

# The Banking & Payments Show: Gen Z and banking

Audio

On today's episode, we break down everything there is to know about banking and the Gen Z demographic. In our "Headlines" segment, we discuss the article our analyst Tyler Brown published a few weeks ago about Greenlight, a neobank for kids, teens, and families. In "Story by Numbers," the conversation revolves around why Gen Z is different from other generations and how banks need to cater to their mobile preferences. And in "For Argument's Sake," host Rob Rubin takes the position that in 10 years, there will be fewer than 500 consumer banks. Tune in to the conversation between Rubin and analysts Tyler Brown and Tiffani Montez.

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Episode Transcript:

Rob Rubin:

Hello. I'm Rob Rubin and welcome to the Banking & Payments Show, a Behind the Numbers podcast from eMarketer. I'm the GM of financial services and your host today, which is April 18th. If you enjoy this podcast, please give us a five star rating and subscribe. The title of today's episode is Gen Z in banking, and I invited back two podcast veterans, principal analyst, Tiffany Montez and senior analyst Tyler Brown. Hey guys. How you doing?

Tyler Brown:

Hey, thanks for having me back.

Tiffani Montez:

Hey there. Guess what, Rob? I'm back with more opinions.

Rob Rubin:

That's great. I love that. Thank you. But before we get into it, a ground rule because the title of the show is Gen Z and banking and the ground rule is that because I have two Gen Z kids and you don't, if I Gen Z-splain to you at any point during this episode, you're both free to say to me, okay Boomer, which is what my kids do. So let's first, before we start, have a fast game of quickfire to see how well you guys actually know Gen Z slang. So I'm going to ask you guys what do these Gen Z expressions mean and don't look them up because I think it'll be more fun. The first one, slaps. Tyler.

Tyler Brown:

Give me a second to text my 13-year-old niece.

Rob Rubin:

Yeah, don't do that. What does slaps mean? You don't know? Tiffany.

Tiffani Montez:

I don't know booms.

Rob Rubin:

Okay, Boomer.

Tiffani Montez:

I don't want to call you Boomer because I feel like Boomer, I want something that's a little bit more endearing. So I think I'd like to call you booms if that's okay. I have no idea what slaps means other than maybe slapping, I don't know.

Rob Rubin:

Slaps is something good like, oh, that slaps, that's like a good thing. And the next word is bussin'.

Tiffani Montez:

So it involve tables.

Tyler Brown:

Sounds like kitchen patrol to me.

Rob Rubin:

Yeah. No, bussin' actually refers to something I've only heard it used in the form of this tastes bussin', which is, it's good, like it's good food. That's how I've heard it. Now what about drip?

Tyler Brown:

Fashion.

Rob Rubin:

Yeah, that's right. You're drippy, you're looking drippy. You got good drip. Your fit looks drip. What about no cap?

Tiffani Montez:

I don't know. I feel like I need a lifeline. Call a friend.

Tyler Brown:

No limits.

Rob Rubin:

No, no cap means I'm not lying. No cap.



Tyler Brown:

So that's one out of four?

Rob Rubin:

I don't know. That's a generous score.

Tiffani Montez:

Could you use all four of them in one sentence?

Rob Rubin:

Well, I feel like slaps and bussin' are similar, but probably could, but I want to move on because that was fun and I know that each generation develops its own slang, but I have to say that I think Gen Z has taken it to a whole nother level and we have a lot of fire stuff to cover. So let's get right into the headlines today. In the headlines, we're going to chat about a top story as it relates to the episode. And for today's headline, I've selected an article that you, Tyler published a few weeks ago about Greenlight, a Gen Z Neobank. They recently announced a pair of services for enterprises. Can you tell us a little bit about it, Tyler?

Tyler Brown:

Sure, Rob. We're talking about both Greenlight for Banks and Greenlight for work. Greenlight for Work is sold to companies for an employee benefits package, and Greenlight for Banks is a turnkey co-branded app for banks and credit unions. They're trying to use enterprises to earn bulk fees and cultivate a broader customer base. They will certainly get better distribution with a better return on their marketing spend.

Rob Rubin:

Do you think this is a good idea? Are they like white labeling their product now? As a Neobank, they're offering features. I'm a little confused about what they're offering.

