Financial Services 2016." The Board of Governors of the Federal Reserve System. March 30, 2016. Available link: http://www.federalreserve.gov/newsevents/press/other/20160330a.htm

[20] N/A. "Smartphone Owners Are as Diverse as Their Devices." Nielsen. May 3, 2015. Available link: http://www.nielsen.com/us/en/insights/news/2015/smartphone-owners-are-as-diverse-as-their-devices.html

Slide 17

With these demands in tow, Millennials are changing the current structure of retail banking, overhauling payments systems and legacy rails that prevent funds from being transferred instantaneously, establishing new norms at the point of sale, obtaining personal or small business financing without the need for traditional incumbents, and replacing human interaction and advice with algorithms and touch screen interfaces. In light of this, it's no wonder that roughly half of respondents to a recent Economist Intelligence Unit survey are of the view that the traditional branch-based banking model is dead, for instance.[21]

Slide 18

Our insatiable need for technology-driven solutions that fit our demands for speed, efficiency and automation is forever changing how people bank. We are literally redefining the way in which we bank and pursuing more opportunities to bank without ever having to step inside of a bank branch. The low barriers to entry resulting from significant cost declines in the development or procurement of certain technology has led to a proliferation of startups hell-bent on redefining how we bank. The recent launch of Atom Bank in the UK, for instance, is an example of what banking could become. No branches, no doors, just a mobile application delivering certain retail banking services to mobile users.[22]

It is the phone, more than anything else that is pushing the traditional retail banking model to the edge. In the Federal Reserve report I cited earlier, roughly 43 percent of mobile phone users with a bank account used mobile banking in 2015, up from 39 percent in 2014 and 33 percent in 2013. For those with a smartphone, 53 percent of smartphone users with a bank account used mobile banking in 2015, up 1 percent from a year earlier.[23] The top three most common mobile banking activities: checking account balances or transactions, transferring money between a user's own accounts, and receiving alerts from one's bank.[24] All told, more than 80 percent of mobile banking users have installed their bank's application on their phones.[25] And when you consider the fact that more than 85 percent of banking transactions are now fully digital,[26] it's no wonder why we continue hear on a weekly basis of some bank cutting retail branches as banking becomes more digital.

Of course, this doesn't mean that the bank branch is dead—rather, it will evolve. When the average cost of a transaction to a lender is 10 cents for mobile, 20 cents for desktop computer, and $4.25 for an in-branch deposit, a digital approach by banks makes sense.[27]

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[21] N/A. "Retail Banking: In tech we trust." The Economist Intelligence Unit, Temenos. March 10, 2016. Available link: http://www.eiuperspectives.economist.com/financial-services/retail-banking-tech-we-trust
[22] Williams-Grut, Oscar. "App-only bank Atom just launched—here's what it looks like." Business Insider. April 6, 2016. Available link: http://www.businessinsider.com/atom-bank-launches-in-the-uk-2016-4?r=UK&IR=T
[23] N/A. "Consumers and Mobile Financial Services 2016." The Board of Governors of the Federal Reserve System. March 30, 2016. Available link: http://www.federalreserve.gov/newsevents/press/other/20160330a.htm
[24] *Id.*
[25] *Id.*
[26] Mike Baxter and Darrell Rigby. "Rethinking the Bank Branch in a Digital World." Harvard Business Review. September 15, 2014. Available link: https://hbr.org/2014/09/rethinking-the-bank-branch-in-a-digital-world/
[27] N/A. "The Branch of the Future." CDW Finance. 2014. Available link: http://ht.ly/BwEvm

Within the past few years, we have seen banks unveil plans to dramatically overhaul the current look of the retail branch. For instance, in 2014 Citi unveiled its digital banking blueprint, which called for smaller branches of roughly half the size of Citi's traditional branches, with one-third the staff required.[28] JPMorgan Chase announced to investors back in 2014 that it is looking to create smaller branches with more streamlined and automated customer experience,[29] while Wells Fargo unveiled its concept branch back in 2013, which heavily relies on digital technology.[30] PNC Bank took the "smaller is better" phrase to heart by creating the first portable pop-up branch in the U.S.[31]

Slide 19

Beyond finding ways to bank without having to actually step foot in a bank, Millennials are actively using mobile applications, in particular, to facilitate peer-to-peer transactions and to purchase items—forever changing how we transact.

