# Youth Banking In India: An Emerging Opportunity

**TREND REPORT**

## Indian Banks Must Focus On Tech-Savvy Teens As A Growing New Customer Segment

## Summary

Banks primarily target adults with their digital services, considering under-18s as an unappealing market due to their relative lack of income. However, these digital natives hold significant potential for financial services organizations. Fintechs across the globe have identified this opportunity and started to offer services such as savings and payments to young people via a mobile app. This report explores the potential for youth banking and suggests next steps for banks looking to dive into this business and become more attractive to young customers.

# The Youth Banking Industry Is Changing At A Breakneck Pace

In 2016, an emerging trend was identified in financial services: shared finance, defined as any situation in which a person acts as an observer of, partner in, or proxy for another person's finances. As an emerging shared finance use case, youth banking is gradually gaining momentum in India's financial services market. The expectations of Indian youth, particularly those between the ages of 10 and 18, are shaped by their interactions with companies like Google, Hotstar, Netflix, and Spotify. Many firms are launching new offerings to help parents and children develop a sense of financial responsibility. COVID-19 accelerated the adoption of digital payments in India, changing the financial services needs of both children and parents. Investors have recognized the opportunity represented by neobanks with youth-focused solutions. Digital banking leaders need to discover the factors that are reshaping the expectations of young consumers.

## Indian Banks Aren't Focusing On Young Customers And Don't Consider Them Good Business

In India, most incumbent banks ignore the opportunity to serve young customers; many others merely provide a stripped-down savings account. The minor's age decides whether their account has parental restrictions. Young consumers' expectations of financial services providers have evolved over time, but youth banking products have not. Banks struggle to engage younger consumers, as they don't tailor products and narratives to those consumers' unique circumstances; instead, they:

- **Focus exclusively on adults.** Banks put a premium on acquiring adult customers, as they generate demand for banking services and contribute to profitability. In contrast, banks find children's limited earning potential uninteresting; in India, minors neither work nor earn enough money to require management in a banking system. However, the preference of consumers between 18 and 25 to purchase online and use digital payments is actually similar to that those older than 25, revealing an opportunity for financial services firms.

- **Offer unappealing products to youth.** The pandemic has drastically reduced the amount of essential banking services conducted in person. In India, 59% of online banking customers aged 18 to 25 prefer to research new financial products online rather than in a branch; 73% prefer to send money to another person online. For those under 18, the scenario is much different: Youth in India often make digital payments using a parent's card or account because banks lack the data necessary to develop suitable tools for the youth segment. A limited savings account with features like an ATM or debit card, a checkbook, or internet banking is unattractive and outdated. Just like adults, they expect engaging banking experiences on their smartphones.

## Fintech Firms See Enormous Opportunity In Youth Banking

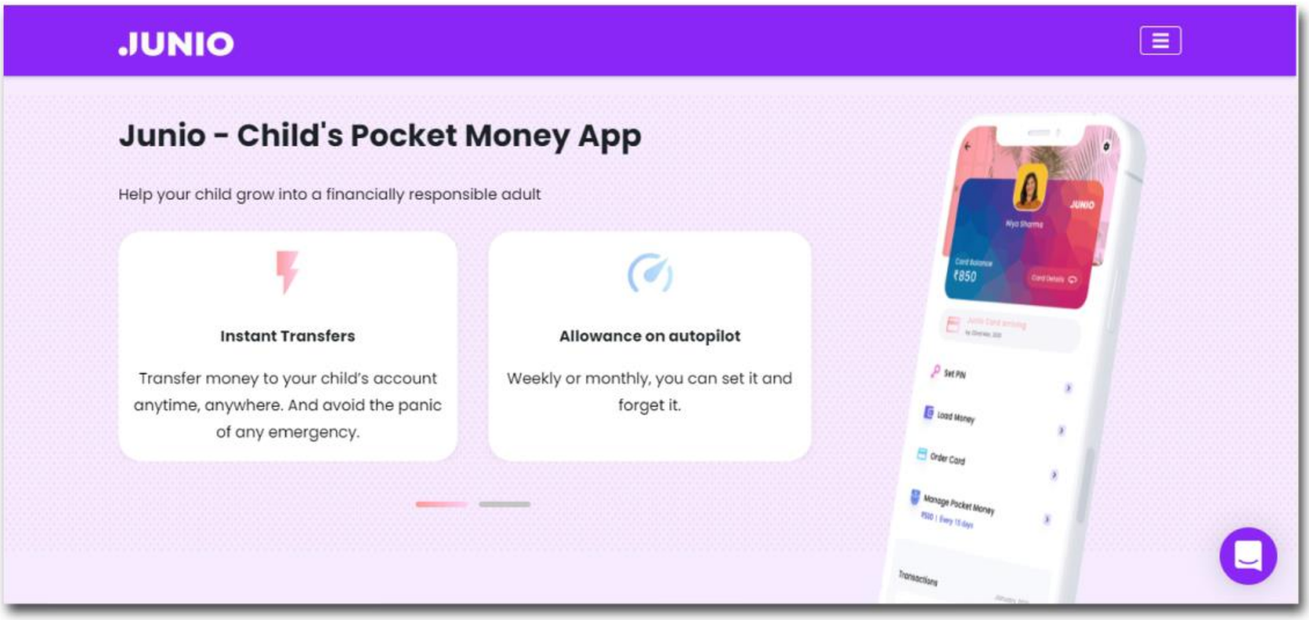
In stark contrast to their elders, today's children are mobile-first digital natives. They carry smartphones loaded with exciting apps in their pockets. They're often the CTO of the household, and like corporate CTOs, influence, and push technology adoption in their family. They have greater spending power than any prior generation of Indian preadolescents. While children today have impressive amounts of money to spend, they lack the fundamental skills and tools to make good choices. The significance of children to the financial value chain is spurring new entrants to recognize the importance of early engagement. FamPay is a prominent example; others that specialize in youth banking include Fyp, Junio, Pencilton, Streak, Yodaa, and YPay. Tijoree recently launched smart, gamified banking for Indian kids. These new firms naturally appeal to children with their technological sophistication, targeted offering, e- commerce-like experience, and ease of adoption. They are redefining the market by:

