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On the mend: Boosting young professionals' financial wellness

Financial wellness for young professionals

June 2017

Many young professionals don't feel in control of their finances and don't believe the financial services on offer to them can provide the solution. FinTech could be the answer. Produced in collaboration with Innovate Finance, this report draws on a survey of more than 200 young professionals and the perspectives of a broad spectrum of start-ups and established providers. Together we look at how to make the most of FinTech's potential to boost the financial wellness of young professionals.

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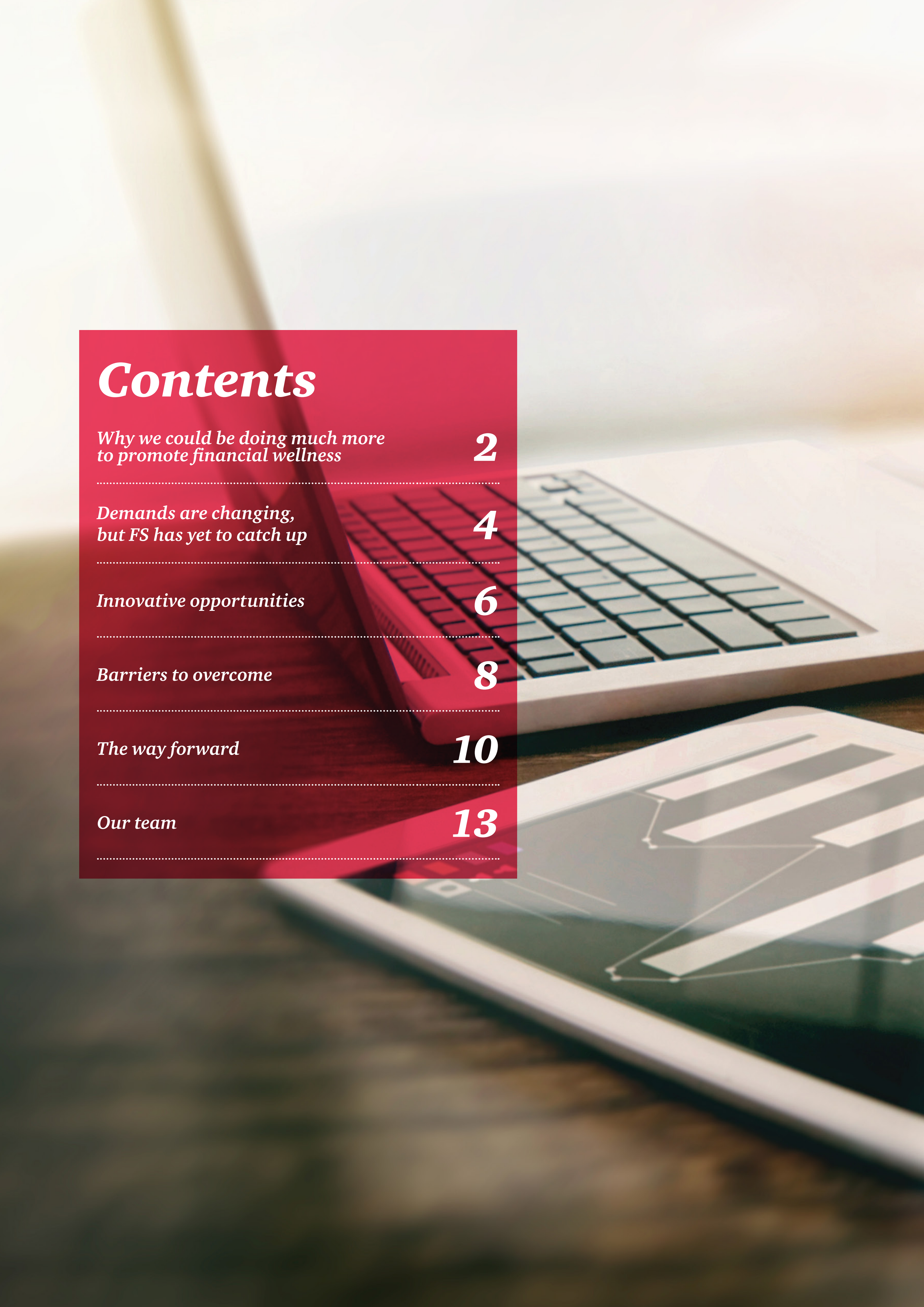

