DIGITAL ECONOMY

Fintech for Boomers: Follow the money

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Baby Boomers present greatest mobile banking growth, spending power, and asset ownership in the short-to-medium term

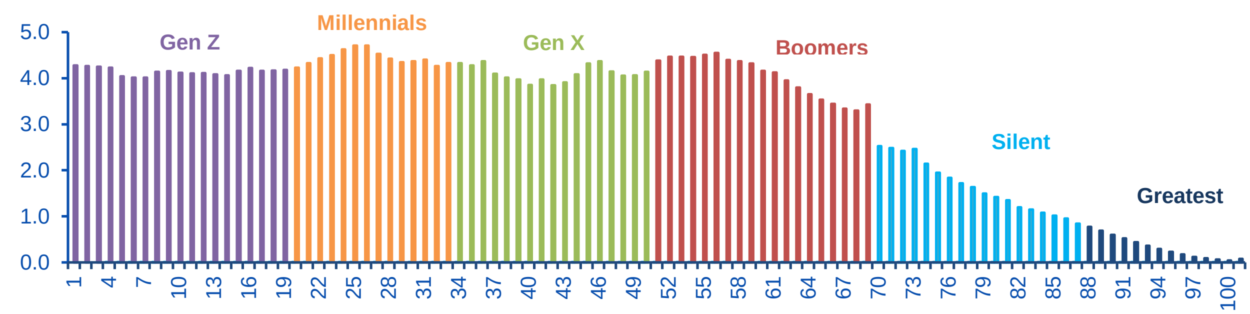
Given inefficiencies of Social Security program and high debt, retirement planning technology is attractive to Boomers

Companies offering prevention of elder financial abuse will benefit from greater customer trust

Baby Boomers, born between 1946 through 1964, comprise over 20% of the U.S. population. For much of their lifetime, Boomers made up the largest part of the population — even representing a whopping 40% in 1964.[1] However, in 2015, Millennials outpaced Boomers, as the generation continues to grow due, in part, to an influx of young immigrants.[2] Because of their renowned openness to new forms of technology, Millennials are usually the target market of fintech startups and have begun to gain the attention of larger institutions as well. But if companies truly want to "follow the money," they can't afford to forget about the Baby Boomers, who generate $2.4 trillion in annual income and account for half of all consumer spending in the U.S.[3] Boomers are appropriate targets for a wide range of consumer offerings as there are several niches within this wide cohort, i.e. empty nesters, retirees, caregivers, etc. Moreover, they have redefined "old age" as many Boomers choose to work longer and live very active lifestyles, thus earning and spending more money, which produces more economic value over time. For example, the number of 65-69 year olds in the labor force is around 5.5 million, which is almost double compared to a decade earlier and almost three times as much as 20 years ago. Given this generation's spending power and diversity, fintech platforms ignore the Baby Boomers at their own peril.

Figure 1

U.S. Resident Population by Age (millions)



Source: BBVA Research & U.S. Census Bureau

[1] Colby (2014)
[2] Fry (2016)
[3] BLS data & Holtzman (2013)

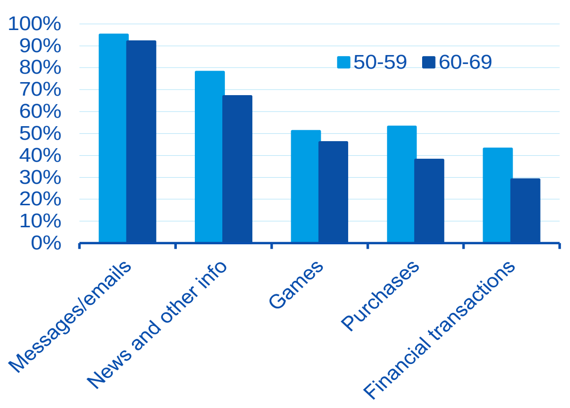
Boomers: Late digital adopters with money

When considering spending power, Boomers have the edge over Millennials; Americans over the age of 50 have the highest net worth of any other population segment. The prospects for future spending also look bright; over the next 20 years, spending by those over 50 years of age is expected to increase by 58% to $4.74 trillion vs. growth of 24% to $3.53 trillion for those 25-50 years old.[4] In addition, Boomers control more in financial assets, as half of them hold over $100,000 in investments and savings, versus 37% of Gen Xers and 14% of Millennials.[5] Boomers also stand to inherit $15 trillion from their parents (the Silent and Greatest Generations) in the next 20 years.[6]

