

GAPCO

ATTITUDES TO FINANCE

A GENERATION Z SURVEY

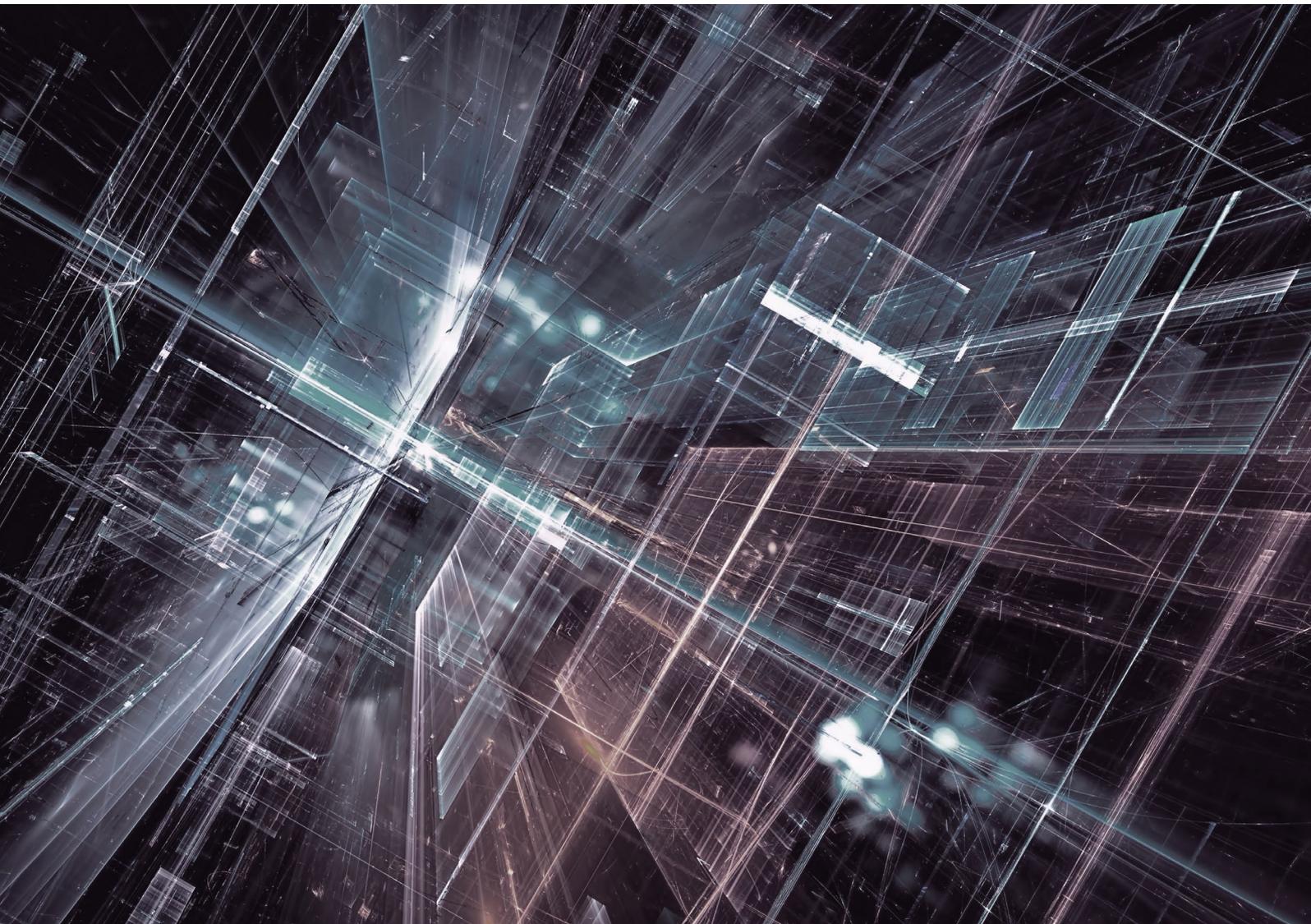


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METHODOLOGY

From August to September 2019, we surveyed and analyzed consumer sentiments regarding finance and digital banking within the Generation Z demographic (people between the ages of 15 and 25).