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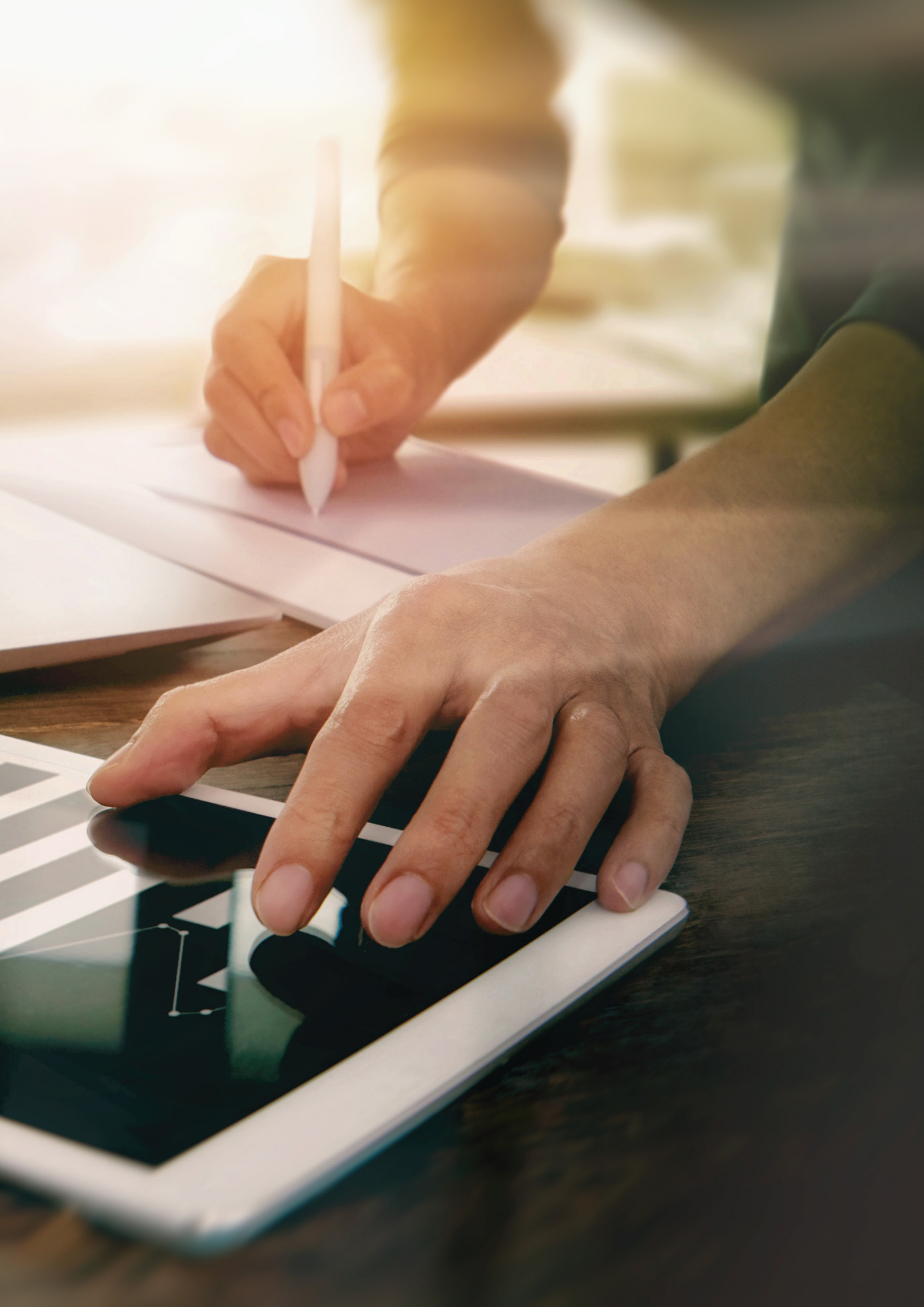

Introduction:
Why we could be doing much more to promote financial wellness

Financial Services (FS) products aren't working for today's young professionals. Many seem resigned to this. Yet innovative solutions are out there. How can we make the most of them?

