

Generation App: How student banking trends will shape the industry

An analysis of how banks can meet the needs of generation Z - and how these customers of tomorrow are setting a new direction for banking



Against the backdrop of the most tumultuous year for university applications in living memory, the next generation of student banking customers is starting its journey. For many of them, a student bank account will be the first major banking product they have. For those who had a children's bank account, the chances are that they have stuck with the same bank - but the signs are this may be changing.

Often overlooked in favour of millennials, generation Z (aged around 10-24) are the customers of tomorrow. Some commentators say that loyalty has a different meaning for this generation, but is that true - and if so, what are the implications? What do they want and need from their bank, and which banks are best positioned to provide it?

The financial fallout of the coronavirus pandemic is likely to hit this generation - whether students or not - harder and longer than older generations, making it even more important that these new adults build good financial habits and for some, great businesses of their own.

From student bank accounts to business banking for young people, and beyond, the rise of this digital-driven generation will have wide implications for the banking sector, and help to shape the industry's future.

In this paper, we've published new Finder research, gathered data and insights from industry experts, and shared case studies, to see how banks are serving students and young people, and what more they can be doing to support the customers of tomorrow.

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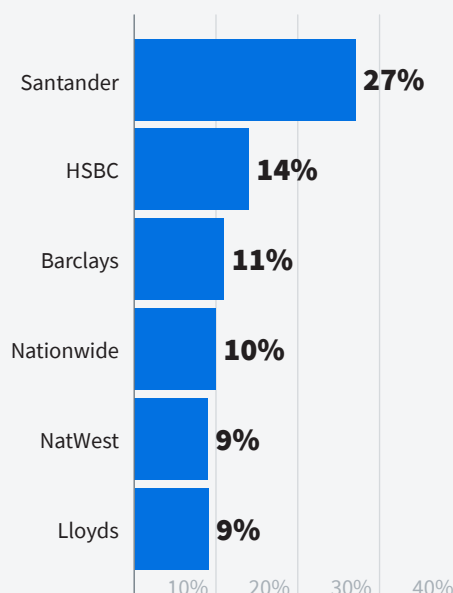
With 0% overdrafts and generous perks and rewards, the student bank account is a sweet deal for students. But it's also a key part of the acquisition strategy of traditional banks looking to lock in loyal, long-term customers.

According to Carl Burke, head of current account acquisition at Nationwide Building Society, the student account serves three key purposes: to welcome students to "adult banking"; to provide students with the financial support they need; and to enable banks to build a relationship with new customers and introduce them to their brand.

But student banking also acts as something of a bellwether for the entire banking sector. The way these new customers behave, and their demands, offer an insight into how the retail banking industry will need to evolve to succeed in serving the customers of tomorrow.

Whether it's the importance of developing brand loyalty in new ways, better ways of offering visual spending breakdowns and convenience in app-only banking, the move towards holding multiple accounts, and low fees for spending abroad - student demands are typically at the forefront of industry trends, so this is a key audience to watch.

Most popular student bank accounts



Source: Student Banking Survey, Aug-Sept 2020, Save The Student



Case study: Why I chose Santander



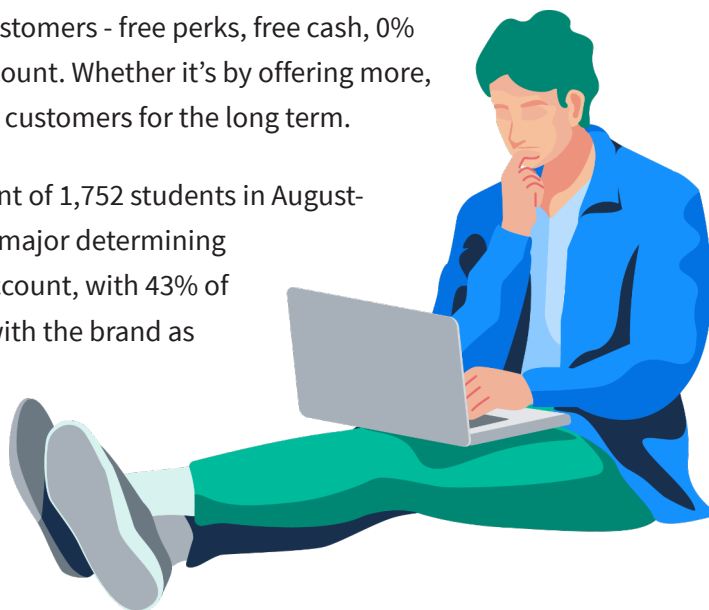
Maddie McHaffle, aged 18, who is starting a philosophy degree at Cambridge University this year, has applied for a student bank account with Santander, having already taken out a Santander debit card around three years earlier. Like many others, her decision was partly shaped by the perks on offer, and the fact she was already an existing Santander customer.

