Debunking Millennial Myths

ID Analytics released a study in 2015 that debunks the myth that millennials aren't interested in traditional forms of credit. Our research found that while millennials are applying for traditional financial services at high rates, they are being turned down. Traditional credit scores often hinder millennials' ability to gain access to these services due to an inaccurate reflection of credit risk.

The most recent research from ID Analytics looks at the consequences of believing these myths. Millennials who don't receive service tend to stop seeking service for a year. These findings show that risk managers play an important role in millennial engagement and may be jeopardizing their company's long-term success by declining millennials at high rates.

The High Cost of Millennial Myths

In the summer of 2015, the millennial generation—individuals born between 1981 and 2004—overtook baby boomers to become the largest generation of adult U.S. consumers. The generation's combination of size, youth and influence makes them an undeniably coveted market. Yet they continue to be misunderstood, often portrayed as being radically different than past generations when it comes to their reportedly low interest in traditional credit and services. However, ID Analytics' analysis of millennial credit-seeking behaviors, detailed in their whitepaper *Millennials: High Risk or Untapped Opportunity*, found that millennials are in-fact applying for traditional services at higher rates than any other generation, and the real issue is their markedly low activation/booking rates – often driven by poor offers or outright declinations.

The study highlighted how traditional credit scores, often the deciding factor in credit decisions, frequently underestimate millennials' credit worthiness due in part to their limited visibility into critical behaviors like cell phone bill payment. The end results were staggering—over one-third of all millennial consumers cannot be scored by traditional credit tools, and one-third of those who can be scored are evaluated as sub-prime. These findings formed the backbone of what we refer to as the "Millennial Myths".

Millennial Myths

- Lenders' struggle to engage millennials is due to a lack of demand for credit products.
- Millennial "low score" and "no score" consumers are always high risk.

Continuing the exploration into this crucial demographic, ID Analytics performed a follow-up study detailing the consequences these beliefs—how do millennials react to being declined? What are the long term consequences for lenders?

Study Methodology

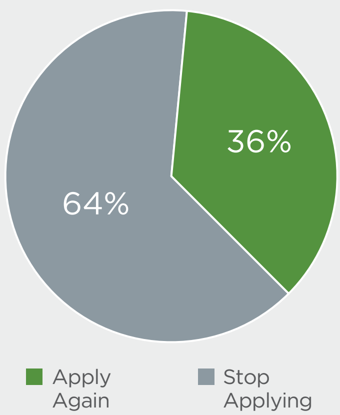
ID Analytics looked at applicants between 18 and 32 years of age to determine their behavior patterns once they were declined for credit or services. A sample of millennial consumers was taken over five years from 2010 to 2015, reviewing applications from various industries including Bankcard, Retail Card, Marketplace Lending, and Telecommunication.

Once Declined, Millennials Walk

ID Analytics' research shows that the most common consequence for an enterprise declining a millennial applicant is that the consumer walks away for at least a year—both from the enterprise and from credit/service seeking altogether.

Figure 1

Do declined millennials keep applying?

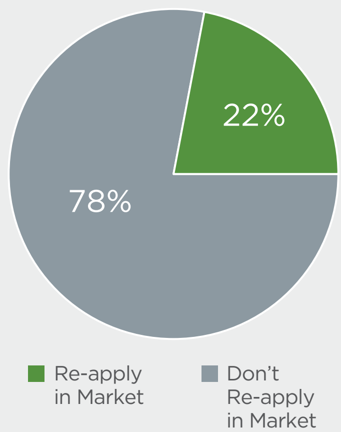


More than 6/10 declined millennials walk.

Over 6 out of 10 declined millennials are not seen applying again within the ID Network that year—*for anything*.

Figure 2

Do millennials who reapply stay in-market?

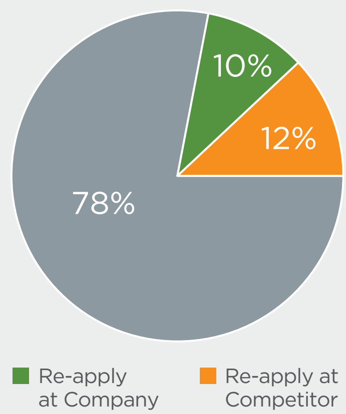


Only 2/10 millennials reapply in-market.

Of the millennials who continue to apply, only 2 out of 10 continue to seek the same service, with 8 of 10 seeking an entirely different product or service.

