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Rob Rubin, Grace Broadbent, and Eleni Digalaki

The Banking & Payments Show: Gen Z unboxed—LOLFinTech!

Audio

On today's episode, we discuss how Gen Zers are different from older generations in that a lot of their financial services product consumption will be embedded within non-financial service-specific experiences. In our "Headlines" segment, we examine how convenience plays a major factor into Gen Z decision-making. In "Story by Numbers," we discuss Gen Z's use of Apple Pay in consumer finance and if consumers can find competitive prices while using embedded finance experiences. And in "For Argument's Sake," we debate if more than 10% of Gen Z or Gen Alpha will go their whole lives without establishing direct relationships with financial service providers. Listen in to the conversation with host Rob Rubin and our analysts Grace Broadbent and Eleni Digalaki.

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Episode Transcript:

Rob Rubin:

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Grace Broadbent:

I think Apple wants to be the all-in-one ecosystem. They want to be the ultimate super app and I think it's only going to keep growing. Apple Pay Later is a really new addition. It's not even fully rolled out yet and I just think it's going to keep going.

If you think about the Apple Card, that's been really growing in popularity, their credit card. I think we're just going to see more and more products and services added to that list.

Rob Rubin:

Hello everyone and welcome to The Banking & Payments Show. A Behind the Numbers podcast from eMarketer. Today is July 11th. I'm Rob Rubin, GM of financial services and your host today. If you enjoy this podcast, please give us a five star rating and subscribe. The title of today's episode is Gen Z Unboxed LOL FinTech.

I invited Eleni Digalaki and Grace Broadbent back to talk about how Gen Z is different from older generations in that a lot of their financial service product consumption will be embedded with non-financial service specific experiences. Hey, Eleni. Hi, Grace. How are you?

Eleni Digalaki:

Hey, Rob. Thanks for having me. I'm good. How are you?

Rob Rubin:

I'm doing great.

Grace Broadbent:

Hey, Rob. Happy to be here.

Rob Rubin:

Well, you say that now, Grace. But before we get into it, it's time for some quickfire questions for you.

Grace Broadbent:

I'm ready.

Rob Rubin:

These are easy. The first one is where do you live?

Grace Broadbent:

New York City.

Rob Rubin:

What borough?

Grace Broadbent:

I live in the Lower East Side.

Rob Rubin:

Nice.

Grace Broadbent:

So in Manhattan.

Rob Rubin:

In Manhattan. How long does it take you to get to work?

Grace Broadbent:

Right now, approximately 10 seconds, because my desk is about 20 feet from my bed. But if I were to go to the office, only 20 minutes.

Rob Rubin:

How often do you go in?

Grace Broadbent:

I was there twice last week, but not often normally.

Rob Rubin:

All right. Did you do anything fun over the July 4th weekend a couple of weeks ago?

Grace Broadbent:

I stayed in the city. I actually went to Coney Island for the first time ever to try to do the traditional New York fourth.

Rob Rubin:

Did you see the hot dog eating contest?

Grace Broadbent:

No. So I went on Saturday instead of Tuesday. My friends convinced me that going on the actual hotdog eating contest day would be miserable with crowds of people. We did it just a couple of days early, but we did all eat hot dogs and rode the rides and everything.

Rob Rubin:

All right. Here's my last quick fire question about hotdog eating. Ketchup or mustard?

Grace Broadbent:

Both.

Rob Rubin:

All right. I wasn't expecting that. That's great. Well, that was fun and we have a lot to cover, so let's get right to the headlines. In the headlines, we chat about a top story as it relates to our episode, and I've chosen a story that we published a month ago about the importance of convenience when choosing where to shop.

Convenience is King for 82% of Consumers is the article. The article reviews the results of a survey from Numerator, which looked at how important convenience factors like location and hours are when choosing where to shop. A couple of things before I get into it. Just as I said, "Convenience is king," I realize that's kind of an old-fashioned headline. It should be, "Convenience rules," because it gender-fies convenience.