Although Millennials are known for being the most technology-savvy generation, Boomers should not be ruled out of the running. An AARP survey found that while Boomers do lag behind in smartphone penetration, there are substantial differences in ownership and usage between younger and older Boomers. For example, 73% of 50-59 year olds own a smartphone, using it for a wide range of activities such as reading the news, playing games, and making purchases. On the other hand, only 54% of 60-69 year olds own a smartphone, and they are less likely to turn to it for the activities listed above.[7] Despite being smartphone savvy, the majority of Boomers don't yet use their phones for performing banking or financial transactions. However, this looks set to change, as mobile banking usage among Baby Boomers and their elders has increased threefold since 2011.[8]

Figure 2

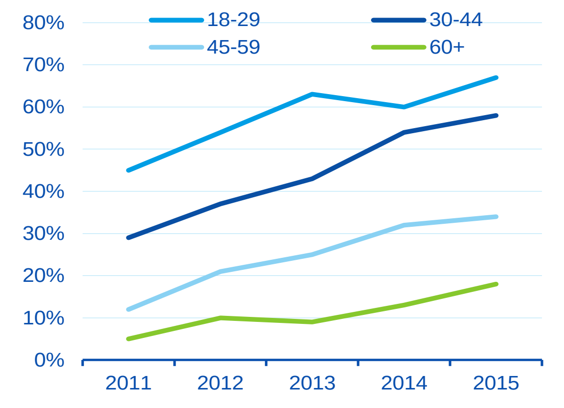
Smartphone Activities by Age



Source: BBVA Research & AARP

Figure 3

Use of Mobile Banking in Past 12 Months by Age



Source: BBVA Research & FRB

Fintech platforms for Boomers

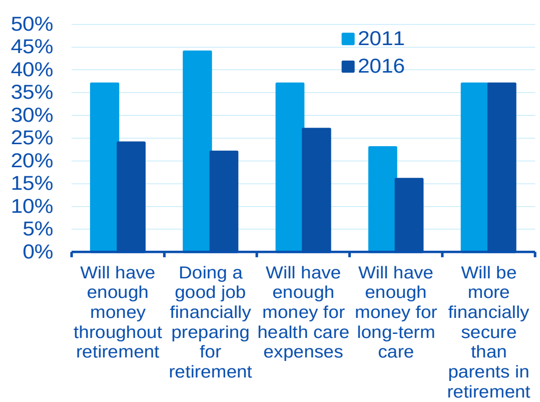
Retirement planning: As Americans enjoy longer life spans amid new and more expensive healthcare technologies, saving for retirement has become more complex due to the need to stretch their dollars for a longer period of time. The average person today needs 50% more money during retirement than they would

[4] Holtzman (2013)
[5] Williams (2015)
[6] Nielsen (2012)
[7] Anderson (2016)
[8] Board of Governors of the Federal Reserve System (2016)

have needed in the 1970s; however, that person has only saved 11% more compared to then. This discrepancy might partly be due to the failure of policymakers to make adjustments to Social Security in order to guarantee that the expected cost of the program matches expected income. In fact, although more than half of Boomers expect Social Security to be a major source of retirement income — up from 43% in 2014 — under current trends, the reserves will be depleted in 2034 and scheduled tax income will only be sufficient to pay about three-quarters of scheduled benefits.[9] Adding to the complexity of retirement planning is the fact that more people are heading into retirement with outstanding student debt — either debt they took on behalf of their children or debt from their own college days.[10]

Figure 4

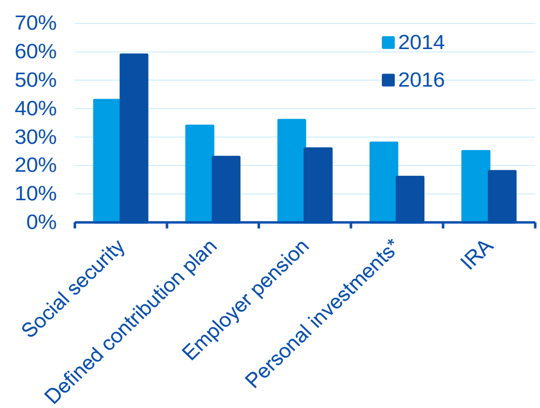
Baby Boomers' Confidence in Retirement Expectations



Source: BBVA Research & Insured Retirement Institute

Figure 5

Baby Boomers' Source of Income in Retirement



Source: BBVA Research & Insured Retirement Institute *other than workplace retirement or IRA

