

The Bank for Youth. Introduction

Maria¹, the development manager of the bank “Zaryadie”, was getting ready for a meeting with her colleagues. Although she had been working in the bank not for so long, she was assigned an important and responsible project to develop youth banking, a new area for the bank.

Her work became a continuous progress and a real drive for her. All the time she had to keep on learning new things and flexibly respond to changes in the environment. In addition, Maria always felt annoyed when during her conversations with the young audience she noticed how biased they were to banks, considering them boring institutions dealing with some incomprehensible business.

Maria was not satisfied with this situation, and she decided to change it. She believed that advanced young people could become a promising segment for the bank, as they were exactly the ones who became the target customers. However, if the bank decided to enter the student arena, it would be necessary to change not just the positioning, but its products, too. Probably it would be necessary to change the approach to products, because usually a bank offers a standard product but not a solution to client’s problems. However, Maria had no fear of doing this work, as she always

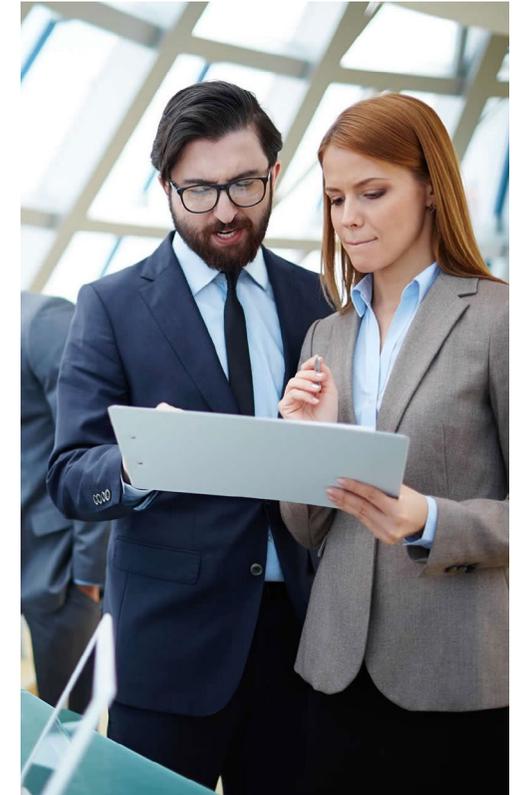
loved challenges. Maria had long been thinking about her ideas and that day she arranged a meeting with Igor, the head of retail products management.

— Maria, thanks for your ideas, it sounds very interesting! I think you should go for this project. The market is reducing, and it is getting harder and harder for the bank to attract new quality customers. Of course, we will not earn a lot on students, but this project can be viewed as a future growth story. It is very important not just to attract students to the bank, but also to make sure that these people will stay with us for a long time. Moreover, it will not be easy: the youth is in continuous search and changes banks easily. An average level of outflow of young people in the industry is 40% per year with an average client outflow of 30%. Let us expand the audience: we will consider the entire segment of young people aged 18 to 25. Thus, the target audience will cover not only the present students, but also recent graduates.

— Igor, thank you for your support. I suppose we also need to take into account the specific features of the customer base of the bank “Zaryadie”. They are people with a well-to-do career and income above the average. We can try to catch such clients at the earliest stage,

when they are still choosing their way of life and setting their priorities, including the choice of financial instruments. My plan is to work, for the start, with big cities² and consider young people who would potentially move into the middle class. With a current average income level of 15 thousand rubles per month in this country, we can focus on income level of 20-22 thousand rubles. Now I see two main areas of work: we should think how to satisfy the needs of the young audience and how to change the positioning. What restrictions can be here, in your opinion?

— A very good question. The main thing I would advise you is that you should not get too enthusiastic about loans, as young people remain one of the most risky segments. Of course, you remember our technological limitations: the bank is rebuilding its technological infrastructure and cannot afford to invest resources in new directions. Figuratively speaking, we can update a mobile application, but we cannot develop an Internet banking system from the very beginning. I think you should definitely study examples of international practices. Foreign banks paid attention to this direction a long time ago; it would be interesting to study their practices and see how suitable they are for Russia.



