# How Banks Can Attract More Millennial Customers

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WHITE PAPER

# THE COMING WAVE OF MILLENNIAL ENTREPRENEURS

Kids today: they just aren't starting businesses like they used to. At least, not yet. According to the Kauffman Foundation, millennials ages 20 to 34 made up only 23% of new entrepreneurs in 2013, compared to 35% in 1996. Today's young workers are graduating with greater student debt and are taking longer to build household wealth than previous generations.

Under these conditions, it's easy to understand why starting a new business may feel like too much of a risk. Better to take a steady paycheck, at least until you get established.

In some ways, however, the millennial generation is better-suited to entrepreneurship than any previous cohort we've seen. They're more educated than previous generations and more likely to have taken a specific class in entrepreneurship. And they are interested in becoming entrepreneurs. According to a survey commissioned by Bentley University, 66% of millennials would like to start a business.

While the average age for the owner of a small or medium-sized business today is almost 60, according to Barlow Research, the percentage of young business owners is higher among the smallest businesses. Among companies with sales of $100,000 to $500,000, 13% of owners are under 45. There are some young people starting businesses, despite tough economic conditions. And some older business owners, particularly those whose businesses are larger and more stable, are considering transitioning ownership of their firms in the next five years.

What's more, younger business owners are shaping up as lucrative banking customers. Small business owners under 45 represent $6,627 in annual revenue to lenders, according to Barlow Research's 2015 Value of the Customer model. Younger SMB owners use 1.6 credit products on average, a much greater rate than the overall small business average.

As aging entrepreneurs train their replacements, and millennials become financially stable enough to strike out on their own, the face of entrepreneurship will get younger. At the same time, this growing new segment brings a different mindset and demands to banking – and they've already demonstrated willingness to experiment with non-bank players. How can your bank get ready for this change?

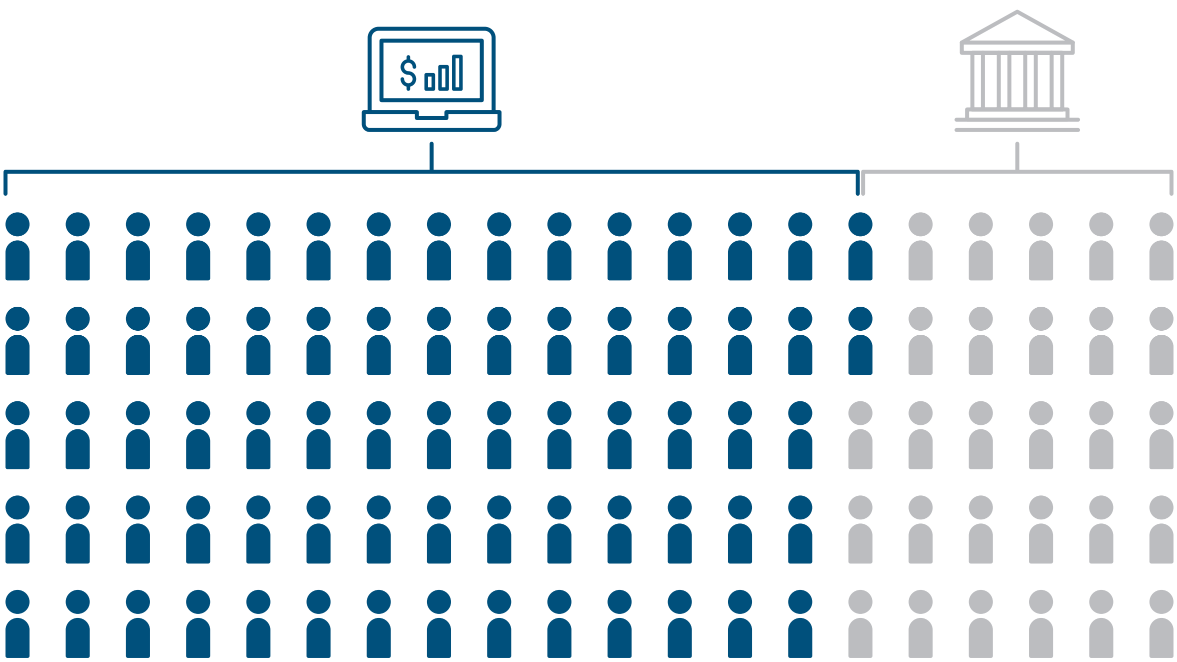
# MILLENNIALS: DIGITAL NATIVES, BANK-SKEPTICAL

Millennials do everything online. The Internet has always been a part of their lives, and mobile phones nearly as familiar. A majority–54%–of business owners under 45 use mobile banking, compared to 26% of all small business owners. More than one third of small businesses already say that they would switch banks to get a better online banking system, according to Barlow Research. Younger business owners are interested in a wide range of online services, including electronic payments, mobile payments, and video conferencing.