"It offered a free 4-year Railcard and had interest on credit balances which most of the others didn't offer. It also helped that I already had a 123 Mini Current Account with Santander, so I knew I'd be familiar with the format. This also meant it only took a few minutes to transfer it into a student account."

There have been many ways to acquire student customers - free perks, free cash, 0% overdrafts and familiarity through a childhood account. Whether it's by offering more, or offering continuity, or both, the aim is to secure customers for the long term.

A survey from the support website Save the Student of 1,752 students in August-September 2020 found that brand loyalty was the major determining factor when it came to choosing a student bank account, with 43% of respondents listing the fact they already banked with the brand as a reason for choosing their student account.

In comparison, 30% listed perks and rewards, and only 15% cited a 0% overdraft as a key reason they would choose a particular student bank account.



While some generation Z students are undoubtedly sticking with the bank they know for their first student account, there are signs this type of loyalty is waning, meaning that this is a good time for banks to stop and reflect on how to serve and keep this audience.

Finder decided to explore banking brand loyalty, including among generation Z, in new research, which we've set out on the next page.

The results are potentially good news for challenger banks - which are naturally a good fit for this generation - and a wake-up call to incumbents.

Case study: I kept my existing account



Nell Venning, 18, who is in her first year studying history at Durham University, decided to keep her existing Santander bank account instead of opening a new student account.

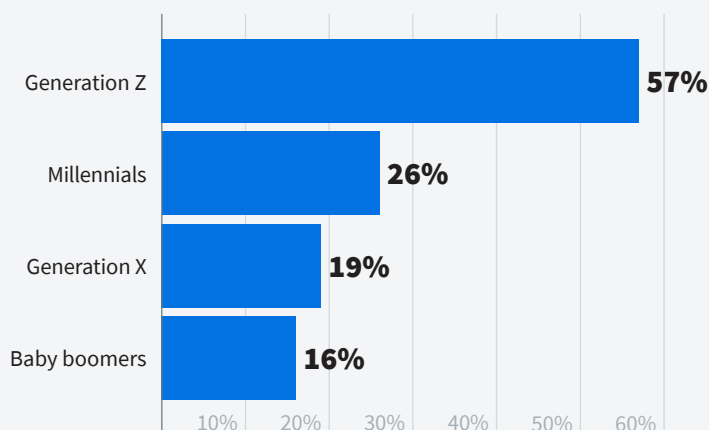
“My current account does the job I need it to for the moment, so there's no real reason to change it. So it's partly comfort and familiarity, but I'm also happy with the features available to me. My current bank account does...have an overdraft feature.

“If I was to open [a student account] (and I may well soon), I would prioritise the ease of use - for example a good app to view finances quickly, and simple explanations for managing them.”

Familiarity is clearly a factor for many when choosing their student account, but generation Z is the least likely generation so far to stick with the same bank they knew as a child, according to a Finder survey of 2,000 adults in September 2020.

We found that 57% of gen Z adults switched their main account within two years of turning 18. We also found that 55% of gen Z students moved from the bank they had as a child to a different bank while studying. By comparison, only 37% of millennials and 46% of generation X moved bank as students. This is potentially bad news for incumbent banks.