And tech companies, in particular, are becoming more involved in providing payments services that allow users to transact in real-time, moving into a space that used to be the sole domain of traditional financial incumbents. For instance, Facebook Messenger, Square Cash, Snapcash (which partnered with Square) are newcomers to the peer-to-peer payments space and join PayPal and the Millennial favorite, Venmo, which is owned by PayPal.

Apple Pay, unveiled in October 2014 in the U.S., ushered in a race to dominate customer transactions at the point of sale, with Samsung Pay and Android Pay following in its footsteps. As mobile technology has progressed, and concerns about fraudulent activity from magnetic stripe cards has increased, new, more protected ways of transacting through near-field communication, or NFC, and Bluetooth for instance, has led to retail stores to have to upgrade their point-of-sale systems to cater to a new and growing, albeit slowly, demand for mobile payments.

Given the proliferation of mobile payments and the uses of mobile technology both within and outside the retail store, retailers are continuing to develop ways to interact with the customer through their mobile device to provide a seamless experience in an effort to win consumer loyalty and effectively market brands to an increasingly online and mobile customer.

Slide 20

And there seems to be no stopping our use of alternative forms of payment as the once dominant methods of payment such as cash, debit and credit cards, and writing checks are replaced by digital payment methods.

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[28] Rexrode, Christina. "Citi Plans Flashy Makeover of Bank Branches." The Wall Street Journal. November 3, 2014. Available link: http://blogs.wsj.com/moneybeat/2014/11/03/citi-plans-flashy-makeover-of-bank-branches/

[29] Burger, Kathy. "Embracing Digital: JPMorgan Chase Rethinks Delivery." BankTech. March 3, 2014. Available link: http://www.banktech.com/infrastructure/embracing-digital-jpmorgan-chase-rethinks-delivery/d/d-id/1296874

[30] Switzky, Brian. "Wells Fargo unveils new concept branch in NoMa (Video)." Washington Business Journal. April 12, 2013. Available link: http://www.bizjournals.com/washington/news/2013/04/10/wells-fargo-unveils-new-concept-branch.html

[31] N/A. "PNC Rolls Out First Ever Portable Pop-Up Branch." The Financial Brand. August 5, 2013. Available link: http://thefinancialbrand.com/32306/pnc-bank-pop-up-branch/

In the chart, you'll find that the columns correspond to traditional payment and digital payment services, where respondents have indicated how often they use multiple forms of payments. The purple line identifies recorded responses in 2014, while the blue line represents responses from 2015. That's not to say that traditional methods of payment will die off quickly. As can be seen in the 2014-2015 comparison chart, traditional methods of payment continue to rule the day, with cash and debit and credit cards the preferred forms of payment, overshadowing the use of PayPal and other digital forms of payment.

But for how long?

Slide 21

As can be seen in this slide, which is different from the prior slide in that it forecasts future use of both traditional and digital payments, you're beginning to see a leveling-out in the methods people use to complete a transaction by 2020. In this case, the purple line corresponds to outward projections for 2020, while the blue line corresponds to actual usage in 2015.

As can be seen from the chart, cash and debit and credit cards will continue to dominate, but those transactions have ceded territory to digital payments, with some digital payment methods closing in on 25 percent—significant growth over the next five years and it's no wonder that tech firms, in particular, are becoming much more interested in the payments space.

Slide 22

Our growing demands for speed, efficiency and automation has also led to a surge in online finance platforms able to meet the demand for short- or long-term credit needs.

In the aftermath of the financial crisis, traditional incumbents—saddled by losses and heightened regulation—retrenched from providing credit to small businesses.

But by how much? Consider this, the share of small-business loans of total bank loans was roughly 50 percent in 1995. In 2012, that figure had fallen to 30 percent.[32] The cost to process a $100,000 loan became comparable to the cost associated with underwriting a $1-million loan,[33] resulting in traditional financial incumbents moving away from small-dollar loans to favor the credit needs of higher-revenue generating firms, and leaving behind a significant gap in small-business financing that is increasingly being filled by online finance platforms.

