OLIVER WYMAN

YOUTH BANKING TRENDS IN EMERGING MARKETS

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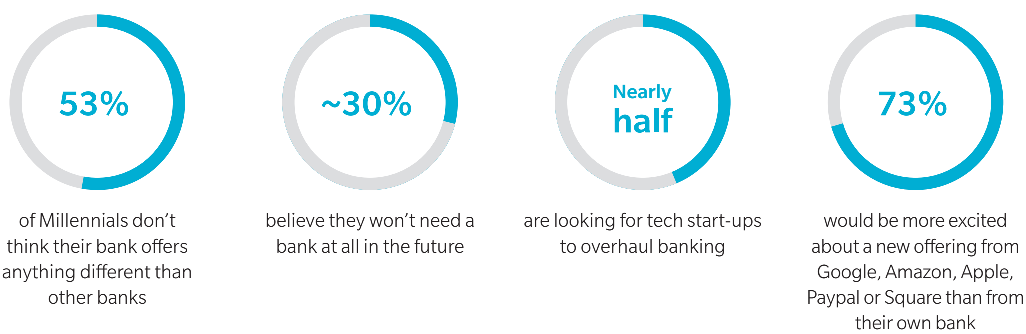
CONTENTS

DIGITAL PRODUCTS AND MARKETING NEEDED TO COMPETE WITH NON-BANK SERVICES

As the incomes of today's young people rise, they will become the main customers for banks in emerging markets. But what they want from banks is often very different from what's on offer. Millennials value convenience and mobility and expect a digital solution for everything – and currently they are dissatisfied with standard banking services.

That's a danger because other kinds of businesses could scoop them up as customers. 73 percent of Millennials say they would be more excited about a new offering from Google, Amazon, Apple, PayPal or Square than from their own bank[1]. Some mobile-based financial applications and services are attracting these consumers. In Brazil, *GuiaBolso Voce dono do seu dinheiro* – "You own your money" – offers free online and app-based personal financial management. This shows spending in categories such as rent, food, and travel with real-time updates; helps structure personal savings goals; and suggests personalised third-party loan options and tracks the loan approval process. It was founded in 2012 and now has three million customers.

Exhibit 1: Millennials views on traditional banking



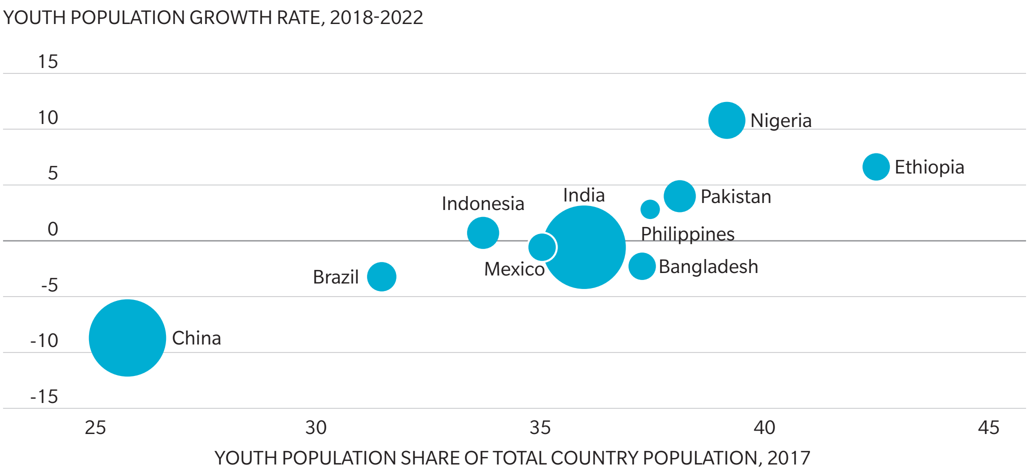
Source: The Millennial Disruption Index, Scratch, 2015

In contrast, many emerging market banks have neglected youth so far. Instead, they have been busy catering to older customers who had more money and so were a better immediate business prospect. Many customers for banking services stick with a provider for many years, so retail banks need to start offering the capabilities demanded by the youth, who – defined as aged 10 to 29 – represent between 30 and 40 percent of the population in some emerging markets. Banks should start investing now, as it will take them a few years to build up the necessary products and develop credibility.