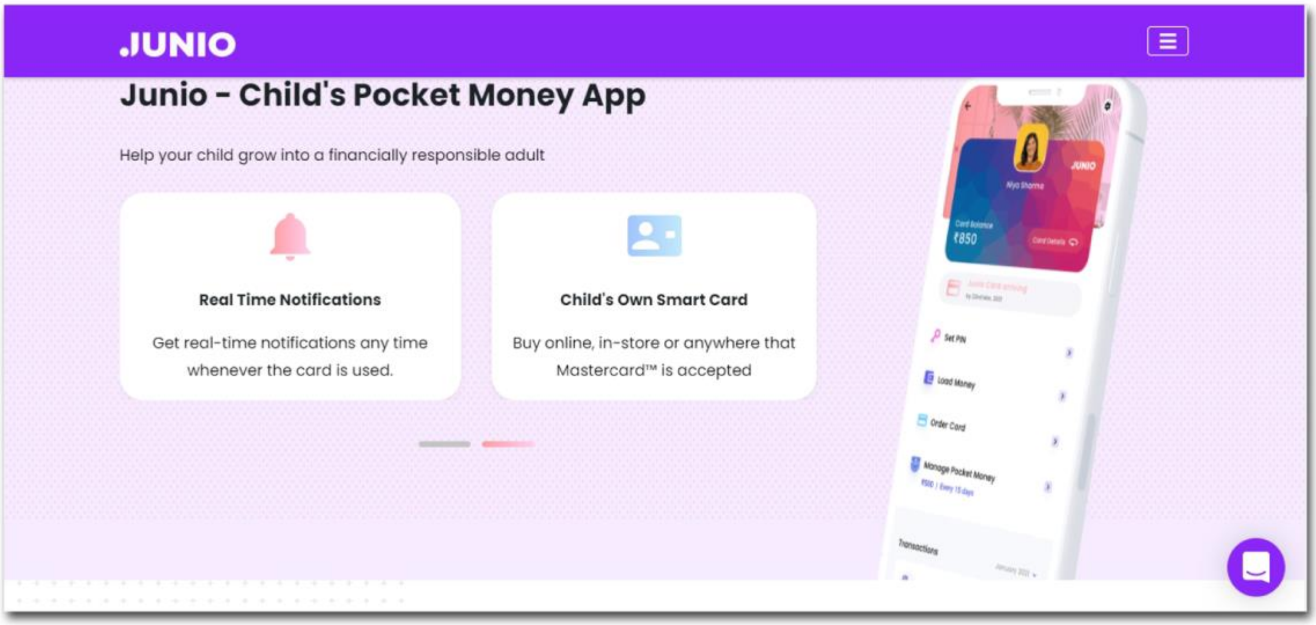
- **Identifying unmet needs and expectations.** Young customers are increasingly curious about their financial well-being. Forty percent of Indian online banking customers between 18 and 25 search for educational videos or tutorials to help them manage their personal finances. This is likely to be significantly higher for children who are actively engaged in the financial ecosystem. Current youth banking services do not offer personal financial management, provide digital tools, or contribute to financial literacy. Fintechs are now plugging the gap between what these consumers have and what they want. As a result, young customers may gravitate toward the more appealing offerings of neobanks aimed at children. Neobank Junio offers a payment app designed especially for children and teens (see Figure 1).

