The Generation Game

Listen to your future,
Or it won’t listen to you.
The Generation Game: Savings For The New Millennial

Foreword

As the technologically savvy, social media dominated millennial generation enters the world of study and work, and begins to actively manage their finances, it is increasingly necessary for financial institutions to understand how best to engage with them.

It is important for BNY Mellon, as partner to many of the world’s insurers, to understand the challenges that the industry faces in adapting to a new wave of clients who have a different outlook — clients who are struggling to find a way to align their future with their present. Insurers must acknowledge the shortfalls in their ability to connect with the millennial generation and find ways to overcome the gaps.

It gives me great pleasure to present this white paper, which is the culmination of what has proven to be a fascinating and insightful project. I hope that you find it illuminating and thought-provoking.

Particular thanks must go to the youthful band of millennials that made up our Oxford University research team, the contributing insurers, my colleagues who worked to bring the paper to fruition and of course the many millennials who responded to our survey.

Here are some of the key insights which I personally have found most interesting:

1. Millennials overwhelmingly turn to their parents for advice and guidance on financial planning. We cannot say, and do not know, whether their parents are equipped to advise them correctly — but we know that half of our respondents do not know how a pension works, and we know that insurers do not even make the shortlist of ‘go-to’ places for financial guidance.

2. Millennials are wildly optimistic that they will have sufficient income in retirement, despite being realistic that they cannot rely solely on government and employer contributions.

3. Today’s retirement savings products do little or nothing to overcome millennials’ short and medium-term focus when it comes to savings, while the vast majority would save more for retirement if they felt they would be rewarded. At the same time, they are telling us that they have little awareness of the tax advantages or compound savings benefits that accompany retirement savings schemes.

4. While the themes that underpin millennials’ attitudes are broadly homogenous, local factors mean there are wide differences of opinion on certain key issues such as trust in financial services and appetite for saving.
How can insurers rise to the challenges that the millennial generation face in creating a financially secure future? Some short, medium, and longer-term solutions are apparent to me:

**In the short-term:**
- Insurers need to find avenues to better equip parents to advise their children. Use traditional media to present tools which can educate on the savings gap, the benefits of compounding and tax efficiencies. Target these towards both millennials and their parents, both individually and as family units.

- Begin presenting the tax efficiencies associated with retirement savings as a rewards or loyalty scheme.

- Carefully consider use of social media campaigns and take care not to damage credibility – build a reputation of trust and solidarity through campaigns which do not appear too flighty or light-hearted.

**In the medium-term:**
- Re-intermediation of insurers: now is the time to position the insurance industry as the “savings industry” and one that can be trusted. Create distance from the reputational damage suffered by global banking brands who might be seen instead as the providers of current accounts and other comparatively transaction-orientated banking activities.

**In the long-term:**
- Work with policy makers to move away from a single purpose tax-incentivised retirement pot toward a tax-incentivised savings pot that allows for a certain number of lifetime drawdowns. Capitalise on millennials’ need to feel a sense of reward for their savings efforts. This accessibility will allow flexibility in the savings approach and will bring the millennials’ savings closer to them, making both the savings and the rewards that they bring seem more real, bringing the future into the present.

Paul Traynor
Insurance Industry Lead, International, BNY Mellon

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**About the Research**

The research was conducted in three stages. In the first stage, millennials from seven countries – Australia, Brazil, China, Japan, the Netherlands, the United Kingdom and the US – were polled using an online survey that was available in English, Mandarin, German, Japanese and Portuguese.

The survey window was open between February and April 2014. 1,178 millennials responded to the survey.

In the second stage, a number of respondents were selected for semi-structured interviews lasting one hour each, based on their answers to specific survey questions. These interviews aimed to delve deeper into survey responses as well as to understand the thought processes that go into financial decision-making.

In the final stage, a number of insurance companies were interviewed to gauge their reactions to the findings and to get a clearer picture of their approach to engaging with millennials.

The research project was conducted by a team of undergraduates from Saïd Business School, University of Oxford, for BNY Mellon. It was carried out under ethical approval obtained from the University of Oxford’s Central University Research Ethics Committee.
In the interviews we conducted with insurers we were struck by the fact that there was virtually no interest in shaping products for millennials let alone finding out what their needs are. We got the sense that insurers are not playing the long game with young adults in the same way that banks are.

Some insurers accepted without question that millennials had not even heard of them, possibly because their relationship has traditionally been with the employer rather than the employee.

Others gave the impression that they are coming round to feeling the need to get into the minds of millennials. And for those insurers that do make the effort, their messages will not fall on deaf ears.

Our research with millennials identified a number of ways insurers could make a better job of winning over the younger generation.

Connecting through parents was a constant theme throughout the research findings. Where insurers already have a relationship with parents, this could be made to trickle down to the next generation.

They were very clear that Facebook and Twitter are for seeing what their friends are doing – social media is not a place where they want to make life decisions or be commercially active.

Millennials also felt they are so bombarded by advertising that insurers need to adopt shock tactics if they hope to make an impact – survey respondents repeatedly pointed to government anti-smoking programmes as examples of campaigns that actually hit home.

And they also thought that products that rewarded them sooner rather than much, much later would get more traction. This could be both through linking products to pre-retirement expenses such as education fees or house purchase, and clearly demonstrating the tax rewards that are given for saving in a pension.

Millennials know they will have to do more than their parents to provide for their own retirement. We think that insurers are currently behind the curve in helping them to get there.

Shayantan Rahman, Research Team Lead
Economics and Management undergraduate, Saïd Business School, University of Oxford, Aged 20

“While they may not be actively doing anything about it, for many millennials retirement saving is on their minds – it’s something they are aware they need to be thinking about long term.”

