Chapter 16

Financing Millennials in Developing Economies:

Banking Strategies for Undergraduate Students

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ABSTRACT

Young millennials (i.e., 18 to 24 years old) are not a primary market for the traditional banking system, especially in emerging economies. Despite the fact that almost 30% of college students have partial jobs, economic resources are limited and access to finance seems utopic. Banking services throughout the world but especially in growing economies do not fully serve students because of their lack of resources. Whether to pay for college studies or clothing, dinner or a weekend vacation, young millennials do not expect to receive banking credit from the big bank brands. In fact, this market segment is served by the retail industry with their own credit programs and financial services. In this chapter, the authors explore how young millennials have access to savings and credit, their spending behavior, their attitudes towards traditional sources of finance, and their financial inclusion and literacy. They also conducted an empirical exploratory study among college students in Mexico to hear firsthand how they managed their finances.

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INTRODUCTION

What do millennials want? Are they dreaming of travel and adventure, or do they want to buy their first apartment and start a life of their own? How do they manage their money? Are they saving for a rainy day? Do they have a piggy bank or a formal savings account?

An exploratory study conducted among undergraduate students in a public school in Mexico showed us that young middle class millennials are full of dreams and out of money.

In this study, 50 young men and women were asked to build a collage (Coulter & Zaltman, 1995) describing the life they want to have as well as the obstacles interfering with it. The collages were full of magazine clippings on exotic journeys, state-of-the-art electronic devices, fashion clothing, brand-new cars, comfortable homes and university logos. They also included images of piggy banks, sad faces and cracked money icons. They were enthusiastic about getting things in life but recognized that they did not currently have the economic resources to afford them.

Despite the fact that almost 30% of the student participants had at least part-time jobs, their financial resources are limited, and access to finance seems utopic to them. Given students' lack of resources, banking services, throughout the world but especially in growing economies, do not fully serve young people.

For example, only 3 million out of the 11 million young Mexicans in the age range for college studies are currently enrolled, and only 12,000 of these receive financing from private banking institutions (Contreras, 2014). According to a FORBES article, in Mexico only five private credit firms grant financing in a market of 4.8 million potential college students. In fact, from the young people point of view, financing studies from private institutions is expensive and complicated, while other sources of financing (e.g., NGOs and government offices) are insufficient (Contreras, 2014).

Being a priority getting a graduate degree, young millennials do not expect to receive banking credit for smaller things, and the relationship with these institutions seems to be fractured. Millennials are not fond of big bank brands, as they do not feel they are part of the present finance system (Jabbour, 2016).

However, this not happening solely in Mexico. According to a Goldman Sachs report (2017) millennials characteristics are similar across economies. There are not really any differences between millennials from developed and emerging economies. Young people from emerging economies (86% of the world's millennials) crave for digitalization, leisure/experience and premium brands. Millennials from Brazil, South Africa, China, India or any other emerging market show similar expending and saving habits representing opportunities for the traditional and also innovative industries (Goldman-Sachs, 2017). Millennials across economies, also face similar barriers to enter the traditional banking system, where financial institutions do not pay attention to this market segment.

In this chapter, we focus on the younger segment of millennials (i.e., men and women between 17 and 24 years old), who are the appropriate age to become college students in growing economies but are not a primary target for banks, even though they might become a profitable market segment. Financial exclusion towards young millennials evident, even when they possess some limited economic resources, the lack of formal credit history drift them away from the bank system and throw them into the new digital and mobile financial industry delivered by commercial firms (Goldman-Sachs, 2017).

We develop four sections to address this topic: (a) Millennials' sources of finance, (b) Millennials' spending behavior, (c) Millennials' attitudes towards traditional sources of finance, and (d) Millennials' financial inclusion and literacy. We also conducted an empirical exploratory study among college students in Mexico to hear firsthand how they manage their finances. The obtained data is presented as a case study for further comprehension.

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