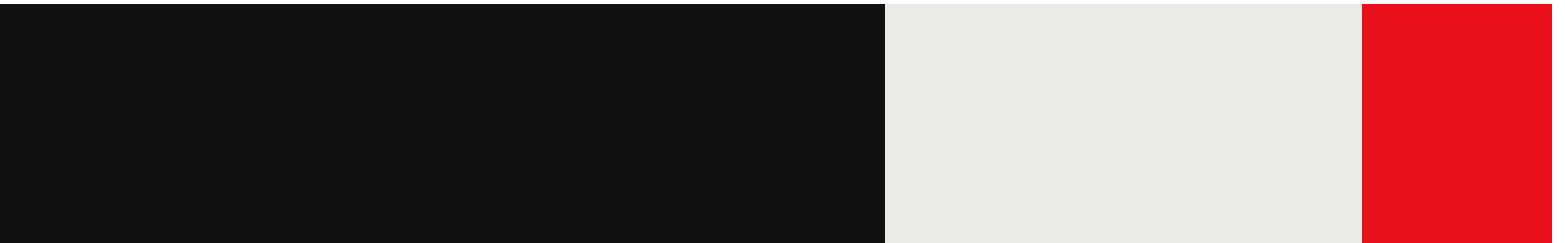


# The Banking & Payments Show: Why Gen Z (and Gen Alpha!) Financial Literacy Matters

Audio



Today's podcast episode of The Banking & Payments Show discusses why financial literacy is so important in younger generations (Gen Z and Gen Alpha), not only for individuals but also

for financial institutions and society. In ‘Headlines,’ we examine Gen Z’s low functional knowledge of personal finances and then shift gears for the ‘In Argument’s Sake’ segment to debate whether improving financial literacy among young people is outdated. Listen to the conversation as host, Rob Rubin, welcomes our analyst Maria Elm and Sumit Arora, Global Head of Consulting at Persistent Systems, to the podcast.

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Episode Transcript:

Rob Rubin (00:00):

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Rob Rubin (00:29):

Hello everyone, and welcome to the Banking and Payment Show a Behind the Numbers podcast from eMarketer, made Possible by Roundel. Today is June 11th, 2024. I'm Rob Rubin, head of Business Development at eMarketer and your host. Today we're going to discuss why financial literacy is so important in younger generations, Gen Z, Gen Alpha, not only for these individuals, but also for the financial institutions and society overall. And for this conversation, I invited one of my favorite analysts, senior analysts, Maria Helm to the show. Then I'm also really happy to have Sumit Arora, head of Global Consulting at Persistent Systems. Hi guys, how are you doing?

Maria Elm (01:11):

Doing great.

Sumit Arora (01:12):

Hi Rob. Doing great.

Rob Rubin (01:14):

Because our audience doesn't know you guys, I want to do a little bit of icebreaker. Maria, where are you located?

Maria Elm (01:20):

I am located in a tiny village just outside of Cambridge in England.

Rob Rubin (01:26):

Okay, and now how many kids do you have now?

Maria Elm (01:30):

One, although it often feels like she's 10 people.

Rob Rubin (01:33):

How old is she

Maria Elm (01:34):

Now? She is a couple of months shy of two years old.

Rob Rubin (01:37):

Oh my goodness. I want to ask Sumit, I know because we chatted that you grew up in Delhi, but you live in Arizona, is that right?

Sumit Arora (01:47):

That's right. Born and raised in Delhi, India. And I've called Phoenix, Arizona, my home for last 14 years.

Rob Rubin (01:54):

So, which is hotter.

Sumit Arora (01:56):

Well, we don't use the word hot. I mean, the weather is warm and the hearts are warmer, so we just love it here. There you go.

Rob Rubin (02:06):

It's getting hotter. Well, that was fun and we have so much to cover, so I want to get right to the headlines.

Rob Rubin (02:19):

In the headlines. I pick a recent article on our topic to discuss, and today I picked an article from a few months ago called Financial Literacy for Gen Z, and I put a link in the show notes and I picked it. I wanted to talk about a few of the troubling statistics that came out of it. First, only 24% of Gen Z respondents were able to answer basic financial questions correctly in a FINRA survey. And I'm assuming that Gen Alpha consumers, at least right now, know less because the oldest gen alpha is like 11. So I'm going to throw them a bit of slack separately. In a survey sponsored by TI, it showed that there was a low functional knowledge of personal finances. And the statistic I'm going to throw up in particular is that only 37% of Gen Z respondents are able to understand and comprehend risk, which is I think a big problem. So let me just put it right out there to both of you. Why is financial literacy so important for these younger generations, Sumit?

