

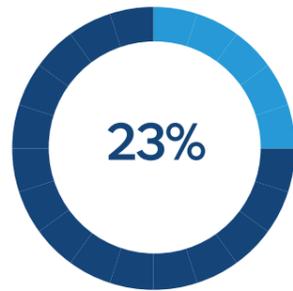
Generation Z

fuelling disruption
in financial services

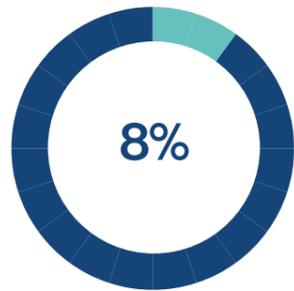


Summary

The next generation of young adult customers is beginning to reach maturity, and they are displaying significantly different behaviours to generations that have come before them. This cohort are financially savvy, digitally adept, and place high expectations upon their providers. Early on in their financial journey, they are looking to providers not just for top-notch service and easy access, but for advice and support.



> 23% are most likely to buy an insurance product from a human advisor in a branch



> 8% still prefer to use phone and white mail as communication



Target Group spoke to 1,000 consumers from across the UK, with participants drawn from several generations determining what is most important to them when looking for financial products and providers.

The results provide a fascinating insight into the vast differences in how each generation wishes to approach their finances, and what kind of service they expect from their providers.

The research shows that, like the Millennials that came before them, Gen Z want an omni-channel experience that lets them pick and choose how and when they access

and manage their accounts and products. Gen Z has a more extensive set of needs, that the best-equipped providers will need to grasp if they are to capture this generation's consumer loyalty.

Expert advice

While the online experience is undoubtedly important to this group of young consumers, they also want access to expert advice from friends and family, as well as their bank or building society. They want to experience the security that a personal touch and one-to-one professional advice can provide, but they want it to be accessible at a time and place that suits them.

This much is made clear by the observation that Gen Z is the group most likely to buy an insurance product from a human advisor in a branch (**23%** compared to **12%** of Millennials and Baby Boomers), but also the most likely group to engage with a Virtual Assistant to manage their products.

In a fast-paced world, phone and white mail are becoming less important communication channels across all generations, preferred by just **8%** and **5%** of respondents respectively.

Different values

Gen Z are more likely to use branches than other generations, particularly when setting up new products. Receiving advice and support is important to them, but without sacrificing data security and 24/7 service.

Lenders need to recognise that Gen Z is not just following in the footsteps of Millennials; these young consumers are forging their own path and have different values, to which providers must adapt.

They want to experience the security that a personal touch and one-to-one professional advice can provide, but they want it to be accessible at a time and place that suits them.



Who are Generation Z?

Generation Z are the next cohort after the better-known Millennials.

32%

> Analysis by Bloomberg suggests that this group will make up a hefty 32 per cent of the global population in 2019



Gen Z is typically defined as those born from 1995 until around 2010 - the youngest are likely to be starting to take an interest in their first current and savings accounts while the oldest are starting to think more about loans, mortgages and insurance.

Analysis by Bloomberg suggests that this group will make up a hefty 32 per cent of the global population in 2019 - outstripping even Millennials.

Gen Z is the first generation of people never to have known a world without the internet; the first of modern times to be worse off than their parents; and the first in several decades to have grown up in a recession. These experiences mean that Gen Z's worldview differs greatly from that of the oft-discussed Millennial generation.

Realistic and innovative

The Bloomberg report identifies the most common traits amongst Millennials as entitlement, idealism and creativity. In stark contrast, it identifies Gen Z as being realist, innovative and self-reliant. Other studies have shown that this generation is more risk averse in their attitudes and behaviours, and more conservative in their views than generations which have come before¹.

Coming of age during a global recession, and at a time when university fee structures have become less attractive, many of these young people are far more likely to skip higher education entirely and go straight into the world of work. This also inspires this group to be far more price-conscious than their predecessors, as well as more entrepreneurial.