As only 24% of Boomers are confident that they have saved enough for retirement, fintech innovators have gradually begun to take notice of the opportunity to cater to this customer base.[11] For example, United Income is a retirement platform, currently in beta mode, that offers a suite of money management tools squarely focused on the Baby Boomer segment, especially those in the middle to upper income range. The company provides access to personalized investment advice and asset management, but what really sets the platform apart — other than its customer focus — is its ability to help its customers manage their day-to-day expenses during retirement. Their "retirement paycheck" product determines the customer's budget and deposits funds into the user's accounts on a monthly basis, simulating the certainty and comfort of a regular paycheck. A company offering a similar service is Abaris, which focuses on retirees and mainly sells longevity insurance or deferred-income annuity products that require less up-front investment and specifically target longevity risk. True Link is another example of a company focusing specifically on retirees and those approaching retirement by offering a personalized planning tool to help people gauge how much they will be able to spend every month and how they can produce income for as long as they need it. For an extra fee, customers can have access to human advisors, which could appeal to Boomers hesitant to place complete trust in an algorithm.

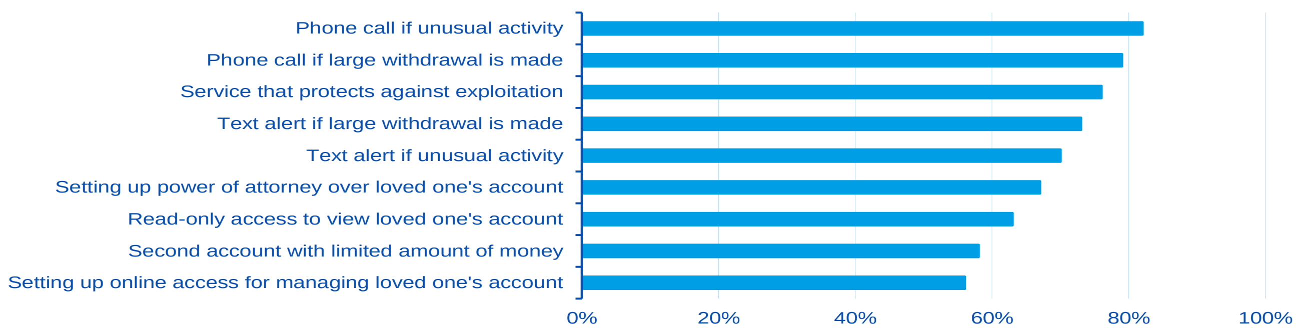
[9] Insured Retirement Institute (2016)
[10] Consumer Financial Protection Bureau (2017)
[11] Insured Retirement Institute (2016)

Fighting elder financial abuse: Research released last year from AARP found that financial exploitation costs older Americans at least $3 billion each year — a conservative figure due to rampant underreporting, with only one in 44 victims actually reporting the crime. The majority of Americans ages 50+ want their bank to proactively fight financial fraud, and over 40% are willing to pay for those extra services.[12] Because older Americans represent a specific target for perpetrators of financial abuse, fintech platforms and financial institutions offering relevant tools for this segment stand to benefit from greater customer trust and from reduced risk of losses as well. On top of reputational risk, banks lost $1 billion in deposits in 2012 due to elder financial fraud.

Fintech platforms have started to take notice. EverSafe, for example, bills itself as "the first service that applies technology to combat the financial exploitation of older Americans."[13] It consolidates a customer's account, checks daily for suspicious activity, and can send alerts to trusted family members or friends. Financial institutions can either leverage tools offered by startups like EverSafe or develop in-house capabilities. Since 2014, the American Banking Association has recognized banks that have demonstrated an effort to protect older Americans. Winners have included smaller, regional banks that have offered trusted individuals read-only access to elders' accounts, instituted programs to raise awareness of red flags associated with financial abuse, and started partnerships with law enforcement and community organizations.

Figure 6

Helpful Services for Assisting Someone with Their Finances*



Source: AARP Public Policy Institute *survey of people ages 50+

Bottom line

Baby Boomers have substantial spending power and own a considerable chunk of financial assets in the U.S., yet they seem woefully underserved as fintech is typically catered to the Millennial cohort. However, given the size of this older demographic cohort and their growing demand for and adaptability to digital products, the Baby Boomers present the greatest opportunity for mobile banking growth, at least in the short-term. Although there are specific challenges to targeting this cohort, such as marketing, those challenges can be overcome by improving access and education of user-friendly digital banking products to these customers. By offering older Americans technology that can help them manage their retirement savings and protect them from fraud, fintech platforms and financial institutions will have an edge in serving other generations when they too begin to demand these types of products in the future.

[12] Gunther (2016)
[13] EverSafe LinkedIn page

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