NOT PREPARING FOR iGEN NOW?

BIG MISTAKE

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The first wave of iGen — also known as Generation Z — turns 20 in 2017. They have yet to fully come of age, and direct data on their banking habits and preferences will be available only after they have entered the market. But **their lifestyles,** especially **their relationship with technology, can tell financial institutions enough to start planning for this up-and-coming demographic.**

iGen and Technology

iGen (born 1997-2016) is the first generation born after the internet. They've come of age as mobility has, creating a mobile lifestyle via cloud computing borne out on multiple screens, from laptops to tablets to smartphones. They comprise 25 percent of the U.S. population,[1] and they are ready to flex their consumer muscles.

Financial institutions have started to upgrade their delivery systems to meet the demands of Millennials, especially their mobile capabilities. But Millennials (born 1981-1996), while digital natives, are not mobile natives. They have only been the "beta testers," or guinea pigs, for the mobile technologies in which iGen is fluent.

*Thus, **challenges loom** for banks and credit unions that expect iGen to have the same needs as Millennials.*

[1]J.D. Power and Associates, "Gen Z Has Arrived. Is Your Bank Ready?" *PR Newswire*, April 20, 2015

REAL-WORLD EXAMPLE

*Two-year-old Julia cries for her **"paaad"** as if it were a doll or pacifier. She loves playing a matching game on the iPad. Tap a card to reveal the matching pictures.*

***Her mother treated her to the real cards,** the way her 10-year-old sister played the game when she was two. As the real cards were laid out in rows and columns, "Julia's excitement mounted. ... [She] tapped one. Nothing. Julia had a puzzled look on her face. She tapped again, this time harder, then harder, and harder still, until she finally burst into a rage, tossing all the cards about by swiping her hand back and forth across the well-laid-out grid. In Julia's mind **this paaad** was clearly broken."*

-- from *The Gen Z Effect: The Six Forces Shaping the Future of Business,*
by Thomas Koulopoulos and Dan Keldsen

What's In Store

iGen is connected to the internet nearly 24/7 through various devices. Their interaction with the world is largely digital, and they expect the world to reciprocate in kind. The notion of "on-" and "off-" line is foreign to them.[2] They expect a tap to produce immediate results, and information to be available at their fingertips, literally any time of the day and night.

Due largely to their digital lifestyle, iGen are information literate and inveterate researchers. In fact, a full *100 percent* of them whip out their smartphones to comparison shop in a retail setting, even when face-to-face with a sales associate.[3] Additionally, having come of age during the most protracted financial crisis since the Great Depression, iGen is especially frugal and values saving over spending.[4] Price and quality are competing considerations (versus Millennials, who don't mind paying a premium for high quality goods and services), even more than brand. Experts predict that iGen may become even thriftier in adulthood when they are fully self-reliant.[5]

iGen's prudence extends to privacy and security. They are more concerned than Millennials (63 percent versus 58 percent) about the safety of paying online with credit and debit cards. Yet, iGen is the least concerned of any generation about paying with mobile apps such as Venmo. They are the fastest adopters of this technology, which is a channel that is native to them, a channel they trust, and one that should enjoy continued growth.[6]

[2] McAlpine, Tim, "Move Over Gen Y ..." *Credit Union Management,* Vol. 36 Issue 7, July 2013

[3] Dorsey, Jason and the Center for Generational Kinetics, *iGen Tech Disruption: 2016 National Study on Technology and the Generation after the Millennials,* 2016

[4] Randstad USA and Millennial Branding, *Gen Y and Z Workplace Expectations,* September 2, 2014

[5] Dorsey, Jason and the Center for Generational Kinetics, *iGen Tech Disruption: 2016 National Study on Technology and the Generation after the Millennials,* 2016

[6] Ibid.

Not Just Smartphones

iGen uses a variety of channels to accomplish tasks, sometimes several at once. Most teens have access to a desktop or laptop computer, a smartphone, a tablet, and a game console. Seven in 10 teens use three or four of these simultaneously.[7] How is this possible? Consider a 17-year-old high school junior who hangs out with her friend on Skype while binge-watching her favorite TV show while updating her calendar while looking out for a message from mom or dad that dinner is ready. Or, consider a 19-year-old college sophomore who deploys a desktop PC, his laptop, a tablet and smartphone to make progress on his research paper during an in-class workshop.

