



DISCUSSION PAPER

PAYMENT CARDS CENTER

Millennials with Money Revisited: Updates from the 2014 *Consumer Payments Monitor*

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Summary: *Overall growth in general purpose reloadable prepaid card ownership was not as robust between 2013 and 2014 as it was between 2012 and 2013 except in one notable segment: high-income Millennials. This same demographic group also exhibited a strong propensity to use alternative financial services along with traditional bank products. This paper further explores this group of “hybrid” financial services consumers. It also examines the broader use of financial services by young adults and reports on ways in which their choices differ from those of older consumers, along with evidence that conventional services are also used to the same — in some cases, even greater — degree as their parents’ and grandparents’ generations. The findings are sometimes counterintuitive, particularly with regard to some stereotypes about this young generation that have been put forth. Because of the size of this cohort, their behaviors could influence what the future of financial services consumption and delivery may look like.*

Keywords: GPR prepaid cards, Millennials, alternative financial services
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I. Introduction

“Millennials with Money: A New Look at Who Uses GPR Prepaid Cards,” a paper based on findings and insights from the prepaid card section of the 2013 Phoenix Marketing International (Phoenix) *Consumer Payments Monitor*, was published in September 2014.¹ Among the research findings included in the paper was the discovery of a “power user” group of young, banked, middle- to upper-income general purpose reloadable (GPR) prepaid cardholders who were challenging certain preconceptions of GPR prepaid cards as a product for low-income and unbanked consumers. The paper generated considerable interest among those who are following developments in prepaid cards as well as those with a focus on the generational tidal wave that is the Millennials. In response to that interest, we provide this update based on information captured when the *Consumer Payments Monitor* was again fielded in the fall of 2014.

The *Consumer Payments Monitor* is an online survey completed annually by more than 4,000 individuals selected to be representative of U.S. households with regard to head-of-household age and income and to geography. A section of questions pertaining to GPR cards was added to the survey in 2012. As reported in the earlier paper, there was notable growth in adoption of GPR cards between 2012 and 2013, particularly among younger consumers (Millennials and Generation X) and those in the middle- to upper-income categories. This update will review how the growth patterns look in the third year that GPR card ownership information was collected.

The data from the 2013 survey turned a spotlight on younger consumers, contributing to an incidental finding indirectly related to GPR card ownership: There exists a “hybrid” financial services consumer who combines traditional bank products with alternative financial services (AFS) from nonbank purveyors. As with prepaid cards, stereotypes have developed around AFS that associate their use with individuals with lower incomes and who are underbanked, a

¹ Susan Herbst-Murphy and Greg Weed, “Millennials with Money: A New Look at Who Uses GPR Prepaid Cards,” Federal Reserve Bank of Philadelphia, September 2014, www.phil.frb.org/-/media/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2014/d-2014-millennials.pdf?la=en.

categorization not entirely consistent with what was revealed by the 2013 *Consumer Payments Monitor*. In this paper, we use the 2014 survey findings, as well as an extensive review of secondary research, to further explore this insight.

II. Comparison of 2013 and 2014 Findings

GPR card ownership remained at 25 percent of U.S. households in 2014.² While overall ownership rates did not rise as they had between 2012 and 2013, when ownership increased by 4 percentage points, a surge was observed in the younger, high-income segment — “Millennials with money” — identified in our previous paper. Figure 1³ at the end of this document illustrates that 60 percent of Millennials with money (consumers ages 18 to 32 with household incomes of \$100,000 or more) reported having a GPR card in 2014, up dramatically from the 2013 rate of 49 percent. Two other segments — Generation X with household incomes of \$50,000 to \$99,900 and those ages 68 and older — were the only other groups to own GPR cards in 2014 at proportionately higher rates than in 2013.⁴

Other groups owned GPR cards in lower proportions than in 2013. Notably, only 35 percent of the highest income cohort of Generation X owned GPR cards in 2014 compared with a 42 percent ownership rate in 2013. Because of the gains in some categories and losses in others, the 2014 data in the aggregate can create the appearance of little year-over-year change. Looking at age alone doesn’t reveal much change. For example, 45 percent of Millennials owned GPR cards

² Sample distributions for age, income, and geography of *Consumer Payments Monitor* respondents were examined for alignment with the Department of Labor’s Current Population Survey (CPS) benchmarks. All percentages reported in this document are based on data weighted to align with the CPS. For additional explanation of the methodology used for this survey, see Section II.A, pages 3–4, of the 2014 paper cited in footnote 1.

³ All figures in this document are copyrighted materials of Phoenix Marketing International.

⁴ Phoenix divides its survey respondents into four age groups: 18–32, 33–48, 49–67, and 68 and older. These groupings currently align closely with generational labels popularized in marketing and social science. From those disciplines, we borrow the labels Millennials, Generation X (or Gen X), Baby Boomers, and the Greatest Generation to refer to the four age groups, from youngest to oldest. Since there is no single authority that determines precise ages or naming conventions for generational cohorts, we acknowledge that these labels, and the age groupings to which they apply, may differ here from what is published in other sources.

in both 2013 and 2014. Income by itself is likewise unremarkable: 28 percent of households with annual incomes under \$25,000 owned GPR cards in both years. It is only when income and age are combined that notable year-over-year differences among segments emerge from the findings.

What was unchanged from 2013 was that GPR ownership skewed heavily to Millennial and Generation X consumers. In both years, 71 percent of GPR card owners were younger than 49 years of age. The proportion of GPR card owners with household incomes of \$50,000 and higher (48 percent) was also the same in 2013 and 2014. And in both years, the incidence of GPR card ownership in households headed by younger consumers was disproportionately higher than in the total population, while ownership by income cohort was proportional to the income distribution of U.S. households. This is exhibited in Figure 2.

The 2014 *Consumer Payments Monitor* added questions attempting to learn how GPR card owners obtained their cards. “Purchased at a retail store” was the most frequent response, cited by 24 percent. Fifteen percent obtained their cards at a bank branch, and 11 percent obtained them through their employers, presumably through payroll card programs. It is interesting to compare these responses with those given to a similar question asked by the Federal Deposit Insurance Corporation (FDIC) in its survey of unbanked and underbanked households.⁵ Within the population targeted by this research, only 10.7 percent obtained their cards from a bank branch, while nearly half obtained one at a retail location. The FDIC survey provided two different retail categories for respondents to choose from. Nearly one-third (31.5 percent) of respondents said they obtained their prepaid cards from “large retail or department stores,” and 18.7 percent said they obtained their cards from “grocery, liquor, convenience or drug stores.”

