BankThink Why Grandma and Grandpa Still Matter to Banking

By *Lynn A. David*

Banking used to be simple. Fifty years ago, customer tendencies crossed over generations. Young customers used the same traditional banking services that their parents did, and opened accounts at the same banks their parents had used for decades.

We all know the world of banking has changed. But the challenge facing institutions today is more complicated than just keeping up with the technological fervor of our younger customers. Indeed a huge chunk of banks' deposit bases and revenue stream still come from older generations that rely on traditional products. As wealth gets transferred between the generations, banks can't lose sight of customers that still need physical branch services, even as the industry focuses on how to cater to the most technologically savvy.

Being a banker today means servicing customers in six very different generations, which fall into five customer categories. Each generation has its unique behavior patterns. Banks need to determine how to appropriately serve each generation of customers.

First, let's describe each segment. Please forgive me for stereotyping. There are countless individuals in each generation that do not fit the standard definition.

World War II Generation

The World War II generation is high-touch and low-technology. These customers are conservative and watch their money very closely. They love to come to the bank to renew their CDs and transact their business. It's a social event for them. Your tellers and new-accounts staff all know them by name; your retail staff is their lifeline to the bank. They need your traditional bank locations. They don't borrow and they may not be comfortable using Internet and mobile banking services.

Swing Generation

These customers are high-touch and moderate-technology. They still enjoy visiting traditional bank locations, but are somewhat comfortable using Internet banking to check their balances and may even use it to move money between accounts. However, they probably do not use bill pay, mobile banking or mobile deposit. They have few loans, purchase CDs and should be customers of your wealth management services.

Baby Boom Generation

These are the sons and daughters of the World War II generation. (This is my generation.) They are moderate-touch and good at technology. They may still enjoy a periodic visit to a traditional bank location, but are fairly comfortable with your Internet and mobile banking services. They will rarely use bill pay because they still like to control when they write the checks to pay their bills. These customers may have a mortgage loan and are always looking for a way to refinance their mortgage loan to lower their interest rate. They are either retired or close to retirement and are looking for ways to keep their expenses moderate so their social security and any pension payments cover the majority of their expenses. They rarely purchase CDs, but invest in mutual funds, the stock market and real estate. These newly labeled "Aging Boomers" are excellent candidates for wealth management services.

Generation X

These are the sons and daughters of the Swing Generation. They are low-touch and good at technology. They rarely visit a traditional bank location except to apply for or to request a loan. They feel very comfortable using Internet banking, mobile banking and mobile deposit. They need home loans, home equity loans and automobile loans. They do not purchase CDs, probably contribute to a 401K plan and may invest in mutual funds and the stock market. They are excellent customers to introduce to your wealth management and financial planning departments. If you do not help them, retail wealth managers such as Edward Jones will.

Generation Y and Millennials

These two generations are the sons and daughters of Baby Boomers and Generation Xers. They are low-touch and high-technology. These customers do not carry cash, write checks or visit traditional banking locations. They open a checking account online, use debit cards many times per day, frequent social media, verify their checking account balance and transfer funds using their iPhone. They maintain a small to moderate balance in their deposit accounts and are looking for financial advice. However, they do borrow money for homes and automobiles. This may be the only time you see them visit a traditional bank location.

Generation Z

We know little about these future customers. They will probably be low-touch and highest-technology. As they mature, banks may never see these customers in a traditional bank location. They will open accounts and apply for loans online.

Paying too much attention to the technological needs of the younger generations without focusing on all of the categories is a mistake based on the realities of banks' balance sheets. The first two generations — World War II and Swing — still make up a majority of a bank's largest depositors.

Yet wealth transfer between generations presents banks with a challenge. When the deposits of the older generations pass to the Baby Boomers and Generation Xers, those heirs normally do not regard banks as a place to save and invest their excess funds. When they inherit money from their parents, the money almost always leaves the bank. How will banks replace these lost deposits?

Meanwhile, millennials are important due to projections of their future dominance of our financial system. The Pew Research Center in January 2015 stated that millennials — defined as between ages of 18 and 34 — are projected to represent 75.3 million people in the United States. In December 2014, Forbes estimated that millennials will be spending $200 billion annually by 2017. This generation will help to mold our economy for many years.

Traditional delivery channels need to be available for the first three generations to serve these customers face-to-face. However, banks must focus on how to serve the last three generations because these are their customers of the future. Banks need to continually

reinvent service delivery methods to provide the type of services required by their diverse generations of customers.
Banking is anything but simple anymore.