

Tomorrow's customers: Reinventing banking for young millennials



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Foreword

Banking in Hong Kong has undergone a rapid transformation in recent years, as technology and demographics have converged to reshape the industry. The result will be leaner, more technologically-enabled banks that provide a better experience to a new generation of tech-savvy customers.

HSBC has teamed up with EY to examine how changing demographics and human behaviour will transform the retail banking landscape as well as the outlook for major banks.

As more young millennials (YMs) join the workforce, it has become clear that the approach till now will not be adequate to win them over. They are the first truly digital native generation. They are comfortable with digital services, but also have high expectations. Already, a new generation of branchless digital banks is seeking them out, promising a better digital experience.

Today, major banks have many advantages, such as access to vast amounts of valuable data — which can empower new services — and a full suite of investment services. We believe the best approach is to press these strategic advantages while accelerating

the push into digital services to meet the changing needs of YMs.

HSBC's commitment to be the future-fit bank for customers underscores the extra steps the bank is taking to democratise access to the right tools at the right time for YMs. This will empower them to make the best financial decisions based on their individual needs.

The bank is continuing to lead this digital transformation at a faster pace, using data analytics and Artificial Intelligence (AI) to provide YMs with more personalised financial services. By leveraging EY's market insights and knowledge, the aim is for HSBC to unlock existing advantages and expand its digital capabilities.

HSBC and EY will combine our expertise to lead the change in improving YMs' digital banking experience in Hong Kong.



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The image features the letters 'NO' in a large, bold, white, sans-serif font. The 'N' is positioned below the 'O'. The background is a vibrant red with a large, abstract, teal-colored shape on the right side that overlaps the red area.

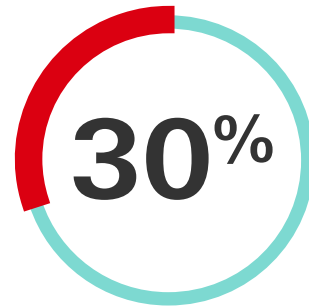
Connecting with young millennials

Hong Kong's YMs are the next generation of banking customers, and their tech-fuelled lifestyles are prompting major banks to rethink their approach. They are comfortable with digital banking, and have high expectations of the services that can be delivered through an app. And unlike previous generations, they do not necessarily expect a major bank to be their primary financial provider. With customer centricity in mind, major banks should evaluate ways to connect better with YMs.