Our survey was conducted using **Survey Monkey** and collected 105 anonymous responses in total, all of whom were UK residents and in the Generation Z age range.

60 percent of our respondents had completed or were working towards their A-Levels, Highers, or International Baccalaureate diploma, 33 percent of respondents were at undergraduate level or above and 7 percent were at GCSE level or equivalent.

Out of our respondents, the survey drew 64 responses from females, 39 males, one person who identifies as non-binary and one who preferred not to answer.

INTRODUCTION

Financial services customers today seem to have more choice than ever before. There is a plethora of products on the market to help people bank, save, and manage their finances; and increasingly these solutions are digital to appeal to younger, more tech-savvy generations.

After all, we are in a time period that people are heralding as the 'digital banking revolution'¹. The UK's Open Banking regulation² now requires nine of the largest banks to allow their customers to share their own transaction data with third parties, with the intention of giving consumers better products and

services and digital experiences. The European Union's second Payment Services Directive (PSD2)³ has similarly put pressure on firms that provide payment services (such as banks, building societies and e-money institutions) to protect consumers when they pay online and better serve customer needs.

We were curious to find out how Generation Z, the most digitally 'native' demographic of consumers, and most populous generation on Earth, were using financial services products and what their attitude and awareness of finance is today.

-
1. <https://www.moneywise.co.uk/news/2019-05-28%E2%80%8C%E2%80%8C/digital-banking-revolution-here-so-why-are-so-few-people-putting-their-salaries>
 2. <https://www.openbanking.org.uk/>
 3. <https://www.fca.org.uk/news/press-releases/fca-finalises-revised-psd2-requirements>

EXECUTIVE SUMMARY

Why focus on Generation Z? As today's youngest demographic of customers, Generation Z (or Gen Z), i.e. those currently aged between 15 to 25, are an especially interesting demographic in that nothing quite like it has come before.

The media frequently reminds us that this new generation is always connected, having been 'born social' and raised in the era of the internet. Indeed, according to the Huffington Post, nearly 92 percent of Gen Z have a digital footprint⁴, making them a prime target for digital banking and wealth products and services. Yet, a UK survey of 1000 businesses recently found this generation of consumers the hardest to target from a marketing perspective⁵.

Judging from the results of our small sample study, which collected 105 responses from UK-based Generation Z consumers, there is certainly more work to be done in terms of finance education and the marketing of products and services to this age demographic.

Our key findings:

- Challenger banks have yet to catch on: Santander and Natwest are the dominant current account providers among this group.
- The 'bank of Mum and Dad' rules: most respondents bank with their parents' choice of provider (87 percent).
- Parental guidance is also high: mum and dad are also the most popular source of money advice for respondents (60 percent).
- Males believe they know more about finance: on a scale of 1-10, males rated their knowledge of finance at a mean score of 6.63, whereas females averaged at 5.04.

- This generation save: 80 percent of respondents save their money, with the bulk of them using traditional savings vehicles, such as ISAs and premium bonds.
- Strong branding leaves a mark but doesn't necessarily make a customer: Tesco Bank was the most well-known digital bank by respondents, followed by Monzo. However, these were not popular choices of bank amongst those surveyed.

Our top three takeaways for businesses:

1. Capitalize on parental decision-making

How can you also communicate to parents when marketing to younger generations of consumers?

2. Find new ways to educate and empower younger consumers about finance

Are there opportunities to demystify your business and educate young people how to save and budget as early as possible?

3. Develop and test products and incentives that resonate with your customers' worlds

Is there scope to cross-sell or offer other items of value that can be renewed by the bank with each year of continued membership?

Can you A/B test products, incentives and elements of customers' user experience (UX) such as app design to see which marketing tactics are resonating most with certain demographics?

