Steez | 2023

There's a disconnect when it comes to banks **and Gen Z:** We're calling it Gap Z

Introduction

Historically, FIs have worked with consumer segments that differ markedly from Gen Z. This has introduced a gap between what financial institutions are prepared to do and what Gen Z really wants. Furthermore, the novelty of Gen Z demands and the gap between the age and ethos of those who sit in C-suites have made FIs ill-prepared to deal with this BNPL-loving and generally credit averse generation.

Thankfully, Tearsheet has got your back. Enter [Steez Life™: The Guide to Gen Z Readiness] – a working definition of who Gen Z is, and what it means to stand up for them in financial services and beyond – created by Tearsheet and Publicis Sapient. Steez – 'style with ease' – was coined by the rapper Method Man on Shadowboxin', a track by GZA. Today's cool belongs to Gen Z, those 70 million people in the US born between 1997 and 2012.

We surveyed the top FIs in the industry to figure out how well they think they are prepared to take on the Gen Z challenge and we mapped out tips for success.

If FIs want to manifest success with younger consumer bases, a few things will have to give. Understanding how Gen Z as a consumer segment is different from older age groups like Millennials or Baby Boomers is critical to this goal.

This generation has grown up in turbulent times and the last three years have not made it any easier. Watching Boomers struggle with credit is a core childhood memory – one that has shaped their credit averseness and saving habits. Currently Gen Z are the biggest savers of all consumer segments, managing to stow away more than their predecessors monthly. If FIs are thinking "Gen X, Y, Z, what's the big deal? It's all the same!" They're mistaken.

Uniquely Gen Z

Gen Z differs remarkably from its predecessors. Let’s take a look at how this generation is unique:

- Focused on savings: Gen Z saves more than Gen Y. While Millennials manage to save $294, Gen Z has gone above and beyond with $857 per month.
- Affecting change: While Millennials have a more revolutionary mindset, Gen Z is more pragmatic and aims to work within the system to change it.
- Social media consumption: Compared to Millennials, Gen Z is more strongly influenced by social media. About 40% report their spending habits are influenced by social media, less so for Millennials.

Gen-Z population in the US

68 million Americans

10-25 years old

Gen Z is an early and enthusiastic adopter of BNPL and digital banking mechanisms. Nearly 50% of Gen Zers say they prefer to do their banking through their mobile phones, and 60% of them prefer to open their accounts from the same channel rather than a branch.

Steezy FIs rely on three main pillars for success with Gen Z:

- Heart: Devoting specific and targeted attention to social causes such as diversity, inclusion and climate change and making sure progress in these areas is visible, transparent and sustained.

- Brain: FIs need to ensure access to financial literacy tools, build trust within the Gen Z consumer segment which is generally less trusting of traditional FIs as well as offer engaging ESG related investment offers.

- Hands: Gen Z loves a hands-on approach, being able to find and access information from their preferred FIs on the social media apps makes all the difference. Banks that keep up with evolving payment options and communication channels like social media and the Metaverse, don’t just catch the attention of this consumer segment but ensure that they remain hooked.

Tell me what you want, what you really, really want

There are a couple of important considerations to keep in mind when it comes to Gen Z. This generation is unconventional, focused on social issues, digitally savvy and most of all, not afraid to try new things.

In the absence of Gen Z-focused financial literacy material and products, younger consumers are not afraid to turn to TikTok or “FinTok'' for financial advice. “We are not taught about taxes, we are not taught about money-confidence” said Jeff Fromer, Chief Content Officer at MoneyLion in a Steez podcast.

Similarly important are social and environmental issues. Gen Zers are making up for all the years of neglect and drilling down on the importance of Environment, Social and Corporate Governance (ESG). Younger consumers expect their financial products to be environmentally-conscious and they will settle for nothing less.

FIs want to bank on doing business with Gen Z, they will have to juggle being available on social media channels, making useful, informative content available at the right time and building innovative products. Remember, brands can't get very far with this generation with plain vanilla products – you’ve gotta put in something extra.

This is a lot to ask from a financial system that is built on years of convention and legacy systems. However, with our research, we have been able to pinpoint the most important things that the top 20 banks are doing right now to keep up with Gen Z. Let’s take a brief look at how we got our data.

Methods and machinations:

Using primary and secondary sources of data, we gathered information about the largest banks in the U.S. by asset size. We asked how they are tackling some key concerns (listed below) over a 5 point and 3 point Likert Scale.

