Kids' banking: Can traditional banks catch up with the fintechs?

An analysis of how pocket money apps and traditional banks are innovating and evolving to meet younger generations' expectations.

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Introduction

The kids' banking sector is constantly evolving and, as demand for digital banking grows, parents are increasingly interested in using kids' debit card apps to help their children manage their money. Google search interest in "kids debit cards" has grown 7-fold in the UK in the past 5 years, and a new Finder survey of 2,004 consumers reveals that around 1 in 3 parents (31%) use these apps to teach their kids about finance.

Our survey also highlights the ongoing debate about who should be responsible for financial education. Despite the cost of living crisis, 1 in 5 parents say they don't intend to teach their children about money at all.

Current teens will be shaping the next generation of banking products and services. The signs are that, for them, a seamless app user experience could trounce other factors in their choice of bank, including loyalty. A Finder survey in 2020 showed gen Z were least likely to just stick with the bank where they had their account as a child - 57% switched within 2 years of turning 18.

What does this shift mean for traditional banks, and how are they responding to the rise of pocket money apps? Some traditional players, such as NatWest, have already partnered with fintechs - NatWest bought Rooster Money in late 2021. Others, such as Lloyds Bank, are developing online banking services for children to allow them to independently manage their money.

While traditional banks offer similar services, they can fall short on achieving the digital experience younger consumers now expect. What's more, these expectations are likely to be carried through to adulthood, meaning that adult banking will also need to adapt to keep up.

To get further insights on this growing sector, we asked 6 experts for their views on what's driving the changes in the market and what to expect in the future. We've published their views and our exclusive research in this report.

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Our expert panel

Louise Hill, co-founder and COO, **GoHenry**

Launched in 2012, GoHenry helps young people learn about money by empowering them with essential money management skills tailored to their age that they can put into practice in a safe environment - all with parental oversight.

Hannah Elderfield, associate insight director, **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.

Mat Megens, founder and CEO, **Hyperjar**

Hyperjar is a money management app that was launched to the public in October 2020. It enables adults and children to manage and save money into different digital jars for specific purposes.

Tara Massoudi, general manager of Premium Products, **Revolut**

Revolut launched in the UK in 2015 and is now building the world's first global financial super-app with more than 20 million customers. As well as its personal and business products, Revolut offers a children's card and app under Revolut <18.

Richard Stoker, 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.

Emma Abrahams, head of savings, **Lloyds Bank**

Lloyds Bank is part of the Lloyds Banking Group, the largest retail and commercial financial services provider in the UK, with 26 million customers. It has an extensive range of financial products including accounts for children.

Tara Massoudi, Revolut

Absolutely. We're becoming a cashless society and it's natural that consumers should have the tools to facilitate this shift when it comes to our day-to-day lives, including giving pocket money to our children. This generation is deeply integrated with technology so a seamless digital experience is expected and wanted. The days of physical piggy banks are long gone.

Richard Stoker, Nationwide Building Society

Pocket money apps are able to offer more specialist services for children focusing on earning, saving and learning about money. One particular benefit they have is that they are often innovative and, as such, can be effective early adopters of new technology and trends, which they can pilot with smaller audiences and develop how they go.

Louise Hill, GoHenry

Generations alpha and Z are most definitely driving innovation. They are the first ever digital natives and are likely to be the first cashless natives too. As a result of the services available to them from the age of 6, generations alpha and Z have a natural demand for instant access to services, real time updates, visually appealing interfaces and a user-friendly experience.

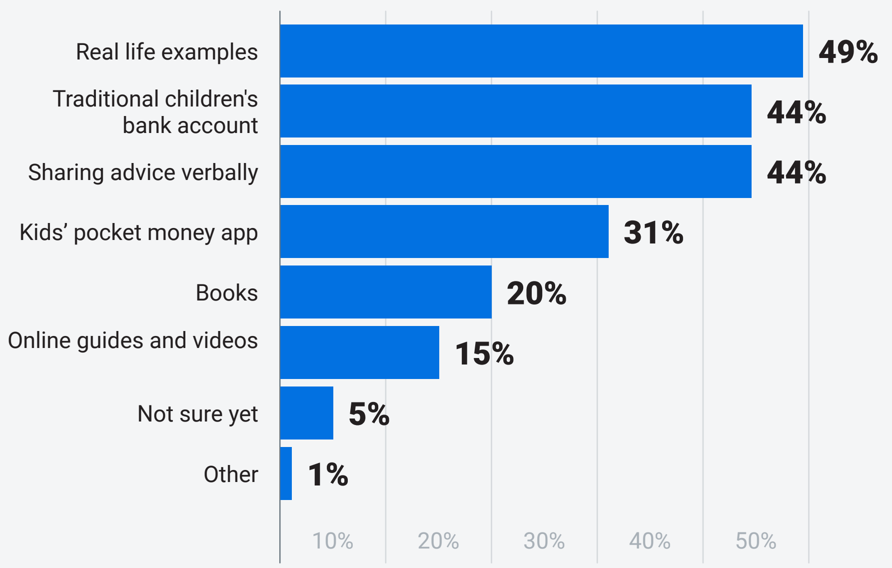
Mat Megens, Hyperjar

Kids are a great example of an "underbanked" group. They have and spend money, but don't fit into a traditional banking model – they don't deposit and they can't be sold debt. As a result, the banks have barely made any effort in this category. All this has driven a fee-paying model from pocket money apps.