4. https://www.huffpost.com/entry/8-key-differences-between_b_12814200

5. <https://mobilemarketingmagazine.com/uk-businesses-generation-z-marketing-struggles-awin>

1. OUR SURVEY RESPONDENTS

People of Generation Z are broadly categorized as currently being between the ages of 15 to 25 and born in the mid-1990s to the early 2000s. The Generation Z generation, which follows Generation Y (who are also known as Millennials), is reportedly the most populous generation on Earth⁶ and also the most digitally 'native' demographic of consumers⁷. For this reason, we believe they are a fascinating demographic and worthy of some research!

We received a total of 105 responses to our UK survey, which was shared to qualifying peer groups through Instagram, Facebook and email.

The bulk of our respondents were aged between 17-18 years old (58 percent), most of whom were in higher education, such as A-levels.

The survey drew 64 responses from females, 39 males, one person who identifies as non-binary and one who preferred not to answer.

We asked the respondents to share their educational background by selecting the highest qualification level they had achieved or were currently working towards:

- 60 percent selected the category for A-Levels, Scottish Highers or International Baccalaureate diploma
- 31 percent were of undergraduate level
- 7 percent at GCSE or equivalent exam level
- and almost 2 percent were at master's degree level.

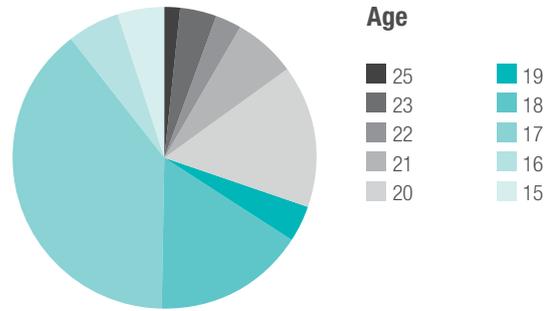


Figure 1: Age of respondents

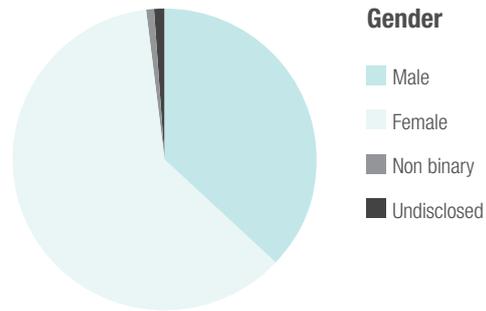


Figure 2: Gender of respondents

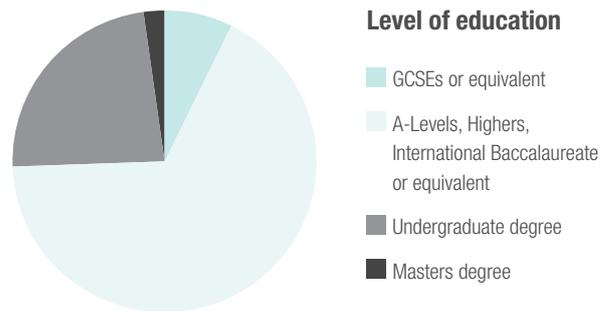


Figure 3: Level of respondents' education

6. <https://www.inc.com/anne-gherini/gen-z-is-about-to-outnumber-millennials-heres-how-that-will-affect-business-world.html>

7. <https://www.techopedia.com/definition/28094/digital-native>

2. RESPONDENTS' BANKING PROVIDERS

To ascertain the most popular banks within the Generation Z sample group, survey respondents were asked to share the name of their banking provider. In cases where they had multiple bank accounts, we stated that respondents should provide the name of the account they used most regularly.

Incumbents are unchallenged

When we closed our survey and looked at the results, we were certainly surprised by the definitive lack of new challenger banks in the list.

Santander and NatWest were clearly the most popular banks for the demographic, accounting for almost 43 percent of respondents. Meanwhile, challenger banks only accounted for just 3 percent of the sample group.