Brand Marketing:

To understand how brands are adapting their marketing campaigns to Gen Z-needs, we looked at which channels they are using, what role financial literacy is playing on those channels and whether banks are considering investing into novel technologies such as NFTs and the Metaverse.

Product:
Building value into products for Gen Z means catering to their credit averseness and penchant for investment. We asked FIs how involved they are in building product offerings that cater to evolving consumer demands like BNPL, automated investments, personal finance management (PFM) and ESG.

Brand Values:
67% of Gen Z consumers are interested in investing in sustainability organizations, and 35% are willing to invest in those organizations – even at the cost of lower returns. Hence in this category we peer closely at how involved the top banks are with community-building initiatives and environmentally-conscious products.

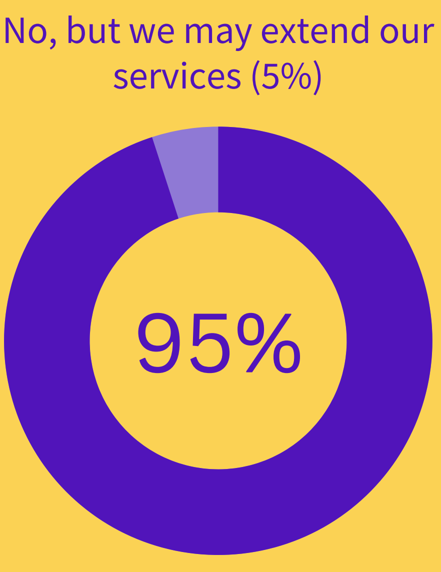
This quantitative overview was supplemented with a qualitative survey which helped us dive deeper into individual initiatives and strategies. Our data gathering window was 27 days long after which results were collated, cross referenced for analysis by our editorial team. The next section will present our findings.

What we found:
Catering to Gen Z is a multifaceted issue which requires FIs to juggle product offerings, brand values, and marketing. Our research found that while banks performed well in aligning some products like Personal Finance Management tools and automated investing to Gen Z needs, there is an undeniable gap in how well FIs think they are doing and what Gen Z wants when it comes to products, social impact and communication. We call this Gap Z.

Before exploring Gap Z, let's first breakdown the good news. FIs are taking financial literacy seriously.

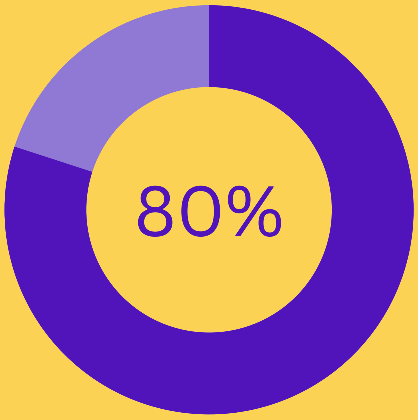
More than 95% report having access to educational materials on their marketing channels and the remaining 5% are considering offering similar information in the future.

Do you offer financial literacy on your marketing channel?



Do you offer automated investment platforms to your clients?

No, but we may extend our services (20%)



Yes (80%)

Similarly, banks have also identified the importance of automated investment platforms, with 80% reporting that they offer such services to their clients.

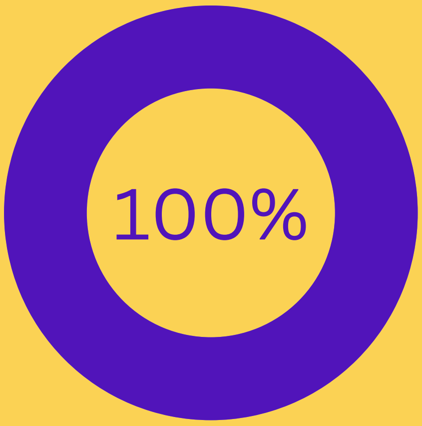
While human advisors are more popular among Boomers, they have failed to connect with younger consumers like Gen Z and Gen X in the same way. With robo-advisors growing in numbers, 49% of Gen Zers have exhibited confidence in automated investment methods as a “safe” method of investment.

One area where financial services have outperformed is the prioritization of Personal Finance Management (PFM) tools. The market for these tools has been showing steady growth and is expected to hit $1.69 billion by 2030 according to Statista.

PFM tools allow consumers to view all their finances through one aggregated source and 100% of FIs report offering these services as part of their product portfolio.

Do you offer Personal Finance Management (PFM) tools for your customers?

We may extend our services (0%)



Yes (100%)

Not only does this represent FI-readiness to cater to Zoomers’ affinity for digital tools, it also shows a keen insight into how financial management is evolving in general. Gone are the days when consumers turned towards their trusted bank branch or bankers for money matters.