- **Designing user-appropriate products and services.** When Indian children receive pocket money and gifts from parents and relatives, it's usually cash. They spend the cash directly or via a parent's card. With cash, parents are worried about losing sight of their children's spending; with cards, their concerns include kids spending huge sums on in-app purchases, paying to the wrong beneficiary, and falling prey to fraud. Youth banking platform provider Nuclei found that Gen X and Millennial parents want to make their children independent and financially smart. Similarly, children want financial tools that help them learn to save, spend, and earn money in a fun digital way. Digital pocket money offerings by neobanks like Fyp strive to fill the gap in a way that's practical, engaging, and convenient for both parents and children. Many startups in this space, like Fyp, provide engaging and innovative smartphone apps for parents and kids to help build good financial habits and manage spending (see Figure 2).

## Figure 1

### Junio Card

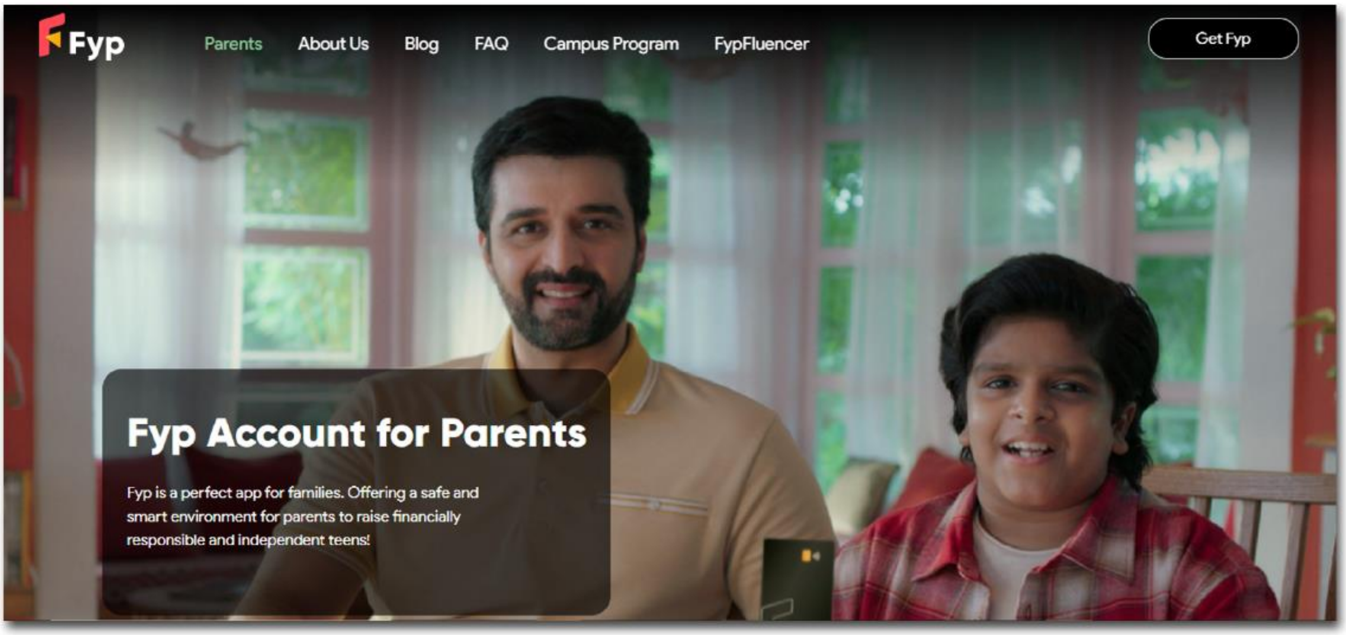


