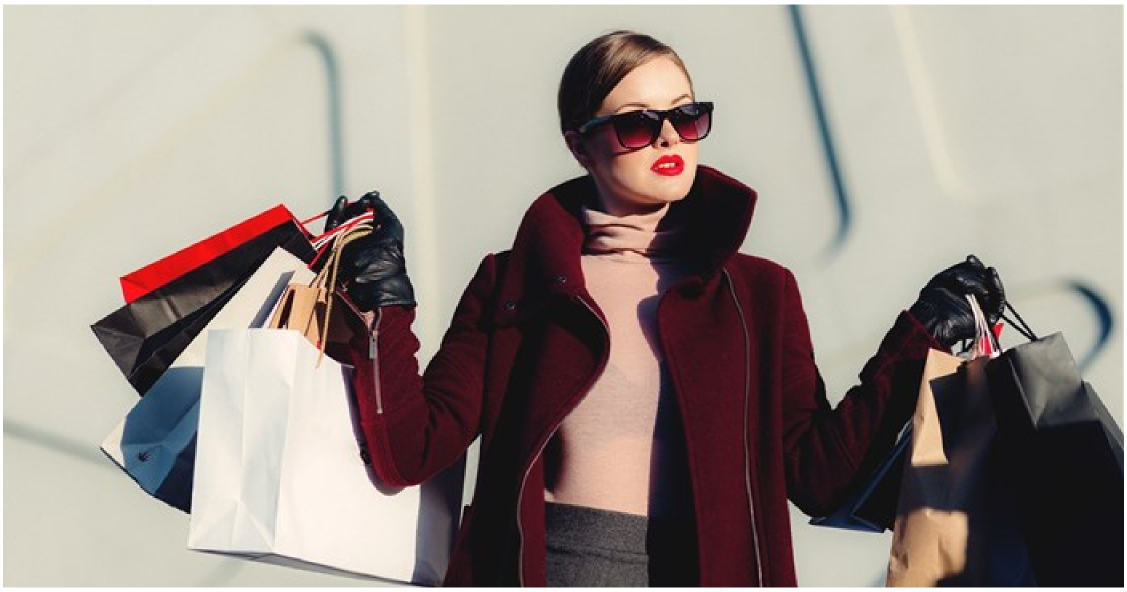
Responsible lending practices key to Gen Z consumer needs

According to a recent report published by TransUnion, Generation Z consumers (those born after 1995), are already actively involved in the credit market.



Source: Pexels

There is, however, a notable disparity between the behaviour of Gen Zs in more developed credit markets compared to their emerging market counterparts.

In South Africa's emerging credit economy, less than half of the Gen Z population is credit active. This represents untapped growth potential for credit providers and an opportunity to educate Gen Z consumers around the importance of responsible lending before they become active and potentially overly indebted lenders.

Just 5% of South African Gen Z consumers have credit cards. The low penetration of traditional credit in developing markets like South Africa can be attributed to more conservative underwriting policies. However, South Africa's relatively low credit-card penetration is juxtaposed by the fact that more than six in 10 credit-active Gen Z consumers in South Africa have a clothing account.

Products such as store cards issued by retailers and retail credit specialists therefore serve as the entry point to credit for the future generation of consumers. Currently, retail credit and other direct store financing is filling the gap in South Africa between consumers' demand for credit and its supply.

Commenting on what this means for credit providers, Samir Ghrib, chief risk officer at consumer finance leader RCS, advises that now is the time to adapt in order to meet their unique consumer needs and to prepare our Gen Zs to use credit responsibly.

Overall, the study by TransUnion concluded that the appetite for credit among Gen Z consumers is high. In terms of their risk profile, Gen Z consumers are more likely to be classified as subprime (with credit scores between 580 and 619) or near prime (with credit scores between 620 and 659).

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New-to-credit borrowers have little to no credit history, which is often used by lenders to assess the level of risk a particular consumer poses to the business. But big data and advanced analytics techniques can help lenders understand the risk profile of Gen Z better and identify ways to meet their needs as they enter the credit market.

For Ghrib, this means approaching "traditional credit non-traditionally," and providing Gen Zs with credit products that will help them

Building a healthy credit record

One unique factor that differentiates Gen Z from its predecessors is the fact that they are digital natives and have been born into a world in which they work, transact and shop online.

With ever-increasing smartphone penetration, it will become particularly important for Gen Zs to be educated around how to use and manage credit electronically.

Research shows that 84% of Gen Zs rely on their parents and other family members for financial information. According to Ghrib, credit providers can contribute to changing this dynamic by producing content directly aimed at Gen Zs that will assist them in developing financial literacy within today's context.

A big part of this is understanding what a credit record is, and its implications for their financial future.

He explains: "Gen Zs need to start building their credit records as early as possible. There are various ways to do this, but a good starting point is through smart budgeting. Ultimately, the principle that we need to instill in Gen Zs is to practice borrowing within their means by ensuring that credit installments are paid consistently and in full and using a budget to determine how much credit they can afford."

Expanding on this message, Ghrib says it's important for Gen Zs entering the credit market to:

- **Pay their bills on time.** Paying credit installments on time can have a significant impact on their credit record. Ghrib asserts: "One of the best ways to ensure that your credit bills are paid on time is to set up a monthly debit-order system that deducts the minimum amount due on your account automatically at the end of each month.
When possible, they should try to pay more than the minimum amount as this will not only provide some breathing room for a rainy day but it will ensure that their debt is paid off quicker thereby costing them less in interest."
- **Think before applying.** What many Gen Zs are not aware of is that when applying for credit, lenders run a mandatory credit check. Applying for too many credit lines in a short period of time can lower their credit score.
Ghrib advises: "Look at your credit options holistically before applying for more credit and weigh up whether you can afford

to take on a new account given your current financial status. As Gen Zs they'll likely be approached by different credit providers but they should be discerning about which providers they choose to go with.”

- **Be proactive.** In the event that they are unable to pay a monthly installment on an existing credit line, they should not wait for the creditor to contact them. Instead, they should be proactive and contact that creditor in advance to make a payment arrangement. Doing this will curb the negative impact that non-payments will have on their credit score.