— Ok, thank you, I see your point. What resources can we allocate for attraction?

¹ All characters of this case are fictional

² Participants make the list of target cities on their own

— Our experience shows that a student brings us roughly three thousand rubles of income over three years. Therefore, the expenses should stay within the budget not exceeding this amount. We can afford this maximum. Try to study as many different ways of attraction as possible and choose the most promising ones. The youth are a special segment; probably we, as a bank, even do not know any of these ways of attraction. Concerning next steps: I am ready to give you a working group for this project, recently new interns have just come. In a week, I offer to discuss the developed concept of the project at the meeting of the board of directors.

Inspired by this conversation with Igor, Maria returned to her desk and made an action plan for the week.

The purpose is to develop the concept of the offer from the bank "Zaryadie" for the youth for a period of 3 years, aiming to reach 5 percent of market share of the target audience within the first year of process and support it, taking into account the natural turn over age and the annual outflow rate of 40 percent of the attracted base.

TASKS:

- To estimate the number of the potential target audience (young people aged 18-25, living in large cities, with an income level of at least 20 thousand rubles).
- To study possible ways of attracting the youth, to identify the most promising ones and to provide the calculations telling how many new customers and from what spheres will come to the bank.
- To create an appealing product offer for the target audience.
- To develop a marketing concept for the product: to offer the ways and methods of promotion.
- To calculate the financial model (expenses and income of the bank). The key task is to get the self-payment of the project during the first 2 years of process and to get profit within the third year.

Trends and Prospects of Banking Business

The bank “Zaryadie” invests a lot of time and efforts in training and development of its employees. Maria could experience that at first hand. In addition to training sessions she had as an intern and her coach’s support, she had managed, over just a year, to visit several interesting conferences on the most topical trends and changes in the banking industry. Now the materials of these conferences became useful for Maria. Having returned from a meeting with interns, she opened the folder with the speakers’ presentations and her own notes. Here, Maria singled out five most important trends of modern banking.

1. Business model transformation: a central focus is on service, not a product.

Today, most clients use services of several banks at the same time, with an average 2.5 banks per an active client. For business, this means not struggle for a client, but a struggle for the share in his or her wallet. Besides, customers are becoming more demanding on the quality of financial services: they expect more and more professional advice, more and more understandable terms on products, more bonuses and special terms for their loyalty to the bank, etc. All of the above listed is no longer a unique offer; it tends to be a sort of professional standard that would no longer help to distinguish

you favorably among competitors, but merely keeps you in the game.

Customers begin to expect full integration of the bank with their lives. It is not enough to offer a good product (a loan, a card, or a deposit) to a client; you have to satisfy their need in having any everyday financial problems be solved. For example, customers do not understand why they cannot separate a common bill for a table in the restaurant between themselves and pay their own share with their smartphone, although Uber has this functionality. Banks should be aware of such needs of their customers and focus on them.

Customers say:

- «Let the bank assess my creditworthiness by collecting all the necessary information on its own.»
- «Let my utilities bills, taxes and fines be paid with one click.»
- «Let the bank agree on a discount with the store where I usually buy food.»

The most successful banks develop an entire service infrastructure for their customers, integrating their services into everyday situations, but not products. This becomes an important part of the value of the offer, which

a bank makes. According to the study of McKinsey’s Global Banking Annual Review 2015, on average in 2015 banks received up to 22 % ROE from the services and sales of commission services (compared to 6% ROE in the case of classical banking service.)

2. Personalization and segmentation.

As soon as technology and regulation allow, retail banking will switch to personalization of product offers. While it is not possible yet, a reasonable compromise is the segmentation of the customer base by significant characteristics. The general market practice is the classification of clients by socio-demographic parameters: sex, age, marital status, income level and availability of savings. However, market leaders go even further. One of the most promising practices is behavioral segmentation, where their type of behavior, lifestyle, and way of thinking divide customers. This approach allows banks to offer clients the right products in the right context, creating a financial services market of the future.

