Luxury Daily®

The News and Intelligence You Need on Luxury

FINANCIAL SERVICES

Financial services could face disruption from maturing millennials

April 29, 2019

Consumers want to learn more about improving their personal finances. Image credit: Luxury Society

By SARAH RAMIREZ

While the financial services sector has not yet been disrupted by subscriptions and unbundling models, that is poised to change as institutions look to better engage with younger consumers.

In the coming years, financial institutions will need to change the way they create and deliver products and services. More than half of consumers between the ages of 25 and 34 have expressed interest in financial subscription models, according to a new EY NextWave Consumer Financial Services report.

"Consumers have a strong frame of reference for the value of subscriptions in general but currently do not have access to the types of holistic financial subscription models we described in our paper," said Nikhil Lele, principal and digital transformation leader for EY Financial Services Organization, New York. "Today's paradigm is highly impersonal, fragmented across siloed products, with limited support in navigating the complex financial decisions required in major life moments.

"All the while, consumers continue to engage with more rent,' pay-per-use' and subscribe' models in virtually all other facets of their life," he said. "Financial institutions can create significant new value for consumers by providing such service and pricing models."

The EY report evaluated the personal finance preferences and habits of U.S. consumers across varying wealth, age and other demographic factors.

Personalized advice

More than 80 percent of consumers consider themselves to be financially healthy but still want to learn more about improving their personal finances. Additionally, 50 percent of consumers ages 18 to 49 feel disengaged by financial topics.

This disconnect presents a valuable opportunity for companies in the financial services space to communicate and interact with consumers. This also allows firms to capitalize on how affluents are increasingly favoring services and experiences over products.

Artificial intelligence is one tool that brands can leverage to engage with consumers on a deeper level. Sixty percent of consumers are already comfortable sharing personal information with their financial institutions, but they do expect value in return.

AI-driven platforms can offer users contextualized suggestions and recommendations, even interacting with consumers on a daily basis as a "personal financial operating system."

Consumers want financial advice about topics such as parenthood. Image courtesy of Rent the Runway

Consumers also tend to seek out more in-depth financial advice when they are approaching major life events, such as marriage or starting a family. Sound decisions at these times can improve consumer confidence and long-term financial wellbeing.

Fifty-one percent of millennial consumers are interested in financial subscription models that coincide with these financial milestones.

Potentially, bundles could include products, advice and additional financial health insights tailored for life events. This would also help build stronger and long-term relationships between firms and their clients.

"Consumers typically navigate these needs today on an a-la-carte basis across providers and products," Mr. Lele said. "The idea is that subscription models will be based on an individual's financial needs at a certain point in time, and grow with them as their needs evolve."

Millennials and money

As millennials continue to age and acquire wealth, their influence and consumer needs have reached new industries including wealth management, increasing the demand for digital tools.

Wealth management firms are evolving to cater to a wider range of demographics, providing the tools and communication that all customers are seeking. According to a report from Accenture and IIROC, their evolution has not only affected firm-to-client communication, but also the types of service models offered and how the firms themselves are regulated.

Automated services to management investments have also grown, while others use a combination of robo-management and a virtual advisor. DIY platforms have also become more popular, with clients managing investments themselves but having access to virtual assistants if needed (see story).

However, not all millennial consumers are heavily engaged with their finances.

According to a report from UBS, more than 60 percent of single millennial women admit to putting other areas of their life above their finances. They also report unhealthy financial habits, with one-third already having dipped into their retirement accounts.

Less than 10 percent of Gen X and boomer women have tapped into their retirement accounts early, with 32 percent of millennial women already doing so. Another 29 percent of millennial women would consider tapping into their retirement savings (see story).

"Financial institutions need to rethink how to earn it and how to communicate it with their customers," Mr. Lele said. "Customers are skeptical to begin with but by being clear about their needs will help educate them on how they can be a stronger partner."