Figure 3

Do millennials who stay in-market come back to you?



Only 1/10 declined millennials reapply at same lender.

Even if the applicant continues to apply in the same industry, only half (or 1 in 10 millennials who continued to apply after being declined) decided to resubmit an application at the same company, with the remaining consumers applying at competitors. Remembering the initial study's finding that many millennials are more prime than their credit score indicates, these findings highlight the negative impact industry-wide of buying into the "Millennial Myths".

Millennials are being disproportionately declined

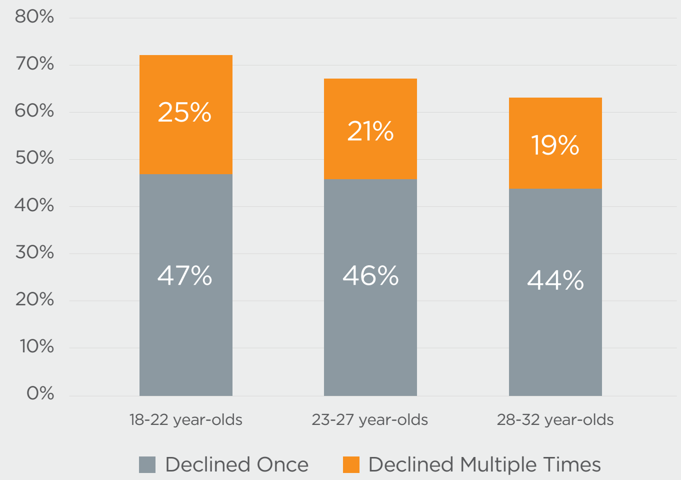
While the impact of declining credit to millennial consumers is harmful to the long-term success of entire industries, common questions are, "How often are they actually being declined?", and "is the issue confined to young millennials"? To answer these questions, ID Analytics segmented millennials into three age groups and measured how often they were declined for credit in a given year.

As detailed in figure 4, the immediate observation is that over 66% of millennials are declined *at least* once per year, with roughly 20% of millennials being declined multiple times per year. While results show that the decline rates are highest for the 18-22 year old age bracket, they do not vary much from the older millennial segments.

Taken together, these findings illustrate the broad impact of the myths on millennials of all ages—effecting two-thirds of the U.S.'s largest consumer generation every year.

Figure4

How often are millennials declined for credit in a given year?



Seizing the Opportunity

These findings tell an urgent but optimistic message—successful engagement of millennials is in the hands of risk managers. Millennials desire popular forms of traditional credit and services, and many are more creditworthy than they initially appear. This most recent analysis sends another clear message—while many in the industry have been focused on the risk of engaging a generation who largely appears un-creditworthy, conservative strategies which decline millennials at a high rate may pose the greater risk to long term success.

The recommended path forward is safe engagement of this burgeoning demographic—an approach which requires thoughtful strategies and an expanded view of applicant credit risk which goes beyond traditional credit bureaus. One way to accomplish this is leveraging alternative credit data solutions like ID Analytics' Credit Optics, which captures fundamental millennial credit behaviors that are missing from most credit scores. It offers risk managers a way to identify "low score" and "no score" consumers of acceptable risk, and break through the myths dragging down the competition.

Alternative Credit Solutions

In addition to considering conventional credit data, ID Analytics also utilizes proprietary alternative insights from the wireless, banking, peer-to-peer lending, checking and savings, and the sub-prime markets, plus address change histories, to deliver a precise and unique view into a consumer's credit risk and worthiness. This is what we call 'alternative credit data'. ID Analytics' alternative credit solutions are leveraged by lenders to augment credit decisions affecting every credit-active U.S. consumer, including those in the underbanked, thin-file, and no-file categories, and even for consumers with very good credit history.

For more information on this study and the ID Analytics portfolio of credit risk solutions, please visit www.idanalytics.com

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About ID Analytics LLC

ID Analytics is a leader in consumer risk management with patented analytics, proven expertise and real-time insight into consumer behavior. By combining proprietary data from the ID Network®—one of the nation's largest networks of cross-industry consumer behavioral datax—with advanced science, ID Analytics provides in-depth visibility into identity risk and creditworthiness. Every day, many of the largest U.S. companies and critical government agencies rely on ID Analytics to make risk-based decisions that enhance revenue, reduce fraud, drive cost savings and protect consumers. ID Analytics is a wholly-owned subsidiary of LifeLock, Inc.