TEARSHEET

Gens under the lens

Financial consumers across the generations

2021

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Introduction

Welcome to Tearsheet's inaugural annual series: Gens Under the Lens. It's a look into the evolving financial archetypes of the generations — from Boomers to Gen X to Millennials to Gen Z. We look at the current research into their beliefs and habits, giving a sharper view for marketers and product people to better understand what drives today's financial services customers.

This guide for marketers starts off with the oldest generation, currently in their golden years – Boomers – who have a lot to deal with, from retirement coming up to Covid-induced inflation seeping in. After them are the busiest, and often forgotten, financial consumers – Gen Xers – in the peak of both their earning and spending years. Then the biggest and most racially diverse generation yet – Millennials – balancing high student loans and inflation as they set their sights on first major purchases. And finally the youngest financial consumers today – Gen Z, or Zoomers – the most tech-savvy group leading the demand for digital-first finance.

The Boomer consumer

Named after the baby boom phenomenon in the years following WWII, Baby Boomers are the second largest generation following Millennials.

They're also a generation that's been exposed to some of the biggest events in US history, from the Civil Rights Movement, to the Vietnam War, to the first-ever moon-landing.

When it comes to their financial habits, Boomers are often associated as the generation that shies away from the newer stuff.

But while Boomers do tend to show preference to the more old-school forms of payment and saving, they're not afraid of trying new things, and in fact, research is showing they're the fastest growing fintech adopters of all the generations.

Baby Boomer archetype

Baby Boomers are people born the years following WWII — around 1946 to 1964, according to the United States Census Bureau.

The Boomer generation is named after the baby boom phenomenon in the US. In the years following WWII, the country saw a record number of births. Between 1946 and 1964 there were 3 to 4 million new births annually.

The US Baby Boomer population was around 72.5 million in 1964. It peaked at 78.5 million in 1999, including new immigrants in the US born during the same period.

Today, Boomers are the largest generation next to Millennials. Baby Boomers have also grown up and participated in some major moments in US history, including the Vietnam War, the Civil Rights Movement, the Cold War, and the advancement of tech.

There are certain traits associated with this generation, according to research by the Corporate Finance Institute, specifically surrounding their attitudes towards work and their relationships with family and loved ones:

- Strong family ties and relationship values: Growing up with the rise of increased fair labor laws means baby boomers have had more time to cultivate relationships with friends and family, making these connections important to them.
- Hard-working and independent with American Dream-like beliefs: Boomers grew up with the idea of the American Dream — that if they work hard enough they can reach a state of wealth and fulfillment their parents were always striving for.
- From that hard work, Boomers are also associated with an independent, can-do attitude.
- Competitive: With so many born at the same time as them, Boomers grew up competing for spots in jobs and universities with limited capacity.
- Looking for excellence and quality and willing to pay for it: Boomer consumers aren't afraid to pay extra for products they see as high-value. Following the war, Boomers were exposed to new levels of quality in products and merchandise.

Today, 35% of Boomers are retired, 40% are still working, and 12% say they're self-employed, according to research by FIS.

By the end of this year, the youngest Baby Boomers will be in their late fifties.

Money troubles: Why they worry

With retirement right around the corner, Boomers' main worries tend to be around whether they'll have enough saved when they can't work anymore. Inflation in particular is making a lot of Boomers nervous about their retirement plans, according to a poll by Personal Capital. Because of the pandemic, around 21% say they need to work longer and delay retirement to make ends meet. 77% say they're somewhat or very concerned about inflation, with 33% being very concerned.

Another concern for Boomers is the financial wellbeing of their elderly parents.

With people living longer, the Baby Boomer generation remains a 'sandwich generation' — 'sandwiched' between financially supporting their children and their parents, who, as they age, may increasingly need financial support.

Financial literacy: What they know (or don't)

With Millennials and Gen Zers pigeonholed as the generations lacking financial literacy, there may be the idea that Boomers, in contrast, have a much better hold on financial topics.

But research shows that isn't exactly the case.

While their levels of financial literacy are the highest among the generations, their scores are not exactly something they can brag about.

40% of Boomers and the Silent Generation could answer over 50% of financial literacy questions correctly, but averaged at 55%, according to research by the National Association of Plan Advisors.

That's only slightly higher than Gen X (49%), Millennials (48%), and Gen Z (43%).

The Boomer consumer: Saving, investing & spending

Saving behavior

Fidelity's guidelines say Boomers that earn median income should aim to have $272,000 in their bank account by the age of 60.

Today' Boomers tend to be behind in those numbers. On average, they have $102,400 in personal savings and $138,900 in their retirement accounts, according to Northwestern Mutual's 2021 Planning & Progress study.

That means a lot of Boomers need to keep playing the saving game.

Investing behavior

The average Baby Boomer today is invested 60/40 — 60% in stocks and 40% in bonds in their individual retirement accounts and/or target date funds, according to the Employee Benefit Research Institute.