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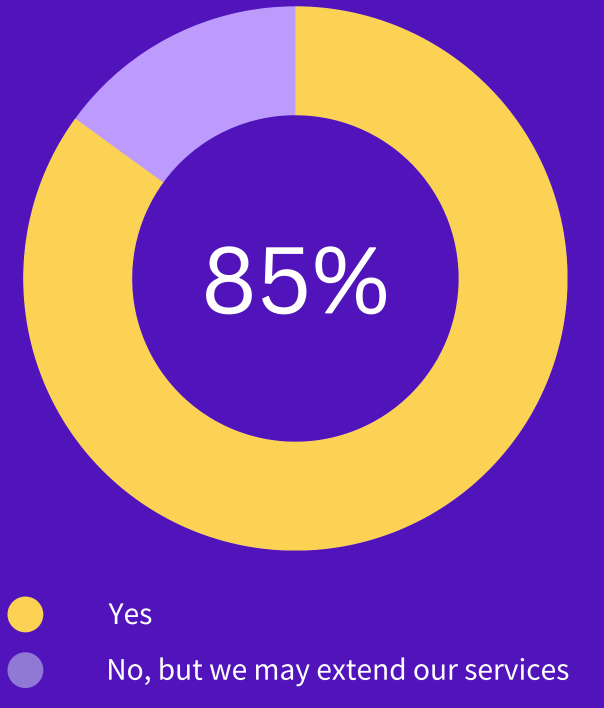
With climate change turning into a looming reality, Zoomers are not ready to sit back and watch the planet burn. Now this consumer group is looking towards FIs to enable investment in products and companies that are working towards saving the planet.

Fortunately, FIs serve this demand and 85% say they are already offering ESG-linked investment services, with the remaining considering doing so in the future.

Similarly, 80% of surveyed FIs are reported to be performing well (scoring 7 to 10) when it comes to undertaking environmentally friendly practices. Not only does this represent a willingness from the financial sector to engender sustainability but is emblematic of how consumer demands and activism can shape the contours and values of business as a whole.

How environmentally friendly is your institution?

Do you offer ESG-linked investment services?