From a day-to-day struggle to make ends meet to the longer term problems of pension shortfalls, millions of Britons face financial challenges. And this isn't just an issue for people living in poverty or vulnerable 'just about managing' households. Young professionals are a clear case in point. We've made this segment the focus of this report as they provide a useful litmus test for financial 'wellness' within society as a whole – if they aren't well, who is?

Young professionals' earnings potential makes them a key target for banks, insurers and asset & wealth managers. There are therefore important strategic questions to address if these businesses are finding it difficult to engage with and develop relevant and compelling products and services for this segment. Looking to the economy as a whole, young professionals' financial wellness helps to improve productivity, supports the housing market and reduces the demands on welfare when they eventually retire.

What do we mean by financial 'wellness'?

Being financially 'well' not only means being able to meet current financial needs such as paying bills or holding sufficient insurance protection, but also being confident that you can realise your longer term goals such as buying a home or enjoying a financially secure retirement.

Achieving financial wellness requires both an understanding of your current financial position and a plan for short-term (e.g. money put aside for possible unemployment), medium-term (e.g. buying a home) and long-term (e.g. retirement or nursing care) needs. The plan should be able to adjust as your situation changes to stay on track.

Cutting across all of this is a clear sense of your financial priorities and what you should expect from financial services providers – what good looks like.

Spend not save

So what's the state of young professionals' financial wellness? To find out, we surveyed more than 200 people (aged 16-30) in professional posts or in professional training. What emerges is a worrying picture of disillusionment, low expectations and potential risk, which is encapsulated in the comment of one participant who said: "What I and most of my friends really want is a home of our own. But this now seems beyond our financial reach, so our attitudes inevitably tilt towards spending rather than saving." Another participant said "I don't feel that the bulk of financial services products are appropriate for people like me". Spending too much, saving too little and not believing that what's on offer can make a difference are the polar opposites of financial wellness. All this suggests that the industry needs need radically different solutions.

Emerging opportunities

What's the answer? PwC and Innovate Finance brought together representatives from a broad spectrum of start-ups, established FS businesses, technology providers and public policy groups for a series of roundtable discussions and one-to-one interviews looking at the challenges to young professionals' wellness and how to overcome them.

What emerged is encouraging. In particular, innovative new FinTech models are opening the way for improved engagement with young professionals, which is built around the intuitive and personalised digital interactions they can easily access and relate to. We're also seeing the development of more innovative and relevant, data-enabled solutions to the challenges young professionals face.

There's still quite a bit of work to do to make the most of these opportunities, however. Regulatory hurdles remain, including lack of clarity over what constitutes guidance, advice and good outcomes for consumers. While collaboration between start-ups and established providers is increasing, a closer and more symbiotic relationship is needed to bring together the data, innovation and access to market these new models need to be successful.

We would like to thank the survey and roundtable participants for sharing their experiences and insights. In this report we share their perspectives and explore the opportunities to improve financial wellness for young professionals.

About our survey

PwC surveyed 203 young professionals (aged 16–30), to gauge their attitudes, preferences and behaviour towards financial services and how this affects their financial wellness.

The quantitative and qualitative questions covered the following products and services:

- Current accounts
- Savings products
- Investments
- Pensions
- Personal loans
- Insurance
- Mortgages
- FinTech products and services

Demands are changing, but FS has yet to catch up

At a time when young professionals need to be more financially engaged than ever, they're at risk of being turned off financial services.

From fashion to travel, young professionals are accustomed to an intuitive, easily accessible and personally engaging digital experience in how they interact with the companies that serve them. Products and services are highly customised and data-enriched. Gamification and other immersive interactions help to create a sense of connection and involve them in the design of the products and services.

