



E - BOOK

# Equal and Opposite Reactions: **Payment Preferences Across the Generational Divide**

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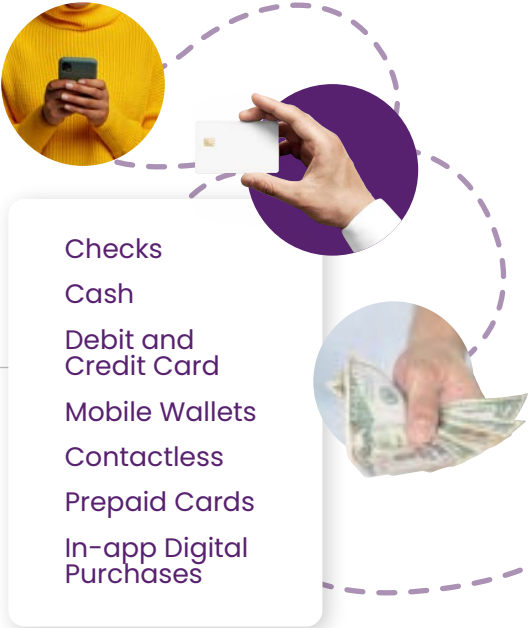
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# Introduction

The perpetual evolution of the payments industry can be exciting for consumers as their access to convenient payment methods continues to become more widespread. Advances in mobile payments and an increase in emerging payment methods has shifted consumers' purchasing habits. Experiences with online retail firms like Amazon have conditioned consumers to expect a seamless payment process where debit or credit cards can be used with the click of a button, a thumbprint, through facial recognition—or even activated through voice commands. This shift has financial institutions evaluating consumer-centric payment solutions that put account holders in the driver's seat.

Studies have shown that Generation Z and millennials use mobile payment methods and applications while Generation X and Baby Boomers are more likely to use credit and debit cards. Information provided by Pew Charitable Trust found that 50% of millennials have made a mobile purchase and are the most likely of all generations to use mobile wallets.<sup>1</sup>

One thing that the data does agree on is that all consumers, regardless of age, are starting to migrate from traditional payment methods, opting for digital payments. For financial institutions competing with fintech disrupters, inertia is not an option—they must innovate to meet the payment preferences across the generational divide. In this ebook, we'll cover:

- Different types of payment methods
- The elements of payment habits by generation
- The driving force behind innovation
- Adoption approaches

# Payment Methods

The data clearly indicates that each generation has different payment preferences, but is there value in deploying every payment method in your financial institution? That's a question that is certainly best answered by your team—after all, you know your membership base better than anyone. Ultimately, when it comes to deploying payment methods, it's important to take a channel-first approach, according to The Financial Brand.<sup>2</sup> This approach forces institutions and their partners to solution backward, starting with a consumer-first mindset.



## Checks

While checks may seem like a relic, consumers and businesses alike still pay with and accept checks as a form of payment. In fact, there were more than 4.7 million commercial checks collected through the Federal Reserve in 2018.<sup>3</sup>

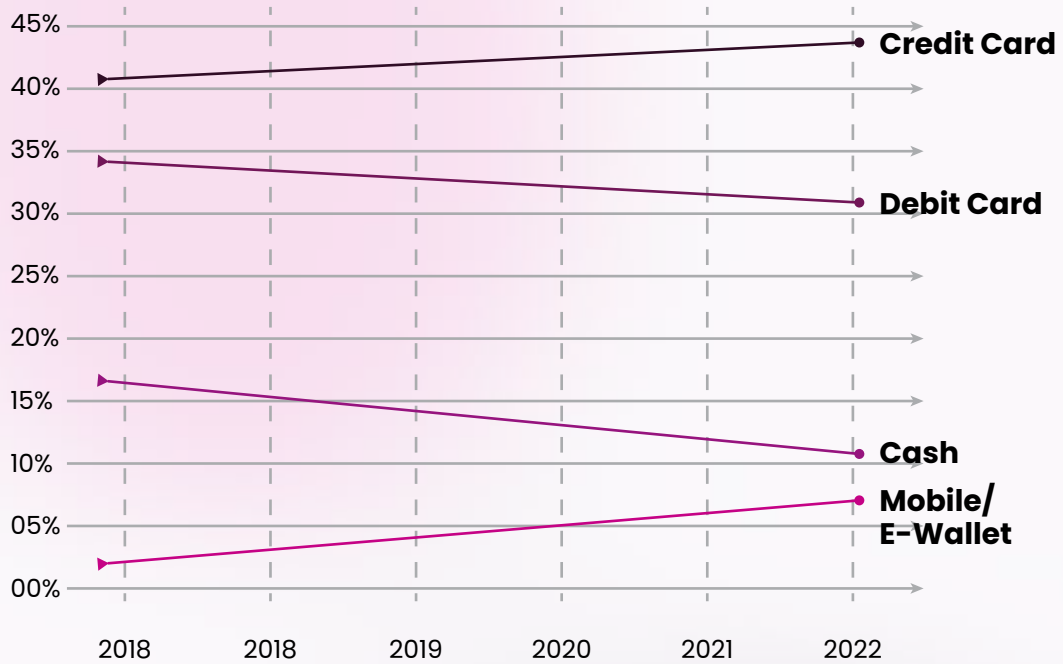
Generational stereotypes lead many financial institutions and businesses to believe that only Baby Boomers and older generations make payments via check, but on the contrary, 42% of Millennials still use checks. There's a strong likelihood that the majority of this percentage is "older Millennials" (more on that later), but nonetheless, a large portion of this generation prefers checks even more than mobile payments.<sup>4</sup>