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



Source: Finder survey, September 2020



The multi-account lifestyle

With the rise of digital challengers, and the ease with which customers can now open new online or digital-only bank accounts, young customers can effectively have their cake and eat it.

Generation Z students can keep the generous perks of a traditional student account, while also opening a supplementary account - or several - with a digital bank, and enjoy the respective benefits offered there, such as no or low foreign transaction fees and improved user experience. And digital banks will take this opportunity to convince them to switch over their main account.

Other Finder research shows the digital banks are doing well at attracting customers, with more than two in five people expected to have a digital-only bank account by 2025.

By 2025, an estimated **11.2 million** new **digital-only bank accounts** will be opened

44% Brits will have a **digital-only bank account**



Source: Finder survey, January 2020

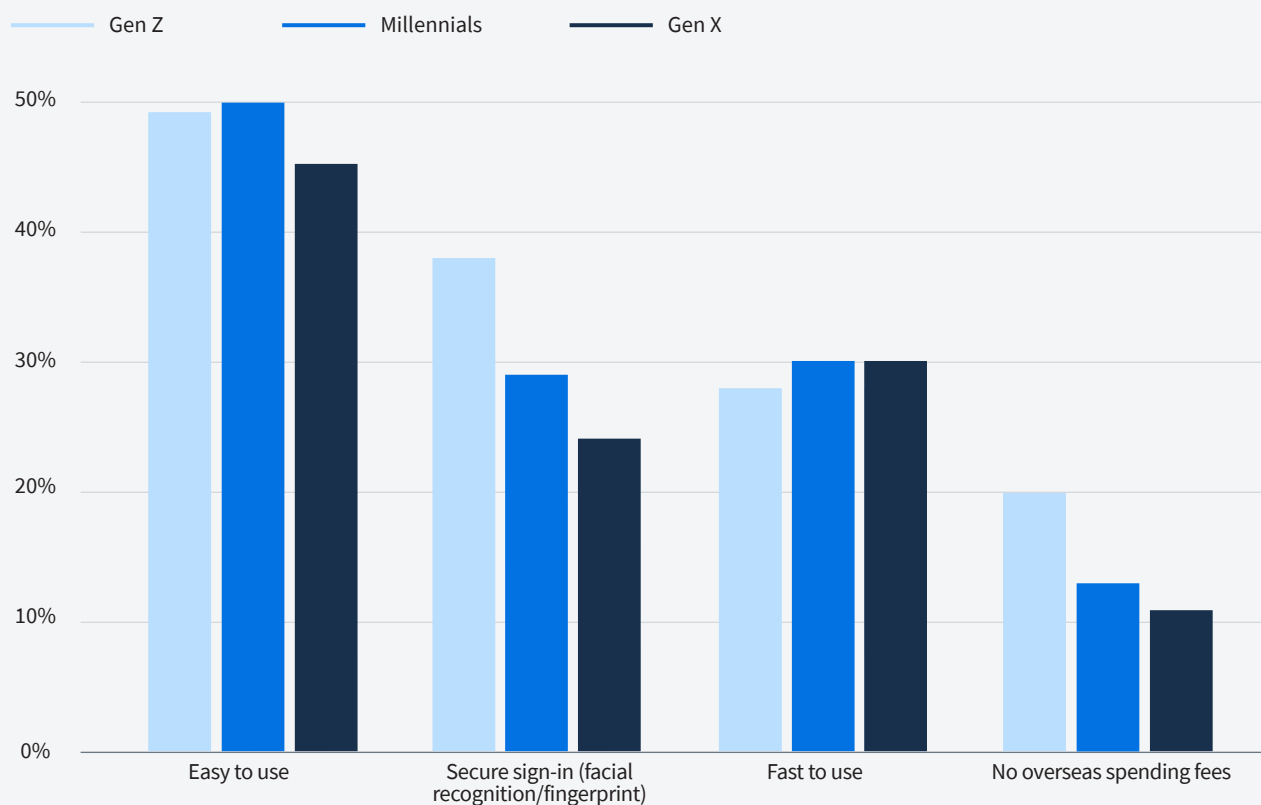
Traditional banks may be stealing a march on their digital-only rivals within the realm of student accounts right now, but there's still plenty of opportunity for digital banks - even if they don't offer dedicated products with a free overdraft for students - to meet the needs of this new generation of customers.