Bank	Number of respondents
Barclays	10
Halifax	7
HSBC	14
Lloyds Banking Group	14
Monzo	2
Nationwide Building Society	9
NatWest	21
Royal Bank of Scotland	1
Santander	24
Starling Bank	1
Vereingte Volksbank	1
Question left blank	1

Figure 4: Respondents' banking providers

What's so special about Santander and NatWest you might ask? We posed the question to our younger employees who bank with Santander. They said that Santander's free 16-25 Railcard had been a big incentive for opening a 123 Student Current Account⁸ with the multinational years before. Similarly, NatWest offers a four-year National Express Coachcard⁹ as a free gift for those opening an account with them. In our survey, 29 percent of account holders from these two banks said that a free gift or money had been their reason for joining.

Stickability remains high

We are frequently told that Generation Z are a forthright generation who speak up when they don't like or agree with something; that they have stopped purchasing or would stop purchasing a product if they did not agree with the company's brand values¹⁰; and that they are also more likely to care about volunteering¹¹ and environmental matters such as climate change (go Greta!) than other generations¹². However, when it comes to banking loyalty, it would seem that they're fairly happy with what they've got, with only a few indications of a shift away from the incumbents.

Indeed, 42 percent have held their current accounts for three to five years, and 27 percent at six years or more. It not only shows that Gen Z are resisting the temptation of new market entrants, but that they are not unique from the rest of the UK who are reportedly suffering from current account inertia¹³!

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- <https://www.santander.co.uk/personal/current-accounts/123-student-current-account>
 - <https://www.theguardian.com/money/2017/aug/19/how-pick-best-student-account-giveaways-interest-free-overdraft>
 - <https://www.forbes.com/sites/davidhessekiel/2018/06/26/engaging-gen-z-in-your-social-impact-efforts/#4600dcfe6499>
 - <https://www.thirdsector.co.uk/generation-z-more-likely-volunteered-age-groups/volunteering/article/1596899>
 - <https://www.therenewalproject.com/these-are-the-causes-gen-z-cares-about-the-most/>
 - <https://www.telegraph.co.uk/money/consumer-affairs/banks-fail-customers-making-hard-switch2/>

2. RESPONDENTS' BANKING PROVIDERS (CONTINUED)

How long have you had this account?	Number of respondents
Less than a year	10
1 – 2 years	23
3 – 5 years	44
More than 6 years	28

Figure 5: Length of time respondents have had their current account

This is not for lack of trying by regulators and banks. In October, Lloyds Banking Group launched a £125 incentive to tempt customers to switch their day-to-day banking to a Club Lloyds Current Account or the Club Lloyds Platinum Account before 5 November 2019. The Current Account is free if £1,500 is paid in each month and the Platinum Account comes with a £19 monthly fee¹⁴ (albeit with some good benefits, such as travel insurance).

There are similar provisos with the switching incentives by Halifax, the HSBC Advance Bank Account and First Direct¹⁵. While these schemes could be a good temptation, they do require a level of financial stability and income that would be difficult for students or those on the minimum wage to afford. Indeed, a person under 18 can earn as little as £4.35 an hour and an 18-20-year old, just £6.15¹⁶.

The 'bank of Mum and Dad'

We were keen to find out what motivated our Generation Zers to choose their banks.

Should we be surprised that 70 percent of our respondents didn't chose their own bank? Their parents did. This certainly correlates with a later question our survey where we asked the

sample group where their main source of information about money came from; parents again came out top, with 63 votes, accounting for 60 percent of the sample group.

Owen Priestley, Capco Partner and Head of UK Digital said, "Young people are unlikely to take a great deal of interest in personal banking until money management really matters to them, such as when they start earning or if they acquire a student loan.

He continued: "Perhaps banks could be doing more to market to Gen Z through their parents."

