



GENERATION Z THE NEXT WAVE OF NEW CUSTOMERS FOR BANKS

WHITE PAPER

For a decade or more, banks have been targeting the Millennial customer born between 1980 and 1994. But today Millennials are as likely to be senior managers within many retail banks. So perhaps attention should shift to the next wave of new customers called Generation Z? This white paper explores Generation Z, their behaviours, attitudes to banks and finance, and how banks can appeal to them.

WHO IS GENERATION Z?

Generation Z or Gen Z is made up of young people born between 1995 and 2015, and right now they are aged anything between four to 24 years old.

Gen Z currently makes up 30 percent of the global population; in ten years' time Gen Z will account for a third of consumers worldwide. Their spending power is already high. It is estimated that the total spending power of Gen Z today is \$3.4 trillion. In the US it is estimated their direct spending power could be as high as \$143 billion.

THEY ARE THE DIGITAL SUPER NATIVES

A Gen Z customer has an absolute lack of any direct experience of a pre-digital world. This sets Gen Z apart from Millennials and members of Gen Z can take digital to the extremes.

With the oldest Gen Z-er currently aged 24 - they are younger than Amazon, which celebrated its 25th birthday in July 2019. Gen Z grew up in the connected digital age and



has no experience of anything before the Internet or the mobile phone.

For Gen Z their smartphone isn't simply a tool; it is where they live their lives. One study by generational experts said 65% of Gen Z admit to being on their smartphones after midnight a few times a week or more often; and of these, 29% confess they are on their smartphones after midnight every night. Gen Z is always on - and content consumers of - everything from YouTube to Snapchat to Netflix and everything else in-between.



SMARTPHONE IS THE ONLY WAY?

In their omnichannel strategies, banks need to take account of how Gen Z makes little to no distinction between the online and offline worlds. They don't see any differences between going on the Internet and doing something else.

Mobile banking seems to be the obvious channel to interact with them; indeed, because it is less common for them to use a laptop to access things, the rise of Gen Z may hasten the demise of "traditional" web banking. In this regard Gen Z consumers don't choose a bank, rather they choose a banking app they like. And like other apps, they are as likely to ditch that app when it loses relevance or functionality for

their personal lives.

HOW DO GEN Z CARE ABOUT BANKING?

It seems Gen Z have little connection to traditional banking. There are studies that say Gen Z sees no role for banks in their lives. The 2018 report by [Raddon and The Financial Brand](#), reported that close to third of Gen Z do not believe they will need to rely on banks in the future.

The Gen Z absolute mobile-first, app-led attitude must make this generation ripe for alternative app-only banks. Yet, Gen Z can be engaged on financial affairs by traditional banks if they address this generation's real interest in money.

Compared to Millennials, Gen Z are believed to be more conservative about spending and saving because of how their young lives have been shaped by the financial recession and austerity of the early 21st century. This is creating an interest in financial management that is stronger than the previous generation – for example, [56 percent of Gen Z](#) have spoken with their parents about savings. [One 2017 study](#) has said more than one in 10 (12 percent) of Gen Z have even started saving for their retirement.

There is a contradictory side to this generation's interest in taking greater control over their financial affairs. While they may be uninterested in using a traditional bank, Gen Z-ers do say they would like to do their banking face to face. In the [Raddon/Financial Brand study](#), 48 percent of Gen Z respondents expressed this preference. Experts explain how this trait extends from more than just their financial conservatism but also how Gen Z are generally regarded as considerate consumers who want to dig deep into a brand. [A hefty 78 percent](#) of Gen Z-ers seek authenticity in brands, perhaps explaining why many might want to look a banker in the eye when they seek financial advice that's trustworthy and authentic. Notably, some generational [experts](#) refer to Gen Z as the True Generation.

WILL GEN Z SAVE THE BANK BRANCH?

So, the attitudes of Gen Z could support how banks should retain a physical presence that's seamlessly integrated with their online and mobile banking.

Any plans to make branches appeal to Gen Z should take advantage of the steps being taken by retailers to make their stores attract this younger generation.

The accepted wisdom is younger people are rejecting bricks and mortar retail. Yet, [the latest research](#) says a majority (76 percent) of Gen Z say the experience of shopping in physical stores is better than going online and they make most of their key product purchases in stores.

