Straight Talk from the Next Generation of Credit Card Customers

What Millennials want, don’t want and the number one reason they’ll pick your card over others
In the financial services industry, the numbers only get you so far... then it gets a little cloudy.

To clearly visualize what customers want or where you should focus your products and services, you sometimes have to stop and ask questions. That’s why Equifax recently gathered a small group of successful, up-and-coming Millennials—people born between 1979 and 1993, also known as Generation Y or Gen Y—to better understand how they view and use credit cards.

Let’s just say, this lively, tech-savvy group did not disappoint. They were frank, animated and eager to share their evolving experience and preferences with financial institutions and credit cards, especially if it helps card issuers better cater to their needs. They don’t fully trust banks, but they say they can be bought. They’re leaning on their parents and grandparents for financial advice, but they expect technology to help simplify their financial affairs. They embrace social media, but not for financial services.

Illuminating and insightful, the discussion is summarized and synthesized with supportive research from Aite Group in this brief eBook to help you better understand, cater to and capture this exciting next wave of potential customers.

Keep reading, but grab your shades. The future looks pretty bright.
About the Discussion

All participants in our panel discussion are included in the Millennial or Gen Y demographic, yet they are on the older spectrum of the generation and slightly atypical of this upcoming consumer group, which also includes recent high school graduates and college students. The participants are successful business professionals, financially literate and offered their personal views on a variety of financial and card-related matters.

The discussion took place in Q2 2014, and was facilitated by Ron Shevlin, senior analyst with the Aite Group, and author of *How Millennials Manage Their Money* and *The Coming Credit Card Boomlet*.

Equifax Financial Service Group hosted the discussion as part of its Spring Customer Advisory Board meeting.

Below is an overview of the Millennial who participated in our panel discussion.

James
age 31
Profession: Director of Policy & Government Affairs

Rebecca
age 28
Profession: City Planner

Curt
age 25
Profession: Project Manager

Kimberly
age 27
Profession: Airline Pricing
Millennials are busy mapping their future, often carrying varying loads of student loan debt while trying to figure out the financial maze that lies ahead. According to our Gen Y panel, they’re considering mortgages and even retirement, and somewhere in between they’re selectively acquiring credit cards.

Driven by perceptions, experience, familial advice and rewards, they view credit cards with both caution and practicality. They say credit cards have a negative stigma, and Curt, a project manager, worries that having too many cards might hurt his credit. Likewise, James, a director of policy and government affairs, has learned that having too many store cards can lead to excessive spending and debt.

However, all of the panel participants recognize the value of credit cards, mentioning card rewards—things like cash back, discounts and free airline miles—and the ability to use them as an emergency backup as top reasons why they own credit cards.

The numbers corroborate a waning ambivalence, showing that Millennials quickly warm up to credit cards, then acquire more cards as they age. According to The Coming Credit Card Boomlet, a 2014 report published by the Aite Group, the percentage of younger Gen Yers with a credit card steadily increased from 32 percent in 2009 to 59 percent in 2013 (Figure 1). Compare that to the 76 percent of “older” Gen Yers with a credit card, which is in line with the percentage of the two prior generations—Gen Xers and baby boomers—who have a credit card.

### Huge Growth Potential

According to Figure 1, the number of Young Gen Yers with a credit card nearly doubled in just three years, soaring 27 percentage points from 32 to 59 percent.

Also, the difference between Younger and Older Gen Yers with cards in 2013 jumped another 17 percentage points.

![Figure 1. Percentage of Consumers Holding a Credit Card](source: Aite Group survey of 1,242 U.S. consumers, Q2 2013, The Coming Credit Card Boomlet)
Gen Y is using credit cards for very specific reasons, and they’re using those cards—a lot.

So, what moves this generation to open a credit card account and use credit over debit? In a word: rewards. Rebecca, a city planner, says she has several credit cards and considers opening new cards based on the initial short-term rewards or points, discounts within certain industries and online purchase incentives.

Most, if not all, of the panel participants said they prefer using credit cards over debit so they can rack up rewards. Yet, they also value the technology tools that come with online credit card account access—things like mobile apps, automated payment alerts and online statements.

As a result, they’re using fewer “traditional” financial services associated with debit accounts such as handwritten checks, in-person visits to their financial institution and paper statements. Some panelists admitted the only time they visit their bank or credit union is to make a deposit, and the only paper check they write is for rent. Everything else they prefer to do online, through a mobile app or via a credit card transaction.
Millennials are Using their Credit Cards More, and Quickly Acquiring Additional Cards

Figure 2. Percent of Credit Card Holders that Use Credit Cards as Often as Possible to Maximize Reward Points

| Generation      | Percent of Holders Using Credit Cards
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Young Gen Y</td>
<td>41%</td>
</tr>
<tr>
<td>Older Gen Y</td>
<td>37%</td>
</tr>
<tr>
<td>Gen X</td>
<td>28%</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>30%</td>
</tr>
</tbody>
</table>

Figure 3. Average Number of Credit Cards Owned per Cardholder

<table>
<thead>
<tr>
<th>Generation</th>
<th>Average Number of Credit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young Gen Y</td>
<td>1.84</td>
</tr>
<tr>
<td>Older Gen Y</td>
<td>2.39</td>
</tr>
<tr>
<td>Gen X</td>
<td>2.38</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>2.28</td>
</tr>
<tr>
<td>Seniors</td>
<td>2.49</td>
</tr>
</tbody>
</table>

Source: Aite Group survey of 1,242 U.S. consumers, Q2 2013, *The Coming Credit Card Boomlet*
In terms of actual credit card usage, roughly four in 10 Younger Gen Yers use their credit card(s) as often as they can in order to maximize rewards points, according to another report from the Aite Group, *How Millennials Manage their Money*.