Reasons for choosing the bank	Number of respondents
My parents chose it for me	74
The bank offered me unique products and services I couldn't get elsewhere	8
The bank gave me a free gift or money for signing up with them	7
I liked the bank's marketing	5
I don't know	5
Other (please specify)	4
My friend recommended it to me	1

Figure 6: Reason for choosing the current account

Whilst most respondents have defaulted to parental expertise, there is evidence to suggest that marketing still carries some weight in the decision-making process. Collectively, 19 percent of respondents have been swayed by the allure of unique products, free gifts, cash incentives or another element of marketing.

14. <https://www.yourmoney.com/saving-banking/lloyds-bank-launches-125-switching-incentive/>

15. <https://www.moneywise.co.uk/news/2019-06-14%E2%80%8C%E2%80%8C/most-bank-customers-want-ps500-switch-accounts>

16. <https://www.moneyadviceservice.org.uk/en/articles/national-minimum-wage>

3. FINANCIAL LITERACY

Our survey also highlighted a limited understanding of personal finance matters. Only one respondent stated that they had taken a course about budgeting or money management, and less than a third of respondents sought advice and information from media sources such as newspapers, TV, radio, blogs, YouTube or social media (29 percent).

Clearly, there is more work to be done by financial services industry, the government and educators in helping consumers – and particularly younger generations – get the bang for their buck!

What is your main source of information about money?	Number of respondents
Parents	63
TV and radio	7
Newspapers	5
University or college	6
Social media and blogs	13
YouTube	5
Siblings	2
Friends	2
I took a class or course about budgeting or money management	1
Left blank	1

Figure 7: Respondents' main source of information about money

This was echoed when we asked respondents to rate their financial literacy, which on average came out at a rather modest six out of ten (see Figure 8).

Jibran Ahmed, Head of Research & Development at Capco UK said: "Twenty years ago, young people typically had one bank, one account manager and probably one financial statement. They also had less debt and buying a house was significantly easier. Today, managing money is much more complicated.

The upside is that new tools are helping people to keep track of finances and use budgets. However, this is not a substitute for a financial education. There is a gap in the market to help people put their money to better use."

What is your understanding of finance on a scale of 1 - 10?

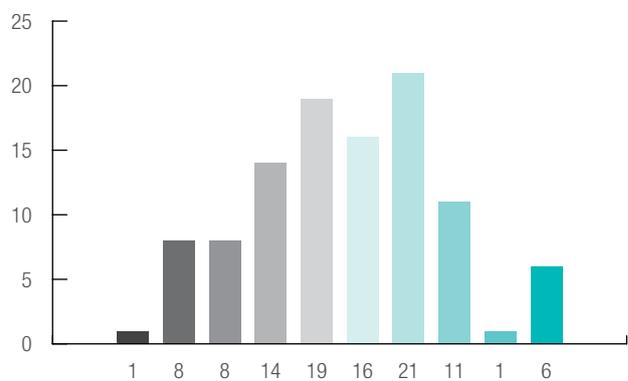


Figure 8: Respondents' understanding of finance (1 = lowest, 10 = highest)

When we looked at the numbers according to gender, male respondents were most confident in their finance knowledge. Indeed, the mean for females worked out at 5.04, and the 6.63 for male respondents. Only one female rated their finance knowledge at 10.

Perhaps female respondents were simply more modest in their selections. Indeed, research has shown that women make good, if not better, investors than men despite feeling less confident and knowledgeable about investing¹⁷. In academia, studies have found that there may be a male gender bias relating to multiple-choice questions¹⁸. All food for thought for devising survey questions in the future!

17. <https://www.wbs.ac.uk/news/are-women-better-investors-than-men/>

18. <http://www.aera.net/Newsroom/News-Releases-and-Statements/Study-Snapshot-How-Test-Format-May-Influence-Gender-Achievement-Gaps-on-State-Standardized-Tests/>

4. SAVINGS & WEALTH

In an age of rising student loans and higher living costs¹⁹, we frequently hear that younger generations live in the moment and simply don't have the capacity to save²⁰. This is especially bleak given last year's news that the average worker will need to save £260,000 over the course of their lifetimes to enjoy a basic income in retirement (and £445,000 if they're not a homeowner). This amount has grown by 75 percent since 2002 and 2003²¹.

