# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>3</td>
</tr>
<tr>
<td>On the Radar: Attract and Acquire Gen-Y Customers</td>
<td>4</td>
</tr>
<tr>
<td>Technology Implications of Banking to Gen-Y</td>
<td>13</td>
</tr>
<tr>
<td>Conclusion</td>
<td>15</td>
</tr>
</tbody>
</table>
Banks cannot afford to ignore Gen-Y. In a report, Catalysts for Change: The Implications of Gen-Y Consumers for Banks, Deloitte says Gen-Y could become the wealthiest generation ever. “In addition to the growing inter-family wealth transfer, their cumulative earnings are projected to increase by 85 percent within the next 10 years, surpassing those of their Baby Boomer parents by as much as $500 billion. This segment is expected to have a higher disposable income than their predecessors.”

With popularity of Facebook, Twitter, YouTube and their attractiveness to Gen-Y, banks are learning about and using these and other social media tools. Banks hope by entering into a conversation with Gen-Y they will attract a demographic group that could ensure their future vitality.

Yet banks need to go beyond just a conversation – though that is undoubtedly a first step. Their use of social media tools must be connected with the rest of their information technology infrastructure; they must be able to capture the insights they gain from their conversations with Gen-Y and be able to use what they learn. In addition, banks need to be flexible enough to meet the expectation of these new customers who are very different from the generations that preceded them.

In their book, Born Digital: Understanding the First Generation of Digital Natives, John Palfrey and Uri Gasse argue that there are three distinct characteristics of Gen-Y whom they characterize as “digital natives” - they are born after 1980, they all have access to networked digital technologies and they have the skills to use these technologies. Hence, attracting and engaging with Gen-Y requires a shift in bank’s communication, marketing, operations strategy and technology infrastructure.

Over the last year and half, Efma and Oracle and have conducted a number of surveys to assess the preparedness of retail banks to serve this segment. What we found that by and large, banks have failed to integrate critical elements that are necessary for a Gen-Y strategy.

While the social media is good for conducting a conversation it is not very good for the nuts and bolts of signing up customers, tracking them and retaining them. As a result, banks must go beyond revamping their front offices. Their strategy for Gen-Y must integrate all parts of a bank including their back office systems, business intelligence and their risk and compliance infrastructure. In other words, banks must modernize their aging technology infrastructure.

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1 Are Banks Ready for the Next Generation Customer? September 2010, A Survey Report on Gen-Y Banking by Efma and Oracle Financial Services
2 Generation Y: The builders of tomorrow’s business, V Senthil Kumar, Where do we go from here?
Our most recent survey revealed that banks are giving higher priority than in the past to initiatives that target Gen-Y customers. About 42 percent of the respondents had a dedicated strategy to attract this segment as compared to 31 percent in 2010. Over the last year, even banks with no specific focus on Gen-Y customers claimed to have executed specific programs for this customer segment. These programs included special promotional campaigns through the social media and talent awards targeted at a Gen-Y audience. For instance, a leading bank in Ireland launched a special program aimed at university graduates that were just entering the workforce. A leading bank in Belgium devised new programs for Gen-Y that took in to account their future business potential.

What Makes Gen-Y Tick

To communicate with Gen-Y, banks and financial institutions have to learn what makes them tick. One of the key aspects about Gen-Y is that they are the first generation that has grown up with the internet and also after the mobile phone becoming ubiquitous.

The internet in general and the social media in particular allows instant feedback. As a result the general metaphor for communication has become “conversation.” Gen-Y expects to listen and to be listened to. They have also come to expect that their experience with different institutions to be as intuitive as what they encounter on the internet. Banks need to keep this in mind and pay close attention to user experience right across the channels that customers approach the bank.

Gen-Y has access to more information than any previous generation, are well educated, have often travelled extensively and are also far more technology savvy than previous generations. However, what makes them really different is that many Gen-Y customers lack the instinctive loyalty that many institutions have come to expect; in their case it has to be earned. Their expectation is simple - ease of access, prompt and accurate information and the presence of a trusted advisor. They expect convenience and the ability to do their banking on the go. This means providing banking facilities on the mobile and internet is essential.