The FS industry wants to create the necessary capabilities. More than three-quarters of the banks, insurers and asset & wealth managers surveyed for the PwC Global FinTech Report 2017 are stepping up their innovation efforts[1]. Over 80% anticipate an increase in FinTech partnerships in the next three to five years. But the full impact of this investment is yet to be felt. In relation to the user experience and the appropriateness of the products and services on offer from FS, the young professionals we interviewed for this report see little that's engaging and relevant as in other areas of their commercial lives. Strangely, however, they don't seem to mind. Many are reluctant to explore what's on offer beyond the very basics of a current account. Neither do they expect the interactivity and visualisation of other aspects of their commercial lives.

This disengagement is curtailing take-up of essential products such as insurance and limiting awareness about what's needed to sustain financial wellness in the long-term:

- **Nearly 60%** of survey participants don't have the most basic contents cover, though this is in line with renters overall[2]. Is this because they don't think their possessions are worth insuring or is it because they don't think the products offer real value for money – most say they understand insurance needs and the products on offer.
- **65%** say they understand how pensions work, yet 69% don't know how much they would need at retirement.
- **Less than a quarter** have investment products and **more than 60%** say they aren't confident about making investments – is there enough information, guidance and tools out there to change this?
- **More than 80%** say they're satisfied with their current account. Is this because they're genuinely happy with what's on offer or do they have low expectations?

Wellness challenges are mounting

Any disconnection and lowering of expectations mean that FS providers are leaving a lot of potential business on the table, not just now, but in the future. From a financial wellness perspective, disengagement is especially problematic as the issues this generation of young professionals face require a greater amount of engagement, understanding and innovation to resolve than ever before.

While many of their parents' generation enjoyed free university education, were able to get onto the property ladder in their twenties and could look ahead to a reasonably secure and comfortable retirement, the prospects for today's young professionals are much more challenging. The overhang of student loans is just the start[3]. Following the rise in tuition fees, our analysis indicates that students now graduate with an average debt of between £40,000 and £50,000. The repayments make it harder to achieve immediate goals such as buying a car or paying for a holiday. For those on low incomes and with high debts, even getting away on holiday or earning enough to leave the family home can be a struggle. And as PwC's 'Precious Plastic' consumer credit research highlights, the debt burden affects future borrowing behaviour and means that it may take longer to get on the property ladder.[4]

1 Redrawing the lines: FinTech's growing influence on financial services: Global FinTech Report 2017' (*www.pwc.com/fintechreport*)
2 Co-operative Insurance media release, 25 November 2014 (*www.co-operative.coop/media/news-releases/a-third-of-renters-have-no-home-insurance*)
3 PwC Precious Plastic 2015 (*www.pwc.co.uk/industries/financial-services/insights/precious-plastic-2015.html*)
4 PwC Precious Plastic 2013 (*pwc.blogs.com/files/precious-plastic-2013.pdf*)

> *“A current account is required. Every other product seems optional.”*
>
> Survey participant

Young professionals working in the big cities, especially London, face sizeable rental costs, high house prices and difficulties saving up enough to qualify for a mortgage. Even in smaller towns and villages, the cost of housing is a challenge. Our analysis indicates that it now takes renters three times longer to save for a deposit than it did at the turn of the millennium, and six times longer than in 1990[5]. Looking at the millennial generation as a whole, a Britain Thinks/Financial Times survey found that over half of 18-39 year-olds currently renting fear they will never be able to afford to buy a home[6].

While our survey indicates that most young professionals don’t know how much they would need at retirement, this should be a priority. A 20-year-old is now three times more likely to live to 100 than their grandparents, and twice as likely as their parents[7], heightening the need for long-term pension and nursing care planning. People are saving too little and too late – 40% don’t believe they’ll ever afford to fully retire[8].

Products aren’t working

Given the scale of these challenges, FS providers can’t simply offer the same old products. Their products, services and customer experience should not only seek to engage today’s generation of young professionals in ways they want to interact, but also provide real solutions to the difficulties they face. What could FS do to enable today’s young professionals to own a home or even retire? Yet the participants in our survey variously describe FS products as “difficult to understand”, “not designed with them in mind” or, in the specific case of pensions, as “remote” and “low down the list of priorities”. Beyond a current account, other FS products appear “optional” at best. Moreover, roundtable discussions highlighted a preference among FS providers to make it easy to spend, when in fact some ‘friction’, such as alerts or tighter curbs on credit, may be better for financial wellness.