Sumit Arora (03:22):

Yeah, so financial literacy is important, Rob, for not one, but many reasons. I mean, at the very foundation, financial literacy equips individuals with the knowledge to make informed financial decisions, which can significantly impact their long-term financial stability and wellbeing for Gen Z and Gen Alpha, understanding basic financial concepts like budgeting, saving, investing, managing debt, risk, risk. Yes, exactly. I mean, these are all crucial in navigating the increasingly complex financial landscape that they're entering. Given that Gen Z to your point, has lowest financial literacy among all the generation, with only few of them being able to answer basic financial questions correctly, this lack of knowledge can lead to poor financial decisions and sometimes increased debts, and most of the time financial insecurity. So improved financial literacy can help mitigate this risk by enabling young people to manage their finances more effectively and avoid common financial pitfalls. Now, Rob, the trends that you were talking about on low financial literacy presents an opportunity for financial institutions.

Rob Rubin (04:31):

How so?

Sumit Arora (04:32):

I mean, for financial institute to become more than just service providers, I mean transforming into their trusted advisors and partners in their account holders, financials, wellbeing, and in my opinion, there are a few ways where financial I institutions can contribute. Number one, personal finance resources. I mean, a financial institution can develop or promote personal financial management tools to enable account holders to make more informed financial decisions. Number two, youth accounts offering financial products for youth such as savings and check-ins accounts designed for young people with features that promote good financial habits, period such as savings goals and other type of controls. Number three, educational incentives, meaning providing incentives like higher interest rates on yield saving accounts or rewards for completing financial education programs.

Rob Rubin (05:18):

So I totally get all that, and obviously financial institutions have been trying to do all those things. They offer teen accounts, they do provide financial literacy content, some of them more than others. But I'm going to ask this to Maria because I know that she just finished

writing a report on Gen Alpha. How do younger generations consume information? Are financial institutions delivering the information where young consumers are?

Maria Elm (05:43):

So how can really answer that with one word? Word? And that's YouTube.

Rob Rubin (05:47):

Yeah, that's

Maria Elm (05:48):

Right. That is right. Yep. If you have a kid that it's all about YouTube, I'd say that that applies both to Gen Z and Gen Alpha, but especially Gen Alpha. I mean, they love it. I think something like of the approximately 36 million gen alpha intranet users we have in the US digital video is the activity they spend by far the most time with, I think something like 82%, and that's per our forecasts. Even something like digital gaming comes in a distant second. So

Rob Rubin (06:20):

How would you get a young person to be interested in watching something about financial literacy on YouTube?

Maria Elm (06:27):

It'll have to be some kind of indirect approach because especially when you're talking about a very young audience, it's kind of like when you're trying to slip a pill to your cat or your dog, you hide it in the good stuff, you hide it in the food. Yeah.

Rob Rubin (06:42):

Can I tell you that I do that with my dog and he's so smart, he hides it in his jowls, and then later on I find the pill in a corner somewhere.

Sumit Arora (06:51):

Oh man, gen gen alphas of dogs, Rob, smarter generation.

Maria Elm (06:58):

Well, we're talking about just digital natives from day one. They've been surrounded by media, so they don't want to consume whatever you are giving them passively. They want to interact. So embed whatever true kind of messaging you're trying to get across, either through some kind of tie up with a piece of media that particularly, I don't know how open someone like Cocomelon would be to doing an episode on the importance of saving your pennies and accumulating things. You get paid for chores. But I would say that might be a good place to start.

Rob Rubin (07:36):

Who's Coco Mellon?

Maria Elm (07:37):

Oh, there we go. You can tell that I have a toddler, right? Yeah, it's basically a show that teaches toddlers, like the importance of using their imagination and things like that. Okay. Yeah. Now I

Rob Rubin (07:52):

Know I do all about Thomas the Tank Engine, but my kids are, oh

Maria Elm (07:55):

Yeah, I remember Thomas the Tank Engine engine. And Rob, if you don't mind me pivoting back to something Sumit was talking about earlier and that the importance of financial education. I just want to dissent a bit, I guess because I'd say that the stats from FINRA and TIAAA don't actually worry me that much. And that's because, I mean, these folks are still young. They haven't spent a long time accumulating financial knowledge. So to me, it makes sense that we're getting these low percentages of questions answered correctly.

Rob Rubin (08:30):

The other thing I'll point out, I read that TIAA report is that for Gen Z, 50% about report at least being offered financial literacy education either through their school or through another program, so that was greater than other generations. So there are more resources being put to teaching financial literacy to younger consumers.

