Harland Clarke Webcast
The Informed Banker – Attracting and Engaging the Young Adult Gen Z Market TRANSCRIPT

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Nathan: Good day, and welcome to Harland Clarke's The Informed Banker Speaker Series. Today's topic is Attracting and Engaging the Young Adult Gen Z Market. This webinar is being recorded and will be provided to you within a few days. If you have questions, please use the chat box located in the webinar control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Christine Ahlgren with our Marketing Department at Harland Clarke. Christine, you have the call.

Christine: Thank you, Nathan, and welcome to everyone who has joined us today for what we hope will be an interesting and informative discussion. The Informed Banker sessions we held in 2016 were so successful that we're excited to bring you a whole new lineup of pertinent topics in 2017. For today's presentation on Attracting and Engaging the Young Adult Gen Z Market, we are pleased to have industry expert James Marshall of Filene Research Institute with us. James will provide you with some keen insights and opportunities to allow you to catch and keep the attention of young adults. We have designed The Informed Banker Series with our community financial institutions in mind, and given the generous feedback you continue to provide us via our post presentation surveys, we'll continually refine the topics that are chosen to best meet your needs. Please join us again on February 22 for the next topic, which will be Leveraging Account Holder Insights to Unlock Greater Profit Potential. Please keep an eye out for that invitation, which should be arriving in your email boxes in early February.

Let's move on to why we're here today. Harland Clarke is proud to present James Marshall. James is the Manager of The Cooperative Trust, which is a grassroots community of young people who work in credit unions and cooperatives founded by Filene Research Institute. The Cooperative Trust is a network of young adults that focus on four key areas. They are events for young professionals at major credit union conferences. The most recognizable being Crash events. They have mentorship programs for young professionals, and they connect young professionals through the Filene online network. They also provide advisory services for credit unions on how to serve young adults, to recruit and retain young professionals, and engage young board members and volunteers.

Before joining Filene and the Trust, James was the Marketing Manager at Plane Saver Credit Union in London specializing in branding, social media, and marketing strategy. James successfully used these mediums to aid in consistently reaching the company's membership recruitment and lending loan targets. James, thank you, again, for being with us today. Please, the floor is yours.

James: Thank you so much, Christine. I'm very excited to be here, and just talk to you about attracting and engaging the young adult Gen Z market. This is something that credit unions, and banks, and community banks have been talking about for a very long time is this next generation of consumers. We've been talking about Millennials and Gen Y for a really long time, but there's someone else coming behind them.

This is me. I'm James Marshall. As Christine mentioned, I'm the Cooperative Trust manager, and we run a variety of Crash events, which some of you may know. We do mentorship. We work, really, with just young adults working in the cooperative finance industry. If you want to follow along while we're doing this webinar and you want to use some social media, you can use #filene. I'm at @jameswtmarshall on Twitter, or you can do @fileneresearch. Who is Filene Research? We are a think tank and do tank nonprofit for the consumer finance industry. We primarily do research for credit unions but have worked with community banks also. We've got over 25 years of research of how to bring and attract and engage consumers as well as strategy and product development research.

Let's dive in, Gen Z. They are the first truly digital native generation. Gen Z is part of a generation that is global, social, visual, and technological. They are most connected, educated, and sophisticated generation ever. They are the up-agers with influence beyond their years. They are the tweens, the teens, the young adults of our global society. They are the early adopters, the brand influencers, the social media drivers, the pop-culture leaders, and they comprise nearly 2 billion people globally. They don't just represent the future. They are creating it.

Now, for those of you that have young children now, this generation is a little bit older than that. They're still in their teens right now. Some of them actually of this Gen Z generation are starting to graduate college already would you believe. As we think about the younger children, if you look at the picture on the screen in front of you – I actually have a niece. This is not her. This is actually my friend's niece. I have a niece who when we read books together at bedtime, she now swipes the pages like an iPad. We are experiencing a new generation who only knows technology.

Twenty-five percent of people under the age of 30 are searching for their first checking account. Gen Zers are just starting their financial life, and they're being introduced to their first interactions with a financial institution. The bar set by experiences elsewhere outside of financial institution sector is affecting how they want to deal with their financial institution. Think about organizations like Amazon, Google. These are just great experiences. Think of Starbucks, the quick in and out service. These are experiences that now people are expecting from every interaction, whether that be financial or otherwise.

As I said, 25% of the people under the age of 30 are searching for their first checking account, and 72% are also in the market for other banking products. There's a huge opportunity here for financial institutions. In addition, 80% of 18 to 29-year-olds agreed with a statement. "It is more important for me to enjoy my job than to make a lot of money while 86% agreed that it is important for me to have a career that does some good in the world." We're also looking at a generation here; when they consider money, it's not the primary focus. Seventy percent of college freshmen believe it is "essential or very important to help people in need." Money is not a primary focus. These people want to enjoy their lives. It's about experience. It's about doing some good.

