When pocket money goes digital: How the children's account sector is evolving

An analysis of kids' use of money apps, current trends within the industry and how experts predict the landscape could change.

Introduction

Children's accounts have come a long way since the days of getting a passbook stamped at a branch with the latest balance. Kids' debit card and mobile and online banking offerings now resemble their adult counterparts; challenger banks have moved into the space, and "pocket money apps" that come with a prepaid debit card and parental controls are making waves.

To explore the burgeoning area of children's finance, Finder polled 1,000 kids aged 10 to 15 in July 2021 about their experience and knowledge of money and money management. Our research revealed that 61% in this age group now use either a banking or pocket money app to manage their own money. This figure increases with age - ranging from 49% of 10-year-olds to 68% of 15-year-olds, and peaking at 71% of 14-year-olds.

As digital payments have increased and using cash has fallen from favour - a trend accelerated by the pandemic - interest in kids' cards seems to be rising. Over the last 5 years, Google search interest in the term "kids debit card" has grown 227%, with an increase of 42% between 2020 and 2021 alone. Search interest in the gohenry pocket money card and app has particularly surged in 2021.

What are pocket money apps offering? For one thing, in-app saving and budgeting tools and guides can teach children about managing their money in a way that classroom lessons can't. And there is appetite to learn - 64% in our survey were interested in learning how to manage their money via an app from their account provider. And most kids in our poll also saved at least some money, with 38% saving half or more of their pocket money.

We also interviewed a small group of children of different ages on camera, to hear about their experiences of saving and spending money. All used apps, and had suggestions for features they'd like to see. We also probed their knowledge - financial education is a hot topic currently, as this report touches on. See what they had to say in our video.

Finally, to get further insights on this growing sector, we asked 6 experts for their views on current trends and how the industry might evolve. We've published their thoughts and our exclusive research in this report.

Contents

Helen Bierton, chief banking officer, Starling Bank

Starling Bank is a digital-only UK challenger bank that was founded in 2014. As well as its range of personal and business accounts, it now offers a children's card and app, called Starling Kite.

Louise Hill, co-founder and COO, gohenry

The gohenry pocket money card, with an app, was launched by a group of parents who wanted to help young people learn about money safely, with parental controls.

Mark Brant, CEO, nimbl

nimbl is a pocket money card and app. It comes with parental controls and is designed to teach kids about money, and enable them to manage, save and spend their funds.

Niels Pedersen, senior fintech lecturer, Manchester Metropolitan University

Manchester Metropolitan University runs England's first post-graduate fintech course. Niels is a senior lecturer on the MSc programme and author of the book *Financial Technology: Case Studies in Fintech Innovation.*

Rachel Ousley, associate director of insight, Canvas8

Canvas8 is a consumer insights agency. Businesses use its research, market analysis and expertise in cultural and behavioural consulting to improve products and strategies.

Richard Stocker, head of savings, Nationwide Building Society

Run for the benefit of its 15 million members, Nationwide Building Society is the world's largest building society. It has more than 600 branches on UK high streets and operates several children's accounts.

What are the trends in this sector?

Louise Hill, gohenry

In the past few years, investment in the children's account sector has exploded and more and more services have come to market. The rise of digital and ecommerce, which impacts gen Z in an incredible way, has accelerated the need for children to have a means to interact with the economy in the way they will as adults. Kids are digitally savvy but digitally underbanked, but...everyone now recognises the need to engage the next generation of customers and that their needs are different to [those of] the previous generation.

Mark Brank, nimbl

The future is cashless: many parents are recognising the value of inducting children to the world of digital money from an early stage, so we're starting to see pocket money becoming increasingly digital. Both parents and children now expect digital pocket money apps and accounts to offer children the freedom to learn about their finances responsibly. Over the past few years, we've noticed a real uptick in nimbl users making the most of our digital pocket money features, from learning to put a little aside whenever they spend with our micro-savings feature, to keeping track of their transactions and making sure they hit their budget goals.

