

Bank Governance Leadership Network

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BGLN

VIEWPOINTS

Reaching the next generation of banking customers

As customer needs, preferences, and expectations continue to evolve, banks are seeking new approaches to reaching customers and serving them through different life stages and changing financial needs. Millennials, currently ranging in age from their mid-20s to early 40s, represent a crucial customer segment for banks as they reassess their financial needs across lending, advice, and savings and wealth management. The oldest members of Gen Z are entering the workforce and will make up a growing segment of potential customers over the next decade. These younger consumers often have different approaches to asset ownership and financial planning than previous generations, while facing particular obstacles to wealth accumulation. As digital natives, they also bring different expectations to the customer experience, which could extend to commercial offerings. What's more, they have higher expectations for how the companies with which they do business conduct themselves and respond to social and political issues.

As the *Economist* summarized:

They are woke, broke and complicated ... They have thin wallets and expensive tastes. They prize convenience and a social conscience. They want their shopping to be at once seamless and personal. They crave authenticity while being constantly immersed in an ersatz digital world. As these youngsters start spending in earnest, brands are trying to understand what these walking paradoxes want and how they shop. The answers will define the next era of consumerism.¹

At the Bank Governance Leadership Network (BGLN) meeting on March 16 in London, participants met to discuss how banks and their boards can address the challenge of reaching the next generation of customers by developing new products, optimizing sales and distribution models, and more effectively communicating the bank value proposition to younger customers.

This *ViewPoints* summarizes these discussions with participants² and focuses on the following areas:

- Millennial and Gen-Z customers have different traits and needs than previous generations
- Connecting with the next generation of customers requires novel approaches and tech investment
- Firms face risks and regulatory challenges to innovation

Millennial and Gen-Z customers have different traits and needs than previous generations

Millennials and Gen Z, individuals born in 1981–1996 and 1997–2012, respectively, represent nearly half of the population worldwide, with millennials comprising around 25% and Gen Z making up about 20%.³ As they age, these generations have become increasingly important to banks, both as potential customers and a source of talent, particularly as they begin to reach milestones like marriage, family formation, and homeownership or seek more financial services for the businesses they lead.

These younger customers' life experiences influence the way they view financial services. One commentator observed, "Gen Z and millennials are similar in many ways, but what will likely distinguish them the most moving forward is the influence of the pandemic. Millennials lived their adulthood through the lens of the 2008 financial crisis, while for Gen Z the lens is Covid. This has led to Gen Z being labeled as the 'most stressed-out generation' ... This experience has shaped their perceptions of financial health."⁴

Participants considered the implications of several traits demonstrated by many members of these younger generations:

- **Increased financial vulnerability and complexity.** Having faced the bursting of the dot-com bubble in 2000, the global financial crisis of 2007–2008, and the COVID-19 pandemic, millennials and Gen Zers are now experiencing levels of inflation not seen in many years. One study found that 50% of Gen Z respondents and 40% of millennials experienced lost work or pay within their households during the pandemic.⁵ Spiraling higher education and housing expenses have added to the strain. Technology is enabling greater financial literacy, especially among digitally native younger consumers, but the difficulty of managing one's finances today continues to leave young people vulnerable. A participant remarked, "*There's greater financial literacy, but the complexity of problems is also much deeper than prior generations'.*" This individual added, "*The model for prosperity for the last two generations may not apply here.*" A participant noted that the age at which individuals' net worth turns positive

"The model for prosperity for the last two generations may not apply here."

– Participant

“Younger people understand why companies exist, but they want their goals to be very aligned with purpose and planet.”

– Executive

“They want all the tech that comes with startups as well as the brick-and-mortar High Street presence.”

– Executive

has been steadily moving upward. This shift is due in part to longer lifespans for older generations, which delays intergenerational wealth transfer, and in part to a delay in homebuying by many young people. One participant specified, *“In 1991, 67% of people under 35 had a mortgage and home, while in 2022, only 38% did.”*

- **A desire to align decision-making with personal purpose and values.**

Younger consumers want the brands they do business with to demonstrate a sense of purpose that extends beyond financial returns and to deliver on their commitments to making a positive social impact. An executive observed, *“Younger people understand why companies exist, but they want their goals to be very aligned with purpose and planet. They put purpose and planet on the same level as profit.”*