Historically, boomers were told by consultants and investment managers to stay the course. But that's a risky place to be when you're 10 to 5 years away from retirement. Experts say boomers should be investing 70% in safe assets to protect them from short-term investment losses due to inflation.

Spending behavior

Boomers seem to stick to what they know when it comes to their preferred payment methods. 71% of boomers still show preference for credit cards, debit cards, and cash — what they've always used. 67% will choose merchants if they have a loyalty program.

But just because Boomers have a special place in their hearts for the classic PB&Js of payment methods doesn't mean they're afraid of trying avocado toast now and again. 49% say they like to stay up-to-date with the latest payment methods; 57% say it's easier to pay via contactless; and 45%

say mobile wallets make it easier to pay, according to FIS's Generation Pay study.

39% of Boomer consumers will also choose a retailer based on if they can make purchases through their app.

How Boomers feel towards financial services

Boomers have the most trust in their banks compared to other generations, according to a survey by Depositaccounts.com, a lendingtree company. Only 2% of the people who changed banks during the pandemic were Boomers, compared to 43% Gen Zers, 35% Millennials, and 19% Gen Xers.

Meanwhile, Boomers' bank loyalty was least affected by the pandemic compared to other generations. 84% said their loyalty remained unchanged, compared to 59% of Gen Xers, 44% of Millennials, and 22% of Gen Zers.

But in terms of how they bank, Boomers, like the rest of the country, have had to adjust a bit. 75% of Baby Boomers with a smartphone accessed one of their accounts via a mobile device during the time period between March 2020 and April 2021, according to a study by Cornerstone Advisors.

Still, where there's an option for in-person instead of online interactions, Boomers do seem to take it. 75% of Baby Boomers said they interacted with branch personnel, compared to only half the respondents in other generations. 17% of Baby Boomers had no human interaction at all during account opening process compared to a third of Millennials and Gen Xers and a quarter of Gen Zers.

But if you have that image of the Boomer swearing in confusion at some unresponsive tech, think again. Most of Boomers' sought out human interactions seem to come out of habit more than anything else. When it comes to reasons for contacting humans during the account opening process, 33% cited that it was faster and easier, 55% said they prefered to talk to someone, and only 6% said it was because the bank didn't support what they needed to do.

Boomers also show more traditional preferences in other ways. 60% of Boomers prefer getting paper bills for example, according to Broadridge's CX and Communications survey.

But while Boomers may be showing more preference to the traditional ways of managing their finances, they're not digital naysayers, either. 66% of Baby Boomers in Broadridge's survey said they'd be more likely to go completely digital if companies made communication feel more engaging.

"Much is made of the technology gap between the habits of baby boomers and millennials. However, our research continues to show baby boomers become more comfortable with engaging with the companies they do business with in new ways," said Matt Swain, managing director and practice lead for Broadridge Communications Consulting. "Yes, they skew more traditional than millennials with their preferences, but many consumers in this demographic are ready for the next new – especially when it results in a better experience."

In terms of fintech specifically, Baby Boomers are the fastest growing segment of users, according to research by Plaid. Fintech use for those ages 56 and older has been doubling year over year to 79%.

Financial tools and companies serving Boomers

Fintechs targeting Boomers tend to zero in on things like ensuring enough money for retirement, protection against fraud, and managing elderly parents' financial challenges.

Examples from CBInsights include:

- **Eversafe**: An AI tool that helps protect life savings against fraud. The solution analyzes users' financial behavior and creates a personalized profile so that it can spot things that are out of the ordinary.
- **Mason Finance**: a software solution that makes it easier for users to sell their life insurance so they have enough money for retirement.
- **Golden**: A financial management app that helps Boomers track and manage their parents' expenses in one place.
- **Kindur**: a platform that lets people approaching retirement age design their own retirement plan.

Banks are also releasing Boomer-specific services. Capital One, for example, offers free online courses to older adults on digital banking. TD Bank allows users to give trusted contacts read-only access so that they can help monitor bank activity. That can be particularly beneficial for Boomers taking care of their elderly parents.

A look into Boomers' future

In the third quarter of 2020, almost 30 million Baby Boomers retired, according to the Pew Research Center, with the main reason being Covid forcing these people out of work. That trend seems to be continuing. 75% of respondents say they're planning to retire early, according to a survey from Coventry. The reasons seem a little less bleak though, with a lot of them saying the pandemic gave them time to reflect on what's important to them.

Still, savings remain a major roadblock for a lot of Boomers hoping to retire. On top of that, the sudden wave of retirees could have consequences for younger generations. If Boomers decide to leave their jobs without enough in their pensions, they'll have to dig into their other sources. That could lead to much smaller inheritance.

But fewer Boomers in the workforce does open up new senior level roles for Gen Xers and Millennials.