Keep Them Informed

By nature, members of Gen-Y are social and seek information from various sources. More importantly, they share information with their peers. Banks need to provide customers with reliable and timely information. Gen-Y believes in communicating their opinions and experiences to their social network and a negative experience can be communicated forcefully and widely.
“Social Media at the Starting Blocks”

Much of what follows is drawn from an Efma and Aite survey titled “Social Media at the Starting Blocks” that surveyed both Efma members and US financial institutions. Conducted between August to October, 2010 it was intended to help financial institutions understand current and planned use of social media for marketing.

What the survey suggested was that both European and the US financial services institutions were still building their competency with the social media. Six in ten firms considered themselves to be either a “novice” or a “beginner” at social media. Both U.S and European firms were similar in this respect though a slightly higher percentage of U.S financial firms considered themselves novices than their European counterparts. Across both regions the proportion of institutions that considered themselves “intermediate” or “advanced” in their use of social media was virtually the same.

Business Objectives

Financial institutions had a number of objectives that they hoped to achieve using social media. Few institutions expected their involvement with social media to generate more revenue or reduce marketing costs. Financial institutions were primarily interested in building brand awareness and to some extent in improving customer retention.

Aite suggests that these objectives could change dramatically in the future. It expects that financial institutions would come to expect that their social media initiatives should help them achieve a broader range of business objectives as well as generate tangible returns.

Nearly 50 percent of firms surveyed said they used a highly centralized approach to the management of social media. While 50 percent of US firms wanted to follow such an approach, about 40 percent of European firms expected to follow it.

As most of the respondents to the survey were from the marketing department of institutions, marketing was the department most cited as being in charge of social media development; the public relations and online channel groups also participated in the management of the social media in some institutions.
Social Media Selection

More than 50 percent of firms had a Facebook presence and two thirds or the remainder planned on using the service. About 44 percent of the institutions used Twitter with 38 percent using YouTube. Institutions that were advanced users were more likely to use a diverse range of social media tools, though few used customer review sites.

There was little agreement amongst financial services executives about the effectiveness of social media tools though 39 percent of respondents considered Facebook as “very effective” for engaging customers, with another 48 percent rating the site “somewhat effective.”

Based on the findings of the survey Aite Group made a number of recommendations for financial institutions to optimize their return from the use of the social media. It suggests that firms:

- “Align social media investments with the marketing funnel
- Target specific market segments
- Integrate social media approaches into online capabilities
- Establish an integrated marketing measurement framework that incorporates social media-specific measures.”

Financial institutions tend to manage their social media investments to meet business objectives like building brand affinity and retaining customers. They could determine if they were investing appropriately if instead they considered the various components of the marketing funnel - awareness, consideration, preference, purchase and loyalty. For instance, financial institutions tend “to use social media to support the early stages of the marketing funnel (awareness) and the later stages of the funnel (engagement/loyalty), but not the middle of the funnel (interest and preference).”

Aite suggests that firms that have experimented with Facebook, Twitter and blogs have tended to create all purpose sites that appeal to a general audience. Aite suggests that there is a common thread in all the success stories it encountered – all of them tended to focus on a specific segment.

In 2007, the Commonwealth Credit Union in Alberta, Canada recognized that it needed to lower the average age of its members and also to attract a larger percentage of the Gen-Y market. It created a social media campaign called Young & Free Alberta which has now been replicated by credit unions across North America (http://www.youngfreehq.com).
The campaign ran a contest to find a spokesperson from the Gen-Y community who would manage the program for a year. The winner became an employee of the credit union, working full time on blogging, talking to Gen-Y and explaining various aspects of banking and money management to them. The campaign has become extremely popular.

While Facebook pages, Twitter, and blogs are popular tools to help institutions build brand awareness financial services institutions should also consider using social media tools and techniques to build and strengthen customer loyalty by:

- **Influencing customer preferences:** Gen-Y consumers tend to discount the recommendations of financial firms and are more likely to trust the recommendations of their peers; if a product or provider has been chosen by a friend, they tend to feel it might be good for them as well. At the same time it’s important to build trust with Gen-Y prospects by giving them the opportunity to see both sides of the coin. Allowing negative reviews to appear on a bank sponsored social media site (if the bank can also show it responds actively and positively to criticism) could help foster a belief that the bank is transparent.