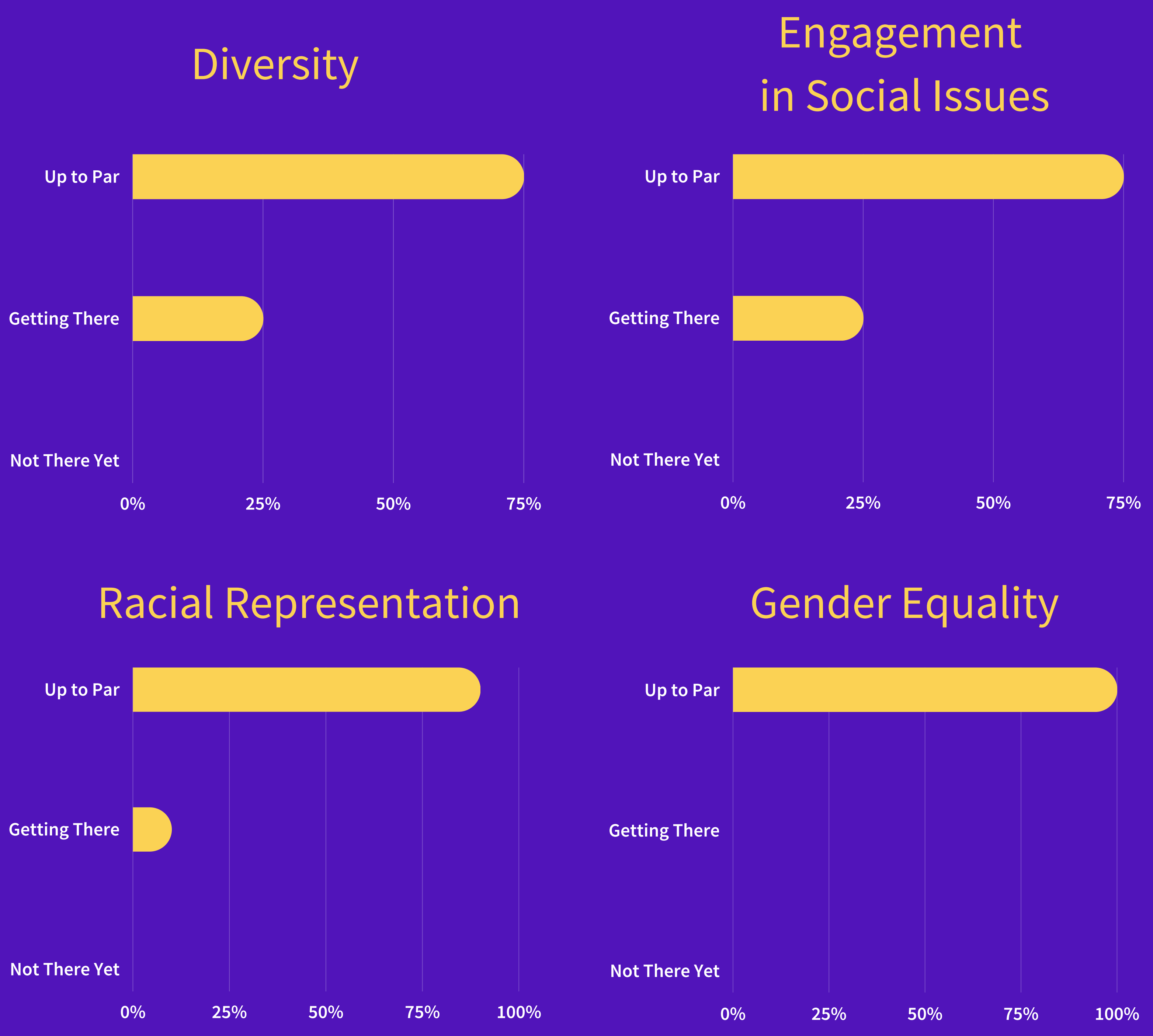


The Question of Values

To connect with Gen Z, FIs have had to break away from the isolation of C-suites and engender brand values that are cognizant of the demographic changes in their consumers. Here, some banks have taken to engaging with their customers through community centers and others are tackling social issues with Corporate Social Responsibility programs.

Overall, FIs think they are performing well when it comes to incorporating social change into their organizations. For example, most report that they have heeded the call for diversity within their ranks, and none state that they are only starting out. Similarly, banks view themselves as highly involved in social issues and most rank themselves highly on being racially representative.

Focus on Social Values by Financial Institutions



As far as the glass ceiling is concerned, all of the surveyed banks view themselves as highly engaged in the issue of gender equality with none of them reporting even mediocre engagement with the issue.

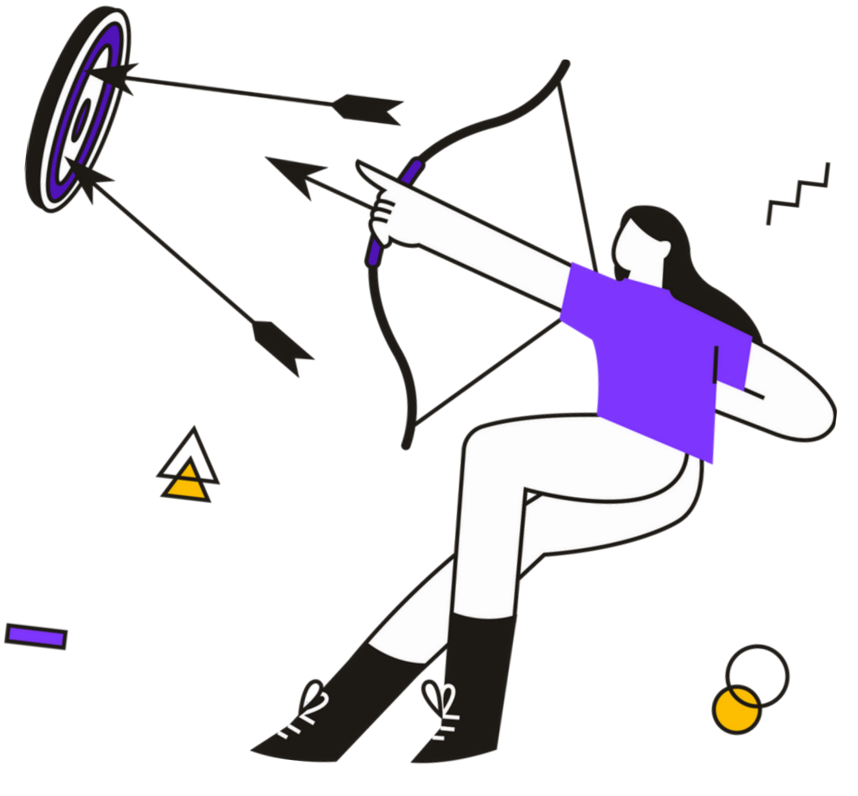
However, these numbers are not a true representation of how far along FIs are in their efforts to be socially cognizant and sensitive. Instead, they are more representative of the misalignment between how well banks think they are doing and the realities of socio-economic inequality in America.