- **Different approaches to life and career paths.**

One director observed that younger generations are *“simultaneously more conservative and more reckless”* than their predecessors in their career choices and financial decision-making, noting that many will *“quit a job without having something else lined up.”* Eager to allow their personal passions rather than the corporate hierarchy or traditional expectations to guide their career paths, millennials and Gen Zers have been living at home longer, getting married later, and delaying large-asset purchases.⁶ A participant noted some of the implications for banks of these shifting approaches to career and life paths: *“With the younger demographic, you’ve definitely got more shopping around and changing employment. You’ve got more people on zero-hours contracts or the gig economy or whatever it might be. It gives you more challenges in terms of credit scoring and all the rest, which has included tenure of employment contracts and proof of earnings. It makes it harder to extend credit.”*

- **Digitally native.** Millennials and Gen Zers enjoyed ready access to personal computers, the internet, and smartphones during their formative years. This accessibility cultivated their digital fluency and preference for digital experiences. Though younger customers are more likely to use digitally savvy challenger banks and fintechs for financial services than other generations, many still use traditional banks for their primary financial relationship.⁷ However, they are still looking to engage with people when issues arise. One participant said, *“We have found, regardless of consumer segment, that there tends to be a preference for, or some value in, human interaction. But people may interact with them in different ways.”* An executive added, *“They want all the tech that comes with startups as well as the brick-and-mortar High Street presence.”*

Connecting with the next generation of customers requires novel approaches and tech investment

Engaging with any target market involves finding and meeting consumers where they are. Banks must consider how to adapt product and service offerings, and the investment needed to support novel approaches in an economically feasible way.

“The time to market with focused products gets the customers in, but building a community is difficult.”

– Executive

Banks need to be creative in developing products for younger generations

New product offerings present an obvious opportunity for banks to engage and attract consumers in novel ways. Discussions focused on several aspects of product offerings and market segmentation:

- **Taking lessons from fintech successes.** While fintechs have struggled to expand profitably, they have identified new ways to appeal to younger customers, as evidenced by customer growth at challenger banks and other fintechs. Despite this success in customer acquisition, an executive noted that fintechs face challenges retaining and building customer relationships: *“The time to market with focused products gets the customers in, but building a community is difficult. The relationship is not sticky.”* Another participant observed the fickle nature of customer relationships with digital-only fintechs: *“Customers can delete an app as quickly as they download it.”* But some fintechs have also identified novel ways to build community among customers, which could offer use cases for incumbents. For example, a participant noted that some fintechs allow customers to suggest and vote on new features through online forums or social media.
- **Bundling product offerings.** Although bundling product offerings can potentially deepen customer relationships, many fintechs have not gone as far as incumbents in offering a full suite of products and services to customers, instead confining themselves to more limited or niche services. One participant said, *“Fintech overextended into spend and lend. It hasn’t flowed through as strongly in saving and planning,”* in part because those services are more capital- and people-intensive businesses. Another participant observed that fintechs are, therefore, considering ways to expand their offerings to the customers they serve: *“Fintechs are*

becoming hyper-focused in their targeting of customer segments. We're starting to see a rebundling in fintech."

"If you have your financial product embedded in some software or platform, that's a big competitive advantage."

– Executive

- **Starting relationships with customers very early in life.** An executive detailed, *"Some banks are hamstrung by not offering banking capabilities to children. It's a shortsighted attitude since engaging children and helping their financial education can be quite valuable and they could be retained as customers when they do enter the working world."* Participants noted that the success of products such as GoHenry and Rooster Money (a NatWest offering) demonstrate the potential in providing banking services for children. This market represents a significant opportunity, and one that many banks are missing. Some participants see an opportunity to develop offerings to serve the family unit as a whole, engaging children as an entrée into serving their family members.
- **Exploring embedded finance and ecosystems.** A participant noted the growth of super apps in other markets and the potential for embedded finance: *"We're super-interested in embedded finance. We've looked at WeChat pay. Some of the stats from it are phenomenal. There are 4.3 million mini apps hanging off their main app. We see bits of that in the US and Europe, but not at that scale."* An executive emphasized, *"If you think about origination today, if you have your financial product embedded in some software or platform, that's a big competitive advantage."* In addition, partnerships between financial services firms and retailers present novel opportunities to attract consumers, especially young people. One participant detailed, *"We are seeing interesting trends around credit cards. There is a relatively new card company called Yonder which lets you collect points and spend those points in restaurants in London. They are building more rewards around what customers actually want. You can book restaurants through the app. They're launching supper clubs and retreats, and they charge a subscription fee."*
- **Managing the profitability of serving younger customers.** Certain financial services offerings are difficult to profitably provide to consumers with limited assets. One participant noted, for example, that a survey of several thousand independent financial advisors in the United Kingdom found that none would be willing to work with someone with assets of less than £200,000. By driving down costs, technology may make it feasible for financial institutions to serve such consumers profitably and, thereby, increase their access to the savings, investment, and other wealth-management products that younger consumers often lack. A participant stated, *"There are things we can now do to address costs using*

technology. We can open markets in the process, by identifying ways to serve these customers much more efficiently.”