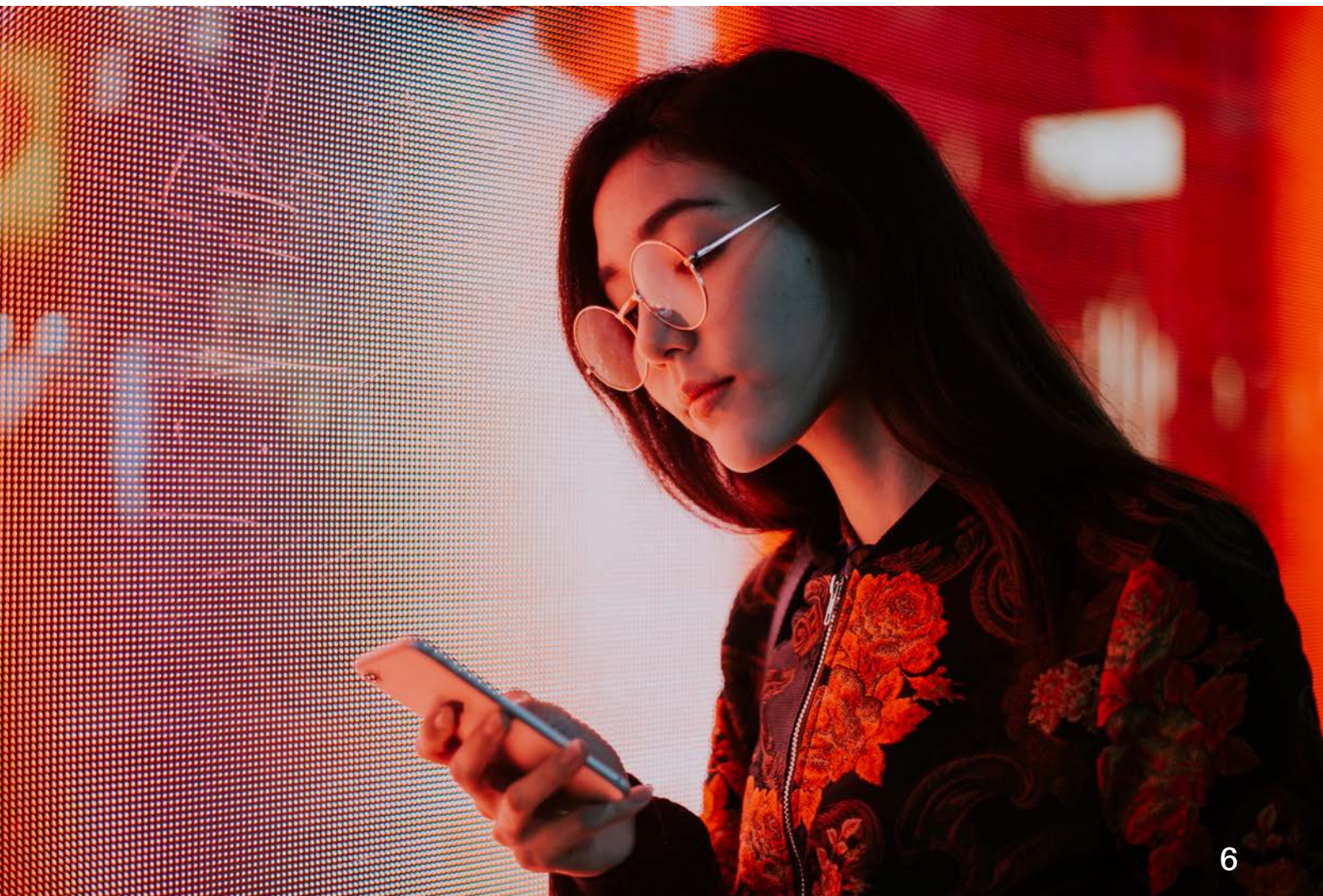
As YMs enter the workforce, their financial needs will evolve. The HSBC Financial Fitness Study¹ found that property ownership is the top priority of young Hong Kongers, followed by further studies and getting married. Nevertheless, they recognise the importance of saving: 91 per cent of Hong Kong respondents in a global survey on millennials² said they save or invest and almost half (48 per cent) said they were interested in finance and investing.

However, the HSBC Financial Fitness Study³ also showed that only about three in ten young people in Hong Kong are familiar with the concepts of portfolio diversification or capital protection. This highlights the

important role that we can play in supporting YMs on their life journey through customer education or curating YM-centric investment products.



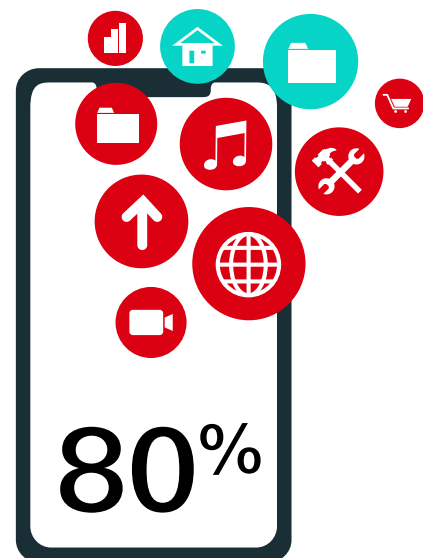
Percentage of young people in Hong Kong who are familiar with the concepts of portfolio diversification or capital protection.



YMs will demand more intuitive digital banking options that are accessible at their fingertips.



Unlike previous generations, YMs will demand more intuitive digital banking options that are accessible at their fingertips. A global survey of millennials⁴ showed that 80 per cent of Hong Kong respondents preferred to manage as many elements of their life as they can through an app and a similar proportion (78 per cent) agreed that they live a great deal of their life online and on their phone.



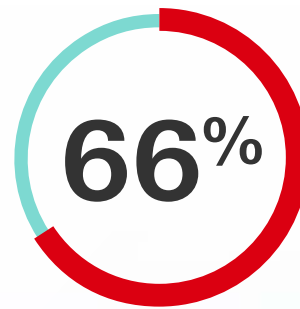
Percentage of Hong Kong respondents who prefer to manage as many elements of their life through an app.

Younger customers are also keen for us to team up with lifestyle providers so that their life goals are fulfilled holistically beyond banking needs – the EY Global Consumer Banking Survey⁵ found that 57 per cent of Hong Kong millennials would value their financial providers much more if these partnerships existed.

