

# How Millennials Approach Wealth

Key Imperatives for Wealth Managers

 White paper

# Introduction

The concept of wealth management has been around since the 1930s. And yet, no one generation has changed this industry's dynamics as much as the millennials. Millennials (born between 1981 and 1996) are the largest adult cohort (around 23 percent) of the global population<sup>1</sup>. They are incredibly tech-savvy, inquisitive, risk-seeking, socially aware, and generally considered more independent and tolerant.

Millennials grew up in the digital era, making technology an integral part of their lives and a strong influence in their decision-making. Compared to the earlier generations, millennials have better financial literacy and are more sensitive towards issues pertaining to the environment, climate change, gender parity, and inclusivity. Keeping these millennial characteristics in view, wealth management firms are overhauling their operating models to support new product offerings, modes of engagement, and marketing channels to serve this generation better.

## Millennials and their approach to money

Unlike previous generations, millennials readily embrace new and innovative ways of managing finances. They actively seek information and resources to educate themselves on financial matters and don't just rely on external advice. Given their digital savviness, it is no surprise that 78 percent of millennials use mobile banking, while 75 percent rely on online banking services<sup>2</sup>.

This generation witnessed a plunge in property prices during the subprime mortgage crisis of 2008. Hence, they mindfully choose uber ways of living over owning a property and try keeping their financial liabilities low. This gives them the bandwidth and flexibility to take higher risks and invest in various traditional and non-traditional investment avenues. Almost 88 percent of millennials have already invested their money to date<sup>3</sup>. Holding sufficient savings at an early age has made it possible for millennials to plan their retirement well in advance. According to a recent survey, 25 percent of millennials have savings of at least \$100,000 in their accounts, earmarked for retirement<sup>4</sup>.



# Decoding the distinctiveness of this demography

In 2020, it was estimated that millennials controlled less than five percent of US wealth, while baby boomers owned 53 percent. These numbers will change dramatically by 2030, with millennials expected to hold assets worth over \$20 trillion globally<sup>5</sup>. Industry research suggests that millennials will inherit another \$30 trillion in financial assets from their parents by 2050. An early understanding of this demography is immensely crucial for wealth managers if they wish to tap into this customer base more effectively. Following are some of the key features of this cohort:

**1. Digital and customized experiences:** Millennials expect digitization at every touch point and demand personalized experiences. They do not prefer the one-size-fits-all approach for their wealth management services. Firms like Gen Y Planning provide advisory services designed specifically for millennials.

**2. Risk-return trade-off:** Millennials are more open to taking risks than older generations and are willing to invest in speculative assets, such as cryptos, digital and alternative assets, for higher returns. Their higher levels of financial literacy permit them to assess risks better based on the potential payoffs. They look for multiple avenues for diversification of assets to optimize their risk.

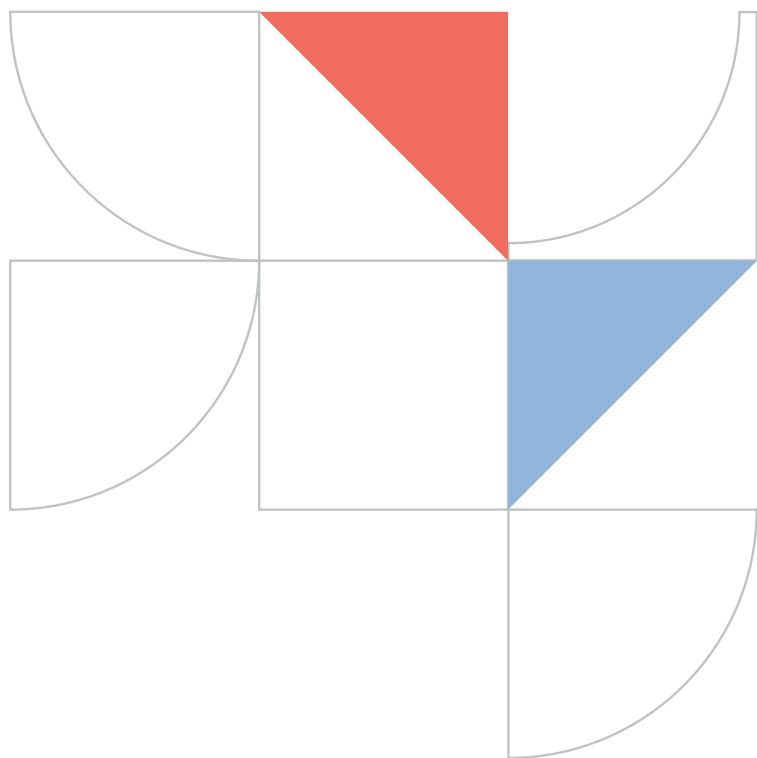
**3. Earning women:** About 36 percent of millennial women have a college degree compared to 28 percent of millennial men and form a significant portion of the workforce. These women often earn lucrative compensations and seek smart investment options. Several wealth management firms are designing specialized plans for this subset of millennials. Brooklyn Plans is one such firm that offers plans targeted specifically for the millennial woman.