If the current model isn’t working, we need a radically different one. As we explore in the next section, the good news is that a lot of what young professionals want from FS – engaging and able to make a difference – is out there, even if they don’t know it yet.

Case study: *Banking platform perspective*

Bud: If you can manage it, you can change it

From rent and bills to meals out, Bud helps users see exactly where their money is going by bringing these services together under one roof. This helps them control their spending and stay out of debt in the short-term, while making it easier to put money aside for long-term goals. The app will also alert users to ‘wellness’ options such as travel insurance if they’re not covered for a holiday they’ve just paid for or points them to how to find a better deal on energy if it looks like they’re paying too much. “If you can monitor it you can manage it, and if you can manage it you can change it,” says Bud’s Head of Awareness, Jamie Campbell. “We offer a service that’s personalised around people’s goals and how they want to interact. We also work closely with established providers as part of what is an increasingly collaborative model within financial services.”

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5 How long will it take ‘Generation Rent’ to get on the housing ladder?, PwC, 10 August 2016 (*pwc.blogs.com/economics_in_business/2016/08/how-long-will-it-take-generation-rent-to-get-on-the-housing-ladder-.html*) The analysis takes account of both higher house prices and higher deposit to value requirements.

6 Financial Times, 6 April 2017 (*www.ft.com/lisas*) – subscription required.

7 Guardian, 4 August 2011 (*www.theguardian.com/news/datablog/2011/aug/04/live-to-100-likely*)

8 Mintel media release, 10 February 2017 (*www.mintel.com/press-centre/financial-services/4-in-10-working-brits-fear-they-will-never-retire*)

Innovative opportunities

FinTech opens up opportunities for innovation, both in terms of product relevance and in improving customer understanding and experience. The results would create valuable openings for business development and differentiation for start-ups and established players, individually and collectively.

Strengthening control

Research already shows that online and mobile banking helps young people to save[9]. The new generation of FinTech apps can do even more to help users strengthen control over their finances, which is a crucial aspect of wellness. By aggregating the full spectrum of income and outgoings, the apps provide users with a holistic view of where their money is going, what they have left to spend, how much is in their savings pot and what more they could put aside. Examples include Bud (see box on page 5).

Other apps manage the feed of cash into the users account to help them budget (e.g. Squirrel); plan the savings needed to meet personal goals (e.g. RBS Savings Goals) or automatically round up purchases and then invest what's left (e.g. Moneybox). A number of start-ups are looking to go further by building these budgeting and savings tools directly into the bank account itself (e.g. Starling).

Given developments to date, it's not long before we'll see even more dynamic savings solution that understand your financial position, day-to-day obligations, short-term and long-term goals and shift money between savings, investments, and your current account to maximise all three at any point.

Established players have opportunities to partner with FinTech innovators to combine the functionality they offer with the engagement and visualisation of the new generation of financial apps. Examples of these collaborations include Bud's partnership with banks, payment providers and other FinTech players. Application programming interfaces allow the different platforms to integrate their services. Looking at the FS marketplace as a whole, one of the most interesting findings of a study we carried out on consumer attitudes was that while perceptions of FS organisations are often negative, the impression of tech-enabled services is much more favourable.[10]

Regulatory moves could accelerate these developments. The second EU Payment Services Directive (PSD2) and the UK's Opening Banking regulation are paving the way for a move towards banking-as-a-platform and could provide start-ups with increased access to the market. They could also help consumers to improve control of their finances by enabling them to gain easier access to their data and hence make more informed decisions in areas such as budgeting and saving.

