RESEARCH BRIEFING

Understanding Gen Z: The Next Growth Engine

THE CHALLENGE

For the purpose of youth empowerment, it's crucial lenders focus on the emerging credit-eligible population. By gaining access to credit products and services, these young consumers can better manage their daily and unexpected financial needs.

Empowering the youth further promotes inclusiveness within the credit industry, enabling economic advancement for those striving to fulfill their life goals.

Greater credit awareness or understanding of credit products allows consumers to build stronger credit profiles and remain engaged in the credit system for longer.

During times of uncertainty, a better understanding of the credit needs and journeys of younger generations can help lenders meet demands and capture opportunities for prudent growth.

Rising inflationary pressures present an opportunity for lenders to educate younger consumers on the benefits of having additional liquidity. Taking an educational approach may help capture these consumers early in their credit journeys, creating more potential for lifetime value.

However, traditional concerns around credit performance for younger consumers with relatively limited credit activity and experience can inhibit most lenders from extending credit confidently.

TransUnion conducted a study to improve our understanding of the number Gen Z consumers and their related credit participation and usage trends, and compared them to the previous generation of Millennials of the same age from five years ago.

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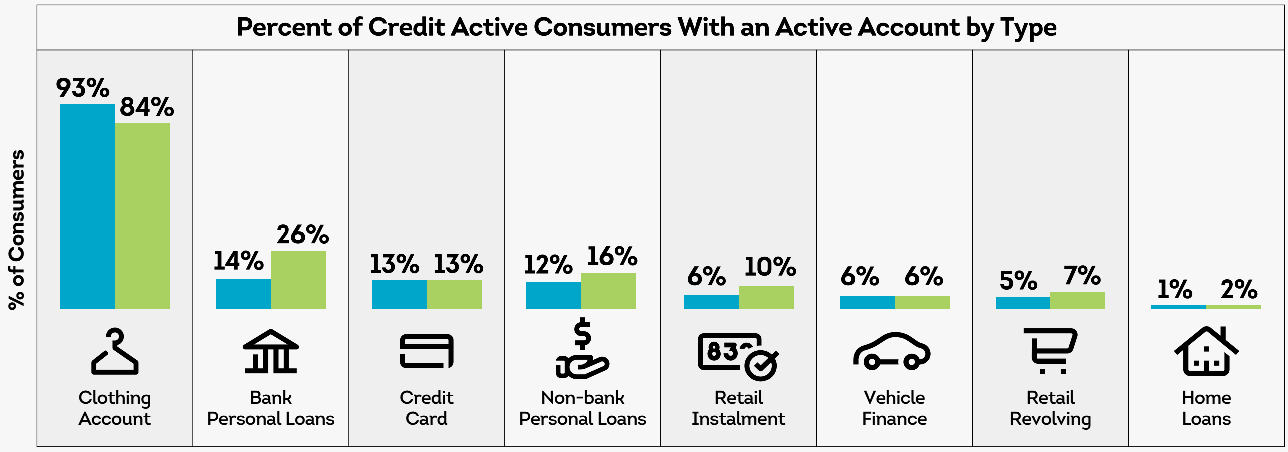
THE STUDY

- TransUnion defines Gen Z consumers as consumers who were born between 1995–2010.
- For the purpose of comparison, we studied Gen Z consumers aged 22 to 26 as of June 2020 versus Millennials aged 22 to 26 as of June 2016.
- We controlled for risk at each age to ensure comparable analysis amongst the two populations: Gen Z versus Millennials.
- We compared product openings over a six-month period to assess credit supply differences amongst the two generations.
- We analysed credit participation (i.e., number and type of credit products in wallet) by age for Gen Z consumers compared to Millennial consumers to identify differences in credit demand and preferences.
- We measured credit score migration over a 12-month window for both generations comparatively.
- We evaluated credit performance on newly originated credit products six months post-origination for the two generations to identify any deterioration or improvement in credit health.