**4. Self-investing:** While millennials prefer to be independent and self-reliant, they often lack the knowledge and information critical for making

investment decisions. Wealth management firms are actively harnessing technology to educate and guide their clients to make well-informed investment decisions rather than merely prescribing investment plans.

**5. Ethical investing:** Millennials take an active interest in social and environmental issues such as carbon emissions, gender equality, transparency, inclusivity, and governance. They look to proactively incorporate these philosophies into their investment decisions. As a result, they prefer investing in firms with higher ESG (environment, social, and governance) scores.

**6. Buy v/s rent (shared economy):** Most millennials are not keen on owning properties but believe in renting or hiring to meet their daily needs at a lower cost. They prefer to be mobile with minimal liabilities and less illiquid assets. This leaves a sizeable portion of their disposable income for savings and investments.





# Millennials and new age investment options

Traditional investments were the de-facto means of investment for ages. However, technological advances have created avenues such as cryptos, NFTs on art, and private equity that were typically reserved for the elite. The risk-taking mindset of millennials has made it possible for them to embrace such investments. A CNBC Millionaire Survey revealed that 83 percent of millennial millionaires owned cryptocurrencies. Wealth managers are incorporating such emerging investments into their product and advisory plans to fulfill millennials' demand for alternative investments.

Growing concerns about climate change and advocacy for transparent governance and social

issues have led to an increased interest in sustainable investing. A recent report reveals that 61 percent of millennial investors currently participate in impact investing, and this share is likely to grow significantly in the coming years<sup>6</sup>. Wealth managers are aware of this affinity of millennials and have taken the ESG assessment as a significant factor while making recommendations to their millennial clients.

With numerous wealth management firms emerging at play, millennials prefer not to restrict themselves to a single institution or advisor. As per a recent survey, 60 percent of millennials avail the services of two or more wealth management providers as opposed to just 23 percent of baby boomers.



# Millennial's expectations of financial advisors

Millennials are starkly different from the earlier generations in terms of their expectations from wealth advisors and managers. Born in the digital age, in the wake of increasing data theft and security breaches, privacy and safety of information are the most sought-after features by millennials in any wealth management service. They also place a lot of emphasis on personalized services and advice and

expect regular inputs from their advisors to keep them on track to achieve their financial goals.

Compared to baby boomers, millennials are 1.6X more likely to seek support from wealth advisors in maneuvering complex processes and breaking down convoluted information. The chart below lists the top attributes that millennials value most:

## Attributes That HNW Millennials Value Most in Advisors



n = 182

Note: Indexed to 100, where above 100 the attribute is of relatively high importance

Source: 2020 Gartner Financial Services Customer Experience Survey

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# Engaging with the next-gen investors

By and large, wealth managers are engaging with next-gen investors through digital services, gamification, and social media, making digitalized services a norm. Wealth managers must provide services that can be accessed virtually from anywhere in the world through the web, mobile, tablets, and other devices. Wealth managers can leverage robo-advisors to assist millennials in asset allocation, goal-based planning, tax planning, and portfolio rebalancing. They are also introducing millennials to the concept of meta-verse platforms where they can meet virtually and explore investment options.

Millennials can easily weigh their investment decisions through gamification by virtually emulating potential wealth investment scenarios, as gamification uncovers investors' cognitive or emotional biases in their investment decisions. It helps investors in making well-informed and rationalized decisions.

The digital natives are heavily influenced by social media. Wealth managers are trying to engage with their millennial clients on platforms such as WhatsApp, LinkedIn, Facebook, Instagram, etc. However, the SEC and FINRA have established stringent guidelines for keeping a check on unsolicited investment advice via social media platforms.