Delia deLisser, Director, Voya Retirement Research Institute
Executive Summary

The life insurance industry is failing to connect with millennials at a time when they need the industry more than ever. Increased longevity and reduced state and employer provision mean millennials – those born after 1980 – will have to save more of their earnings than their parents, and do so over a longer period. Yet, as the findings of this white paper demonstrate, the techniques used by insurers to engage with baby-boomers do not always work with millennials. If insurers are serious about connecting with millennials, new thinking is needed.

Key findings

Millennials are more than twice as likely to turn to their parents (52%) for financial advice than the next most popular source, their bank (24%).

Millennials are far more likely to seek advice on financial planning from their parents than from any other source, perceiving them as trusted and experienced agents in an uncertain and complicated world. Insurers' engagement with millennials is currently virtually non-existent, but they have an opportunity to reach them through their parents.

Less than 1% of millennials want financial services providers to connect with them through social media.

Rather than being the remedy for insurers' problems with engaging with millennials, many think it makes them look 'silly', 'pally' or 'creepy'.

59% of millennials believe they haven't seen products targeted at people like them.

Today's retirement savings products do not appeal to millennials because they fail to show the future is connected to the present. Millennials want products that demonstrate clearly that they are being rewarded for tying up their money.

Just 16% of millennials in Japan believe they will be able to access the same sources of retirement income as their parents, compared to 84% in Australia.

While millennials have much in common in their attitudes to retirement saving, there are also huge variations from nation to nation. Local problems demand local solutions.

To gain a closer understanding of what millennials really think, BNY Mellon commissioned a team of undergraduates from Oxford University to compile this white paper on its behalf.

The research team that shaped this report are all aged between 19 and 21. We believe that makes this white paper – a major piece of research carried out by millennials into the retirement attitudes of millennials – the first of its kind.

This white paper shines a light on the extent to which millennials understand the seriousness of the task they face in providing for their retirement, and the ways they want to be informed about that challenge. It examines the role of new media in connecting with millennials and the fitness for purpose of the products insurers are currently offering them.

As the world continues to emerge from the global financial crisis we believe now is the time for insurers to ask themselves whether they are really doing all they can to connect with this new generation of sophisticated young consumers. We hope this white paper highlights some of the key issues to be addressed.
Introduction

Millennials’ interaction with the world of financial services is completely different to that of their parents’ generation. Largely digital native, their consumption of media is a world apart from that of baby-boomers.

Reduced state and employer provision, longevity and narrowing dependency ratios mean millennials face a greater challenge than older generations in saving for their retirement. The extent to which these and many other factors (student debt, an uncertain financial environment and high housing costs to name but a few), impact on millennials varies from country to country. Cultural, political, demographic and economic factors specific to individual countries all influence the attitudes of millennials to retirement saving, though in all countries the behavioural tendency to prefer spending today over saving for the future weighs heavily on efforts to promote long term saving.

But despite the many other calls on their attention, millennials appear to understand they will be on their own when it comes to providing for their retirement. This white paper endeavours to identify how insurers can channel this demand into enabling millennials to start providing for their financial future. This research aims to measure millennials’ attitudes to money, retirement, saving and financial institutions both from a global perspective and from a national one. By gauging the attitudes of millennials in different countries and interpreting these findings within their national context it is possible to gain a deeper understanding of how young adults do, and do not, want financial institutions to engage with them.

We chose seven countries for the subject of this research – Australia, Brazil, China, Japan, Netherlands, the United Kingdom and the US – to allow us to engage with a broad range of millennial populations: Emerged and emerging, large and small, those with a collective approach and those with a unit-linked system, compulsory and voluntary.

All of the countries surveyed face challenges in ensuring future generations enjoy a comfortable retirement to differing degrees. The research findings reflect the extent to which nations have grappled with these challenges, but the results show millennials in all nations surveyed see little reason to want to engage with insurers.
Recommendations

This report suggests it is not that millennials do not need to save for retirement, but that they are not being offered the right products in the right way. Of course insurers face competition for the attention of millennials from many other quarters. But the research findings contained in this white paper suggest there is much providers can do to reach out to millennials in different ways.

**Recommendations:**

– All insurers should identify millennials as a distinct target for marketing activity.

– Insurers should leverage the strong link millennials have with their parents in relation to financial products. Insurers' marketing efforts should focus on the parent/millennial dynamic and target both millennials and their parents with products created specifically to appeal to millennials.

– Financial institutions should handle social media campaigns with care and should avoid crossing a line of familiarity that millennials will find 'creepy'.

– Insurers should use the internet, gaming, apps and other channels utilised in the world of retail to connect with millennials.

– Insurers should investigate ways pension products can be structured to deliver limited early access to funds and lobby governments to facilitate them.

– Insurers should do more to explain the benefits of tax relief to millennials by explaining it as 'free money'. Ongoing tax relief should be positioned as a reward for saving and used as such.

– Pension provider marketing should focus on the notion that private pensions are ring-fenced and belong exclusively to the individual in countries where concerns about underfunded collective provision persist.

– Marketing messages used by insurers should highlight the potential downsides of not saving for retirement so they are more impactful to millennials.

– Millennials think insurers need to adopt similar shock tactics to government anti-smoking campaigns by painting a more frightening picture of poverty in retirement if they want to gain their attention.

“You don’t want to depress people but we don’t live in a welfare state anymore and I think advertising can go a little bit darker without making people completely lose confidence in the future. It needs a nice twist to make it attention-grabbing and give it a shock factor, while making it clear that there is something you can do about it.”

A Dutch millennial
“We are not yet targeting millennials through parents, but thinking in terms of family units has started to happen. One of the challenges is how to communicate in an engaging way whilst remaining compliant with our regulatory obligations.”