We were therefore positively surprised by the results to our 'How do you save money?' question (see below), which revealed that 81 percent of our respondents were managing to save money - even if it is just loose change in a piggy bank, or through an app like Monzo which rounds up transactions for you and puts it into a digital savings pot²².

How do you save money?

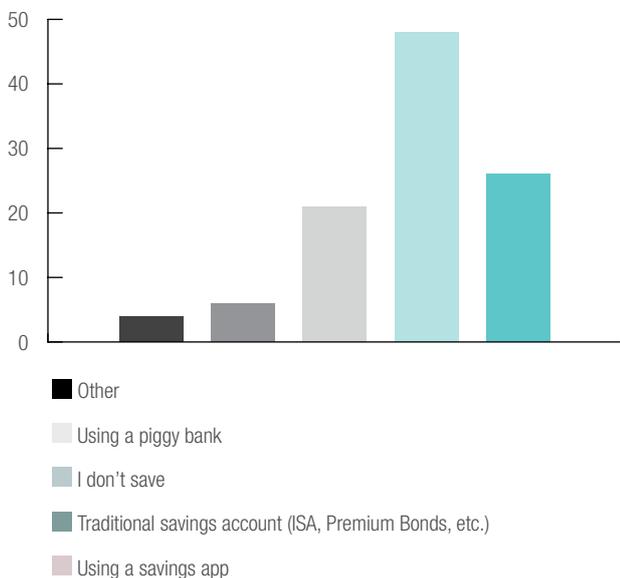


Figure 9: Respondents selected one of the above options

This also highlights the need for sound wealth advice. Niral Parekh, Managing Principal from Capco's Wealth & Asset Management practice said: "The results have substantiated that financial awareness is needed, whether it comes from close family, social circles or elsewhere. In wealth management, firms offer intergenerational solutions with financial advisers aiming to service multiple generations. We know that younger wealth clients highly value a social media presence and digital customer experiences from firms today.²³"

As an action for financial services firms, he remarked: "The UK is currently experiencing the biggest intergenerational wealth transfer (an estimated £5.5 trillion over the next 30 years)²⁴. Coupled with a demand for digital education, this poses a compelling proposition for wealth businesses, to create informative communication channels that inspire, educate and create a bond between clients their dependents."

"Indeed, as Gen Zers enter the world of work and receive their first paycheck, this marks a prime time for financial advice and starting to save and manage personal wealth. Firms should consider this as an opportunity."

19. <https://www.theguardian.com/society/2019/jul/17/renting-millennials-homelessness-crisis-retire>

20. <https://www.independent.co.uk/money/spend-save/millennial-living-costs-money-issues-middle-class-households-a8866166.html>

21. <https://www.theguardian.com/money/2018/may/16/average-person-will-need-260000-for-retirement-says-report>

22. <https://monzo.com/blog/2019/05/01/save-little-and-often>

23. <https://capco.com/Intelligence/Capco-Intelligence/Quality-of-service-in-wealth-management>

24. <https://www.capco.com/Intelligence/Capco-Intelligence/Designing-digital-experiences-in-wealth>

5. A 'DIGITAL BANKING REVOLUTION'?

As we've previously established in this survey, the alleged 'digital banking revolution' may have fallen on deaf ears in the case of Gen Z. While challenger bank accounts are clearly in the minority with our respondents, most have heard of the main players.

Which digital banks do you know from this list?

