

# Gen Zs Credit Averse? Hold That Thought.

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# Introduction

A recent search for information about Gen Z's aversion to credit yielded over 5 million results. The internet is an echo chamber of assertions - citing everything from Gen Z's propensity for saving and a wariness of student loan debt to their penchant for planning and optimism about the future.

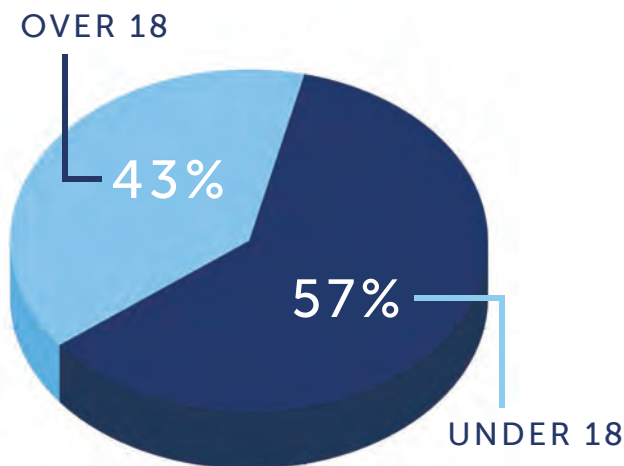
To separate fact from fiction, one must start at the beginning and ask: "What do we actually know about Gen Z?"

## WHO IS GEN Z?

Preceding Gen Alpha and following Millennials, Gen Z refers to those born after 1996 and before 2013.<sup>1</sup>

In the U.S., Gen Z is made up of approximately 68 million tweens, teens and young adults. Overall, this generation, ages 9-25, represents 20% of the population. Meaning, in the U.S., Gen Z Adults (ages 18-25) account for only 9% of the total population.<sup>2</sup>

### U.S. GEN Z POPULATION<sup>5</sup>



But, with 29M members, Gen Z Adults account for less than half (43%) of all Gen Z members.<sup>3</sup> So, though broadly labeled as "credit averse," 57% of Gen Z has yet to even graduate from high school. Nicole Spector of Yahoo Finance aptly captures the potential flaw in a one-size-fits-all approach. "Given the wide age range, this demographic defies blanket categorizations — after all, what does a 23-year-old have in common with a 9-year-old?"<sup>4</sup>

We've pulled back the curtain on Gen Zs - to give financial institutions a closer look at history's most diverse and most educated generation.<sup>6</sup> We've explored some of the intricacies, covering everything from spending habits to learning styles and card usage to digital preferences.

**"Given the wide age range, this demographic defies blanket categorizations — after all, what does a 23-year-old have in common with a 9-year-old?"<sup>7</sup>**

-Nicole Spector, Yahoo Finance

## CURIOUS - AND SAVVY

“Gen Zs have an 8-second attention span.” While there may be some truth to this common statement, there is no published scientific evidence supporting the 8-second theory (for Gen Z, the human race or even the oft-referenced goldfish).<sup>8</sup> A broad stroke, it often lacks context and is a statistic worth considering through a different lens.

“Gen Z is the first generation to grow up swiping left on a screen, rather than having to turn a physical page.”

-Ready Education Insider<sup>9</sup>

In their recent report, Ready Education challenges the negative connotation associated with this data point. “The reasoning behind it is not so pessimistic. Gen Z is the information generation. They are the first generation that has never had to search for information in a physical book while writing a paper in high school.” The report also points out Gen Zs use of an 8-second filter to manage an unceasing information stream “fed directly into their pocket.” This technique allows them “to see as much information as possible... and if it does not pique their interest, they move on...”<sup>10</sup>

