

The 2014 ICBA American Millennials and Community Banking Study

**Unexpected Findings from the Fastest
Growing Generation in Banking**
October 2014

By

Independent Community
Bankers of America®

&

The Center for
Generational Kinetics

“80 million American Millennials are poised to transform banking forever. This unique generation is now the fastest-growing segment of customers in the entire banking industry.

Millennials present a once-in-a-generation opportunity for community banks to show how they understand, value and embrace this new generation.”

- Chris Lorence and Jason Dorsey

Table of Contents

Welcome.....4

Introduction to Millennials, Community Banking, and
Why This Research Is So Important.....6

What We Discovered.....8

 Emergent Consumer Perspective.....8

 Value of Community-Connected Banks and Local Ownership.....9

 Strong Entrepreneurial Spirit.....11

Key Takeaways for Community Banks.....13

About Our Research Team.....16

Our Research Process and Methodology.....17

Copyright and Usage.....18

Welcome!

Welcome! We're glad you're here.

The Independent Community Bankers of America (ICBA) and The Center for Generational Kinetics (The Center) are pleased to share our latest national research with you.

We are passionate about bringing a national lens to emerging trends in the banking industry. Discovering new trends allows us to better understand and embrace our changing customer demographics and to determine how we can better serve our local communities.

The Millennial generation is of particular interest to community banks—and the entire banking industry—as this new generation of almost 80 million Americans is the largest one to enter the banking marketplace since the Baby Boomers did more than three decades ago.

Millennials are also at exactly the life stage, ranging in age from about 19 to 37, where they are beginning to make key banking decisions and establish long-term banking relationships. This is supported by the fact that Millennials are already the fastest-growing generation of new customers at many community banks across the country.

In short, our timing for this research could not be better for community banks, Millennials, and the general public.

We hope you are as excited about our research findings as we were when analyzing the surprising survey answers.

Intro to Our Research Team

The Independent Community Bankers of America—ICBA—is the voice for more than 6,500 community banks of all sizes and charter types. We are dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. For more information, visit www.icba.org.

The Center for Generational Kinetics—The Center—focuses on uncovering, documenting, and analyzing generational trends and truths to provide

Welcome!

actionable insights and strategies for clients around the world. We seek to make the most of every generation of customers and employees, specializing in Millennials and Generation Y. Learn more about our mission to solve tough generational challenges around the world at www.genhq.com.

Contact Us to Schedule an Interview

Contact us to schedule a media interview or inquire about partnering with us on future research projects:

Chris Lorence, EVP and CMO
Independent Community
Bankers of America
+1 202-821-4457
Aleis.Stokes@icba.org

Jason Dorsey, Chief Strategy Officer
The Center for Generational Kinetics
+1 512-259-6877
Info@genhq.com

Introduction to Millennials, Community Banking, and Why This Research Is So Important

Meet the Millennials

Millennials, also known as Generation Y and Echo Boomers, are the fastest-growing generation of customers in the banking industry, including many community banks across the country.

This new generation of almost 80 million Americans, born between 1977 and 1995, is entering the life stage where they are making financial and banking decisions that will affect the rest of their lives. This translates into a huge opportunity for banks to win their loyalty for a lifetime.

Let's start by looking at a snapshot of Millennials in the United States:

- Currently age 19 to 37
- Number about 79.8 million
- Getting married and having their first child later than any previous generation
- Most ethnically diverse generation in recent U.S. history
- Greatest number of college graduates ever; twice as many degrees conferred in 2009 as in 1970
- Buying their first home later than previous generations
- Came of age with the Internet, mobile devices, and ubiquitous social media
- Currently represent the greatest lifetime value of any banking customer

Millennials are at exactly the right moment for community banks to reach out to them as customers and for Millennials to see that a community bank is the right fit for them.

About Community Banking

Community banks serve a vital role in the U.S. banking system. Located in small towns, suburbia, and big-city neighborhoods, community banks improve our towns and cities by funding small businesses and using local dollars to help families purchase homes, finance college, and build financial security.

Introduction to Millennials, Community Banking, and Why This Research Is So Important

Unlike many larger banks that may take deposits in one state and lend in another, community banks channel most of their loans to the neighborhoods where their depositors live and work, helping to keep local communities vibrant and growing.

There are more than 6,500 community banks in the U.S., including commercial banks, thrifts, and stock and mutual savings institutions, with more than 50,000 locations throughout the United States. They are independent, locally owned and operated institutions with assets ranging from less than \$10 million to several billion dollars. Community banks constitute 96.8 percent of all banks.