Graeme Bold, Proposition Director (Workplace Pensions), Standard Life

“Ask my parents, do some research online, and then go in and interview a few places as to where I would like to have a savings account.”

A UK millennial

“Parents are by a clear margin the first port of call for millennials seeking advice on financial products, with 52% of those surveyed saying they would turn to their father or mother for help with savings and investments. Millennials are more than twice as likely to contact their parents about financial matters than the next most popular source, their bank (24%).”

– 52% would turn to their parents first for financial advice, compared with 24% who would speak to their bank and 2.8% who would contact an insurer.

“Parents are the only people who I feel have a reasonable level of experience with doing this kind of thing. I think their basic suggestions are correct.”

A Japanese millennial

“We are not yet targeting millennials through parents, but thinking in terms of family units has started to happen. One of the challenges is how to communicate in an engaging way whilst remaining compliant with our regulatory obligations.”

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Parent Power

Millennials overwhelmingly see their parents as the primary source of advice on financial planning.

Millennials are far more likely to seek advice on financial planning from their parents than from any other source, perceiving them as trusted and experienced agents in an uncertain and complicated world.

Young adults understand that they must provide for themselves in retirement, but they are being held back from doing so by a lack of awareness of the products available to them, with half of millennials not understanding how pensions work.

A considerable proportion of millennials also distrust financial institutions, while engagement with insurers is negligible. Parents by contrast are overwhelmingly seen as the avenue millennials believe will help them solve the challenge they face in providing for their retirement.

– Parents are by a clear margin the first port of call for millennials seeking advice on financial products, with 52% of those surveyed saying they would turn to their father or mother for help with savings and investments. Millennials are more than twice as likely to contact their parents about financial matters than the next most popular source, their bank (24%).

– Financial advisers are the third most popular source of advice, a first choice for 16% of millennials, while 10% would turn to their friends for information on financial matters.

– Insurers barely figure in the minds of millennials looking for help with savings and investments, with only 2.8% of those surveyed saying an insurance company would be their first point of contact for financial advice and guidance, and just 2% saying they would speak to an insurer’s agent.

Millennials are likely to contact more than one source of advice before making a purchasing decision. We therefore asked them to rank seven sources of advice in order of preference so that average rankings could be calculated. Average rankings nearer to 1 mean sources are more popular, while rankings nearer to 7 mean sources are less popular.

Parents achieve the highest average ranking, with a score of 2.36, followed by banks (2.55), financial advisers (3.05) and friends (3.64). Insurers (4.75) and insurers agents (4.87) achieve fifth and sixth places respectively in the average rankings, beating only schoolteachers, who achieve an average ranking of 6.03.

Parents are seen as the leading source of financial advice across developed countries. However, in Brazil, banks achieve a slightly higher ranking. This may be because more parents of millennials in emerging economies may have not themselves had access to retirement products.
Rank these sources of financial advice, in order of which you would approach first

The quantitative research findings that parents are the principal influencers of millennials’ financial decision-making, and that insurers’ roles are insignificant are backed up by the qualitative research. Telephone interviews conducted with millennials from seven countries around the world indicate that young adults turn to their parents because they perceive them as trustworthy, independent, and experienced in having to make similar financial planning decisions to those faced by their children.

However, interviewees from emerging markets indicated that where parents have not themselves had access to retirement products, for example where these products have not been widely available, they are perceived as a less useful source of advice.

Both the qualitative and quantitative research indicates that millennials’ engagement with insurers is virtually non-existent. Yet at the same time millennials understand they will have to do more to provide for their retirement than their parents’ generation. To enable them to achieve this the insurance industry needs to do more to educate them on how pensions and other forms of long-term savings work, connect with them as consumers and rebuild trust.

These findings should raise concerns for insurers hoping young adults will be the customers of tomorrow, yet they also present a window of opportunity for engaging with millennials on a subject they understand is important for them.

“Now we are thinking of products more targeted at the parents of the millennials, rather than the millennials themselves, but not forgetting the youngsters.”

Humberto Sardenberg, Marketing Superintendent, Icatu

“I would go to parents for advice first, then colleagues, friends. I do not think banks would give completely impartial advice. I see them more as a business than a service.”

An Australian millennial
Self-sufficiency

Millennials do not believe they will benefit from the same levels of state and employer-sponsored pension income that their parents are entitled to. Our research shows a majority (53%) believe that their own personal savings will now be an essential part of income for their retirement, whereas only 36% mentioned employer contributions to a national savings scheme and 31% think it will be the government. Around a third of respondents still have some confidence in state or employer-sponsored pensions, but more than half believe that they will have to rely on themselves to a large degree.

Sources of Retirement Income

The extent to which millennials see their parents as the primary source of information about pensions suggests an opportunity for insurers to target millennials through them. Insurers have to generate awareness of the benefits of retirement savings. They also have to find a way to establish a more prominent position in the decision-making network of millennials.

As the data in the following chapter shows, millennials do not want to be targeted through social media, but that does not mean they do not have an appetite for learning what insurers have to offer. Rather, the challenge for insurers is to connect with them in a way they want to be communicated with.
Banks manage to connect with consumers at a far earlier age than insurers. This is not surprising given the immediate need for the services of a bank that virtually all young adults have. But that does not mean insurers should give up on millennials.

The insurance companies we spoke to told us they had made little or no effort even to do market research on millennials specifically, and had not considered targeting millennials through their parents, although some were contemplating doing so. We appreciate their honesty in this regard and think their approach is reflected across the industry.

Insurers already have direct client relationships with the parents of millennials, but we found little evidence of products for millennials being distributed through them. Savings products designed specifically for grandchildren exist in many countries around the world, yet products and marketing material targeting adult children of those in middle age are extremely rare.

