

Payments Executive Brief:

Using Payments to Attract and Retain Gen Z Customers

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Imagine if you had never known a pre-Amazon world and how that would shape your perception of other organizations. You've just introduced yourselves to the mindset of Generation Z. Born roughly between 1997 and 2012 (depending on the statistician), Gen Z's oldest constituents are younger than Amazon, never having lived without that instantaneous digital experience.



These digital-first individuals view the world through a different lens; however, they trust financial institutions over the big tech companies. In fact, just shy of 90% of Gen Z consumers give their financial institution a score of 7 to 10, with 10 being "very trustworthy," and 64% report a desire to get their banking services from a traditional financial institution versus technology giants. With that in mind, Gen Z offers a significant opportunity for community banks—one where payments play a role.



The Payments Opportunity

Gen Z requires new types of payment solutions. With that in mind, payments provide new opportunities to expand areas of engagement with this target audience.

10 vs. 18

The age at which Gen Z's get phones versus bank accounts.



Community banks can draw in Gen Z earlier by offering teen-specific, mobile-first bank accounts that enable mobile and P2P payments.

98%

say they use mobile payments to transact.



Community banks can offer strong digital payments solutions and position their card products as top-of-wallet.

70%

report using a digital wallet to purchase a product at least once per month.



Community banks can frame up their payment options as digital wallet solutions for this mobile-first generation.

1/3

of 18-19-year-olds have a credit card.



Much of Gen Z can't access credit products. Community banks can offer card solutions that tie to digital wallets.

Why Gen Z Matters

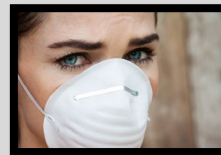
While the youngest Gen Z's are still around age 8, this group continues to climb in influence and importance for many factors.

- **They make up a significant portion of the U.S. population and economy.** Gen Z comprises one in four Americans, making this group the largest living generation. In fact, they already represent approximately 40% of the nation's consumer purchasing power.
- **In addition to their own spending, they influence buying decisions within their circles.** Reports indicate that Gen Z shapes up to \$665 billion in family spending today, with 93% of parents saying their Gen Z children influence their household spending.
- **They are coming into money.** Along with Millennials, Gen Z stands to inherit a portion of \$30 trillion in wealth from their parents. This "Greater Transfer" will peak in about 10 years. Plus, many Gen Z's will be entering the job market at about that same time, introducing a steady income flow.
- **This is a pivotal time to capture their loyalty.** The average age of first-time homebuyers has increased to 33, and it has been on the recent rise. Connecting early with this new demographic will help build important relationships that may extend to future financial needs.
- **They are future business leaders—and business customers.** Within the next five years, Gen Z will become the fastest-growing generation in the workplace. In addition, more than half want to start their own company, and 77% expect they will work harder than previous generations—solidifying their role as strong business customers.
- **They will be tomorrow's community bank employees.** More than a potential customer, Gen Z also will become your future staff. Attracting and retaining top talent remains critical to the future of community banking, so building relationships with them today matters to the industry of tomorrow.

What Gen Z Requires from Community Banks

As community banks consider attracting Gen Z clients, having a better understanding of their motivating factors will help tailor solutions to their unique needs and preferences. They seek:

- **High-quality mobile payment experiences.** Gen Z are referred to as “screenagers” for a good reason; they are connected to their devices—and the seamless experience they provide. Case in point: 75% say they would use mobile payments more, if given the option.
- **Financial literacy education.** Multiple studies report that Gen Z has a deep desire to better understand money, though how it wants to learn about it may differ significantly from previous generations. Video reigns supreme: Gen Z spends 23 hours per week on video content, and 80% of teens said YouTube helped them become more knowledgeable on a topic.
- **Data security.** Having grown up in an era of data breaches and cyberattacks, Gen Z places importance on privacy. Less than one-third said they are comfortable sharing personal details other than contact information and purchase history, and only 18% are at ease with sharing payment information. They expect banks to maintain their privacy—and be upfront about data privacy practices.
- **Authenticity.** This generation is not looking to be wooed—they are looking to see you care. 90% believe companies must act to help social and environmental issues, and 75% will do research to see if a company is being honest when it takes a stand on issues.
- **Good employee experiences.** When asked which action taken by a brand during the pandemic has had the highest influence on their perception of that brand, Gen Z cited the way brands treat their employees as the most important factor.

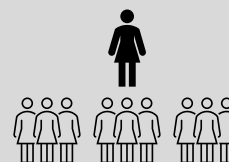


The Gen Z COVID-19 Impact

Every generation has a defining moment. For Gen Z, it will be the COVID-19 pandemic, and the year 2020 in general. We are already seeing the effects of this year’s events:



Gen Z has been hit hardest by the pandemic. 13% have already borrowed money from a payday or short-term lender.



Only 1 out of every 10 Gen Z’s feels comfortable or “safe” going to a bank right now.

59%

of Gen Z’s say they will be more financially conservative going forward.

These experiences will shape how Gen Z interacts with their bank in the years ahead.

5 Steps for Attracting and Retaining Gen Z Customers

- 1 **Provide—and promote—digital payments solutions to Gen Z, their peers, and their parents.** From credit products that interact with digital wallets to ways to make P2P payments from their accounts, Gen Z expects a fully digital experience. Get creative with your product offerings, exploring solutions like teen-centric mobile banking. What’s more, for the offerings you have in place, ensure Gen Z and their parents have an awareness of them. With 28% reporting they get their financial information from friends, and 55% indicating their parents, these groups have the most influence on how Gen Z deals with money. Communicating to the target audience *and* their influencers will help your message gain traction.
- 2 **Develop financial education for this audience—via channels that resonate.** Gen Z is ripe for financial education, with only 13% seeing themselves as very financially responsible. But they are looking for digital education via video. In fact, 27% cite YouTube as a primary source of financial information, and one recent report points to the likes of TikTok for personal finance knowledge. Video education can support this learning preference.
- 3 **Earn their trust.** Across all generations, the top way for banks to establish trust is to emphasize data safety, followed by increased transparency around fees and other terms and conditions. Specifically, 95% of 16-24-year-olds believe banks need to increase fraud protection. And while more than three-quarters (76%) accept that it’s their responsibility to look after their data and keep their identity safe, they require their banks to provide protection as well. In addition, 67% of Gen Z respondents point to “feeling understood” by their bank as a driver of trust, which underscores the need for acting with authenticity and transparency.
- 4 **Offer strong customer service across all channels.** This generation, more than any other, seeks a balance of high-tech and high-touch. Pre-COVID-19, Gen Z’s were the heaviest users of the branch, often visiting several times a week at a rate quadruple that of those over 55. But they also live on their phones, with 64% saying they are constantly online. Providing a consistent, high-quality experience across channels will be imperative to supporting this generation.
- 5 **Educate and support your staff.** How you treat your staff matters to Gen Z and ongoing education is key. Keeping your team up to speed on new digital payments trends and offerings supports a better customer experience all around. Consider ICBA’s Community Banker University or other programs to increase knowledge of products that speak to Gen Z.