Challenger banks have a natural advantage when it comes to attracting younger banking customers, most of whom are digitally-native. Nationwide BS research suggests that 60% of students open their account online, and this has risen to around 90% due to the coronavirus pandemic, and digital banks are built around providing exceptional online functionality and service.

“Student account holders are the most digitally engaged of all,” says Nationwide’s Carl Burke, “with the majority being signed up for and using the mobile app every month – this is their channel of choice. Over 95% of students register for online banking and opt for paperless as opposed to paper mailings.”

Finder surveyed 2,000 adults in August 2020 about what they look for in a banking app. Our poll found that generation Z and millennials (those aged 25-39) are the age groups most likely to value ease-of-use. They are also the most likely to value quick, secure sign-in features (such as fingerprint or facial recognition), and no fees for spending or withdrawing money abroad.

Banking apps: Three generations' priorities



Source: Finder survey, August 2020



It's not just student bank accounts that banks need to provide for gen Z. There appears to be a rise in students and other young people looking to become entrepreneurs.

A survey of 1,000 undergraduates by Santander in August 2020 found that 1 in 10 university students are now running their own business - a 50% increase since 2018 - with a further 18% of students planning to start one. The study also found that 78% of students are worried COVID-19 will affect their job opportunities once they graduate.

Similarly, a survey by business loan broker SME Loans in January found that 50% of those aged 18 to 24 wanted to become business owners because they believed it would benefit them financially, and 83% wanted to start a business in future, compared with only 33% of those aged over 55.

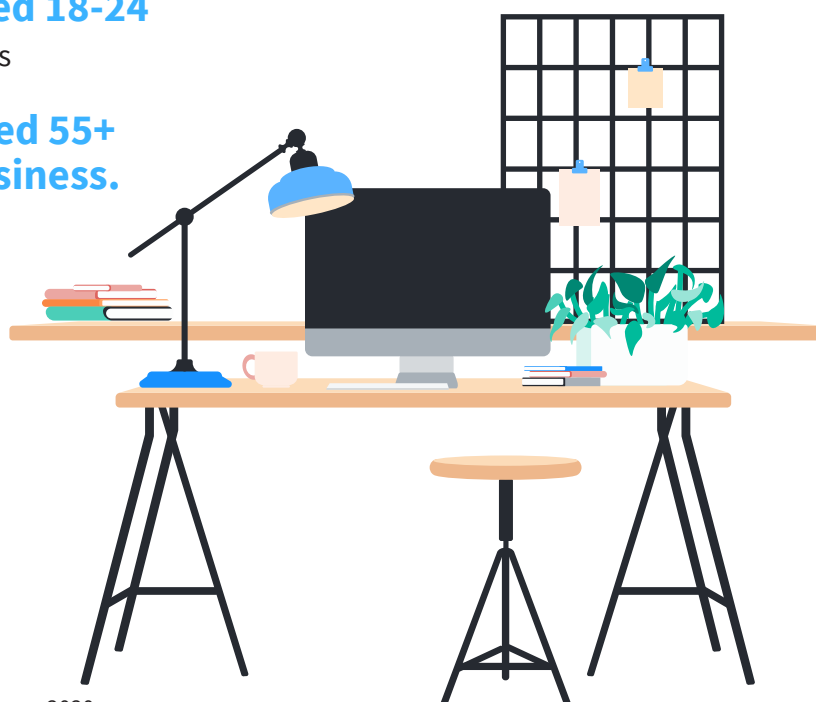
Gen Z's response to the current uncertainty offers insights for the future, and not just for banks. The apparent rise in student-run businesses suggests that many young people have turned away from traditional job-hunting or contract work to build their own financial security.

“Our thinking is that there's a lot of young people leaving university and entering a very competitive job market,” says James Green, of SME Loans. “Not only are they competing with recent graduates, they're also competing with older and more experienced professionals that have been...made redundant due to COVID.