These platforms are able to satisfy the demand for quick access to credit and are becoming a favorite alternative to traditional financing for Millennials. For instance, according to a Bank of America survey, Millennial small-business owners are five times more likely to receive funding from peer-to-peer

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[32] Karen Mills and Brayden McCarthy. "The State of Small Business Lending." July 22, 2014. Available link: http://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf

[33] *Id.*

lenders, now often referred to as marketplace lenders, with fewer than half indicating they would rely on banks for first-time financing needs.[34]

And this preference for online financing extends to personal credit as well, where Millennials are more reluctant to use credit cards. In fact, according to a Bankrate survey, 63 percent of Millennials don't even own a credit card.[35] And, according to PayPal, one-third of respondents to a recent survey considered credit cards to be "old school," with roughly three-quarters of respondents concerned about card security.[36]

Online entrants such as Affirm and PayPal Credit, for instance, offer consumers financing options at checkout that replace the need for credit cards and allow consumers the flexibility of extending payments for a purchased item over a certain time period rather than having to provide a lump-sum payment at checkout. Given Millennial reluctance to hold credit cards, it's not surprising that Millennials are now the fastest-growing segment of PayPal Credit shoppers[37] and that Affirm pulled in $100 million in a recent funding round.[38]

Slide 23

Beyond the explosive growth of digital payments and online finance platforms, we're also seeing the emergence and growth of online investment advice platforms, otherwise known as robo-advisors, which have emerged largely in the wake of the financial crisis and are seen by Millennials as a better alternative to traditional financial institutions.

Platforms such as Wealthfront, Betterment, Personal Capital, Blooom, and Acorns provide automated investment allocations based on a set number of questions and defined parameters. With an easy-to-use interface and near real-time decisions, robo-advisers have turned the traditional advising industry on its head by largely replacing the need for human contact with algorithms.

Ever since the financial crisis, Millennials have become much more skeptical of traditional financial institutions and conservative in their investment choices. For instance, fewer than 20 percent of Millennials believe that people can be trusted and only 14 percent would consult with an advisor when making a major financial decision.[39,40] Couple this with the fact that our generation is cost-sensitive and has an interest in passive investment strategies such as exchange traded funds, and you can see why automated investment platforms such as Wealthfront and Betterment have been able to make

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[34] N/A. "Bank of America: Small Business Owners Report, Fall 2014." Bank of America. 2014. Available link: http://about.bankofamerica.com/assets/pdf/small-business-infographics/Fall_2014_Small_Business_Owner_Report.pdf

[35] Skowronski, Jeanine. "More millennials say 'no' to credit cards." BankRate. September 2015. Available link: http://www.bankrate.com/finance/credit-cards/more-millennials-say-no-to-credit-cards-1.aspx

[36] Miller, Amanda. "The Millennial Credit Makeover." PayPal. October 6, 2015. Available link: https://www.paypal.com/stories/us/the-millennial-credit-makeover

[37] Id.

[38] Benner, Katie. "Affirm Raises $100 Million, Bucking the 'Down Round' Trend." The New York Times. April 12, 2016. Available link: http://www.nytimes.com/2016/04/13/technology/affirm-raises-100-million-bucking-the-down-round-trend.html?_r=0

[39] N/A. "Millennials in Adulthood: Detached from Institutions, Networked with Friends." Pew Research Center. March 7, 2014. Available link: http://www.pewsocialtrends.org/2014/03/07/millennials-in-adulthood/

[40] N/A. "Think you know the Next Gen investor? Think again." UBS Investor Watch. 1Q 2014. Available link: https://www.ubs.com/content/dam/static/epaper/index.html?id=05e861a2#/05e861a2/1

significant inroads into the Millennial generation, which, by the way, is expected to be the beneficiaries of the largest wealth transfer in history ($30 trillion to $40 trillion).[41]

Like online finance platforms, automated investment platforms' assets under management are small relative to the $5 trillion managed by registered investment advisors. Still, their growth potential is significant at a time when distrust of traditional financial institutions remains high.