YMs are also looking for more seamless and personalised banking services. About 66 per cent of Hong Kong millennial respondents rated seamless integration as 'very or extremely' important, which is a higher percentage than older respondents⁶ (aged 35 years and above) at 59 per cent. This indicates the need for HSBC to build a one-stop digital banking ecosystem.

Importantly, how banks communicate with young people matters too. The survey findings⁷ show that communications that demonstrate their financial provider knows and understands them would motivate about 20 per cent of Hong Kong millennials to expand their relationship with their provider. It ranks as one of the personalised experiences they most want from their provider, whereas personalised communications would motivate fewer than 10 per cent of Hong Kong respondents 35 years and older to deepen their provider relationship.

In other words, it is crucial for financial providers to show they can anticipate YMs' life and financial triggers and connect with them based on their individual priorities.



Millennials in Hong Kong

vs.



Older respondents (aged 35 years and above)

Percentage of Hong Kong respondents who indicated the seamless integration of banking services as 'very or extremely' important.





The game is changing — major banks are evolving to meet young millennials' needs

YMs have a different set of needs than their parents, and Hong Kong's banking sector is shifting its priorities to meet these new demands. A wave of digital banks and fintech disruptors is revolutionising digital banking services. Their key selling point is a better digital experience, which they hope to use to build long-term relationships with the younger generation. We are leveraging our trust advantage, while enhancing our best-in-class digital banking capabilities.

Retail banking is undergoing tremendous change. Globally, hundreds of digital-first or digital-only banks have emerged, along with a large number of non-bank fintechs (payments operators, for example). These new players hope to leverage their agility to reduce costs while providing greater convenience and more intuitive experiences to customers. Digital banks have grown rapidly in Asia, with eight acquiring licenses to operate in Hong Kong.

Half of Hong Kong respondents in the EY Global Consumer Banking Survey⁸ said they have a product or service with a 'neobank' defined as tech firms, including digital-first and digital-only banks, which provide financial services such as payment platforms, savings and investment apps. Further, 14 per cent of Hong Kong respondents said their primary financial relationship is with a neobank. This compares with just 7 per cent across Europe and the US.



90%

Percentage of Hong Kong millennials who have their primary financial relationship with a traditional bank.

The shift away from major banks towards new digital banking options is particularly acute among YMs. A survey conducted by the Hong Kong Monetary Authority⁹ found that almost 40 per cent of new accounts with retail banks were opened through digital channels in the first half of 2021, compared to 17 per cent in 2019. The survey also revealed a growing number of applications for credit were made via digital channels too. And investment transactions conducted by retail banks via digital channels reached HKD2.7 trillion in the first half of last year to first half of 2021, an increase of nearly 120 per cent compared to the second half of 2019.

This younger group of bank users prizes good digital experiences and sees less need for physical branches.



Digital banks are currently more likely to capture customers' daily payments needs than cater to their long-term goals. However, their ambition is to use those initial relationships to grow into more profitable areas such as lending, foreign exchange and investments – areas which are all still dominated by major banks.

Fintechs and digital banks may be gaining traction, but major banks have built longstanding relationships with customers and the community, and it's clear that many customers are more likely to turn to a major bank for major financial decisions.

Trust is a key reason that customers still turn to major banks for their most important transactions.

The EY Global Consumer Banking Survey¹⁰ found that most consumers still maintain their primary financial relationship with a traditional bank rather than a neobank. About nine in ten Hong Kong millennials have their primary financial relationship with a traditional bank. A large majority of consumers also completely or mostly trust their bank, with a global average of over 80 per cent. Hong Kong millennial respondents are consistent with this global trend, at 84 per cent.



The survey further reveals that having a hybrid model of both online and offline banking is a key driver of consumer trust in banks. In fact, having a branch nearby where customers can turn for help is one of the top three drivers of trust across most markets in the survey. This holds true for younger consumers too, including millennial Hong Kongers. In fact, 43 per cent of Hong Kong millennials in the survey¹¹ indicated they visited a branch at least two to three times per month (similar to older respondents, at 45 per cent).

By effectively combining our trust advantage with the latest digital tools, we can extend our lead in terms of mindshare and relevance with YMs.

HSBC is setting the industry standard with our extensive knowledge of YMs, and will incorporate the latest technologies and digital services faster to enhance customer satisfaction and improve their financial wellbeing.