> *"FinTech offers opportunities to put people in charge – my style, my aspiration, proactive around my needs."*
>
> Industry roundtable participant

> *"Education has to be contextually relevant by talking to people about how they live, spend and what they want to achieve."*
>
> Industry roundtable participant

9 The Herald, 13 May 2016 (*www.heraldscotland.com/news/14490684.Online_and_mobile_banking_helping_young_people_to_save*)
10 The purpose of financial services: A public perspective from a Citizens' Jury on purpose of the financial services sector in the UK, and how best to make the case for the industry (*www.pwc.co.uk/fscitizensjury*).

“

What I’d really like is a combination of the ease, interaction and real-time updates of an app, with the full functionality of an established bank – being able to pay in my salary, for example.”

Survey participant

Strengthening relevance

The further ahead the financial product is focused (e.g. retirement pensions), the less relevant it is to many of the young professionals in our survey. This is compounded by a feeling that there isn’t much point in saving, so why not spend? Strengthening relevance is therefore critical. This includes ensuring that savings have discernible goals (e.g. car, holiday etc.). In turn, financial guidance shouldn’t just be about savings and investment, but also alerting people to deals and how to make income go further by managing outgoings more effectively.

To strengthen awareness and choice, apps are being developed to help users keep tabs on their finances, suggest options and then lay out choices. Employers can play a part by using payroll data to raise financial awareness and inform employees about options. They can also encourage good habits in the way they manage their finances.

Case study: ***Pension advisor perspective***

Wealth Wizards: Getting young professionals into the habit of saving

“Many young professionals put pensions in the ‘too difficult’ or ‘not a priority now’ pile. But if you start early, it’s a lot easier to save enough for retirement. So we need to get them in the savings habit, especially as so many don’t think that they’ll ever afford to retire” says Phil Blows, Sales Director for Wealth Wizards, a company which works with employers to provide savings and pensions advice to their employees. Phil believes that a combination of digital technology and being able to offer advice rather than just guidance helps take the complexity out of financial planning, allowing employees to create a more personalised and effective solution to meet their long-term savings goals.

Auto-enrolment is a valuable step forward in putting people on the right path, he believes, but it’s not enough on its own. He believes that employers can play a key role in explaining the options and encouraging workers to save more – most are a long way short of the recommended 15% of income contribution[11]. “Some employers are reluctant to do any more than the bare minimum, especially for a generation that moves jobs so frequently. But helping employees manage their finances better and get on the path to a secure retirement are very much in their interests. It reduces financial stress and hence boosts productivity in the short-term. In the longer term, employers want people to save enough to retire and make way for the next generation, rather than thinking that they’ll never afford to stop working.”

“

Employee incentives such as cinema tokens can be effective but they can encourage bad spending habits. Employers should be looking for ways to incentivise employees to save.”

Industry roundtable participant

11 Independent Review of Retirement Income, March 2016 (*www.pensions-institute.org/IRRISummary.pdf*)

Barriers to overcome

If the potential to improve wellness is increasingly clear, barriers remain, ranging from lack of trust to limited awareness of what's on offer.

FinTech is struggling to make headway

Our survey highlighted limited engagement with FinTech start-ups and almost no use of their products despite the fact that young professionals are a natural target. Key barriers include a lack of trust, with many of the people taking part in our survey preferring the name recognition of an established provider.

The other issue is that many young professionals are much more protective of their financial data – their financial 'selves' – than other aspects of their life. While young professionals are generally happy to share their consumer likes and choices on social media, for example, this wouldn't apply the state or management of their finances. This makes data mining and customer acquisition harder within FS. The FinTech roundtable participants talked about the importance of boosting their profile and scale to help address these challenges.

Too much complexity

Growing up in the years following the financial crisis, many young professionals are deeply risk averse and look for considerable assurance before taking up financial products. Yet many of the people we interviewed expressed concerns about product complexity, the difficulties of comparing products and worries over the terms, conditions and other small print. Clearer and more straightforward offerings are needed to appeal to this segment.

Regulation

The Retail Distribution Review's distinction between guidance and paid-for advice has helped to address some of the mis-selling issues, but it's also raised costs and reduced the take-up of advice within the mass market segment.

Many of the FS participants in the roundtables are worried about crossing the blurred line between advice and guidance. This is an especially big concern for financial awareness apps. The delineation should be clearer.

