

General Introduction:

Manole Capital was founded in February 2015 by Warren Fisher, CFA. Based in Tampa, FL, Manole manages several concentrated, US equity portfolios focused on the FinTech industry. Each year, Manole Capital interns research the Gen-Z demographic (1997 - 2012) to understand their perspective on 4-key financial services – brokerage, banking, crypto, and payments. Past survey notes can be accessed by clicking the following link: www.manolecapital.com/research.

2024 Interns:

This year, eleven members of the 2024 intern class performed comprehensive research on Gen-Z's perspectives regarding contemporary payment methods: Sohil Surapaneni (Villanova University), Cherie Sun (Barnard College), Daniel Marlin (University of Michigan), Bryce Pang (Lehigh University), Edward Choi (University of Toronto), Vishaal Saatvik and Anish Subramanian (Florida State University), David Gaffen and Noah Motechin (Yeshiva University), Vaibhav Parmar (University of Delhi), and Maero Oyula (Indiana University).

Survey Participants:

As a part of our study, we surveyed and received insights from **275** participants, with 93% in our targeted Gen-Z demographic. The majority of our remaining respondents were Millennials, providing 4% of the responses. Since this survey primarily targets Gen-Z, we have excluded the responses from other generations in our analysis. In terms of gender, 23% of respondents identify as female and 77% identify as male.

Our surveyed population came from over 85 different colleges and universities and also included dozens of high school students. While 80% of our responses were from the United States, we also received insights from individuals in India and England for broadened diversity.

Generations:

- The Silent Generation was born before 1945 and are older than 76
- Baby Boomers were born from 1946 to 1964 with the youngest being 58 years old
- Gen-X was born between 1965 to 1980 with the youngest being 42 years old
- Millennials were born between 1981 to 1996 with the youngest being 26 years old
- The Gen-Z cohort was born from 1997 to 2012 and are between 10 and 25 years old

Why Gen-Z?

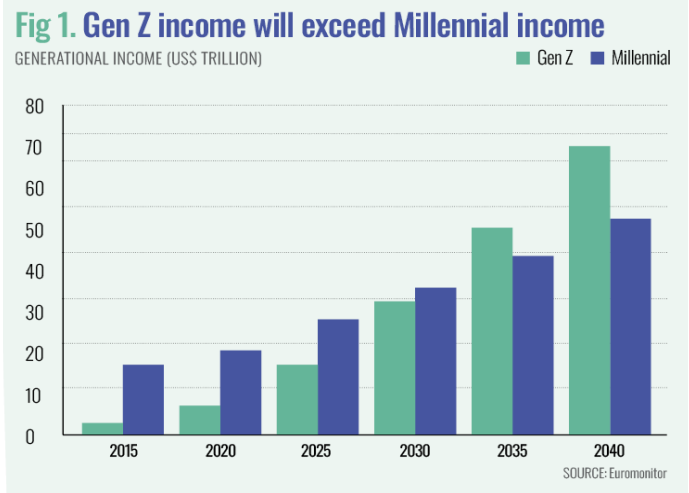
Gen-Z, also referred to as the “digital natives”, have been closely linked to the emergence and evolution of technology. Born in a world predominantly ruled by technology, this generation’s constant access to devices has modeled their outlook on their values and their culture. From social media platforms to smartphone apps, Gen-Z is constantly pushing the boundaries and driving trends in the tech industry. This symbiotic relationship between this generation and technology continues to shape the way they interact with the world around them.

As of now, Gen-Z are entering adulthood, and they are starting to form long-term financial habits that differ from previous generations. Since Gen-Z are digital natives, they are also highly comfortable using FINTECH services like mobile banking apps, payment applications, and crypto platforms. Coinbase has reported that 39% of Gen-Z own crypto, which is approximately five times higher than Baby Boomers.

Cerulli Associates estimates that Gen-Z will receive part of the \$84.4 trillion set to be transferred from the Baby Boomers and older generations to the newer generations. Moreover, this chart from Euromonitor shows, by 2035 Gen-Z income will surpass Millennial income. For additional information about what Gen-Z thinks about the crypto and brokerage industries, make sure to read the detailed notes from Manole Capital's other summer intern teams.