For example, while most banks in our survey surface as highly gender equal, [women make up only 26% of executive management] teams at banks.

And that's just for women, consider just how thick the glass ceiling is for those that belong to the LGBTQAI+ communities, a group of people that is often overlooked by such surveys. Similar trends emerge when it comes to racial disparity. Non-white communities only make up 13.6% of banking executives in large banks, as reported by a [survey in 2021.] Bear in mind that as sobering as these statistics are, such surveys and data generally overlook individuals that lie at the intersection of multiple identities. For example, those that are non-white, non-male, and not heterosexual often get the shortest end of the stick.

As far as doing business with sustainable companies is concerned, ESG continues to be a divisive issue in America. Banks that have pledged to reduce business with mining companies continue to face push back as some rally against the new "woke wave". It is important to keep in mind that ESG is a complicated solution to a hard problem. Experts in the industry are continuing to raise questions about the efficacy of ESG pledges, when clean energy companies are so heavily reliant on mining of metals such as copper. This means ESG is a band-aid solution to climate change when really, the ailment needs something akin to open-heart surgery.

Therefore, even though banks presume themselves to be well on their way to being socially impactful, they are a long way from reaching the goals set by Gen Z. And we are calling this Gap Z.

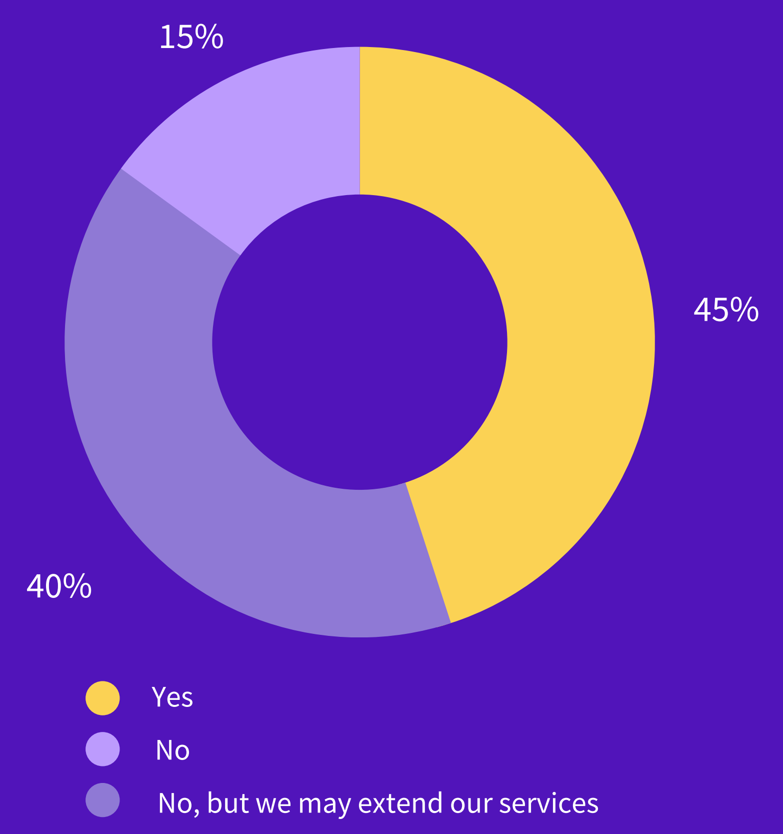


Exploring Gap-Z

There is an undeniable gap between what banks are doing and what Gen Z wants them to do. This difference isn't only apparent in brand values but also quite noticeable in how and what products FIs are launching onto the market.

