BAI Banking Strategies

Rethinking the Generation Gap in Banking

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Meet Brittany. She's 25 years old and works at her first job. Her paycheck is deposited directly into her checking account. She has a checkbook somewhere in her apartment, as she finds she does not need checks because her bank debit card is tied to Apple Pay on her phone.

Back in Brittany's college days, her parents electronically transferred money into her checking account. As a teen, when she babysat for her parent's friends and for neighbors, she was paid with a check, which she deposited using an app on her mobile phone. And she still recalls how, as a child, her parents took her to a bank branch to open her first checking account. She still has that same account, but the branch? She has never set foot it in since her parents took her there all those years ago. Instead, when she drives by the branch she might wonder, "What goes on in there?"

Breaking the Mold – Partially. Millennials have been breaking the mold in retail banking with their fulsome embrace of electronic banking technology. They rely on mobile, for example, for 26% of their banking transactions. They also are more likely to open a checking or money market account online or using a mobile app. Indeed, for this generation born between 1980 and 2000, more than 70% of all banking occurs on machines – mobile, tablet, desktop, laptop, and ATMs – and not through a personal interaction with a teller or banker at a branch, according to a survey of banking consumers by BAI.

Members of Generation X, those born 1965 to 1979, are close behind the Millenials in their adoption of new banking technology. Only Baby Boomers, the generation born between 1946 and 1964 and which holds most of the deposits and assets held in banks, still value in-person banking above other alternatives. While Boomers have adopted online banking at levels greater than younger generations, they have mostly steered away from mobile banking.

So, what are bankers to do? Should they draw up a long-term strategy to gradually scale back on their brick-and-mortar branch footprint over time? Should they implement an effort to convert Baby Boomers to mobile banking apps and reduce their reliance on in-person banking at the branch? After all, persistently low interest rates and costly regulatory compliance have put considerable pressure on the operating margins in the banking industry. Thus, it might be tempting to slowly scale back on branching networks and operations, reduce branch staffing and step up the transition to digital banking to meet profitability targets.

But here's a word of caution. Money has always been intensely personal and will continue to be so, both for Millennials and future generations. That means bankers may want to be wary of jumping to conclusions based on the *current* behavior of Millennials. In fact, the younger generation may turn out to have a lot more in common with older generations as they transition through the next stages of life. As with all generations, when you have little money you tend to cherish what you have, manage it closely, and safeguard it. And, when you have more money … you do the same.

Further, as Millennials marry, have children and buy their first home, they will begin to accumulate assets and will need more complex products and services. And while this transition may occur in their 30s rather than mid-20s, as it did for earlier generations, it is likely to lead them to prefer more eye-to-eye contact with a knowledgeable bank officer to help them make important financial decisions. When it comes to their money, they will look to banking professionals in person to teach them to manage it and carefully safeguard it.

A BAI survey last year gives a snapshot of generational preferences in banking. As noted above, the survey found that Millennials choose mobile for 26% of their banking business, their number one choice. Their second most popular venue is online banking at 23%, followed by ATMs at 22% and branches at a distant 17%. For Generation X, online banking is the most preferred banking channel at 27%, barely edging out mobile at 26%. ATMs represent 20%, as do visits to the branch office.

Boomers' favorite banking channel, inside the branch, is where they conduct 26.5% of their banking business. They also prefer to use the drive thru-window, where they see a face, can make eye contact and hear the voice of a teller, for 10.2% of their banking. That's higher than it is for Millennials (8.6%) and GenX (9.2%). The Boomers, who were pioneers in online banking, report this channel as their second favorite choice for banking transactions – higher than it is for either Gen X (27.2%) or Millennials (22.8%).

The Near Future. The BAI survey also shed light on where shifts might occur over the next three years. All three generations say they expect to rely more on mobile to do their banking. For Millennials, mobile use will rise to 34.3% from 26%. GenXers will turn to mobile for 27.5% of their banking activity, up from 20.4%. And, Boomers' reliance on mobile will rise to 13.6%, up from 8.7%. Reliance on online banking will increase slightly for all three generations.

Three years from now, there will be fewer visits to the branch for all three generations. Millennials predict they will go inside the branch for only 14.1% of their banking business, down from 16.9%. Generation X's reliance on branches will slide to 16.9% from 19.8%. Baby Boomer visits inside branches will fall to 23.2% from 26.5%. Reliance on the drive-thru window will continue at a slightly lower level for all three generations, along with the use of ATMs.

Branches will, however, remain a significant part of consumer banking, if you combine the use of in-branch, drive-thru and ATM, which is often done at the local branch. Three years from now, Millennials expect to go a branch for 38.9% of their overall banking activity, compared to 47% now. Generation X will turn to branches for 41.1% of their banking businesses, down from 48.9% currently. Boomers will utilize branches for 46.7% of their banking transactions, down from 54.4% today. Clearly digital is having an impact resulting in fewer branch transactions over time.

However, the continued availability of branches will continue to remind consumers that detailed questions about complex products and difficult transactions can be resolved eyeball to eyeball, if necessary. Though branch traffic may be declining, it will not be a question of whether banks need to focus on scaling back branches or focus on encouraging use of electronic channels. For the near future, at least, banks will need to do both.

The importance of bank branches to Millennials shows up in other questions in the BAI consumer survey. For example, when thinking about choosing a new financial institution, the most important consideration for Millennials is having a branch less than 10 minutes from their home or office (34%), with free and unlimited access to ATMs in second place. For GenXers , having a branch less than 10 minutes from their home or office (37%), with free and unlimited access to ATMs in second place. For Boomers, (42%) want a branch less than 10 minutes away, with free and unlimited access to ATMs in second place.

As the younger generation moves into different life stages and more complex financial services, they will be more likely to do business in the branch. This does not mean banks need to open more branches, since overall visits (especially for routine transactions) are expected to decline. It does mean that banks might want to consider keeping the branches they have and maybe open branches in neighborhoods that are attracting Millennials, whether these are in city centers or in new suburbs with starter homes. One bank has gone so far as to have a mobile bank driving around neighborhoods populated by Millennials to open accounts on the spot. Banks may also continue to reduce tellers and personnel for routine transactions but bring in more specialists in mortgages, lending and investments to provide the personal touch that many customers prefer for such transactions.

At the same time, banks can help Baby Boomers learn to use mobile banking technology on the smart phones they already own. The BAI survey, for example, found that 60% of Boomers own smart phones. Yet, they are reluctant to try mobile banking because they fear they will be embarrassed and will mess up their account if they try and cannot complete a transaction. To overcome this reluctance to use mobile, banks might want to consider creating simple YouTube videos to explain such things as how to deposit a check using a smart phone and make them available to their Baby Boomer customers.

Banks may also offer to help Baby Boomers conduct their first mobile transaction. For the same reasons that Boomers often bring their children along when they shop for electronics, they may need someone to walk them through the process of adding their smartphone to their online banking world.

In the end, Millennials will not go all-electronic and the future will not mean the end of branches because electronic channels do not provide the same level of confidence, the same level of completion, as face-to-face interaction. And Boomers *can* be brought into the electronic age. This can allow for smaller branches that can serve more customers and reduced staffing models as routine transactions will be done via ATM and mobile. Most likely, even as in-branch banking shrinks and adjusts to consumer preferences, it will remain an important cornerstone of banking.

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