GEN
UNCOVERED
The credit trends and preferences of the youngest generation
Executive summary

A new generation of tech-savvy, digital-first consumers are entering adulthood: Generation Z. After years of discussion about Millennials (consumers born between 1980 and 1994) and their financial priorities, they are no longer the youngest generation of borrowers. In fact, many are approaching their forties and are well-established in their prime earning years.

The oldest members of Generation Z — also known as Gen Z — are finishing school and entering the workforce. Defined as consumers born in or after 1995, Gen Z consumers are the first generation of digital natives who don’t remember a time before the Internet. Growing up this way has taught Gen Z consumers that all the information they need is at their fingertips. Their familiarity with smartphones and the Internet has driven them to expect speed and ease from their experiences, both online and in person. They engage with their peers through social media, making them more comfortable with building relationships with companies online.

Whereas Millennials graduated from college or started their careers in the midst of the historic recession in the late 2000s, many Gen Z consumers were in their formative childhood years and witnessed their parents and relatives struggle financially. These experiences have shaped the perspectives and behaviors of these two generations, though potentially in different ways. Many Millennials postponed typical milestones – getting married, buying their first home and having children – and focused on careers that allowed them to have an impact on the world. Consumers in Gen Z already differ from Millennials in important ways that will impact how they interact with their financial institutions. A Deloitte study found that more Gen Z consumers aspire to or prioritize traditional milestones:

1. Want to earn high salaries or be wealthy
   - Gen Z: 56%
   - Millennial: 52%

2. Want to buy homes of their own
   - Gen Z: 52%
   - Millennial: 49%

3. Want to have children and start families
   - Gen Z: 45%
   - Millennial: 39%

1The Deloitte Global Millennial Survey 2019
In developed countries, Gen Z consumers today generally live in a time of stable economies and low interest rates. Gen Z consumers in developing credit markets are entering adulthood as credit becomes more widely available for the first time. In most of these countries, consumer credit is broadly available, and consumers expect that they will have access to credit in some form once they enter the workforce. They want to be smart about debt and credit, learn how they can improve their credit scores and build their financial resumes responsibly. As they age, Gen Z consumers are accessing credit and using it.

Financial institutions want to acquire new customers when those consumers are still young, allowing lenders to build loyalty with consumers before they reach milestones such as car or home ownership. In order to build relationships with the newest generation of consumers, lenders need to understand Gen Z’s current credit behaviors and preferences. To help lenders across the globe better serve Gen Z, TransUnion conducted a study of credit-active consumers in six countries across the globe.

Our findings are detailed in this global Gen Z report, which covers:

1. How many are credit visible or credit active
2. The current risk profiles of those who are credit active
3. Which credit products are most attractive to them in developed countries
4. How consumers enter the credit market in developing credit countries
5. Whether student loans impact Gen Z consumers’ ability to access other credit products
6. How lenders can serve this large generation of consumers
Analyzing Gen Z across the globe

Using depersonalized, aggregated data from TransUnion’s proprietary consumer databases, we conducted a global study of Gen Z consumers. With information on virtually every credit-active consumer in the countries we studied, our analysis is the first of its kind to examine the credit profiles and products of Gen Z.

For the study, we selected six countries (Canada, Colombia, Hong Kong, India, South Africa and the United States) to identify commonalities and differences in Gen Z consumers across continents. These countries represent both well-established credit economies – such as the United States – and still developing credit economies – such as Colombia and India. In most countries we studied, Gen Z consumers make up a significant portion of the population.

This study examined credit access and product preferences. We used the depersonalized credit data of Gen Z consumers globally, including the account opening and balance activity of consumers between the ages of 18 and 24 in 2019. Throughout this guide, our findings represent Gen Z consumers over 18. We selected Gen Z consumers over 18 because this is typically the age when many consumers enter the labor force and generate income, making them eligible to borrow from lenders. For some consumers, employment comes later if they are full-time students or don’t immediately get a job at age 18, so we’ve included the oldest Gen Z consumers in our study as well.

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Canada  Colombia  Hong Kong  India  South Africa  United States

- **28%**  
  - **22%**  
  - **22%**  
  - **44%**  
  - **46%**  
  - **32%**  

- **8%**  
  - **10%**  
  - **6%**  
  - **11%**  
  - **10%**  
  - **8%**

- Percent of country population that is Generation Z
- Percent of country population that is Gen Z and over 18
The credit activity of Gen Z

Despite their young ages, Gen Z consumers already participate materially in the credit market. Our study found that millions of Gen Z consumers in the countries of our study are already credit active. We define a consumer as credit active if they have at least one traditional credit product on file, such as an auto loan, credit card, mortgage, personal loan or student loan.