Anyway. What was interesting to me is Gen Z was the only generation where self-checkout was a top five convenience factor. Other factors like the ability to shop anywhere, anytime were important for this generation. My take is that for a financial services company, winning a generation will require thinking about convenience in a completely different way.

Because if you're like an old bank or a small bank that has a lot of branches, they think about convenience in terms of drive-throughs and branch hours. So I'm going to ask you guys. What makes financial service companies like a bank or an insurance company convenient?

Grace Broadbent:

Well, right now, they are not very convenient. They're definitely getting better, but they're not there. In the olden days, as I'd say, you used to have to go to a branch to open up a credit card. But these days, I saw a recent data point where about 90% of general consumer-facing credit cards are opened up digitally. Whether mobile or on the internet.

Rob Rubin:

90%?

Grace Broadbent:

Yes. Just about.

Rob Rubin:

That's a lot.

Grace Broadbent:

Yeah. It's really changed. Of course, there are still those holdouts that go in person, but it's definitely so much more convenient to be done online. That being said, the process is still not as convenient as it could be. It still takes time to go through approval and set up the account and figure out which credit card you're getting and so on.

Rob Rubin:

I was at this event that I was speaking at in June. It was with bank CMOs. It was about 25 bank CMOs and they were generally from small and regional banks. The person who was speaking before me, he was talking about digital account opening.

He asked them by a show of hands, how many can get their digital account opening process to under four minutes, which seems like a long time. Maybe a handful of them ... I'm going to say 20%, 25% of them raised their hands and they got a lot of congratulations for that. But that seems like a long time to be able to open an account.

Eleni Digalaki:

I think it is a long time. And that's definitely something that has to do with convenience, how fast you can open a bank account. My somewhat educated guess will be for your average bank, it takes around six minutes. I think probably after, I don't know, four or five minutes or three minutes even, you're seeing abandonment rates go up a lot.

Rob Rubin:

Isn't that because they just asked for the really personal information and they got nervous?

Eleni Digalaki:

I don't know. It's just a very long time. You can open accounts with Apple in one minute. You can do it in less than one minute and have an Apple Cash account. You can have it open and you can fund it instantly as well. Because then, for a bank account, based on our account opening benchmark that we did last year, funding in new checking account is top of mind for consumers. Gen-Zers, particularly.

Setting up direct deposit when opening an account was supported by only two of the 14 banks in our study and that was the most demanded feature in the entire study. And making an initial deposit using a payment app like PayPal or Venmo was supported by no bank.

Rob Rubin:

Right.

Eleni Digalaki:

When you look at Apple, for example, you open the account and then you can instantly fund it with Apple Pay. It's as seamless as it gets.

Rob Rubin:

Funding is a big problem for banks, because to open an account you need to transfer money digitally to open it, but maybe ...

Eleni Digalaki:

Also, going through the account opening process doesn't mean you have an open account. Most account opening processes for banks are not straight through processes, so you might have to wait even a day or however long for the account to be open and usable.

Rob Rubin:

What about car insurance? Is it convenient to get car insurance?

Eleni Digalaki:

It's more convenient than it used to be. I think a lot of the big players now have really good digital channels for buying insurance for products that are simple like car insurance. So if you're asking about car insurance, I would say yes, it's somewhat convenient. When we're looking at embedded car insurance, we can see how much more convenient it could be though.

For example, Root has partnered with Carvana, who are a reseller of secondhand cars. Someone who buys a car on their platform can buy insurance within three clicks. During the checkout process of the car-buying application process, they can add car insurance with three clicks. Definitely, that's more convenient.

Rob Rubin:

Well, we're going to talk about that in our next segment, which provides us with a good transition. I think that convenience rules, I'm going to change that headline, for 82%. And I think that convenience always ruled. It's just that the definition of convenience changes.

Eleni Digalaki:

Yep.

Rob Rubin:

I think that for banks and all financial service companies, now that we have more convenient ways to use financial service products like embedding them into other things and other experiences, they really have to get with the program in terms of convenience. In our next segment Story by Numbers, we pick a number or two that helps us dig deeper into the episode's topic.