In relation to pensions, many of the young professionals we spoke to are concerned that rules will have changed by the time they retire, so why should they take the risk now.

Narrow choice

Regulation can filter choice down to a limited product range, though our survey suggests that most young professionals feel more comfortable with simple and easy to understand options. A bigger issue would appear to be the gravitation of FS to mobile channels – mobile is second behind data analytics on the list of relevant technologies prioritised for investment by the FS organisations taking part in PwC Global FinTech Report 2017[12]. While many young professionals and consumers as a whole like mobile applications, they can diminish functionality. This underlines the value of combining the service breadth of established providers with FinTech ease, accessibility and visualisation.

> ***"There is a gap in the market for genuinely customised products."***
>
> Industry roundtable participant

12 Redrawing the lines: FinTech's growing influence on financial services: Global FinTech Report 2017' (*www.pwc.com/fintechreport*)

Only **18**% of the young professionals in our survey use any form of ***FinTech service*** (prepaid currency cards are the most used).

Less than **10**% use any of the services provided by ***digital banks*** and less than 3% use companies offering robo-advice.

Lack of trust is the biggest barrier to take-up, followed by a belief that the service offering is not wide enough to meet their needs.

Access to data

Having grown up with Twitter and Facebook, young professionals are generally comfortable with sharing data. However, just as their LinkedIn persona is a long way from their 'see me as I am' Facebook self, they have a distinctive financial footprint – what a roundtable participant described as a "siloed identity". This cuts FS providers off from crucial data insights.

> ***"Investing in funds with a dealing account requires research and there is insufficient clarity about risk exposure and how to minimise it."***
>
> Survey participant

Case study: *Pension start-up perspective*

Pension Hub: Saving with engagement

"As an industry we've tried to create products to address specific demands, such as the help-to-buy ISAs and now Lifetime ISAs. But this proliferation of products hasn't increased engagement; instead it's just made the long-term savings market more confusing," says Simon Jones, founder and CEO of PensionHub, a company which helps customers aggregate multiple pensions into a single, more manageable fund. He sees some legislative change, such as auto-enrolment, as valuable in helping to increase savings, but it hasn't strengthened engagement.

"If we want people to engage with their savings, we should be looking more closely at their financial goals and life-stages e.g. saving for a mortgage or becoming a parent. Instead of introducing new products, we should look at the products we already have and make them more relevant – create saving with engagement – through steps such as making it possible to draw down 25% of a pension pot to help pay for a deposit on a first home," he says.

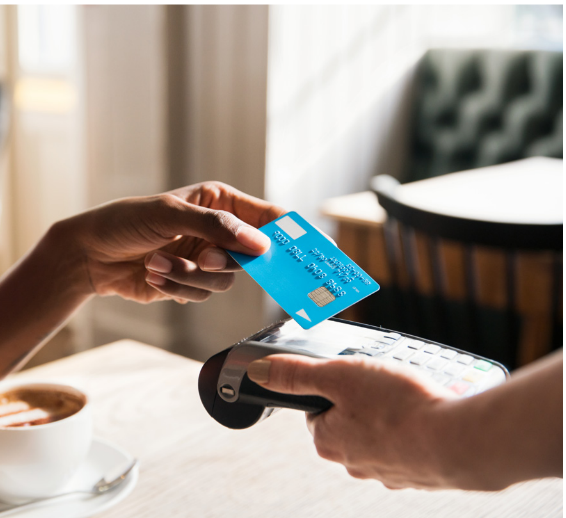
> ***"This is a generation who've only been financially conscious in the last ten years. Their entire financial life, and almost all of their time earning, has therefore been spent in a crisis scenario… As a result, young professionals have a generally conservative risk appetite."***
>
> Survey participant

The way forward

Overcoming the barriers and realising the potential to boost financial wellness demands new thinking and new approaches. Both start-ups and established players clearly have a crucial role to play. So do employers, policymakers and young professionals themselves.

