

The Future of Banking: Children's Banking Services in the Middle East

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Middle East banks have taken a cutting-edge approach to the retail banking market by offering a variety of special services that target the unique needs of men, women and businesses. Whether it is special rewards such as golf games and expensive gifts, or women-only and shopping mall-centered branches, these banks have made the needs of their customers their top priority in order to promote customer loyalty and increase bank profitability. However, there is one customer segment of the Middle Eastern retail banking market that has been overlooked: children.

In the United States and throughout Europe, children's banking services, such as savings accounts, have been offered by a majority of banks for decades. However, these services are relatively new to Middle Eastern banks. Historically, Middle Eastern children's finances have been controlled by their parents, who are charged with making the major decisions regarding the financial futures of their children. However, due to the effects of the global recession, there has been a push for more financial education for children in the Middle East, as well as for children around the world.

Middle Eastern banks can take advantage of this need for increased financial literacy by providing children with banking services that cater to their specific needs. To put it simply: children are the future of banking in the Middle East and represent a retail banking market that is largely untapped. In order to appeal to this emerging customer market, Middle Eastern banks should offer products and services specifically designed for children and train employees on how to best serve their young clientele to form long-term, lasting banking relationships.

Good Habits Start Young

In today's difficult economy, it is more important than ever to teach children the value of money and to help them plan for their own future financial security. Children must understand the importance of saving, and how it will help them to achieve their financial goals. While they mature, children will benefit from an already established understanding of how to balance a checkbook, how interest is computed and what types of loans are available for their future needs, such as a college education or buying a vehicle.

Teaching children about money early in their lives has immediate and lasting benefits. In the short term, learning the value of money can help establish strong saving habits, which can translate into making smart purchases, understanding where money actually comes from and the importance of investment. In the long term, understanding how money works can help children to avoid accumulating debt as they mature.¹

Teaching children about banking at an early age affects how they view and manage their finances throughout their adult lives. The best way to make them understand the relevance of money is by letting them make their own financial decisions from a young age. Middle Eastern banks that help children to understand money can translate their involvement into life-long customer relationships that are profitable for both themselves and the bank.

Customer Loyalty

One of the largest challenges banks face is how to better understand their customers and provide personalized customer service that addresses the unique financial needs of each individual – young or old. Customer loyalty can only be built through a consistent and positive customer experience. This means understanding each individual customer's needs and preferences, no matter what age they may be and providing excellent service throughout the relationship. Banks can easily establish loyalty with young customers by maintaining banking relationships with them throughout their lives. Studies have shown that loyal customers have approximately 33 percent more products with their Primary Financial Institution (PFI).²

Profitability in retail banking is dependent upon maintaining an ongoing relationship with customers. As much as 95 percent of a bank's revenues over any given 12 month period will be derived from cross-selling products to current customers, and as much as three-quarters of those new accounts from these customers will come from those who are the most committed to their bank.³ Over the years, children that become loyal bank customers are more likely to increase profitability for the bank by:

- Making regular purchases.
- Purchasing related products and services.
- Referring others to the institution.
- Ignoring the competition.

Children are notoriously picky, but once they find something they like, they are more likely to stick with it over time. In order to establish successful, long-term financial relationships with children, Middle Eastern banks must first understand the unique needs of their young clients.

Identifying Children's Needs

The best way for Middle Eastern banks to entice children into becoming lifetime customers, is by making banking fun. It's no secret that the more fun something is, the more children want to do it. Children are more likely to gravitate towards services that appeal to their own interests. Therefore, banks should offer child-friendly services as a way to engage and involve their young clientele in

¹ Yahoo Finance. "Teach Your Children the Value of Money," [<http://finance.yahoo.com/how-to-guide/family-home/12820>], April 2010.

² Lax, Howard L., Ph. D. "Retail Banking: the Pursuit of Loyalty," [http://www.harrisinteractive.com/vault/HI_CORP_PAPER_RetailBanking.pdf], 2008.