KEY FINDINGS

- As of Q2 2021, there were 15.2 million South Africans who fell into the Gen Z segment, of which 6.8 million were credit eligible (Age 18 and over) today. An additional 6 million South African Gen Z consumers were expected to mature into adulthood and become credit eligible. The size of this consumer population makes them an attractive growth segment for lenders to focus on for future growth.
- Gen Z consumers have similar risk distribution (92% below prime, 8% above prime) when compared to Millennials from five years ago (also 92% below prime, 8% above prime), which is not surprising considering the limited credit history and engagement opportunities generally available for younger consumers.
- Gen Z consumers carry fewer credit products in wallet compared to their Millennial counterparts, potentially due to lower credit awareness and supply.
- Gen Z consumers open fewer credit products than their Millennial counterparts, except for secured lending products (home and vehicle finance loans) where Gen Z consumers were more active in product openings, potentially due to the favourable interest rate environment shifting their product preferences.
  Gen Z consumers lag Millennials significantly in credit card and personal loan openings, which may be due to stricter underwriting criteria in recent times.
- Of Gen Z consumers, 13.2% carry credit cards in their wallets – a similar participation compared to Millennials. Given Gen Z is often considered the "digital native" population, we expected their card participation to be higher than their predecessors. Card issuers may be facing competitive challenges from more convenient and affordable offerings from new entrants such as BNPL providers. Our recent TransUnion Consumer Pulse Study showed Gen Z consumers incurred a higher use of BNPL services compared to Millennials (38% versus 26% reported in Q1 2022).
- Gen Z consumers significantly lag Millennials in personal loans participation (14% versus 26%). This difference may potentially be due to reduced risk appetite from lenders in this market. However, Gen Z consumers do benefit from higher value loans at the time of opening, potentially driven by the changes in the economic environment and lending dynamics over time.
- For newly opened credit products, Gen Z consumers demonstrated a mixed picture of credit performance. They performed worse (by ±500bps) than Millennials on new credit cards, but outperformed (by ±200 bps) Millennials on bank personal loans at six months on book.

Credit Participation of Gen Z consumers versus Millennial consumers.