Given that Gen-Z is over a fourth of the global population, this demographic significantly influences both businesses and consumer products. Gen-Z's preferences, decisions, and political opinions are causing companies to redesign and accommodate for this latest generation.

With this research note, we want to understand how Gen-Z views the ever-changing payment landscape, what their preferences are, and how these insights can address their needs and expectations. By recognizing such preferences, patterns, and behaviors, businesses can adapt and tailor their strategies to better engage with Gen-Z.



Optimistic?

We started our survey by asking, "Are you positive or negative about the US economy?". This year, our Gen-Z respondents were 60% positive on the US economy, and 40% skewed negative. In 2022, our survey found that 53% of our Gen-Z survey was negative on the economy, so there is a bit of an uptick in optimism. To access our 2022 survey, click on the following link: <https://www.manolecapital.com/>.

This increase from 2022 to 2024 may be the result of low unemployment, high wage growth, and inflation steadily decreasing. The overall economic state of the country has dramatically improved since inflation peaked at around 9% in June of 2022. With inflation dropping to 3.4% by January 2024, our predictive expectations for the economy have also improved. However, we can infer that Gen-Z optimism is still cautious as there has only been a 7% increase in optimism from our 2022 survey to our 2024 survey. This is maybe due to the fact that their optimism coexists with ongoing financial challenges such as student loan debt and high housing costs.

In the following sections, you will find each question that the payments team asked of its participants, as well as our opinions and big-picture takeaways from the results.

Introduction:

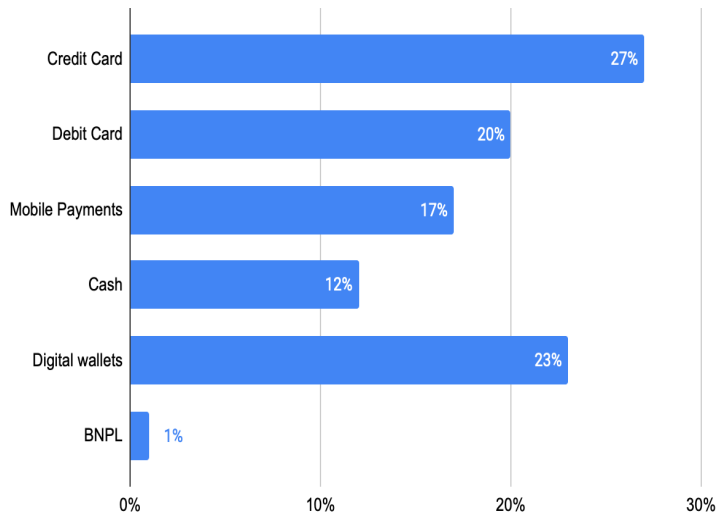
Over the last several years, the traditional concept of money has drastically changed. During COVID, many people no longer wanted to touch physical currency (i.e., paper currency or coins) for fear that it would carry the virus. New payment methods – like digital wallets on our mobile phones - emerged and began to take material market share from physical currencies.

Now, our mobile phones are one of the most important devices in our lives; we use it to pay for groceries, rent, activities, as well as start our car. Is a leather wallet even necessary anymore? Does anyone need to carry cash nowadays? Should our grandmother give us cash for our birthdays, or should she learn how to Venmo us?

Our goal is to understand the what, why, and how Gen-Z makes their payments. We researched the spending habits of Gen-Z, how their payments are made, and what changes are potentially coming to market. We hope these questions can help people and businesses better understand Gen-Z's opinions on the payments industry.

Question #1: What Payment Methods Do You Prefer?

We started our payments section by asking Gen-Z their preferred payment methods. The answers didn't surprise us.



Credit cards were Gen-Z's most preferred form of payment, with 27% of respondents choosing this method.

Behind credit cards, Gen-Z enjoyed using their digital wallets, like Apple Pay or Google Pay. Interestingly, inside of one's digital wallet, one can easily use credit, debit or prepaid cards.

Rounding out the top 3 was debit cards, at 20% and the 4th choice was mobile payments (like Venmo or CashApp) at 17%. Cash continues to lose the largest market share in our surveys, with only 12% of respondents choosing it as their preferred payment method. The last method preferred for payments by Gen-Z was BNPL (Buy Now, Pay Later), a relatively new payment method.