Banks and investment advisors everywhere are already investing heavily in AI, robo-advisors, APIs, and super-apps. Major banks are also exploring blockchain technologies and the Metaverse to stay at the forefront of these latest innovations.



1

Smart AI can deliver advice with predictive analytics to help customers achieve their financial goals. One practical example is robo-advisors, which can provide customers with personalised financial advice.

Major banks have never had so much data or so many ways to use it for the benefit of customers. Modern AI tools have enabled HSBC to analyse that data and integrate predictive capabilities into new products. For example, future predictive technology could alert YMs that they are likely to encounter cashflow management issues, suggest investment opportunities or provide personalised offers. It could even help us identify the right time to suggest a loan or an insurance policy.

AI can hyper-personalise a range of other functions too. In addition to relevant offers, it can help with financial education, offering contextual tips, market insights, and educational material based on investment interest, trading behaviour, and analysis.

Robo-advisors, which are algorithm-driven online investment services, were reported to be managing nearly half a trillion dollars in

assets globally in 2021¹². This could grow into a USD1.2 trillion industry by 2024, according to some analysts.

YMs are looking for an easy and reliable way to learn about investing and grow their confidence. Opinions are everywhere, but good advice is scarce. HSBC is keen to experiment with robo-advisory services that will give YMs the kind of investment knowledge and support that was previously only available face-to-face through our relationship managers.

A robo-advisor could proactively support YMs with a variety of investment goals via automated investment strategies and services that offer an easy and simple way for YMs to invest.



2

Super-apps are a challenge, but ecosystems are an opportunity. Customers want more services at their fingertips: super-apps deliver.

Super-apps are simple, functional, easy to use, and they provide a wide range of financial services on a 24/7 basis to customers, wherever they may be. The integrated nature of super-apps is something that appeals to bank users. In fact, some see them as a personal financial operating system.

The EY Global Consumer Banking Survey¹³ indicates customers' growing preference for super-apps, which roll multiple financial services – for example, payments, insurance, investments, loans – into a single digital portal. Almost half of Hong Kong millennial respondents expressed that they are 'very or extremely interested' in a super-app, with another four in ten saying that they are 'somewhat interested'. The report argues that this underscores the need for 'comprehensive, immersive, interactive, and connected digital ecosystems using all available data about consumers' financial lives, goals, social styles, and personal preferences' to better cater to their needs.

The emergence of super-apps has led to a proliferation of partnerships between banks and non-financial providers.

Super-apps combine multiple financial services via one app or digital experience and typically have a higher degree of integration and customer-centricity than generic banking ecosystems.

Using APIs, we can enable collaboration by facilitating other companies to offer digital financial services while providing us with the ability to offer a variety of innovative, non-financial lifestyle services without building them from scratch. For customers, it means they can use their existing authenticated profiles to access a wider variety of new products and services within the same user environment.



3

Major banks still retain high levels of trust. They also have the capability to venture into new areas of technology like blockchain and the metaverse and in turn extend their competitive edge. Bolstering our trust advantage with the latest customer-focused technology further strengthens HSBC's position to be the future-fit bank of choice for YMs.

YMs expect market leaders in the banking industry to use the latest technological tools to provide better services. Indeed, financial institutions globally are considering the possible applications of blockchain for a wide range of purposes, including everything from clearing and settlements to fraud prevention¹⁴.

In addition to blockchain, there are also opportunities in the metaverse. Major technology companies are placing bets on this immersive environment, with retail, advertising, and gaming companies being early adopters. Major banks are not far behind.

One area where Augmented Reality (AR) and Virtual Reality (VR) will clearly be useful is in consumer education.

These technologies can enable immersive experiences that allow customers to see multiple data sets in an intuitive and visual way. Some banks have announced plans to open new types of experiential 'branches' on the Metaverse. A number of banks are already experimenting with AR and VR services in the US.





HSBC's commitment to support the next generation of customers

Technology isn't the only consideration on YMs' radar. They also want guidance that will help them reach their financial goals. Our research¹⁵ shows they struggle with a range of financial challenges and want more support from their bank. HSBC has catered to customers' banking needs for over 150 years and is a trusted brand in Hong Kong. For this reason, we are poised to meet the changing demands of the industry. HSBC will forge ahead in our forward-thinking and customer-centric strategy – ensuring YMs continue to rely on us as a pillar of strength for all their financial needs in both the current and future stages of their lives. HSBC's ICON strategy aims to deliver and meet YMs needs via modern and advanced digital services.