¹ <https://www.bloomberg.com/news/articles/2018-08-07/move-over-millennials-it-s-gen-z-s-turn-to-kill-industries>

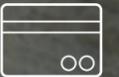


Multi-taskers

Gen Z's characteristics make them a very novel group of consumers for companies to try to engage with. Growing up in the digital age makes them adept multi-taskers, skilled at processing information more quickly than other generations, but it also means their attention span is shorter, meaning brands need to catch their eye quickly, and effectively retain it.

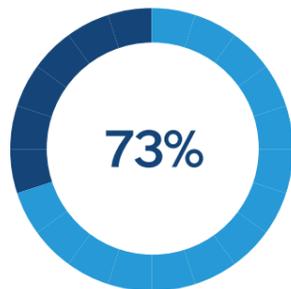
Research by Euclid Analytics has also found that 66% of these consumers prefer to shop in-store, but will use technology to research any purchases beforehand.

66%

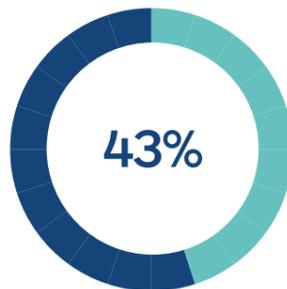


Gen Z and money

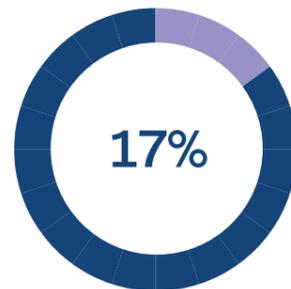
These young people started their financial journeys far earlier than any other generation. Indeed, many will have started saving - albeit unknowingly - before even reaching their first birthday.



> 73% ask relatives for financial help



> 43% ask friends for advice when choosing a product



> 17% use comparison websites when choosing a product

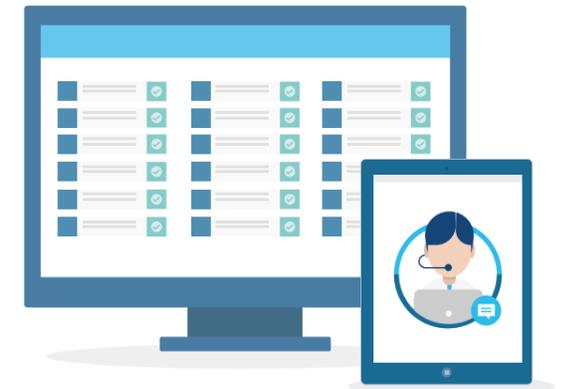
The introduction of the Child Trust Fund scheme by the UK Government in 2005 meant that this generation had started saving for their future before they had even started attending school. Beyond this, growing up during the financial crisis of 2008 and subsequent recession will have put finances in the forefront of the minds of this cohort throughout their lives. As a result, many have prioritised starting their working lives earlier, over attending university and attaining a higher education.

In need of advice

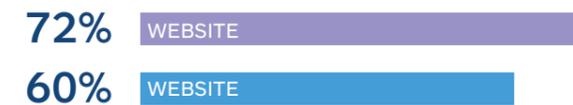
Perhaps because they are earlier on in their financial journeys, and therefore less experienced in managing their money, Generation Z is the most likely of all the generations assessed to seek advice from friends and family when making their decisions. It seems that younger consumers still value input from those more knowledgeable and experienced than themselves when they are first grappling with a new product.

Parents are the first port of call for advice for Gen Z, with **73%** asking relatives for help, almost doubling the proportion of Millennials (**42%**) who turn to relatives for assistance. Interestingly, some **43%** of Gen Z ask their friends for advice, despite them likely being equally inexperienced in the world of financial products. This emphasises the potential for providers to generate new customers within this cohort through word of mouth alone, although this relies on customers being able to confidently promote their provider's high-quality service to their peers.

Preferred method of research for Gen Z



Preferred method of research for Baby Boomers and Millennials respectively



Generation Z is also the least likely to use a comparison website when it comes to finding help choosing financial products and services - just **17%** use these tools, compared to **34%** of Millennials and **56%** of Baby Boomers.

Going in branch

While just **6%** of Gen Z do their research by phone when it comes to seeking out a new financial product, this was the highest proportion of any generation for this type of research.