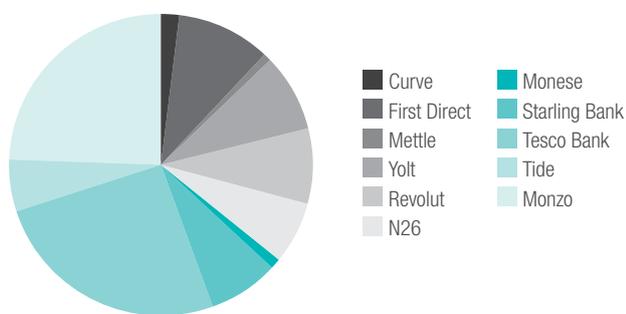


Figure 10: The digital banks that our respondents were familiar with

Tesco Bank was the most well-known digital banks from the group (26 percent) – and likely due to their strong brand equity. Indeed, Tesco PLC is one of the most valuable brands in the United Kingdom; it's also the leading grocery retailer²⁵. Tesco Bank has been a wholly digital bank since 2016, and this year enabled users to check account balances using Apple's Siri functionality²⁶. Despite its presence, none of our survey group had a Tesco Bank Current Account.

Second came Monzo, garnering 24 percent recognition from our survey group. Also established as a regulated bank in 2016, the digital-only mobile bank has become synonymous with coral (the color of the debit card). The app also provides a quick overview of itemized spending, easy budgeting and bill splitting features which could explain its popularity (reportedly, 40,000 people open a Monzo bank account each week)²⁷.

The third most well-known bank was First Direct (10 percent). We were surprised that this branchless bank was not more familiar with respondents, given it was regarded as a bit of trailblazer when it first launched in October 1989 as a telephone-only bank (and again when it launched its PC banking service in 1997, followed by text message banking in 1999 and internet banking in 2000²⁸)! Most of our respondents were barely in nappies then, so we'll forgive them.

25. <https://www.statista.com/topics/3807/tesco-plc/>

26. <https://www.finextra.com/pressarticle/77287/tesco-bank-lets-customers-check-balance-via-siri>

27. <https://www.Monzo.com>

28. <https://www1.firstdirect.com/uncovered/who-we-are/>

6. WHY GO DIGITAL?

We were interested to find out what value digital banking has with Generation Z today, as this could provide insight into the future development and marketing of financial products and services.

As Figure 11 below shows, the immediacy, and hassle-free nature of digital banking was highly rated upon. This is hardly surprising given the continued demise of the UK high street, where more than a third of UK bank branches have closed since 2015²⁹. We also hear that 70 percent of Gen Zers check their finances daily (compared to 61 percent of Millennials)³⁰, which would explain 'quicker access to my balance' being the top result.

What do you see as being the value of having a digital bank account?

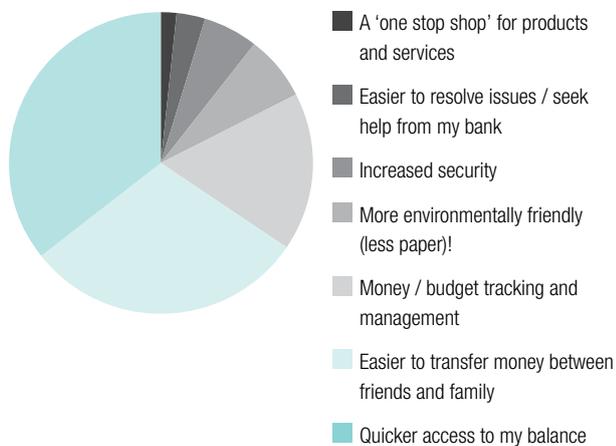


Figure 11: respondents were asked to choose their top three reasons for using digital banking services.

While none of the features in Figure 11 would be considered as ground breaking in this digital era, they are nevertheless common offerings from both incumbent and challengers today. We believe financial services providers should be looking to expand on these to continue adding value and differentiation from the rest of the market.

For example, the global gamification market is predicted to reach \$19.39 billion by 2023 and some banking industry experts expect it to soon permeate the world of financial services³¹. From Monzo's 1p Savings Challenge³² to US fintechs like Blast and Long Game now providing banking products to the gaming world³³, could we soon see banks getting a run for their money?

Gamification has not been widely embraced by banks today. Although unrelated to its current accounts, Barclays' LifeSkills initiative works with local communities to help young people upskill for the work place and does employ elements of gamification. In its Lifeskills Champions Programme, the more points received, the better this looks on the user's LinkedIn profile and opens them up to Lifeskills work experience opportunities³⁴.