The 2014 *Consumer Payments Monitor* also asked where GPR cardholders used their cards; multiple responses were allowed. The most common usage venue was the physical point of sale, noted by 70 percent of respondents, with 69 percent using their GPR cards to shop online and 40

⁵ Susan Burhouse, Karyen Chu, Ryan Goodstein, Joyce Northwood, Yazmin Osaki, and Dhruv Sharma, “2013 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation (FDIC), October 2014, www.fdic.gov/householdsurvey/2013report.pdf.

percent to pay bills. These statistics suggest that the majority of GPR cardholders use their cards much in the same way that other payment methods are used. GPR cards are also used for purposes other than payments: 22 percent use them to conduct electronic transfers to/from another person, and 18 percent use their GPR cards to keep money in reserve for later use.

A finding from the 2013 *Consumer Payments Monitor* led to an additional line of questioning in the 2014 version. In 2013, 67 percent of GPR card owners agreed that providing a GPR card to family members is a good alternative to providing them with a credit or debit card. So in 2014, the *Consumer Payments Monitor* added the question, “Who in your household uses — or is authorized to use — the GPR card?” Respondents could make multiple selections. Of the 1,036 GPR card-owning respondents, 92 percent checked “user is the head of household,” 36 percent indicated that the user is a “spouse or significant other,” 8.5 percent selected “dependent child under 18,” 5 percent indicated an adult child, and 1 percent indicated the card was used by “an adult outside the household.”

III. GPR Card Owners: Banked, Unbanked, Underbanked, and Variations Thereof

The 2014 *Consumer Payments Monitor* found ownership of mainstream bank products among GPR card owners to be consistent with the 2013 findings. In each year, 90 percent of GPR cardholders also had checking accounts. In 2014, 83 percent had debit cards compared with 85 percent in 2013. Ownership of credit or charge cards increased from 75 percent to 81 percent, putting GPR card owners in closer alignment with the 83 percent credit card ownership rate among all households in the survey. The 2013 survey found high co-ownership of GPR and business credit cards, a finding repeated in 2014. Among *all* survey respondents in 2014, 20 percent owned or operated small or home businesses, and 19 percent had business credit cards. Among *GPR cardholders* that year, 39 percent said they owned or operated small or home businesses, and 33 percent had business credit cards.

The high rate of small or home business and business credit card ownership among those who also have GPR cards is intriguing but cannot be explained by other findings of the *Consumer*

Payments Monitor. From other sources, we know that households headed by small business owners use more — and more varieties of — credit than do other households. The 2010 Federal Reserve Board’s Survey of Consumer Finances, for example, found that families headed by a self-employed individual were more likely to have first and second mortgages; to carry higher balances on installment loans, credit cards, and nonequity lines of credit; and to take loans against their life insurance policies and retirement accounts than were American families as a whole.⁶ We pose the question of whether this willingness to use a wider array of credit vehicles might be an indication that small business owners may also be open to the use of a broader assortment of payment vehicles.

The *Consumer Payments Monitor* does provide insights into the characteristics of the “hybrid” financial services consumers we identified in the 2013 data. These individuals, as we observed in our previous paper, “fuse traditional banking services with a complement of new and alternative options for conducting transactions and managing finances.” The findings also revealed that small business owners, along with young adults and lower income consumers, were disproportionately represented in this group of individuals who use both mainstream and alternative financial services.⁷ As a result, we observed that the “basket of payment and financial services” assembled by these hybrid financial services consumers differed from the bundle of services used by the traditional bank customer. Particularly regarding ownership of GPR prepaid cards, which some have considered an alternative product for low-income and un- and underbanked consumers, the 2013 data showed high co-ownership with bank products such as checking and credit card accounts.

Since then, similar insights have been shared by other sources:

⁶ Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, “Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin* 98:2 (June 2012), www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf.

⁷ Examples of alternative financing services (AFS) provided in the survey instrument were check-cashing and money-order services, payday loans, pawn shops, rent-to-own services, and tax refund anticipation loans.

- In an e-mail announcing the September 2014 release of its study, “The Role of Alternative Financial Providers,” Synergistics Research Corporation noted these among the study’s key findings: “More than four in ten, particularly younger consumers, have used some type of alternative provider including convenience stores, check cashers, short-term lenders, non-bank financial centers, and crowdfunding sites. One-quarter use more than one type of alternative provider,” while also noting that “more than eight in ten have a relationship with a traditional financial institution.”
- A 2013 survey conducted by the FDIC also found growth in prepaid card use (all varieties, not just GPR) among households it categorizes as “fully banked.” The FDIC further found that both banked and underbanked households that used prepaid cards were also more likely to have used AFS in the previous 12 months (compared with households that did not use prepaid cards).⁸
- Research by Fair Isaac Corporation (FICO) found Millennials 10 times more likely than Baby Boomers to consider peer-to-peer loans from companies such as Lending Club and Prosper. More than half of younger Millennials (ages 18 to 24) have made, or are very likely to make, payments using alternative options such as Venmo and PayPal. Findings from the company’s research prompted a FICO executive to predict that alternative banking “has the potential to grow rapidly, especially as the Millennial generation enters its prime and pushes these services to the forefront of its banking agenda.”⁹

⁸ Susan Burhouse, Karyen Chu, Ryan Goodstein, Joyce Northwood, Yazmin Osaki, and Dhruv Sharma, “2013 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation (FDIC), October 2014, www.fdic.gov/householdsurvey/2013report.pdf.

⁹ “FICO Survey: American Millennials Will Step Up Use of Non-traditional Banking Services This Year,” FICO.com, January 27, 2015, www.fico.com/en/01-27-2015-fico-survey-american-millennials-will-step-up-use-of-non-traditional-banking-services-this-year.

Building on the insights from the 2013 *Consumer Payments Monitor* and reinforced by similar reports from other sources, we endeavored to develop additional understanding of the AFS consumer by conducting finer analysis of the 927 respondents who responded affirmatively to this question in the 2014 *Consumer Payments Monitor* data:

In the past year, have you (or anyone in your household) used a non-bank company or service to make financial transactions or obtain loans?

Examples include: check cashing and money order services, paying bills, send/receive money electronically, payday loans, pawnshops, rent-to-own services or tax refund anticipation loans.

These 927 respondents accounted for 22 percent of total respondents, roughly equivalent to 23 million households when projected to the total number of U.S. households. As Figure 3 illustrates, the use of AFS corresponds demographically with the use of GPR prepaid cards, with 60 percent of Millennials in the \$100K+ category using both AFS and GPR cards. Millennials with lower incomes use AFS at lower rates than their higher-income generational peers but at appreciably higher rates than consumers of the Baby Boom and older generations. The two generations that comprise adults from the ages of 18 through 48 (Millennial and Generation X), use AFS at above average rates across all income groups. Consumers ages 49 and older (Baby Boomers and older) use AFS at rates that are below the overall average.

