



How do Young Adults Choose Their Financial Service Providers

Choose Wisely

Word of mouth, from **trusted sources** of course, is still the most effective marketing. Fortunately for digital banks and fintechs, word of mouth is pep talking those with the best user experiences.

How do Young Adults Choose Their Financial Service Providers

Say the words “financial institution” to a Gen-Xer or Baby Boomer and they’ll think of Manhattan skyscrapers, eye-catching IPOs or bulls and bears. Or they’ll think of waiting in line at the neighborhood branch office to open an account and discussing overdraft fees. That was true in the 1920s, and it was also true well into the 21st Century.

But ask a Millennial or a Gen-Zer what they see today, and they’ll likely glance at their cell phones. There, they’ll find the app to a traditional bank their parents and grandparents used. A neobank’s logo will likely appear on the phone or tablet as well. Then there are the popular payments apps and wallets for trading crypto and stocks. Don’t forget the popular retailer who offers apparel on a Buy-Now-Pay-Later (BNPL) program, and then there are apps for school loans and brokerage services.

Most of the apps on our young friend’s smartphone will be offering services tailor-made to her needs – and that’s even before she takes the reins of the businesses both big and small that she will be running one day.

In other words, they focus on what exactly she needs and how easy it is for her to get just that – they focus on her user experiences. The choices Gen-Z and Millennial Latin Americans face when it comes to picking a financial services provider these days dwarf those faced by parents and older siblings.

The supply of banking, payments, lending and other financial services via digital channels continues to grow at a breakneck pace. Add to the number of fintechs supporting or facilitating those services behind the scenes makes it even harder to grasp.

The choices Gen-Z and Millennial Latin Americans face when it comes to picking a financial services provider these days dwarf those faced by parents and older siblings.

To amplify it further, non-banking entities like retailers and telecoms are offering financial services via the cloud, which all make the local branch office resemble something from some bygone era like the stagecoach or tellers with green visors working on paper ledgers.

So amid this flurry of financial activity, how does a young person choose when and where to open an account or tap new services?

We wanted to find out, so in 2021, Mambu surveyed more than 1,250 people aged 18 to 35 across six countries to learn what they look for in financial institutions.

Our survey sought to find out more on the topic by addressing four key umbrella topics:

1.

The State of Young Adult Banking in the Region.

2.

How do Young Adults Choose Their Financial Service Providers?

3.

What Products and Services Do They Use?

4.

What Does the Ideal Experience for Young Adults Look Like?

This report, "How do Young Adults Choose Their Financial Service Providers" is our second in a series of four.

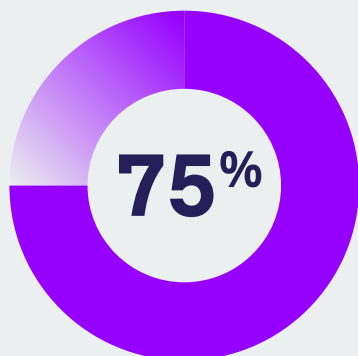
In the first report, "The State of Young Adult Banking in the Region," we found out that young adults in the region are largely happy with their financial institutions of choice.

[To view the report, click here](#)

Of our respondents, only 12% said they did not have a bank account, a low figure compared to the region as a whole, where that figure runs at about half.

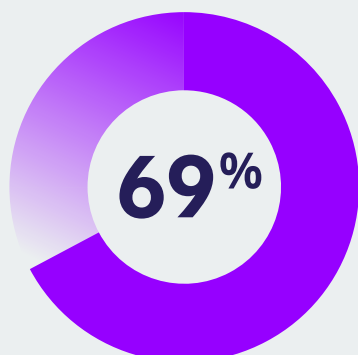
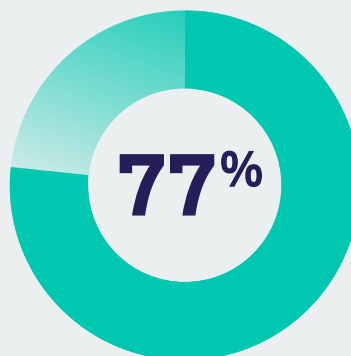
Almost all had a smartphone.

And most were satisfied with their financial services as well.



When asked to rate their satisfaction with the products they use from their bank or neobank, 75% said they were either extremely satisfied (21%) or satisfied (54%).