Sumit Arora (08:52):



That's exactly one of the things that should be just basic foundation. I, a financial institution can partner with schools and community organizations to integrate financial education into the curriculum. I mean ensuring that financial literacy is taught from an early age, and I'm seeing the attention span of these kids. I mean by doing so, financial institutions can help create a generation of financially savvy individuals who are better prepared to make some financial decision throughout their life span than what happened in my generation, so to speak.

Maria Elm (09:21):

Yeah, definitely. And I was going to say as well, but there are other stats that do worry me when it comes to a Gen Z financial literacy or financial behavior, I guess because when I was researching my Gen Z report, I found a stat that said something like, I think 60% of Gen Z identify as emotional spenders, and that's way higher than other generations. And I think more than 60%. In another survey they said that rather spend money on life experiences now than save up for retirement. So those kinds of things worry me because you could argue that as time goes by and they get more experience managing money, their financial literacy and things like understanding risk will improve, but those emotional spending behaviors might not necessarily go away because that's not to do with having more knowledge. That's to do with, it's a coping mechanism, right?

Rob Rubin (10:19):

But it's super hard to talk to a teenager about saving for retirement. They have so many working years in front of them,

Maria Elm (10:25):

Definitely. But I mean, you can start smaller. For example, maybe ask them, are you spending to feel better to perk yourself up and just open up conversations around that? Is that the healthiest way to go about it? Do you want to talk about it? Could you find some other way? That's basically get them to think about their future selves as well, but not in a way that feels like you're scolding. That's my two sets.

Rob Rubin (10:51):

Okay. I like that. I think you're going to do well with your daughter.

Maria Elm (10:56):

Fingers crossed.

Rob Rubin (10:59):

I want to transition to our next segment, and I think that it's clear from what we've talked about that where financial literacy is something that's important. It's not something that's necessarily at the top of the minds of Gen Z and Gen Alpha today, but we do have to lay the groundwork to do so. And I'm going to flip it upside down in our final segment. For argument's sake

Rob Rubin (11:26):

And for argument's sake, we argue nicely. And what I want to argue nicely about today is whether that's actually teaching financial literacy to young people is I sort of think maybe it could be an outdated concept that it's not important to teach them financial literacy as much as to teach them how to use an AI tool to help them make the right decisions, to teach them what questions they should be asking in order to get to the right decisions. And so is it important to teach them everything about financial literacy or do they need to know how to operate the tool that can help them?

Sumit Arora (12:04):

Well, it's not an outdated concept in my opinion. I mean, it's only getting more and more important with information overload. I mean, improving financial literacy among younger generation is super critical for several reasons. Firstly, like I said before, it empowers them to make informed decisions that can lead to financial independence and stability. As I said earlier, and Maria and I can empathize with both having young kids at home, we would want them for our kids and financially literate individuals are more likely to save for emergencies. Yes, it's hard to teach a teenager, but there are ways and means they're more likely to invest wisely, which we want them to do and avoid excessive debt which can enhance their overall quality of life. And personally observing a general fight home, my daughter, I see how early exposure to financial concept can shape their understanding and attitude toward money and appreciation of money management.

Sumit Arora (12:59):

For example, my daughter often talks about saving an allowance for something special rather than spending it immediately. Now, we know we talked about emotional spending, so there

can be some disparate behaviors, maybe geo-based behaviors, maybe some other demographic. And this behavior of hers indicates an awareness of delayed gratification and the importance of saving, which are fundamental financial reserves in my opinion. And she observes how my wife and I discuss financial priorities, investment ideas, et cetera. And she asked me things about Dad, why using a credit card versus cash, which is important I guess. So again, financial literacy fosters a sense of responsibility and confidence. When young people understand how to manage their finances, they're better equipped to handle life's financial challenges.

Rob Rubin (13:47):

I'm just being a devil's advocate here, I guess maybe for a little bit, but just keep with me. When kids are little, their parents sort of help them control and navigate sort of financial information. But as they get older and their parents aren't there, what we're saying in the first part of our episode is that they need the financial literacy to have the tools to be successful in managing their own financial lives. And what I'm suggesting is that by the time the gen alphas are of age where their parents are telling them what to do, they're going to have all these tools to help them tell them what to do, that a trained AI bot trained in personal finance is going to know a lot more than they're ever going to be able to learn about finances. So they just be having a very basic level of knowledge, but a good understanding of how to select the right tool for them. I

Maria Elm (14:44):

Can see the argument for that, but I'm going to push back. I mean, yeah, you can argue that financial literacy is going to happen organically for young folks, especially for younger people through the internet, social media, maybe even the AI powered chatbot you're talking about. So we should just step them back and let them find their own information. And I think Sumit would agree as a parent that sounds not just really scary, but a bit outlandish. I mean, my daughter is only two, but as she gets older, I won't mind that she seeks out and finds her own sources of financial information. That's a great skill to have. But I also think that we have an obligation to teach our kids how to distinguish between sources that are and are not trustworthy, especially when it comes to something like money. I mean, you see the rise of FinTok, influencers, money, YouTubers.

