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Opinions

Catching Up To Millennials: What CUs Can Do To Appeal To This Critical Consumer Base

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It's official. The baton has been handed off to the millennial generation, which now officially has passed baby boomers as the largest segment of the U.S. population. Understanding this very large and influential consumer segment presents both challenges and opportunities. Appealing to millennials is especially critical to compete for a share of this important growing market.

Millennials, also known as Generation Y, encompass the population between the ages of 19 and 34. This highly diverse generation has been strongly influenced by the digital age. Millennials grew up during our latest technology boom, having never experienced life before cell phones and computers. At the same time, they have had their fair share of adversity, with many graduating college in the midst of the Great Recession. As a result, countless millennials carry unprecedented amounts of student loan debt. Additionally, Experian's latest data shows that millennials as a group have an average VantageScore of 625 (compared with the national average of 667) and have more limited job prospects than previous generations.

While millennials have tended to lag behind in establishing some forms of credit compared with previous generations, their sheer numbers make them an important and growing market segment. When we compare credit usage of a more youthful Generation X population, we find some interesting trends. According to a recent Experian study, auto loans make up 14% of all recently opened accounts for Millennials compared to 1% for their Gen X counterparts at the same age in 1998. Similarly, student loans make up 24% of all new accounts for millennials, compared to 20% for their Gen X counterparts at a comparable age. It's true that fewer millennials are using bankcards, with only 27% of their recently opened accounts being bank cards, compared to 46% for their Gen X counterparts at the same age. However, life circumstances do change.

What Does This Mean for CUs?

As millennials begin to start families, buy cars and purchase homes, they, too, will be compelled to move up the financial ladder. The latest Experian research shows that millennials currently hold only 5% of all their accounts with credit unions. This means there is an opportunity for credit unions to reach out to them to change their perceptions and habits and build a lifelong relationship.

To take full advantage of this opportunity, credit unions need to understand this consumer segment and differentiate their product offerings.

A survey conducted by the Pew Research Center revealed this generation is the most detached from traditional institutions and is on the leading edge of adapting to new platforms of the digital era. Fortunately, credit unions are well-suited to appeal to this burgeoning consumer segment.

However, far too many CUs fail to take into account the unique needs of millennials and lack the ability to provide risk-based pricing, resulting in higher interest rates for millennials, who are experts at price shopping.

Perhaps more so than any previous generation, millennials are extremely technology-driven. As a result, they tend to be more empowered and informed consumers. They leverage social media to research and share where to find the best credit card interest rates, loan rates, auto finance rates, account services and member services.

In order to attract and retain millennials, offers must be highly relevant. Simply blanketing the market with a general offer tends to be less effective with this member segment. The millennial generation has grown up with smartphones, tablets and social media. This is how they prefer to interact. CUs need to ensure they are making the right offer at the right time in the right channel.

Membership Appeals to Millennials

Credit unions have a unique advantage over other financial institutions because millennials tend to put a greater emphasis on service, engagement, transparency and trust. CU membership is founded on these values.

Propensity modeling is an invaluable tool for predicting a member's future credit usage behavior and can help to maximize campaign response rates. By using aggregate wallet information, CUs can gain critical insights into future member behavior. Understanding the credit health and financial position of members, as well as their propensity to take action on a new offer, allows better targeting to this segment.

How CUs deliver offers to members also is critically important. Millennials are less likely to respond to a direct-mail campaign alone, which is why channels such as mobile apps, Facebook and other social-media platforms should be considered.

Behavioral models can be used to predict the likelihood that such an offer will reach and impact members. With such insights in hand, credit unions can customize offers to meet these members' needs. For example, more than half of today's retail consumers are shopping with a smartphone in hand. Millennials in particular rely on mobile apps for important transaction decisions.

Long-Term Relationships, Loyalty

By segmenting millennial members, credit unions can gain invaluable insights into behavioral characteristics such as cautiousness over debt, reluctance to sign up for more than a single credit card and a strong desire for lower interest rates on loans. These insights can be critical in helping to make the best targeted offers.

Credit unions have an opportunity to meet the demands of millennials by emphasizing their strength in member services and offering the right financial products at the right time. In gaining a deeper understanding of millennial members, credit unions can build long-term, consistent relationships, thereby driving greater loyalty.

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