When iGens start to bank en masse, they will bring the same expectations for seamless omnichannel functionality (what some experts are starting to refer to as "optichannel").

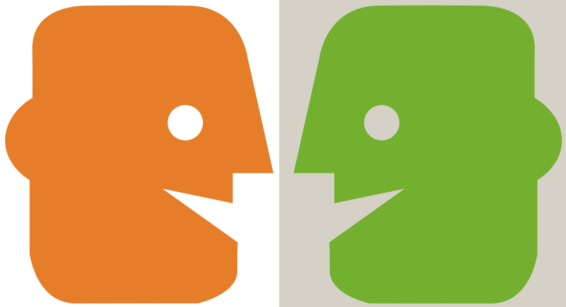
Contrary to expectation, perhaps, 53 percent of iGen also prefer face-to-face encounters for important communications.[8] In fact, 76 percent of iGen visit financial institution branches — more than Gen X or Gen Y.[9] *(Note: J.D. Power has iGen coming of age in 2014 in a study released on April 30, 2015, and therefore has been able to gather data on their banking habits. Most analysts set the earliest iGen birth year as 1996. Harland Clarke uses Pew Research Center dates, which shows iGen beginning in the birth year 1997.)*

The brick-and-mortar branch, however, has been shrinking as financial institutions close or design smaller versions to accommodate the increase in online and mobile channels. The lingering branch presence of regional and midsize financial institutions may account for their popularity among iGens, despite lower ratings for mobile and other services compared to larger competitors.[10]

In 1994, Bill Gates famously predicted the decline of brick-and-mortar banking when he said, "Banking is necessary but banks are not." He went on to predict there would be 2 billion people banking from their mobile devices by 2030.[11]

One thing is clear: Regional and midsize financial institutions must provide iGen with both digital and in-person channels to keep them as customers.[12] Moreover, the experience between channels must be seamless.

Another characteristic that separates iGen from its predecessors is the propensity to personalize its workspace. Smartphones, tablets and other peripherals are essential components of this space. iGen expects this personalization to carry over to other areas of their lives, including banking. Thus, financial institutions will have to rely on customer relationship management (CRM) tools to personalize the customer experience at every touchpoint.[13]



*... 53 percent of iGen also prefer **face-to-face encounters** for important communications.*[8]

That makes ***four essentials*** that financial institutions will need to have in place ***when iGen hits the market:***

1 Mobile channel

2 In-person channel

3 Seamless experience across the two channels

4 Personal experience across the two channels

[7] Pew Research Center, *Teens, Social Media & Technology Overview 2015: Smartphones Facilitate Shifts in Communication Landscape for Teens,* April 9, 2015

[8] Randstad USA and Millennial Branding, *Gen Y and Z Workplace Expectations,* September 2, 2014

[9] PR Newswire, "The J.D. Power 2015 U.S. Retail Banking Satisfaction Study," April 30, 2015

[10] Ibid.

[11] Moore, Patricia, "The Future of Banking," *NZ Business + Management,* Management.co.nz, November 23, 2015

[12] J.D. Power, "Gen Z Has Arrived. Is Your Bank Ready?" *PR Newswire,* April 30, 2015

[13] Steward, Deb, "Mobile Banking: What's Next?" *ABA Bank Marketing and Sales,* January-February 2015

"i" is for Influence: The Ripple Effect of iGen

It's not just the 25 percent of the U.S. population that iGen represents that will disrupt business as usual. iGen's mobile lifestyle is creating a "ripple-up" effect on other generations. This is not new. Trends in technology tend to follow the same trajectory: rippling up from the youngest adults to the oldest (youngsters are almost always the first adopters). Thus, the iGen lifestyle gives a preview of future trends that businesses and others can recognize and prepare for — before iGen's influence changes the rest of us.[14]

Another — perhaps radical — view posits that iGen is the "last generation" and marks the beginning of a post-generational world. Known as the "Gen Z Effect," the premise is that because technology is no longer difficult to use, anyone can adopt it. It erases most generational differences that divide us and, in effect, makes all of us beginners on a regular basis. Generational differences break down under the pressure of accelerating change determined by the pace of technological advances, causing everyone to have to adjust accordingly. This is true even for digital natives, the only difference being they are more comfortable with it.[15]