Then of course there's the Great Wealth Transfer that's approaching. By the end of this year, Americans over the age of 70 will have networth of almost $35 trillion. According to Federal Reserve data, that amounts to around 27% of all US wealth — a 20% increase compared to three years ago. Between 2018 and 2042, Boomers and the older generation are expected to hand down $70 trillion dollars — $61 trillion of which will go to heirs — Millennials and Gen Xers.

The Gen X consumer

The term "Generation X" was a textbook sociology term before it being popularized by author and journalist Douglas Coupland in his 1991 novel, *Generation X: Tales for an Accelerated Culture.*

The book tells the story of a group of young people, frustrated with being misclassified as Baby Boomers and the outlook handed down to them: "We're sick of stupid labels, we're sick of being marginalized in lousy jobs, and we're tired of hearing about ourselves from others."

Gen X archetype

Gen X is the generation of Americans born between the mid-1960s and through the 1980s. Children to the Silent Generation and Baby Boomers prior, and parents to Millenials and Gen Z, Gen X are infamously the smallest of all the generations.

Often, they've been left out, forgotten, and overlooked by society and its inner structures, including financial services (however, 'the forgotten generation' is due for a rebrand, as they're projected to outnumber Baby Boomers by 2028).

Today, Gen Xers are aged 40-55, well in the middle of their lives and careers, and many (73%) of them are married or living with a partner.

Gen Xers are also known as the 'latchkey generation' — the first to grow up in dual-income or single-parent homes, with minimal adult supervision and early-learned self-sufficiency. Notably, this instilled values in them of independence, responsibility, and a work-life balance.

Growing up in the 1980s meant two things: being born into an economic recession and the rise of technology.

Economically, they entered a world of broken promises in the shadow of the most severe global recession since WWII, marked by high unemployment, inflation, and an all-around crisis in the financial industry.

From a technology standpoint, Gen Xers were at the forefront of the transition from analog to digital. They were the first to grow up with personal computers, cellphones, the internet, and the opportunity to navigate an alternative, online world.

While excessive or even obsessive internet use is typically attributed to younger generations, Gen Xers are right up there. Behind Millennials, Gen X has the highest internet user rate globally, mostly spent on Facebook and video content consumption. Much of their time is also spent with online retailers like Amazon, particularly researching prior to making significant purchases.

Money troubles: Why they worry

The 2008 crisis hit Gen X homeowners the worst, who at the time had the most to lose. But still in their prime earning years, they managed to make a comeback as the only generation to recover lost wealth after the housing crash.

Today, they hold the greatest net worth, with households averaging $113,455.

Still, they struggle. The latest recession, brought on by the pandemic, left 8.6 million Gen Xers unable to make ends meet. And according to the 2021 Personal Finance Index, Gen Xers face the greatest (28%) difficulty paying off their loans and credit card bills in full and on time every month.

What Gen Xers worry about most is debt. Nearly 40% of Gen Xers say that their debts hold them back from successfully addressing their financial priorities, and that they spend significant amounts of time worrying and dealing with financial issues. Over 20% of them spend at least 10 hours a week worrying about finances, and 13% of them worry for 20 hours — both figures nearly double that of their parents.

As a result, 30% of Gen Xers find themselves dissatisfied with the current state of their financial lives. And 23% of them — the highest of all generations — do not believe they will achieve their long-term financial goals.

Financial literacy: What they know (or don't)

Financial struggles exist for many Americans across the age spectrum. How successfully people behave financially, against the backdrop of those struggles, weighs heavily on one's financial literacy.

The Personal Finance Index has consistently shown that financial literacy is linked to financial wellness, at all life stages. While financial literacy naturally increases with time, it tends to remain relatively low for Americans.

In 2021, only 17% of Gen Xers scored in the upper percentile of financial literacy, with the majority (62%) scoring in the mid range.

On the bright side, improving one's financial literacy is on the rise, and 44% of Gen Xers are motivated to become more financial literate.

The key to financial literacy is education. 58% of Gen Xers have received some type of financial education. Of the Gen Xers who were offered the opportunity, 30% made the choice to improve their literacy.

The Gen X consumer: Saving, investing & spending

In the peak of their earning — and most expensive — years, Gen Xers are the busiest of all. They're balancing careers and households, sending kids to college while still paying off their own student loans, and caring for aging parents (oh, and mid-life crises).

Their households are larger than average with the biggest spend on consumer goods and services, as well as big investments like homes and cars, totaling an average annual expenditure of $75,087.

While they're the greatest contributing generation to the economy, they're also the one with the most debt. According to Experian, they have the highest credit card ($7,236), mortgage ($259,100), and non-mortgage ($32,898) debt of any generation.

When it comes to investing, the majority (65%) of Gen Xers utilize a financial advisor for their investment decisions. They prefer full-service brokers or independent financial planners over bankers or accountants. Nearly half of them prefer their advisors to provide planning as well, with their key interests being retirement and tax plans. And as far as communication, they prefer to ask their questions over the phone, but receive their account performance reviews by email.