Because community banks are small businesses themselves, they understand the needs of small business owners. Their core concern is lending to small businesses and farms. Their board of directors is made up of local citizens who want to advance the interests of the towns and cities where they live and do business.

With nearly 5,000 members representing more than 24,000 locations nationwide and employing 300,000 Americans, ICBA members hold \$1.2 trillion in assets, \$1 trillion in deposits, and \$750 billion in loans to consumers, small businesses, and the agricultural community.

Why Conduct This National Research Now?

The emergence of Millennials and the importance of community banks created a convergence that needed to be studied. We wanted to see what Millennials think about community banks and where opportunities exist for community banks to better engage this important generation at a critical time.

ICBA and The Center are pleased to present the most valuable—and surprising—findings from our research. We look forward to hearing from you!

What We Discovered

Our research looked at Millennials and their attitudes on banking and community banking from multiple angles and within the context of two other U.S. generations: Generation X (born 1965 to 1976) and Baby Boomers (born 1946 to 1964). We chose this approach because we wanted to get an accurate cross-section of the U.S. population age 19 to 65.

This snapshot of America is ideal for uncovering unexpected attitudes, as well as for context and contrast in terms of generational differences. This is particularly useful for community banks because many of them have been around for two or more generations, creating their own generational history.

We sorted the findings into three white paper sections that will be most helpful and interesting for you regarding Millennials, banking, and trends:

- Emergent Consumer Perspective
- Value of Community-Connected Banks and Local Ownership
- Strong Entrepreneurial Spirit

Emergent Consumer Perspective

There has been a storyline in pop culture that Millennials are not interested in their personal finances. But is this true? Do Millennials want to know more about finances in general? Or are they still letting Mom or Dad make all the decisions?

Of all the generations we surveyed, Millennials are the ones who most wish that they knew more about their finances. Millennials are not only hungry for financial knowledge but also drive interest in it. This reveals that the generation often viewed as not interested in finances is not only interested but wants help more than any other generation.

As Millennials continue to age and enter new life stages and events, such as advancing their careers, getting married, buying a home, and becoming parents, it is likely that they will seek out more help to navigate their finances.

Millennials' emergent attitude goes beyond finance and right into the hot-button intersection of government, politics, and lending. When asked, "Who would you rather meet—the president of a local bank who just approved a loan

What We Discovered

to start up your own dream business OR the President of the United States?" 57 percent of all Millennials chose to meet the bank president instead of meeting the President of the United States.

While it's impossible to separate the political leanings that can affect this answer, it is striking that a majority of any generation would turn down the President of the United States to meet a bank president—but that reveals just how important a loan is to anyone who dreams of starting a business.

If Millennials met with their bank presidents right now, a large number of those Millennials would not have much cash in their pockets. We know this because we asked in our survey, "How many days per week do you carry less than \$5 in cash?" Almost a quarter (23 percent) of all Millennials surveyed said that they carry less than \$5 per cash seven days a week! While this may make daily ATM visits less important to Millennials, what is definitely important to these emergent consumers is their expectation and reliance on mobile banking.

A full 74 percent of all Millennials surveyed said, "Mobile banking is very important to me." This was the highest of any generation surveyed and 76 percent greater than the Baby Boomer response.

The bottom line is that Millennials as emergent consumers are bringing a new perspective to banking. This new generation is keenly aware that they need to better understand finances, place value in banks that help make their dreams a reality, and expect much of the experience to happen directly from their preferred mobile device—and all without carrying much cash!

Value of Community-Connected Banks and Local Ownership

Community banks are founded on the idea that they are locally operated with a strong community connection. In fact, many community banks have a history of two or more generations of service in their local communities. But does this connection matter to Millennials and to America?

The short answer is "Yes." Our research found that a majority of Millennials (54 percent) and all Americans (57 percent) prefer to work with locally owned and locally operated community banks to handle their financial needs.

What We Discovered

This presents a significant opportunity for community banks and underscores the importance of their mandate to operate in the communities they serve.

To put this in perspective, the survey also revealed that 55 percent of all Americans believe that banks treat them like a number. The generation that most strongly felt that banks treat them like a number? Millennials (58 percent).

If a bank can make Millennials feel like they are not “numbers,” then they have an advantage over all the other banks that fall short. In fact, 64 percent of all Millennials surveyed place importance on developing a relationship with their banks or financial institutions.

Compared to other generations studied, Millennials also place the highest amount of importance on a bank being family-owned.

The combination of being locally owned and locally operated creates a sweet spot for community banks to leverage a unique position that other banks cannot match or will have great difficulty replicating.