When asked to rate their level of satisfaction for their institution's app (either traditional bank or neobank), 77% said they were either extremely satisfied (26%) or satisfied (50%).



The survey also found that 69% of bank and neobank customers said they would not leave for another institution when asked, a figure that is solid but not sky high.

The numbers do not show room for complacency.

In fact, the survey respondents suggested the opposite - loyalty today doesn't guarantee loyalty tomorrow.

When asked why they would defect if they ever did, respondents said better benefits & pricing, better customer services & digital tools, and better products & services were the main things to consider -- all of which tie into user experiences to some degree.

The message:
banks and fintechs
have done a good job
of attracting younger
customers these days,
and most are loyal:

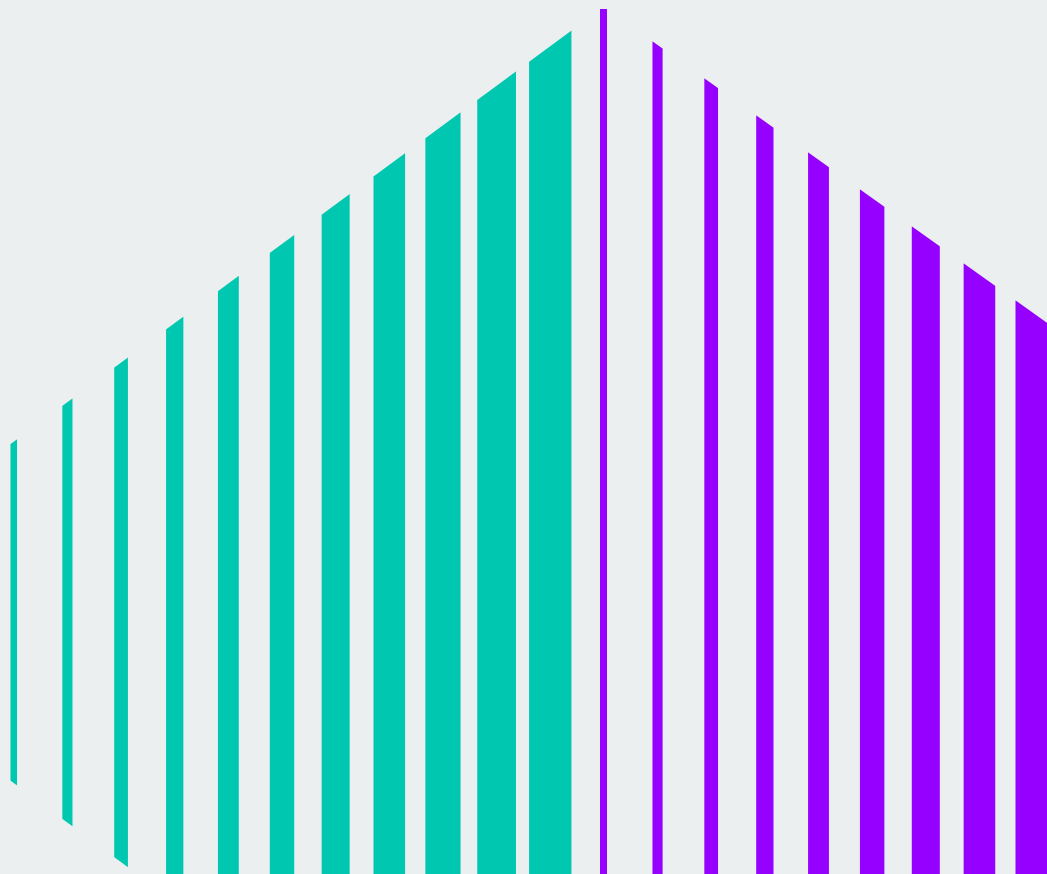
79%
of neobank users and

66%
of traditional banks
users said they will
not consider leaving

Still, what makes a customer pick a place to bank in the first place?

Who influences these decisions?

We learned in our research, and we are pleased to share with you our findings in this second in our series on youth banking, "How Do Young Adults Choose Their Financial Services Providers."



It's Who You Know – 90% Sought Advice from multiple sources

No matter the industry, few things beat word of mouth, and not surprisingly, 90% of our survey participants sought recommendations, from which 24% did so online and the remaining 66% through

word of mouth of trusted sources (ie, family friends, coworkers, financial advisors, among others). Lastly, 10% did not seek recommendations at all.