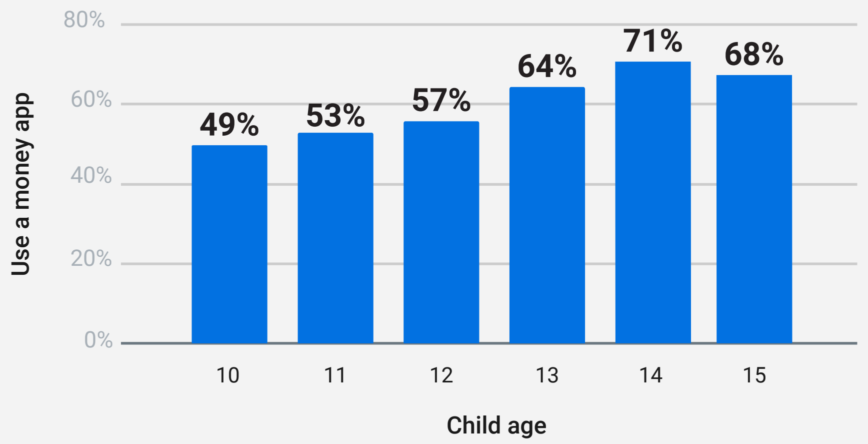
Helen Bierton, Starling Bank

Children can now check their balance, see transactions and receive real-time spending notifications on their smartphones and tablets, with the help of online banking apps. Parents have told us that they would like to retain some oversight of how their children are spending. So we've created a "Space" within our current accounts, where customers can give their children the independence of their own card and banking app, but attached to that parent's account.

Richard Stocker, Nationwide Building Society

Our Future Saver account, which allows parents to maintain control of their children's savings until they are ready to transfer it to their child, has seen balances grow by 109% in the last 2 years. Just like with adult accounts, this is likely to be driven by those parents who made savings by not going out as much during the pandemic and choose to use some of the money saved towards saving for their children's future. However, as lockdown has eased and people are out and about spending more this increase has slowed.

Proportion of kids who use an app to manage their money



Source: Finder survey of kids aged 10-15, July 2021

Louise Hill, gohenry

Our latest Youth Economy Report, which looks at the financial behaviours of 400,000 UK children and teens during COVID-19, shows children and teenagers saved a total of £12.7 million, which equates to 12% of their total income. Most kids were saving for items to help them get through lockdown, including entertainment and tech. Kids' earnings were up 20% on pre-COVID figures as parents leant on children to help out at home. According to our report, the most lucrative tasks were babysitting (£6.01), washing the car (£3.10) and gardening (£1.98), while there was a 172% rise in earnings for taking exercise during lockdown one, as parents paid an average of £1.34 to encourage their children to get moving.

Richard Stocker, Nationwide Building Society

The pandemic has accelerated the transition from cash to card or mobile payments. Spending on our FlexOne youth account has reached nearly £250 million a month and continues to rise - this is up 33 per cent compared to pre-pandemic levels, with younger customers making around 17 to 18 million transactions each month. While balances in the children's market have grown 28% since April 2019, account opening has grown by just 5% in the same period. This is likely to be down to the fact that many parents like to bring their children into a branch for a face to face appointment when opening a children's savings or current account, which hasn't been as readily available during the pandemic.

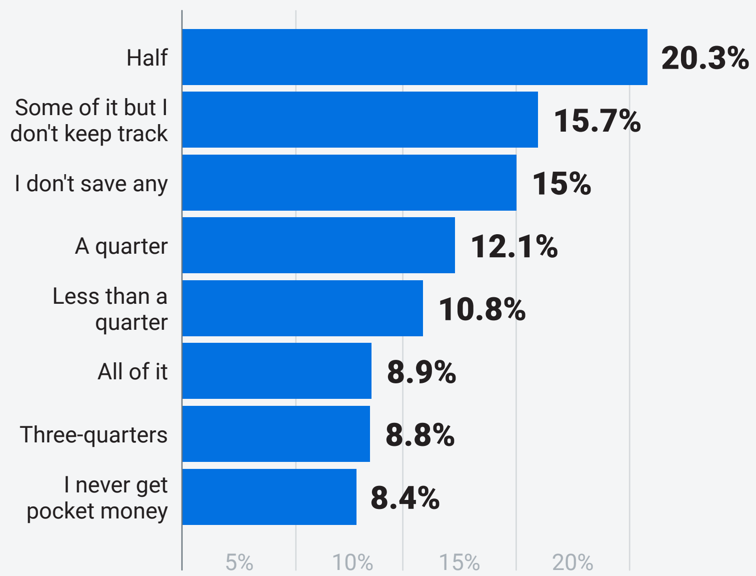
Niels Pedersen, Manchester Metropolitan University

In general, people are becoming more frugal and community-oriented as a result of the pandemic and its ensuing restrictions. As a result, families are re-assessing their spending patterns and this will affect children's relationship with money - I suspect thrift and saving will be actively encouraged from an early age.