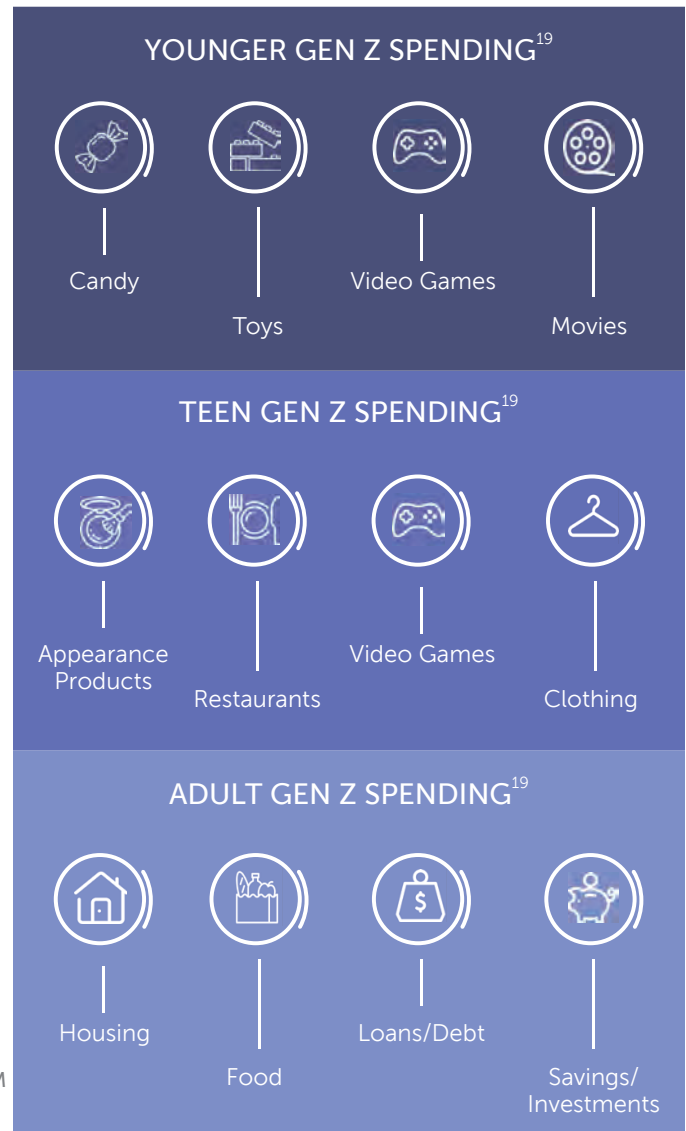
With a smartphone in hand since age 11, these digital natives are self-taught and driven by curiosity.<sup>11</sup> Gen Zs reflexively use their technology savviness to seek out information on their own. Though it may sound unorthodox to some, 41.5% say they learn about personal finance from Tiktok, YouTube and Reddit-like platforms.<sup>12</sup> They are highly engaged with video, and influencers like Roaring Kitty, Andrej Jikh, Tori Dunlap and Taylor Price have their attention.<sup>13</sup> Yet, despite instant access to information at their fingertips, 1 out of 4 Gen Zs report finding financial literacy resources is challenging.<sup>14</sup>

## PURCHASING POWER

68% of Gen Zs are optimistic about their financial future.<sup>15</sup> And that future is bright. According to Student Beans, this generation has an estimated spending power of \$44B<sup>16</sup> and Noah Cunningham, COO at Rival Technology, estimates once they inherit parental wealth, it could reach \$60T.<sup>17</sup>

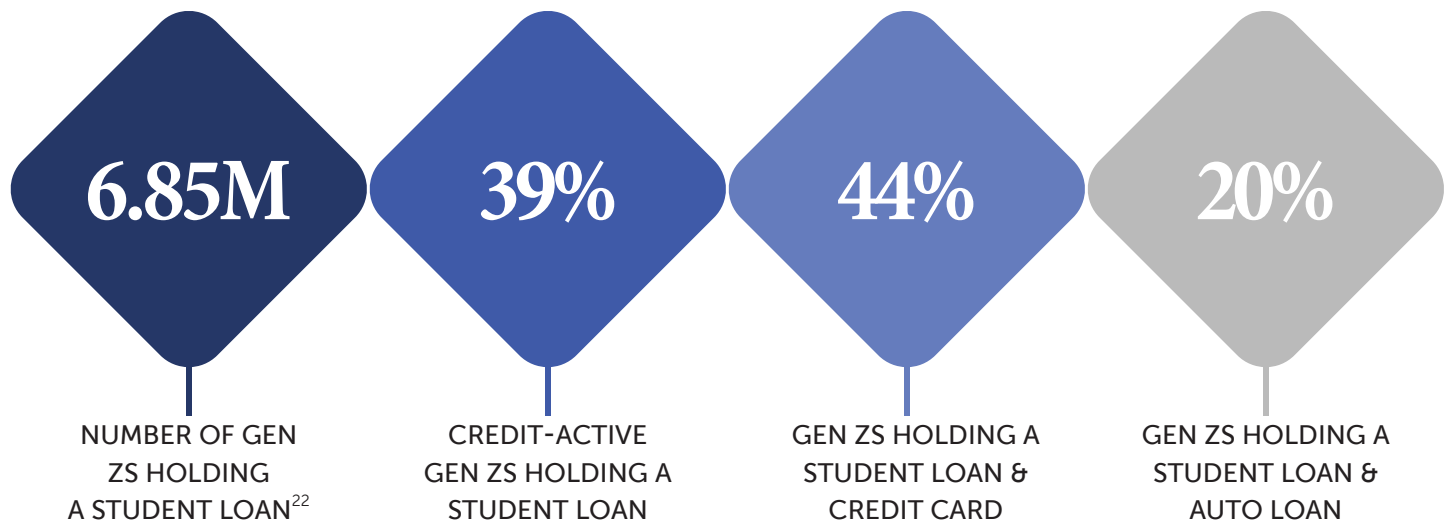
Gen Z teenagers (average age 15.8) report, on average, spending \$2,274/year.<sup>18</sup> The youngest Zs (age 6-11) most frequently spends on toys, candy, video games, clothing, movies, collecting cards and comic books. As they age, discretionary spending shifts. On average, teen Z’s (age 13-19) spending most frequently includes clothing/fashion, food/dining, video games, personal care/cosmetics and car expenses.<sup>19</sup>