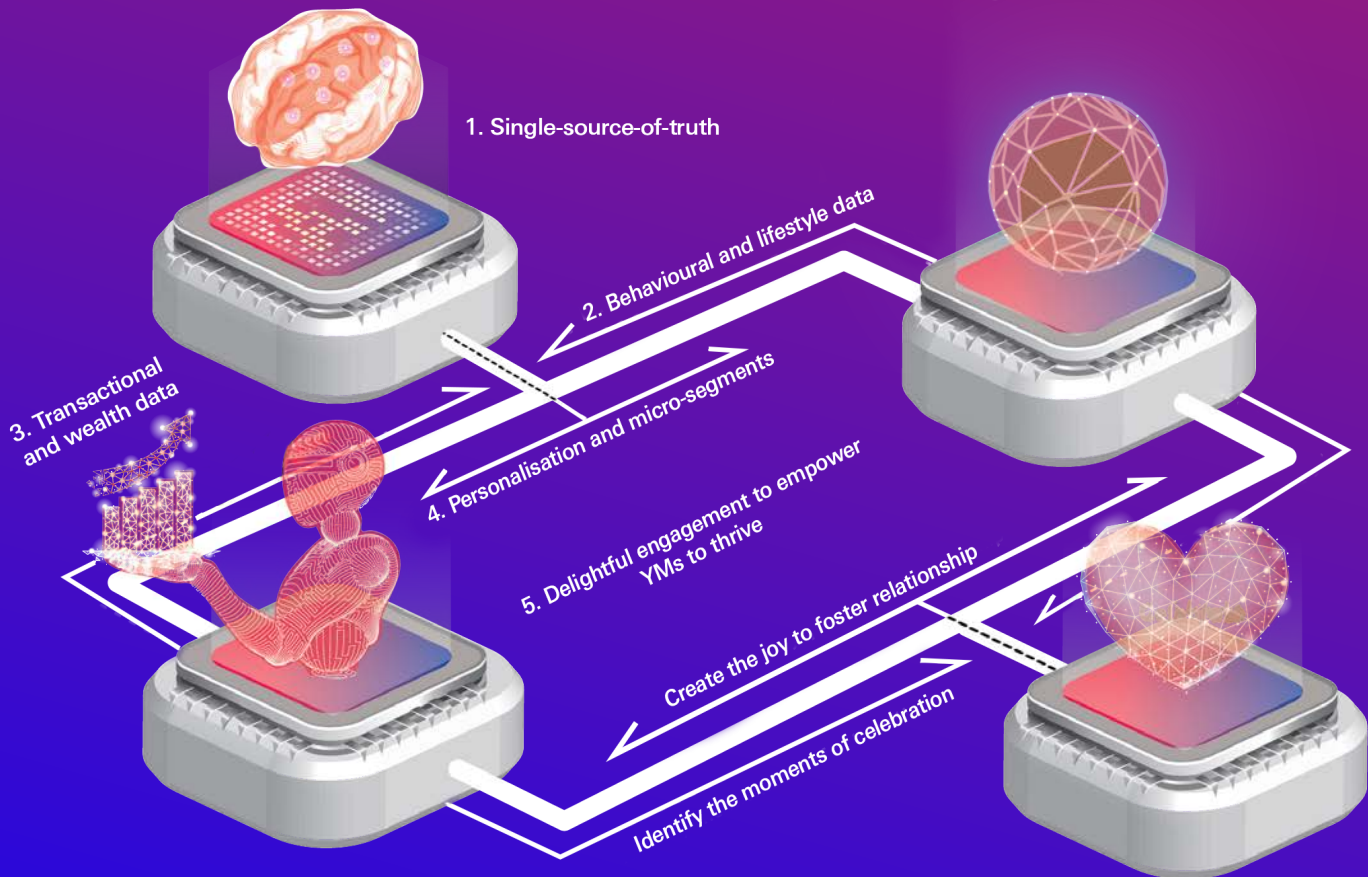
ICON has four pillars: **Intelligence**, **Confidence**, **Own** and **Nurture**. Each one seeks to address millennials' particular challenges. And the interaction between them is more than the sum of its parts. They bring together the key advantages of HSBC while addressing key pain points faced by YMs' in their financial management journey.