How do these results compare to prior years? Based on our 2021 payments survey, Gen-Z's preferred payment methods have dramatically changed. Although credit and debit cards are two of the three top preferences (at a combined 47%), it is significantly below the 67% it received three years ago.

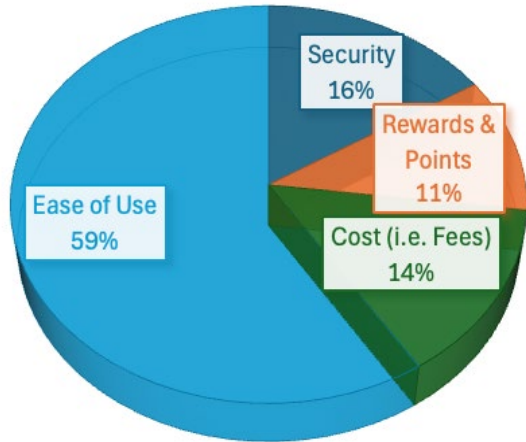
Another trend that we noticed was the emergence of digital wallets. In 2021, only 10% of the respondents said they preferred a digital wallet for purchases. Now, this has more than doubled. From a convenience standpoint, mobile payments are growing, and we no longer need to carry physical wallets.

Indicating further market share losses, cash has declined from 22% in 2021 by roughly half. We believe the decline in using cash is the result of Gen-Z's familiarity with mobile technology and digital wallet's integration with other services (e.g., Apple Pay).

With the emergence of mobile payments and a heavier reliance on technology, we expect that cash will become even less prominent in the future. Despite these new payment methods, we still understand that cash will always hold some level of utility and value, especially in emergencies where we would need immediate liquidity.

Question #2: Why Did You Choose That As Your Preferred Payment Method?

We wanted to understand what drove Gen-Z payment methods and what was the most important aspect behind their preferred choice.



As our pie chart shows, we found that Gen-Z’s most important issue for payments is ease of use, at 59%. 2nd was security at 16%, 3rd was costs/fees at 14%, and reward programs were last at 11%. Clearly, our data shows that Gen-Z overwhelmingly prefers quick and easy payment options. For us, the user experience is critical, which can include easy-to-use and friendly interfaces, reliable application performance and additional information like payment history and spending patterns. We will discuss the importance of user interface and design on the following page.

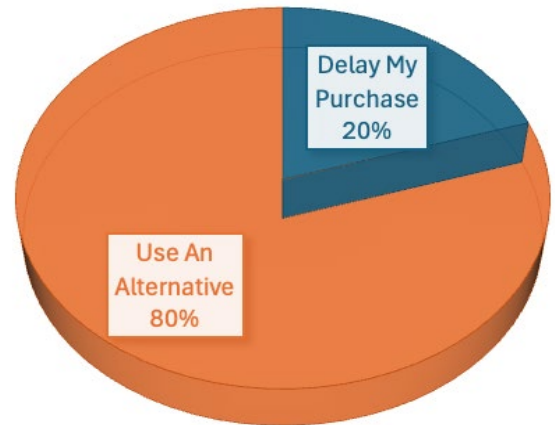
As Gen-Z’s purchasing power becomes an increasingly dominant factor in the economy, payment providers must prioritize ease of use in their offerings to remain relevant. Furthermore, while security may not be the top concern for Gen-Z, it is still crucial for providers to ensure robust security measures to maintain trust and loyalty.

Question #3: If Your Preferred Payment Method Is Unavailable, Would You Purchase or Select an Alternative?

In our next question, we wondered if one’s preferred payment method was unable (for a non-urgent transaction), would Gen-Z delay the purchase or select another alternative payment solution?

We aimed to gauge the depth of payment method loyalty. In this hypothetical situation, we wanted to gauge how Gen-Z would respond if their preferred form of payment wasn’t available.