On top of that, what we're finding is four-year college degree holders are making 98% more on average per hour than people without a degree. What's the problem with that? Student loans, student loans are a huge, huge issue right now, and we have a whole new generation who's starting to go to college, right? These Gen Zers are starting to graduate college, or they're starting to look at college. What does that mean? That means they're taking on mountains and mountains of debt. These people are entering adulthood with record levels of student debt. Two-thirds of recent bachelor's degree recipients have student loans, and the average student debt load is about $27,000.

What does this mean going forward? There seems to be this failure to launch piece. We're having these young adults who are really just having their first experience with financial institutions. As they graduate high school, as they're entering college, they're getting their first real taste of what it means to have a banking institution, whether that be a credit union, or a community bank, or a larger bank on a national scale. We're not learning about these things. We're not being educated about them.

There's been a lot of polls go round, a lot of research on this, and a poll of 10,000 young adults found that a third of them believe they'll be able to live a bank free existence in the future or a financial institution free existence in the future, which is incredible if you think this is the generation that we're trying to attract. This is the generation we're trying to retain, and a lot of them think they might not even need us in the future. Eighteen percent of American adults have lost confidence in their credit union over the past few years, but the number of Americans that have lost trust in banks was nearly triple that. Financial institutions are struggling to gain trust. Twenty-five percent of Millennials say they have a great deal of trust in banks, which is fantastic. Despite the general negative feelings that we sometimes see towards banks and maybe what we hear and just what we feel and what see around the financial service industry are actually – people said what customers are saying and writing about their primary banking institution is positive while only 11% is negative. It's not really without opportunity.

This is a little bit specific to the members of a credit union, but there's some great opportunities here for all financial institutions. What we're finding and one of my favorite statistics as it relates to credit unions is that the average age of a credit union member is higher than the average age of a listener to NPR. Now, I love NPR. NPR is fantastic, but I think that really says a lot. In 1985, the average member of a credit union was 40 years old, and now it's upwards of 47 and almost 50. This is an issue we need to look at this next generation.

I'm going to read this for you. I know it's on the screen in front of you, but I think it's really important. "Each generation has a common set of human needs – for community and communication, in particular – that are uniquely shaped by their life experiences but are foreign to anyone outside of that age group." I think we see that all the time, right? What we see is every generation seems to take some sort of dislike rightly or wrongly to the generation that comes after them. 'Of course it is tempting to have negative reaction to seeing the new generation tethered to their devices, texting incessantly, but if we do so we are "overlooking what the technology represents: An efficient means to maintain community and communication" and not appreciating that it's "totally functional for the world they inherited."'

Now, we created this world of technology, this fast pace moving forward, and this next generation is just embracing that more than anyone has before. We've talked a little bit about just general statistics, but what are the differences we're seeing between Gen Z and Gen Y? Generation Z is made up of the millions of Americans born from the mid-2000s to present day. While engaging Gen Y has been a priority for financial institutions for the last ten years, it's not too early to start thinking about capturing those Gen Z's as loyal customers with strategies and solutions built around convenience, technology, and really, anything practical will win over this emerging demographic. In the next couple of slides, we're going to look at comparing Gen Z, colored in red, to Gen Y, colored in blue. Before we do move forward, though, I just want to ask a quick question.

I'm going to launch a poll. It's going to ask what percentage of your members, and consumers, and customers are under 25? Okay. We've got 77% voted. Anyone else want a go? We'll close it in just five more seconds, four, three, two, and one. As we close that poll, it's really fascinating to see that a lot of your customers and members really don't make up that big of an amount of your institutions, and a lot of you don't even know. There's not necessarily any problem with that, but I'd advise you to go out and look. As we consider moving forward and you consider trying to serve these consumers, really, the purpose of this is to help build those relationships early on so they stay connected consumers with you as you move forward in that product life cycle with your financial institution.

Let's move on. We did a study, and it really focused on 16 to 20-year-olds. Let's see what they're saying about each other. They did have some stereotypes. We asked Gen Z to talk about Gen Y, and we asked Gen Y to talk about Gen Z. Gen Z, this next generation really consider themselves creative, open-minded. They love new ideas. They think they're intelligent. They think they're cutting edge. They're not cutting edge thinking, but they think they're slightly lazy.

What do you think Gen Y is saying about Gen Z? Gen Y is saying that they're lazy. They're saying that they're self-centered. They lack focus. They're easily distracted. As I mentioned earlier, I think every generation tends to have these preconceptions of the generation that comes after them.