Tyler Brown:

To me, this is a different business model. From what we've seen as one of the classic Neobank profitability plays, which is charge each user or each group of users a fee, raise it to go beyond the core features in this case like family banking, PR control, financial education tools, debit card. And what they're doing now is using companies as their distribution channel as

opposed to each individual consumer. So they're expanding their market earning fees from companies while in the meantime not spending as much marketing direct to consumer.

Rob Rubin:

Okay. So is this a good time for companies to be offering an employee perk that's going to cost them money around this? Is this such a burning need for HR departments to add this particular perk?

Tyler Brown:

I guess that's the question is how much do they really need it? Maybe it's a good move for Greenlight or at least a good attempted move, but I'm not sure companies will be buying it.  
Tiffany,

Rob Rubin:

What do you think?

Tiffani Montez:

Think it just creates a new distribution model. And when you start thinking about team banking is it's probably not something that's actively on your mind and depending on how old your child is, you may be ready or thinking about starting a relationship for your child or you may not be. I think the limitation with this type of model is how often do you go through and evaluate your employee benefits? It's when you join a company and it's once a year when you take a look at your benefits and make changes. So it gives a new distribution model, but I think there's limitations on how much they're actually going to be able to advertise this product as an employee benefit. So I'm not sure that it's going to give them as much reach under that context.

Rob Rubin:

Now what about the other service that they're offering, which is pairing with banks and credit unions? How does that work and how does that relate to what they do with Chase?

Tyler Brown:

What they're offering is a co-branded app for banks to create a kids and teens banking app without a whole lot of lift on their end.

Rob Rubin:

The banks' end, you mean, Greenlight's doing the lift for them.

Tyler Brown:

Greenlight's doing the work.

Rob Rubin:

Okay, so they're offering this co-branded service. Are they just bolting certain features onto their mobile apps? Is that how it works?

Tyler Brown:

That's what Chase is doing. What they did back in 2020 when they partnered with Greenlight was to put a wrapper around Greenlight as part of their mobile app. So what you can do now is you can open a Chase first banking account if you're a parent already with a Chase relationship, and from that you can add kids and teens banking features that are essentially identical to what you'd get from Greenlight. I know Tiffany, you've talked in the past about financial graduation plans and life stage based financial relationships, and this may be what Chase is doing to try and start that.

Tiffani Montez:

Yeah. I think it's important when you start thinking about banking for teens, informing relationships early, they will outgrow a teen banking account at some point, especially as they start to transition into college or even getting their first job, For those that don't want to take the college plan immediately out of school. And really thinking about how do you take a teen banking account and transition or graduate them into more complex financial products and grow that relationship over time. So as you go from a child to a teen to an adult and then through the other stages of adulthood that have financial needs that require more complex products and services.

Rob Rubin:

I mean the lifeline for banks is that they need to leverage their own customers to bring the next generation on. Hasn't that always been the way, and this is just a more modern version of it.

Tiffani Montez:

I think it's a clearer path. You're right. It has absolutely always been the way. I think the challenge is how do you deliver a seamless experience to move them from one relationship based on key milestones in their life to another? So today, if you think about even any financial journey, they stop and start in life stage. There isn't a transitional period where you move from one life stage to another and that you facilitate that move to a life stage. You end a life stage and then you figure out you need something different and then the consumer goes on and tries to find the next financial product to meet that need. There isn't like helping them along the way.

Rob Rubin:

Okay.

Tyler Brown:

Well Rob, once upon a time, maybe for you Boomer, it was going to the branch boom with your parent opening a savings account and then maybe hoping you'd get products.

Rob Rubin:

Yeah, they gave out lollipops.

Tiffani Montez:

You came in with your pennies and lollipops.

Rob Rubin:

Yeah. You go with your pennies and they would stamp your passbook savings account, you'd give them your passbook and then they would put it in the machine and give you how much your balance was with your new deposit and then they'd have a basket of lollipops. It was wonderful.

Tiffani Montez:

Did they write the amount in your actual little balance ledger and it was literally a passbook?

Rob Rubin:



It was a passbook savings account. It looked like a passport is what it looks like form factor size.

Tyler Brown:

So at least we have an app now.

Rob Rubin:

Yeah, it better. Well, I want to say that that was fun and not where I thought it was going to go, but I think-

Tiffani Montez:

You're welcome.