On the opposite end of the spectrum are the oldest Zs. Approaching their 25th birthdays, they are early on the journey through adulthood. The path ahead is full of milestones – likely shifting their purchasing power towards non-discretionaries.



## STUDENT LOANS

39% of credit-active Gen Zs hold a student loan, making them twice as likely as any other age group to have student debt.<sup>20</sup> A recent Deloitte study notes, "...contrary to popular belief, Gen Z is not reevaluating the value of a college education. In fact, Gen Z considers a traditional four-year college education more important than ever before."<sup>21</sup>

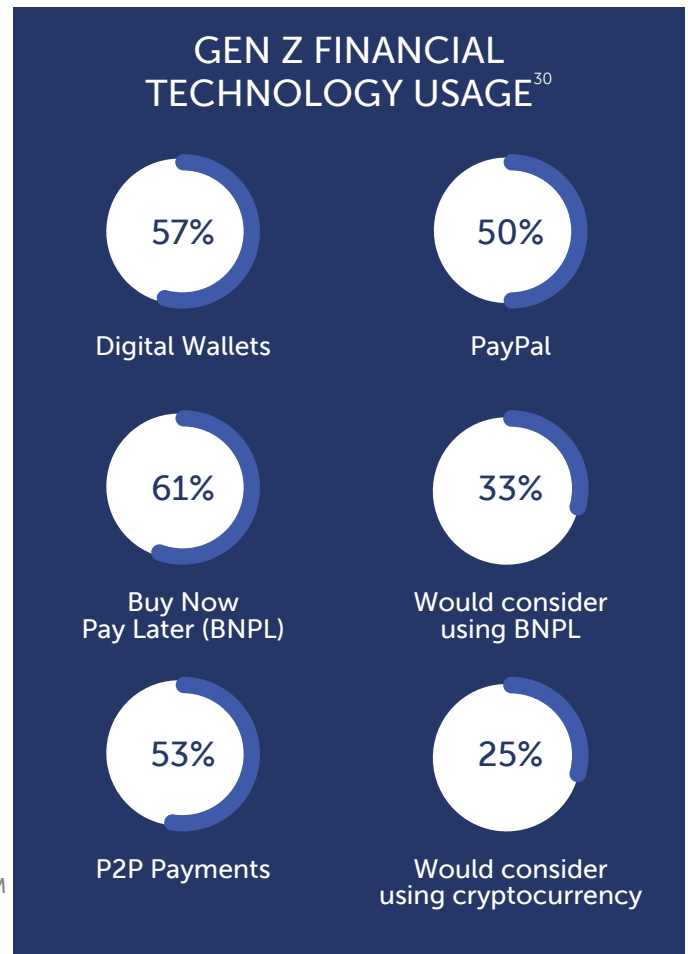


**44% OF GEN ZS WITH A STUDENT LOAN ALSO HAVE A CREDIT CARD<sup>23</sup>**

## DIGITAL FINANCE

Co-existing between their tactile, earthly life and a virtual world, Gen Zs rely on digital tools to manage both. And their financial lives are no different. 47% hold an account with a traditional bank, credit union, neo bank or technology company,<sup>24</sup> and their digital banking use is projected to almost double from 27.1M current users to 45.4M users by 2025.<sup>25</sup> Almost 90% have a finance app on their phone,<sup>26</sup> and they use person-to-person payment apps more than any other generation - Greenlight, Venmo, and Cash App are their top 3 "go-tos."<sup>27</sup> According to Adam Mitchell, SVP of Business Operations at Heartland Payment Systems, Gen Z consumers probably don't remember a world prior to Venmo, CashApp or PayPal. He points out that in that kind of headspace, it's easy to recognize this is a generation with a completely different perspective on payments.<sup>28</sup>