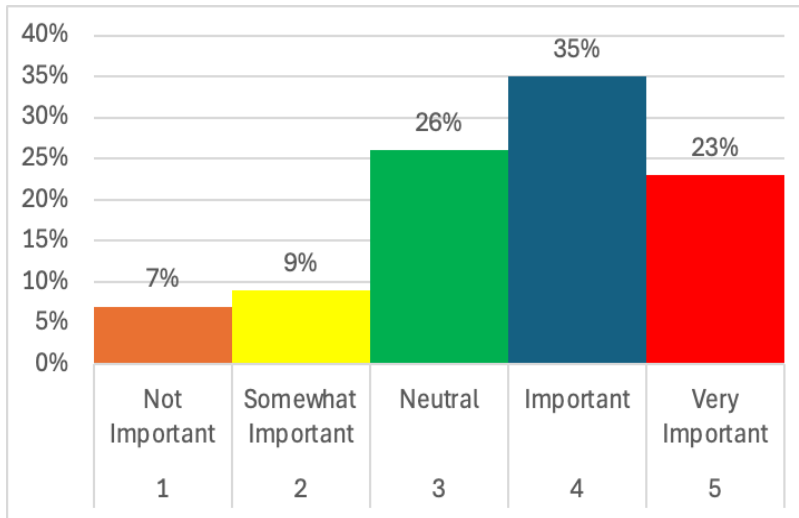
We observed that the overwhelming majority, at 80%, were inclined to use an alternative means of payment if their preferred method was unavailable. This indicates that they want to make the process as fast as possible rather than wait it out with their preferred payment method. They clearly value convenience and speed in this situation.



To our surprise, 20% of Gen-Z respondents opted to delay their purchase to use their preferred payment method elsewhere. We believe these respondents may have loyalty and reward programs unique only to their payment service. By waiting to use their preferred method of payment, they can maximize the benefits from such rewards programs and even save money in the long term.

Question #4: How Important Is an Application's User Interface and Design?

We wanted to specifically explore how important the user interface and design of payment applications were for Gen-Z. To do this, we asked our participants to decide whether the design was important or not by using a scale from 1 (not important) to 5 (very important) when they selected their payment application.



As expected, the largest choice was 4 (important) at 35% of Gen-Z participants, clearly reaffirming that Gen-Z finds payment applications' user interface important. As per a PwC report, Gen-Z buyers are even willing to pay a 7% premium for a good user experience. If a payment application's process is cumbersome or if the app is poorly designed, Gen-Z is more likely to abandon it. In a recent survey conducted by [EY](#), 39% of Gen-Z participants were annoyed with entering a PIN with a debit card compared to 29% of the other generations. This further reinforces the idea that Gen-Z wants fewer barriers when paying for goods and services and prefers the process to be as efficient as possible.

Furthermore, J.D. Power conducted [research](#) and found that customers tend to prefer personalized experiences when managing spending, saving money, and planning for the future. It seems that well-designed payment apps that offer personalized experiences and can facilitate transactions without any barriers clearly appeals to Gen-Z.

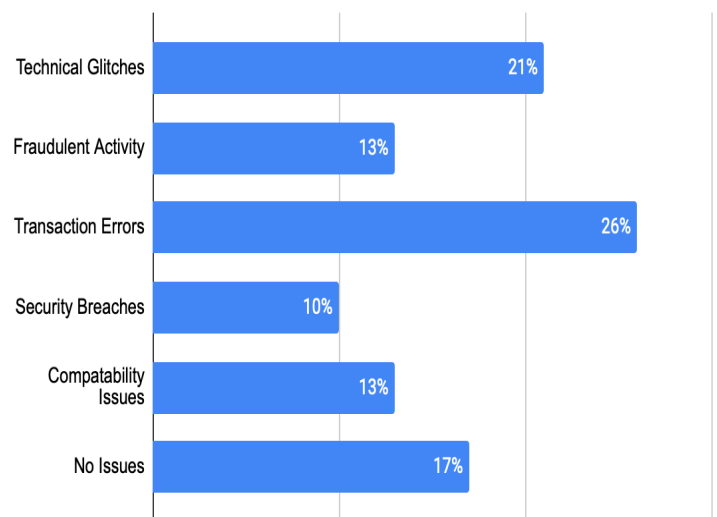
Question #5: What Types of Issues Have Occurred?

We were curious to learn what types of issues, if any, people had while using payment applications.

With this question, participants were given the option to choose multiple issues that they faced while using payment platforms. The figures in the chart below represent the percentage of Gen-Z participants who stated the choice as an issue in payment applications.

Based on our research, we discovered that the largest problem was transaction issues, with 26% of Gen-Z participants stating this as an issue. Some examples of transaction issues are a payment decline, pending payments that were started but not yet completed, or processing errors due to problems with the compatibility of the merchant's systems.