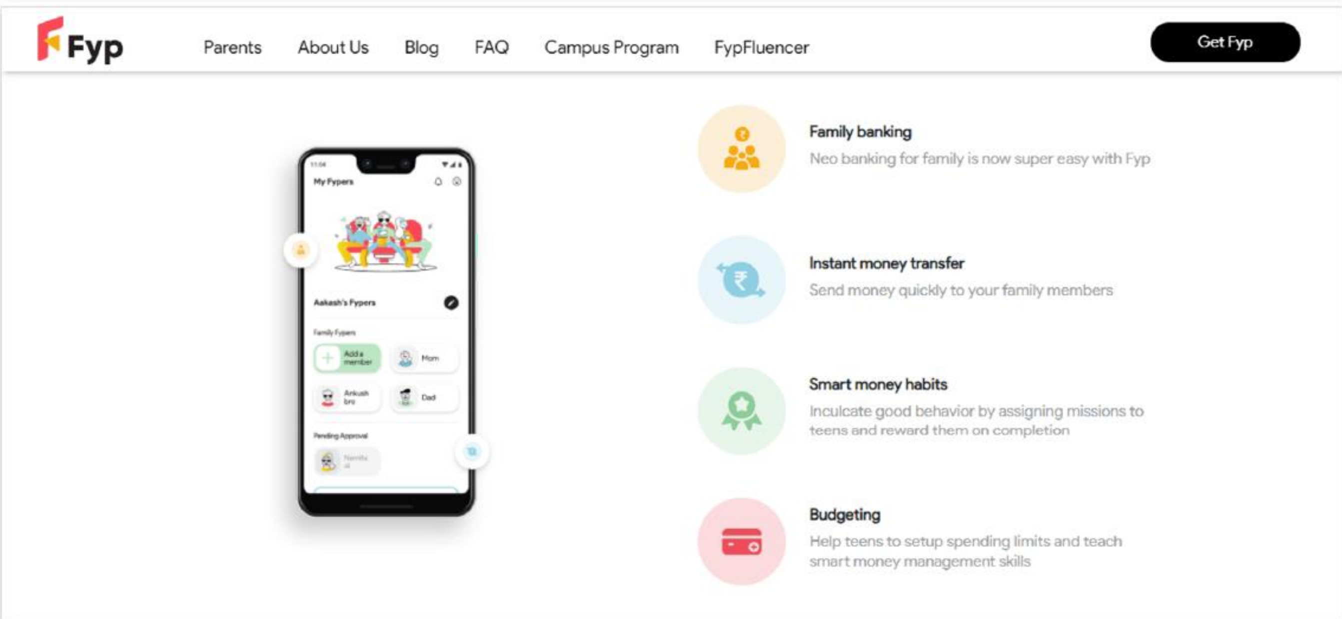




Source: Junio website

## Figure 2

### The Fyp Card




Source: Fyp website

# Banks Still Have An Inherent Edge Over Fintechs

Neobanks serve populations often overlooked by traditional banks. Advanced technology, innovative business models, and a targeted, persona-focused approach enable neobanks to deliver novel financial services to young customers. However, banks still retain several advantages:

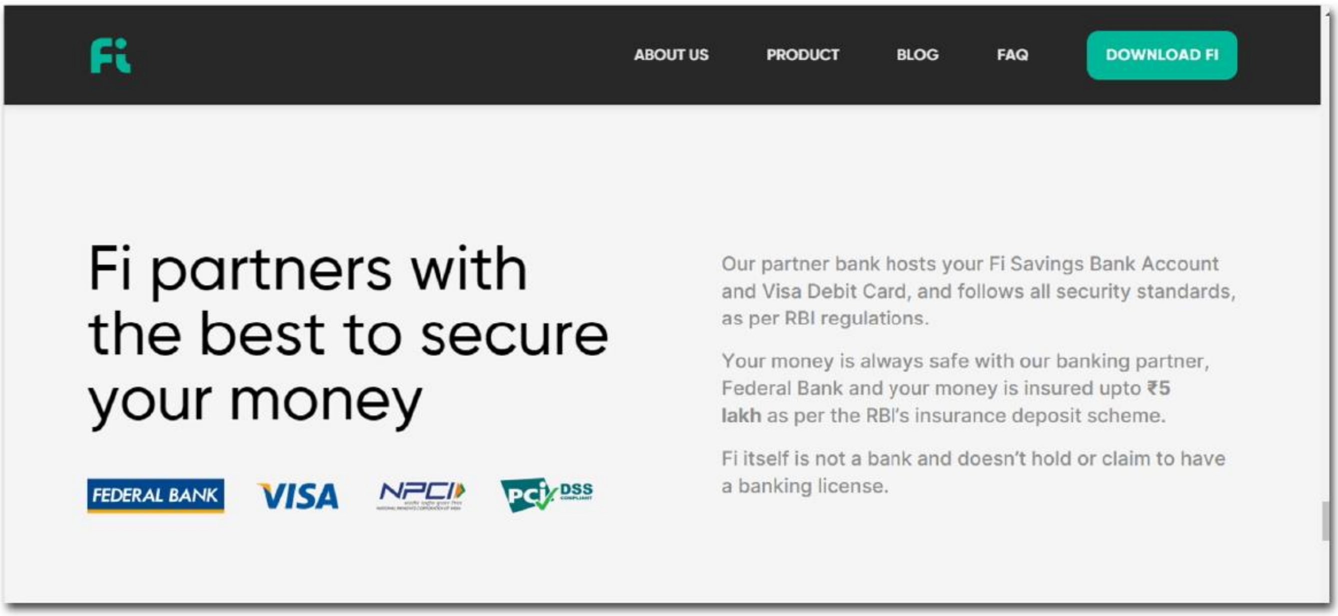
- **Support from regulatory and legal authorities.** All neobanks in India currently operate as a layer atop traditional banks. This is because India's regulatory system allows only certain types of digital banks to exist. To work around these limitations, fintechs and digital providers must partner with regulated entities, while existing banks are free to innovate digitally. Indian banks have adapted to the new realities of the digital era with modern technologies and systems to remain compliant with the constantly changing regulatory landscape.