The strong link between millennials and parents in relation to financial products also suggests that any insurers looking to target marketing efforts at young adults may wish to consider incorporating family units with a parent/millennial dynamic into their material.

Trust

Trust has always been a challenge for financial services providers, an issue that has been exacerbated by the global financial crisis. The survey data shows that two thirds of millennials (65%) trust financial services providers to provide them with a secure retirement. This relatively high level of trust in financial providers amongst millennials contrasts with other research covering individuals of all ages, where trust in financial organisations has been found to be nearer 50%*.

Nevertheless, despite this relatively high level of trust in financial services providers, taken together, banks, financial advisers, insurers and their agents are still the first port of call for a minority of millennials (44%). While a majority of millennials trust financial services providers to provide them with a secure retirement, they do not appear to trust them with the task of advice and guidance on retirement saving.

*2014 Edelman Trust Barometer

“Studies we have done amongst our customers and by others in the industry indicate there was a real erosion of trust, particularly following the significant economic downturn that happened in 2008.”

Delia deLisser, Director, Voya Retirement Research Institute

“Chinese people have not been dealing with for-profit insurance companies for long, people do not have a sufficient idea of how they operate. There have been stories of people being taken advantage of and sometimes even outright fraud.”

Professor Li Jin, Said Business School, Oxford University

“I have friends and family members who had money in Iceland, for example. You realize that when banks collapse, what a huge effect it has on society as a whole. The recession made me aware of things I hadn’t previously worried about but were things that I should worry about.”

A Dutch millennial
Social Media Scepticism

Millennials are averse to social media relations with financial services providers.

While they are generally comfortable being targeted by consumer brands through social media, millennials do not want financial services providers using these channels to contact them.

Less than 1% of millennials say they want contact with financial services providers through social media.

The survey data shows the proportion of millennials who want contact with financial services providers through social media is miniscule. Asked how their contact with financial services providers could be improved, less than 1% of millennials actively expressed a desire for connecting through social media. This very low appetite for communications from financial services providers through social media was also evident through the qualitative research.

Quantitative data from the survey indicates millennials want to interact with providers through a range of channels, with website/email the most popular choice (40%), followed by face-to-face contact (23%) and telephone (18%). Demand amongst millennials for social media interaction with financial services providers on the other hand is virtually non-existent. Of 664 respondents who expressed a view, just two said they wanted to be contacted by their financial services providers through social media.

What form of contact do you want with financial services providers?

- Website/email 40%
- Face-to-face/in branch 23%
- Telephone 18%
- Letter 5.4%
- Parents 3%
- Smartphone app 1.4%
- Social media 0.03%

“Millennials can tune out TV adverts. But the internet is a strong place for marketing for young people. I don’t think forming personal relationships through social media would help but using the internet is a big way to help.”

A UK millennial
The qualitative research echoes this very low appetite for social media interaction with financial services providers amongst millennials, indicating that they see it as a space for interacting with peers and friends. Some explicitly stated that social media undermines the credibility of financial services institutions, and referred to their use of these channels as ‘silly’, ‘creepy’ and ‘pally’.

These findings suggest there is a familiarity line that millennials do not want financial institutions to cross in their interactions with them.

Do you think banks and other financial institutions benefit from a strong social media presence?

“No, I think it’d be kind of creepy.” A US millennial

“I think there’s a misconception that all companies need to have a Twitter account. I don’t buy into that. I’ve seen some financial institutions’ tweets before and what they can say is pretty strictly limited by regulation so you end up with the blandest uninteresting blasts of titbits of information. I don’t think it’s a prerequisite at all for a pension provider or a bank. I actually think it makes them look a bit silly.” A Japanese millennial

“This idea that they can form a relationship with customers over Twitter will just end in tears. It’s just a prime example of banks trying to appear friendly, close and pally, but they just want a professional relationship.” A UK millennial

“We have developed an online game targeting 18 to 25 year olds to increase visits to our website. It has achieved more than one million page views.”

Humberto Sardenberg, Marketing Superintendent, Icatu

“If a product was offered from a bank or institution that people already had interactions with, or offered in a way that I had access to, I would be like ‘Oh, this is good, I already trust them, and this would be really, really useful.’”

A US millennial
Personal Rather than Social

Heneg Parthenay, Head of Insurance, Investment Management EMEA, BNY Mellon

The survey shows that, when it comes to engaging with millennials, personal contacts are more trusted than communication through social media, which to the extreme may even be counter-productive. Insurers and banks have to modernise their communication, but perhaps they should focus on modernising their approach to face-to-face conversations rather than spending energy on exploring new communication channels.

This report highlights a number of areas where financial institutions have an opportunity to increase their engagement with millennials.

– The low level of understanding by millennials of pension systems reported in this survey highlights the growing need for financial education. Governments have launched programmes to address this issue, but financial institutions involved in the space should also support this effort.

– Whilst the shift towards short-term rewards is endemic, financial institutions need to emphasise the long-term benefits of saving and the power of compound returns. The value of commencing pension contributions early, whilst recognising the existence of other financial strains such as student debt, should be stressed.

– By taking a proactive approach to helping millennials navigate the pension framework and sharing simple investment principles with them, insurers and banks can help rebuild trust in the financial industry.

– The survey shows that buying a home comes first in terms of millennials’ saving priorities. Buying a home is for many people a sensible and significant component of whole of life financial planning and can assist in funding for retirement. Linking home ownership with retirement planning could be a way to draw more attention from millennials to savings for retirement.

The survey indicates that banks are probably better placed than insurers to engage with millennials on retirement issues. This finding supports the bancassurance model, which has been widely adopted and is still expanding across Europe. If insurers do not want to be taken even further away from end customers, they can reposition themselves as retirement experts and create a real alternative to banks, whose reputations have suffered the most in the aftermaths of the global financial crisis.