Rachel Ousley, Canvas8

As well as increasing the amount spent online – as we've seen across most age groups – the pandemic has led to a real difference in money management for children. More and more, children are wanting to save their money, rather than splash out. We're seeing typical post-recession behaviours of a greater awareness of money and more careful spending patterns. This also ties into the fact that children are now even more likely to be managing their money online, giving them greater access and oversight over their spending.

How much of their pocket money kids typically save



Source: Finder survey of children aged 10-15, July 2021

Do traditional financial education sources do enough?

Rachel Ousley, Canvas8

Children aren't learning enough about money management through traditional routes. But that doesn't mean they aren't learning about it at all – many are... turning to alternative sources, including TikTok, which has a thriving "FinTok" community... This presents a big opportunity for brands to play a... role in gen alpha's financial education. From simple explanations of financial language, to gamification to provide a broader education, there are a number of apps geared towards supporting children's financial learning.

Louise Hill, gohenry

We need to all work together (schools, government, parents and industry) to equip children with the money management skills they need to navigate the adult world of finance... As parents, we have the opportunity to deliver real-world practical lessons about money, which is massively important and not something schools are equipped to do. Money management - or financial fitness as we prefer to call it - is a vital life skill and one best taught young... to ensure that when the next generation hits adulthood they don't sink amongst access to fast credit and plenty of temptations.

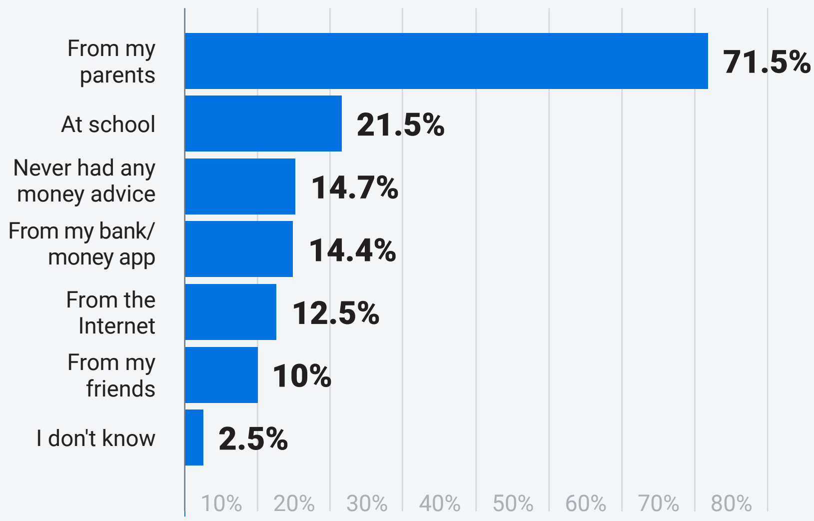
Helen Bierton, Starling Bank

We think that financial education from a young age is important for promoting money management skills in later life. According to a recent parliamentary report… just 1 in 3 primary school-aged students receive any form of financial teaching, which is concerning but not unsurprising given the pandemic's disruption of the education system and the traditional syllabus focus on cash and coins. But there are plenty of lessons that can be given at home. Early access to making decisions and involving children in discussions about money can improve their confidence and understanding. Having access to their own bank card provides kids some autonomy over their money, allowing them to gain a hands-on understanding of how spending and saving works.

Mark Brant, nimbl

There's...encouraging progress in teaching personal finance skills at school, with financial education now included in the national curriculum. But as cashless payments and digital money become the norm, pocket money cards and apps are helping children to experience handling their own money in a safe and secure setting. We've had lots of parents tell us stories of how they've used the nimbl app to help supplement their children's learning whether it's encouraging them to save a third of their pocket money income, or keeping track of their transactions.

Where children have received money advice from



Source: Finder survey of children aged 10-15, July 2021

How are banks responding to pocket money apps?

Niels Pedersen, Manchester Metropolitan University

Traditional banks are responding much like they are responding to fintech disruptors elsewhere: by buying fintechs out, collaborating with them or coming up with their own solutions.

Rachel Ousley, Canvas8

While many traditional banks have developed their offerings for children – debit cards are the norm, as well as online or mobile access to accounts – very little has really changed. The real innovation is coming from the startups and fintechs who are finding new ways to shake up banking for children.

Louise Hill, gohenry

The big banks don't currently have the technology to help kids learn how to be good with money in the real world. They simply offer a means to house children's money. For kids to understand the value of money and how to manage it they need real life experience of the digital economy, and for that they need a next generation money app.