- **Customer trust. Banks market their services with an emphasis on reliability and trust.** When it comes to money and finances, they enjoy higher customer confidence. In India, 70% of online banking customers aged 18 to 25 agree that banks strongly protect their accounts and financial assets effectively against fraud or unanticipated events; 66% believe that banks and financial service providers manage their offerings and communications competently, transparently, and ethically. Indeed, emerging neobanks for youngsters place a premium on the bank's reputation of reliability. Fintechs must work with banks to make up for the trust deficit they have with their potential customers (see Figure 3).

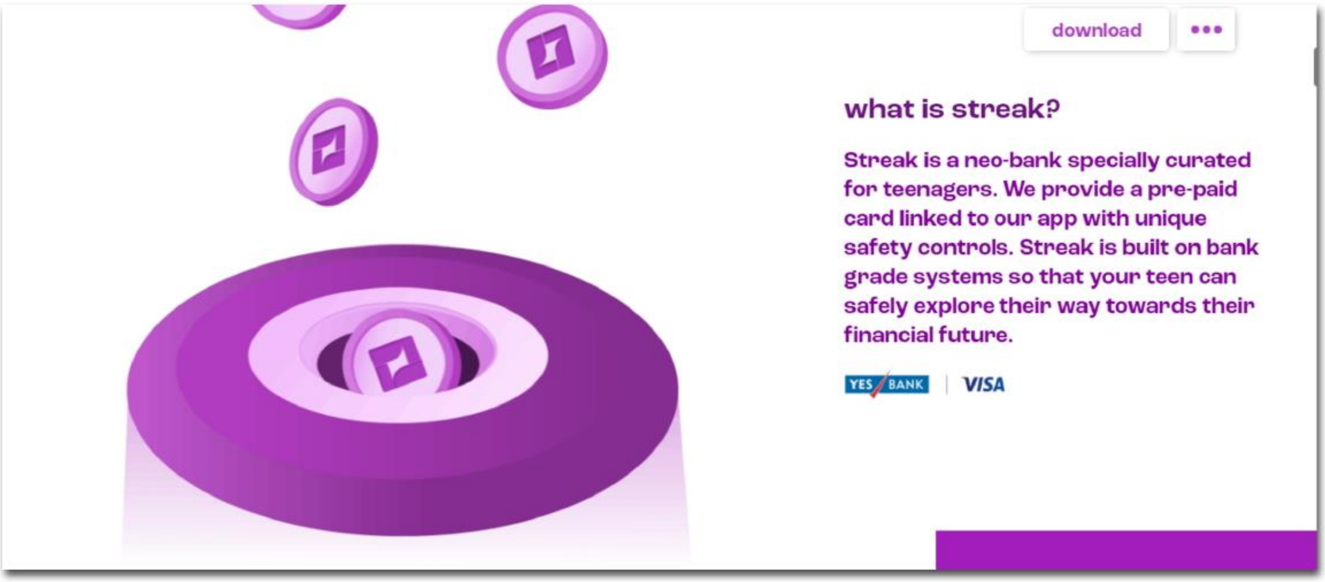
- **Greater ability to cross-sell. Banks offer a wide array of financial services to customers.** They have the potential to cross-sell recurring-income products throughout the lifetime of today's children in addition to focusing on other client segments such as their parents. This helps banks retain clients longer while enhancing profitability. In contrast, fintechs focused on youngsters have a limited window to offer their products. Their income sources are restricted to interchange and subscription fees that depend largely on card or service usage. They also spend a lot on client acquisition, advertising, and product marketing, negatively affecting their unit economics.