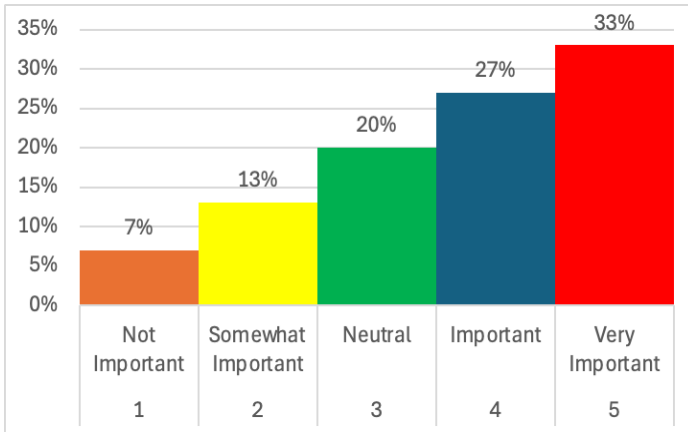
Additionally, 21% of Gen-Z participants stated an issue with technical glitches, 26% reported compatibility issues and fraudulent activity, and 10% reported having security breaches. Only 17%, less than 1/3 of Gen-Z participants stated they had no issues.



While the world transitions technologically, hiccups are bound to happen. Therefore, it is in the best interest for payment companies to fix glitches and security issues tied to payments. If an overwhelming majority of Gen-Z participants stated at least one problem, preventing these issues is crucial for the success of a given platform.

Question #6: How Important Is Security?

To follow up on the previous question (about concerning issues), we wanted to ask them about the importance of security when using payment applications.



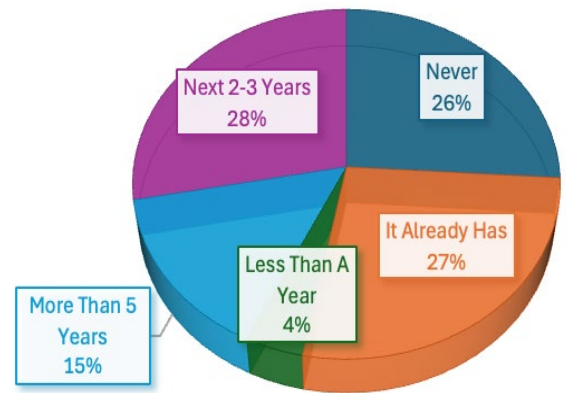
Our research revealed that 60% of Gen-Z respondents have heightened concern (rated 4 or 5), reflecting an unease about cyber threats.

A majority of our participants demand secure and frictionless payment experiences, indicating to businesses and innovators to improve their payment service’s security measures. This would significantly help in guiding Gen-Z through digital commerce with confidence and peace of mind.

Question #7: When Will Your Phone Replace Your Wallet?

Traditional wallets are gradually being replaced due to the popularity of mobile wallets, contactless payments, and digital currencies. We wanted to explore when Gen-Z thought that they would completely replace their wallets for their phones.

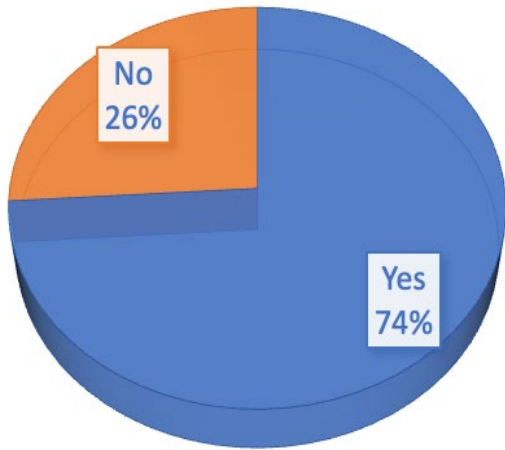
Our survey results show that 28% of participants anticipate their phone will replace their wallet within the next 2-3 years. This group expresses confidence in the rapid advancements of mobile technology and the growing acceptance of digital payment systems. Among our participants, a noteworthy 27% claimed that they have already made the transition from wallet to phone and 4% claimed this transition will happen in less than a year.