Maria Elm (15:40):

They can find those sources. They know where to go, but you have to give them some kind of way to orientate themselves, does this sound legit? Does this person have my best interests at heart? What are the motivations behind the advice they're giving me? And AI won't be able to teach them that. It might say, I've done a scan on this or this source, and according to my algorithm, it's legit or not legit. They're sketchy, but that's not enough. I mean, no matter how smart this AI is, and I'm going to get all mushy and human here, but it cannot have my kids' best interests at heart. And that's what good education is, and it has to have your best interests at heart. I sort

Rob Rubin (16:20):

Of think though, that they're going to be working for you.

Maria Elm (16:24):

Someone made this ai, this AI from somewhere and someone built it. And frankly, I don't think that someone's going to be able to develop a fully transparent AI anytime soon. And if I don't know what's going on in the algorithm level, I'm not going to let it take control of my kids' education. Definitely not.

Sumit Arora (16:46):

And it's all about credibility. Yeah, right. Yeah, it's all about credibility. I mean, you said Maria, many Gen Z turn to social media, YouTube, and all online courses for financial information, which can be unreliable. Most of the time it's reliable. I mean, these YouTubers just channels have only a year old, two years old. Most of them popped up during the covid times, and credibility is the key. And if they are leaning on an unreliable source that can lead to misinformation. So Rob, I mean on the flip side of not giving importance of financial literacy, if financial literacy continues to go down in Gen Z and Gen Alpha, the challenges which we're already seeing glimpses of are only going to get worse. For example, inadequate knowledge in areas such as credit management investing and long-term financial and their confidence in financial knowledge is only going to degrade. And then they might struggle with areas like student loan that how to come out of it properly, retirement planning to Maria's earlier point, susceptibility to scams. I mean, Zelle scams are on the rise risky loan products. I mean, imagine what would happen if you don't pay much attention to financial literacy.

Maria Elm (17:55):

And just on the trustworthiness point as well, another stat I found when I was doing my research is that I think Gen Z, something like 46% of them consider banks to be a highly trustworthy source they'd go to for financial education. So that's less than half, but it's still much higher than any of the other generations in that particular survey. So banks do have this trust advantage that they can capitalize on.

Sumit Arora (18:22):

And Fintechs Maria, I mean, fintechs are the new sexy educators in the marketplace, and anything flashy gets their attention. So look, Rob, I mean, in my opinion, promoting financial literacy among the younger generation not only benefits those individuals like our kids, but also contributes to the broader economy. A financially educated population is more likely to contribute to economic growth and innovation and stability and creating a more promising future for all. So yeah, I'm in for it.

Maria Elm (18:50):

And to zoom out even more, to me, the debate around, I don't know whether it is a debate, but we're debating it, healthy debate whether or not financial literacy is important to me, financial literacy is just one small slices in a much broader conversation about how much do we value critical thinking and how much do we want to empower our kids with critical thinking skills? And I think the way our world is going, that's going to be more important than ever. And if that applies to being able to look at a political article and decide whether or not it's legit, it definitely applies to money advice as well.

Rob Rubin (19:29):

Right. Okay. I'm going to tie this up by saying that I think we got some really good points out about why financial literacy is important. And it's important not only for society, but for the financial institutions. Financial institutions as they're the ones selling these products have a big role to play in ensuring that future generations are financially literate. I think that the AI developers have a role to play in making sure that we create tools that are useful and not detrimental in pointing people to do things which would be against their best interests. And it's going to be a challenge moving forward, especially as AI gets more involved because of how it's going to get deployed, how it's going to get regulated, how it's going to be managed and controlled. So there's a lot tied around this, and I think we covered a lot in our short time. So I want to thank both of you for joining me. Thanks Sumit for joining me today.

Sumit Arora (20:28):

Rob, thank you so much for having me. It's been an absolute

Rob Rubin (20:30):

Pleasure. And Maria, thank you for joining.

Maria Elm (20:33):

Pleasure to be here. Can't wait to be back.

Rob Rubin (20:35):

Yeah, for sure. And thanks to everyone for listening to the Banking and Payment Show, an eMarketer podcast made possible by Roundel. Also thank you to our editor, Victoria. Our next episode is on July 16th, so be sure to check it out. See you then.