Rob Rubin:

... the Greenlight is cleverly creating some value-based revenue streams we hope, and to win Gen Z consumers. I like the idea of how they're building relationships with existing banks. In today's economy. I think it's going to be super hard for them to pitch to enterprises to add a new perk for employees, but we'll see in our next segment story by numbers.

So I want to dig into why Gen Z is different from previous generations coming of age and the uphill climb. Banks are going to have to win them over. In 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 want to focus on why Gen Z is different from other generations, and my first number is 97% and this is the percentage of Gen Z consumers that will have a smartphone by 2026, no cap, 97%. Why is this so important for bankers?

Tyler Brown:

When we look back at the forecast, Rob, on average Gen Zers are getting their first smartphones at age 12, so that's six years before they're able to open a bank account by themselves, and that's six years of having expectations set by consumer technology companies as opposed to the bank.

Rob Rubin:

Yeah. Tiffany, was there anything you would add to it in terms of how they build services and think about it?

Tiffani Montez:

When I start thinking about gaming and other things that people at 12 year old are doing on their phones, I think it will also be increasingly important for financial institutions to start thinking about how they interact with consumers outside of the walls of the digital assets that they own. So there's always been lots of dialogue about the metaverse and other things. So how do you actually go out and meet those consumers that have a smartphone at the age of 12 and go out to the actual ecosystems that they are in?

Rob Rubin:

Exactly.

Tyler Brown:

Maybe kids and teens banking, maybe not.

Rob Rubin:

Maybe, maybe not. Maybe their banking is all going to be embedded in other things.

Tyler Brown:

Roblox.

Rob Rubin:

Yeah. I want to get to my second number though, because it's such a fascinating one and it's 14 million and that's the number of Gen Z consumers that will become mobile banking users between 2023 and 2026 in the US. That's a lot, 14 million over essentially I guess four years. And while all the other generations stagnate and my generation sadly declines, if we take it further based on our digital trust survey, many Gen Zers say they trust tech companies with their banking needs as much or in many cases more than traditional banks. Now when we couple that with what we were just talking about, that nearly all gen Zers have smartphones and honestly I think most of them have to be iPhones. How many Gen Zers have iPhones versus Androids? Do we know?

Tyler Brown:

According to our survey, 80% have iPhones.

Rob Rubin:

There you go. I knew it was definitely most. Apple has a digital wallet. They just launched Apple Pay later. It just seems like a real uphill challenge for banks. How can banks compete with Apple to win Gen Z consumers? That's what I want to spend a few minutes talking about.

Tyler Brown:

For me, it depends on how much Apple wants to compete with them. Maybe add a way to deposit a paycheck in between Apple Card, Apple Pay, Apple Cash. Maybe you're set for 70%, 8% of daily financial needs. But does Apple really want to be a licensed bank? I think banks are always going to be on the back end of what Apple does. It's probably payments companies who should be the ones really worried?

Rob Rubin:

Tiffany, do you agree? When you say a payment company, do you mean a Visa or as a network or are you referring to Square and those companies?

Tyler Brown:

I think of card networks as partners, but when you think of point of sale like Square for example, then that's a problem because you have the iPhone potentially being its own point of sale.

Rob Rubin:

Okay. Again, we go in a place I wasn't expecting. That's great.

Tiffani Montez:

I think my perspective is when you think about payments, there's lots of different types of payments. And you said something interesting earlier, Rob, which was more around embedded finance. I think the way to win in this type of environment as it relates to Gen Z, and I'll repeat what I said earlier, which is go where they are and provide them in real time and context access to financial products and services and information. And I think that could look a couple of different ways in the future, but I think it's really about making that interaction seamless and showing up at the right place at the right time with the right products.

Rob Rubin:

True.

Tyler Brown:

Or banks for the pipe on the backend. So somebody tried it didn't work out and nobody talks about it anymore.

Rob Rubin:

Until someone tries it again.

Tiffani Montez:

And someone will.

Rob Rubin:

Someone's definitely going to. I wonder really, to what extent are checking accounts legacy payment mechanisms?

Tyler Brown:

You mean like you put your money on Square Cash or Venmo?

Rob Rubin:

Or you pay people through Zelle or you pay people through more direct channels and you're not writing cheques as much anymore and I'm just thinking about Gen Z. I'm a Boomer, I write cheques.