“There are things we can now do to address costs using technology. We can open markets in the process.”

– Participant

- **Rethinking brand positioning and marketing to younger customers.**

Participants discussed ways to reposition bank brands for younger customers, such as building new digital brands or marketing in new ways via social media and other nontraditional channels. Some expressed doubts about incumbent banks deploying a distinct brand for innovative product offerings or to reach new market segments. Regarding building out separate brands for products directed toward children, for example, one director asked, *“When do you switch to your main brand though? You can end up diluting the spend on your brand.”* Banks’ experiments launching new digital-only brands have yielded mixed results. Participants held up Chase UK as a model for a different approach—marrying its existing brand to an innovative product. *“Chase UK is a perfect blend of a grownup-at-the-table and innovative fintech product,”* one participant said. However, participants also acknowledged that market awareness of the link between the Chase digital brand in the United Kingdom and JPMorgan Chase as a global, diversified institution was probably limited.

Whatever the approach, given the high cost of customer acquisition, firm leaders must weigh the risks of invested capital and brand dilution, as well as the need for effective marketing spend. Speaking of the need to market in new ways to reach younger audiences, one director said, *“I think the challenge is traditional banks are virtually invisible to young people. They don’t sit down and watch TV. They don’t sit down and watch the commercial. They don’t see the adverts from NatWest or Lloyds Bank or HSBC or Barclays in the UK. They probably see something completely different on the social-media channels they follow.”* When targeting younger consumers who are especially present on social media, some directors and executives suggested banks need to identify ways to work with influencers to create content *“that doesn’t feel like it’s marketed at you,”* and find people *“with whom the mission resonates so that their ‘influencing’ comes across as authentic.”*

“I think the challenge is traditional banks are virtually invisible to young people.”

– Director

Banks face risks and regulatory challenges to innovation

Participants expressed concerns about heightened exposure to conduct risk as banks experiment with new approaches.

Regulated banks' focus on safety is a necessity

“For the younger population, getting digital propositions just right is big. But sometimes friction is appropriate, too.”

– Participant

Some approaches that have been tried elsewhere may be outside the risk appetite of regulated banks. A participant noted, *“There are things we can do, and there are things I don’t think we would ever touch, like a Robinhood, where they’ve almost made stocks into gambling, like a game. I think that would be going too far for us. But we have done robo-advising, which is something you saw in the start-up world first.”* Another participant suggested that regulated banks may always struggle to achieve the speed and slickness of fintech challengers, but for good reason: *“For the younger population, getting digital propositions just right is big. But sometimes friction is appropriate, too. It may be annoying but it’s important to prevent them from getting defrauded, for example.”* The question, then, is whether banks can benefit from being perceived as safer, more trustworthy brands. One participant asked, *“How do the incumbent banks get the most value out of this? It plays partly to core strengths and values. You have to live your values and be consistent.”*

Banks are wary of heightened conduct risk, particularly in the United Kingdom

Conduct risk is always a concern, given the potential fines and reputational damage to banks. As banks consider ways to target younger customers and provide additional support, they are conscious of the potential risks, particularly in the United Kingdom, where the Financial Conduct Authority has introduced its new Consumer Duty rules.

Providing more guidance and advice introduces risk

Younger customers are both financially vulnerable and desirous of greater financial education and advice. In a November 2021 survey, Goldman Sachs’ digital bank Marcus found that 68% of millennials and Gen Zers would prefer to hire a financial adviser, rather than a personal trainer at the gym, if the cost was the same.⁸ An Experian survey of recent high-school graduates found that, among those who had never taken a personal finance class, “43% said they want to learn to save, 38% want to learn to manage their expenses, and 36% want a class that teaches them how to file their taxes.”⁹

A director noted that many younger customers are entering stages of life where more guidance is needed: *“Yes, you’re a digital native, but then you get promoted, you start a new job, and you find yourself making quite a lot of money. And now you are thinking about buying a flat, so you have to think about simple questions like what kind of mortgage to get. My observation is that a lot of tech people, entrepreneurs—very smart, brilliant people—still*

don't have financial literacy. So you come to a point where you have to ask, Do I really understand that I have to take decisions that come with some upsides, but also downsides, for the next 10, 15, 20 years?"

The UK Consumer Duty further heightens conduct concerns

"Bearing risk for complex products is the critical question here."