One example of "the Gen Z Effect" is the rise in smartphone use across generations. Unlike other digital devices, ownership of smartphones in the U.S. has increased steadily in recent years. Today, 68 percent of Americans have a smartphone, compared to 35 percent in 2011. And smartphone ownership is nearing the saturation point in some demographics: 86 percent of 18-29-year-olds have a smartphone, as do 83 percent of 30-49-year-olds, and 87 percent in households earning $75,000 or more annually.[16]

Whether you subscribe to the "last generation" or "Gen Z Effect" isn't important. What's important is that financial institutions must stay technologically current to remain relevant. And in the era of iGen, that relevance will stem from providing a seamless, personalized experience from mobile to branch and back again.

... relevance will stem from ***providing a seamless, personalized experience*** *from* ***mobile*** *to* ***branch*** *and* ***back again.***

American Smartphone Ownership

[14] Dorsey, Jason and the Center for Generational Kinetics, *iGen Tech Disruption: 2016 National Study on Technology and the Generation After the Millennials,* 2016

[15] Keldsen, Dan, and Koulopoulos, Thomas, *The Gen Z Effect: The Six Forces Shaping the Future of Business,* 2014

[16] Pew Research Center, "Technology Device Ownership: 2015," October 29, 2015

Mobile: Growing Expectations ... and Stakes

Many financial institutions have already begun investing in mobile technologies, largely to appeal to Millennials. Bank of America, for example, has done away with passwords, which are cumbersome and frustrating on a mobile device. Instead, it offers security via fingerprint and touch ID to access its mobile app.[17]

Using biometrics in lieu of passwords and personal identification numbers (PINs) is the wave of the future. Passwords and PINs can authorize entry, but biometrics, such as scanning the account holder's iris or thumbprint, authenticates identity. This is timely when you consider that 60 percent of mobile hacking attempts target financial transactions.[18]

Open source software is speeding mobile banking app development, saving financial institutions time and money. Biometrics technology, for example, is openly available and can be shared and developed by anyone who wants to utilize it. This kind of open access promotes standardization, a crucial component, especially for banking. Standardization facilitates the seamless omnichannel experience that iGen will come to expect in the years to come.

Ongoing Challenges

Progress is being made, but account holders remain unimpressed. Failing grades are still the norm for mobile and online interactions with financial institutions. This may be a case of increasing expectations meeting a lagging reality as consumers expect to do more, better and easier on their mobile devices than they could the previous year.[19]

Regardless of external factors, failing grades are a serious concern for a channel that is seeing wider and wider adoption every year. Indeed, research has shown that an unsatisfactory app is enough provocation for account holders to switch financial institutions.[20] For banks and credit unions with failing grades, it doesn't bode well for the up-and-coming iGen, who have lived their entire lives in the digital world and are the first true mobile natives.

There are a lot of balls in the air to manage at once. And no one's claiming it will be easy. But the rewards are staggering. By 2017, the global market for mobile payments will be $720 billion.[21] *That number will increase exponentially once iGen hits the scene.*

Financial institutions that find themselves behind the curve in meeting Gen Z's preference for both seamless, personalized digital capabilities and face-to-face interaction risk losing them to competitors. And though this may require a considerable investment of resources in some instances, it's not a question of whether financial institutions can afford to get ready for them. It's a question of whether they can afford *not* to.

For ideas to help your marketing team
identify the financial needs of iGen and other demographics,
call 1.800.351.3843, email contactHC@harlandclarke.com
or visit *harlandclarke.com/MarketingServices*.

[17] Business Wire, "Bank of America Introduces Fingerprint and Touch ID Sign-in for Its Mobile Banking App," September 2015

[18] Valke, Jan, "Best Practices in Mobile Security," *Biometric Technology Today*, January 2016

[19] PR Newswire, "The J.D. Power 2015 U.S. Retail Banking Satisfaction Study," April 30, 2015

[20] Jun, Minjoon, and Palacios, Sergio, "Examining the Key Dimensions of Mobile Banking Service Quality: An Exploratory Study," *International Journal of Bank Marketing*, Vol. 34, Issue 3, 2016

[21] Moore, Patricia, "The Future of Banking," *NZ Business + Management*, Management.co.nz, November 23, 2015