**In 2022, 89% of Gen Z account holders will use online banking, and 81% will use mobile banking.<sup>29</sup>**



# So, Are They Credit Averse?

The numbers say no. Two out of three Gen Z adults are credit-active with at least one traditional credit product on file, such as an auto loan, credit card, mortgage, personal loan or student loan.<sup>31</sup> From 2020 to 2021, Gen Z was the only generation to show a substantial increase in credit usage - triple that of Baby Boomers.<sup>32</sup> Additionally, the post-Covid rebound of card originations and balance growth has been largely driven by the consumer demand of Gen Z. In Q2 2021, their share of originations increased to 14.2% - a year-over-year jump of nearly 1%, and an almost 7% increase over their 7.5% share of Q2 2018 originations.<sup>33</sup>

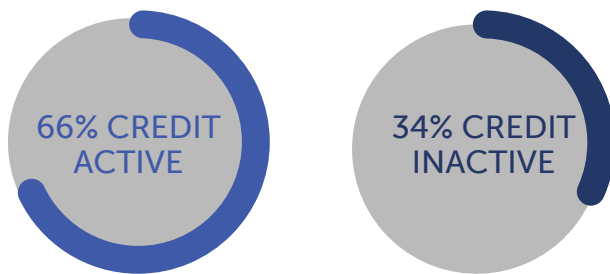
## ORIGINATIONS & USAGE

Gen Z card originations have almost doubled over the past three years.<sup>35</sup> Credit utilization rates and balances decreased year-over-year across all generations except Gen Z. Paul Siegfried, Senior VP at TransUnion, points out, "As the economy continues to show signs of recovery, card issuers are ramping up for growth and bringing younger consumers into the fold."<sup>36</sup>

"As the economy continues to show signs of recovery, card issuers are ramping up for growth and bringing younger consumers into the fold."<sup>37</sup>

-Paul Siegfried, Senior VP, TransUnion

## GEN Z ADULTS<sup>34</sup>



## CREDIT-ACTIVE GEN Z CARD USAGE<sup>38 39</sup>

AVERAGE NUMBER OF CARDS HELD

1.51

PERCENT OF CREDIT ACTIVES WITH A CARD

50%

AVERAGE UTILIZATION RATE

31%

AUTHORIZED USER ON SOMEONE ELSE'S CARD

22%

APPLIED FOR A CREDIT CARD

56%

When applying for credit cards, 1 out of 4 Gen Zs were turned down (a rejection rate 2x higher than any other generation.)<sup>40</sup>

## 2020-2021 YEAR-OVER-YEAR CREDIT USAGE<sup>41</sup>

Credit utilization rates and balances decreased year-over-year across all generations with the exception of Gen Z.



## 2021 AVERAGE CREDIT CARD DEBT<sup>42</sup>

\$6,125

OVERALL  
(PER HOUSEHOLD)

\$2,312

GEN Z

\$1,183

COLLEGE  
STUDENTS

"Gen Z and Millennial spending rose 38% between 2019 and 2021, while Baby Boomer spending declined over the same period."<sup>43</sup>

-American Express

## ALTERNATIVE LENDING

Gen Zs have fully embraced the digital payment space, from BNPL (Buy Now, Pay Later) to contactless payments. But, enthusiasm for a frictionless experience combined with rapidly evolving technology, the ubiquity of lenders and budget-friendly terms could be a slippery slope for consumers.

“Gen Z consumers are early in their careers and may not have a lot of disposable income. The ability to purchase something and pay for it over time without accumulating significant interest is really attractive.”

-Adam Mitchell, SVP of Business Operations, Heartland Payment Systems<sup>44</sup>