Figure 4 indicates that a strong majority of AFS users also have traditional bank products, including checking accounts (92 percent) and credit or charge cards (80 percent); 35 percent reported owning business credit or charge cards; and 74 percent have smartphones, a rate higher than the 65 percent overall U.S. ownership rate found in the 2014 *Consumer Payments Monitor*. The higher-than-average ownership rate among AFS users is probably because of the overlap between the Millennials and the AFS user segment. According to a 2014 comScore report, Millennials owned smartphones at rates well above the overall average: 81 percent of 18- to 34-

year-olds owned smartphones compared with 68 percent of 35- to 54-year-olds and 40 percent of those ages 55 and older.¹⁰

With access to mainstream financial services through checking accounts and credit cards and to Internet access via smartphones, why is this segment using AFS? Figure 5 presents answers provided by respondents to the 2014 *Consumer Payments Monitor*. Diversity of needs and convenience influenced decisions to use AFS, with “bank doesn’t offer all that I need” and “bank not near home or office” being the most frequent responses (each selected by 28 percent of respondents). Speed and costs also were factors: 27 percent said that a “bank doesn’t solve my immediate need for cash,” and more than 20 percent said that for transferring money electronically, banks take too long and charge fees that are too high. Only 16 percent said they did not maintain a checking account balance high enough to need a checking account.

These responses are interesting in contrast to the reasons for not using banks given by unbanked respondents to the FDIC’s survey. In that group, more than one-third said the main reason they do not have checking or savings accounts is that they do not have enough money, and another 15 percent said they do not like dealing with or “don’t trust” banks. Convenience and product selection were lesser noted reasons. Only 2.6 percent, for example, cited “inconvenient hours or locations” as their main reason for not having a bank account. For another 1.2 percent, the main reason given was that “banks do not offer needed products or services.” The FDIC reports that 24.9 percent of this unbanked group had used an AFS within the 12 months prior to its survey. Because these respondents do not have bank accounts, it is not surprising that the rate of their use of AFS is higher than the rate found by the *Consumer Payments Monitor*.¹¹

¹⁰ Adam Lella and Andrew Lipsman, “Marketing to Millennials: 5 Things Every Marketer Should Know,” comScore, February 5, 2014. These statistics reflect the three-month average for the period ending November 2013.

¹¹ Authors’ note: Because of the objectives of its study, the FDIC does a better job of reaching the unbanked population than does the *Consumer Payments Monitor*, which is designed for different research objectives. Significantly, 8 percent of the FDIC’s respondent base is unbanked compared with only 4 percent of *Consumer Payments Monitor* respondents. If one is more singularly focused on understanding the unbanked population, we acknowledge the FDIC’s coverage of that group and encourage readers to

Comparisons between these two populations — the AFS user segment identified in the *Consumer Payments Monitor* and the unbanked segment identified in the FDIC survey of unbanked and underbanked households — reveal the importance of perspective when discussing AFS, who uses them, and why. For the 7.7 percent of U.S. households that the FDIC found to be unbanked in 2013, access to mainstream banking services may be constrained by the circumstances or opinions present in those households. From their viewpoint, use of AFS may then be a byproduct of more restricted selection, real or perceived. Choices made by AFS users (including those with bank accounts) identified by *Consumer Payments Monitor* among the broader population would not be subject to the same limitations. For this group, if a nonbank option is more convenient, faster, or cheaper, there appears to be less aversion to using AFS, even when bank services are available.

It is noteworthy, then, that this mutability is observed more prominently among the two younger adult generations. For those who are 49 years of age or older, faster, cheaper, or more convenient does not trigger the same degree of AFS use. This could merely be due to reflexive behavior: Long-established habits can be resistant to change. The behavioral divide between these two age groups could, however, indicate that some barrier — social, cultural, or attitudinal — to using AFS has been lowered over time. And if that has occurred, then the observation may herald a structural shift in financial services consumption.

If services once eschewed come into more common use, then the categorization of what is considered “alternative” may be at odds with new market realities. The FDIC, for example, includes in its count of underbanked citizens those having bank accounts but who also use one of a number of AFS.¹² Using its own definition, the FDIC determined that 20 percent of U.S.

make use of its findings.

¹² If an FDIC survey respondent has used one of the following services in the 12 months prior to the survey, the respondent is categorized as “underbanked,” even if she or he has a bank checking or savings account: money orders, check cashing, remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans. See Susan Burhouse et al., “2013 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, October 2014.

households are underbanked. To the extent that more American households are using AFS in combination with mainstream financial services, qualifying households as “underbanked” if they use AFS will, by definition, increase the proportion of households that are considered underbanked.

Some have observed that legacy concepts may already be influencing the very definitions of “alternative,” “unbanked,” and “underbanked” in ways that affect how households and user groups are counted. A household that owns a bank-issued prepaid card, without co-ownership of a checking or savings account, would be considered “unbanked” by the FDIC’s definition. “We are in a moment,” says Jennifer Tescher, president and CEO of the Center for Financial Services Innovation, “when we might want to question that logic,” given how closely the functionality of GPR cards now parallels that of transaction accounts.¹³ Eric Grover, a prolific essayist on, and observer of, the financial services industry, has been more pointed in his comments. He cautions against applying labels, such as “alternative” and “underbanked,” to certain products and the people who use them simply because those products may be disfavored in some camps.¹⁴

None of this has been lost on the FDIC, which has observed in its data that the distinctions among banked, unbanked, and underbanked are fluid: “We’ve seen that the unbanked population is not static — in fact, it’s quite dynamic,” says Keith Ernst, associate director of the FDIC’s Division of Depositor and Consumer Protection.¹⁵ The FDIC has also found that “[y]ounger households were more likely to use prepaid cards than older households. For example, 12.7

¹³ Ian McKendry, “Why Surging Prepaid Cards for Unbanked Is a Positive,” *American Banker*, November 11, 2014, www.americanbanker.com/news/regulation-reform/why-surging-prepaid-cards-for-unbanked-is-a-positive-1071169-1.html.

¹⁴ Grover’s opinions in this area are noted in two of his articles: “The CFPB’s New Prepaid Rule: The Good, the Bad, and the Ugly,” *Digital Transactions*, January 5, 2015, <http://nwfqxy.digitaltransactions.net/news/story/5079>, and “The Postal Service Isn’t a Bank; Don’t Let it Act Like One,” *National Review Online*, January 7, 2015, www.nationalreview.com/article/395839/postal-service-isnt-bank-eric-grover.