How Gen Xers feel towards financial services

When it comes to banking, Gen Xers bridge the gap between Baby Boomers and Millennials. Even though 39% of them were victims to fraud or identity theft, the overwhelming majority (91%) of them trust their primary financial services provider to protect them, and prefer their banks and credit unions to have branches — even if they don't use them.

At the same time, 71% of them would consider banking with nontraditional players like PayPal or Amazon (compared to only 27% of Baby Boomers).

As the first tech-savvy generation, they're comfortable using digital channels, and 39% would be willing to share more personal information in exchange for more personalized services.

Gen X want specific things from their bank. At the top of that list, and more than any other age group, is getting the best rates (39%). Right under that are lowest fees (37%), cash rewards (24%), and positive reputation (22%).

Financial tools and companies serving Gen Xers

According to Morning Consult's survey of 2021's fastest growing brands, of the 20 top brands for Gen Xers in 2021, Venmo and American Express came in 8 and 9 respectively, and challenger bank Chime came in 15.

When it comes to cryptocurrency, the willingness of Gen Xers to both purchase Bitcoin and to do so via the Coinbase brand, has risen steadily.

Despite the spread of Buy Now, Pay Later services, only roughly 10% of Gen Xers think of BNPL brand Afterpay favorably.

Digital wallets like Square's Cash App, however, increased in popularity among Gen Xers, both for its peer-to-peer payment services and online and brick-and-mortar merchant payments.

A look into Gen Xers' future

There's a 'great wealth transfer' taking place now and over the coming two decades. Roughly $68.4 trillion from Baby Boomers will be passing on to their heirs. Of that, Gen X is predicted to inherit more than half (57%) with the rest going to Millennials.

This changes things for the financial industry in a big way. Gen X (with Millennials at their heels) expect different things from their banking providers, and they think about money differently than their predecessors.

Having witnessed multiple economic downfalls in their lifetimes, this generation is notably characterized by pessimism and skepticism. They know that working hard and stashing acorns in a traditional FI is not a foolproof way to secure their future.

They know this because most of them have come nowhere near where their parents were at their present age. "There's a massive humbling in that," said Zack Miller, Gen Xer and Tearsheet's editor in chief.

Still, they strive to educate themselves, increase their financial literacy, and they're not afraid to try new things when it comes to banking.

The Millennial consumer

A significant 21st-century shift in the philosophy dictating product development has been the focus of a product — evolving from spotlight focus to laser focus. A product is no longer developed to fulfill a general purpose, floated in the market to get as many people to do what they wish with it. In product development today, the primary focus is on the audience — to find a niche with a scalable pain point, and to serve that fully with a robust solution.

For those developing or marketing financial products today, one of the key demographics, with the promise of arguably exponential growth in engagement, are the millennials. They are the wealth creators of today, the wealth holders of tomorrow. Who are they, what're they up to, and what do they want? Well, read on.

Millennial archetype

‘Millennial’ is the name given to Generation Y, or people born between 1981 and 1996, as defined by the Pew Research Center. It is the biggest generation in American history, numbering 72 million people. In addition, around 43% of millennial adults are non-white, making them the most racially diverse generation. A term popularly associated with the generation is ‘Digital Native’, and that is among their defining characteristics. They were the first generation born into technology, witnessing the consequent boom as they grew older, and naturally developed their lives around it.

Millennials came of age in a troubled economy, with the oldest beginning their careers as the dot-com crash happened. Others walked out of high school amidst the 2009 stock market crash and were just starting off their careers as COVID-19 wreaked economic havoc. 30% of Americans between the ages of 30 and 49 say that they, or someone in their household, lost a job due to the pandemic, according to Pew.

Money troubles: Why they worry

What makes saving and investing even more difficult for the generation is rising debt, accrued at a young age.

A recent Experian consumer debt study found that, in 2020, millennials’ total average debt increased by 11%, second-most of any generation, swelling up to $87,448. A large portion of the debt that millennials carry comes from student loans, of which an average millennial holds $38,877. In addition, it is estimated that some 3.5 million millennial borrowers owe $20,000 to $40,000 in debt. Add the two elements of earning and debt together, and you might understand why so many millennials say they simply don’t make money enough to save.

The rising cost of goods and services is another factor driving millennials’ financial woes. The Bureau of Labor Statistics recently reported that inflation in the US in 2021 increased the most it has since 1982, at 68%. And according to the Labor Department’s data, the increase in prices of goods has been the steepest in the categories millennials are likely to spend most in. These include housing — where the generation has the highest share of consumer spending — food & alcohol, transportation, health care, and education.

Financial literacy: What they know (or don’t)

A study found that a significant portion of US adults functions from ‘a position of poor financial literacy.’ In the first five years of the project, U.S. adults could only successfully answer 50% of the questions presented to them. Among millennials, in particular, 52% of the respondents managed to answer just half or less of the questions successfully.

While millennials (60%) were able to answer questions regarding their functional knowledge of borrowing almost as successfully as baby boomers (66%), they didn’t fare well in questions regarding investing, insurance, and comprehending risks.