Today, despite the fact that the average business owner is almost 60 years old, one in five business owners would prefer to apply online for a loan or line of credit, according to Barlow Research. That represents almost 2 million small businesses – as more millennials become entrepreneurs, that number is expected to grow.

Where will these young, digital-native entrepreneurs go for loans and other banking services? New, all-online loan providers like OnDeck and Kabbage might seem to have the advantage. But regulators are stepping up their scrutiny of these new players, with the potential for inter-agency conflict. Plus online marketplaces lack experience with the market's historic ups and downs. Traditional banks who transition quickly to online services are actually much better-positioned to capture this growing business segment than untested online marketplaces.

However, as millennials become more financially stable and work to make their entrepreneurial dreams a reality, they aren't going to automatically reach out to traditional lenders like banks or credit unions. Banks are going to have to work hard to gain this business. That's because 53 percent of millennials don't think their financial institution offers anything different from other banks, according to the Millennial Disruption Index. Even more alarming are the facts that this same group reports that all four of the top banks are among the 10 "least loved" brands, and a third of millennials believe they won't need a bank at all in five years.




**72% of Millennials** would rather bank with a tech company like Square or Google than a traditional bank.

# WHAT MILLENNIALS DEMAND FROM BANKS

What do traditional lenders need to focus on in order to improve their reputation among millennials and capture their banking business?

## *Traditional products, only better*

The good news for banks is that a recent CCG Catalyst survey of millennials discovered that 90 percent already use a bank in some fashion. Many write checks on occasion (yes, really!), regularly hit up an ATM, have an auto or school loan, and stash money in a savings account.

But millennials won't settle for just average when it comes to these offerings. They look for products with premium features, such as high savings account interest rates, no fees (high fees are a top cause of dissatisfaction among millennials, according to a 2015 Accenture survey), transparency, and a credible guarantee that their personal information remains secure and private.

Additionally, while millennials have the reputation of staying glued to a screen at all times, they do desire customized assistance when it comes to setting financial goals and navigating tricky transactions. Traditional banks certainly have the advantage over alternative lenders when it comes to offering this personal touch, yet they often don't tout or emphasize it enough.

## *Convenience*

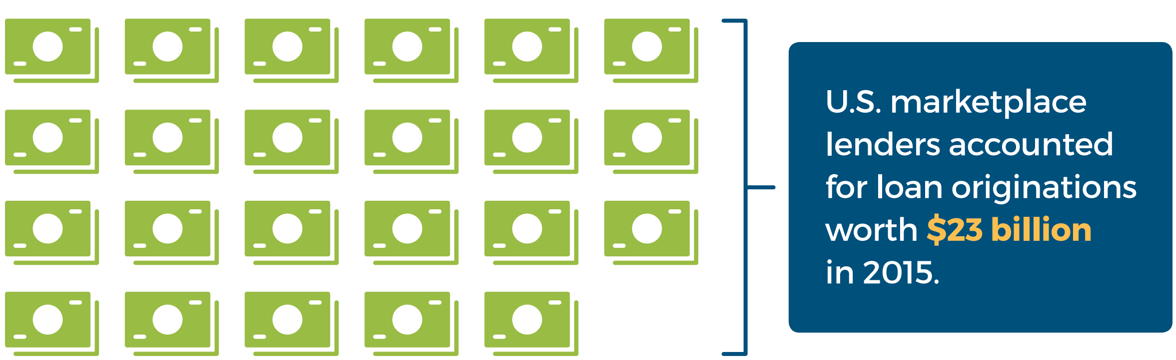
With 94 percent of millennials grabbing their smartphones to make transactions instead of hitting up the local bank branch, it's imperative that traditional banks offer a stellar online banking experience. That means offering mobile banking, budgeting tools, real-time mobile payments, digital wallets, and wealth management through an app or user-friendly mobile site.

And to stand out, they really need to act like a millennial: send text messages in the right contexts, be accessible all the time, welcome customization and innovate. The same applies for traditional banks that look to remain competitive in the small business loan marketplace.

According to Barlow Research, the current number of small business owners under 45 years old is small (12 percent), but it's expected to grow consistently as current proprietors reach their golden years and hand over ownership to the younger generation. Millennial bank customers will bring consumer expectations to their business banking relationships. To attract these borrowers, banks need to up their digital game by offering a transparent, easy online loan application process.