¹⁵ Ron Davis, “Mobile, Prepaid Are Best Ways to Reach Unbanked,” *American Banker*, February 24, 2015, www.americanbanker.com/news/bank-technology/mobile-prepaid-are-best-ways-to-reach-unbanked-1072784-1.html.

percent of households ages 24 or younger had used prepaid cards compared with 3.0 percent of households ages 65 or older.”¹⁶

So here, definitions, along with demography, may be destiny. When GPR card ownership and AFS use are criteria used to define banking status, and use of these services among Millennials appears to be on the rise, then the sheer size of that generation will combine with these factors to drive up the percentage of households categorized as “unbanked” and (especially) “underbanked.” But if the pattern we observe is the beginning of a larger and lasting trend, then it may compel a reconsideration by policymakers, regulators, and providers of financial services as to what constitutes “mainstream” and “alternative.” The Millennial generation is large enough that its way of consuming financial services could reshape attitudes and conventions.

IV. Millennials Are Making Use of Many Options

The openness to new and alternative financial services among young adults does not appear to be associated with a rejection of more traditional bank products. Rather, young adults seem to be combining the traditional and the new, the mainstream and the alternative. Using findings from the *Consumer Payments Monitor* along with those from secondary research, we discover that young adults’ use of mainstream banking services is not dramatically different from that of older consumers. Where Millennials’ consumption of financial services differs is in the way they are complementing conventional choices with new or different product, provider, and channel options.

A. Insights from the *Consumer Payments Monitor*

The 2014 *Consumer Payments Monitor* found that 96 percent of Millennials have checking accounts (also known as demand deposit accounts, or DDAs). Millennials also have high rates of debit card ownership (89 percent) as well as credit cards (85 percent). By comparison, the overall rates of ownership of these products among all surveyed households in 2014 were 96 percent for

¹⁶ See page 31 of “2013 FDIC National Survey of Unbanked and Underbanked Households” cited in footnote 6.

DDAs, 82 percent for debit cards, and 83 percent for credit cards. So, rates of ownership of these core banking products among Millennials are very consistent with overall ownership rates.

However, stark contrasts across the generations begin to appear when we look at *banked* households, or those whose members have checking accounts, which also have GPR cards. Among 18- to 32-year-olds who have DDAs, close to half also have a GPR cards: 45 percent who do compared with 55 percent who do not. The co-ownership ratio is closer in this group than in any other age cohort. Fewer than one-third of Generation X (ages 33 to 48) DDA owners also have GPR cards. Among Baby Boomers (ages 49 to 67), the ratio drops to 14 to 86 percent and is lower still — 8 to 92 percent — among those ages 68 and older (see Figure 6).

Millennials were also more likely than any other age group to have obtained their GPR cards from a bank. Of those who have GPR cards, 12 percent obtained them from the same banks where they have their primary checking accounts. Another 6 percent obtained them from other banks, for a combined 18 percent of Millennials who obtained GPR cards from banks. The comparable percentages are 15 percent for Generation Xers and 11 percent for Baby Boomers. Among those ages 68 and older who have GPR cards, only 5 percent obtained them from banks. Banks were not the primary source of GPR cards by any age group — retail stores were the main suppliers for those ages 48 and younger, while those ages 49 and older were most likely to acquire cards online. This finding is interesting if only for its counterintuitiveness.

Banks also appear to be the preferred source of mobile wallets. Among the *Consumer Payments Monitor* respondents who said they own smartphones and indicated a likelihood to try payment apps — a group disproportionately composed of Millennials — more than 70 percent responded with “any bank” to the question, “Which of the following would you consider obtaining a mobile wallet app from?” Nearly two-thirds would consider their primary card issuers. PayPal was an option for more than 50 percent, but other choices, including Apple and Amazon, were named by one-third or less. (Respondents could indicate more than one source they would consider.)

The 2014 Phoenix survey provides indications that the Millennials are open to using both traditional and alternative financial services and that they may use established providers even for their nontraditional services.

B. Use of Financial Services by Millennials: Findings from Other Sources

There are other findings that may seem counterintuitive, given the Millennials' embrace of alternative products and channels. The majority also uses traditional banks, they are more likely than older generations to use megabanks, they visit branches, and they place greater trust in banks and financial services companies than in technology and telecommunications companies to protect their privacy and personal data.

Research conducted in 2014 by FICO found that 68 percent of Millennials use national banks — the context for “national” here being geographic coverage, not charter type — as their primary banking institutions. An additional 9 percent of Millennials have primary banking relationships with regional banks and 15 percent with credit unions. Assuming some percentage have a primary relationship with a community or local bank, the proportion of this generation doing business with the same type of time-honored financial institutions that their parents used is approaching 95 percent. And they are doing more of it: FICO further reports that Millennials have already amassed an average of 3.5 products with their primary institutions, a fraction more than the average for Baby Boomers. And 21 percent of Millennials — nearly 5 points higher than either Baby Boomers or Generation Xers — have five or more products.¹⁷ The strategic objectives of the relationship banking model that became widely adopted by banks in the 1990s seem to be fulfilling the vision within today's young adult population.

Other research reveals that Millennials are conducting some of their banking business the old-fashioned way: face to face, in the branches. While online is their most-used channel, followed by ATMs, slightly more than half of banked Millennials report visiting branches for some reason

¹⁷ FICO, “Options and Opportunities: Forging Lasting Banking Relationships with Millennials,” Fair Isaac Corporation, 2014, www.fico.com/en/latest-thinking/white-papers/FICO-millennial-report-september-2014.

other than using ATMs. The most prominent advantage of branches was “security,” cited by 55 percent. But “personal relationships/service” was a close second, cited by 51 percent as a benefit of using branches. Even within the “wired” generation, the value of interpersonal transactions resonates for a number of its members. Routine transactions — deposits and withdrawals — were the main purposes for visiting branches. Nearly three-fourths of branch-using Millennials said they had recently visited branches to deposit money, and 44 percent had done recent in-branch withdrawals. All other reasons, including checking balances, opening or closing accounts, resolving issues, and seeking information or advice, were cited by 20 percent or fewer as the reasons for recent branch visits.¹⁸

Millennial investment activity is also noteworthy. Schooled by the experience of two recessions in the first decade of this century and uncertain whether Social Security will provide meaningful income for their later years, Millennials began saving for retirement at a younger age than those who came before them. They started investing at a median age of 22, much younger than Baby Boomers who began at a median age of 35. Among Millennials who have the opportunity to participate in 401(k) programs, 71 percent do so and contribute a median 8 percent of their salaries.¹⁹

And they tend to be somewhat conservative investors: While Apple is the most favored stock of Millennials, octogenarian Warren Buffett’s Berkshire Hathaway accounts for a higher share of Millennial portfolios (1.7 percent) than it does in Baby Boomer holdings (1.2 percent). In the mutual fund category, old-line names such as Vanguard can be found in the portfolios of those in their 20s to mid-30s.