As a result, traditional banking services, with their tedious processes and insufficient efforts in communicating with customers, has led them to fall out of favor for Gen Y. In fact, 78% of millennials reported being dissatisfied and frustrated with traditional banking service. Hence, they have been eager to adopt fintech solutions, as they not only prove to be simpler and more engaging experiences but also educate step-by-step in familiar ways.

In a survey, 67% of millennials said they would turn to neobanks for their financial needs, due to their tech-based solutions and faster services, versus just 53% of total respondents. Millennials also have a taste for customized solutions with respect to their financial lives. An Accenture survey found 58% want their bank to offer them more personalized advice and solutions that help them succeed financially.

The Millennial consumer: Saving, investing & spending

Millennials, as a generation, are struggling to save — some 66% feel they're not on track when it comes to saving for retirement. A reason for this is that after their expenses, they simply don't have any money left to save. Let's do some math to demonstrate this. The U.S. Census Bureau data reveals that in 2020, the median millennial household pretax income was $71,566. A separate study on the spending habits of different generations found that millennials spend an average of $208.77 daily. This estimate includes the average daily costs of groceries, housing — millennials' biggest expense — utilities, insurance, entertainment, and eating out.

Roughly working that number up to a year, we can estimate an average millennial spends $76,201, which is more than the generation's median household pretax income.

However, that's not to say that the generation isn't saving at all. In fact, they're starting to save sooner than any generation before them. A Wells Fargo report found that millennials started saving for retirement at an average age of 25, much younger Gen X (30) or boomers (36). According to a 2020 survey, 73% of millennials were actively saving for major life goals, and 59% had saved $15,000 or more. More surprising is that nearly one in four millennials have $100,000 or more in savings. According to the study, millennials' top financial priorities include saving for retirement (75%) and building an emergency fund (51%).

Millennial savings, however, took a hit as the world locked up in light of the COVID-19 pandemic. A study found millennials to be more likely than older generations to dip into retirement funds in order to meet pandemic-time expenses. According to the study, 33% of millennials had already dipped into their savings, or were considering doing so, compared to 15% of Gen Z.

In popular culture, millennials are often portrayed as a generation wanting to save big and retire early, but that was refuted by a CFA institute study on millennials and investing. The study found that while some in the age group expected to not retire at all, those that did expect to do so by 65. In fact, another survey found that 61% of older millennials born between 1981 and 1988 say they're planning to work a second job or pick up part-time work during retirement.

Almost mathematically, the inability to save and having to service loans serve as a barrier in millennials' entry to investing. The same CFA Institute study found that 50% of non-investing millennials cite insufficient savings as a major hurdle, and 52% of millennials with retirement accounts cite debt as a major concern. However, that is not to say that millennials aren't investing — in fact, 31% started investing by the age of 21, a significantly higher percentage than baby boomers (9%), and Gen X (14%) by that age. The most popular investment options for millennials were found to be stocks (66%), mutual funds (47%), crypto (39%).

How Millennials feel towards financial services

A banking preference that has become central to millennials' financial lives is their decision to go digital. A study by non-profit BAI revealed that 79% of millennial customers use online banking to open a deposit account. That fuels the popular notion that millennials don't want to bank at branches anymore, and would rather do everything online. A survey by financial services firm Kasasa, however, shed light on how that could be an incorrect judgment. 77% of millennial respondents said that, among challenger banks, they would switch for one that offered both online and in-branch banking options.

A study found that, among Gen Y and Z, about half who opened a checking account in the past three years dealt with a bank branch employee during the process, and roughly a third talked to a call center representative.

So, with all options available online, why are so many of the digital natives heading to branches? Around 40% said they couldn't find what they were looking for on the application; another 40% said they simply felt in-person would get the job done faster; and 25% said their service provider did not have the required online capabilities. However, there's another underlying reason slowly becoming apparent: some people just prefer human interaction. They find it helps perform their tasks faster and feels more personal.

Cornerstone Advisors research found that among millennial consumers, 42% said they were calling their banks more and 42% also said they were visiting branches more. A Deloitte study on millennials' banking habits revealed that while many enjoyed online tools, a significant portion complained about a lack of physical bank branches, where they could meet someone face-to-face. So, the solution to banking millennials does not lie entirely in the digital realm, or in brick-and-mortar branches, but somewhere in between.

To understand how readily millennials have accepted modern technology's innovation in finance, we review the success of new products like A2A and P2P payments and BNPL among the generation. With new-age apps like Venmo, Square, and ApplePay, 40% of millennials said they are using peer-to-peer payments more frequently. In fact, 50% of millennials said they are relying on e-transfer banking services to pay bills and perform everyday banking transactions. Similarly, during the pandemic, 21% of millennials reported using BNPL offerings and other installment plans.