Millennials argue they would rather maintain a professional relationship with their financial service provider, indicating they associate professionalism with stability and quality, factors that can be reduced by social media. Millennials interviewed in the qualitative research indicated that use of social media made financial services institutions look as though they were trying too hard, and that, after the global financial crisis, they mainly want ‘boring’, safe and stable providers.
A Proportionate Presence

While the research shows financial services providers should not rely on social media as a solution to their challenge in connecting with millennials, it does not mean that providers should abandon social media altogether. Not having a social media presence at all, or having an inadequate one, can be as much of a problem for a financial services provider as having too aggressive a social media presence. On several occasions financial institutions have been criticised for an inadequate or non-existent social media response to problems experienced by customers. There are also examples of situations where financial services providers have succeeded in achieving engagement with millennials and other customers through social media. Done in a proportionate and sensitive manner, groups of potential and existing customers can be engaged with, as long as it is understood that social media should not be expected to unlock the key to widespread engagement with millennials.

Survey respondents also pointed out that it is easy for millennials to avoid contact with financial institutions through social media. ‘Liking’ a Facebook page or following a Twitter account requires a voluntary action on the customer’s part. There may be a small proportion of customers who would prefer to have contact with these institutions over platforms like Facebook. Their access to these institutions’ social media pages does not interfere with other customers’ activity on social media platforms.

“I think social media is definitely useful for people who do use it to contact us and people who don’t want to use it don’t have to see it.”

Graeme Bold, Proposition Director (Workplace Pensions), Standard Life

Which types of social media do you use?
Connecting the Future to the Present

Millennials would save more if their money was not locked away and if they were rewarded for doing so.

Persuading people to put away money today to fund a retirement several decades away is arguably the biggest challenge faced by both pension providers and those shaping pensions policy. Research in the field of behavioural finance has demonstrated that human beings are hard-wired to prioritise a benefit they will enjoy in the near future to one in the distant future – the phenomenon known as hyperbolic discounting. Pension policy and marketing need to find new ways to overcome this tendency.

While hyperbolic discounting may be a trait that is universal to all, millennials exist in a very different world to that of their parents’ generation. Tax relief, nudge theory and compulsory saving have all been used as ways to persuade the public to tie up their money for long periods, with differing levels of success. Our research suggests that a new generation of pension products is needed, operating in conjunction with these existing methods, that can enable millennials to connect the present to the future. New types of savings products are essential to establishing the savings culture that will be so important to millennials’ long-term financial wellbeing.

- 73% of millennials would save more if they were rewarded in some way
- 51% of millennials would be more inclined to save for the future if their money was not completely locked away
- 59% of millennials believe they haven’t seen products targeted at people like them
- 63% of millennials do not know retirement savings accounts attract tax relief

Our research suggests this new generation of retirement savings products needs to give millennials some form of access to funds before retirement and show them how they are being rewarded for saving. These products must also be marketed to millennials in a way that is relevant to their lives.
Rewards

Our research revealed interesting regional differences. While in the majority of countries surveyed around three quarters of respondents would save more if they were rewarded, the figure for Japanese respondents was an overwhelming 90%. Brazilian millennials are the coolest towards rewards but even there, two thirds of respondents (66%) would be more inclined to save if they were incentivised in some way.

Existing pension product structures already do reward savers, in many cases very generously when compared with other forms of saving, through tax relief. For many employees, matching employer contributions are also on offer. However, a large proportion of millennials are unaware of the incentives they are being offered to save in pensions, and a majority do not understand how pensions work.

We believe there is scope for providers to do more to explain the benefits of tax relief to millennials by targeting marketing campaigns specifically at them that explain the ‘free money’ available to them through pension saving. Insurers should also use more of the marketing techniques used by retailers to engage with millennials. This could include portraying ongoing tax relief on both contributions and investment growth as rewards for saving.

Would you be more inclined to save for retirement if you were rewarded in some way?
Is saving in a retirement account tax-efficient?

Yes 37%
No 16%
I don’t know 47%

Millennials who save in pensions are, by definition, locking up their money for longer than all other adults. Moreover, in many countries around the world millennials are being forced to wait longer before they can access their pensions, as governments steadily increase state pension age and, in some cases, the age at which private pension assets can be accessed. Yet increased life expectancy, lower interest rates and less generous state and employer provision mean millennials need to start saving earlier than their parents did if they are to enjoy a retirement income anywhere near that of their parents.

Our research demonstrates just how susceptible millennials are to prioritising spending today over saving for tomorrow, even when they are offered powerful incentives to tie their money up for longer.

As part of the research millennials were asked whether they preferred to receive $50 today, $80 in one year’s time or $200 in 10 years’ time in order to determine whether they were short-term thinkers or long-term planners.

– Just 22% of millennials would take $200 in 10 years’ time, rather than $50 today (42%) or $80 in one year’s time (36%).

New Strategies Required

Vince Pacilio, Global Insurance Industry Lead, BNY Mellon

The financial services sector must re-engineer the more traditional approach to reaching new customers. This will involve the design of less complex products, education and resources and sales practices that effectively resonate with millennials’ buying behaviours. The financial services sector also has enormous amounts of data that can be mined to better target individuals with specific interests, demographic groups or far narrower individual profiles. However, as the survey points out, millennials are sceptical of and lack trust in the financial services sector, posing a unique set of challenges for the industry in its ability to design effective products, inform and educate the market and grow.
Accessibility

We believe today’s retirement savings products, which lock millennials’ money away for several decades before they reap any benefit from having saved in them, will prove increasingly ineffective in helping young adults to save. This research suggests millennials might respond better to a lifetime savings pot structure that offers some form of limited withdrawals or early access to part of the fund.