**42**  
of MILLENNIALS  
STILL USE CHECKS

# Cash

For some consumers—albeit a small percentage—cash may always be king. While 88% of consumers use cash on occasion, it's typically for smaller purchases, with the average cash transaction sitting just over \$20.<sup>5</sup>

U.S. Point of Sale Payment Methods Forecast 2018-2022



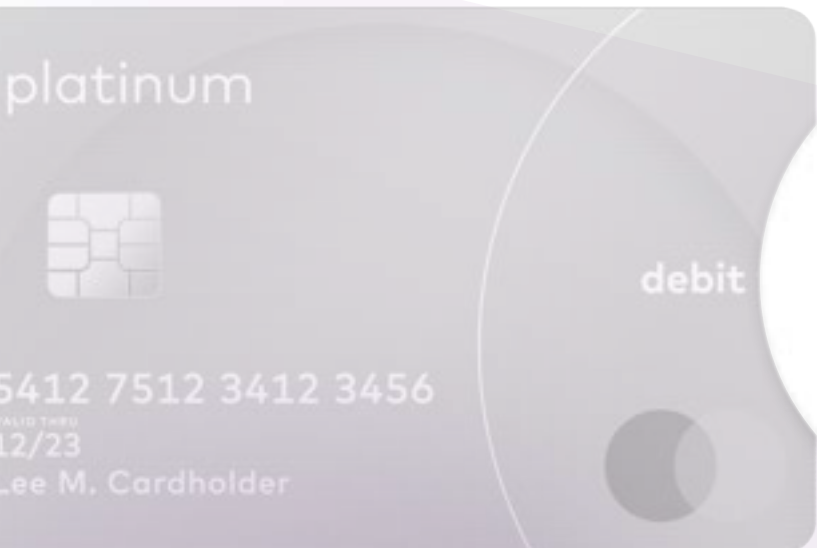
**88**  
of Consumers Use  
Cash for Smaller  
Purchases

For financial institutions, ensuring account holders have easy—and free—access to ATMs to conveniently make cash withdrawals or deposits is key. In fact, millennials are notorious for relocating their checking account to financial institutions that offer free ATMs.<sup>6</sup>

# Debit & Credit Cards

Debit has evolved from being a youth-focused payment method to being the payment option of choice for 171 million U.S. consumers,<sup>7</sup> becoming the number one most-used payment method across nearly all age segments.

Overall household credit card debt has steadily risen over the last five years, sitting at \$1.3 trillion more (in nominal terms) than the previous peak in 3Q 2008.<sup>8</sup> So, while credit cards cannot be used on loan payments, in most cases, credit cards are very much a part of the daily purchasing habits of many U.S. consumers



of the 170.8 million U.S. Debit Card Users

For financial institutions, options are key when it comes to debit and credit cards. Giving your account holders options that include different reward programs, fee structures, and cashback options could be the difference between deeper wallet share—or a one-and-done borrower.







# Mobile Wallets

Relatively new on the scene, mobile wallets give consumers the ability to make purchases with their smartphones—via stored card information.

While the smartphone ownership in the U.S. is among the highest across the globe, the velocity of mobile wallet adoption has been much slower. In fact, it's only **expected to climb to 22% adoption by 2022.**<sup>9</sup>

# Contactless

Contactless payments— transactions that are made by holding a debit or credit card near a payment terminal—are very much in their infancy, particularly in the U.S. According to Visa, outside of the U.S., 48% of in-person transactions are contactless, while they're only 0.18% of the transactions in the U.S.<sup>10</sup>



# Prepaid Cards



The prepaid-card consumer base is fairly diverse, according to Pew Charitable Trusts.<sup>12</sup> Typically, prepaid cards are used by the underbanked—those individuals that do not have a traditional checking account, but that isn't necessarily always the case. Prepaid cards allow consumers to load funds to them through cash or direct deposit, and can be used like a typical debit card to make purchases, payments, and to access funds at ATMs.