## Figure 3

### Neobanks Fi And Streak Communicate Information About Their Regulatory Partners




Source: Fi website




Source: Streak Card website

# Follow Four Fundamental Tips To Shape Your Youth Banking Model

Youth banking is about creating a new business model for engaging the next generation of adults. It offers a source of latent untapped demand and revenue that can drive tremendous growth. Banks must take the lead in addressing the financial needs and ambitions of a young clientele. Digital banking leaders looking to tap into this opportunity must act now. The goal is clear: Win them now to keep them forever. Banking execs and their teams can seize the opportunity by:

- **Analyzing customer behavior to predict what they want.** To pursue youth banking, bank execs must start by predicting what both parents and children need. This requires extensive research, data analysis, and the right data tools. When planning and executing make-or-break research, many banks make mistakes that limit its impact; avoid this with disciplined planning. Banks must also use data insights for decision- making and prioritize investing in big data technology platforms, recruiting data experts, and developing data capabilities. Bank of Montreal implemented CashTrack Insight, an AI-based real-time interaction management tool that automatically selects the best deal for each consumer on their preferred channel.

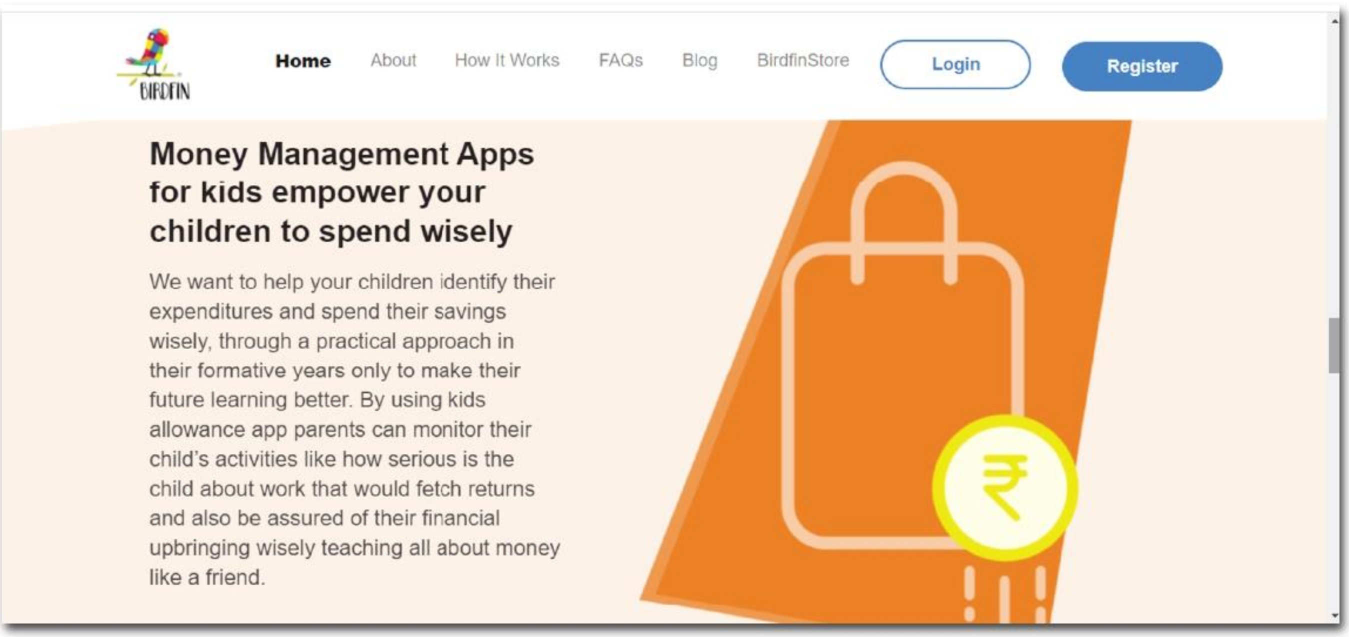
- **Creating a compelling product to engage the target demographic.** Following data analysis, banks must create a personalized and appealing product tailored to children's requirements that also convinces parents of the appropriateness of the digital solution. For example, parents need to see how the solution can help them watch their children's spending while also teaching kids fundamental money management skills. The product must be oriented toward the financial well-being and fiscal literacy of children (see Figure 4). Use the POST (people, objectives, strategy, and technology) framework to design these products and experiences.