Financial tools and companies serving Millennials

Millennials, broadly speaking, turn towards digital platforms for their financial needs. As a result, several millennial-focused service providers have sprung up, providing digital solutions for their specific financial concerns. A non-exhaustive list of platforms popular among the demographic, organized by its needs, is as follows:

- For **investing**, they use Robinhood, Personal Capital, Binance;
- For **budgeting**, they use YNAB, Digit;
- For **credit score management**, they use Credit Sesame, Credit Karma;
- For **student loan management**, they use ChangED, FedLoan.

A look into Millennials' future

It is projected that, in the next few decades, the US will witness the largest inter-generational transfer of wealth in history, as assets worth $30 trillion will move from older generations to younger ones. In fact, researchers found that one in 10 young consumers expects to receive an inheritance in the next two to three years. Millennials are reaching the stages of their lives where they wish for stability, as they begin their own families and have kids, and hence on the expense side of things, they want to buy homes. So, with wealth coming their way and the desire to own homes, what's next for the generation?

Financial advisors.

A Broadridge survey found that, over the next few years, more millennials will be turning to financial advisors than ever before. They found that of the 39% of millennials not using a financial advisor, the majority (65%) plan to begin using one in the next two years. Why would they be doing that? Well, of those without an advisor, 53% state that it's due to the concern of not being on track to meet financial goals, and 46% said it's to reduce financial stress.

The Gen Z consumer

The young and the restless among consumers, Generation Z is emerging as a demographic sector increasingly worthy of attention. With the oldest among them entering the workforce and starting their financial lives, this generation will be a key driver in shaping the future of fintech and banking services.

Gen Z grew up with the internet, computers and smartphones. They dislike arduous processes, prefer something quick and easy, and have no problems switching between services and trying something new. Being tech-savvy and digital natives, they attentively curate their online time and have high expectations when it comes to digital interactions.

As they're not receiving a lot of formal education around financial matters, they turn to the online environment for information, especially social media. Zoomers invest more in crypto than their predecessors, and care about social equality and climate change.

Gen Z archetype

Generation Z, also known as Zoomers, represents the generation of individuals born between 1997 and 2012, following Millennials, according to Pew Research. They are usually the children of Generation X, and make up around 20% of the US population.

If Baby Boomers grew up with television, Gen Z grew up with computers. They were the first generation to be born in a time where computers and the internet were being commercialized for widespread use. Nearly 80% of teenagers got their first smartphone around the age of 12, and spend a median of five hours a day on their phone.

As the cutoff point between Millennials and Gen Z is the year 1997, this younger generation has little memory of major political events in the US such as 9/11 and the Iraq/Afghanistan war that followed. Economic turbulences such as the 2008 market crash also bear little significance to them. For Zoomers, the Covid pandemic has been the most unstable period in their lives, and the first time they were financially impacted due to a rocky job market.

Nevertheless, their political and social views align with those of Millennials, both having a liberal set of attitudes. They care about social justice and climate change issues. While Millennials are currently the most diverse adult population in the country, Gen Z is even more diverse, as nearly half come from racial or ethnic minorities.

Gen Z is set to become the largest group of consumers in the next decade, making them a pivotal group for the future of many industries.

Their spending power is currently estimated at $143 billion. Gen Zers spend around $90 a day on average, the least of all other generations. Housing takes most of their disposable income, followed by groceries, eating out and education.

Some of the older Gen Zers just finished college in 2020 and are now entering the workforce, meaning their spending power will continue to increase. Moreover, they're expected to inherit $30 trillion of wealth in the coming decade together | with Millennials.

Money troubles: Why they worry

Spending their teenage years on their phones, Gen Z has become especially prone to struggles with mental health issues. They have been described as the 'unhappiest generation ever', as they suffer from low self-confidence compared to previous generations.

When asked how "things are going in the US", 21% of Gen Zers said they were "scared" — more than any other generation — and only 12% said they were "optimistic", when at least 23% of other generations felt that way, according to a Collaborata study.

Among financial frustrations, it seems that they are the most annoyed with bank processes. Some 78% of Millennials and 83% of Gen Z consumers reported being frustrated with bank processes. That compares with 69% of Gen Xers and 57% of Baby Boomers reporting similar feelings of dissatisfaction.

Financial literacy: What they know (or don’t)

While Zoomers share some strong idealistic concerns for social causes, they can also be pragmatic when it comes to their financial well-being. With financial literacy not currently being taught in schools, many Zoomers are simply being educated by their parents or figuring it out via the internet.

Gen Zers also said that aside from their parents, they trust banks and financial companies most when it comes to financial advice and information.

But the desire to learn more is there. Data from Experian showed that of recent high school graduates who had never taken a personal finance class, 43% said they want to learn to save, 38% want to learn to manage their expenses, and 36% want a class that teaches them how to file their taxes.

However, how Gen Z is learning about finance is quite different from previous generations.

According to a Credit Karma study, 56% of Gen Z and Millennials say they intentionally seek out information or advice about personal finance online or through social media platforms, with the majority of Gen Z seeking this information on Instagram (57%) and TikTok (52%).