“As a result, we think that younger people are disappointed by the current job market and may find it more rewarding to set up their own business rather than being employed on a fixed-term contract which lacks future job security.”

4 in 5 of those **aged 18-24**
want to set up a business

1 in 3 of those **aged 55+**
want to **set up a business.**



While many young people are keen to start a business, they are also aware it won't be easy; 76% of students cite a lack of funds as the biggest hurdle to starting their own business, according to the Santander study, and 64% believe there is not enough support for students looking to open their own business.

As with personal banking, the challenge for banks looking to support the next generation of business owners is adapting to the demands of young business banking customers in a way that is constructive and sustainable. Several digital-only providers have entered this space in recent years, including Revolut, Starling Bank and Tide, offering business accounts.

A generation of digital-native business owners will expect ease and convenience from their bank; banks that don't respond to this fast enough may find themselves left behind.

The student startup

James Eid, a 19-year-old business student at Lancaster University, founded a face mask startup called Signature Masks early in the coronavirus lockdown. He has now opened a factory in the UK to produce face masks, while still at university.

Like many gen Zs, Eid has several bank accounts for different purposes. He does his personal banking through the challenger Monzo but he knew he needed a dedicated business account for Signature Masks.

"I decided to separate my personal finances from my business from the onset, so as to avoid errors and potentially serious mismanagement of funds and cashflows."

While he currently has a Tide Small Business account, he's in the process of switching to Lloyds as he continues to grow his business.

"This is mainly because Tide have set limits on the business account which I have found frustrating and I do not want automatic restrictions like these to be a concern in the future as my business develops," he says.

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For business accounts I look for convenience, simplicity and a good service when support is needed. Rates also play an important role.

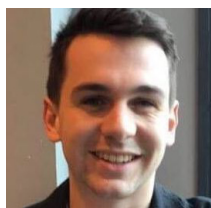
James Eid, 19, founder of Signature Masks

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Carl Burke, head of current account acquisition at Nationwide Building Society

“One thing which may become more important is the power of brand, and the additional support facilities, including communications and mobile app features which can be provided. In times of uncertainty, trust can be more important than incentives.”



James Green, reporter at SME Loans

“I would suggest that lenders/banks need to offer resources that can help entrepreneurs plan a business, especially younger entrepreneurs who may not have the professional experience or knowledge of setting up a business. In fact, we have found that less than 2% of startups looking for finance have their applications accepted, primarily because they fail to write a business plan and a cash flow forecast.”



Jake Butler, operations director at Save the Student

“In terms of how banking might change I think, as with the wider population, too, students will continue to become more and more cashless. The challenger, app-based, banks are growing in popularity, but without an overdraft offer it's unlikely they'll beat the big banks for sign-ups among students. What I think this could lead to is the larger banks investing heavily in their apps and budgeting tools to offer more to students.”



Jon Ostler, CEO, Finder UK

“This year's student intake is facing the toughest of times but this generation looks set to make its own luck. It's impressive to see students looking to start their own business but young entrepreneurs are going to need support and flexibility from banks and other lenders to build something sustainable. We may see lending and business banking evolving to offer different types of accounts, and more innovative ways to assess creditworthiness and affordability, to support and accommodate the next generation of entrepreneurs.”

Conclusion

Child accounts and student accounts have served as key acquisition tools for banks looking to lock in long-term, loyal customers, but the signs are that this is changing. According to our research, generation Z students are the most likely of all generations to switch bank accounts during their studies, and the most likely to embrace technological and other advances in banking, such as secure sign-in, no overseas spending fees and ease-of-use.

For incumbent banks racing to evolve their apps, it's worth remembering that many of these students are also the entrepreneurs not just of tomorrow, but of today, and they're looking for support. This could prove to be a benefit that incumbents are well placed to offer.

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).

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Tom Stelzer is a writer at Finder specialising in personal finance and investing. He has an MA in media arts and production and a BA in journalism from the University of Technology Sydney.