A further **12%** of Gen Z will use an app for research and **12%** go in branch. Surprisingly, this group is the least likely to use conventional websites for research (**44%**), far outstripped by the **72%** of Baby Boomers who use websites, and **60%** of Millennials.

This is invariably because Gen Z is less likely to use a desktop or laptop computer than other groups; preferring instead to use their smart mobile phone or tablet for any task required. This also reflects the different priorities across the generations. Younger consumers will place a higher importance on support and advice when choosing a product, while the more experienced place a greater emphasis on price and value for money.

Managing money

Generation Z are very comfortable with the idea of using automated chat as a legitimate contact channel.



> 63% feel comfortable managing their finances using a virtual assistant



> 58% manage their finances using their smartphone



Most (63%) would feel comfortable managing their finances using a virtual assistant for tasks like managing their current account, setting up a new insurance policy, carrying out administration on their loan or mortgage, and handling their savings account.

Once the research has been undertaken, the advice consumed, and the product set up, the technological prowess of Gen Z comes to the fore. This group are far more likely than any other to manage their finances using their smartphone (58%), highlighting the on-the-go, on-demand lifestyle of Gen Z. Accessing finances using a mobile phone gives them the flexibility to use a number of channels to

engage with providers, from apps and websites to making calls and sending emails. It also supports Open Banking solutions in their potential to fully to capture this generation's interest in the coming years. As the tools become more readily available to Gen Z, the most technologically-integrated generation ever, this demanding cohort will be looking for providers that can deliver a whole range of financial services, in one place.

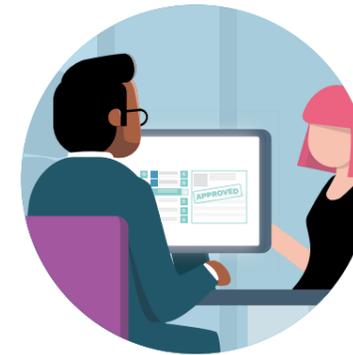
Confident complainers

Gen Z's technological aptitude is also apparent in how they deal with complaints. Just 30% would go into a local branch to lodge a complaint, compared with 58% of Baby Boomers.

Instead 62% of Gen Z would prefer to complain via email, and 45% over the phone. Fewer than 20% of all respondents would make a complaint by post (despite the fact that this is one of the favoured ways for providers to receive a complaint). Meanwhile, 13% of all respondents said they would be comfortable using a mobile app to make a complaint, though this rises to 17% for Gen Z customers.

Using online tools

It is easy to assume that younger consumers may be more willing to trust their finances apps and automated decisioning, but Generation Z display many of the same reservations about these services as their older counterparts.



Preferred method of communication for Gen Z



Preferred method of communication for Millennials



Preferred method of communication for Baby boomers



The human touch

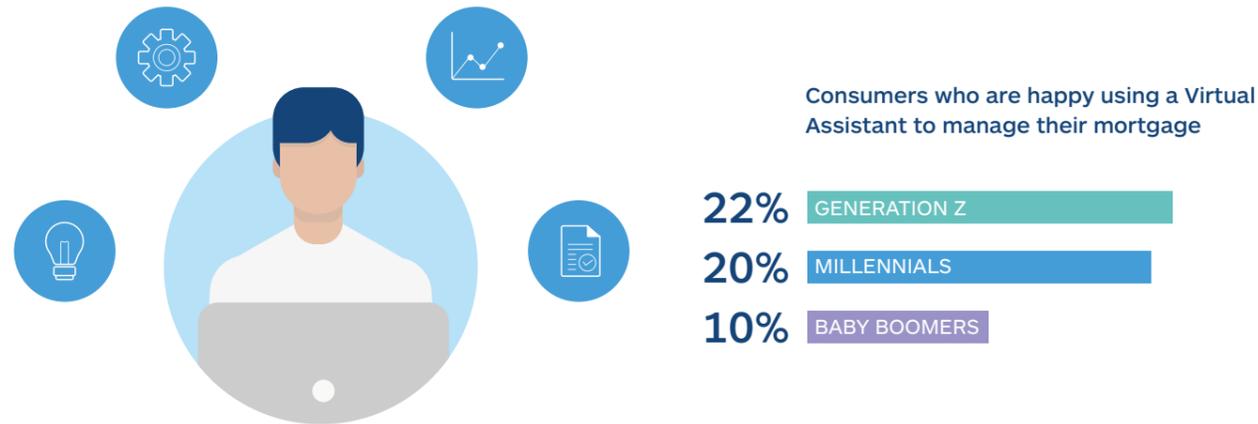
Asked if they would like a Virtual Assistant to assist them in maintaining their savings accounts, some 17% of Gen Z said they only want to communicate with a human being, clearly preferring a more personal approach when it comes to customer service. Older generations might prefer the human touch because of a desire to interact with people, based on what they've become used to over the past four or five decades. Gen Z on the other hand are more likely to look for a human interaction because of their lack of financial maturity, being early in their financial lifecycle. They are likely to understand the limitations of a bot and are looking for a more advisory service from their provider.