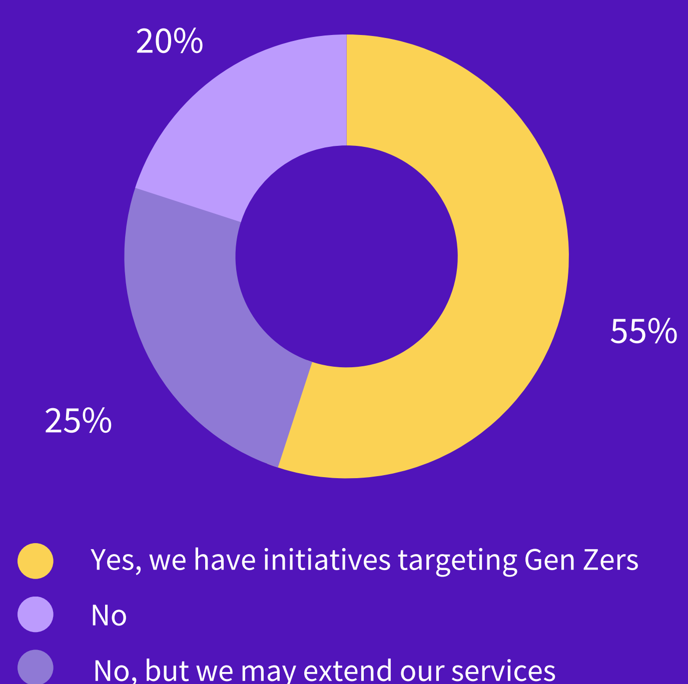
For example, our data shows that despite the popularity of BNPL options, only 45% of FIs offer such products, with 15% reporting that they have a plan to include such services in the future.

Do you offer BNPL services?

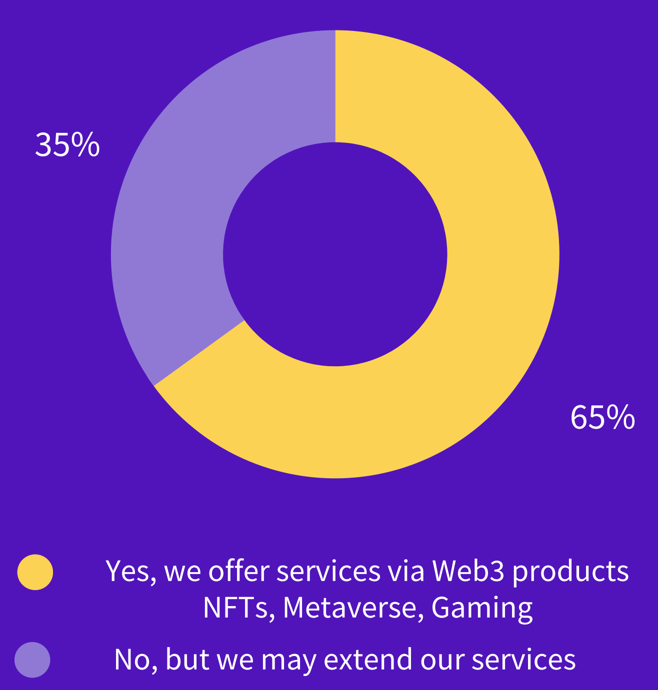


Similarly, since cryptocurrencies have struggled with volatility, FIs are cautious with their implementation, there is a strong and growing consumer base that is into alternative and digital currencies. This group has weathered many storms and is likely to continue doing so in the future. Similar reticence by FIs can be observed in other Web3 services like online gaming, Metaverse, and NFTs. Only 20% report offering products and services related to Web3.

Gen Zers invest more than their elders in crypto currency. Do you offer cryptocurrency services?