Figure 1 illustrates this trend.



Figure 1. A look at how Latin America's youth seeks advice on where to bank.

That high percentage reflects the need to either develop a brand or keep brand image strong.

Word of mouth is important, but its importance is also obvious. So let's dive deeper and see what factors drive people to say good things – and bad – about a financial entity.

When focusing on all of our survey participants, some 40% cited the ease of signing up, accessibility or agility as the decision to choose a financial services provider.

Also, more than 60% cited a good mobile app, savings options and payments features were must-have services.

Still, getting the client knocking at the front door is only part of the battle

In essence, a good recommendation can point a client to a financial institution's direction, but they won't become profitable customers unless they can onboard quickly, easily and seamlessly and after that, they need to stay onboard.

80% choose a financial institution in three steps or less.

Analysis of our data revealed two groups who harbored the same similarities and differences:



Neobank users under the age of 24 who were more influenced by friends and family when it came to picking a financial institution. This group would take more time to open an account and would prioritize easy-to-use products and services.



Traditional bank users over the age of 28 who would most likely choose based on work-related issues such as employer influence, the need for an account to receive direct deposits and the need to open an account quickly.

According to our research, about 80% choose a financial institution in three steps or less, with most deciding after consulting family and friends or online research.

Views of the role of a bank differed somewhat between the two groups: The younger Generation Z said they gravitated toward banks that could easily manage the flow of money among friends, family members and employers, while the Millennials sought banks that could best formalize ties with their employers.

When asked what drivers prompted them to choose a financial institution, Generation Z cited ease of signing up, good benefits, low fees and recommendations from trusted sources like friends and family.

Millennials largely cited the same though they prioritized requirements from employers to make direct deposits.

60%

more than 60% cited a good mobile app, savings options and payments features were must-have services.

80%

choose a financial institution in three steps or less, with most deciding after consulting family and friends or online research.



Early on, people want trusted friends and family to tell them where to go, and when they do, they want to open up accounts quickly and seamlessly on their phones.

If they haven't done so in their early 20s, they'll likely take recommendations from employers or co-workers.

As career paths become less linear in nature, a global trend exacerbated by the pandemic, expect younger adults to retain a less linear view of the world in general as they age.

In other words, that stereotype of the older colleague who just doesn't "get" technology will fade, as today's youth grew up with technology and will likely age while remaining able to adapt and evolve with the disruption of the financial industry.

As a result, attitudes and behaviors developed in one's late teens and early twenties can arguably carry on later in life and not calcify into outdated visions of technology and finance embraced by previous generations.

Basically, our research uncovered two hypotheses. The first sees that younger neobank users who enter the workforce will enter one whose banks and businesses adhere to the same parameters of their parents and grandparents – they are marked by stable business lines, job descriptions and promotion paths as well as geographies. Under this view, traditional banking reigns supreme, while neobanks handle personal banking and other services like sending and receiving money from family members.

On the flip side, a second hypothesis sees younger neobank users who view finance – and the word – as flexible, free and open, and they will reshape banking as they age. Employment will be less linear, with more thriving in the gig economy or engaging in more cross-corporate functions should they be hired full-time.

As young adults age, demand for neobank services grows with them, including in sophistication. Employers lose influence recommending certain banks for payroll deposits and other functions.

Basically, the consumer will adapt or the financial institution will adapt to a more global workforce.

It looks like the latter is becoming increasingly likely.

As young adults age, demand for neobank services grows with them, including in sophistication.

Traditional banks vs neobanks. Now and then, then and now – and then tomorrow

In our first report in this series, “The State of Young Adult Banking in Latin America,” Mambu highlighted that most of our survey respondents were banked by either a traditional or neobank, and when asked where they have done business, 77% cited traditional banks, 28% reported neobanks and 18% said both.

77%

of the total participants reported they use a traditional bank, while

28%

reported that they use a neobank, and

18%

said both.

When we asked the banked segment of our pool directly which kind of bank was their primary bank, 83% said traditional banks, while 17% said neobanks (with Brazil bucking this trend with overall preference for neobanks).