Tyler Brown:

Your P2P app becomes your bank.

Rob Rubin:

Yeah.

Tiffani Montez:

It's no longer the Boomer Bank anymore.

Rob Rubin:

No. Maybe it's a company like PayPal I think plays an interesting place where they could fulfill that role, for example, or Venmo, which is PayPal. But you see where I'm going.

Tiffani Montez:

All answers are PayPal.

Rob Rubin:

Yeah.

Tyler Brown:

It is. If you look at our trust survey.

Tiffani Montez:

Very true.

Rob Rubin:

Yeah. Actually consumers trust PayPal more than they trust their current traditional bank.

Tyler Brown:

PayPal is incredibly trusted.

Tiffani Montez:

We'll see if that context still holds true, just considering everything that's going on in the banking industry. It'll be interesting this year to see where trust lies as we kick off our banking digital trust survey for 2023.

Rob Rubin:

I think this year in particular with everything that's happened in banking and with all of it, I think the digital trust surveys, I'm fascinated with what the results are going to look like this year. A few years ago, everybody was saying you have to design with mobile first in terms of building these customer experiences. And while we haven't really chatted about it, I think that in terms of winning Gen Z consumers for banking, it's obviously all mobile and I'm questioning whether it's going to be from a bank. And in our next segment we're going to explore whether



banks are up to this challenge. But first, let's take a break to hear about Insider intelligence's new service Analyst Access.

Insider Intelligence has launched a new Analyst Access program to provide clients with exclusive insights and help with strategies to address disruptions impacting banks today. Principal analyst, Tiffany Montez, for example, who's with us here right now, leverages all our research on disruptions facing banks and applies her decades of experience as a banker to answer questions specific to your business and help you make the most informed decisions. Contact representative at [insiderintelligence.com/analystaccess](https://insiderintelligence.com/analystaccess) to learn more about how you can book your first session

In our final segment, for argument's sake, we're going to argue nicely about whether in 10 years there will be a place for 95% of the institutions that exist today. To put a rough number on it between banks and credit unions in the US there's about 10,000 institutions. And I'm taking the position that in 2033, 10 years from now, there'll be less than 500 consumer banks by today's definition, like today, serving consumers with products that are similar to what we know. So why do I think this? First, I think technology is moving too quickly and consumers expectations are increasing too fast for most smaller institutions to keep up. So unless they pivot to fill specialized niches, I feel like smaller banks are the donkeys running in the Kentucky Derby and bet on them to lose. You can run in the Kentucky Derby but you're not going to win.

Tiffani Montez:

Donkey banking.

Rob Rubin:

So one reason why I think, and I'm going to throw it out there, and I know maybe people listening won't like to hear it because these are them, but I think that they're going to fail because a lot of their management teams and boards are unprepared or unwilling to reinvent the bank to be different than it is. And I think that that's one of the big challenges. And I think that they're not prepared to keep up with the technology innovation, not going to be able to. So can someone tell me why I'm wrong here?

Tiffani Montez:

First I want to clarify, so this 500 number that you just threw out at us is we'll go with extreme. So when you say 500 banks, are you talking about a boomer bank? Are you talking about a

traditional bank or are you talking about the 500 banks that are left will be something completely different?

Rob Rubin:

I think that there'll be regulated financial institutions that take consumer deposits. There'll be depository institutions and I think that they'll go from 10,000 of them today to about 500 in 10 years.

Tiffani Montez:

So I agree with you that I think that there will be consolidation. I think again, 500 is a bit extreme. I don't know that I would say 500 or 95% are gone, but I will say that what will remain will be banks that look very different than they look today. So even if we think about the number that we talked about earlier, we said it was 16 million Gen Zers, were going to become bank customers over the next four years. Is that what you said earlier?

Rob Rubin:

14 million, but yeah, big.

Tiffani Montez:

14 million, 14, 16. So 16 million by 2027. So it'll probably be another two more, but-

Rob Rubin:

More than that. But yeah.

Tiffani Montez:

But when you start thinking about banking, and we had this happen with millennials. Every single financial institution said, "We have to go after millennials. Millennials are coming, we have to go after millennials. Millennials are here and now we have to go after Gen Z. We have to go after Gen Z." But the number that you just threw out shows that you have to go after Gen Z now. It's not about planning anymore, like Gen Z is here and what they want and need from a financial institution is completely different. So I will agree with the portion of your comment that financial institutions will not look the same way that they look today, that it will definitely be about, we'll call it digital first. I don't know that I would even say mobile is going

to be the go-to channel because there's plenty of other channels in the internet of things that will come and continue to reshape banking.