¹⁸ Angus Reid Public Opinion, “The Millennial: Financial Behaviors & Needs,” February 2014, <http://mediaroom.tdbank.com/index.php?s=30403&item=34208>. This report is available at the website of TD Bank, which commissioned the market research on which the report was based.

¹⁹ Catherine Collinson, “Millennial Workers: An Emerging Generation of Super Savers,” Transamerica Center for Retirement Studies, July 2014, www.transamericacenter.org/docs/default-source/resources/center-research/tcrs2014_sr_millennials.pdf. This source also reports that 69 percent of Millennials who are employed full time are offered a 401(k) or similar retirement program through that employment.

That's not to say that Millennials aren't putting their own spin on investing. While their elders may have been more likely to rely on advisors, young adults show a level of comfort in being guided by algorithms, in the form of "robo-investing." And they are keeping an open mind to the idea of crowdfunding as a means of investing. New companies such as Wealthfront specifically target young investors with tools and channels they think will resonate.

In his observations of Wealthfront, political columnist Adam Hanft succinctly captures the juxtaposition of established and innovative that seems to be emblematic of Millennial financial services consumption (and which is discussed in the next section): "What's particularly revelatory about the success of Wealthfront," notes Hanft, "is its canny use of technology and whizzy algorithms, the deities of the Millennial, in the service of a rather boring, long-term, Ben Franklinsky investment conservatism."²⁰

C. Is the Millennial Formula Equal Parts Convention and Innovation?

The combination of "well-established" with "state-of-the-art," which Hanft notes in Millennial investing, can be observed in other areas as well. Compared with other age groups, for example, Millennials indicate more interest in using mobile phones to conduct banking and payment activity. However, they are more sensitive to security issues and are most comfortable with having such services provided by trusted financial services companies rather than technology or telecommunication firms. In addition to what we report from the *Consumer Payments Monitor* with regard to mobile wallets, similar findings are reported from other sources.

²⁰ Catherine Collinson, "The Retirement Readiness of Three Unique Generations: Baby Boomers, Generation X, and Millennials," TransAmerica Center for Retirement Studies, April 2014, www.transamericacenter.org/docs/default-source/resources/center-research/tcrs2014_sr_three_unique_generations.pdf; Sally French, "These Are the Stocks That Millennials Are Investing In," MarketWatch, May 11, 2015, www.marketwatch.com/story/these-are-the-stocks-that-millennials-are-investing-in-2015-04-10?page=2; Victoria Stilwell, "Millennials End Up in Stocks for Head Start on Retirement," Bloomberg, August 4, 2014, www.bloomberg.com/news/articles/2014-08-04/millennials-end-up-in-stocks-for-head-start-on-retirement-saving; Dan Kadlec, "Why Millennials Are Flocking to 401(k)s in Record Numbers," Time.com, October 23, 2014, time.com/money/3532253/401ks-millennials-saving-increase/#money/retirement; Adam Hanft, "The Stunning Evolution of Millennials: They've Become the Ben Franklin Generation," Huffington Post, November 7, 2014, www.huffingtonpost.com/adam-hanft/the-stunning-evolution-of_b_6108412.html.

A November 2011 survey conducted by Michigan-based Market Strategies International, for example, found that 46 percent of (then) 18- to 34-year-olds preferred to have financial services companies provide mobile payment services, while 17 percent preferred technology companies and 10 percent preferred telecommunication companies, such as their cell phone carriers.²¹

These preferences may reflect perceptions about which organizations are most trusted to securely manage personal information. A January 2015 Accenture online survey of more than 4,000 U.S. and Canadian bank customers asked what type of company was most trusted with personal data. The response overwhelmingly favored banks and financial institutions: 86 percent of respondents trust these companies to securely manage their data. Payment companies, mobile phone providers, technology companies, and social media providers each had single-digit percentage responses.²²

Perhaps young adults see bridging the old with the new as a hedge against possible future marketplace scenarios. According to a December 2014 BBVA research paper, “68% of Millennials believe that in 5 years from now both the way they access their money and they pay for goods and services will be completely different. Moreover, 33 percent believe they will not need a bank at all.”²³ In the meantime, they seem to be taking full advantage of the entire array of products, providers, channels, and form factors. They have DDAs but also use prepaid cards and

²¹ Kate Fitzgerald, “Young Adults Trust Banks More Than Other Mobile Payment Providers,” *American Banker*, December 9, 2011, www.americanbanker.com/issues/176_238/mobile-payments-consumer-trust-young-adults-1044730-1.html?zkPrintable=true. The Market Strategies International research further revealed that preferences for financial services companies to provide the service were slightly lower among 35- to 44-year-olds (44 percent) and even lower for those over the age of 55 (34 percent).

²² “North American Consumers Overwhelmingly Trust Banks to Securely Manage Their Personal Data, According to Accenture Report,” Accenture, April 28, 2015, <http://newsroom.accenture.com/industries/banking/north-american-consumers-overwhelmingly-trust-banks-to-securely-manage-their-personal-data-according-to-accenture-report.htm>. Note that the survey targeted bank customers only, so these results would not reflect the attitudes of unbanked consumers. Approximately 70 percent of respondents were American and 30 percent Canadian. The survey has a statistical margin of error of 1.55 percent.

²³ Marcial Nava, Nathaniel Karp, and Boyd Nash-Stacey, “The Millennials Paradox,” *U.S. Banking Watch*, December 16, 2014, www.bbva.com/wp-content/uploads/2014/12/141216_US_BW_BankMillennials.pdf. This document cites Viacom Media Networks as the original source of these statistics and also discloses that within the U.S. BBVA operates primarily through its subsidiary Compass Bank.

check cashing services. They have credit cards but also use payday loans and pawn shops. Their preferred banking channel is the Internet, but they also use branches.

Millennials don't appear to be "anti-establishment," but neither are they reluctant to try new things or to try old things in new ways. Perhaps it is just smart consumerism to combine what is tried and true with some elements that are more novel or experimental. While young adults are embracing alternatives, they also show signs that a conservative thread runs through. Part of this new combination may simply be the logical outcome of having a menu that contains more selections than the one that previous generations were presented with when they entered the market. As we have observed in prior generations, early choices often shape lifelong habits. If the approach that Millennials have adopted in their early years of financial services consumption persists over time, the "Millennial effect" could be significant.