To delve further into this trend by age, we split our survey respondents into two groups: Generation Z, classified between the ages of 18 to 24, and Millennials, who run from 25 to 35.

Of the Generation Z group, 77% said their principal institution was a traditional bank versus 22% who cited a neobank.

77%

22%

Of the Millennials, 86% said their principal bank was an incumbent, while 14% cited a neobank.

86%

14%

Bottom line: demand for neobanks is growing, especially among younger demographics.

Also a bottom line: as the workforce becomes less linear, neobanks will see greater opportunity to serving twenty- and thirty-somethings and help produce a new transactional culture, which could see even traditional relations with older-economy entities like corporations and the public sector take on a more peer-to-peer dynamic.

In other words, younger neobank customers as they grow older will migrate to services once typical of traditional banking venues – yet they’ll still expect the same user experiences they got from their first digital bank offerings.

People will no longer slowly shed jeans for gray suits and vie for promotion after promotion until they seize that coveted corner office.

The gig economy will grow. Freelancers will tackle more mission-critical functions. Full-time employees will engage more in multifunctional teams and even job assignments not limited to one geographic area.

As human lives become increasingly less linear and more componential, why would financial services be any different?

Therefore, whichever digital bank that can thrive serving users in such a scenario will prosper, as flexibility and adaptability are key.

The figure below shows a summary.

Neobank clients aged 24 or younger

Bank’s Role

“Shared” banking that facilitates the flow of money among different networks (i.e., friends and family) involving professional and academic entities

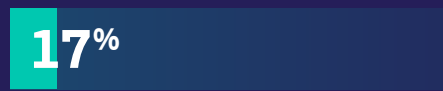
Top Drivers when Choosing a Bank

- Easy to sign-up and easy to begin using services
- Benefits/good services (i.e., digital tools)
- Low fees
- Recommended by family and friends

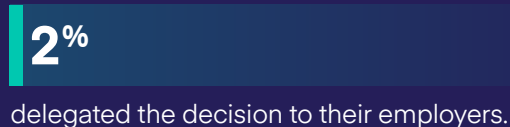
Process



compared two or more banks.



had never performed prior searches.



delegated the decision to their employers.

Traditional bank clients aged 28 or older

Bank’s Role

To fit into a formal employer-employee framework

Top Drivers when Choosing a Bank

- “My employer needed an account”
- Easy to sign-up and easy to begin using services
- Bank’s reputation
- Payroll account

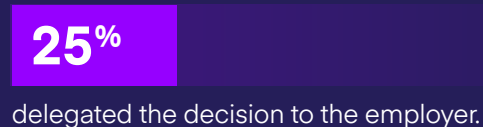
Process



did not compare their eventual choice with other banks.



had never performed previous searches.



delegated the decision to the employer.

Figure 2. A look at what drives different young adult segments when it comes to picking a bank or neobank.

Sign me up (if it's not too much trouble)

As stated earlier, we broke down the research even deeper by examining the two subsets: neobank users under the age of 24 and traditional bank users over the age of 28. (By traditional bank, we also include digital offerings at the institution of choice).

According to our research, younger neobank users prioritize more personalized banking services, while the older users of traditional banks opted for those that mesh best with their employers.

When asked what were the top drivers neobank users identified as the reason behind their choice, most cited the following:

- Easy to sign-up and easy to begin using services
- Benefits/good services (i.e., digital tools)
- Low fees
- Recommended by family and friends

When traditional bank customers were asked the same question, they cited the following reasons:

- "My employer needed an account"
- Easy to sign-up and easy to begin using services
- Bank's reputation
- Payroll account

Older users, it seems, signed up much quicker.

Figure 3.