In countries where the credit market is more established – Canada, Hong Kong and the United States – large numbers of Gen Z consumers over 18 are credit active. In the U.S. and Canada, the credit active population represents nearly two-thirds of Gen Z consumers over the age of 18. In Hong Kong, nearly half (49%) of the consumers in the Gen Z population are credit active.

In some countries, lenders report non-lending products, such as utility, telco or current checking accounts, to credit bureaus. As a result, consumers are credit visible before they have traditional lending products, such as credit cards or auto loans. Using alternative data – such as utility or telco information – to evaluate consumers’ creditworthiness is a benefit for both lenders and consumers. Lenders can see and understand how a consumer has performed on non-lending products, enabling them to make more informed decisions about the risk associated with the consumer in regard to lending products. Consumers benefit from greater access to traditional lending products and potentially receive offers at better rates.

<table>
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<th>Country</th>
<th>Percentage of Gen Z consumers over 18 who are credit active</th>
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<tr>
<td>Canada</td>
<td>63%</td>
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<tr>
<td>Colombia</td>
<td>19%</td>
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<td>Hong Kong</td>
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<td>India</td>
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<td>South Africa</td>
<td>28%</td>
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<tr>
<td>United States</td>
<td>66%</td>
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The regions with emerging credit economies – Colombia, India and South Africa – show a different picture of credit activity. In these countries, less than half of the Gen Z population is credit active. This dynamic occurs due to a number of factors, some of which are unique to each country and others that are common across markets. **In developing credit markets, traditional credit products such as credit cards and auto loans are more difficult for Gen Z consumers to access because lenders only make these products available to consumers with exceptionally strong credit histories.**

With larger unbanked populations across all age tiers, lenders may focus on expanding their customer base to older consumers whom they perceive to have more stable incomes and lower risk profiles. Additionally, Gen Z consumers in these developing markets may have less robust employment prospects, which means many younger consumers do not yet have sufficient incomes to qualify for traditional credit products. Whatever the reason, it is clear that lenders in emerging credit economies have tremendous untapped growth potential within their respective Gen Z populations.

Of the countries we studied, India had the smallest percentage of credit-active Gen Z consumers, but in a country as populous as India, 6% represents nearly 9 million consumers. Even in the older Indian generations, credit participation is relatively low, as just 10% of the total adult population is credit active.

Colombia is a country where many lenders report non-lending products to the credit bureaus, enabling more consumers to be credit visible. More than half (53%) of Gen Z consumers in Colombia are credit visible through their use of products, such as telco service, telco commerce and direct store financing, but just 19% of Colombian Gen Z consumers have a traditional credit product. Direct store financing is widely used by Gen Z consumers in Colombia, as 29% use this product. In many cases, direct store financers expect more delinquency and build the higher rate of default into the price of the product. As a result, stores are more willing to lend to consumers across the risk spectrum or those who are newer to credit, as many Gen Z consumers are.

Younger consumers often don’t have the traditional credit records that lenders typically use to make risk decisions. As more Gen Z consumers enter the market, it’s important for lenders to take advantage of additional data – such as trended credit or alternative data – to better understand the risk profiles of these consumers and make informed and judicious credit offers accordingly. Ultimately, these solutions can help lenders provide more consumers with access to traditional credit products, offering a better financial future for many consumers.

...it is clear that lenders in emerging credit economies have tremendous untapped growth potential within their respective Gen Z populations...
Gen Z consumers: Credit active and creditworthy

Many lenders expect lower credit scores from the younger, new-to-credit consumers in the Gen Z population. A common myth is that all (or at least the vast majority) of Gen Z consumers are in the subprime credit tier because they don’t have long histories of positive credit repayment. Some lenders assume that new-to-credit consumers receive lower limits, which can drive higher utilization rates and negatively impact Gen Z consumers’ credit scores.

While different scoring models are used in each market, subprime refers to the most risky segment of the consumer population. Our study found that the vast majority of Gen Z consumers are not subprime in their respective markets. In fact, significant numbers are in the prime and above credit tiers, typically viewed by lenders as the acceptable risk level for new credit products. In most of the countries we studied, half or more of Gen Z consumers 18 and over had credit scores in the prime and above risk tiers. All lenders look for ways to expand their customer base without increasing their risk, and these young consumers represent a key opportunity for growth. As they build their financial resumes, Gen Z consumers appear to have generally healthy credit habits.