Hannah Elderfield, Canvas8

Money matters can feel confusing and complicated, particularly if it's your first foray into finances. But by blending entertainment with experiential learning, these [pocket money] apps are making finances fun and that winning formula is encouraging other providers to innovate in a way that wins over gen Zers.

Methods parents use to teach their children about money



Source: Finder survey of 976 UK adults, November 2022

How are traditional banks responding to pocket money apps?

Richard Stoker, Nationwide Building Society

Nationwide, like other traditional providers, will often invest in startups that develop apps and work with them as they go through a test and learning phase with consumers. This is an incredibly important symbiotic relationship as startups need support and big brands need innovative solutions that are based on their own data and insights.

Hannah Elderfield, Canvas8

Some are already integrating fintech into their offerings. For example, Natwest launched NatWest Rooster Money after acquiring a pocket money app where the integration aims to make it easier for parents to teach kids how to manage their own money. Looking ahead, the balance for traditional banks will be ensuring lifelong clients while simultaneously appealing to gen Z - even gen A - as well as their parents.

Emma Abrahams, Lloyds Bank

At Lloyds Bank, we offer Smart Start. The account is a unique combined spending and saving account, giving 11- to 15-year-olds freedom to start independently managing their money, while providing parents with oversight within their own online banking. The spending account works just like a normal current account, including a contactless Visa debit card to use in shops, online and at cash machines. The saving account gives instant access savings, helping kids to get into the habit of saving regularly.

Louise Hill, GoHenry

It’s no surprise…that traditional banks are now embracing pocket money apps. And they’re not the only ones - neo-banks originally intended for adults are also moving into the space and creating prepaid debit cards for children. New offerings and investment in the financial education space can only be a good thing for improving the financial fitness of future generations.

Tara Massoudi, Revolut

Some traditional banks also provide similar services like Revolut <18 for kids and teens, but they are behind in terms of achieving the digital experience that makes day-to-day activities like earning pocket money, saving towards goals and splitting bills with friends a seamless experience.

> ...new offerings and investment in the financial education space can only be a good thing for improving the financial fitness of future generations.
>
> *Louise Hill, GoHenry*

What banking behaviour are you seeing in generation Z?

Louise Hill, GoHenry

For generation Z, digital banking technology is a vital part of their lives as they have been born into a largely cashless society. This affinity for technology is unlikely to change and will likely fuel demand for banking technology that is better integrated with life in the digital age. Alternative methods of learning such as gamification is another trend that is picking up steam.

Tara Massoudi, Revolut

This generation isn't necessarily less loyal; they're not afraid to go and look for the best option out there. They have a sea of information and a host of products to choose from. If you're not providing a good product, they're going to let you know and they're going to go somewhere else for it. It's about listening to customer feedback and ensuring the product fits customer needs.

Richard Stoker, Nationwide Building Society

Many gen Z will initially speak to their parents when it comes to money management and they will often recommend the provider they already have a banking relationship with. Once they become more confident in managing their money they will then look at the services they are receiving and are probably more likely to switch or use multiple providers than their parents or grandparents would.

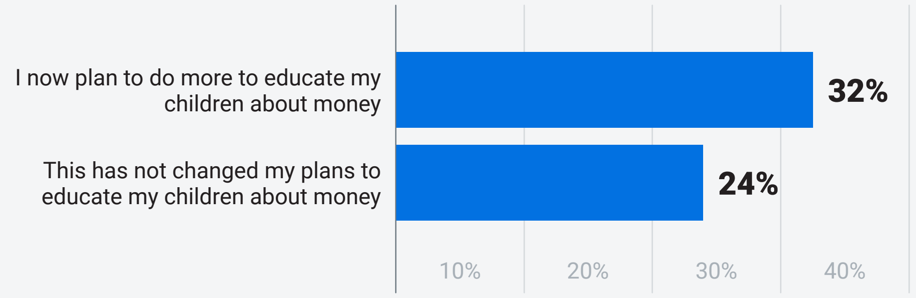
Mat Megens, Hyperjar

Gen Z are less likely to be influenced by the history/trust associated with legacy banks and more likely to be swayed by brand affinity and financial incentives. Gen Z have higher expectations around features, so instant spending notifications, still not available to millions of "legacy" bank account holders, are table stakes for this group.

Hannah Elderfield, Canvas8

Gen Z are just beginning their journey towards financial independence. And they're worried - the cost of living is actually the number 1 concern for this generation, ahead of the climate crisis. In a bid to better weather this economic storm, this generation are more likely than others to be financially promiscuous…and they've got a huge appetite to learn more about their finances.