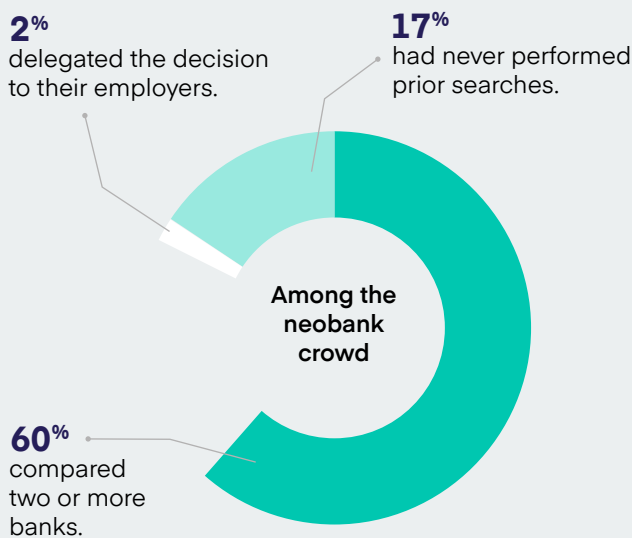
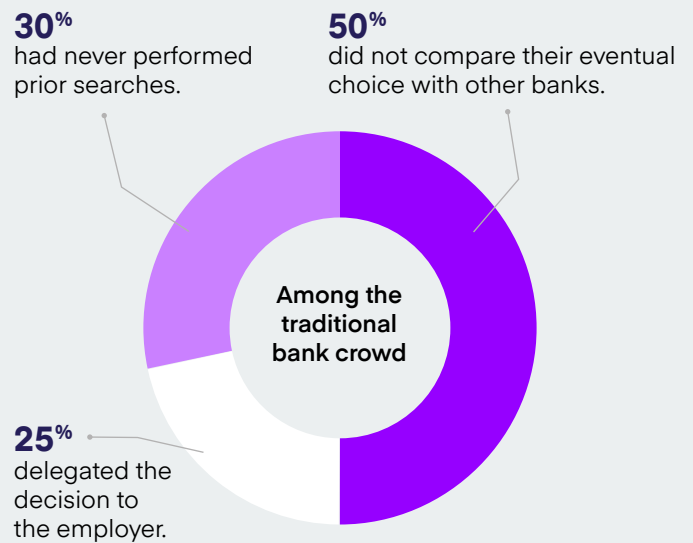


Figure 4.



For young adults, ease of signing up was the number one driver to start a relationship followed by requirements from an employer to have a bank account for salary deposits and good benefits.

Ease of signing up was a popular choice, obviously enough, though interesting trends arose after that.

For example, take the requirement from the employer to open an account for salary deposits.

Noticeably fewer in Brazil and Chile cited this item as a reason, two countries that tend to follow their own paths when it comes to overall preference: Brazilian youth tend to flock to neobanks, while their Chilean counterparts opt for traditional banks. In Colombia, meanwhile, young adults were most likely to cite requirements from employers to pick a bank.

Looking at demographics, those aged 18-24 didn't prioritize much at all the employer requirement compared to those age 25 and above, another indication of the changing nature of banking and the work world in general.

See Figure 5 for more information.

The following table illustrates the Top 5 drivers for both Neobank customers and Traditional bank customers.

Main Bank is a Neobank		Main Bank is a Traditional Bank	
1	Easy to sign up 45%	1	Easy to sign up 38%
2	Benefits seemed good 36%	2	My employer required 37%
3	Had services I was looking for 27%	3	Has a reputation 25%
4	Friends & family recommended it 20%	4	I trust this bank 24%
5	I trust this bank or needed it to pay bills 20%	5	Benefit seemed good 23% Had services I was looking for 22%

Figure 5. A look at the different drivers behind the decision to go with a bank or neobank. While both groups cited ease of signing up as a main driver, the reasons behind a decision differ after that.

The report also found that countries that are home to more banked individuals tend to see less influence from employers. That was especially true in Chile and Brazil. And even more interesting, Chilean youth tend to flock to incumbents, while their Brazilian counterparts more likely opt with a neobank or some other digital challenger. Thus, no matter the provider, banked individuals will make decisions on whether they are happy with their service as opposed to whom their employers may recommend.

It should also be pointed out that Chile often performs well in global competitive indices thanks to its historically stable economy that attracted telecoms and foreign banks in an M&A spree in the 1990s. The country leads Latin America in Cisco's Digital Readiness Index, which gauges how well countries can improve their overall readiness to foster an inclusive digital economy.¹

It should be pointed out that roughly 70% of Chileans and Brazilians aged 15 and up are banked in some sort of fashion compared to about 55% for Latin America as a whole, according to World Bank data (FINDEX).