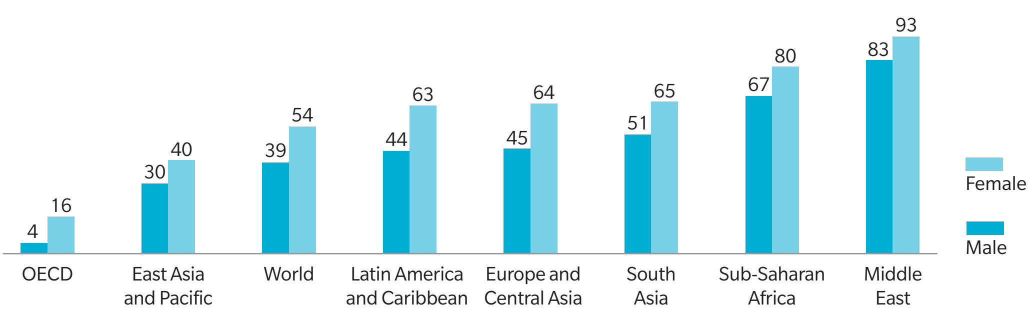
1 The Millennial Disruption Index, Scratch, 2015

To become more attractive to young consumers, banks should work in three broad areas: digital products and services, communication, and customer relations.

Exhibit 2: The youth segment is rapidly growing in emerging markets ...
Top 10 countries by youth population (10 to 29 years old) size, 2017



...with a great untapped potential due to low banking penetration[1]
% of unbanked youth, 15-24 years old



1 Source: Oxford Economic Database, Oliver Wyman analysis

CREATE DIGITAL PRODUCTS AND SERVICES FOR YOUNG CUSTOMERS

Young people have grown accustomed to digital, mobile interaction, as it becomes the primary channel for use and payment in industries such as entertainment and retail. So banks need to address millennials through a digital channel that gives them access to all their banking services.

In Argentina, Itaú Unibanco has developed an app that lets customers carry out all their banking operations without having to go to a branch. They can even deposit cheques virtually by sending photographs of them. Itaú targeted younger customers – whom it called "bankennials" – in a marketing campaign that defined the millennial way of banking as a digital experience. Mobile banking is good for business as it fosters stronger interaction between banks and clients as 62% of Argentine millennials that bank digitally perform3 to 4 times more transactions than users of other banking channel.

In Brazil, Banco Original appeals to millennials by basing its business on five pillars: Its services aim to be more innovative, accessible, simple, secure, and transparent. Banco Original gained 1,000 clients per day in the first quarter after its 2016 launch. In 2017, it grew 134 percent and reached market share of 11 percent.

Exhibit 3: Banco Original value proposition pillars

INNOVATION

We follow the financial market's most cutting-edge, innovative practices to ensure we offer an innovative service to all our account holders

RELIABILITY

We guarantee that your money is being looked after responsibly by top professionals that you can trust

INTIMACY

We combine technology with a personalized relationship, to make every account holder feel unique and exclusive

TRANSPARENCY

Our goal is to be transparent in our relations and operations, making open and honest communication with all our stakeholders a priority at all times

SIMPLICITY

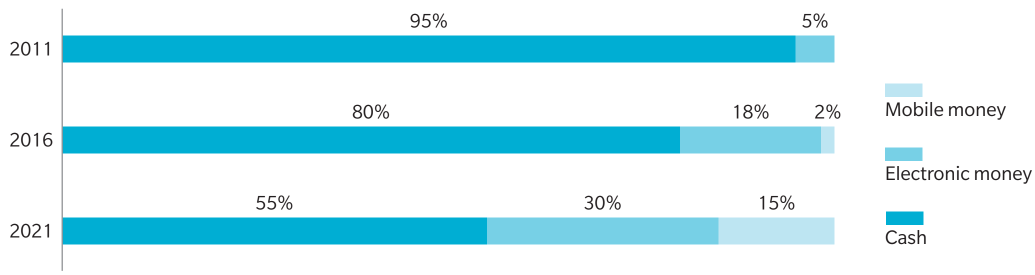
We use a simple process and straight forward language unlike anyone else in the financial market, to make the relationship between people and their money less complicated

Source: https://www.original.com.br/

The best-known mobile financial product is Chinese e-wallet WeChat Pay. It emerged from messaging app WeChat and has since become a major part of Chinese consumers' daily lives, used for payments in taxis, supermarkets, and hospitals. On the Quick Pay page, vendors can scan a QR Code shown by customers on their smartphones to finish transactions quickly. Customers can scan products' QR codes to see details and then make a purchase. WeChat also carries out cross-border payments in yuan and at least 10 other currencies.

Mobile and electronic money are likely to become important in other emerging markets too. In the West African Economic Zone, they are forecast to rise to 45 percent of retail payments in 2021 from 20 percent in 2016.

Exhibit 4: How payment methods are changing in the West African Economic and Monetary Union Zone[1]



1 Based on interviews with retailers in West Africa

Source: Ovum, GSMA, Oliver Wyman

ATTRACT AND COMMUNICATE WITH CUSTOMERS

Young people prefer to interact digitally rather than physically or over the phone. Only 49 percent of survey respondents in Generation Y – 23 to 37 years old – preferred to communicate with banks on the phone, according to Forrester Research. That fell to 38 percent for Generation Z, who are 16 to 22. Moreover, young clients are looking at social media as a source of information.