Has the cost of living crisis changed your attitude to teaching your children about money?



Source: Finder survey of 2,004 UK adults, November 2022

What are the key drivers of change in this sector?

Louise Hill, GoHenry

The pandemic has accelerated the adoption of digital tools…the acceptance of contactless payments has become commonplace. Young people also have access to lots of information through YouTube videos, influencers and other online mediums. They are arguably more aware about the importance of finances than the generations before them and subsequently have higher expectations of banking technology.

Emma Abrahams, Lloyds Bank

Diversity in products and services is a driver of innovation and having more choice is good for consumers, who will have different needs and priorities…our view is that the driving force behind innovation in this part of the market is the clear demand from parents. Other research we've done found that…parents are still the first port of call for financial advice. So, it's critical the sector is giving parents the tools and appropriate products to help them deliver the financial education lessons they want to give and children want to hear.

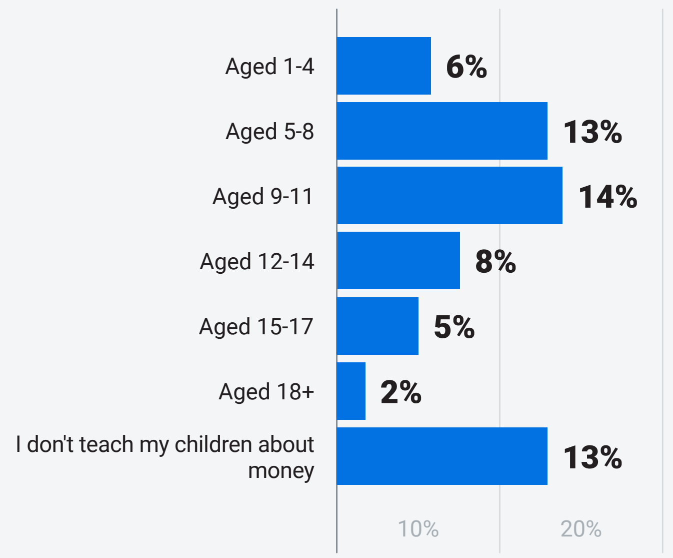
Tara Massoudi, Revolut

More financial services experiences are becoming digital with even the most traditional banks increasingly investing in their digital platforms. The shift towards a cashless society is a key driver towards digital banking services for kids and teens. Parents no longer carry cash, and therefore…giving pocket money or paying for chores for your kids will have to adapt to cater for this shift in society.

Richard Stoker, Nationwide Building Society

Parents will always be the primary influence on their children and their financial behaviour, so developments in the sector are likely to focus on the parent as well as the child…. In an increasingly cashless society…digital apps can be a useful tool to assist parents in teaching kids about managing money…because there is the potential for them to retain a level of control over what their children do with their money.

When do parents start teaching children about money?



Source: Finder survey of 2,004 UK adults, November 2022

What do you predict for the future of kids' banking?

Mat Megens, Hyperjar

More spending and budgeting integration with family and friends. HyperJar has started the "social money" movement and we expect others to follow. As the economy becomes more difficult and recession looms, financial education is becoming increasingly important and traditional education has not kept up. It's an opportunity for the private sector to build business models that can support financial literacy at a younger age.

Hannah Elderfield, Canvas8

Looking ahead, I see two key demands shifting the sector: access to education and values-led banking. Financial solutions that can speak to both of these demands will continue to drive the democratisation of finances.

Louise Hill, GoHenry

The future of kids' banking will see increased integration within digital spaces. Over the last year, there has been growing talk about the metaverse and the adoption of virtual reality. If these do pick up steam, kids' banking will need to be available in these spaces.

The future may also see a trend towards simplifying investing….As we progress with information and technology, we may see more financial products that help parents and kids invest and save in more innovative ways.

Tara Massoudi, Revolut

Ultimately, the trends in kids' banking will follow the trends in overall adult banking and personal finance. Society has become increasingly cashless, so kids' banking is moving the same way. We predict that future innovation in the sector will focus on creating new ways for parents to enable their kids to learn about these products while still providing sufficient oversight and guardrails.

Conclusion

Pocket money apps are driving innovation in the kids' banking sector as they respond to a demand from parents and children for a more digital experience. While traditional banks are still associated with trust and security, changes in banking behaviour among the younger generations mean both adults and youngsters alike are embracing the opportunity to try something new.

They could also prove a valuable tool in improving financial education among the younger generation. Through specialist services and innovative features, pocket money apps already support financial literacy from a young age. The bar will only continue to be raised as fintechs explore the potential of this previously "underbanked" sector.

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 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 November 2022, Censuswide surveyed 2,004 adults who lived in the UK on behalf of Finder, to explore their attitudes to financial education.

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About the author

Rachel Wait is a freelance journalist and has been writing about personal finance for more than a decade, covering everything from insurance to mortgages. She has written for a range of personal finance websites and national newspapers.