Chile was also one of the first countries to begin digitizing its economy, be it by public or privately-led initiatives. It's also the country where earlier versions of embedded finance popped up. Embedded finance sees a non-financial entity like a retailer offering banking services like a credit card. Falabella, a retailer, did just that, and such a trend grew to the point that early e-commerce giants like MercadoLibre found competition in Chile in the form of embedded finance. Today, however, e-commerce marketplaces like MercadoLibre and retailers like Falabella can coexist and thrive side by side by focusing on customer experiences. The same holds true for banks and neobanks. While Brazil and Chile may show preference for one or the other, both must rely on digital, cloud-based technology to keep customers happy and remain competitive.

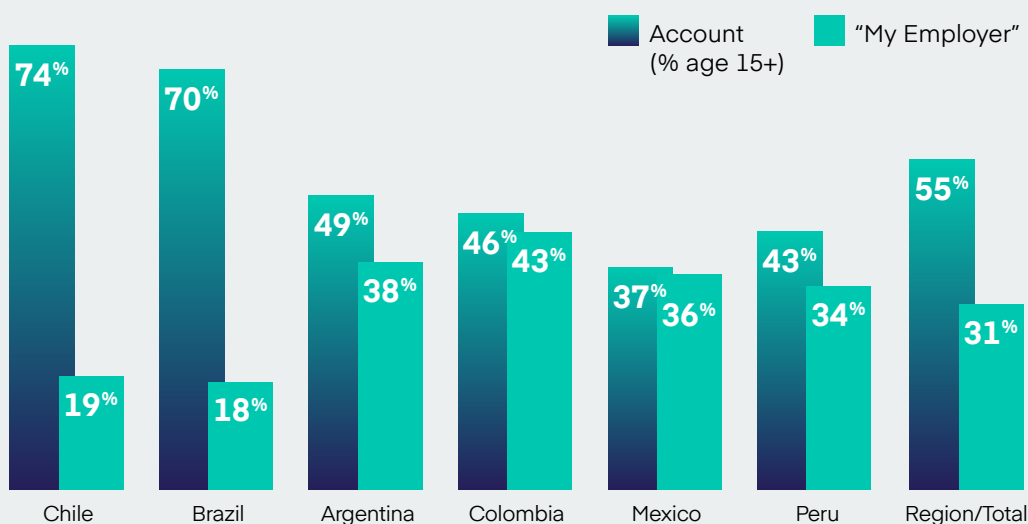


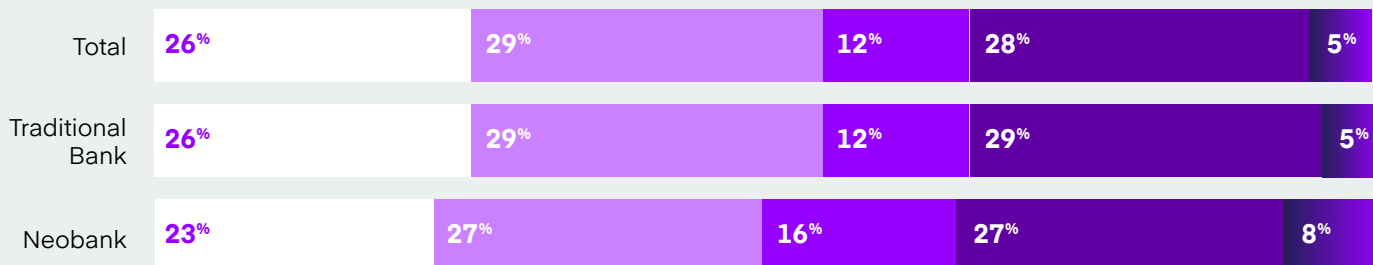
Figure 6. The more banked or financially sophisticated the country, the less influence the employer will have on young adults' decision to pick a bank.

¹ <https://www.cisco.com/c/en/us/about/csr/research-resources/digital-readiness.html>

Comparatively, both neobanks and traditional banks worked to make sure new customers were familiar with their offering and understood the value they were trying to convey.

Most can attest to the power of word of mouth, so it takes top-notch user experiences to make sure others learn of those user experiences.

How familiar were you with your bank before signing?



How well did you feel you understood your bank?