Highlighting the growing trend of using digital first, this is broadly in line with the number of Millennials who also prefer the human touch, and far lower than the 43% of Baby Boomers who said they only want to deal with a human.

With virtual assistants becoming more prevalent, 50% of Gen Z said they would be open (with or without reservations) for using a Virtual Assistant to manage their savings accounts, closely mirroring the 53% of Millennials who would also be open to this service. Of those Gen Z respondents who would be open to using a Virtual Assistant, some 28% would welcome the service, while only 15% of all respondents would have some concerns.

It is clear that the introduction of a Virtual Assistant would appeal to Gen Z customers, as well as other age groups. This is a group that strives for convenience, as well as one-to-one advice. While concerns obviously remain about the security around such a service, Gen Z appear pragmatic to recognise the usefulness of a Virtual Assistant, and the beneficial role that they can play in the provision of 24/7 customer service.

Across the generations it is clear that the greater the value of a financial product, the more likely the customer is to want support from a human being rather than an automated assistant.



Higher value products

Customers are typically happy to self-serve when it comes to research, for example, but visiting a branch is the most favoured channel when applying for a mortgage across the board and **26%** of all customers would visit a branch to take out a loan.

This figure rises to **41%** among Baby Boomers, who value the ability to go in branch when it comes to taking out a loan. Around half of Baby Boomers say that, regardless of the product or service, they would only like to deal with a human being.

Meanwhile, some **22%** of Gen Z customers said they would only want to speak to a human if they were

taking out a mortgage, but **20%** would welcome a Virtual Assistant to manage their mortgage once it was up and running. This reiterates the fact that once the initial decisions have been made, these younger consumers are happy for tech to take over.

However, this is lower than the **25%** of Millennials and **26%** of Gen X who would use a Virtual Assistant for this service. Just **10%** of Baby Boomers would use a Virtual Assistant for their

mortgage - some **53%** would only deal with a human for this service.

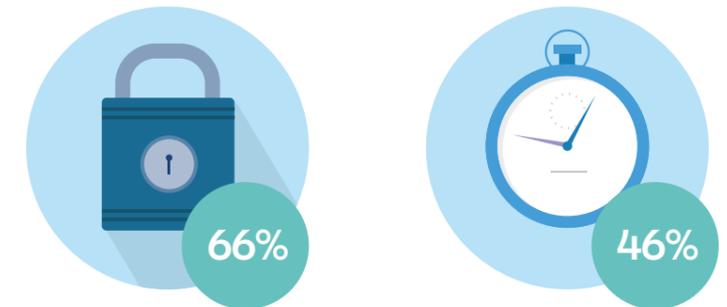
Customers are typically more open to the idea of a Virtual Assistant for shorter-term or lower value products such as insurance and current accounts. Nearly **50%** of respondents claimed they would welcome the use of a Virtual Assistant for these products or would use the service with some reservations.

Once initial decisions have been made these younger consumers are happy for tech to take over

Data security is a priority

After a number of high profile cyber-attacks on big businesses in recent months, it is perhaps not surprising that data security is the most important attribute that all generations want in their financial providers.