You can find an example of behavioral segmentation in the recent joint study by Fjord and Accenture that shows how people treat and manage finance³. The researchers identified four financial behavior models (Money Mindsets).

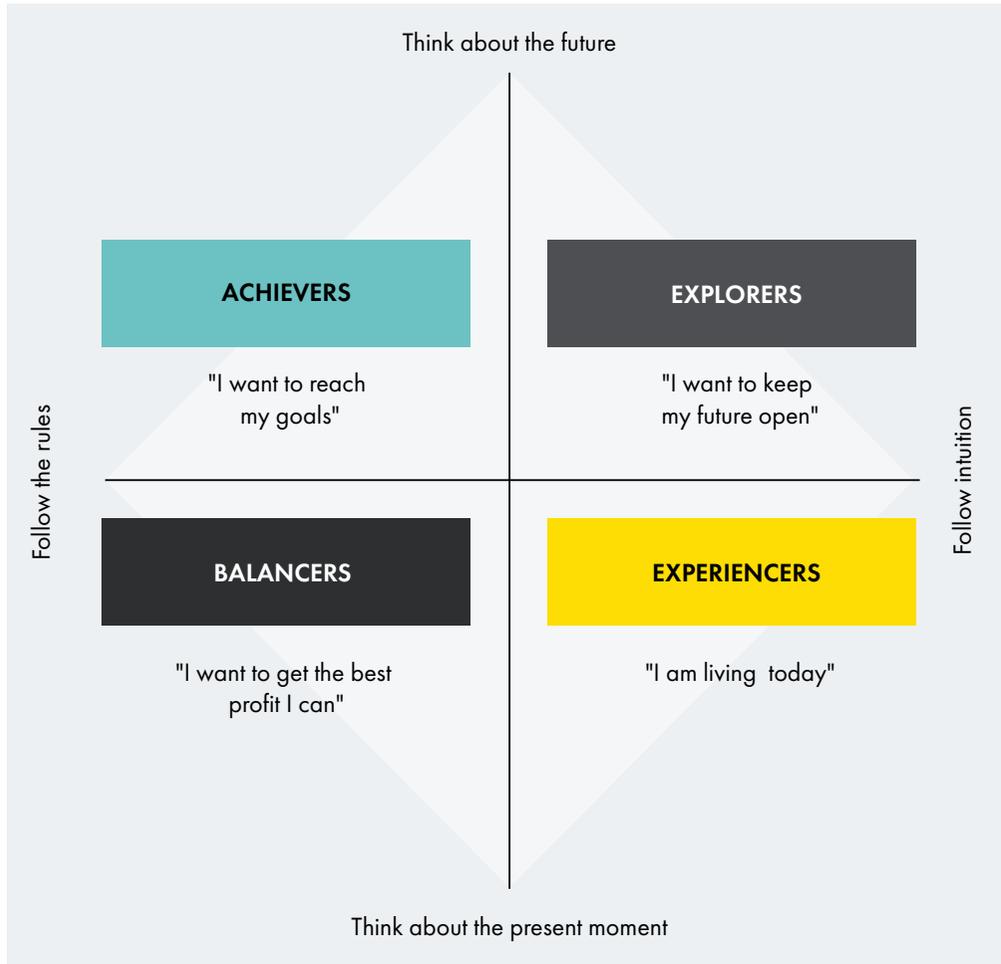
Achievers: «I want to reach my goals.» These people like to plan their budget and save money for clear, frequent and material goals. This planning helps them to control their life and be prepared for the future.

Balancers: «I want to get the best profit I can.» These people try to get the best offer in each deal, look for opportunities to get more rewards when they shop and they keep track of their accounts carefully. They are ready to spend their time to find the best banking proposal.