- **Provide collaborative support:** Although a few financial institutions have turned to social media to provide customer support, these efforts are more akin to creating a new channel for providing traditional means of support than they are providing customer support in a new way. Drawing upon and encouraging existing Gen-Y customers to provide collaborative support could help banks create customer advocates and could in time and lead a reduction in call volumes.
The Use of New Channels

Gen-Y customers like flexibility and want to choose the channel through which they approach the bank be it the internet or the mobile. Banks have also come to realize this; the universal acceptance of the iPhone, iPod, Blackberry Messenger (BBM) is an indication that the provision of banking through these devices/channels should be a priority for banks. This year 66 percent of the respondents said ‘Adopting new channels’ was their first technological priority to cater to Gen-Y.

### Top Rated Technology Investments

- **Adopting New Channels**: 66%
- **Modernizing Core Banking**: 23%
- **Replace point solutions**: 9%
- **Investing in modern Hardware**: 2%

A bank’s customer should be able to begin a transaction on their mobile phone when they are on their way to work, decide to defer making a decision till later when they check it on the internet at the office or decide that they need to work through the implications of the transaction by walking in to a branch. For this banks must be able to integrate their systems to give customers access to their own information, irrespective of which channel they use.

Infrastructure Inefficiency: Still A Roadblock

A great banking experience is one of the cornerstones for successful customer engagement and in an earlier report we had highlighted that it was key to a bank’s ability to attract Gen-Y customers. However, only eight percent of the banks surveyed last year believed that they provided “exceptional service” to their customers.
Much of the reason why banks find themselves in this predicament is that their legacy systems are inflexible and incapable of meeting their requirements. Each time a bank wants to launch a new product, they must hard-code the system, which could take 18 months or more; as a result, banks cannot offer targeted, differentiated products on a timely basis. Banks that can’t swiftly bring the right product and service to the market, risk being left behind in today’s highly competitive business environment.

Current technology offerings are mature enough to provide banks with a clear-cut competitive advantage. Banks require such systems that draw upon critical operational information from a single source. They also need real-time analytics and performance management. Along with such sophisticated systems, they need simplified, shared infrastructure that delivers high availability and efficiency at a dramatically lower cost.

The handicap that most banks suffer from came out clearly in our surveys. Only a quarter of the banks with a dedicated Gen-Y strategy were entirely satisfied with their initiatives; a majority of them believed that there was a lot of scope for improvement. The banks which were not completely satisfied with their Gen-Y initiatives were, perhaps, unable to differentiate their offerings or did not possess agile technology that would allow them to drive differentiation.

**Results of the Gen-Y Programs**

- **62%** Average
- **27%** Excellent
- **6%** Not Applicable
- **5%** Poor
The results clearly establish that contemporary technology is viewed as a key tool to address Gen-Y banking requirements. However, most financial institutions make the mistake of hoping to attract Gen-Y customers by remodeling just their front offices. As a result they adopt new channels but quite often fail to provide the real time updates that customers want.

They claim to offer tailored products but fail to deliver them efficiently. This is because their backend legacy infrastructure is just not agile enough to respond. As a result, the whole exercise of developing a strategy for Gen-Y becomes just a cosmetic makeover.\(^3\)

Banks realize that an agile back office is necessary for their new channels to provide exemplary service. A majority of banks that were completely dissatisfied with their Gen-Y initiatives gave equal importance to modernizing their core banking as well as adopting new channels.

Result of Gen-Y Initiatives - Poor Top Technology Investment

- Modernizing Core Banking: 40%
- Adopting New Channels: 10%
- Replace Point solutions: 10%
- Investing in modern Hardware: 40%

\(^3\) Serving the Gen-Y Customer: 7 Key Technology Challenges for Banks, Oracle, March 2011
By contrast, it is significant that a majority of banks that said their Gen-Y initiatives were ‘excellent’ believed that the focus of their technology upgrade should be the modernization of their core systems.

![Pie chart showing the result of Gen-Y initiatives.

- 67% Modernizing Core Banking
- 33% Adopting New Channels]
Technology Implications of Banking to Gen-Y

Banks must innovate in order to remain relevant to their Gen-Y customers. As always, the best way to attract customers is to know exactly who they are and sell them the right products with bundled or relationship pricing where possible. Banks need agile technology that will enable them to bring products to market quickly and efficiently and be able to offer these products via channels with which customers are most comfortable. Based on our survey findings we present what we believe banks need to consider while modernizing.