Indeed, **66%** of digitally-savvy Generation Z consumers cited this as a factor which would make them stay with a savings account provider, with a 24/7 service coming second (with **46%** citing this as the key factor when deciding whether to remain with a provider or switch).



Stick or switch

Gen Z has the greatest proportion of any group that cites a 24/7 service as being something they value highly, at **46%**. Gen Z also has the lowest proportion of respondents (**37%**) to cite interest rates or charges offered by a provider as an important factor.

But how Gen Z value their personal data becomes apparent in their unwillingness to give it away. Some **29%** said they would not share personal data with their bank even if they received additional services or

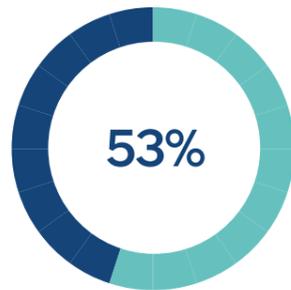
rewards as a result - the lowest proportion of any group - and a further **26%** were unsure. This could be evidence of a lack of trust in providers or could indicate a greater awareness of how personal data can be used or stored.

Just **45%** of Gen Z respondents said they would share their data for rewards, far fewer than the **58%** of Millennials and **52%** of Gen X who would do this. Perhaps highlighting their concerns around how their data is used in this post-GDPR world, a breach would cause **26%** of Gen Z to switch their savings account provider, the highest proportion across all of the groups, and rising to **34%** when it comes to insurance providers.

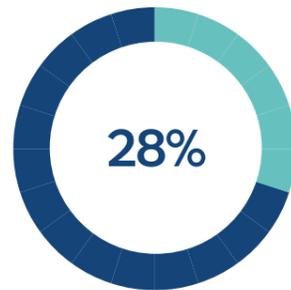
While **29%** would most likely switch savings provider if their fees or interest rates changed, this was by far the smallest difference in the two reasons across the generations. The way consumers view their data is changing and providers are going to need to keep up with these expectations.

Brand and ethics

In choosing a provider, an established brand is the most important factor to Generation Z, with 53% saying this would influence their decision.



> 53% saying this would influence their decision



> 28% say the ethics of the company would also be a factor in their decision-making



Some 28% say the ethics of the company would also be a factor in their decision-making - the highest proportion across the generations. In comparison, just 19% of Gen X rate a company's ethics as something which might influence their choice of provider.

Perhaps displaying their financial inexperience, Gen Z has the fewest number (48%) of people who say the interest rates and charges available are a deciding factor in their choice of provider; customer experience is far more important to this group than commercial factors such as these.

Personalised service

Over a third (38%) of Gen Z considered a personalised service when making a complaint as very important, while a further 29% said it was fairly important.

Remarkably, some 12% of all respondents have never experienced a personalised communication from their financial services provider, while 69% have only received personalised communications some of the time.

Gen Z is the least demanding group of customers in some ways -

just 51% say that a provider responding to a complaint quickly was very important to them, compared to 81% of Baby Boomers.

Meanwhile, the competence and accuracy of the service remains hugely important across all generations. Some 85% of all respondents said it is very important or fairly important for providers to have accurate account information when they get in touch about a complaint, and 78% want their provider to have all their information to hand.

Conclusion

Generation Z still favour the multi-channel, hybrid approach used by Millennials, but are more likely to want support and advice, both in branch from their provider as well as from friends and family.

While Millennials and Baby Boomers have a clear idea of what is important to them and how they want to access services, many of the responses from Gen Z are far more varied, suggesting they are still feeling their way in the world of finance and working out their priorities.

This generation grew up during a recession, and that has made them risk-averse and cautious when it comes to their finances². Providers will need to offer a helping hand as these consumers start to navigate the financial world.

Gen Z may not yet prioritise the best interest rates and best value products to the same extent as their predecessors, but they want an established brand with good ethics, that they can trust with their data and which will provide them with a round-the-clock omnichannel service. Providers will have to be agile and innovative to win over this group of customers, and work even harder to retain their custom.

² <https://www.bloomberg.com/news/articles/2018-08-07/move-over-millennials-it-s-gen-z-s-turn-to-kill-industries>



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