Experiencers: «I am living today.» These people are enjoying the present and optimistic about the future. They enjoy choosing how and what to spend money on rather than saving. They do not like thinking about their money management; high quality lifestyle will always come first.

Explorers: «I want to keep my future open.» These people rely on their intuition and proven practices in their decisions rather than on instructions, rules and calculations. They value quality of life a lot and put their personal needs above abstract financial plans. They prefer minimal involvement with financial services, being rather passive about their money, and are unlikely to change their bank, providing things happen without much effort.

³ Accenture & FJORD. Mindset segmentation: Human insights for the Financial Services of the future



Source: Accenture & FJORD

3. Non-banks entering the market.

The 2016 World Retail Banking Report by Capgemini and the European Financial Management Association (EFMA) says that 63.1% of consumers in the world use financial services offered by non-banks, which are gradually starting to press out traditional banking services. Financial-and-technical companies develop and promote these services, making business on providing financial products with the help of their innovative technologies. Researchers divided the most popular non-banking platforms into four main categories: savings and investments, transfers and payments, loans, and insurance. Payment services on alternative platforms turned out to be in the most demand: 17.6 respondents used them. In addition, various investment products and services of online brokers are gaining popularity.

Services of financial-and-technical companies are especially popular with so-called Generation Y - young people aged 16-35. These users of tablets and smartphones value the possibility of making instant money transfer or borrowing on-line, opening an investment account or deposit, buying an insurance policy or foreign currency exchanges without visiting the bank office or going out at all.

This situation can be a threat to traditional banks with their conservative approach to the business. Every time when a financial service with more innovative products comes out to the market, a big number of youth refuses from their banks. Low customer loyalty is now the main problem for traditional banks. According to the Capgemini and EFMA survey, only 45.8% of the youth are ready to stay with their bank for the following six months, compared to 67.2 % of more conservative customers of older age groups. Unlike older customers, young people prefer to experiment and are eager to try new financial services in the market. On average, about 67% of young respondents expressed this readiness.

4. Unique customer experience and change of consumer's behavior.

Economic cycles, development of technologies, information availability and new generations lead to changes in the behavior of customers, including the banking industry. Customers want more than just transactional relations with their bank. Surveys show that 79% of consumers admit it. 52% of bank customers expect proactive product recommendations.

The everyday experience of using the banking products has already changed radically:

- Banking has become one of the everyday services.
- The process of buying a banking product has been simplified and stopped requiring numerous actions, and consumer's behavior has become analyzable.
- A complex approach (mobile banking, payments, personal finance management) and real-time product access are essential these days.
- Customers need a more personal relationship with the bank. They expect the bank to collaborate with them and help them solve their life problems like buying a housing, help their children to handle their money, etc.

Many banks are already using trends and making their business so that to get competitive advantages among the first. Commonwealth Bank of Australia has developed a tablet that accepts contactless and chip card payments, and that has changed the behavioral pattern of sellers and waiters. Garanti Bank of Turkey offers its clients a financial advisor and iGaranti payment system. Now customers can make payments to their friends on Facebook and their contacts from the address book in their

phone, while the bank now can make personal offers to its clients basing on the analysis of their expenses. Citibank opened more than a hundred smart offices in Asia, equipped with media walls, tablets and personal seats for self-servicing. There are also ATMs known as the «360 Stations» where customers can apply for loans or opt for a live video conference with a remote Citi specialist. Getin Bank and Bank BPH in Poland introduced fingerprint biometric authentication in ATMs.

What do these examples have in common? It's simple: the bank offers a unique customer experience. And the key question that follows is what the bank will be like in the future. Will it be managing balances and risks as before, or will it focus on managing the money interaction experience?

5. Big Data possibilities.

The banking industry leaders have accumulated huge arrays of various data about customers and are trying to analyze them to improve security and quality of service. About 25% of all Big Data are in the financial sector, with an average data size per company of 4 petabytes⁴. Banks store everything that is connected with their customers: questionnaires, transaction

and customer communication history, and internal information. The use of mobile phones and wearable devices can complement this set with user's location and physical activity data. As owners of potentially valuable information, 34 %⁵ of banks actively invest in the development of Big Data technologies.