Being a locally operated banking institution is almost twice as important to Americans as being a national or international banking institution. Given that 66 percent of Americans agree that they “wish relations with banks were more personal,” it should be no surprise that Americans now place more importance on a bank being locally operated.

- 25 percent of Americans said that a national or international banking institution is important to them.
- 48 percent of Americans said that a locally operated banking institution is important to them.
- In fact, 46 percent of Millennials said that a locally owned banking institution is important to them.

A majority of Americans, across all generations, agree that locally owned banks are just as safe and secure as regional, national, or international banks. In fact, for context, 77 percent of all Americans across generations do not believe that national and international banks are typically more safe and secure than locally owned banks.

What We Discovered

What's more, that a majority of Americans across all generations believe that there should be no such thing as a "too big to fail" bank or institution. The fact that a majority of all Americans and a majority of each generation support this stance lends credence to the idea that a level banking playing field is desired by customers of every generation.

Strong Entrepreneurial Spirit

Millennials are by far the generation most interested in learning about how to start and run a successful small business. In fact, 46 percent of all Millennials surveyed said that they are interested in learning about how to start and run a successful small business. The generation that has come of age in the great recession might just become the great entrepreneurial generation. Going further, when the question was asked more assertively, 41 percent of Millennials said that they are very interested in starting up their business. This percentage was higher than all the generations surveyed and more than double the percentage of Baby Boomers (17 percent).

This may be why the survey found that a majority of all Millennials place importance on a bank understanding the financial needs and pressures of small businesses and entrepreneurs.

The Millennials' desire to be entrepreneurs is already translating into results. Our survey found that almost a quarter of Millennials (24 percent) currently earn at least part of their income from a business or businesses they own or have a stake in. That is more than any other generation surveyed!

It is reasonable to assume that this percentage will increase as more Millennials mature and become more comfortable with the rigors of owning and running a business. This represents a long-term opportunity for America and for the banks that specialize in serving this burgeoning entrepreneurial generation.

The survey found that 36 percent of all Millennials said that they are considering starting their own business or, if they already owned a business, are considering starting another one. Again, this desire to start a business was more than double that of Baby Boomers and almost 20 percent greater than that of Generation X.

What We Discovered

But when do Millennials plan to actually start these businesses they're thinking about?

Of the Millennials who indicated that they are currently considering starting their own business or starting another business, 62 percent said that they would like to be in a position to start their new business within the next 24 months.

The Millennial spirit for entrepreneurship bodes well for community banks, as the survey revealed that locally owned and operated banks are the first choice of all Americans for a business loan or other funding compared to regional, national, and international banks.

Key Takeaways for Community Banks

Recommendations for Community Banks to Attract and Keep Millennial Customers

This nationwide study looked at Millennials' attitudes and perceptions about banking. The study also provided a look at Millennials within the context of the two preceding generations of banking customers, Generation X and Baby Boomers. The contrasting perspectives and unexpected findings can help banks, bankers, bank boards of directors, regulators, marketers, investors, and government officials better understand and respond to the fast-growing customer segment in the banking industry today.

Based on the research findings, it appears that there is a natural fit between Millennials and the characteristics of community banks. This is particularly true in the areas of community banks being locally owned and operated, providing loans to small businesses, and offering financial advice along the customer journey.

The challenge in reaching out to Millennials is presenting the story, strength, and services of community banks in a way that fits how Millennials communicate, identify options, and select the bank that is the right fit for them.

Below are three strategies based on this research survey's national findings, a landscape review of other research in the banking space and The Center for Generational Kinetics' extensive work with financial institutions, retailers, hospitality providers, and many other strategically related industries that are also having to adapt to Millennials.

We believe that these three strategies will create a trajectory for success with Millennial customers—current and future—in the community banking space:

- 1. Create an Entrepreneur Advisory Board:** Traditionally, community banks have a board of directors, a loan committee, and occasionally an advisory board. With Millennials being the generation that most wants and intends to start their own business, creating an Entrepreneur Advisory Board is a tangible step to demonstrate that your community bank actively engages, influences, and takes advice from the local entrepreneur community. A best practice would be to ensure that multiple generations are represented, especially Millennial entrepreneurs.

Key Takeaways for Community Banks

2. Make Millennial Customers Feel like VIPs: Millennials reacted the strongest when asked if they feel that banks treat people like a number. This presents a tremendous opportunity for community banks to distinguish themselves by showcasing how they treat each customer as an individual, valued bank customer. Bankers can start doing this in three ways:

- a. Introduce new Millennial customers to three bank employees so they are familiar with the team and not just the person who opened their first account.
- b. Ask Millennials how they would like to be contacted by a banker; this might include contacting them via text message rather than the more traditional email or voicemail.
- c. Invite Millennials as guests to exclusive events that they otherwise might not be able to attend, such as festivals, sporting events, fashion shows, and non-profit fundraisers.