Today, for Story by Numbers, I had a hard time picking just two numbers, honestly. Because there's so many. For my first number, which comes from a recent report we published on Apple in consumer finance, 46% of Apple iPhone owners will use Apple Pay in 2023 according to our forecasts. That's a lot of Apple Pay users.

Now, payments obviously are the most prevalent example of embedded finance, but how else now that Apple has that huge base of people who are using Apple Pay? How else is Apple embedding their digital wallet into specifically Gen-Zers lives?

Grace Broadbent:

Yes. Absolutely it is. The iPhone is really becoming the ultimate super app, combining a huge ecosystem of digital products and services. Of course, there's traditional Apple Pay that you can use at a traditional point of sale, but you can also use it for transit payments. I live in New York City. I just hold my phone near the ...

Rob Rubin:

The turnstile kiosk.

Grace Broadbent:

I hold my phone near the turnstile and I just walk right in without thinking about it. See? I think about it so little that I don't even know what it's called.

Rob Rubin:

You don't even know what it is.

Grace Broadbent:

I don't even have to press a code or anything. I don't do my passcode or anything. I literally just hold my phone. It could not be easier.

Rob Rubin:

You're the frustrated person behind me, because I always put my metro card in backwards. And then, it spits out and then I have to put it back.

Grace Broadbent:

You might be the person I hate. Yes.

Eleni Digalaki:

That's no longer acceptable, Rob.

Rob Rubin:

I know.

Grace Broadbent:

But even looking out outside of big cities like New York City, there's also Apple CarPlay. Now, all of a sudden, you can make payments through connected car experiences. You can pay for fuel. There's restaurants that are starting to add to it, so you can buy your fast food from your car.

Rob Rubin:

But what about things outside of payments? That all is sort of transactional. Apple is there when you're buying something, when you're filling up for gas and you want to get a cup of coffee or something. But what about other parts of financial services? What are they going to extend from their savings account, for example?

Eleni Digalaki:

Apple Cash and Apple savings are the main other products. I know you said outside of payments, but you mentioned Gen-Zers. So I'm going to stick with payments, because we didn't mention Apple PayLater. This is growing rapidly with the appeal in general with this generation. Almost half will use the payment method this year per our forecast.

And that's another way how they're getting Gen-Zers to use their products. All of those younger people are primed to use Apple, because they already own an iPhone. Apparently, 87% of US teens own an iPhone, which is crazy.

Rob Rubin:

I know.

Eleni Digalaki:

I don't know. It sounds crazy to me.

Rob Rubin:

They can use it and talk at the same time.

Eleni Digalaki:

Exactly. When I was a teen, I had a massive phone, which its only use was for my mom to be able to make sure I'm safe. Calls. Nothing else.

Rob Rubin:

When I was a teen, our phone was in the kitchen and it was attached to a wall.

Eleni Digalaki:

I think their products are very tailored to that generation and that generation already is part of their ecosystem.

Rob Rubin:

Do you think they're going to extend outside of these products as these teens get older and need more complex financial services products for investing, et cetera? Do you think Apple is going to go there?

Grace Broadbent:

I think so. Yes. I think Apple wants to be the all-in-one ecosystem and they want to be the ultimate super app. And I think it's only going to keep growing. Apple Pay later is a really new addition. It's not even fully rolled-out yet and I just think it's going to keep going.

If you think about the Apple Card, that's been really growing in popularity, their credit card. I think we're just going to see more and more products and services added to that list.

Eleni Digalaki:

I agree. And I think if you look at trust, it points to the same direction. Apparently, adult Gen Z digital banking users are more likely to trust Apple to provide them financial services than they are to trust their primary bank ... According to our Banking Digital Trust Benchmark Survey, which tells me they can offer something that's more complex and people will still feel safe to get it from them.

Rob Rubin:

I think they did a smart thing with taking a stand on privacy and what they've done with that. So I think it works really well. I want to jump to my second number, 79%. That's the percentage of adult Gen Z consumers who would want auto insurance bundled with their car purchase.