I think there is risk to the traditional banking model. And as a result of that, and I think Tyler said this earlier, banks are in the background. I think what will have happen is that financial institutions will look to embed financial product services and information into new ecosystems. And if I start to think about what a role a bank could play in all of that, I think there is a role for super apps around life stages and helping orchestrate experiences around that. And I think that model in itself looks very different than the model that we see with traditional banking as you described earlier today.

Rob Rubin:

I still don't see a place for like 10,000, 8,000, 7,000 institutions doing all this. And I don't think that the monumental shift in business model is something that all of those management teams are up to the task of doing.

Tiffani Montez:

And I think there will be some concentrated players. Yeah. He's trying to do Boomer and gloom.

Tyler Brown:

Okay, Boomer.

Rob Rubin:

Not really. I'm just trying to be realistic in saying that. I think that one thing that's interesting about ChatGPT to me is how it's increased... I thought consumer's expectations of technology and what it could do was high, but I feel like ChatGPT just took it to a whole nother place where people have expectations as to what they can accomplish with technology or what a business should be able to offer them with technology that's ever increasing. And for a lot of these smaller institutions, they're just not going to be able to deliver to that standard when you compare to what a big institution is going to be able to deliver or what Apple as an integrated experience is going to be able to provide to all of those billions of people with iPhones. So that's my point about why I think they're all going to go away is because I think we've reached a place where technology has moved too fast for them. It's already been moving too fast for them, but now it's really going to expand.

Tiffani Montez:

And there's little differentiation I mean, honestly.

Tyler Brown:

Rob, you have what, 25 years on me, and I think you're still being a little too aggressive. I have a counterpoint for you. Looking at what our briefing analyst Jenna Mckamey wrote just a little while ago, as of October, 2022, there were 130 M&A and a bank deals that year 206 and 2021 and 258 per year on average in the five years before the pandemic. So what it takes 20 plus years to get to the 500 banks you're talking about is there's some massive acceleration?

Rob Rubin:

I'm not buying the baselines of your numbers and the rationales for the M&As are going to be different.

Tyler Brown:

So we're not talking about just scale or say the CEO retires and there's no successor, they need to move their branch footprint.

Rob Rubin:

I think a lot of those M&As where the management team wants to capitalize and another management team wants to absorb more deposits and assets. So that's going to drive a lot of mergers and acquisitions and it will continue to, and we have a consistent trend line, 250 a year. But at the same time, I just think that these banks are not going to be able to acquire Gen Z customers and they have to acquire them because they're going to be losing the other customers on the other end of it, and they're not going to be able to acquire these customers at a rate to maintain their viability. That's my perspective.

Tyler Brown:

I wonder, in particularly rural communities, for example, if that's going to be about Gen Z though, is it more about financial inclusion problems in rural communities? You still need specialists to do Ag loans, for example, equipment loans, and is a FinTech going to do that?

Rob Rubin:

No, I think there's going to be a place for those niches. The Ag banks. In New York City, there are banks that specialize in factoring for the garment industry. So there's lots of very regional specific banking specialties that will continue to exist. But in terms of a consumer bank that's trying to build its business by acquiring consumers and needing to continue to build and grow by acquiring new consumers, I think that for a lot of these banks, they're going to have a real hard time acquiring young consumers moving forward. That is really the time that we have. This has been so much fun. I want to thank Tiffany and Tyler for coming today. This is not what I expected and I love it.

Tiffani Montez:

Thanks, Booms.

Rob Rubin:

Boomie.

Tyler Brown:

Okay, Boomer. Thanks for having me.

Rob Rubin:

I also want to thank everyone for listening to the Banking & Payments Show, an eMarketer podcast. And thank you to our editor, Todd. Today's episode was really Tyler Day. We referenced his amazing report, Gen Z and Banking, and the article that he wrote recently on Greenlight, the Gen Z Neobank doing some interesting things. And we're going to put the links to the article in the report, in the show notes. Our next episode is on May 2nd, and you'll not want to miss it. See you then. Thanks everybody. Goodbye.