The Brookings Institution reports that by 2020, one in three adult Americans will be Millennials.²⁴ As they become a higher proportion of the U.S. consumer base, Millennials will influence how providers of all consumer goods and services, including those providing financial services, will tailor their offerings to meet the expectations of this market segment.

V. Conclusions

Changes in ownership and use of GPR cards between 2013 and 2014 were not as dramatic as those that occurred between 2012 and 2013, based on the findings of the *Consumer Payments Monitor* surveys conducted in those three years. However, within certain segments, notably higher income Millennials, GPR card adoption was strong in 2014.

Building on insights from Phoenix Marketing International's research into this generation's greater use of new and alternative products, we examined other research sources to expand our understanding of the Millennial generation's use of the fuller spectrum of financial services. What

²⁴ Morley Winograd and Michael Hais, "How Millennials Could Upend Wall Street and Corporate America," Governance Studies at Brookings, May 2014, www.brookings.edu/~media/research/files/papers/2014/05/millennials-wall-st/brookings_winogradfinal.pdf.

was found may be more significant even than what is observed in prepaid card adoption, not only because of the phenomenon itself but also because it intersects with a demographic juggernaut. The Millennials are generously consuming new and alternative services. And while they have not rejected traditional services and providers, if an alternative can meet their needs, young adults are open to using that resource. In the latter respect, they seem markedly less likely than older consumers to reject alternative services and providers. They appear to be somewhat agnostic about whether a service, provider, or channel is “mainstream” or “alternative.”

In fact, what has been labeled “alternative” may seem quite mainstream to someone who has entered the financial services market in recent years. This point may oblige providers, policymakers, and others to reconsider what constitutes “alternative.” Given the size of this generation, Millennials are destined to affect the status quo in many ways, and our perception of AFS could be one of those ways.

Figure 1 **Ownership of a GPR Prepaid Card by Income Within Age (2014 vs. 2013)**
“Does your household own this type of prepaid card or account?”

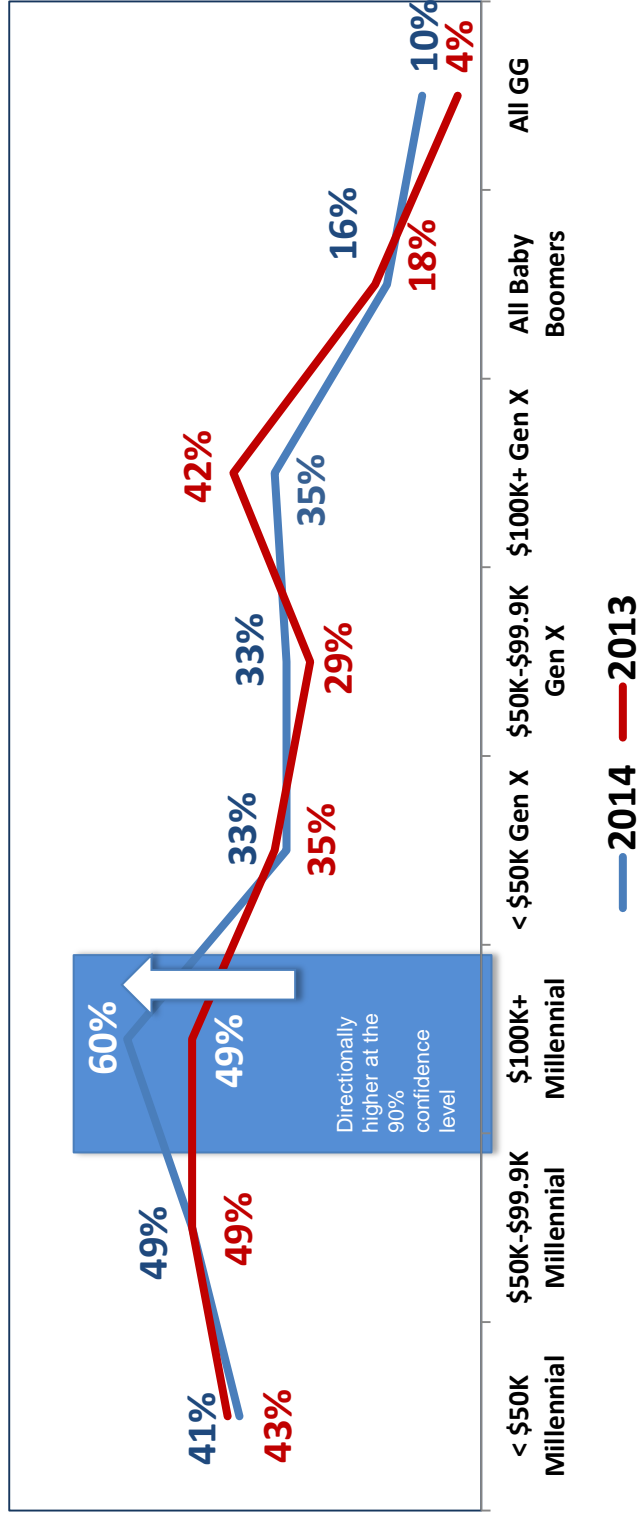


Figure 2

2014 GPR Card Owner Distributions Compared with Total U.S. Household Distribution by Age and Income

GPR card ownership by income aligns with actual income distribution among U.S. households, but households headed by those < 49 years old own GPR cards at rates disproportionately higher than their share of the household base.