We talked about auto insurance and embedded insurance. It seems like a sure thing. It seems convenient. But for me, and I just come from a different perspective, auto insurance was one of those competitive things. You would shop for auto insurance to get the most competitive rate. It feels like if it's just part of the car, then you're going to end up paying more for auto insurance than you would've otherwise. What do you think?

Eleni Digalaki:

Just to caveat at the beginning. In theory, with embedded insurance, you get flexible personalized offers where the policy is underwritten dynamically at that point of sale. The insurer can tap data from the brand that they're partnered with, let's say, the auto manufacturer data that they wouldn't otherwise have access to and use it to price that policy. So the price should be fair. It doesn't mean it's the cheaper one out there. It just means that it's fair.

Rob Rubin:

Maybe there'll be just the option to not have it bundled, so that you can go the traditional route. But maybe the other thing that's going to happen is it's going to be more standardized pricing. Sort of a utility.

Eleni Digalaki:

It's not about whether it's standardized, so it could be dynamically priced, but you still get one provider. It's not a price comparison tool. You have to trust that you're getting a good deal. Or you have to value convenience higher than getting it at the best rate in the market.

Rob Rubin:

Unless the car buying site, if it's the manufacturer and you're buying the car, they have their own little super app and they make money on selling the insurance and giving you that. So they build that into their process.

Eleni Digalaki:

Sure. But I think the idea with buying car insurance at the checkout of a car purchase is that it doesn't interrupt that UX.

Rob Rubin:

You're buying the car, the insurance is just part. Like the tires.

Eleni Digalaki:

And in three clicks, you have added insurance. If you wanted to shop around, you would be shopping around. There are many tools to be doing that. It's more about that convenience. And I think also what's very interesting is that embedded insurance shortens that consideration cycle tremendously, because you are offered something at exactly the point when you need it.

Maybe it's not even that you value convenience more than value, but maybe it's in the moment where you need it, so conversion becomes so much easier that you don't even think about that. You don't even think, "Could I be getting a better deal elsewhere?" It's more like, "Click. Click. Done. This is so easy."

Rob Rubin:

But maybe we should think?

Eleni Digalaki:

Well, maybe we should. Car insurance, it's an example where ... To me, it's not super exciting when it comes to embedded insurance. Just because it's a mandatory product. You are going to get it. I agree. Somewhere, you could get a better price, but you are going to buy that product. Embedded insurance is much more interesting when we're looking at products that have lower penetration like life insurance that people need it, but they don't have it. No one mandates them to ...

Rob Rubin:

Where do you embed life insurance?

Eleni Digalaki:

Chubb has done that with Nubank. I think it's a great example within Nubank's digital banking app for their Brazilian customers, which is a massive base, by the way. Again, I think it's three questions and you have term life insurance, which is one of the simpler life insurance products.

And this is where, again, the fact that the consideration cycle becomes much shorter and the coverage is offered at the point of need. It makes a lot of sense and might make conversions easier. Imagine having it in a digital mortgage application.

Rob Rubin:

Right. I can see that. I want to take this conversation to our final segment, which is for argument's sake. To sum up our Story by Numbers, I think we can all see the writing on the wall that Apple is not done in terms of building financial service products and being integrated 100% into people's lives and maybe that's okay. We'll find out.

And then in the second number, we really started to talk about what other kinds of products and embedded experiences. For argument's sake, we take a topic and discuss it nicely. Obviously, with some different perspectives. Today's topic, and this is why it's an extension, is whether you can envision a material share, and I'll define that as more than 10% of Gen Z consumers and maybe the next generation after, that can go their whole lives without establishing direct relationships with financial service providers.

So I would argue that they're not going to be able to do that. Most people are going to have to have a relationship at some point with the traditional financial service provider. Anybody want to tell me why that might not be possible? Or why I might not be right?

Grace Broadbent:

Yes. I disagree with you.

Rob Rubin:

All right. Now, we've got it.