We recommend insurers investigate ways pension products can be structured to deliver limited early access to at least part of the funds held within them. For example, access could be linked to funding specific items of expenditure such as clearing student debt or a deposit for a home. We urge insurers to develop suitable products for the jurisdictions in which they operate, and then lobby governments for the reform of tax and regulatory frameworks to facilitate these new products.

Would you be more inclined to save for retirement if the money wasn’t completely locked away?

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<th>Country</th>
<th>Yes (%)</th>
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<tr>
<td>Australia</td>
<td>54%</td>
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<tr>
<td>Brazil</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>China</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Japan</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>United States</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>Average</td>
<td>51%</td>
<td>49%</td>
</tr>
</tbody>
</table>

“Millennials don’t want to wait until retirement or until they die to get their savings. They want to use them before.”

Humberto Sardenberg, Marketing Superintendent, Icatu
Lack of Understanding

Our research found that around half of millennials do not believe they know how pensions work. This number increases to 61% amongst those under the age of 23. Millennials in Brazil, China and the US stand out as most uncertain about how pensions work, while Australian millennials are most informed.

Agrees with the statement “I don’t know how pensions work”

<table>
<thead>
<tr>
<th>Country</th>
<th>All millennials</th>
<th>Millennials under age 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>37.5%</td>
<td>40%</td>
</tr>
<tr>
<td>Brazil</td>
<td>62.6%</td>
<td>72.5%</td>
</tr>
<tr>
<td>China</td>
<td>52%</td>
<td>77.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>41%</td>
<td>63.6%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>44.8%</td>
<td>59.5%</td>
</tr>
<tr>
<td>United States</td>
<td>55%</td>
<td>72.9%</td>
</tr>
</tbody>
</table>

Average

<table>
<thead>
<tr>
<th></th>
<th>All millennials</th>
<th>Millennials under age 23</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>48.9%</td>
<td>61.3%</td>
</tr>
</tbody>
</table>

“If pensions are better explained, people would put more money in.”

An Australia millennial
An Urgent Need for Education

Adriano Koelle, Chairman of Latin America and Country Executive for Brazil, BNY Mellon

Pension funds in Brazil offer tax advantages that are not known by many people. For example, contributions to PGBL (401k-like plans) are tax deductible up to 12% of the individual's income and one can also benefit from the non-payment of inheritance tax in this kind of investment, which makes it a great tool for succession planning.

If millennials don’t understand how pensions work, financial institutions in general, and especially insurers, who were clearly not prioritised as a source of advice in the research, have to embrace the role of creating a culture for financial education. We think that this initiative can and should start early. High school and college students, young workers joining the market, and many other audiences must be informed and educated about the importance and alternatives of saving for retirement.

Perhaps not surprisingly, our research also found that millennials do not prioritise retirement saving. As well as being attracted towards spending on things they can enjoy today, they also face other calls on their finances, such as student loans and saving for a deposit to buy a home, that were less challenging for young adults 20 years or more ago.

Saving for retirement is a low priority for millennials

Male
Female
Average ranking

How long you will live, when you will die, what will you do in the event that your income isn’t there for you like it is today? We have to think about things like this, yet those are the things that it’s human nature to avoid.”

Delia deLisser, Director, Voya Retirement Research Institute
Harder Marketing Messages

Competition for the attention of millennials across all forms of media is intense. Insurers face a growing challenge in gaining their attention if the way they communicate with them does not evolve. New marketing solutions must therefore be found if insurers are not to lose contact with millennials completely.

The findings from the qualitative research suggest millennials think current marketing strategies adopted by financial services providers fail to hit the mark. As was shown earlier, millennials do not want financial institutions to attempt to connect with them through social media. But they may be open to connections through web-based solutions such as apps and games. Interviewees suggested one way insurers could connect with millennials is by creating apps that would be useful to them, in the same way banks create budgeting apps for students. Gaming may be another way of engaging with millennials in some countries.

The research indicates that millennials want marketing to them to deliver the information they need in order to understand how they should be saving for their retirement. But they also say advertising campaigns need to be more impactful if they are to succeed.

The interviews that formed the qualitative part of this research revealed some suspicions that contributions made into schemes could be used to pay for the retirement of an older generation of workers. Some informed respondents expressed a preference for pure defined contribution (DC) plans over collective arrangements, suggesting that marketing should focus on the notion that private pensions are ring-fenced and belong exclusively to the individual.

Millennials interviewed as part of this survey said they thought advertising campaigns from insurance companies were bland, unchallenging and targeted at a middle-aged audience. In several of the interviews, millennials volunteered unprompted that they would engage more with marketing that gave a more frightening picture of poverty in retirement, referring specifically to government anti-smoking campaigns as an example of effective shock tactics. Without hard-hitting messages, millennials believe insurers’ campaigns to get them to save for the long term are destined to fail.

Millennials understand they are on their own when it comes to funding their retirement – they do not understand why insurers are not prepared to be candid with them. When positioning themselves towards millennials, insurers have to walk a fine line between being perceived as boring whilst appearing credible, reliable and solid. At the same time they need to deliver marketing messages that are sufficiently hard-hitting to break through the media noise surrounding young adults.

While we understand that insurers may be wary of associating their brand with negative images of poverty in old age, we believe there remains scope to connect with millennials in a more impactful way, engaging them in a mature dialogue about the very real challenges they face.

“Advertisements in the past pictured people walking down the beach with their dog - which is largely irrelevant for this age group. As an industry we are in transition about how we really communicate and engage with customers of different age groups using segmentation and trying to give them something with value now.”