A notable point is the interest in this technology in times of crisis, when the quality of portfolios is declining, and clients are determined to change their bank if they get a more attractive offer. In these conditions, Big Data provides tools for collecting customer's information, automatically generating offers for them based on personal needs and constraints, and using this information for accurate assessment of a person's solvency. Predictive analytics and partnerships with various companies help the bank, for example, to remind the client about his wife's birthday, about what he bought her for the New Year and what she would like to get as a gift now. This practice is used by Alfa-Bank (Sense app) in Russia, CBA in Australia, and Santander in Spain. The availability of information about users in social networks and other services with a social component allows the banks to use it for composing a portrait of their future borrower. Some banks begin to analyze this data when making a decision to grant a loan or not. For

example, in the West, several market players are already experimenting with the integration of data from social networks into the scoring analysis model. An interesting point is that every detail is taken into account, up to the attendance of classes in college. There are similar projects in Russia, too. The same data can be used for developing personalized products.



⁴ Source: McKinsey&Co

⁵ Source: Gartner

Financial Behavior of Youth in Russia

Preparing for the conversation with Igor, Maria asked the analytical team to give her a report on financial behavior of the youth in Russia. She decided to distribute the report among other members of her working group so that they could read it before starting work on the strategy. It was clear that the strategy development should be based not only on this report, but also reflect characteristics of the target audience of the project for the youth by the bank "Zaryadie": young people aged 18-25 living in large cities with a higher income level (not less than 20 thousand rubles with an average income of 15 thousand rubles). These were Maria and her colleagues who were going to identify the main features of the target audience of the bank "Zaryadie", peculiarities of their behavior, and their value orientation.

The RosIndex survey made by Ipsos Comcon⁶ shows that the share of young people who earn their living independently increased in 2015. The survey was conducted among young people aged 16-24 and all Russians living in cities with a population of more than 100 thousand people. At the end of 2015, 55% of young people worked full-time in a company, and 19% combined work and study. On average, the share of working young people increased in Russia, as compared to 2014, from 52.9 to 54.2 %. Also, the share of the youth who make the major contribution to family income increased from 25.5 to 27.9%.

Usage of banking products

However, young people use banking products less as compared to the population as a whole. Ipsos Comcon estimated that since 2014 the share of young Russians who took the loan in the past 12 months has not changed much and remains at 13%. However, the share of bank card holders has grown from 51.8 to 55%. Young people are much more comfortable with bank cards, considering them as a convenient payment method; the youth is less worried about their funds safety. However, all age categories demonstrate an increasing share of bank card owners. According to Raiffeisenbank's internal data, young people prefer using cards. The number of transactions made by card by young people is the same as for an average client (10-15 per month); but while the standard client's average monthly expense per card is 15 to 20 thousand rubles, young people spend about three times less.

Young Russians take loans out mainly to buy a new smartphone (25% of respondents), an audio or video gadget (12.4 %), or a computer (11.9 %). The largest part, about a third, intends to use their loan to buy a car. The Ipsos Comcon data show that there are only 7.4% young depositors in Russian banks (the 2015 year-end data analysis), while 17.1% of the population have deposits in Russia as a whole. Nevertheless, 39% of people aged 16 to 24

Marital status of young people

Live with parents	Young couples	Young parents	Singles
49 %	31 %	10 %	10%

Source: TGI, the base is 18-25 years, the city of 100 thousand+, 8.6 million people

agree with the statement «savings is a must, even if you have to deprive yourself with the necessities.»

Choosing a bank

When choosing a bank, young people pay much more attention to positive opinions of their acquaintances than the population as a whole (19 against 15% resp. in the fourth quarter of 2015). They often give more importance to convenience of banking services like Internet banking, mobile banking, the bank's Website and call center. The state support of the bank is visibly less important for young people than for the population as a whole: 24.5% of the young age group and 30.5% of the whole population pay attention to this factor when choosing a bank.