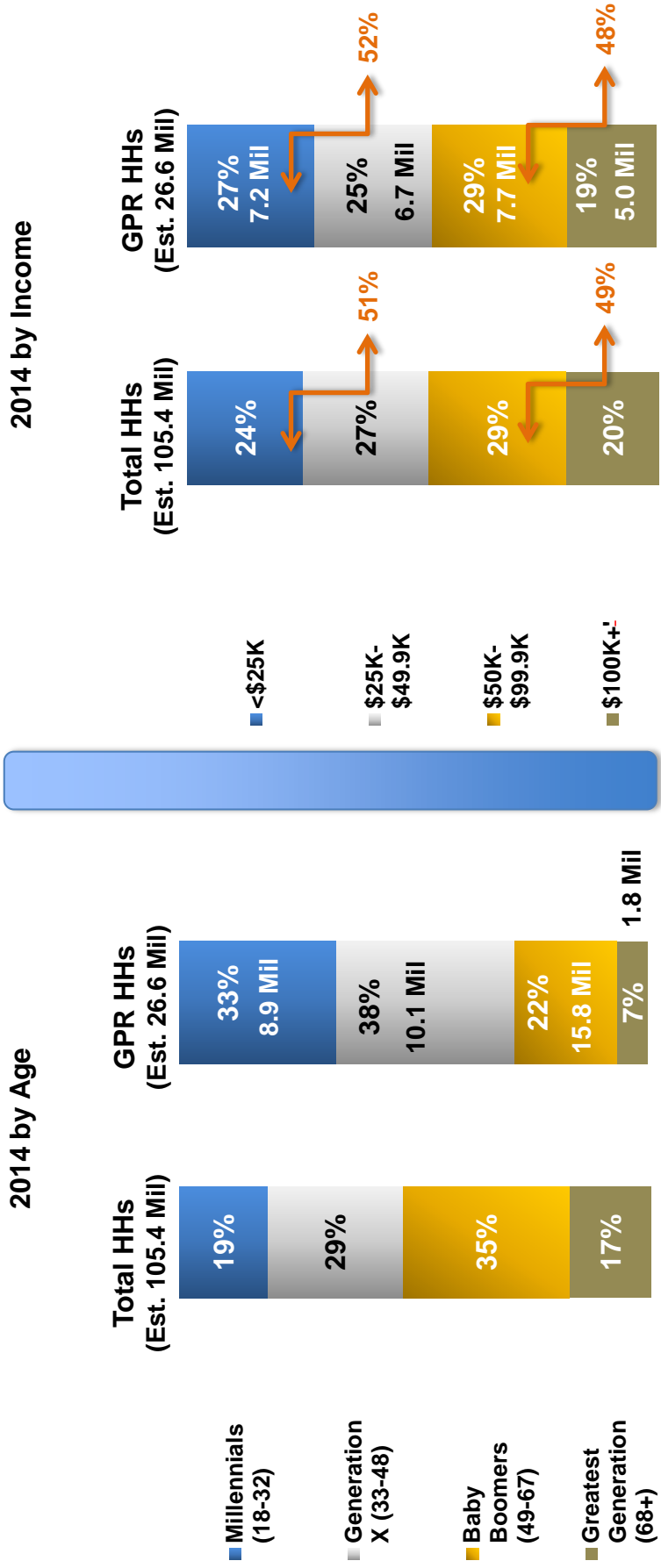
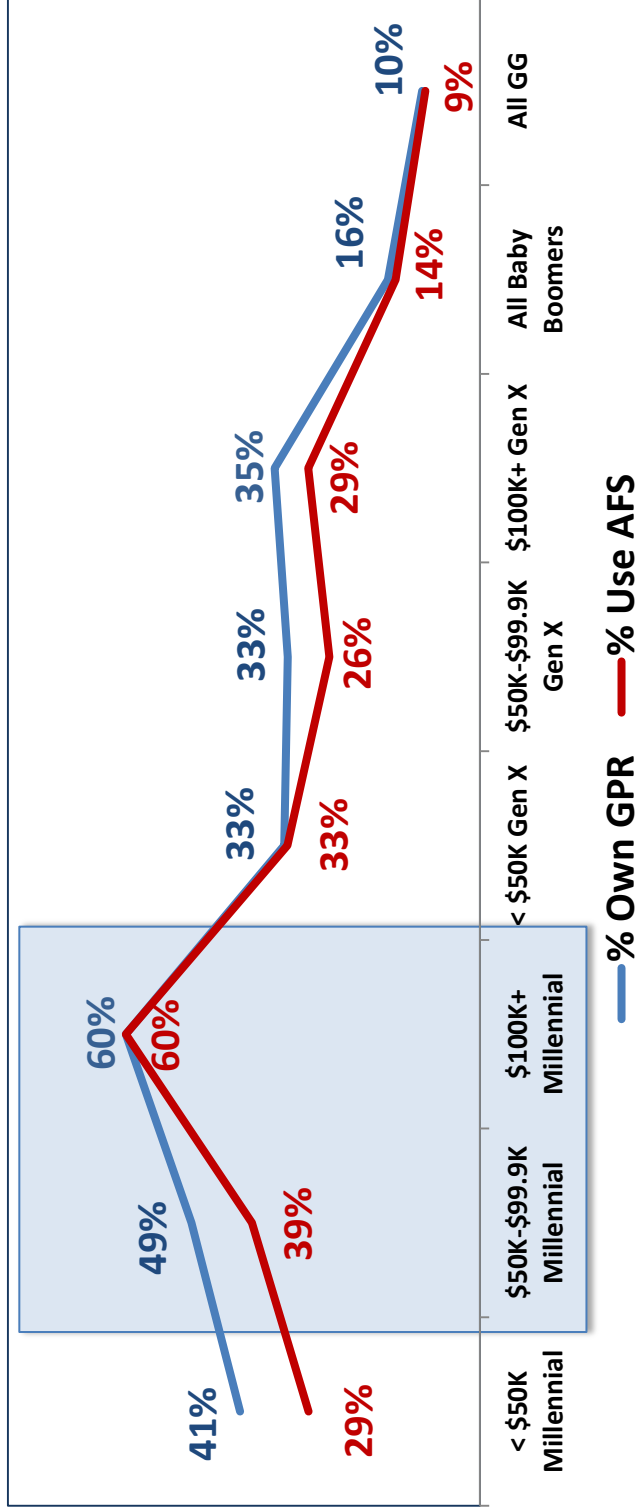


Figure 3

Use of Alternative Financial Services (AFS) Correlates with GPR Prepaid Card Use and Is Highest Among Higher-Income Millennials

Base: 22% of households using AFS in the past year (≈23 Mil HHs) – n = 927



"In the past year, have you (or anyone in your household) used a non-bank company or service to make financial transactions or obtain loans? Examples include: check cashing and money order services, paying bills, send/receive money electronically, payday loans, pawnshops, rent-to-own services or tax refund anticipation loans."