Intelligence

Providing actionable financial insights

Own

Personalised lifestyle experiences



C Confidence

Guiding your wealth journey

N Nurture

Celebrating financial wellbeing

Intelligence

Providing actionable financial insights

HSBC will provide simple and easy-to-understand financial insights that will empower customers with a better understanding of their financial position. The goal is to provide YMs with a 'single-source-of-truth', so that they have a clear understanding of their spending, saving, investment, liabilities, and protection, regardless of where it happens.



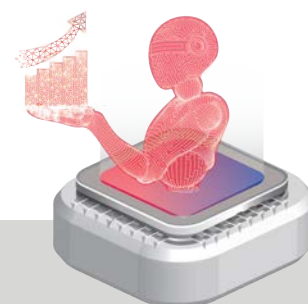
Features could include:

- **Smart nudges**, including cashflow intelligence to help customers identify financial patterns and predict upcoming needs for better money management
- **Easy savings**, with individual and group saving pots to nurture good habits and meet goals more easily
- **Financial accelerator**, offering tips on achieving goals and providing personalised suggestions on low-barrier banking solutions based on cashflow analytics and spending behaviour

Confidence

Guiding your wealth journey

HSBC will demystify investing and help customers gain the confidence to define and build their wealth ambition in their own way. This will include a guided investment journey to support newbies, with incentives to overcome fear of the first trade. It will also include skills-based investment education, powered by AI and robotic tools to aggregate intelligence into content that's easy to understand and engage with. It will be delivered through an interface that's appealing and simple to use.



Features could include:

- **'Seeding funds'** to provide customers with a taste for real-life investment by giving them risk-free funds to invest that allow them to keep the profit but doesn't penalise them for losses; **YM-targeted discretionary funds** for a hands-off and worry-free approach to investing
- **Robo-advised capabilities based on life goals** to start investment more easily; **Robo-advisory tools** that provide on-going performance monitoring and regular analysis
- **Categorisation of popular stocks thematically or creation of pre-made portfolios**
- **Skills-based education in a fun and engaging way**, such as through videos, live-casts, and bootcamps.

Own

Personalised lifestyle experiences

HSBC will provide YMs with hyper-targeted offerings and personalised experiences. We will create a single hub to integrate partners' lifestyle features, covering all YMs' needs with curated HSBC experiences (such as dining, travel, entertainment, and online shopping).



Features could include:

- **Data-led personal reward hub** that considers all aspects of YMs' daily lives, and offers **targeted deals** and offers, informed by transaction data and preference settings
- **An API integrating partners, signature events, deals, and useful features**, curated into a single HSBC experience, allowing recommendations based on location and preference analytics
- **Gamified deals connected through social networks**, as well as **seasonal and social deals** to create excitement and drive engagement

Nurture

Celebrating financial wellbeing

HSBC will nurture a long-term relationship with YMs by rewarding them and celebrating small steps and achievements on their wealth journey. This will include a bank-wide experience-led loyalty program with behavioural intelligence to foster good financial habits, which will inspire and inform the next stage of achievements along the customer continuum.



Features could include:

- **Data intelligence to encourage** behaviours and **celebrate** meaningful moments
- **Acknowledgement of achievements and recognition of efforts** by celebration of signature moments and good financial habits, to create a 'money-can't-buy' experience
- **Creative and personalised approaches** to connect with YMs emotionally & personally



Conclusion

Change is here and ICON is one way for HSBC to demonstrate it is ready to lead the future.

Change is here – and new technologies like virtual banks and AI could upend the industry. YMs are becoming the most important demographic for the future of Hong Kong’s financial institutions, and they are increasingly attuned to quality digital services and expect banks to be ready to meet their needs.

HSBC embraces this change. We are uniquely positioned and ready for the evolving market demands in the banking sector, by forging ahead with new technology and business models. The best financial institutions are relentless, flexible, and agile.

HSBC’s goal is to cultivate a life-long relationship with YMs. To do this, we are empowering them with a full suite of personalised financial and lifestyle services

and a seamless digital experience, there by augmenting the trust that they already have with HSBC.

Backing HSBC’s mission is the ICON strategy. ICON will enable the bank to reflect the aspirations of these younger customers by celebrating life’s opportunities, while speaking to the simple moments of joy any achievement brings, no matter how big or small. ICON is one way for HSBC to demonstrate it is ready to lead the future.

By helping younger customers thrive, HSBC will help itself thrive too, while contributing to a brighter future for Hong Kong.





Citation

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Tomorrow's customers: how young millennials are reshaping the future of banking