## FOUR REASONS THAT CONSUMERS INDICATED THEY USED PREPAID CARDS ARE TO:

**1** Make Online purchases

**2** Prevent going into credit card debt

**3** Prevent overspending

**4** Prevent overdrafts

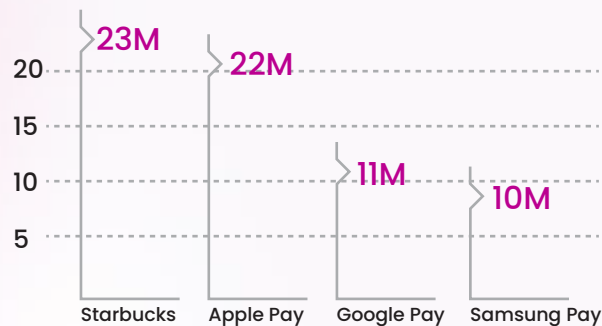
Since prepaid cards are traditionally used by the underbanked or consumers that have had financial struggles in their past, online access to financial literacy and tools could be an invaluable asset to this part of your account holder population.

# Digital Purchases (In-App)

In-app payments such as Apple Pay have grown in popularity with consumers. While Asian consumers outspend the rest of the world on in-app purchases, North American shoppers spend three times more on single transactions than the average Asian user.<sup>11</sup>

We will likely continue to see in-app purchases rise as the next generation expands their economic power. Generation Z has no memory of life without a mobile device—a smartphone, no less—glued to their palms, so non-traditional purchases and peer-to-peer payments are not considered foreign behavior to them.

Users of Mobile Payment Platforms in The US. (Millions)







# The Elements of Payment **Habits by Generation**

While there is certainly overlap in behaviors across the different generations, researchers have identified key habits that vary by generation.

1944–1964

## Baby Boomers

1965–1979

## Gen X

1980–1994

## Millennials

1995–2010

## Gen Z

### Baby Boomers

**24%** use mobile payments<sup>13</sup>

**13%** still write checks<sup>14</sup>

**77%** use debit and credit cards<sup>15</sup>

### Generation X

**54%** prefer to pay with debit cards<sup>15</sup>

**20%** prefer to pay with credit cards<sup>15</sup>

**14%** use mobile wallets several times per month<sup>15</sup>

### Millennials

While many people place all Millennials in one “bucket,” the generation has a number of unique qualities significant enough that some researchers split them into two groups:

#### Older Millennials (ages 31–38)<sup>15</sup>

**47%** prefer to pay with debit cards

**25%** prefer to pay with credit cards

**55%** own a credit card

**25%** use a mobile wallet monthly

#### Younger Millennials (ages 23–30)<sup>15</sup>

**33%** own a credit card

**43%** prefer to pay with debit cards

**25%** prefer to pay with cash

**21%** use a mobile wallet monthly

### Generation Z

**\$143 billion** in spending power<sup>16</sup>

**50%** use digital wallets on a monthly basis<sup>16</sup>

**39%** prefer to pay with debit cards<sup>15</sup>

**34%** prefer to pay with cash<sup>15</sup>



# The Driving Force Behind Innovation

When it comes to innovation and implementing change, financial institutions have many things to consider including cost to implement, deployment strategy, security and compliance, and employee and customer onboarding—among other things.

For many organizations, generational preferences are the driving force behind improvements and innovation, propelling financial institutions and their partners to remain focused on staying one step ahead of technology and consumer trends. A common industry misconception is that the younger generations—Millennials and Gen X—are forcing financial institutions and payment acceptance providers to innovate, provide cashless options, and remove all friction from the buying process, but Baby Boomers are just as averse to inconvenience in their purchasing habits. From paying for public transit, to ordering and paying for a coffee, to splitting the check at lunch—across the board—each generation is driven by convenience, and any sort of friction in the process causes frustration.

## Data Driven Decisions

While generational preferences should certainly be taken into account for long-term payment technology strategic-planning initiatives, it's also important for financial institutions to mine their customer data to best understand their specific demographic of account holders—as opposed to making investments based on national averages or global trends. Visa's 2018 Innovations for the Cashless World Report<sup>17</sup> discusses how the card giant uses data to best understand what their customers and their merchants' customers want. They use data to understand customer desires, make processes more seamless, and develop products, communications, and experiences that align with their customers' expectations.

For financial institutions, whether through surveys or an export of analytics from your digital assets (or both), you can evaluate your account holders' customer journeys, draw conclusions based on their spending habits and demographics, and then use this data to drive the type of payment technology and experiences you deploy.



# Conclusion

Providing a frictionless and diverse payment experience that is effective across the generational divide can help financial institutions thrive in a competitive financial services landscape. The path forward will require a thorough understanding of your customer base, generational preferences, and trending payment technology.



# About SWIVEL



## Who We Serve

We understand what today's financial institutions need and offer specialized solutions that support your borrowers and account holders, and benefit departments across your enterprise.

## Easy Integration

The SWIVEL platform integrates with the platforms you're already using and delivers an unrivaled user experience that eliminates the need to integrate multiple payments providers or networks.

## Direct Experiences for Indirect Relationships

Account holders seek the confidence of ensuring their payments are applied to their accounts on-time and with as few questions as possible. SWIVEL enables financial institutions to deliver payment experiences, across all channels, that reduce the anxiety that often afflicts consumers when using paying loans from another financial institution's traditional bill-pay services.

[Learn More](#)

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