Figure 4

AFS Users' Ownership of Other Financial Services and Smartphones

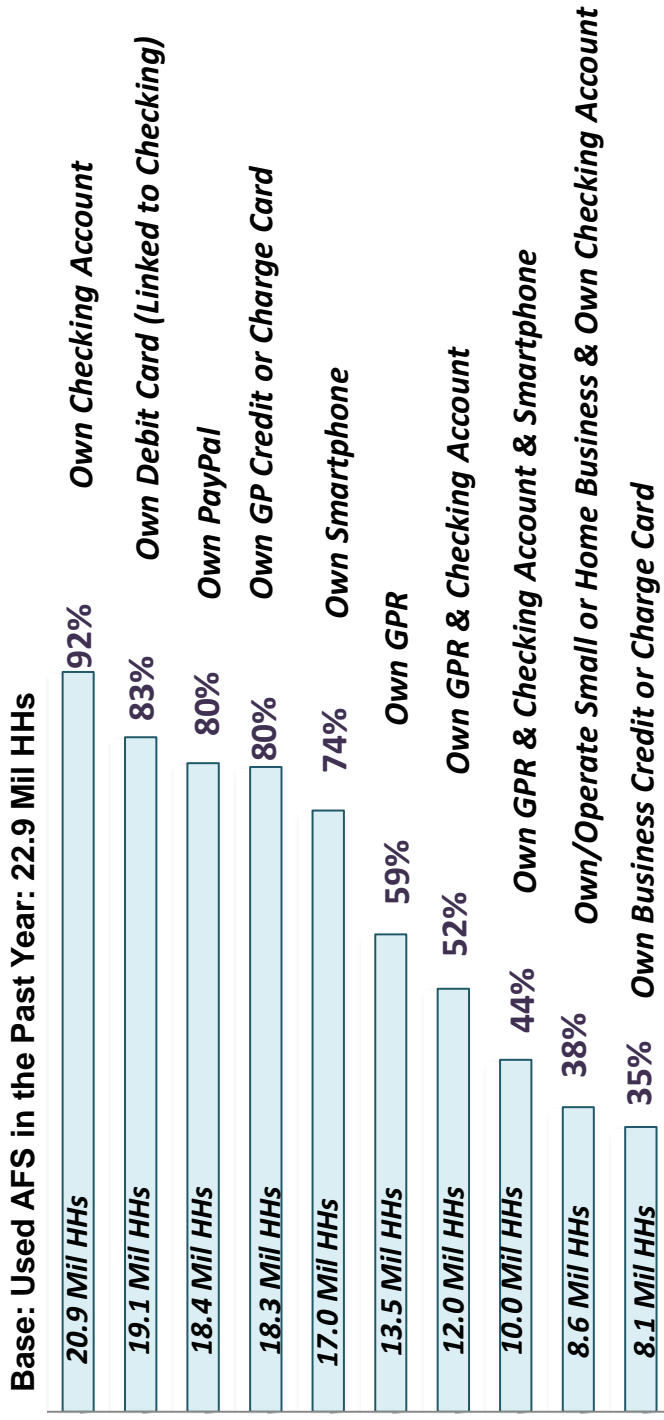


Figure 5

Convenience and Diverse Needs Are Among Reasons for Using AFS Instead of Banks; Fees Play a Role, Too

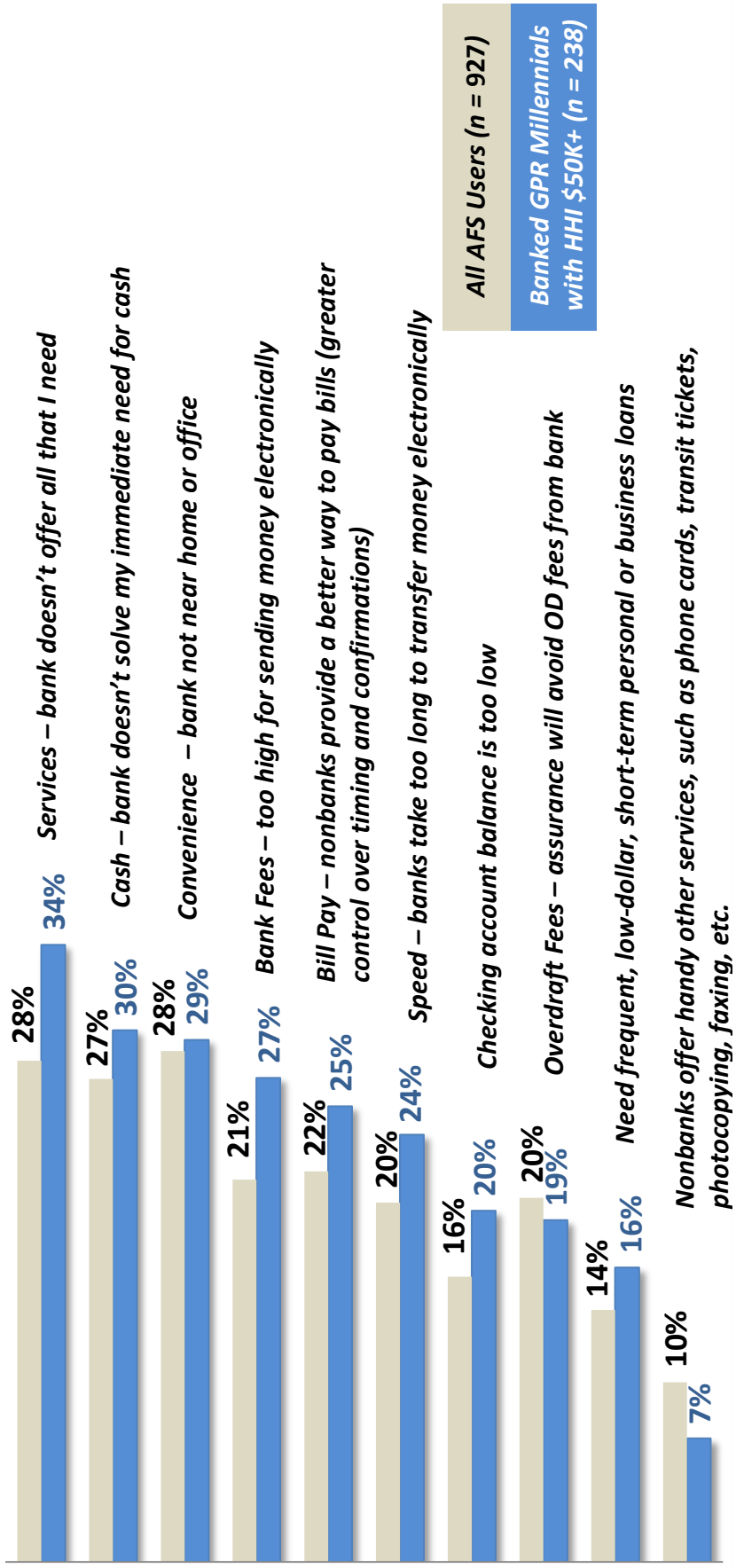


Figure 6: Co-ownership of Checking Accounts and GPR Prepaid Cards Directly Correlates with Age

Age	Checking Account and a GPR Prepaid Card	Checking Account and No GPR Prepaid Card
18-32 years old	45 percent	55 percent
33-48 years old	32 percent	68 percent
49-67 years old	14 percent	86 percent
68 or older	8 percent	92 percent



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