This shows that they want to learn about finance, but in new, innovative ways. To attract and retain Gen Zers, service providers will need to develop products that offer value, and are authentic and educational.

Financial wellness is also one of their top priorities. In a Mark Beal survey of Gen Zers, financial wellness at 27% ranked ahead of career development (10%) and equal to physical fitness (27%) as a priority goal-setting area in their lives, second only to mental health (37%).

The Gen Z consumer: Saving, investing & spending

Together with Millennials, Zoomers will be the dominant banking consumers in the next decades, redefining digital engagement as well as financing and payments. Gen Z loves flexibility and integrated services, showing interest in trying out new technology solutions.

For example, they show a clear shift away from traditional credit card usage, with Gen Z preferring non-credit flexible payment options like buy now, pay later (BNPL). They hold an average of only 1.4 credit cards, compared to 2.5 for Millennials and more than 3 for older generations. Meanwhile, 27% of Gen Z and Millennials used BNPL, versus 14% of Gen X and the US adult average of 17%, according to a GP Bullhound report.

A study by eMarketer also found that the vast majority of BNPL users are either Millennials or Gen Zers 14 and over. More than 40% of BNPL users in 2021 were Millennials, while Gen Z represented around 30% of users.

As Zoomers age, earn and shop more while BNPL services are becoming more mainstream, they are the most likely to opt for these payment options. The study found that by 2025, nearly half of Gen Z will have used BNPL services at least once a year, compared to 40% of Millennials and 30% of Gen X users.

Furthermore, over 50% of adult Zoomers use a digital wallet and over 75% use other digital payment apps or Peer-to-Peer apps, according to a PYMNTS report. Younger generations are extremely likely to switch financial providers if they are unsatisfied or their needs are unmet, the report said.

Crypto

Always plugged into the latest technology trends, Gen Z is also very interested in the crypto space. Over 50% of Gen Zers and Millennials invested in cryptocurrencies or funds that have crypto exposure, compared to 30% of Gen X and Baby Boomers, according to a BAI Banking Outlook report.

Zoomers also invest a larger portion of their portfolio in crypto compared to other generations. While most Millennials, Gen X and Boomers allocate up to 10% of their portfolios to crypto, the majority of Gen Z respondents invested 10-50% in cryptocurrencies, according to a MoneyMorning study. Around 30% of Zoomers invested 30-50% of their portfolio in crypto, compared to 23% of Millennials and 24% of Gen X.

How Gen Zers feel towards financial services

Digital-first banking

Mobile banking has become essential for Gen Z, with 97% accessing their bank account though a mobile device, similar to Millennials, a Cornerstone study has found. While the majority of Gen Z respondents interacted with bank representatives to open an account, they showed the least preference for talking to someone about getting information – they use direct contact mostly when they can't find what they're looking for online and because they find it faster and easier.

Gen Z has the highest preference for opening a bank account online, with nearly 60% opting to open a bank account on desktop or mobile app, and only 12% would go to a branch, which is the top preference for Gen X and Baby Boomers.

The study also revealed that, similar to other generations, Gen Z mostly cares about low monthly fees and quality of online tools when opening a new checking account. They cared less about the quality of in-branch experiences and bank employees compared to older generations. However, this might also be due to Gen Z having less complex financial lives, therefore requiring less support.

Despite their digital-first mindset, some younger consumers still want and value high-quality human interactions in their financial lives. A third of Zoomers have an account manager at their primary financial institution to help them understand how well their financial life is performing. Around half of Gen Z consider the ability to schedule branch appointments through the mobile app to be critical or important, and 60% want the option to contact customer support through the app.

Gen Z are taking on more debt

Younger generations have also met increasing debt levels during the pandemic. Gen Z showed the highest rate of change compared to the other generations, with total average debt up by 68% to just over $16,000 in 2020. Millennials followed with $87,448 in average debt, 11.5% more than in 2019.

Notably, Gen Z recorded the highest yearly growth across mortgage debt — up 19% to $169,470 — and personal loan debt — up 33% to $6,004 — in 2020, according to Experian data. This is partly a result of younger consumers reaching an age when taking out loans is more common.

The rise in personal loan debt can also be attributed to the growing popularity of fintech lenders, which accounted for nearly 50% of new loan originations in 2019. Back in 2014, the figure was only 22%.

Millennials and Gen Z represented 28% of personal loan customers for traditional banks, while 40% of loans issued by fintech brands were taken out by the two younger generations.

When it comes to credit card debt, older generations decreased their debt at bigger rates — more than 10% — than Gen Z, who only saw a 6% reduction from 2019 to 2020. As younger generations typically carry lower balances and have lower credit limits, the average credit card debt for an adult Zoomer is the smallest compared to other generations at around $2,000.