Vicki Doyle, Head of Retail & Corporate Super, BT Westpac, Westpac
Next Generation Products for Next Generation Consumers
Gerald Wellesley, Europe Pension Industry Lead, BNY Mellon

We hope a key outcome of this research will be a focus by retirement providers on the specific characteristics of millennials and how they should deliver products for them.

A clear message from the research is that saving for retirement is something that millennials will not do from choice given the range of options and pressures they face. So a structure that doesn't require a conscious decision on the part of members must be the best route to success. Automatic enrolment in the UK is a good start and the Superannuation model in Australia demonstrates the extent to which savings can be built up through this more direct approach. Another alternative is the Collective DC model popular in The Netherlands and likely to be made available in the UK, which takes away the financial decision-making that proves unattractive to millennials (and many others).

Compulsory saving may not be the best solution in all countries, however, and will not fulfil all an individual's needs in countries where it is introduced. So wherever in the world they operate, insurers will still need to find new ways to engage with their future customers.

The concept of making a whole generation financially literate is not practical or realistic. Retail products must still exist but need to be sold pre-packaged in a way that is attractive to everyone.
Global Challenges, Local Differences

Millennials in different countries approach retirement saving very differently.

Millennials around the world display many common traits in their attitudes to retirement saving, but our research also identifies significant differences. The preference for spending today rather than in the distant future, increased longevity, the impact of new media and reduced state and employer provision are all factors that influence millennials’ attitudes to saving, wherever in the world they come from. But the manner in which these dynamics manifest themselves and the solutions insurers need to adopt to harness them are all influenced by cultural, political, demographic and economic factors specific to individual countries.

- Parents in emerging economies are seen as less knowledgeable about pensions than those in developed economies.
- Just 16% of millennials in Japan believe they will be able to access the same sources of retirement income as their parents, compared with 84% in Australia.
- Millennials in China (44%) and the Netherlands (39%) are least likely to trust financial institutions with their money, compared with 18% in Australia.
- 73% of female millennials in China are saving, compared with 34% of female millennials in the US.

Not All Parents are the Same

Our research found that while from a global perspective parents are the number one source for information and guidance about financial services products for millennials, their role is less significant in emerging economies.

Millennials in Brazil are more likely to turn to their banks for financial advice than their parents, while in China, parents are the first person port of call, but banks run them a very close second. Asked to rank source of advice on a scale of 1 to 7, with 1 being the most important, banks achieved an average ranking of 2.21 amongst Brazilian millennials, compared to an average ranking of 2.54 for parents.

In China, parents were ranked highest with a ranking of 2.54, only just beating banks, which achieve an average ranking of 2.59.

This lower prioritisation of parents in Brazil and China may reflect the fact that private pension arrangements have been historically, and still remain, less widespread than in developed economies. In some emerging economies, some millennials’ parents have never bought long-term savings products. However, in both Brazil and China, parents remain a key channel for insurers looking to reach millennials ahead of banks.
Rank these sources of financial advice, in order of which you would approach first – Source/average ranking

A World of Difference in Levels of Trust

The extent to which millennials trust the system to deliver them the sort of retirement enjoyed by their parents varies considerably from country to country, with demographic, political and economic factors likely to be key influencers of attitudes.

A Brazilian millennial

“I would rate teachers above parents because my parents don’t have the necessary technical information to help me.”

A Japanese millennial

“If you’re contributing money now you’re effectively directly giving it to the people already claiming their pension. People are reluctant to contribute and try to avoid doing so if they can because they feel like they will never get the money back. This is common amongst young people in Japan.”

Millennials demonstrated significant distrust of unfunded pension schemes, particularly in Japan and the Netherlands. This suggests an opportunity for insurers marketing pure, unit-linked DC plans to reinforce trust by emphasising the fact that savers’ money is ring-fenced in their plans.
Asia – a Region of Opportunity

Richard Collis, Head of Insurance, Investment Management Asia, BNY Mellon

Insurers have seen extraordinary, almost unstoppable levels of growth in Asia as the industry meets the needs of literally billions of new customers.

Just how big an opportunity Asia presents is highlighted by the mind-boggling scale of some of the financial institutions that operate here. Some insurers quote numbers of agents in tens of thousands, while banks have huge networks – ICBC for example has more than 18,000 branches in China.

We see a fundamental shift of role for insurers operating in Asia – with less emphasis going forward on their historic role of protecting against the “what ifs”, and a move towards a greater focus on managing the wealth accumulation of the emerging affluent across the region. Understanding the attitudes of millennials in Asia is immensely important if insurers are not only to make the most of this opportunity but also help people in these countries provide for their retirement.

While there are many directionally similar results in this survey of millennials’ attitudes to long-term saving, there are still significant country-by-country differences in how decisions are made, what they consider important and how they want to engage with financial institutions.

As in the rest of the world, insurers operating in Asia need to raise awareness of the challenges governments, individuals and employers face in providing for retirement. They need to stimulate public debate around long-term saving and lobby for taxation and regulatory changes that will facilitate simple yet attractive savings vehicles.
The extent to which millennials think financial services providers can help them provide for their retirement varies considerably across the different countries surveyed. Australia has the highest proportion of millennials trusting financial companies to provide them with a secure retirement (79%), while the Netherlands has the lowest (43%).

Do you trust financial services providers to provide you with a secure retirement?

<table>
<thead>
<tr>
<th>Country</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>21%</td>
<td>79%</td>
</tr>
<tr>
<td>Brazil</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>China</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Japan</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>United States</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Average</td>
<td>35%</td>
<td>65%</td>
</tr>
</tbody>
</table>

However, millennials are on the whole more trusting of financial services companies’ ability to keep their money safe.