This reflects the general acceptance of mobile wallets and digital payment methods among Gen-Z's tech-savvy members, who value the ease of having everything in one device—from loyalty cards to payment alternatives. On the other hand, 26% believe their phone will never fully replace their wallet. This is likely due to concerns about security, digital infrastructure limitations, or simply the comfort of carrying physical items.

Question #8: Do You Prefer Mobile Payment Methods Over Credit/Debit Cards?

Since the invention of mobile payment in 1997, there has been a rise in various respective methods, such as Venmo, Cash App, Apple Pay, and Zelle. We were curious to learn if users prefer to use these payment methods over traditional credit or debit cards for making purchases.



Based on the results of our survey, we learned that 74% of Gen-Z participants do NOT prefer mobile payment methods over credit or debit cards for making purchases, while the other 26% of Gen-Z participants prefer them.

Currently, when going to a store, it is customary to use a credit or debit card because, at this time, there are not many opportunities at businesses to pay with Venmo or Zelle when making purchases. And according to our data, Gen-Z still prefers the traditional use of credit and debit cards for making purchases at stores.

While it would be nice for businesses to start adopting more mobile payment methods, it is not absolutely required, as a large majority of our Gen-Z participants seem to still prefer to use credit or debit cards.

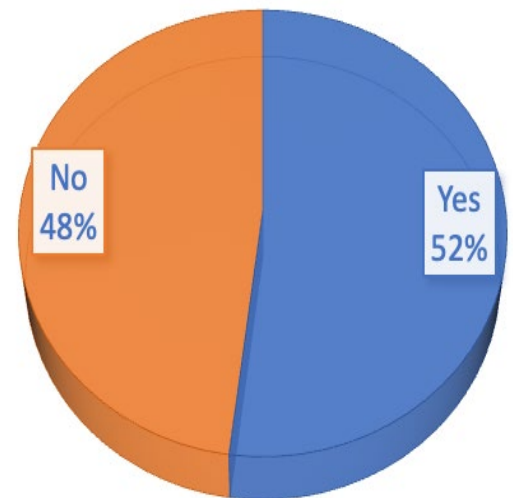
Question #9: Are You Aware PayPal Owns Venmo and Square Owns CashApp?

When PayPal acquired Braintree in 2013 for \$800 million, Venmo was also part of the purchase. Square internally developed CashApp and launched it in 2013.

Over the last few years, we've wondered if Gen-Z knew who owned their favorite P2P (peer-to-peer) payment application. Like previous years, we asked our participants if they were aware that PayPal owns Venmo, and that Square owns Cash App.

A little over ½ of our survey was aware that these two public companies owned these dominant P2P platforms. In the previous payment survey note, 56% stated that they knew PayPal owns Venmo but only 33% were aware that Square owns CashApp.

We believe more people may know that Square owns CashApp simply because they are now using CashApp more often. Square has significantly improved its functionality and user interface over the years, making it more attractive for Gen-Z to use. We predict that more of Gen-Z in the future will become aware of PayPal owning Venmo as companies such as eBay are beginning to add it as a [payment option](#).



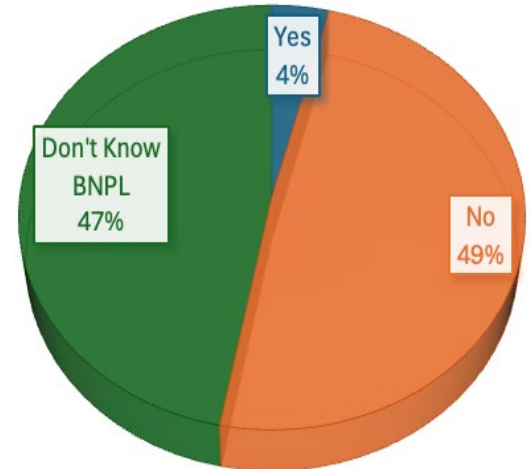
Question #10: Is BNPL Better than Credit Cards?

We were curious to learn if Gen-Z thought BNPL (Buy Now, Pay Later) was a better payment choice than credit cards.

Surprisingly, 47% didn't even know what BNPL was. We were under the impression that BNPL focused on Gen-Z, but clearly there is a lack of knowledge about this new payment option. These participants might have limited financial experience, especially if they are not personally managing their finances and making significant purchases.