Established players

As a bank, insurer or asset/wealth manager, the data at your disposal is generally the envy of most other sectors. Yet, young professionals are more protective of financial data than the information relating to other aspects of their lives. Therefore, the first key priorities are winning their trust, encouraging them to share more data and making more effective use of what is available. This includes using the data at your disposal as the foundation for closer engagement and innovation, rather than just as a vehicle for segmentation and cross-selling.



Partnering with FinTech innovators could help you to strengthen customer intelligence and create more data-enriched, personalised and dynamic offerings. What you can offer start-ups in return are the assurance and access to customers that comes with your established market position, along with enhanced security and service functionality.

Options for strengthening engagement include building up an 'emotional brand' through social referral or gamification to promote financial wellness. You could also think about how to relay data insights to customers as an incentive, just as many of the start-ups are doing.

Ultimately, this is a question of trust. Transparency and responsible use of data are crucial, as is social responsibility. Examples include recognising the importance of 'necessary friction' within this 'spend now' demographic by not making it so easy to access or borrow funds that customers could end up getting into trouble.

FinTech innovators

Partnership with employers and established FS providers offers opportunities to build up trust and gain access to young professional customers and their data.

PSD2 and Open Banking are set to be a key catalyst for collaboration and change by requiring banks to offer third-party providers like yourselves greater access to their customer data and payments infrastructure. But PSD2 will only set the stage for open banking if customers agree to share their data. Again, trust is the key currency in this changing marketplace. It's also important to look at how to align PSD2 with the General Data Protection Regulation (GDPR)[13].

Policymakers and regulators

The Financial Conduct Authority (FCA) should lead the way in bringing stakeholders together and promoting education around financial wellness. A possible option is building wellness into the FCA mandate.

> ***"Creating sensible options is a small data not a big data issue."***
>
> Industry roundtable participant

13 Are you aligned when it comes to the GDPR and PSD2?' PwC, 24 March 2017 (*pwc.blogs.com/fsrr/2017/03/are-you-aligned-when-it-comes-to-gdpr-and-psd2.html*)

This could lead to some useful innovations and solutions, much like the 'competition mandate' has helped to promote the rise of FinTech. Support from the FCA includes advice for start-ups and the development of initiatives like 'Sandbox', which enables companies to test products with temporary regulatory approval.

Greater clarity from regulators over what is meant by advice, guidance and desired outcomes is an essential part of wellness as it would help to give the FS industry more confidence over how to improve engagement and develop more relevant and innovative solutions.

Realistic expectations are also an essential part of this model – experience to date suggests that perfection is the enemy of the good here. In relation to pensions in particular, auto-enrolment and even 'nudge' behaviour aren't working for this demographic because the savings goals are too far off. It would be more relevant to shift the focus from remote objectives such as pensions to building up better awareness and savings habits. It's also important to rebuild trust by ensuring that pension rules won't be chopped and changed and promises made today are honoured.

Employers

As an employer, you're a key source of trust and a gateway to financial products, including pensions. You can use payroll and other staff information to drive action and help staff make informed choices.

You are also in a good position to provide education and clarity around products you offer to your staff.

Young professionals

Through social media and direct engagement with FS providers it's important to articulate and communicate what you want from financial services. You can make use of the innovative services offered by start-ups to gain better control over the levers of spending and plan for the future. You can also think about how to manage your financial data and identity in a more active and rewarding way.

Case study: ***Industry group perspective***

TISA: Building confidence in solutions

TISA's Head of Industry Policy Liaison, Peter Smith, believes that the industry needs to shift from offering products to developing solutions for young professionals and make it easier for them to understand what they're getting into. "As an industry, we need to move from complex terminology to explaining what's on offer in the same jargon-free way as supermarkets do," he says. Peter believes that moves towards open banking will help bring more digitally-enabled solutions for young professionals onto the market.

He also believes that regulators can play their part in strengthening confidence and understanding among both customers and providers about what outcomes they should expect. TISA is playing its part by looking to develop industry 'kite marks' and more importantly setting out agreed open industry standards across digital distribution, regulation and product solutions, as well as personal data to comply with the forthcoming GDPR regulations.

Our team

We hope that you have found our report to be interesting and useful. If you would like to discuss any of the issues raised, please feel free to contact one of the team listed below.

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