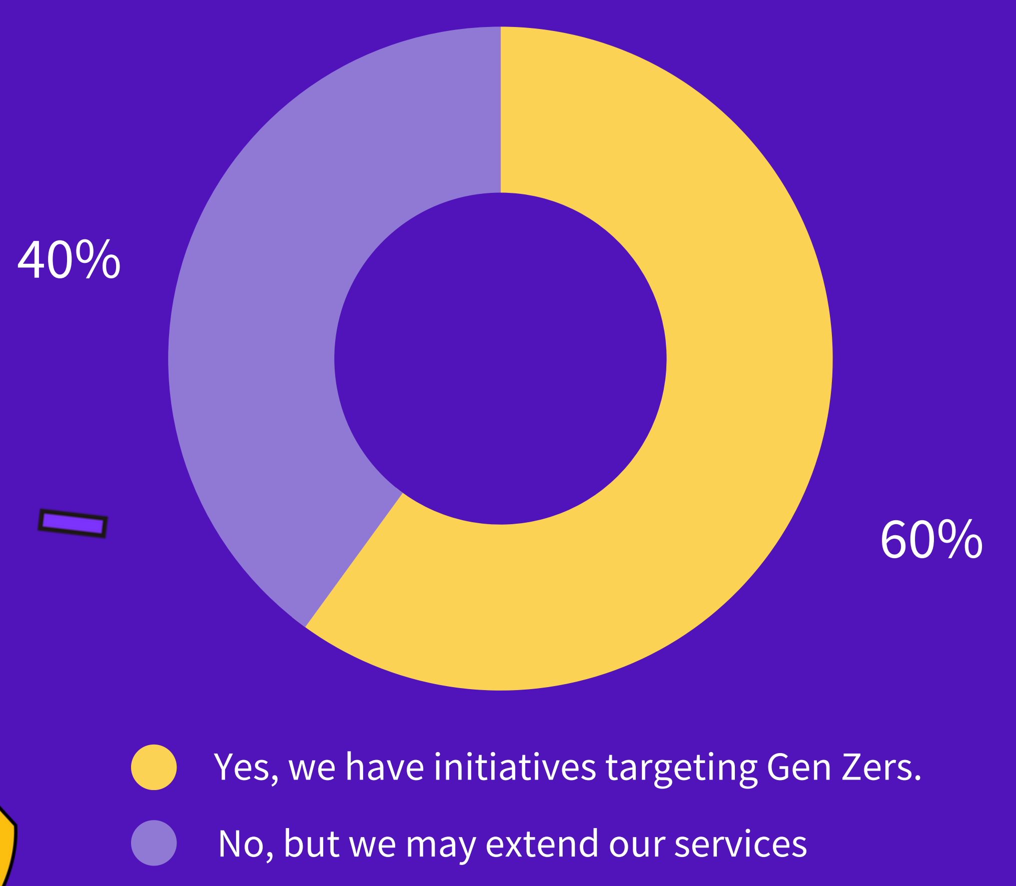
Do you plan to extend your services into the metaverse?



Speaking of out of touch, even though no bank reports inattention to the Gen Z consumer base on their marketing channels, the divide between those that do and those that are planning to do it is somewhat close to 50-50. Likewise, while banks have caught onto the importance of social media, Gen Z has raced ahead and switched to newer apps on the block. FinTok, or Financial TikTok, is where most are going to seek financial advice and education. The hashtag #PersonalFinance has gained 4.4 billion views on the platform. And yet no bank reports using TikTok or Snapchat as a marketing channel for their campaigns.

Even when banks use social media channels to communicate, their messages are few and far between, with 50% only posting once during the week. While banks seem to be reticent to communicate over these platforms, consumers are actively researching the quality of financial products and services online. For example, 43.5% of consumers wish there was an easier way to search for these reviews on social media channels and 38% wish there were more reviews of financial products online.

Does your organization have any current marketing initiatives targeting Gen Zers?



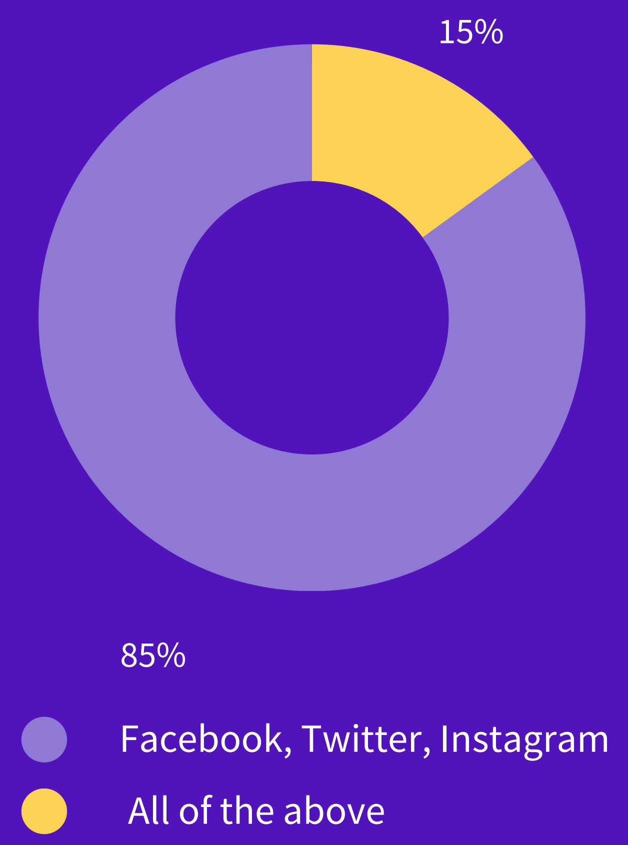
That's not all. Gen Z is not a priority across the board but attention to this consumer segment is growing, with 60% of FIs reporting that they have active initiatives targeting the sector and the other 40% making plans for it in the future. The important question is what channels is the marketing on? In this case, FIs are just not on the same wavelength as Gen Z.