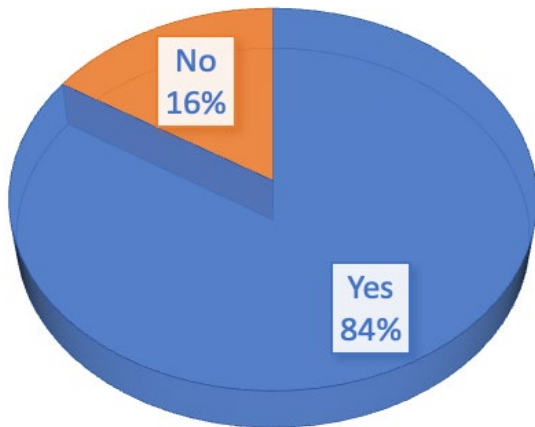
While still somewhat new, BNPL has garnered quite a bit of attention. The largest companies in the BNPL space are Klarna (privately held), Affirm (ticker AFRM) and Afterpay (acquired by Square in 2022 for \$29 billion). These firms give consumers the opportunity to pay a portion of the bill, spread over a period of time (i.e., layaway). For example, if an item costs \$100, a BNPL model would ask a shopper to pay \$25 a month over the next 4 months.

On the other hand, Gen-Z responded with a resounding "no", as 49% preferred credit cards to BNPL. In fact, a shockingly low percentage at 4% thought that BNPL was a better payment option than credit cards. Credit cards might be more appealing to Gen-Z than BNPL services because they offer reward programs, provide flexibility in payment amounts, and are more widely accepted.



Question #11: Are Credit Card Rewards Valuable?

A major difference between mobile payments and debit cards versus credit cards is that using a credit card provides multiple "rewards" to its user. We were curious to learn if Gen-Z believes these credit card rewards, such as miles or points, are valuable.



We discovered that an overwhelming majority of Gen-Z participants, around 84%, stated that rewards are valuable.

Logically, it makes sense that people like to use a payment method where they get rewards, like 2% cash back on purchases. In an article written on Business Insider, [Gen-Z's Credit Card Obsession](#), it was discovered that 75% of AMEX gold and platinum card holders are a part of Gen-Z. These specific credit card accounts utilize a point system that can then be used for tangible rewards such as gift cards and cheaper flights and hotels. Additionally, these rewards allow them to earn cash back, travel miles, or other perks for their everyday spending, which can help them afford things they might not otherwise be able to. Overall, credit card rewards seem to be extremely valuable in the eyes of the Gen-Z population.

Conclusion:

Manole Capital defines FINTECH as “anything utilizing technology to improve an established process”. It also believes that the payment industry is the quintessential FINTECH business, as payment companies make predictable, sustainable, recurring revenue per swipe. The payment industry is rapidly evolving and undergoing significant shifts.

To summarize our findings:

- Cash continues to lose market share, while both cards and mobile-based payments are gaining
- Gen-Z still prefers cards (both credit and debit) as its preferred payment options
- BNPL isn’t as widely understood among Gen-Z as we would have thought
- Gen-Z wants a secure, user-friendly, digital payment option
- Gen-Z values convenience and functionality, when choosing payment options
- Credit cards still have immense value aided by their generous reward programs

In our opinion:

We believe that businesses should prioritize building trust and ensuring a fluid payment experience, if they wish to appeal to this generation. Based on our findings, we would also suggest businesses (and processors) to constantly improve their security measures and even offer loyalty programs to retain Gen-Z customers. Also, it wouldn’t hurt to offer loyalty or rewards, as Gen-Z values these programs. With our survey, we hope that you have more insights into Gen-Z’s opinions, trends, and thoughts regarding their payment activity.

John F. Kennedy said, “Change is the law of life and those who look only to the past and present are certain to miss the future”. Those who only focus on the past and present methods of payment services will fall behind in the rapidly advancing FINTECH landscape. To stay competitive, companies must continue to keep adapting to new payment technologies and trends to ensure they don’t fall behind.

Thank you for your interest in our Gen-Z payment note. We would love to hear from you and get your thoughts on our research, whether you agree or disagree with any of our findings.

Have a wonderful summer!

The Manole Capital 2024 Payment Team

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