The other piece of this is that Gen Z had their first cellphone call at 9 years old whereas Gen Y had their first cellphone call at 15 years old, and so their expectations around technology are different. As I said right at the start, Gen Z is the first truly digital native generation. They've never known a world without cellphones or computers. I'm Gen Y, but I still remember dialup and that horrible noise that it made. I still remember rotary phones and landline phones in the house. This generation doesn't know that.

Again, I had to explain to my young niece, and she's very young. She's 3 so it's fine. I had to explain to her what a landline telephone was because I still have one in my house. She had no idea what it was. We have a generation now that grew up only with cellphones and only with computers. They have not known anything else. The thing is financial institutions need to utilize these platforms outside of the branch.

As we look at this, 33% of Gen Z will use mobile payments whenever possible. A third of this generation will use mobile payments whenever possible compared to almost one in five of Gen Y. Financial institutions face competition from slick mobile financial companies such as Moven and Simple with Gen Z who significantly favor mobile platforms compared to Gen Y. Why use mobile? The comparison here between Gen Y and Gen Z – again, Gen Z is in red. Gen Y is in blue. Thirty-three percent of Gen Z say it's easier. Forty-four percent say it's faster, and 40% say it's more efficient compared to just 25% of Gen Y.

As we look at this, we compare the products that these different generations are looking for. Gen Z are looking for savings accounts, checking accounts, credit cards, and student loans whereas Gen Y, a little bit older, still looking for their first car loan, their first mortgage. They're still paying off their student loans. Gen Z are more likely to start their own business, and financial institutions need to have products and resources to serve young entrepreneurs. Gen Z are looking for less credit opportunities as you can see here. They're looking for more saving accounts, checking accounts, and financial institutions need to find other services to supplement their lending revenues with this new generation.

As I said earlier, we conducted a study of 16 to 20-year-olds, and we interviewed 985 respondents across the country. They used different financial institutions to identify the generational differences when it comes to national banking preferences. Let's look at the sample group. Our survey was constructed so that each group and income level could not exceed 22% of respondents. Because of that, age and income split the survey. When we look at the average age of income levels of respondents who bank with credit unions, we find almost 30% of credit union respondents have an annual household income of $50,000 to $74,999 whereas 2,000 respondents make less than $75,000 annually.

Of respondents who bank with credit unions, for example, the age group 25-29 made up the smallest portion of respondents, 14%, whereas age 65 and older made up the largest portion of credit union respondents at 21%. We ask the question: how important are fees to you? You'll see, actually, here that the youngest generation, the 18 to 24-year-olds, ranked fees as their greatest concern but did not as much rate fees as older age groups. Consumers age 45 and older put the most important on fees. The age groups assigned varying importance of fees. They all agreed that lower fees and moderately convenient is better than high fees and very convenient. Now, what we find here when we talk about fees at financial institutions is that, especially with the next generation coming through, no one really like fees. Let's be honest about that, but they're more prepared to accept fees if they are transparent. If they know what that they are upfront and if they don't seem unreasonable, the next generation is really prepared to accept reasonable fees.

The following question: how important is the type of institution with which you bank? What you'll see here is the two age groups that placed the most importance on institution are the youngest and the oldest age groups. When given the option of banking with a bank or credit union, all age groups and income levels chose banks. However, what you'll see here is that 19.72% of 18 to 24-year-olds think it's important the type of institution with which they bank. As we go back to those very early slides, when we talked about doing some good and helping the world, this is the generation that we're seeing.

This next slide I think is no surprise. We talk about how important are digital services to you? Respondents age 44 and younger prefer many digital service options with harder to reach service representatives over limited digital services options and easier to reach service representatives. Other groups that preferred many digital service options and harder to reach representatives were respondents making less than 25,000 annually, or 75,000 to 100,000 annually, or 100,000 or more annually. I think that as we look at this, look at the 18 to 24-year-old, again, this is no surprise. They're the first digitally native generation and more inclined to use digital financial services. When we talk about rate, of course, we saw in those slides now four or five slides ago that this new generation is looking for checking account and saving account. These 18 to 24-year-olds of course are more interested in rates and rates are more important to them.

How important is service location? Respondents to the survey also preferred many locations across the country versus limited locations close to where one works or lives. The only exceptions to this were respondents age 65 and older and respondents with annual income less than 25,000. Service location was the third most important financial service variable. On average, service location became more important in the 65+ age group. Respondents age 18 to 24 placed greater importance on service locations than the national average. We talk about the branch a lot, but if you look at this, really, I'm not sure that the branch is dying as much as we've talked about. Eighteen to 24-year-olds come second to 65+ in having good service locations.