Helen Bierton, Starling Bank

Offerings from fintechs have really stimulated demand from children, young people and their parents for children's cards, apps and accounts, so the traditional banks are having to catch up.

Richard Stocker, Nationwide Building Society

There has been some excellent innovation. New accounts are offering parents control while giving children much greater financial independence. This is something that we expect to be universal across children's accounts over the coming years. However, our research has also shown that parents see the account opening process as an experience, with their child taking the lead talking through their requirements with a branch colleague. They see it as a crucial stage in a child's financial education and is something that many fintechs don't offer, which provides traditional banks and building societies with a benefit in the short term.

Mark Brant, nimbl

Although we have noticed some "traditional" banks are starting to develop accessible and user-friendly apps to appeal to younger users, for example, many nimbl parents really value the ability to keep track of their child's spending and the control and security offered to them via the app – something that could be difficult for traditional banks to replicate.

> Many traditional banks have developed their offerings for children [but] very little has changed. The real innovation is coming from the startups.
>
> *Rachel Ousley, Canvas8*

What do you predict for this sector?

Rachel Ousley, Canvas8

Gamification is already being introduced by some digital banks, but this will likely become much more dominant in the next few years... to do everything from helping manage money to educating children about finance. Gen Z are investors – they're already investing more money than their predecessors – and we'd expect gen alpha to follow suit. This will start to be taken into account by those providing financial services to children - be that offering services to mimic the market to build knowledge of investing, or integrating investments made on a child's behalf into digital banking apps. This is an opportunity to build their loyalty and improve retention as children grow out of their accounts and move onto other offerings.

Louise Hill, gohenry

The focus on financial literacy has never been so strong. This will continue to grow as more parents seek the tools to help their children gain confidence with money and finances. I think we'll see a bigger focus on financial education content for kids within financial products and incumbents looking for ways to capture gen Z and gen alpha's attention. COVID-19 and the restrictions that came with it have also fuelled an explosion of e-learning tools, developments in child-friendly fintech, and even the use of digital currency in games like Roblox and Fortnite.

Niels Pedersen, Manchester Metropolitan University

With parents who are digital natives, there is no longer a generational barrier to technology adoption. Given the increasing awareness about the need for encouraging financial literacy from an early age, it is unsurprising that some parents are happy for their children to engage with various digitised financial solutions. However, as other parents are concerned about the impact of technology on their children's development and mental health, I suspect some will be more reluctant to expose their children to these.

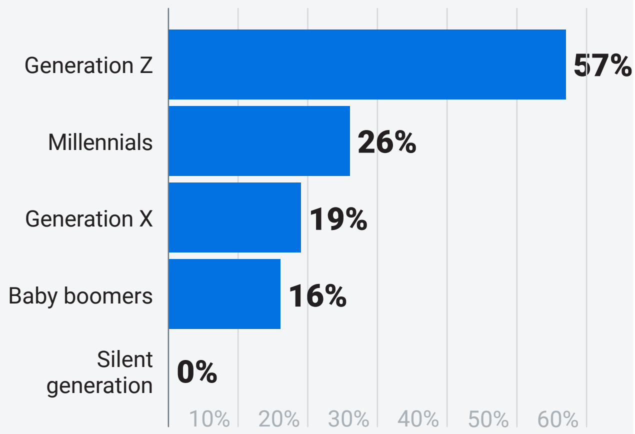
Helen Bierton, Starling Bank

The priority for all children's banking service providers should be to encourage greater financial literacy and to create money management habits that can see them throughout life. Banks that cater for children want to build relationships with all their customers, and that includes young people. Providing them with more tools, functionality and information to make the most of their money makes sense for banks.

Richard Stocker, Nationwide Building Society

Children's financial services will continue to be a key area for innovation, especially as many young people grow up using the latest technology. If a child has strong engagement and a good relationship with a financial organisation it can lead to a lifetime relationship and the ability to support them with their financial needs as they move into their adult life.

How many adults switched their main account within 2 years of turning 18?



Source: Finder survey, September 2020

About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare bank accounts, utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (Source: Experian Hitwise).

In July 2021, Censuswide surveyed 1,000 children aged 10-15 on behalf of Finder, to explore their experience of money and money management. In September 2020, Finder commissioned Onepoll to carry out a nationally representative survey of adults aged 18+, to explore loyalty to banks.

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About the author

Michelle Stevens is a deputy editor at Finder, specialising in banking, finance and mortgages. She has a journalism degree from the University of Sheffield and has been a journalist for more than 10 years, writing on topics including fintech, payment systems and retail.

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August 2021