They also dislike fees, and work hard to avoid everything from ATM transaction fees to monthly interest, according to our panelists. Research from the Aite Group supports this sentiment. More than four in 10 Young Gen Yers and a third of Old Gen Yers pay less interest on their credit card(s) because they pay their balance in full each month, according to the Aite report.

In fact, the percentage of Millennials who currently pay their credit card balances in full every month or nearly every month is larger than it is among Gen Xers and Boomers (Figure 4), according to the report.

Given their distaste for both fees and traditional banking tools such as paper statements, one panelist suggested that banks charge a fee for paper statements—an idea that offers banks a fee resource with minimal impact on Gen Y.

Figure 4. Question: How did you pay your credit card bill in 2010 and in 2013?

<table>
<thead>
<tr>
<th></th>
<th>Young Gen Y</th>
<th>Old Gen Y</th>
<th>Gen X</th>
<th>Boomer</th>
</tr>
</thead>
<tbody>
<tr>
<td>In full every month</td>
<td>37%</td>
<td><strong>51%</strong></td>
<td>40%</td>
<td>43%</td>
</tr>
<tr>
<td>In full almost every month</td>
<td>25%</td>
<td>15%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Minimum payment every month</td>
<td>15%</td>
<td>15%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Minimum payment most months</td>
<td>10%</td>
<td>2%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Carried a balance for most year, but made more than minimum payment</td>
<td>7%</td>
<td>12%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>No consistent payment pattern</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Aite Group survey of 1,242 U.S. consumers, Q2 2013, *How Millennials Manage their Money*
Don’t invade their online space—they will find you. And you better offer a good rewards program.

When asked about social media and online card advertising, our Millennial panelists unanimously said they do not click on online ads for financial services. Although they all use social media, they do not interact with financial organizations on social media—they prefer to keep their social and financial matters separate. Concerned about fraud and identity theft, they also avoid entering their personal information online, and instead initiate their own online research for banking information, credit card offers and rewards programs.

Rebecca says she proactively researches card offers online, and she—not her husband—ensures that the rewards program factors into their decision to apply for a card. What’s more, she monitors her points across all her credit cards and allocates her spending on the cards based on the rewards.

On the flip side, our panelists say they don’t mind financial services organizations researching them—aka, prescreening—and making them strong offers, even credit line increases, but, once again, you better bring the rewards. As one panelist bluntly put it, “Our generation can be bought.”

“Our generation can be bought.”

—Millennial panelist, referring to the strong draw of credit card rewards programs to his peer group
Future forecast:
Millennial credit card use will continue to grow—as long as you offer competitive rewards and service

Credit cards are becoming an increasingly preferred financial tool among today’s young Gen Y consumers—a trend backed up by industry research. As they work toward building their credit profiles, more young adults are being smart and responsible about how they use their credit cards. They’re tuning out the white noise of advertisers, and instead researching and applying for cards with the most appealing rewards program. They’re spending more on credit instead of debit in order to rack up their rewards points, and then paying off the balance each month.

The biggest takeaway is this: rewards rule. If you don’t offer a rewards program, you better start. If you do offer one, you better find out how it measures up to your competitor’s because Gen Y is doing the research, even if you’re not.

Also, Millennials want “the path of least resistance” when it comes to banking services and fees. Offer online tools, mobile apps and automated account alerts that support their “always connected” lifestyles and make it easier for them to manage finances, check balances and pay bills on time, on the go. Similarly, find innovative ways to generate fee revenues, such as assigning fees to outdated services such as paper statements.

Overall, Gen Y represents a huge growth opportunity for financial institutions, as credit card ownership within this demographic has nearly doubled in just three years. But, there is a rub.
Using traditional credit modeling resources that reflect a static view of credit performance, these budding consumers are often overlooked by financial marketers due their age and brief credit history. If they’re not on your radar, how can you connect with them and make them your best offer? How can you know much, if anything, about their payment habits or spend amounts, and use that insight to match them with a more effective rewards program that ultimately wins, and keeps, their business?

New tools are available that can help by offering card providers a dynamic, multi-dimensional view of consumers over an extended period of time, up to 24 months. Sometimes called “trended data,” these solutions can help financial services providers identify and capture more Gen Y customers by pairing traditional credit indicators such as past credit performance with a variety of fresh, unique attributes that dig deeper and help to reveal:

- Propensity to open new accounts within a period of time
- Accounts more likely to be active
- Likelihood of balance transfer within a period of time
- Best candidates for line increases and likelihood to stay current
- Capacity to take on more debt without becoming past due
- How credit is used over an extended period of time

As Millennials young and “old” continue to grow and evolve, credit cards will become an increasingly valuable tool that helps them achieve their financial goals—both personally and professionally. By better understanding their unique views and use of credit cards, along with their specific spending habits over time, credit card providers can tap into this expanding opportunity, and capture and retain more business from this rising, next-generation of customers, now and well into the future.
Contact Us Today

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