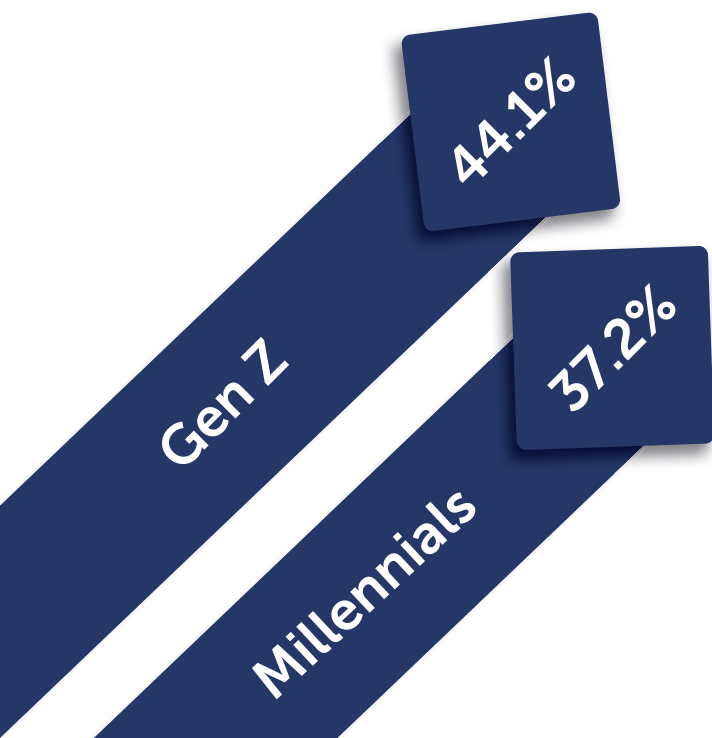
BNPL could be the tipping point for financial institutions – demanding consideration of alternative credit data. It stole the spotlight during the 2021 shopping season, catching the interest of Gen Zs – and the Consumer Financial Protection Bureau (CFPB).

The CFPB issued a market-monitoring inquiry to collect information on the risks and benefits of BNPL products. They are focused on regulatory arbitrage, accumulating debt and data harvesting in a consumer credit market already quickly changing with technology.<sup>45</sup>

“Both traditional lenders and newcomers like fintechs need to devise alternatives to meet would-be borrowers' needs.”

-Greg Wright, EVP & Chief Product Officer, Experian<sup>46</sup>

Regardless of the future of BNPL, P2P, etc., alternative data sources will command more attention in an increasingly competitive market. According to Sam Greenspan, head of content at Demand.io, “The explosive growth of Buy Now, Pay Later services is largely credited to popularity amongst younger shoppers.”<sup>47</sup> The growing number of payment options continues to dilute the role of traditional data in the credit process. To keep up with the consumer expectations of Gen Z, lenders will need to bolster standard sources with consumer-permissible data.



**By the end of 2022, 44.1% of Gen Z digital buyers ages 14 and older will have used BNPL services at least once that year, compared with only 37.2% of millennial digital buyers.**<sup>48</sup>



# The Answer Is...

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"The oldest Gen Zs are entering the life stage when the need for material things arises. Despite student loans, the need to acquire things is still there," said Siegfried. "They're out of college, they have jobs and they have access to credit cards."<sup>49</sup>

Labeling an entire generation – the majority of whom still dine in the school cafeteria – as credit averse is a glass half-empty outlook. Coming to age during the rise of meme stocks, cryptocurrency and instant payments, Gen Z's financial future is impossible to predict and far from defined. Perhaps a propensity to save and a wariness of debt calls for an entirely different label – financially savvy.

And financially savvy customers use credit – why wouldn't they?

With Zoot's dynamic tools and services, lenders can quickly adapt to shifting consumer behavior and regulatory updates. Configurable functionality offers access to countless real-time data sources, delivering decisions in milliseconds.

Zoot's scalable platforms are built with the flexibility to accommodate clients' individual needs while providing a precise, responsive decisioning experience. Zoot provides solutions for some of the world's largest organizations, delivering cutting-edge technology for data acquisition, loan origination, fraud management and more.

**"50%+ of credit-active Gen Z consumers had credit scores in the prime and above risk tiers. As lenders look for ways to expand their customer base without increasing their risk, these young consumers represent a key opportunity for growth."<sup>49</sup>**

-Gen Z Uncovered, TransUnion

## ABOUT ZOOT

Zoot Enterprises is a global provider of advanced origination, acquisition and decision management solutions for some of the largest organizations in the world. We offer comprehensive and flexible platforms for specific business needs that include loan origination, fraud detection and prevention, data acquisition, and more.

Zoot is a leader in the technology industry. We enable clients to access hundreds of cutting-edge data sources in real time, and provide business user control that empowers our clients to adapt to their evolving strategies. Our cloud-based, secure processing environment delivers decisions in milliseconds and has the capacity to deliver billions of real time decisions annually.

For more than 30 years, we have launched solutions to market faster than the competition. We have partnered with influential U.S. and international organizations including major financial institutions, retailers, healthcare organizations and payment providers to foster excellence in multiple industries.

From Data to Decision®



At Zoot, our promise is simple: To make our clients successful. We work closely with the top financial institutions in the world to deliver state-of-the-art solutions that satisfy the most demanding decisioning needs.

**Zoot Enterprises can help you execute data agnostic, one-to-one decisions informed from all available sources. If you're ready to improve your origination process and keep pace with the changing times, please contact Zoot today.**

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