It is important to understand what makes physical shopping preferable to Gen Z and apply those findings in how branches are redesigned and run. For example, what makes Gen Z like physical shopping is how it allows them to socialise, see, try and buy merchandise immediately. This might translate into re-making branches as social hubs with casual meeting spaces, as well as empowering staff to offer financial assistance easily and with quick decisions on confirming financial products within the branch. A great example of this is how [Capital One](#) is opening up cafes rather than bank branches to serve financial advice alongside lattes and much more. And, of course, the branch always must be mobile-friendly – how more than four-fifths of Gen Z use their smart phone when shopping must apply when they visit a branch, too.

AVOID GIMMICKS, BE AUTHENTIC

Banks might be attracted to make banking more of an experience for this generation. Certainly, some retailers who are fighting for relevancy with Gen Z and Millennials have invested in major re-modelling of their stores to attract consumers by offering much more than a traditional retail experience. For example, UK fashion retailer, [Primark](#), has opened its largest store with in-store experiences including a Disney themed café, beauty salon and barber shop. Some

stores have gone even further and created experiences aligned with Gen Z digital obsessions – for example, US department store, Macy's, is creating floors within its stores where brands run experience events that consumers want to post on their Instagram accounts.

It is not obvious that banks should go so far as Macy's and another retailer. Don't forget how Gen Z is good at calling out brands which act unauthentically and may find banks that set up Instagram experiences as obviously a stunt. This is a generation that is financially conservative and thus strongly calls out for credible guidance. Banks might be better to respond with financial education programmes designed for this generation including the money coaching sessions that banks like Capital One are offering.

Gen Z presents a challenge to banks and other traditional customer service businesses because we are only now getting data on how they might want to access financial services and advice. There are contradictory traits about them, such as they live on smartphones and are supremely digital, and yet they are conservative and search for authenticity in brands. Both these traits carry risks for banks. For instance, ensuring their digital services are sufficiently omnichannel and resilient because no Gen Z-er tolerates poor service or outages?

BOX OUT – 10 WAYS TO CONNECT BANKING WITH GEN Z

1. Remember they are young with many still in school. Their searching attitude can be answered by how banks get more involved in financial education in schools and colleges. Open pop-up or mobile bank branches in or near schools. Get them when they're young and keep the financial counselling part of your USP to this group when they open their first account with you. Become known for your free education about everything from budgeting for your gap year to managing credit. Make study fun and available online and in-branch with after-hours food and drink.

2. For your first Gen Z customers run active programmes to involve them in everything from how you design apps to re-modelling bank branches. Recruit Gen Z-ers, rather than young Millennials, to mentor your staff on messaging and even how to take criticism. There's nothing better than first-hand knowledge of what works or doesn't for this group.
3. Socialisation is a common trait of this generation. Research from [the Center for Generational Kinetics](#) reveals how Gen Z likes to share how much they are saving with their friends. Within the rules of financial confidentiality, support how some customers will want to share their financial experiences online or even within your branch.
4. Be smart on monitoring and measuring digital experiences and how your omnichannel strategy is smoothly and reliably delivered. Gen Z customers are called "screenagers" for good reason – they interact via screens all the time and are hypersensitive to anything that doesn't look right. Their instinct will be to leave and move onto something else if the digital experience is bad.
5. Saving, rather than spending, seems to be a financial driver for this generation. Develop and offer innovative savings products and services that automatically save money into accounts for clothes or dining.
6. Gen Z is likely to be the first generation to ditch plastic money – debit and credit cards – for managing cash and credit on their smart phone. Ensuring in-branch self-service machines interact with smartphones for authenticating and accessing services, like updating digital wallets is key.
7. Be ready to offer access to a bank branch and a live person. Train your staff in consultation skills for this generation. Your people become vital brand advocates who this generation need to identify with and regard as authentic. See how in-branch systems can help augment your human capital.

8. Gen Z love online video. Leverage YouTube for how-to video advice on financial matters but also consider how you can offer face to face financial advice over live video.

9. Responsibly collecting and using data to anticipate the needs of customers who share a great deal of data about themselves is key.

10. And finally, get ready for the next generation of customers, Generation Alpha or Gen Glass. These are people born after 2010 who are growing up in the world of Internet of everything when the online and offline worlds are totally blurred!