Young Russians learn about financial services mostly from the Internet (36% of the young respondent group chose this option). At the same time the main source of such information for the population of the country is their friends' advice (40% of respondents); the second place is consultations of bank experts (28.5%). The Internet is only the third on this list (24.4%).

In general, young people pay a big attention to financial matters. For example, 68% of the young respondents noted that they admire people who earned enough to buy an expensive apartment or a car (vs. 58% among the country's population as a whole). 63% of young people noted that they like it when others believe that their finance are good (54% in Russia). The statement «Money is the best measure of success» looks true for 49% of all Russians and 52% of people aged 16 to 24.

⁶ Source: Ipsos Comcon

Misconceptions about the financial behavior of the youth

Maria got one more report on the financial behavior of the youth with results of a Russian big survey of the nation's largest state bank. In 2015, the bank interviewed several thousand young people aged 14-22. Respondents included both customers of banks and people who do not use bank services at all.

The survey helped to disprove several misconceptions:

1. Nowadays young people have very advanced knowledge of modern technologies

and they actively use new digital tools for financial management. In fact, the daily use of Internet services does not lead to the daily use of financial applications. Their popularity cannot be compared to Facebook, Instagram, or VKontakte. Only 7% of the Russian young audience use electronic wallets for payments, and even less, about 3%, use mobile applications for payments.

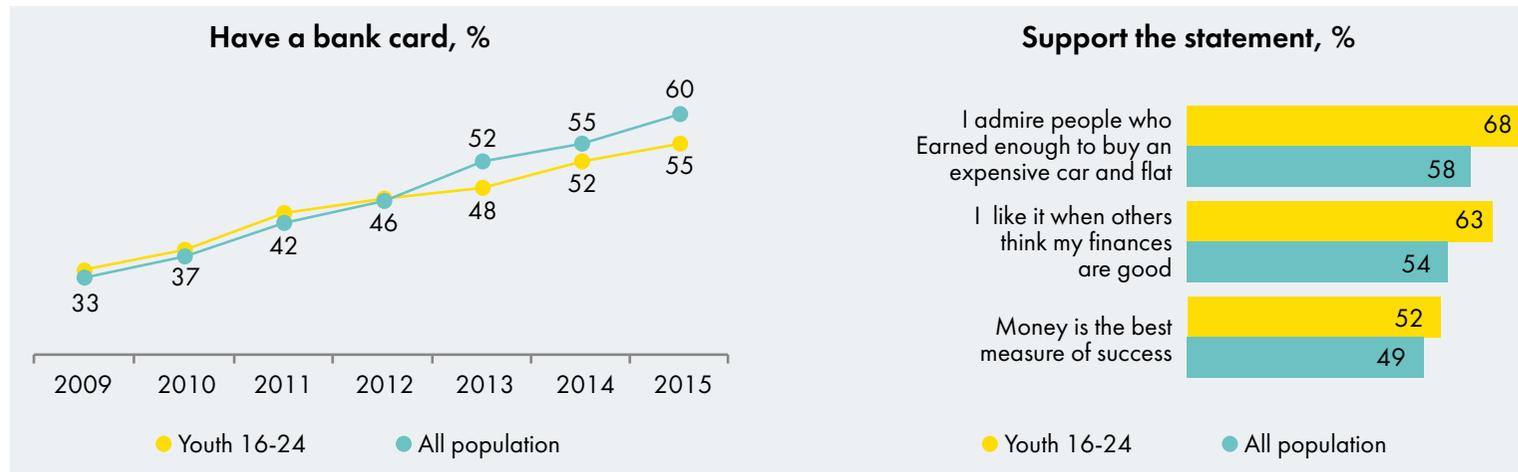
There is a hypothesis that the key for young people is to have access to all services online and use advanced financial services. However, the latest results of the State Bank's survey show that young people do not necessarily put this criterion first when choosing a bank. Trust in the

bank, politeness and responsiveness of its staff and some other criteria are much ahead of it.