In most countries around a fifth to a quarter of respondents do not trust financial services providers with their money. But in two countries – China and the Netherlands – a notably higher proportion of millennials showing deep-rooted distrust of financial services providers was identified. Amongst Chinese respondents 44% agreed with the statement ‘I don’t trust financial services providers with my money’, while 39% of Dutch respondents agreed. This may reflect the impact of fraudulent activities experienced specific to those countries, such as Dutch savers’ losses following the collapse of Icelandic banks, and a series of banking scandals in China.

I don’t trust financial services providers with my money

<table>
<thead>
<tr>
<th>Country</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>18%</td>
</tr>
<tr>
<td>Brazil</td>
<td>24%</td>
</tr>
<tr>
<td>China</td>
<td>44%</td>
</tr>
<tr>
<td>Japan</td>
<td>21%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>39%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>24%</td>
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<tr>
<td>United States</td>
<td>28%</td>
</tr>
<tr>
<td>Average</td>
<td>27%</td>
</tr>
</tbody>
</table>
Seeing life through a different prism
Mark Tibergien, CEO, Pershing Advisor Solutions LLC

This study of millennials is important recognition that the market is shifting away from wealth consumers to wealth accumulators once again.

It is no surprise that the issues identified in this report are consistent with what baby-boomers experienced when they were of a comparable age, but there are notable differences: how millennials prefer to communicate and be communicated with; their understanding of personal finance; their trust of institutions.

The key is not to assume that all millennials behave the same just, as we shouldn't generalise by race, sex or ethnicity, but to recognise that millennials have learned differently, have a different relationship with their parents than baby-boomers did, and have not experienced as many of the traumas and hardships of preceding generations. Therefore, many of them see finance through a different prism than their parents and grandparents.

Attitudes to Saving

Stark differences in attitudes to saving exist amongst millennials in different countries around the world. China (68%) has the highest number of millennials already saving, while Australia (43%), US (43%) and Brazil (44%) have the least young adult savers.

Are you saving today?

<table>
<thead>
<tr>
<th>Country</th>
<th>No</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Brazil</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>China</td>
<td>27%</td>
<td>73%</td>
</tr>
<tr>
<td>Japan</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>United States</td>
<td>66%</td>
<td>34%</td>
</tr>
</tbody>
</table>

*Data set of responses for Netherlands insufficient in size for inclusion*
The Gender Gap

A country-by-country analysis of the data revealed wide-ranging differences in attitudes to saving by men and women in the different populations surveyed.

Gender differences in attitudes to saving were most stark in China, where 73% of female millennials surveyed said they are saving, compared with 50% of males. Savings habits of millennials in the US are also polarised along gender lines, with just 34% of females saving, compared with 54% of males, as they are in Japan (61% male compared with 36% female). The difference between the sexes in the United Kingdom on the other hand is minimal, with 52% of males saving compared to 49% of females.

These figures suggest an opportunity for insurers to target marketing activity specifically at either males or females in countries where they are less likely to be already saving.

Expectations of Retirement

Millennials in China expect to retire soonest, while those in the Netherlands predict the longest working lives. This expectation of a low retirement age in China suggests that awareness of the massive challenge the country’s low fertility rate presents has not been communicated to the millennials.

Without analysing the age of every single respondent and calculating their life expectancy at that age it is difficult to give precise figures, but these results appear to show millennials across the board underestimate their life expectancy.

<table>
<thead>
<tr>
<th>Country</th>
<th>Expected Retirement Age</th>
<th>Predicted Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>63.7</td>
<td>86.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>61.4</td>
<td>88.6</td>
</tr>
<tr>
<td>China</td>
<td>59.3</td>
<td>80.7</td>
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<tr>
<td>Japan</td>
<td>63.0</td>
<td>79.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>67.5</td>
<td>85.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>64.6</td>
<td>84.8</td>
</tr>
<tr>
<td>United States</td>
<td>64.6</td>
<td>85.8</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>63.8</td>
</tr>
</tbody>
</table>

At 20 years and 8 months the millennials do appreciate they will likely spend more time in retirement than previous generations. Whether their expected retirement age proves to be optimistic and their life expectancy expectations too gloomy only time will tell. What we can be sure of is that this generation needs innovative public policy thinking and private sector product design if they are not to retire on less than their parents.

“We see significant differences in retirement savings between men and women in every age segment. Part of it, I think, is cultural. Historically in the US women have made less and spent less time in the work force, because they are more often the ones raising children. Men have been the ones who have traditionally managed long-term investments for things like retirement. It’s a little less on the radar for women, but I do think as women have become more educated and as incomes get to be a little less disproportionate, hopefully we’ll see more women engaged in the process.”

Delia deLisser, Director, Voya Retirement Research Institute
Conclusion

We hope this white paper brings fresh ideas to the crucial debate around how to connect with millennials. As the research has shown, insurers need to find better ways to engage with young adults and offer them propositions that better suit their lives if they are to engage them as customers for life.

There are a number of key messages from the research behind this white paper. Social media is no silver bullet, but contact through parents could pay dividends. Millennials need to be identified as a distinct target segment, and have products and marketing techniques designed specifically for them. And insurers need to lobby governments and regulators to facilitate new products that meet the behavioural and financial needs of this generation of young adults who have so many other calls on both their attention and their finances.

Insurers cannot be complacent about the challenge they face in connecting with tomorrow’s high earners. Millennials know they need to partner with insurers if they are to have security of income throughout their lifetime. The challenge for insurers is to find new ways to make that partnership happen.
Acknowledgements

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– A Japanese Insurer

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– Vince Pacilio, Global Insurance Lead, BNY Mellon

– Heneg Parthenay, Head of Insurance, Investment Management EMEA, BNY Mellon

– Mark Tibergien, CEO, Pershing Advisor Solutions LLC

– Gerald Wellesley, Europe Pension Industry Lead, BNY Mellon
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