³ Lax, Howard L., Ph. D. "Retail Banking: the Pursuit of Loyalty," 2008.

financial activities. Children have very different interests than adults when it comes to what is appealing to them and how they are treated. Middle Eastern banks can address the needs of their young customers by providing them with services that address the following aspects:

- **A place of their own.** An individual's environment is a decisive factor in the achievement of his/her identity.⁴ While an adult may be more attracted to an environment that is professional in its appearance, with clean lines and complimentary colors, children tend to prefer bright colors and visually entertaining surroundings. Many banks around the world have created kid-friendly areas to occupy the children of their account holders while they perform their banking activities; however, to make banking more interesting to young customers, banks should create an environment that caters directly to the unique aesthetic needs of children. Designing a child-friendly banking environment means listening to their needs and understanding their point of view.
- **Communication on their level.** How children communicate their needs is very different from how adults interact. Children are often intimidated by older people, especially strangers. To prevent children from feeling intimidated, banks would benefit from creating a special teller station that seats the teller at the same level as a child would sit. This small detail will allow children to feel more comfortable in the banking environment.
- **Games and contests.** To make banking a more hands-on experience, banks can help teach children good financial habits while also having them interact with the bank's products through fun activities such as puzzles, games and coloring. For example, a child may choose to enter a coloring contest to receive a special prize, which requires s/he make a minimum deposit into his/her account.⁵ These types of activities are best suited for younger children, who are completely new to the idea of personal banking.
- **Interactive technology.** Today's young people are extremely technologically savvy, using not only the Internet, but smart phones and Personal Digital Assistants (PDAs) to access entertainment and music. Banks can also utilize these mediums by creating an online interface especially for children, where they can visit the bank from their personal family computer and learn more about products and services designed specifically for them. This interface should be as visually interesting as any animated television show or video game on the market today, and would be best suited for children ages 11 and up.

Middle Eastern banks might consider offering certain branches with an area that is specially designated for children. In this way, young customers can both learn about banking and perform their banking transactions in a fun environment where they feel comfortable and safe.

⁴ Buxton, Pamela. "Design for Children at Southbank, London Design Festival, 2007."

[<http://www.granddesignslive.com/upload/exhibitors/documents/1223465908.pdf>], February 2007.

⁵ Lumpur, Kuala. "Bank Islam Promotes Savings Habit Amongst Children,"

[http://www.bankislam.com.my/Bank_Islam_Promotes_Savings_Habit_Amongst_Children.aspx], December 27, 2006.

Islamic Children's Banking

Another important area of children's banking services is the Islamic Banking market. Because they adhere to the laws of *Shariah*, known as *Fiqh al-Muamalat* (Islamic rules on transaction), Islamic Banks offer different sets of products and services to their customers. Due to their beliefs, Muslim children have a different set of financial needs than children who use conventional banking services. For Muslim children, learning about the value of money must also cover the basic principles of the *Shariah*.

While Islamic banks also offer many *Shariah*-compliant savings account options to children, one of the more popular Islamic banking services that is related to children's banking services are known as *Takaful* accounts, or insurance accounts that cover the savings account of account holders' children. *Takaful* is a mutual, cooperative insurance based on solidarity, whereby a group of participants agrees to support one another jointly against a defined loss and works together with the Islamic concept of *Mudharabah*.

Middle Eastern banks should remember that the region is full of various multi-cultural backgrounds and beliefs, and that these children may have different needs. All banks, whether conventional or Islamic should have a financial literacy program in place that helps children understand how money relates to their own cultural backgrounds and beliefs.

Training

In order to prepare employees on how to best serve young customers, the bank must implement a training program that addresses both the needs of children as well as the products and services that are available to them. Bank employees that interact with children should have a patient, positive attitude and be trained on the bank's policy and procedures for customer service and handling children.

When it comes to the bank's retail products and services, the foundation for any bank's training program should focus on marketing savings accounts to children. Children's accounts usually require a low minimum deposit at account opening, a minimum monthly account balance, and feature low or no interest at all. These accounts marketed to children in ways that make the learning process of saving fun. Middle East banks can accomplish this by offering young customers passbooks that they can also access online so that they can see the progress of their savings efforts.

In addition to basic banking services, banks can also appeal to the children of wealthier customers by offering wealth management services to these children. Similar to the bank's wealth management services for adults, wealth management topics for children should focus on different asset types, discretionary asset management and wealth structuring, but be presented in a fun, child-friendly format.⁶

The bottom line for any children's banking services training program should be employees that know how to educate their young customer on the importance of effectively managing their money, while establishing the beginnings of a customer-bank relationship which will help the bank to increase profitability in the long-term.

⁶ Billing, Soren. "Wealthy kids to get lessons in finance," [<http://www.arabianbusiness.com/526301?tmpl=print&page>], July 30, 2008.

Final Word

In today's competitive retail banking market, Middle Eastern banks can benefit from not only serving the needs of their established customers, but by also targeting the needs of the future of retail banking: children. Banks can begin to build profitable relationships when customers are young, by teaching them the value of money in a banking environment that appeals to their unique needs and interests. By implementing a sound training program that helps employees to educate their young customers on the bank's products and services, the bank will secure lifetime customers, ultimately increasing profitability for the bank and its clientele as they mature into their financial adulthood.



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