2. Young people do not watch TV, they spend all their time on the Internet. The survey finds out that 85% of people aged 14-22 watch TV every day.

3. The ability to understand sophisticated technologies means that today's young people feel independent and self-reliant. However, young people rely on older adults' opinion in almost everything unrelated to the Internet and technologies, ask their advice and involve them in decision-making.

The study also revealed several insights useful for understanding how young clients perceive banks. Money plays a substantial place in the lifestyle of young people, but there is no place for banks in the everyday life of the youth. They do not understand why they need banks, although they use banking services. The youth of today almost cannot tell the difference between banking products (for example, what a debit card is, and what a virtual one is). This suggests that the standard product approach does not go well with young people. The goal here is to show clients how banking services may help them in their real life, and what benefits they can bring.



Source: Study "RosIndex". City of 100 thousand +

Maria thought that before showing the presentation at the meeting of the board of directors, her team could run a small independent quantitative study or gather a focus group to get a better idea of significant specific aspects of work with the youth or to test main hypotheses generated by the team.

Appendix 1

Average cost of channels in marketing



Printed media

7 M Rub. Per month



Internet

10 M Rub. Per month



Television

100 M Rub. Per month



Radio

4 M Rub. Per month

Note. The cost here is not per one item (one publication in a magazine, one station, etc.), but the cost of the entire marketing campaign.

Source: the data of the bank "Zaryadie" (conditional/hypothetical/imaginary/fictional data for the case)

Appendix 2

Timing of product launch in the Bank



Plastic card
(new product)



Updating
of IT systems for a new
card product



Plastic
production



Technical modification
of the mobile banking
application

Source: the data of the bank "Zaryadie" (conditional/hypothetical/imaginary/fictional data for the case)

Appendix 3

Bank expenses for the products (OPEX)

Transaction	Cost, Rubles
Opening a debit card	750
Debit card service/ per month	40
Opening a credit card	4 000
Credit card service/ per month	70
Consumer loan issuance	3 500
Opening a deposit	1 400
Opening a savings account in the branch	280
Transaction of depositing an account in the branch	100
Transaction of depositing an account in ATM	10

Appendix 4

Profitability of bank products

Products	Yield per product unit, Rubles (a year)
Mortgage	100 000
Consumer loan	40 000
Credit card	20 000
Debit cards	4 000
Deposits, saving and current accounts	Deposit: 2% p.a. yield on deposit amount. Savings account: 1.5 % p.a. on balance amount. Current account: 6% p.a. on balance amount.

Source: the data of the Bank "Zaryadie" (conditional/hypothetical/imaginary/fictional data for the case)

Appendix 5

Youth's usage of bank products

	2015			
	Totals		Young adults	
	Vert %	Index	Vert %	Index
Have a current account	33,4	100	25,8	77
Have a deposit	17,1	100	8,2	48
Have taken a loan within last 12 months	16,8	100	15,0	89
Used quick cash loans within 12 months	1,1	100	1,4	132
Have a bank plastic card	59,8	100	59,9	100
Payroll card	43,6	100	40,9	94
Debit card	18,4	100	22,8	124
Credit card	8,4	100	5,9	70
Prepaid card	0,7	100	0,6	85
Virtual card	0,7	100	1,2	164
Have a co-branded card	1,5	100	1,4	96
Electronic (Electron)	27,8	100	27,8	100
Classical (Classic, Standart, Green)	27,7	100	29,8	108
Golden (Gold) 2.7	2,7	100	1,9	69
For travellers (World)	0,3	100	0,3	87
Platinum (Platinum)	0,8	100	0,6	80
Premium (Signature, World Black Edition, Infinite)	0,2	100	0,6	232

 Significantly below the average

 Significantly above the average

Index is a relation of the interviewed category share to the base as a whole share

Source: TGI, the base of 18–25 y.o., 100 K+ cities, 8.6 M people