- **Adjusting the product to age-specific needs.** The pandemic has changed consumer needs, preferences, and behaviors worldwide. Digital leaders should not stop creating and analyzing customer behavior for youth banking. It's more important than ever to understand what drives customers and adapt the strategy and business model to keep pace with shifting customer demands. In the case of youth banking, banks must upgrade accounts with relevant services and offers as users mature to align with their changing needs. Abu Dhabi Islamic Bank developed Amwali, a fully digitalized shared banking experience for both parents and children that blends innovation and reliability (see Figure 5).

- **Collaborating with fintechs to leverage their expertise.** Not all banks have the capabilities or funds needed to develop a distinct offering for a certain demographic. Legacy structures, limited funding choices, and inexperienced staff are the main obstacles. In this scenario, collaborating with fintechs is a prudent strategy to explore the needs of young people and develop products to serve them. It facilitates the creation of a consistent digital customer experience with minimal time and resource commitment. Banks benefit in terms of long-term relationships and increased loyalty due to early acquisition and engagement. Banks with vision, such as Federal Bank, have partnered with Jupiter and Fi to grow their client base (see Figure 6).

## Figure 4

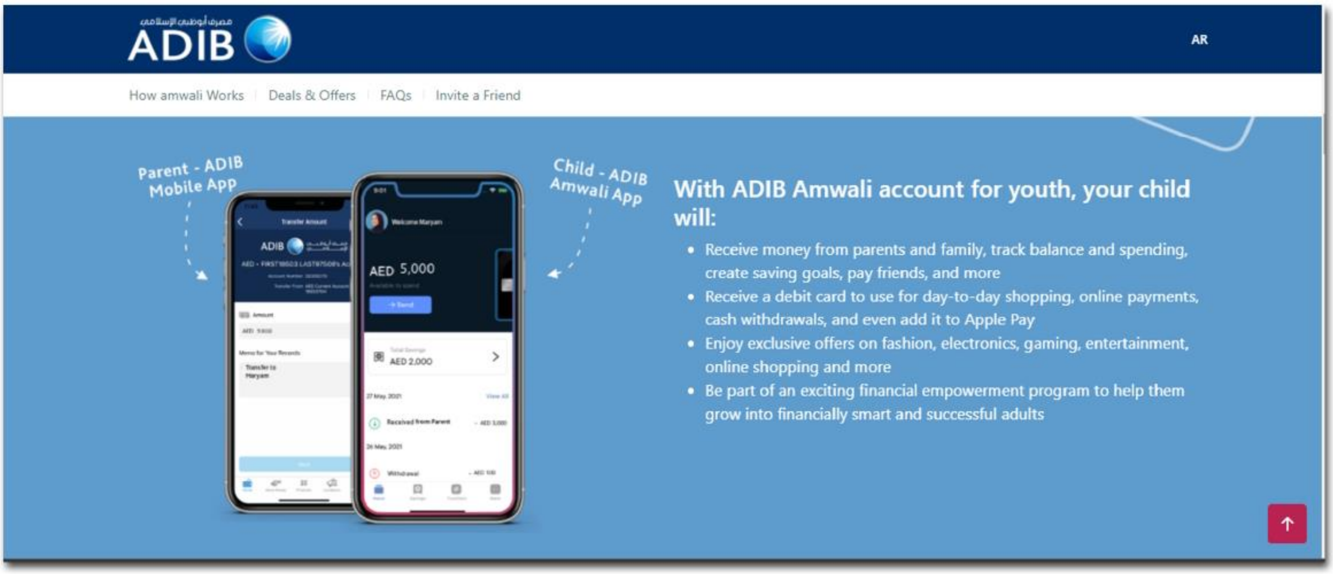
### Birdfin Has Features To Educate Teenagers On Money Management