Slide 24

Given the level of distrust towards the banking system and the new players and technological innovations transforming the very nature of banking, it is of no surprise to see relations with banks turn from personal to transactional. Just within the last year, customers' relations with banks as merely transactional has increased 8 percent to 79 percent.[42]

For those of you in banking, that should be of concern, especially when 18 percent of Millennials have switched their primary bank within the past 12 months—nearly 10 percent greater than customers aged 35 to 54 and 15 percent greater than customers aged 55 and above.[43]

Slide 25

And the risk becomes magnified when you consider that 53 percent of respondents to a survey conducted in 2014 don't think their branch offers anything unique; that 1 in 3 are open to switching banks in the next 90 days; and that more than 70 percent of respondents would rather go to the dentist than listen to what banks have to say.[44]

All of this goes to show that as we become more connected (and yet disconnected) from the bank itself through technological innovations, financial incumbents will need to figure out ways to maintain their customer base at a time when the banking relationship is overwhelmingly defined as transactional.

Slide 26

But traditional financial institutions are not alone in having to address a whole range of potential issues as the result of technological innovation occurring within the formal financial services sector. FinTech firms, especially young startups, are also struggling to determine who regulates them even as they grow and continue to market their products and services to Millennials. Within the last year, especially, the Office of the Comptroller of the Currency, the U.S. Treasury Department, the FDIC, the Federal Reserve, the CFPB, the Federal Trade Commission and the SEC have publicly commented or taken regulatory actions on FinTech developments and firms, respectively.

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[41] Wagner, Jerry. "The Millennial Obsession." Flexible Plan Investments. March 4, 2015. Available link: http://www.advisorperspectives.com/commentaries/20150304-flexible-plan-investments-the-millennial-obsession.pdf

[42] N/A. "2015 North America Consumer Digital Banking Survey: Banking Shaped by the Customer." Accenture. Available link: https://www.accenture.com/us-en/~/media/Accenture/Conversion-Assets/Microsites/Documents17/Accenture-2015-North-America-Consumer-Banking-Survey.pdf

[43] Id.

[44] N/A. "Millennial Disruption Index." Scratch. 2014. Available link: http://www.millennialdisruptionindex.com/

Slide 27

Both traditional financial institutions and FinTech firms must also figure out how to reach Millennials who are not tech-savvy. Yes, that's right, some of us, including myself, prefer the one-on-one face time with advisors and still have at least some faith remaining in the traditional financial system.

Slide 28

There are those of us who continue to carry around the checkbook, for instance, even if we misplace it somewhere in the house resulting in an exhaustive search where it finally turns up in one of my wife's 50 purses. From the slide, it's interesting to see the contrast between younger and older Millennials, a point I'll get to shortly.

Slide 29

And as I've shown before, Millennials are using both traditional and new forms of payments. We're not all on Venmo, nor are we all using cash. In fact, I hate cash. But the fact of the matter is Millennials will continue to use both new and old payments methods and this is why, I believe, in order to fully understand my generation, we need to…

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… stop painting Millennials with one brush. It is my hypothesis that there are significant differences between Millennial 1.0 (those born in the 1980s) and Millennial 2.0 (those born in the 1990s) in the way they access financial services and I think it is incumbent upon all of us to—rather than lumping everyone together under one generational term—to identify in our reports the takeaways from different ages within the "millennial generation." I have a feeling that those of us born in the 1980s are less inclined to use new financial products and services than those Millennials born in the late 1990s, but based upon the research used in the presentation and my remarks today, I found it difficult to figure out whether this hypothesis is true or not. So as we go forth and continue to dissect the Millennial generation keep in mind that…

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… The Founders, a generation named by MTV, is right around the corner. Thank you all for listening and enjoy the rest of the Summit.

About the Author

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About the Center for Financial Markets

Based in Washington, D.C., the Milken Institute Center for Financial Markets promotes financial market understanding and works to expand access to capital, strengthen—and deepen—financial markets, and develop innovative financial solutions to the most pressing global challenges.

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