3. Adapt to Millennials' Communication Profile: The Center's work with Millennials reveals that this new generation is highly visual as learners and communicators. This new generation has literally been conditioned to skip blocks of text and instead look for videos, photos, and bullet points. This is underscored by the fact that the generation naturally communicates through screens, such as smartphone or tablet screens. Here are three strategies to communicate with Millennials that align with their preferences:

- a. Tell your bank's story visually. Instead of presenting your story online in multiple paragraphs, turn it into representative pictures or a short, fast-paced video that engages Millennials to "see" why your bank is different and important in the community. The more personal stories you include—especially ones that feature other Millennials—the easier it is for Millennials to see that your bank has a personal history and is all about helping people like them.
- b. Present information to Millennials via a screen rather than a brochure, printed handout, or solely via conversation. Millennials like to see information visually represented on a screen. When you are meeting with

Key Takeaways for Community Banks

them, offer a screen—such as a tablet—for them to look at while you walk them through your presentation or discussion. This is especially true when you are helping them understand and make financial decisions.

- c. Instead of providing a traditional business card, offer to connect via LinkedIn or provide your contact information to them via text or email. LinkedIn allows you to stay in touch with the Millennial through a popular, professional social network. Providing your information via text or email makes it easiest for Millennials to add you to their contacts and find your information at exactly the time when they need to reach you later on.

About Our Research Team

About Independent Community Bankers of America® (ICBA)

ICBA is the voice for more than 6,500 community banks of all sizes and charter types. We are dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high quality products and services. For more information, visit www.icba.org.

Connect with ICBA:

T: @ICBA

F: /ICBAorg

About The Center for Generational Kinetics

The Center for Generational Kinetics is the leader in uncovering and documenting generational differences, similarities, and actionable trends. The Center's founder, Jason Dorsey, has been featured on dozens of media outlets, including 60 Minutes, 20/20, The Today Show, The View, The Early Show, The New York Times, and many more. The Center's speaking and consulting clients include many of the most recognizable brands in the world, such as Mercedes-Benz and Four Seasons Hotels. Learn more about our work to solve tough generational challenges and drive generational conversations at GenHQ.com and JasonDorsey.com. To schedule a media interview or request information on our other services, please contact Info@GenHQ.com or call +1 512-259-6877.

Connect with Jason Dorsey:

T: @jasondorsey

F: /Jason.Ryan.Dorsey

Our Research Process and Methodology

This research project was led by the Independent Community Bankers of America and The Center for Generational Kinetics in partnership with Conversion, an insights firm. Our goal was to lead a national research survey that explored the attitudes and beliefs of U.S. consumers toward community banking by generation.

A short 10-minute survey was developed and deployed online, including via mobile phones, to a sample universe of over one million Americans using both opt-in and stream sampling to provide this study with a very robust and statistically accurate end sample size. Quotas were set to ensure reliable and accurate representations of the entire U.S. population from the ages of 19 and over.

The survey was conducted in July 2014 among 1,008 nationally representative Americans age 19 and over.

In this particular study, the chances are 19 in 20 that a survey result does not vary by plus or minus 3 percent from the results that would be obtained if interviews had been conducted with everyone in the universe comprising the sample. The margin of error for any subgroup will be slightly higher.

The results of any sample are subject to sampling variation. The magnitude of the variation is measurable and affected by the number of interviews and the level of the percentages expressing the results.

We chose a national, cross-generation approach because we wanted an accurate snapshot of attitudes and perceptions to identify exactly what people in the U.S. think about banking and community banking today.

Copyright and Usage

Unexpected Findings from the Fastest Growing Generation in Banking

October 2014

By Independent and Community Bankers of America and The Center for Generational Kinetics

This document © 2014 ICBA and The Center for Generational Kinetics, LLC.
All rights reserved.

The information in this document may be used by the media in whole or in part as long as this document is cited as the source for the information. In no way does this document provide an endorsement of any bank or any other product, service, company, or individual.

This document is provided “as-is.” Information and views expressed in this document may change without notice. The strategies and examples depicted herein are provided for illustration purposes only and are not guarantees of specific results. You bear the risk of using this document.

“80 million American Millennials are poised to transform banking forever. This unique generation is now the fastest-growing segment of customers in the entire banking industry.

Millennials present a once-in-a-generation opportunity for community banks to show how they understand, value and embrace this new generation.”

- Chris Lorence and Jason Dorsey