29. <https://www.theguardian.com/money/2019/sep/24/more-than-a-third-of-uk-bank-branches-have-closed-since-2015>

30. <https://www.thisismoney.co.uk/money/saving/article-7031891/A-Generation-Z-say-1-000-savings.html>

31. https://specialistbanking.co.uk/article-desc-6680_could-more-banks-look-to-use-gamification

32. <https://monzo.com/blog/2019/04/10/1p-savings-challenge-monzo>

33. <https://www.forbes.com/advisor/personal-finance/gamify-your-finances-three-apps-that-make-personal-finance-a-game>

34. <https://barclayslifeskills.com/what-are-points/>

7. WHAT NEXT?

We cannot close this study without acknowledging that our sample size was limited and the limitations of grouping by demographics. There were 10 years between our youngest Gen Z respondent and our eldest; and it may come as little surprise that the 15 and 16-year-old respondents were less likely to identify the ten digital banks and had less confidence in financial matters than the 24 and 25-year-olds. Those 25-year-olds have an extra ten years of life experience on them, after all.

This brings into question whether age demographics are the best way of grouping customer segments and the limitations of targeting them by this alone.

Capco's Owen Priestley said: "Ethnographic research is lacking in financial services. While there is a perception that banks know their customers, the results from this survey suggest that Gen Z don't necessarily know them."

"Customers cannot merely be segmented by their age demographic; people are far more complex than that. It would be better for banks to ask themselves 'what do young, digitally savvy consumers want from a bank today?'"

He added: "To address this, we are seeing brave banks engage a range of new talent into their teams including anthropologists, storytellers, philosophers and game designers. The workforce is changing to understand and empathize more with the new demographic of customers."

Here are our top three recommendations for banks:

1) Capitalize on parental decision-making

A whopping 87 percent of our survey respondents bank with their parents' choice of provider. When marketing products and services to the Gen Z and younger demographics, such as the Alphas (i.e. those born after 2010³⁵), think of ways in which you can also communicate directly to parents. After all, over the past decade, the number of young people living at home having risen by 24 percent³⁶, and today, people tend not reach financial maturity until the age of 31³⁷, so there should be scope for some meaningful conversations about financial matters between Gen Z and their parents!

2) Find new ways to educate and empower younger consumers about finance

It was encouraging that 80 percent of respondents save their money, yet the mean score for the self-rated question about financial literacy was a modest 5 or 6.

Consumers who feel more confident in their knowledge of financial matters may be more inclined to use more services. Banks should therefore be looking for opportunities to demystify their business and educate young people how to save and budget as early as possible.

3) Develop and test products and incentives that resonate with your customers' worlds

Marketing and free gifts particularly held weight with our younger employees' bank choices. Banks should think about

35. <https://metro.co.uk/2019/06/20/forget-millennials-gen-z-rise-generation-alpha-horizon-10016963/>

36. <https://www.ftadviser.com/mortgages/2019/08/08/young-people-living-at-home-up-24/>

37. <https://www.theguardian.com/money/shortcuts/2019/sep/25/never-go-to-pret-25-signs-reached-financial-maturity>

7. WHAT NEXT? (CONTINUED)

what they can offer to make a difference to their customers' quality of life. While many banks are offering a free 16-25 Railcard every year, perhaps there is scope to offer other items of value that can be renewed by the bank with each year of continued membership, such as gadget insurance or gym membership discounts.

Starling Bank's Marketplace for example allows banking customers to choose from a range of third-party financial products and services that are integrated with the banking app³⁸. Perhaps as open banking becomes more prevalent, we will see more of the financial services landscape following suit.

Lastly, A/B testing should play a part in the development of banks' products and services to see which marketing tactics are resonating most with customers. While the level of personalization users can expect from their Netflix may not be replicated in a banking app just yet, it's something banks might want to aspire to³⁹!

38. <https://www.starlingbank.com/marketplace/>

39. <https://born2invest.com/articles/netflix-customer-obsession-drove-success/>

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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