Grace Broadbent:

I think Gen Z could get close to getting material share without establishing those relationships, but I absolutely envision a future where the next generation, like Gen Alpha does that. Thinking back to the Apple example. Almost everything you need is wrapped up in the Apple's digital wallet. Especially, from a payments perspective.

As we said, they're not done growing and that's just one example. There's so many fintechs developing their own credit cards and savings accounts and everything that I think the options are going to be there to never establish a direct relationship.

Rob Rubin:

Why do they need it? You have banking, so that's cash. I can sort of see how maybe you don't need a bank for a checking account.

Eleni Digalaki:

I think the more complex your needs, the more difficult it becomes to not have a primary bank relationship. Today, at least, if you want to invest large sums of money or if you want to get a mortgage or if you want to talk about pensions or annuities, you are going to need a financial services provider today. Most of the time.

You can't get mortgages with SoFi. There are fintechs that tackle complex financial services products even today. I think in the future, even those more complex products will be offered by FinTech and other disruptors.

Rob Rubin:

Because there's Robinhood and robo-investing, so you can self-direct a lot of investing.

Eleni Digalaki:

But the argument is, would the average person go their whole life with robo-investing versus having a human give them personalized financial advice?

Rob Rubin:

I'm going to argue against myself and say that for that, I think, yes.

Eleni Digalaki:

Mm-hmm.

Grace Broadbent:

Yeah. I think it really goes back to the convenience factor that we were talking about earlier. If the customer experience is good, if it's really convenient to do it through these apps people already have, why would they switch to something more complicated and something less convenient?

Eleni Digalaki:

I agree. There are other sort of transformations happening. Well, with ChatGPT, for example. Maybe non-human advice will look very human in a few years from now.

Rob Rubin:

That's right. I once argued that if you ask someone today, if you'd rather talk to a human or a machine, most people will tell you that they'd rather talk to a human. But I think that once the machines become faster and better at answering your questions, you're going to prefer to talk to a machine.

Eleni Digalaki:

One is faster and better, but the other side is just being able to trust that what you get is accurate information. Again, the more complex the need or the more money at stake, the more difficult that gets.

Rob Rubin:

That's really interesting, the trust issue. Because we've been talking about ... And it's a couple of episodes now, honestly. We've been talking about how Apple is going to dominate the world, because everybody uses an iPhone. Especially, the young ones and all of this.

But it's only going to take one bad breach for Apple to lose that trust. No? Right? If something bad happens and somehow some people break into Apple's ecosystem and people lose a bunch of their money and Apple is now deemed unsafe ...

Grace Broadbent:

But I think the same can be said for other financial institutions. Everything is one breach away. I don't think that differentiates Apple from anything else.

Eleni Digalaki:

I agree.

Rob Rubin:

I know. I agree with both you on that, but the thing is that it just means that everyone is one breach away from going from ruler to loser. I just think that it speaks to the fact that what we think today as what's going to happen could change quickly for an event unforeseen as we know. And I think that that really wraps us up for today.

It's been a really interesting show. I've enjoyed it so much. I want to thank you guys for it. I'm not sure we came to a conclusion, because I think you guys might have convinced me. Because I was saying, of course, nobody's going to have to get through their whole life without having a relationship with a financial service provider.

But I think maybe you're right. Maybe convenience is going to rule and it is possible maybe with Gen Alpha more than Gen Z? I want to thank both Eleni and Grace for joining. This was so much fun. Thank you guys.

Grace Broadbent:

Yeah. Thanks for having me.

Eleni Digalaki:

Yeah. Thank you, Rob. Pleasure as always.

Rob Rubin:

It was so much fun. And I want to thank everyone for listening to the Banking & Payments Show, an eMarketer podcast. Also, thank you to our editor, Todd. In today's episode, we referenced an article and two reports that we recently published on Gen Z consumers and embedded finance, and we put links in the show notes. Our next episode is going to be on July 25th, and you'll not want to miss it. Bye, everyone.

Eleni Digalaki:

Bye, everyone.

Grace Broadbent:

Bye, everyone. Thanks.