

## School Banking in Bangladesh: A Study on Sustainability

Dr. Mahmood Ahmed \*

### *Abstract*

*The study observes that there is a sustainability risk of school banking product. Such a risk has become a prestige concern to Islami Bank Bangladesh Limited, the largest private commercial bank in Bangladesh. Because recently the Bank has got the crest for contribution in school banking. Therefore the school banking of the IBBL has been undertaken as a case study for sustainability analysis of it. The study uses a cluster randomized design, with 50 schools randomly selected from the IBBL Chittagong zone. Data are from baseline survey with 1,515 student and 1,137 parents and guardians of the students who are from three levels: Primary, Junior High School, and High School. This research focuses on the financial knowledge, attitudes, and socialization of students under school banking of the IBBL as well as the financial knowledge of their parents and guardians with a view to understanding and increasing the students' 'financial capability' on which the sustainability of the school banking depends. Finally, it suggests four measures to increase the sustainability of the school banking product.*

**Key words: School, Banking, Sustainability**

### **Background**

With a view to enhancing financial inclusion of the country by ensuring the participation of school students in the economic *vis a vis* banking activities through savings and creating savings attitude among the student through involving them in modern banking service and technology, Bangladesh Bank (BB), the central bank, advised all scheduled banks to introduce School Banking in 2010. Students of the age of six years to below eighteen years will be able to open account under School Banking Operation with minimum initial deposit BDT 100/- only. The attested photocopies of birth registration certificate and institutional identity card/Certificate issued by Educational Institute/Receipt of School Fees of latest month of students have to be collected. All these documents must be preserved in the bank. The account has to be operated through father/mother or legal

\* The Author is Executive Vice President of Islami Bank Bangladesh Limited.

guardian of the student. After completing eighteen years of the account holder and before converting into regular savings account, no withdrawal shall be allowed (Except account closure) in the period. Some banking facilities like, ATM card (Only debit card) can be issued against this type of account. Maximum limit of monthly withdrawal through ATM card and Point of Sale (POS) will be BDT 2,000/= only. This limit may be increased up to BDT 5,000/= on request of the Guardian. There will be a system of SMS Transaction Alert to the mobile number of account holder's guardian. No service charge/fee shall be imposed on this type of account except government fees. Banks can collect monthly fees of students on behalf of educational institutions through such accounts. Banks shall inspire the educational institutions so that the students of every school can be brought under banking services. Concerned bank branches may establish separate School Banking Counter/Desk to facilitate banking services to students. Moreover, bank branches may provide this service in one or more fixed day by opening booth in the premises of educational institutions by having their consent. All kinds of scholarship/stipend of students can be deposited through School Banking Account. In this regard, scholarship/stipend provider institutions have to sign a MoU with the concerned banks. Concerned banks can provide education insurance facility to these accounts if any student faces financial crisis to run his/her education due to family/natural causes then, it will be possible to facilitate them under this insurance coverage (BB, 2013). It is hoped that the product shall help the students to: (i) Make them familiar with banking services and technology; and potential future customers or employee of the bank; (ii) contribute to economic activities through savings; (iii) have a sizeable amount of savings after a certain period; (iv) instil the habit of savings from the early age; (v) acquire how to manage money that may be useful for rest of the life; (vi) know financial literacy; (vii) be sure of bearing study cost up to 18 years of the accountholder students, if they unfortunately lost their parents; and (viii) think about the financial sector from their early age. The deposited money under the school banking product will help not only accelerate financial inclusion and financial literacy across the country, but also have financial stability because such deposits remain stable at the banks for a certain period of time.

## Introduction

Eastern Bank Limited (EBL) was the first bank that came up with school banking after the central bank issued the circular. The bank has introduced 'EBL Junior', a savings account of students. Other banks also introduced such accounts in different titles. Mutual Trust Bank introduced two products – MTB Junior and MTB Graduates – for students. BRAC bank introduced the 'Future Star Account.' ONE Bank introduced 'Student Savings Account (Minor). Islamic banks also came up with this service. Shahjalal Islami Bank has a deposit product named 'Mudaraba Shikhkha (Education) Deposit.' Islami Bank Bangladesh Limited (IBBL) introduced 'Student Mudaraba Savings Account' without daily product basis profit.

On the other hand, there is no 'education investment scheme' for higher education of the student who saves money regularly, up to a certain limit, in the 'Student *Mudaraba* Savings Account'. However, the Bank has opened 86,702 accounts out of 1, 87,000 school banking accounts opened in the country so; it has got the crest from the central bank for contribution in school banking on April 20, 2013 at the "First School Banking Conference-2013" held at Bangladesh Bank Training Academy, Dhaka (FE, 2013).