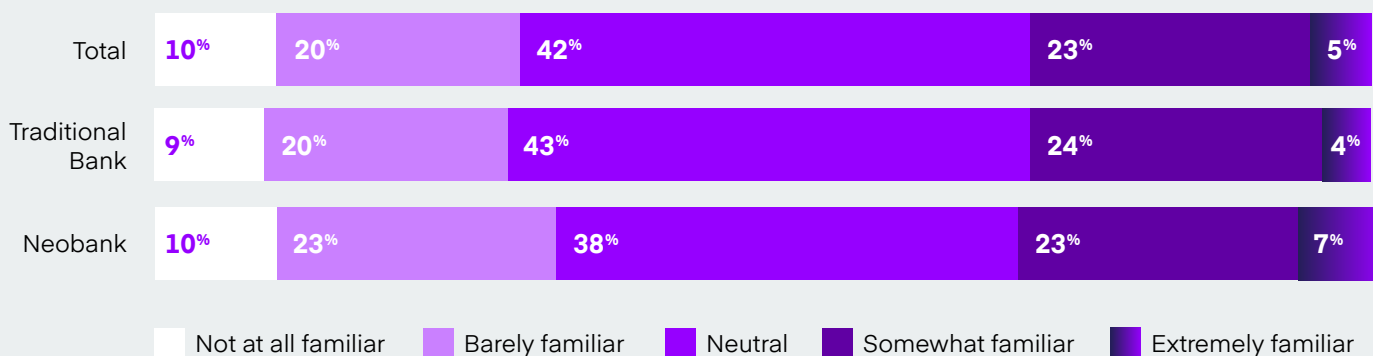
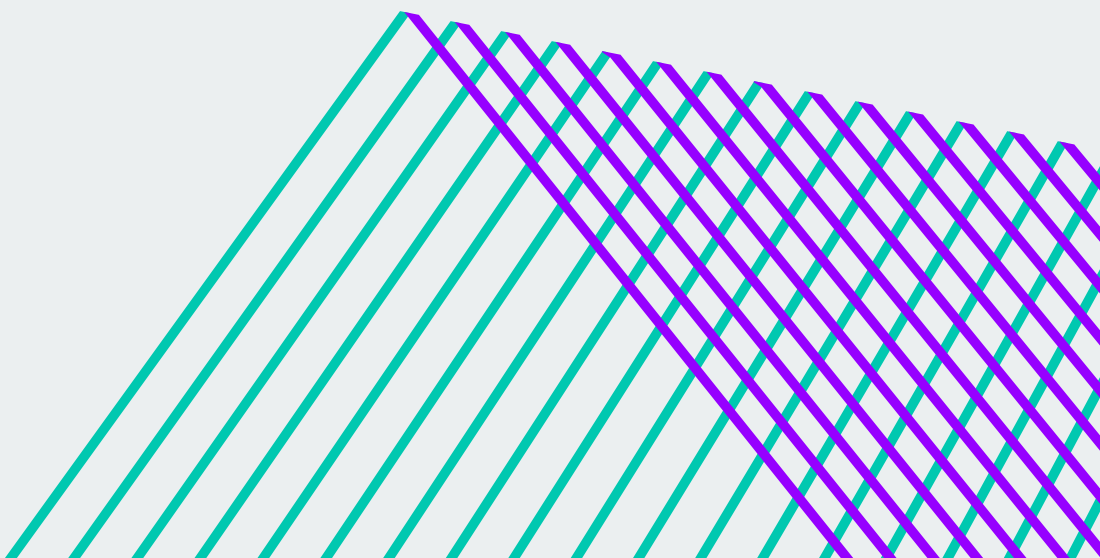
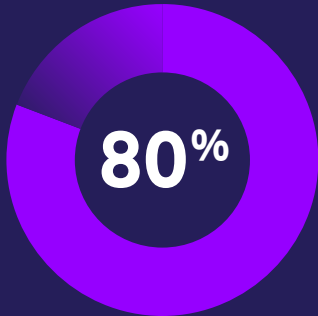


Figure 7.



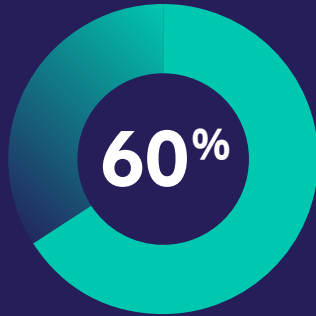
Lastly, our survey participants tended to agree on three must-haves in the modern financial services industry: mobile apps, savings options and payments options. See Figure 8 for more detail.