– Participant

In the United Kingdom, the Financial Conduct Authority's new Consumer Duty rules are making banks even more conscious of potential conduct risks. These new rules aim to ensure that consumers "receive communications they can understand, products and services that meet their needs and offer fair value, and they get the customer support they need, when they need it."¹⁰ Despite this sensible set of objectives, some participants expressed concerns about the conduct and litigation risks that could arise as a result. One participant tried to assuage those worries, stating, *"It's a simple process to get the customer taken care of."* Still, participants expressed concerns over the demands of Consumer Duty limiting their firms' appetite for innovation and experimentation. If the rules' implementation creates significant liability, firms may shy away from important innovations. A participant remarked, *"Mass market in UK means an 11-year-old reading level, so bearing risk for complex products is the critical question here."* The participant added that *"a far bigger issue around Consumer Duty is the fact that you have a genuinely outcome-based piece of legislation. It will require judgment at many times."* As banks and wealth managers consider ways to educate and guide customers under the new requirements, the question arises of when that guidance becomes "financial advice." An executive noted, *"There is a consultation at present from the [Financial Conduct Authority] in terms of the definition of advice, and the intent is reportedly that they actually want to soften the boundaries a little bit between information and advice. Is there more support and services firms can give, but they're too scared because it would make them into advisers?"*

Banks must adapt their product and service offerings for younger generations with distinct and evolving financial services needs and preferences. Responding will define the next stages of decade-long technology transformation efforts as banks identify opportunities to profitably and safely serve customers starting in childhood and through life stages. They also need to get creative as they consider the evolution of traditional banking products, but balance innovation with ever-evolving conduct and consumer protection risks.

Appendix

The following individuals participated in these discussions:

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|--------------------------|---|---|
| Participants | <ul style="list-style-type: none"> • Michael Cole-Fontayn, Non-Executive Director, JPMorgan Securities • Jim Coyle, Audit Committee Chair, HSBC UK • Petri Hofsté, Audit Committee Chair, Rabobank • Phil Kenworthy, Non-Executive Director, ClearBank • Axel Lehmann, Chair of the Board; Chair of Governance and Nominations Committee, Credit Suisse • John Liver, Non-Executive Director, Barclays UK • Andrew Lowe, EMEA Head of Business Development for Technology, Bank of America | <ul style="list-style-type: none"> • Tom Mildenhall, Managing Director, Global Head of Technology Partnership Development, Bank of America • Mohit Sarvaiya, International Chief Information Officer, BNY Mellon • Mark Seligman, Senior Independent Director, NatWest Group • Mark Shields, Solutions Marketing Director, FNZ • Gavin Smyth, Chief Risk Officer, Nationwide Building Society • Andrew Wilde, Managing Director; UK and Global Chair, Financial Services, Edelman Smithfield • Sophie Winwood, Principal, Anthemis |
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ViewPoints is produced by Tapestry Networks and aims to capture the essence of the IGLN discussion and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers, and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

About the Bank Governance Leadership Network (BGLN)

The BGLN addresses key issues facing complex global banks. Its primary focus is the nonexecutive director, but it also engages members of senior management, regulators, and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy banking institutions. The BGLN is organized and led by Tapestry Networks, with the support of EY. *ViewPoints* is produced by Tapestry Networks and aims to capture the essence of the BGLN discussion and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers, and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

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Endnotes

- ¹ [“How the Young Spend Their Money,”](#) *Economist*, January 16, 2023.
- ² *ViewPoints* reflects the network’s use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants’ comments appear in italics.
- ³ Michael Dimock, [“Defining Generations: Where Millennials End and Generation Z Begins,”](#) Pew Research Center, January 17, 2019.
- ⁴ Garret Reich, [“Top Gen Z Trends Impacting Banking in the Year Ahead,”](#) *Financial Brand*, January 3, 2022.
- ⁵ Jessica Wang, [“What Employers Need to Know About Gen Z,”](#) *Hays Investor*, June 30, 2021.
- ⁶ Richard Fry, Jeffrey S. Passel, and D’Vera Cohn, [“A Majority of Young Adults in the US Live with Their Parents for the First Time Since the Great Depression,”](#) Pew Research Center, September 4, 2020.
- ⁷ Jan Bellens, Nikhil Lele, and Rob Mannamkery, [“How Can Banks Transform for a New Generation of Customers?”](#) EY, October 7, 2021.
- ⁸ Reich, [“Top Gen Z Trends Impacting Banking in the Year Ahead.”](#)
- ⁹ Alison Netzer, [“How Millennials and Gen Z Could Reinvent the Banking Industry,”](#) *Forbes*, February 3, 2023.
- ¹⁰ Financial Conduct Authority, [“The FCA’s Consumer Duty Will Lead to a Major Shift in Financial Services,”](#) news release, July 27, 2022.