## *Speedy, accommodating service*

A common banking complaint from younger business owners?  How long it takes traditional lenders to respond to requests or questions and to "get things right the first time," according to a 2015 Cleveland Federal Reserve study. When it comes to banking, younger generations want flexibility. Brick-and-mortar banks can provide this by giving customers the ability to conduct in-person financial transactions when they want, how they want. An easy way to do this is to be open longer hours during the week and at least one day on the weekend. Reliable features such as mobile check deposit and 24/7 chat-based customer service are also extremely attractive.



# LAUNCH SMALL BUSINESS LENDING ONLINE IN JUST 60 DAYS

## Six Steps to Attract Millennial Borrowers by Onboarding Mirador

Setting up an online small business lending platform may sound daunting, particularly if you're a smaller bank without an IT department. But in fact, it's a lot simpler than it sounds. With the right fintech partner, lenders of any size can launch an online loan application — customized to their specific needs and designed to match their branding — in just 60 days.

Here are the 6 simple steps to implementing an online lending platform:

### 1 *Give Mirador your credit and underwriting criteria.*

The beauty of Mirador is that you provide us with your risk preferences, not the other way around. You'll work with Mirador to go through all your loan products and the credit criteria for each one. We'll customize the online application platform to offer your products to your existing and future customers on your preferred terms. You provide the rules; we will automatically point borrowers to the products that best match their needs.

## 2 *Provide branding and custom messaging information.*

You'll want the online loan application to look and feel like an extension of your website. Share branding assets like logos, and work with Mirador to customize the messaging of your application, and we'll ensure the online platform fits seamlessly with how you're already communicating with customers.

## 3 *Figure out the loan processing workflow.*

Creating an online lending platform is also a chance to redesign and streamline existing processes that are too time-consuming or manual. For instance, Excelsior Growth Fund chose to decline loans automatically for "clear no's" to their lending criteria. Previously these declined applications accounted for 30-40% of loan officers' time – with zero return on that investment. Their streamlined online lending platform has reduced this time to virtually zero. (Read the case study for more information.)

Automating certain aspects of loan processing can reduce the time--and expense--needed to process each loan, making the entire small business lending arm of your bank more efficient and more profitable. Essentially, Mirador streamlines the intake, so you don't have to email back and forth with your customers to gather all the needed information. Instead you can gather all of the information in one secure online application. Underwriting is also easier with a quick-glimpse initial analysis to determine clear no's or yes's to borrowers.

## 4 *Create a marketing plan for the launch.*

Obviously, you'll want to let your customers know about this exciting new offering. We've learned a lot from launching online lending with lenders of various sizes, and we're happy to share those best-practice learnings with you. We can help develop a core marketing plan to launch your online lending platform, from designing signs and brochures to distribute in branches, writing marketing emails to existing and potential clients, and creative ways to reach out to small businesses in your communities.

## 5 *Train your staff to work with the new application.*

Putting your small business loan applications online doesn't mean sacrificing the customer service you're known for. We can help you set up kiosks or terminals in your branches so that customers can begin the application process online, with loan officers standing by to help with any questions that arise. We'll also help you train your loan officers to understand the platform, so they can identify any customers who have not completed the application yet and may need an extra helping hand.

This improves customer service for all your small-business lending customers, but particularly millennials: they can comfortably start the online application wherever they like, then reach out to the bank to answer any questions and finalize the process. It's small business lending on their terms, convenient to their busy lives.

## 6 *The application goes live!*

It's really that simple. The entire process takes about 60 days, and we'll be with you every step of the way--including, of course, for the launch itself.

# IN SUMMARY

Millennials have grown accustomed to, and thus demand, to do everything online – including banking. They bring consumer expectations to business banking relationships. They think mobile-first in nearly all transactions they make. They value speed, convenience, omni-channel access, and a customer-first mindset, and they seek a banking partner who understands these evolving needs. Most importantly, millennials have zero qualms about taking their banking business to a non-traditional lender or other player who meets their needs more effectively than a traditional bank does.

Applying for a small business loan online will soon become the norm, not the exception – and it's a key service millennial business owners seek out from traditional lenders who "get" them. Digitizing your small business lending process requires less lift and time than you might think, netting considerable long-term benefits. A streamlined online application process dramatically lowers loan origination costs while providing a superior customer experience, improved profitability and minimal disruption to internal workflows. It's a win-win for all concerned – not just for millennials, but customers of all generations.

To learn more about Mirador and how we enable financial institutions to make smarter, faster loan decisions and capture millennial customers:

visit **miradortech.com**

or contact us at:
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