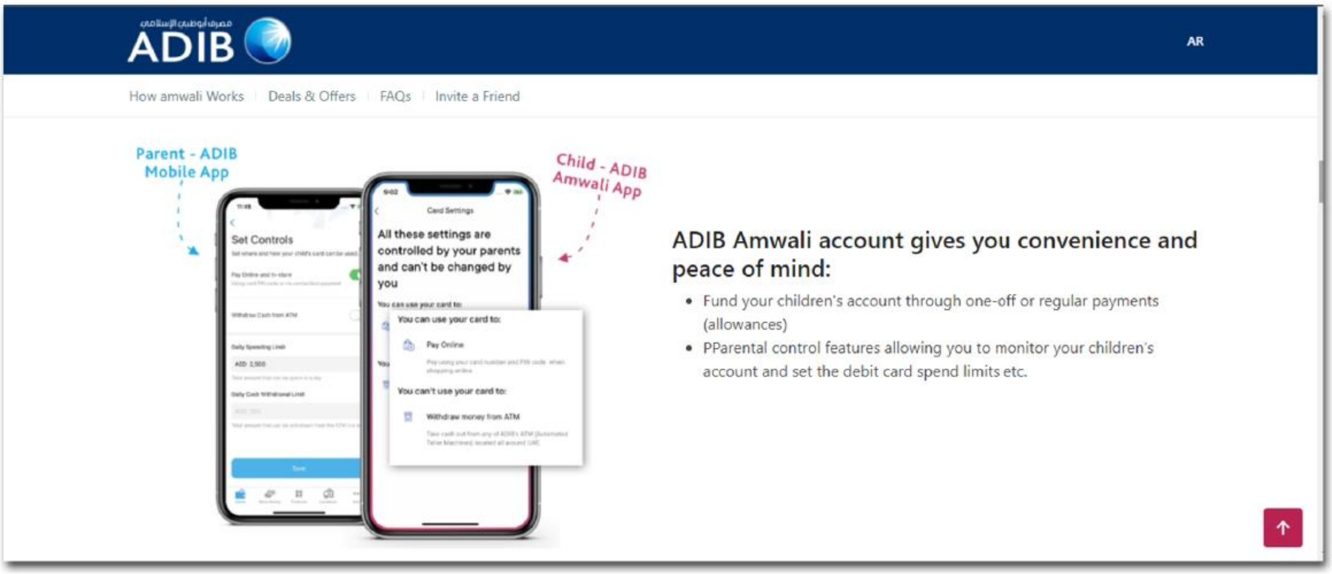



Source: Birdfin website

## Figure 5

### Amwali Accounts For Children By Abu Dhabi Islamic Bank

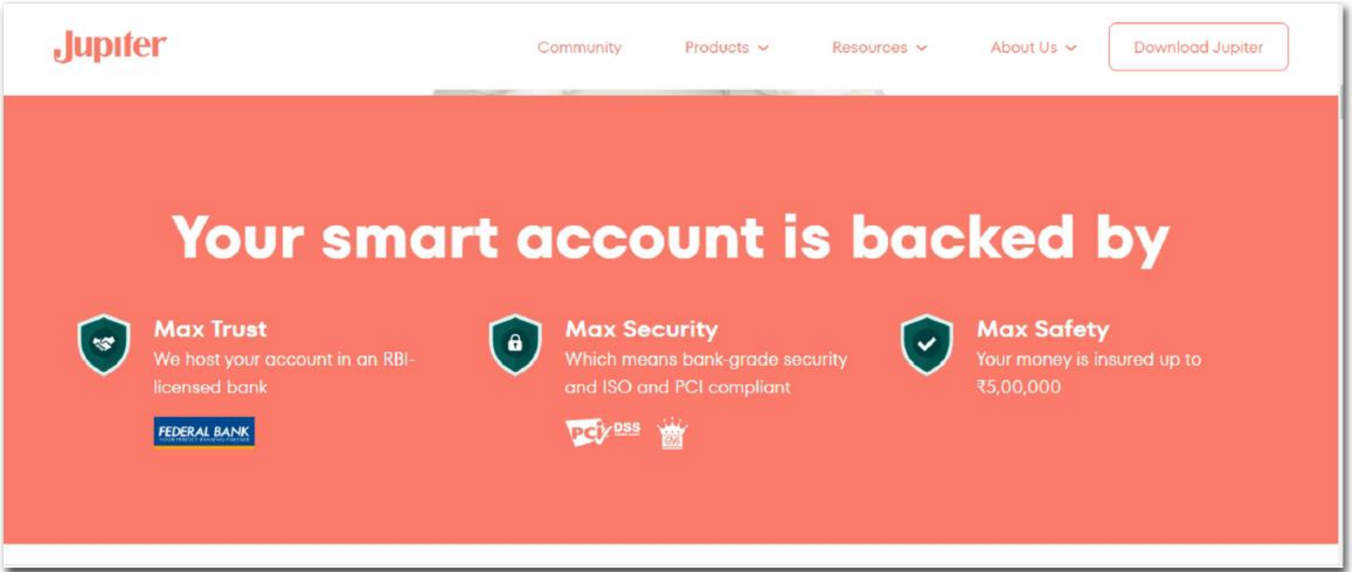



Source: Abu Dhabi Islamic Bank website

## Figure 6

### Federal Bank Partners With Neobank Jupiter




Source: Jupiter website

# Supplemental Material

## Companies Interviewed For This Report

We would like to thank the individuals from the following companies who generously gave their time during the research for this report.

Abu Dhabi Islamic Bank
Arthur D. Little
Federal Bank
Fyp
HDFC Bank
ICICI Bank
IndusInd Bank
Nuclei
Streak