According to the central bank's report, the number of school accounts is 224,719 in 47 banks, until June 2013, showing deposit of BDT 1.28 billion. The average savings in these accounts work out to about BDT 6,096/- only. Students have 4,270 accounts in state-owned commercial banks. On the other hand, they have opened 4,279 accounts in specialized banks, 215,597 in private banks and 597 in foreign banks. Nine banks that recently got their license are yet to introduce school banking (BDnews24.com, 2013). It appears, therefore, that response to the school banking product is excellent.

But (Rahman, 2011) mentioned, "School banking is not new in Bangladesh. Some Banks including Muslim Bank, had introduced school banking programme in the 1960s, but it did not last long. It was some time before AB Bank (Formerly Arab Bangladesh Bank) launched the service in Sunshine Grammar School in Chittagong in 2003. But, that too did not work." Ali (2012) also reported bitter experience on school banking. He mentioned that one of the leading commercial banks launched school banking about one year back but did not get satisfactory response from the customers. There are two reasons behind the poor response: (i) instead of opening separate account for the school-level students, their parents are more interested to open joint-account with their children; (ii) school headmasters normally did not issue certificate required for opening school banking account and the bank also reluctant to open such account by deposit of only BDT 100-200. It indicates sustainability risk of the school banking. Such a risk has become a prestige concern to the IBBL, the largest private commercial bank in Bangladesh, indeed. Because, recently, the Bank has got the crest for contribution in school banking. Therefore, the school banking of the IBBL has been undertaken as a case study for sustainability analysis of it.

A research question therefore has arisen: how could school banking be sustainable? It has been assumed that the 'students' financial capability' is the *raison d'être* of sustainability of the school banking product. Student financial capability refers to student's (i) financial knowledge; (ii) skills; and (iii) access to financial services (Child and Student Finance International, 2010; Sherraden, 2010). Studies in the United States reveal that student often have low levels of financial knowledge (Lusardi, Mitchell, & Curto, 2010; Mandell, 2008). Research shows that parents also influence their children's financial literacy, attitudes, and behaviours (American Savings Education Council, 1999; Bowen, 2002; Danes, 1994; Moschis, 1985; Serido, Shim, Mishra, & Tang, 2010; Shim, Barber, Card, Xiao, & Serido, 2010).

As the school banking has been launched again in Bangladesh in 2010, little research has been conducted to understand the students' financial capability to sustain in the school banking programme. This research is anticipated to fill some of these gaps.

There are three factors of students' financial capability, mentioned above. It has been assumed that two variables (Financial attitude and socialization of the students) help acquire the last two factors of the students' financial capability. These two variables therefore have been discussed with the 'knowledge' factor to understand the students' financial capability. Financial knowledge refers to the understanding one has of important personal finance concepts, like budgeting and saving. Financial attitudes refer to one's beliefs and values related to various personal finance concepts, such as whether one believes it is important to save money or profit is prohibited. Financial socialization refers to different ways that one may develop financial knowledge and attitudes, such as through classroom-based education or mass media.

### **Objectives**

This research focuses on the financial knowledge, attitudes, and socialization of the student under school banking programme of the IBBL as well as the financial knowledge of their parents and guardians with a view to understanding and increasing the students' financial capability on which the sustainability of the school banking programme depends. It also suggests some measures to increase the sustainability of the school banking product.

### **Data and Methods**

The study uses a cluster randomized design, with 50 schools randomly selected from the IBBL Chittagong North and South zones. Twenty-five schools were randomly assigned to treatment condition and another 25 schools were randomly assigned to control condition. Thirty students were randomly selected from each school for a total of 750 students in the treatment and 750 in the control condition with oversampling to take attrition into account. This process yielded a sample of 1,515 students.

Data from this research are from baseline surveys with 1,515 student and 1,137 parents and guardians of the students who are from three levels: Primary, Junior High School, and High School. Nearly equal numbers of girls (46%) and boys (54%) were interviewed. Students were also fairly evenly divided by level, including Primary (32%), JHS (33%), and HS (35%). The average age of student is 15.5 years. Seventy-five percent of student surveyed at baseline have a parent or guardian available who was also surveyed at baseline. Data were analysed using simple statistics and presented in tabular form.

The student survey included questions about demographics, education, health, financial

capability, asset ownership, living conditions, and future aspirations and expectations. The parent or guardian questionnaire included questions on household information, education, outlook and expectations, health, and financial well-being.

### **Discussion and Findings**

A discussion on the financial knowledge, attitudes, and socialization of the student under school banking programme of the IBBL as well as the financial knowledge of the students' parents and guardians has been presented below.