However, since the pandemic, credit card origination doubled according to a TransUnion report, with the return in consumer demand being most pronounced for Gen Z. The share of new cards originated for Gen Zers rose to 14.2% in Q2 2021, up from 13.3% in Q2 2020 and 9.5% in the same period of 2019.

"As we enter this new phase of the pandemic where accommodation programs are not as prevalent and liquidity sources such as stimulus funds are drying up, it is a natural next step for consumers to reassess their current credit obligations and apply for new forms of credit – especially if access to credit was minimal in the first place," said Matt Komos, vice president of research and consulting at TransUnion.

Interest in social causes

According to a BAI study, nearly 60% of Gen Zers would switch their financial services provider for one more committed to diversity, equity and inclusion or environmental, social and governance issues. Millennials are a close second at 55%, whereas only around 35% of Gen X and 17% of Baby Boomers would make the switch for these causes.

Understandably, Zoomers care a lot about environmental matters, as they will live through the impacts of climate change more than their predecessors. They are showing an interest in green neobanks like Aspiration, Atmos and Ando Money, according to Lana Khabarova, founder of personal finance website SustainFi.

"Gen Z members care the most about climate change. They are showing interest in making their financial lives "greener," so they look for sustainable bank accounts and credit cards (where their deposits don't fund fossil fuels," she said.

Financial tools and companies serving Gen Zers

The banking market is seeing an increase in teen banking products from both the established industry as well as new entrants. Legacy institutions like JPMorgan Chase and Wells Fargo are offering teen banking solutions, while neobanks like Revolut launched its sub-account Revolut Junior.

MX research showed that only 47% of Gen Z respondents claim to have an account with a traditional bank, credit union, neobank or technology company. This means that a large portion of this demographic is still untapped, leaving room for new entrants to make their play.

Consequently, more and more neobanks and fintech platforms are focused on winning the hearts and minds of younger generations. Here are a few that are targeting this demographic segment:

Step

- Launched in 2020
- Grew to more than 2.5 million users
- Offers teens a fee-free FDIC-insured account together with a spending card, allowing them to build credit
- It also has a peer-to-peer payment function
- Parent or guardian is required to cosign for users under 18
- Backed by celebrities and social media influencers such as TikTok star Charli D'Amelio and NBA player Stephen Curry

Greenlight

- Launched in 2017
- Serves more than 3 million parents and children
- Partnered with JPMorgan Chase in 2020 to offer a kids account called Chase First Banking
- It has savings and investing capabilities for children
- Plans to offer parents an investing platform where they can research stocks and ETFs

GoHenry

- Launched in the UK in 2012, expanded in the US in 2018
- It has 2 million members, adults and children
- Focuses on financial literacy, targeting parents of kids between the ages of 6 and 18 who want to teach their kids about finance
- Parents can block/unblock their kids' card, set spending limits, choose where kids can and can't use their cards, and assign chores
- Charges a monthly fee of $3.99 per account in the US

Copper

- Targets teens between the ages of 13 to 19
- Offers users a debit card, peer-to-peer payments, direct deposit, automatic savings options
- Encourages teens to save money through reward programs

hi

- Launched in 2021 with a digital wallet that allowed seamless payments across different messaging platforms (initially Telegram and WhatsApp, next LINE, Facebook Messenger, and others)
- A not-for-profit fintech that uses blockchain technology to build services powered by the community
- Reached one million members in less than 100 days
- Aims to increase the adoption of digital finance to millennials and Gen Zers
- Members can hold over 100 currencies, both traditional and crypto currencies, all in a single account

Cash App

- Became the latest fintech to aim its services at the Gen Z demographic when it announced last week that it would open the app to 13- to 17-year-olds
- Allows teens to send peer-to-peer payments through the app and use a customized Cash Card, with the proper consent of a parent or guardian
- The platform is owned by Twitter CEO Jack Dorsey, who also runs the digital payments company Square

A look into Gen Zers' future

As early adopters of new technologies, Zoomers tend to set the trends when it comes to digital and mobile products. But as young consumers are also more fickle, it can be difficult for financial providers to offer products that stick. This pressures issuers to make products as attractive as possible, otherwise they won't shy away from moving on to try something else.

Financial institutions may lose customers even from the beginning of the onboarding process. Opening a new financial account can require up to 120 clicks, and it can take over a month for the account to be activated. Meanwhile, with an Apple Card or a PayPal for example, the account is fully functional in minutes.

Fintechs are well positioned to entice the younger generation with their forward-looking products and applications. Gen Z are all about digital finance solutions, a market with low barriers to entry where new players show up with various incentives and top dollar user experiences.

However, there are still opportunities for traditional banks to engage with Gen Z. This younger generation is thinking about its future and has clear financial goals they want to reach later in life. A report by the Center for Generational Kinetics shows that 91% of Zoomers plan to buy their own home someday, 69% think saving for retirement should be a priority and 66% are worried about accumulating or not being able to pay off debt. This shows that there is room for banks to support this demographic as they begin their financial journeys.