A common myth is that all (or at least the vast majority) of Gen Z consumers are in the subprime credit tier because they don’t have long histories of positive credit repayment.
Credit cards: A key entry to credit in established markets

Our findings dispel the myth that credit cards have fallen out of favor with younger consumers in favor of debit cards or personal loans. In established credit markets, credit cards were Gen Z’s most widely held product. As more of these consumers are graduating college or demonstrating income from a job, they are clearly interested in – and receiving – cards.

Many younger consumers receive smaller credit limits on cards – part of lenders’ strategy to manage risk with new-to-credit consumers – which can drive higher utilization rates. In the United States, credit-active Gen Z consumers have an average of about 1.5 cards, with an average utilization rate of 31%. Consumers are still generally using the credit cards they receive prudently, with low median balances per consumer of 606 USD. Similarly, Canadian consumers are maintaining a low median balance of 515 CAD and nearly all credit-active Gen Z consumers in Canada have a credit card.

Numerous Hong Kong consumers have more than one credit card, with an average of 2.38 accounts per Gen Z consumer with a card. These consumers have more choice of which card to use, driving lower utilization than the other established countries. In fact, 66% of Hong Kong credit cards held by Gen Z consumers have a balance of zero.

Despite the rise of FinTech lenders and their primary product offering of personal loans, unsecured personal loans have not overtaken credit cards in popularity. Only 4% of credit-active Gen Z consumers in the U.S., 5% in Hong Kong and 16% in Canada have a personal loan. The study clearly shows that mobile-first, digital-native Gen Z consumers still want and receive credit cards in large numbers.
Developing credit markets: A variety of products for Gen Z

The other markets in this study – Colombia, India and South Africa – have less established credit economies. Because traditional credit card issuers tend to have more conservative underwriting policies, credit card penetration is lower. In the absence of an easily accessible card market, other products serve as the entry point to credit for Gen Z consumers.

Colombia is a notable exception, as credit cards are the most widely held credit product among Gen Z. Yet even as the most popular credit product, credit cards are held by just 32% of credit-active Gen Z consumers in Colombia, a significantly lower penetration rate than in developed countries. Additionally, more than 20% of Colombian Gen Z consumers hold retail credit cards and student loans.

Just 5% of South African Gen Z consumers have a credit card due to generally conservative underwriting practices that focus on low-risk borrowers with longer credit histories. Instead, credit issued by retailers is the most widely held product. More than six in 10 (66%) credit-active Gen Z consumers in South Africa have a clothing account, a credit line issued by clothing or apparel retailers.

In India, credit card participation is low overall, but climbing. Looking at the entire adult population in India, the overall credit card penetration is just 21%. While 11% of Indian Gen Z consumers with a credit card is fairly low penetration compared to other countries in the study, it’s encouraging for lenders that the youngest generation is adopting cards early in their life. Instead of cards, the most widely held product is the two-wheeler loan, held by 21% of credit-active Indian Gen Z consumers. Consumer durables loans, used to finance large ticket purchases, are the second most popular product, held by 13% of credit-active Gen Z consumers in India.

Developing credit markets: Despite the prevalence of student loans across all age groups in the U.S., less than half (39%) of credit-active Gen Z borrowers hold a student loan, and the median balance per consumer is 12,030 USD.

The impact of student loans on Gen Z consumers

While 6.85 million U.S. Gen Z consumers have student loans, it does not appear to inhibit their ability to get other credit products. In fact, 44% of U.S. Gen Z consumers with a student loan also have a credit card and 20% also have an auto loan.

In Canada – the only other developed country with significant student loan penetration – 28% of Gen Z borrowers have a student loan, a total of more than 506,000 consumers. The median balance per consumer was 10,562 CAD. Student loans do not appear to impact Gen Z access to other credit products in Canada, as nearly all (99.8%) credit-active Canadian Gen Z borrowers have a credit card.
How lenders can serve Gen Z

Generation Z consumers are entering the credit markets rapidly. As more Gen Z consumers reach age 18, their collective purchasing power will grow and significantly impact the ways lenders operate. Before Gen Z reaches the credit activity levels of other generations, lenders have an opportunity to prepare now to meet their needs and better market to this important population.

In the developed credit markets – Canada, Hong Kong and the United States – consumers still have and use credit cards. This presents an opportunity for card lenders to include low-risk Gen Z consumers in their marketing campaigns. For personal loan issuers, there is a significant opportunity to capture some of the card share by offering compelling reasons to use a personal loan.