- **Adopting New Channels**: Gen-Y customers want convenience. Customers should have the flexibility to manage their accounts online, pay bills directly from their desktops, mobile applications, or social networking sites; they should also have fully fledged services available from the channel of their choice. Real time updates and convenient self service are also a necessity. Banks should segregate the business logic in their applications from the user interface they deploy. By doing so, and if they use a configurable backend, it will allow them tremendous flexibility. They will be able to make a change once in their backend systems and be able to replicate it across all their channels enabling faster launch of new products.

- **Single Sourcing of Customer Information**: Banks must understand who their customers are, what business they do with various parts of the bank and what products they already own. They can’t get this picture from their legacy account-centric banking systems. They create silos of customer data and show at best a fragmented view of customer cost, exposure and profitability. As a result, banks are slow in responding to customer needs. A fragmented customer view is not a new challenge in banking. Yet there has with a significant growth in volumes of data that have to be gathered secured, processed and distributed. It is vital to a bank’s profitability that it adopts a normalized enterprise banking customer data model that is used and shared by the different applications across departments and business units of a bank and establish an integrated marketing measurement framework that incorporates social media-specific measures.

- **Product Differentiation**: With all customers (and Gen-Y customers in particular) a banks needs to weigh the products it offers them, the revenue streams it earns against their impact on the bank’s profitability and risk. This requires insight in to customer behavior and the development of product bundles based on relationship costs, exposure (essentially risk of future costs) and profitability. For example, a bank could choose to take follow up actions that could reconfigure deposit products to make them attractive to Gen-Y or introduce variable fees which are back loaded.

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4 Serving the Gen-Y Customer : 7 Key Technology Challenges for Banks, Oracle, March 2011
5 Strategies for Improving Customer Profitability in Banking, Mayank Sinha, Oracle, unpublished
• **Security**: As banks open up new channels to reach their customers, the security risks continue to grow. Banks also need to identify and track financial crimes like money laundering, fraud and funding for illegal transactions. Privacy of information remains a deciding factor for customers to choose providers. As a result, data loss prevention (DLP) technologies are becoming increasingly important for financial institutions. Both externally and internally, security of data is a priority – whether it is a representation of customers’ identities, account or transaction details or actual money. The challenge is to gain customers’ confidence and establish a trustworthy relationship.

• **Scalability and Performance**: IT infrastructure should support banks’ growth objectives. Solutions built on open standards technology makes IT infrastructure agile enough to adapt to the business demands. Open standards based platforms enable customers to leverage their existing investments and roll out new business services at a lower cost. It also arms customers with wide range of solution/business model options while they are deciding on any business process automation. Smart infrastructure solutions overcome performance issues caused by an overload of data and workload between the storage tier and the database servers.

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6 Serving the Gen-Y Customer: 7 Key Technology Challenges for Banks, Oracle, March 2011
Conclusion

While our earlier survey found that banks were only beginning to adopt Gen-Y dedicated strategies, our most recent survey revealed that more banks either had a dedicated Gen-Y strategy in place or had executed Gen-Y specific programs. When compared to last year, this year’s survey found out that majority of the respondents acknowledged that new banking channels and a modernized IT infrastructure were essential for a successful Gen-Y strategy and listed them as priorities.

Modernization of technology is an organizational imperative. It is a business-driven project with IT support. Successful execution of modernization strategy, is driven by aligning IT and business goals. Well planned and implemented technological goals simplify operations for the customer, which enhances their experience and helps in building loyalty. Winning Gen-Y’s loyalty ensures a committed and mutually beneficial relationship for both the bank and the customer.
About Efma

Efma promotes innovation in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters.

Efma was formed in 1971 by bankers and insurers to encourage their colleagues to share experiences, promote the best practices of their institution, and collaborate through alliances and partnerships.

Through regular events, publications, and its comprehensive website, the association provides members with answers to their questions about developing financial products, successfully selling them, rebuilding the distribution network, managing customer relationships, and improving performance and profitability. Quite simply, there is nowhere else for such peer-to-peer exchanges and interactions in a setting removed from the pressures of commercial competition.

About Oracle

Oracle provides the world’s most complete, open, and integrated business software and hardware systems. Oracle’s product strategy provides flexibility and choice to our customers across their IT infrastructure. Oracle gives its customers unmatched benefits from industry-leading products, including excellent system availability, scalability, energy efficiency, powerful performance, and low total cost of ownership.

Oracle Financial Services Software a majority owned subsidiary of Oracle Corporation, is a leading global provider of IT solutions to the financial services industry.


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Technology-The Key to Engaging Gen-Y Customers