To respond to these preferences, the 811 Digital Bank Account – dubbed a "new age bank account" and launched by Kotak Mahindra, India's fourth-largest private sector bank – lets customers sign up via an app with just a national identity number.

Even if banks do not interact physically with their customers like in the past, they can understand and engage customers through the growing numbers of touchpoints and increasing amounts of data available from social media and via smartphone apps. Analysis of the data available can track key trends and conversation topics, as well as seasonal patterns and spikes in conversation volumes at certain times. Detailed customer profiling data – such as age, sex, location, occupation, and status – can then provide information for segmentation to help enhance customer experience, optimize banks' marketing strategies, and reduce risks by monitoring complaints and reactions to change.

Millennials tend to judge banks in terms of image and values, making branding especially important for them. They are attracted to brands that are cool, fun, and social. They also value brands that have a positive buzz and are valued by their peers. Since traditional banks do not convey those values, they could create a separate sub-brand to attract the youth segment.

In Singapore, OCBC has developed FRANK. Its advertising uses minimal financial jargon, emphasizes special pricing for youth, and shows bright, fashionable young people enjoying themselves at work and at home. The brand suggests honesty, trust, and progressiveness.

Its name comes from the adjective for clear, simple honest expression, and comes with a tagline: "FRANK – saying it as it is." Four years after its launch, FRANK had captured 70 percent of Singapore's young working adult segment.

To access a wider base of clients, banks should consider partnerships as a way to reach still-unbanked people. Many telecommunications companies have accumulated a base of customers; other potential partners include operators of mobile apps, schools, and malls.

Commercial Bank of Africa (CBA) launched M-Shwari, a bank account with savings-and-loan services that can only be accessed by mobile money app M-Pesa, which has 70 percent of the Kenyan market. CBA created M-Shwari with M-Pesa's developer, telecom operator Safaricom, enabling CBA to offer mobile financial services such as loans to Safaricom's client base. The youth segment accounts for 67 percent of M-Shwari's customer base, of whom 54 percent do not have any other bank account. As of December 2017, five years after its launch, M-Shwari had 21 million customers in Kenya. Thanks to an efficient client scoring system using Safaricom data, only two percent of its loans are non-performing.

FOSTER LOYALTY THROUGH YOUTH-FRIENDLY BUSINESS TERMS

At first glance, the young are a relatively unappealing market segment due to their limited income. However, as they grow older, they both become wealthier and require financing for life projects such as home mortgages and education loans. Since customers often stay with their first bank, it is important to forge relationships with young customers by developing products and services over time offering the same value proposition. As they shift to become a profit-generating segment, millennials will request to experience the same level of service as they did as students. Therefore, banks will need to adapt to millennials' expectations across all products and not only for millennial-focused services, as they are doing today.

In mature markets, banks focus strongly on the student market to capture share of the next generation of customers before their rivals. In emerging markets, they try to help young people improve their lives at important moments, so as to build longterm relationships and customer fidelity. HDFC Bank in India offers targeted products and services that support younger customers – a children's account to encourage financial literacy in younger children, for example, and products to fund education as they grow older.

Millennials have limited financial means, and they dislike regular fees. In Brazil, Banco Inter does not charge either a monthly fee or fees for a digital account, card subscription, or interbank transfers. Its promotional materials explain that it can do this thanks to the low cost of an automated, all-digital process, plus revenue streams from credit cards and loans.

When they do have to pay fees, the young demand clear, transparent pricing, including a simple structure and payment schedules. Fair, transparent pricing can foster trust, which helps retain customers. Moreover, customers that feel they are getting a good deal will refer the bank to other potential customers.

Though millennials want to be treated as valued customers and to have their loyalty rewarded, they are the least loyal of all customer segments and tend to switch banks very easily. In Asia, 33 percent of millennials would be willing to switch banks in the next 90 days and 71 percent don't see their interactions with banks as a relationship but as a transaction. Special rewards programmes and financial literacy programmes can help to engage young customers, foster loyalty, and build a sustainable client base producing steady revenues. Rewards can include personalised offers based on spending patterns and profiles, product bundles, goal-based products, and incentives for referral. In Australia, CommBank has developed a schools banking programme that teaches young clients how to save through a reward and gift system.

TODAY'S YOUNG – TOMORROW'S REVENUES

In emerging – as other – markets, today's young people are tomorrow's lucrative client base for banks. So far, however, many banks have not paid sufficient attention to this age group or taken action to attract them. The exceptions show that there are ways to do this profitably.

But banks need to act fast. If they don't, others will reach these customers first. Some of these rivals will be competitors in the banking sector, but others will be non-banks that are increasingly providing the essential services – such as savings, loans, and payments – that have traditionally been carried out by banks.

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