## The road to wealth creation

Millennials have been slowly and steadily influencing a paradigm shift in the investment arena. Their propensity for technology adoption, affinity to impact investing, healthy risk appetite, and priority for information security makes them a formidable group for wealth managers to serve.

However, wealth managers can actively leverage technological advances to provide innovative

offerings, personalized services, and socially impactful investment options that appeal to millennials. Multiple engagement channels need to be established to ensure continuous communication and information sharing with the millennials to strengthen the relationship and build trust. Wealth managers who empathize with these needs and preferences of millennials and tailor their services accordingly will capture a larger share of their wallets.

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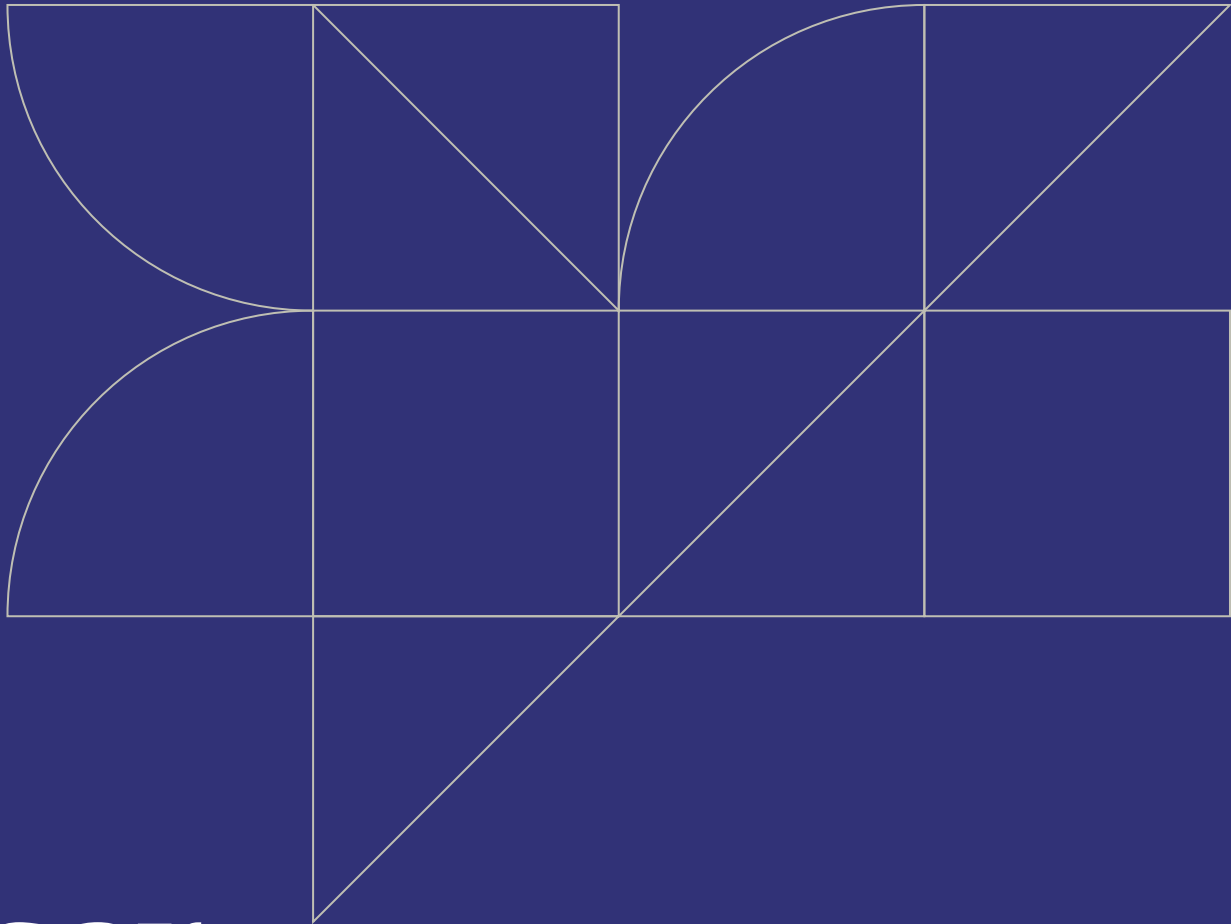
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