T3 Features
Includes Mobile app or Payments among the top sought-after features.

+70% mentioned Data Protection as a T3 Feature.

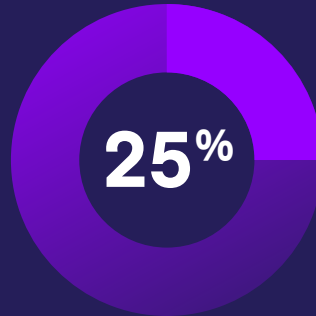
Biometric tools are attractive to just a few (15%).



T3 Features
Includes savings accounts and debit cards among the most important products.

Traditional bank users are more indifferent to banking products: +40% were not looking for anything in particular.

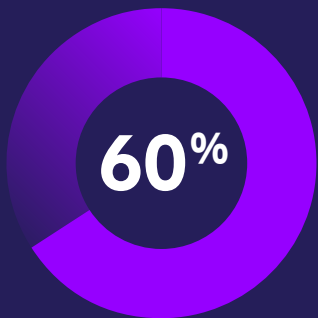
Neobank users were more likely to be in search of credit than their traditional bank counterparts, who likely already had access to credit (i.e., credit cards or loans, etc.)



T3 Features
Traditional bank and neobank users agreed on the need to make payments and access online banking.

For traditional bank users it was more important to set up their payroll account (33%).

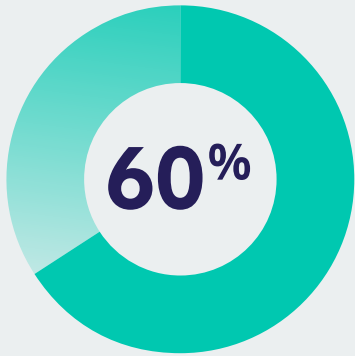
NB users were completely indifferent to the subject (only 9% mentioned it).



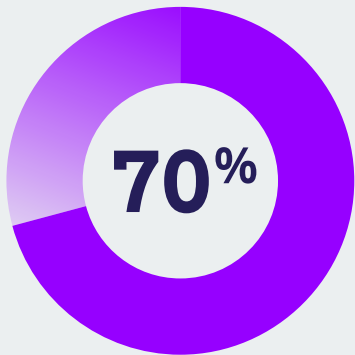
60% did not take more than 1 hour to open their accounts, be it online or at a branch, the latter being the preferred option for about 60% of traditional bank users.

Figure 8.

Data protection was an important feature as well, while biometrics were also attractive albeit to a few.



When asked what channel they had used to open a bank account, among traditional bank users, 60% did so in a branch office, a costly manner of bringing new clients into the fold.



Among all our survey participants, around 70% managed to open an account in less than an hour.

It should be noted that demand for branch offices remains high in places like Peru, though many in this case opt for a branch office to field questions about a specific product in instances where doing so is easier in person.



Key Takeaways

Banking seems to take on a new role with the new generations: it is no longer a box to check off that comes with a welcome packet at a new job.

On top of receiving paychecks, a bank account these days – be it a neobank or a traditional institution – serves as a toolbox to circulate money among personal circles that group friends and family to professional circles and beyond.

Bills are paid, investments are made, savings accounts are opened, securities and crypto assets are purchased and loans are tapped all safely and securely on smartphones. The key takeaway is the user experience involving those and other functions must remain a positive one, or that user will swipe to another app.

Younger users are used to non-linear lifestyles, from the places they work to the cities they call home, and providers must realize that view will not change as these key demographics age, but rather, financial services will adapt to this new non-linear demographic instead.

Word of mouth will always remain crucial to the success of any product or service – that's timeless. But making sure word of mouth stays positive requires technological agility and flexibility like none other today and tomorrow especially.

About Mambu

Mambu is the world's only true SaaS cloud banking platform. Launched in 2011, Mambu fast-tracks the design and build of nearly any type of financial offering for banks of all sizes, lenders, fintechs, retailers, telcos and more. Our unique composable approach means that independent components, systems and connectors can be assembled in any configuration to meet business needs and end user demands. Mambu has 900 employees that support 200 customers in over 65 countries - including N26, BancoEstado, OakNorth, Raiffeisen Bank, ABN AMRO, Bank Islam and Orange Bank.

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