ENGAGING GENERATION Y
Masterclass series

The rise of the so-called ‘Generation Y’ customer base has major implications for the way in which retail banks operate: from channel strategy to the manufacturing process, product design and risk management, the traditional retail banking model will have to change dramatically if it is to successfully capture the imagination of this discerning, tech-savvy customer segment. In this Masterclass, Michelle Price, business editor of The Banker, and Senthil Kumar, vice-president of global financial services marketing at Oracle, discuss the issues.

■ WHO IS GENERATION Y?
Broadly, Generation Y shares the same experience of the digital world. They can be classified as people who have been born after the 1980s, they have been born in a period where user online networks and bulletin boards are predominant and they use extensive technology in their everyday lives.

It is not by age, not by geography, not by caste or creed that Generation Y comes together, but it is more like a phenomenon that is defined by sharing a very similar experience and they can be spread across any location in the world.

■ WHAT IS THE SIGNIFICANCE OF GENERATION Y FOR THE BANKING INDUSTRY?
This generation is fairly empowered. They have the ability to assimilate information, without being guided, through the various sources that they use every day and they are also empowered in terms of making their own choices. They are brand-aware, but that doesn’t mean that they are loyal to any brand: they are very picky about brands.

In that context, if you really look at what banks or financial services organisations need to leverage to capture this customer segment early, they need to have a conversation and keep the conversation going and keep Generation Y customers engaged as they choose their products.

■ WHAT ARE THE IMPLICATIONS OF THIS NEED TO CONVERSE AND ENGAGE WITH THIS GENERATION FOR THE WAY RETAIL BANKS RUN THEIR CHANNELS?
The high street banking experience operates through a range of channels. It doesn’t provide a uniform experience across all the channels and there are very few banks that have stepped up to become channel-agnostic to any customer. I think that is the foundation for addressing this generation: you need to be delivering those services in a manner that means the customer enjoys the same experience or similar experience across all the channels.

■ WHAT ARE THE IMPLICATIONS FOR PRODUCT DEVELOPMENT?
I think there were distinct milestones in earlier generations, but the changes that youngsters are going through today are quite dynamic: they are making anything ranging from a few-hundred-dollar decisions to a few-thousand-dollar decisions during the year. Some of the products today are tailored to the milestones defined by earlier generations. But ongoing conversations will help banks tune into some of the new requirements that this generation has.

And it is not only about connecting Generation Y, but it is also about connecting the parents up into the same conversation because, by and large, the family still supports the younger generation. So there is a lot that can be achieved in that cycle of events. The second part of the product equation is that the association that Generation Y has with the other brands is much higher than that of their parents’ generation. So even being present among those brands which are already associated, or they associate with, is important for the banks today.

■ ONE OF THE THINGS THAT I ALWAYS ASSOCIATE WITH THE GENERATION Y CONVERSATION
IS THE ART OF CUSTOMISATION AND PERSONALISATION, WHAT ARE THE IMPLICATIONS OF THIS EXPECTATION FOR HOW BANKS DESIGN AND MANUFACTURE PRODUCTS?
That’s an excellent point: the ability to disassemble and assemble components to your preference is the underlying issue, and that is what has driven the success of brands such as Google and the iPod. Even in the financial services marketplace, the ability to offer or disassemble products and then assemble products to their individual preferences will be necessary.

The availability of those services is critical: the customer needs to be able to pick and choose from a variety of offerings, and even competitive brands offering a complementary service. Where the bank is offering this service is another important criteria. Traditionally, people expect to go to the bank directly and get that product, but is there somewhere else that the customer can execute that transaction? The last bit is about speed. In the future, you will never see a customer waiting for weeks or months to get something processed. I think days are even too long. People like to have a response in minutes.

So, at the back end, banks will have to completely disassemble or componentise their systems.

WHEN YOU TALK ABOUT GENERATION Y, SERVICES SUCH AS FACEBOOK AND TWITTER SPRING TO MIND: HOW CAN BANKS EXPLOIT THESE EXISTING, INDEPENDENT COMMUNICATION CHANNELS TO CONVERSE WITH GENERATION Y CUSTOMERS?
You can set those channels up as part of what you have as customer service today and then you can channel that input into the product development organisation within the bank to create those products.

But I think the most effective way is to get the business to actually be part of the conversation and then construct those conversations into products and services going into the marketplace.

So that mechanism of having that conversation is quite possible today in the current context of using social media. The question is how many of the banks see that as a strategic input tool and how do they participate and then use that as structured input within the organisation? I see very few conversations of this sort going on. Lots of banks are using social media to attend customer service issues. I think a step forward should be actually understanding what the customers are asking for and then trying to build it back into the product or services that you are offering. So that is a big difference.

BUT WHAT ABOUT THE DISTRIBUTION PROCESS, AFTER THE PRODUCT HAS BEEN MADE? WHERE DO THESE CHANNELS FIT IN?
The distribution by brand association or partners is going to be a very significant issue. There are two things that banks need to look at: whether they are better off manufacturing and letting distribution happen through somebody else, or if they are better off building a brand that will assemble a group of or a set of products and services, even if the bank is not the manufacturer.

We will see a lot of banks associating with brands that are non-financial services-focused, in order to reposition that point of entry into the market.

CATERING TO AN ENTIRELY NEW AND LESS WELL-UNDERSTOOD CUSTOMER SEGMENT USING NEW TOOLS BRINGS WITH IT A HOST OF RISK MANAGEMENT IMPLICATIONS: WHAT ARE THE CHALLENGES IN THIS RESPECT?
Banks will probably not be able to put Generation Y customers into one group and say that they are in this box so this is the type of pricing to apply – which is the way it is done conventionally. The whole mechanism of absorbing that customer understanding within the organisation and using that information for pricing also needs to change. But the fundamentals of how you measure risk or how you get to your credit-decisioning process or comply with regulations, those are not going to change.

Banks still need to report, they still need to check whether the transaction is properly done within the jurisdiction and whether it follows the rules. The expectation, on the other hand, is global mobility. One of the things that this generation expects is the ability to use an account wherever they are in the world. But the underlying process is not yet wired to global mobility in the banking system.

The expectation of global mobility means that there are a few more steps that banks need to fulfill. That capability does not come by improving what the banks have, but they actually need to educate people internally, educate the regulators and then put that change into practice.