How important is product choice? Again, respondents unanimously chose a wide choice of generic loan and deposit products over limited choice of customized loan and deposit products. All age groups and all levels chose this option. When we asked what's most important to you when banking and we asked that question and asked our respondents score that on a scale from 1 to 100 percentage points, respondents revealed that fees become more important as one ages. Rates, digital services, and product choice become less important as one ages.

Some recommendations, let's think about product design. From the previous slides, we can gather some lessons of the key facts for product design for Gen Z. Remember their ranking of importance when banking: low fees, type of institution, rates, service location, digital services, and lastly, product choice. Successful products will represent these preferences with low or no fee services where perhaps a freemium* model could be applied. With a type of institution's banks – with this type of institution, banks have the advantage. Service location is interesting for Gen Zers. As novices, they are both interested in learning and will not shy away from face-to-face interactions when considering that first checking account, loan, or credit card.

**Freemium is a pricing strategy by which a product or service (typically a digital offering or application such as software, media, games or web services) is provided free of charge, but money (premium) is charged for proprietary features, functionality, or virtual goods.*

The branch environment is relevant, and reducing product choice is a best practice. Keeping product options as simple as seen on the research resonates with this new generation. What else? Effort matters. Today and into the foreseeable future, easy will win with all customers. Remember that the reason why we use Amazon and organizations like that is because it's easy. Financial institutions face evolving competition more rapidly every day. Organizations with outdated processes and technology contribute to a negative customer experience. In addition to that, young adults are more likely than any other age demographic to use digital currencies now and in the future. Thirteen percent of Gen Zers use them today, and 26% project they'll be using them by 2020.

This next one's a big one. We talk about technology a lot, but technology isn't the solution. It really isn't. Technology is now just the cost of doing business. Imagine if you said we are going to open a new branch for our financial institution, but we are not going to put any computers, any doors, any lights, any windows in. It sounds ridiculous. Technology is now just the cost of doing business with this next generation of consumers.

I've still worked with credit unions that just launched a mobile app last year, and they're so excited they launched the mobile app. That's great, but it's not the solution. You should have that anyway. In addition, social media marketing should be more than just a marketing technique. This is a conversation. These people want to talk backwards and forwards. Talk with you, and talk with each other.

Finally, again, I can't stress this enough. You are not cool. Financial institutions aren't cool. They never have been. They never will be. Both Gen Y and Gen Z do not want to be pandered to. They just want easy access to straightforward clear information, simple product choices. Financial institutions will never be cool, and this shouldn't be your goal. It really shouldn't. Provide on-time information. Provide the right practical services, and you'll be all set.

I'm going to pass back to Christine now who I think is going to facilitate a Q&A for us.

Christine: Thanks, James. We only have a couple of minutes, so I will try to get one or two questions in. Thank you so much for that very insightful presentation. That was fantastic. We do have a couple of folks asking about the survey results that you were discussing. Are those available? Can they be purchased? How would they go about getting their hands on the detail behind what you discussed?

James: The survey results will be available at filene.org, which is F-I-L-E-N-E-dot-O-R-G. You can also get in touch with me as well, and I'll direct you to the right place. In terms of getting access to that research, our research is available for all Filene members. If you're not a Filene member, again, please just email me and talk to us. We'll find a way to get you that research.

Christine: That's great. Thank you, James. One more question before we wrap up. We've got this question here. We hear that the next generation is all about mobile. How does that impact the branch? What does that mean for the branch environment specifically?

James: Sure. Excuse me. The branch environment's a really interesting one. As we think about the branch, we hear this a lot. The branch is dying. The branch is dying. The branch is dying. I really tend to disagree with that.

People want to use and especially this next generation – think about it like a buffet. When you go to a buffet, you don't just load up on one thing onto your plate. You take a little bit of everything, and this is what the next generation does. Yes, they may be mobile first, but they still want to use a branch. What you'll find is that they would rather sit down face-to-face to get that insight and that advice, and talk to you about their first checking account. Talk to you about that first auto loan. Talk to you about that first mortgage. Then once they have that face-to-face interaction, maybe go back and complete their transaction online. It becomes informational versus transactional, and the branch is moving towards a very informational place. That's why you see some of these branches popping up more as coffee shops and things like that because it's inviting, informational locations.

Christine: That's great. Thank you, again, James. It looks like that's all we have time for today. For the participants, as a follow-up to today's program, you can expect an email from Harland Clarke with the follow-up survey I mentioned earlier along with links to a recording of this presentation. Please feel free to share that recording with any of your colleagues who may have had to miss today's session.

James, thank you, again, for your valuable insight, and thank you to all the participants who made it a priority to be with us today. We look forward to seeing you on February 22 for the next session of The Informed Banker Series. Thank you all.