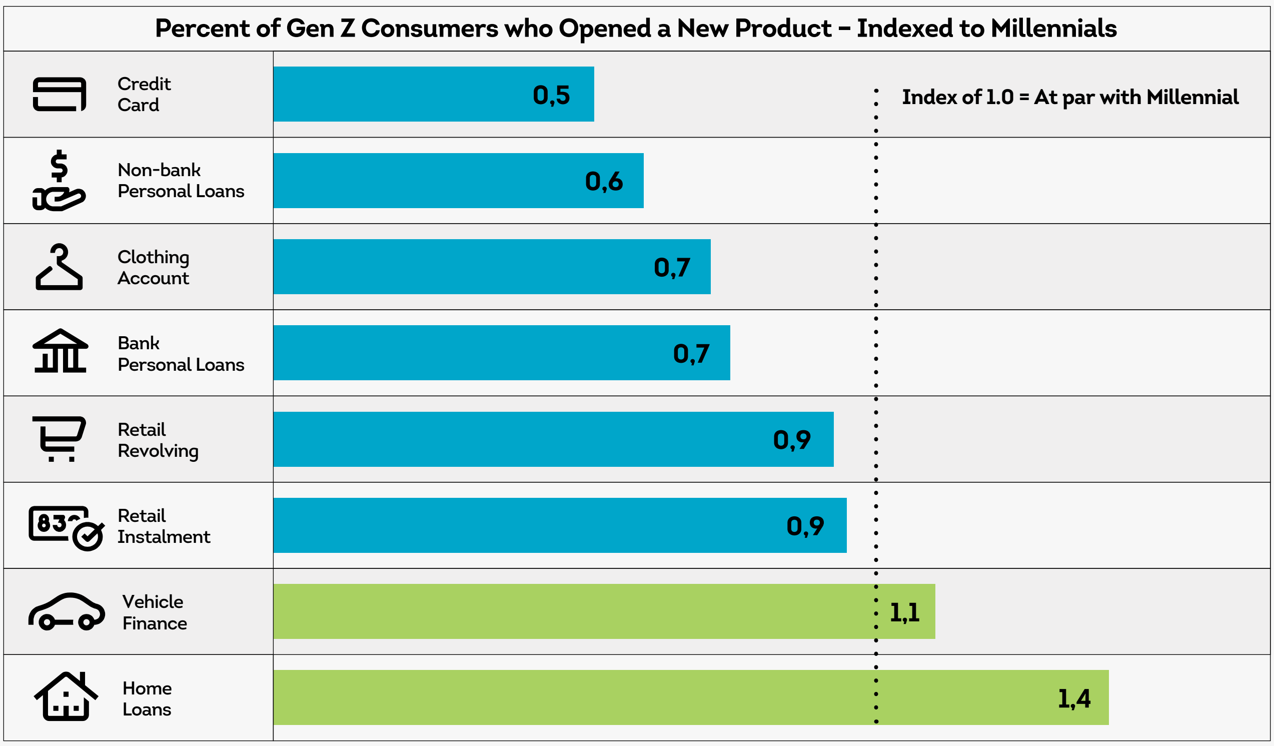
Gen Z Millennials

Source: TransUnion South Africa consumer credit database

"Gen Z consumers carry fewer products in wallet compared to their Millennial counterparts – potentially due to lower level of awareness"

Opportunities for growth: Bank Personal Loans, Credit Cards, Non-Bank Personal Loans and Retail Instalment Loans

Difference in Originations of Gen Z consumers versus Millennial consumers.

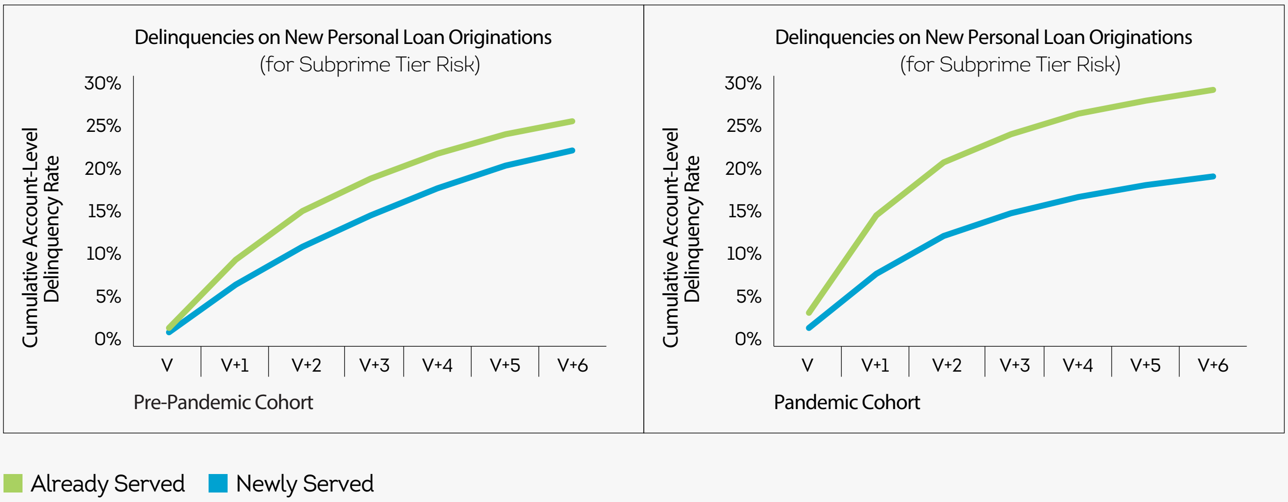


Source: TransUnion consumer credit database

"Gen Z lags Millennials in new account growth, with the exception of secured lending products"

Opportunities for growth: Credit Card; Non-Bank Personal Loans, Bank Personal Loans

Vintage delinquency performance on newly originated Personal Loans for Gen Z and Millennial consumers



Controlling for age and risk, Gen Z consumers (aged: 25–26) performed better than their Millennial counterparts on new bank personal loans.

CONCLUSIONS

TransUnion found South African Gen Z consumers have lower levels of credit participation compared to Millennials. Gen Z consumers also lag Millennials in new product openings potentially due to the impact of the COVID-19 pandemic and the pullback by lenders in originations. We believe lenders need to build and execute targeted consumer engagement, acquisition and management strategies to enable portfolio growth amongst younger consumers:

→ Engagement starts with education and awareness of how credit works and helps consumers achieve financial goals. Empowering youth with interactive and actionable credit education will allow for a larger percentage of Gen Z consumers to be engaged in the credit system.

→ By leveraging a combination of trended credit and alternative data solutions, which reveal deeper insights into consumer credit capacity and payment performance, lenders can better understand which younger consumers meet their target risk parameters, and more confidently extend credit to Gen Z consumers.

For the full presentation of our Gen Z study, please contact TransUnion directly on SA_MkrtComms@transunion.com

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Source: TransUnion Global Consumer Credit Database