While younger consumers are flocking to new apps like TikTok, FIs are out of sync. 85% are still using channels like Facebook, Twitter and Instagram, and only 15% incorporate apps like TikTok and Snapchat in their initiatives. This can mean that even if FIs design marketing initiatives targeting Gen Z, messaging may not reach the right ears at the right time.

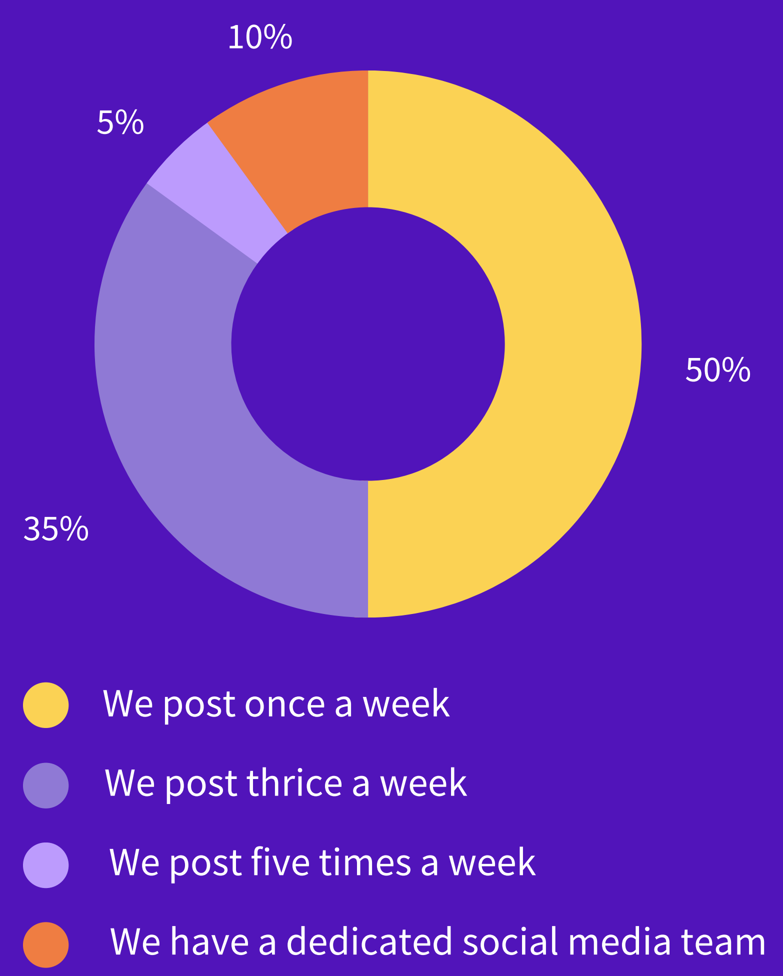
Simply put, there is an active and growing appetite for conversations about finance on these channels, one that is currently going unnoticed.

Considering that social media can often contain misleading or unreliable information, FIs have a unique opportunity to fill this gap and provide trusted data and advice on channels that are readily used.

Which social media platforms do you use to communicate with your customers?



How active is your institution on social media?



Wrapping up Gap Z:
Steps forward to reaching this demographic

Whether through inclusion in executive communities or communicating on accurate channels, banks need to pick up their pace if they want to keep up with Gen Z. As time passes, Gen Z's purchasing power is going to increase and their money is going to go to institutions that they recognize, and whose principles align with their own.

This is a tough ask from institutions that rely on protocol and conventions, especially when New Media continues to close the distance between the consumer and the institution. Even so, banks can bridge Gap Z if they keep the following four basic tenets in mind:

- Inclusion at the top: It's time that C-suites start reflecting the colors and diversity of the wider world. This diversity can no longer be locked out of boardrooms and must be the voice of the institutions of tomorrow.

- Earth first: Whether it's participation in ESG or helping build solutions that improve the standard of living as a whole, money needs to flow in the direction that helps people and their planet long term.

- Enter their world: Metaverse or TikTok, banks need to find a way to speak to generations that will be the core consumer group tomorrow.

- Cover all bases: Gen Z is actively looking for options that help them avoid revolving debt and wants to make wise choices with their money. Unlocking their potential as brokers of trust and financial wellbeing may pave the way for success for banks in the future.

Stay tuned for all things Steez

For more on Steez and Gen Z's financial habits, visit [Steez]

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