Gen Z consumers in the developing credit economies – Colombia, India and South Africa – use a variety of products as the entry point to credit. With stricter underwriting standards from traditional lenders for credit cards and auto loans, other products such as retail credit or direct store financing fill the gap between consumers’ demands and credit supply.

As financial institutions develop strategies around Gen Z, trended credit and alternative data will play an important role. When consumers are new to credit, traditional credit data and scoring methods often cannot score them or evaluate them as riskier than trended credit data models do. While traditional credit reports show historical instances of late payments or all-time high balances, trended credit data includes whether a consumer’s balances are going up or down over time and if a consumer is typically paying more than the minimum due and by how much.

Alternative credit data includes checking and deposit account information, short-term loans, virtual rent-to-own, shorter installment loans and more. When coupled with trended credit data, this data is especially helpful for lenders during marketing and underwriting. Together, trended and alternative credit data unlock a more complete view of Gen Z consumers, increasing financial inclusion for this large and growing generation.

Trended and alternative credit data unlock a more complete view of Gen Z consumers, increasing financial inclusion for this large and growing generation.
Global Gen Z Highlights by Country

Canada
Gen Z consumers in Canada are much more likely to be below prime than the overall credit-active population.

Most popular credit products:
- Card: 99.8%
- Student Loan: 28%
- Personal Loan: 16%
- Line of Credit: 6%
- Auto: 5%

Fastest growing products:
- Mortgage: 71%
- Line of Credit: 48%
- Auto: 28%
- Card: 16%
- Student Loans: 11%

Colombia
Colombia’s scoring model gives most consumers a prime or below risk score.

Most popular credit products:
- Card: 32%
- Student Loan: 22%
- Private Label: 20%
- Personal Loan: 16%
- Microcredit: 14%

Fastest growing products:
- FinTech Loans: 728%
- Personal Revolving Loans: 294%
- Personal Installment Loans: 115%
- Card: 110%
- Mortgage: 102%

Percent of population that is Gen Z (and above 18):
- Canada: 8%
- Colombia: 10%

Percent of Gen Z population that is credit active:
- Canada: 63%
- Colombia: 19%
**EXECUTIVE SUMMARY**

Analyzing Gen Z Credit Activity

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Credit Cards

Developing Credit Markets

How Lenders Can Serve

**GLOBAL GEN Z HIGHLIGHTS**

**Hong Kong**

Like the overall country population, Hong Kong has almost no Gen Z consumers in the subprime risk tier.

- **Percent of population that is Gen Z (and above 18):** 6%

**Most popular credit products**

- Card: 91%
- Revolving Loan: 5%
- Personal Loan: 5%
- Mortgage: 2%
- Loan on Card: 1%

**Fastest growing products**

- Revolving Loans: 73%
- Personal Loans: 69%
- Card: 42%

**India**

Gen Z consumers are more likely to be near prime or prime than the population overall.

- **Percent of population that is Gen Z (and above 18):** 11%

**Most popular credit products**

- Two-wheeler: 21%
- Consumer Durables: 13%
- Card: 11%
- Student Loan: 8%
- Personal Loan: 6%

**Fastest growing products**

- Card: 150%
- Consumer Durables: 113%
- Personal Loan: 95%
- Gold Loan: 82%
- Auto: 77%
**Executive summary**

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**Global Gen Z Highlights**

**South Africa**

Almost half of South African Gen Z consumers score as subprime.

**Percent of population that is Gen Z (and above 18)**

- 10%

**Most popular credit products**

- Clothing: 66%
- Non-bank Loan: 8%
- Bank Loan: 7%
- Bankcard: 5%
- Retail Installment: 4%

**Fastest growing products**

- Bank Loans: 209%
- Home Loans: 66%
- Retail Revolving: 61%
- Auto: 52%
- Card: 44%

**Percent of Gen Z population that is credit active**

- 28%

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**United States**

Gen Z has a small percent of the population in super prime, therefore a larger share of its population is in all other risk tiers.

**Percent of population that is Gen Z (and above 18)**

- 8%

**Most popular credit products**

- Card: 50%
- Student Loan: 39%
- Auto: 25%
- Private Label: 23%
- Personal Loan: 4%

**Fastest growing products**

- Mortgage (growth rate Q2 YoY): 52%
- Home Equity Line of Credit: 45%
- Personal Loan: 38%
- Bankcard: 28%
- Auto: 23%

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**28%**

**66%**
For more information or to further discuss this study, contact your TransUnion representative or email tu_info@transunion.com.

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