#### **Financial Knowledge and Attitudes**

Studies in the United States reveal low levels of financial knowledge among students (Charles Schwab & Company, 2011; Lusardi, Mitchell, & Curto, 2010; Mandell, 2008). A better understanding of student financial knowledge and attitudes, and whether such knowledge and attitudes are associated with student's financial behaviours may support a case for offering student financial education. However, despite the conventional wisdom that financial knowledge is a prerequisite for positive financial behaviour (Hathaway & Khatiwada, 2008), the empirical relationship between financial knowledge and behaviour is not well established. It may be that savings behaviours are associated with factors other than, or even excluding, knowledge and attitudes (Chowa, Despard, Akoto-Osei, Issac, 2012).

In the School Banking Programme of IBBL, questions were intended to assess understanding of the concept of Islamic bank profit. For example, student and their parents or guardians were told to imagine having BDT 10,000 in a *Mudaraba* savings account with the IBBL that offered a certain provisional profit rate and asked how much money they would have after one year. Student and their parents or guardians were asked a nearly identical question about receiving a *Bai-murabaha* investment and being charged mark-up profit. Survey respondents were given credit for a correct answer if they provided the correct figure for each question based on a simple profit rate calculation.

Only 18% and 31% of student could correctly answer two questions about the savings and the investment profit, respectively. These results differ little among student based on gender, receipt of earned income, grade level, or age. Similar results are found among parents and guardians; only 23% and 22% could correctly answer the questions about savings and investment profit, respectively. However, because the questions require a simple calculation, these results may reflect limited numerical skills and not necessarily a lack of understanding of profit.

Fathers and other male guardians are more likely than mothers and female guardians to correctly answer the questions concerning saving (33% vs.18%;  $p<.001$ ) and investment (32% vs. 17%;  $p<.001$ ) profit. This may be because men have more opportunities and experience with formal financial services.

Student and their parents or guardians were also asked the following question to assess hyperbolic discounting: "Would you want a prize of BDT 100 now or a prize of BDT 150 in one month?" Most (62%) student report that they would wait a month for the bigger prize. This finding differs little by gender, grade level, or whether participants have earned income. A similar percentage of parents or guardians would wait a month to receive a larger reward (65%), and there is no difference by gender. These findings suggest that the majority of student may be willing—at least in theory—to delay gratification and defer consumption in order to save money.

Parents and guardians were also asked how they felt about their children's financial knowledge and behaviours by stating their agreement or disagreement with certain statements. Because parents and guardians guide the behaviour of their children, it is important to understand whether they favour and hence may be likely to support their children's financial learning and capabilities. Thus, parents and guardians were asked how important it is for their children to make careful spending decisions, learn how to save money, and use formal financial institutions. If parents and guardians feel that these things were not important for their children, they may not provide the support and encouragement that children may need to save money. Also, parents and guardians were asked how important it is that their children help support the household financially. This question was included because expecting children to make household financial contributions may suppress or offset support for saving. As seen in Table 1, parents and guardians generally have favourable attitudes concerning their children's financial learning and capabilities.

**Table 1: Parent/Guardian Attitudes**

Statement	Mean*
It is important for my child to learn to make careful spending decisions.	9.26
It does not matter whether my child learns how to save their money.	3.31
It is important for my child to learn about financial institutions and banking.	9.32
It is important for my dependent child [study participant] to help pay for things people in our household need.	4.55

\* Agreement with each statement was indicated on a scale with 0="strongly disagree" to 10="strongly agree."

### **How Student Learn About Money**

Schools are an increasingly important source of financial education for student. In the US, the number of states with personal finance content standards for K-12 curricula has risen from 21 in 1998 to 44 in 2009. Governments in several other countries including Ghana, Kenya, Brazil, Indonesia, and Estonia are planning and/or implementing large-scale efforts to incorporate school-based financial education. Parents are also an important source for student to learn about money (Bowen, 2002; Danes, 1994; Moschis, 1985; Serido, Shim, Mishra, & Tang, 2010). To better understand student's financial behaviours, it is important to know whether these behaviours are associated with having received financial instruction from various sources such as school and parents (Chowa, Despard, Akoto-Osei, Issac, 2012).

It has been found in the study that parents and schools are the two main sources from which student learn about money, and this is true for both girls and boys. Seventeen percent of student report that they have received financial education in school. This result varied considerably between zones, which may reflect different levels of access to and use of public education. Most of the student (6%) who have received financial education in school reported that they have received less than hours of instruction.

Student report learning most about the following three topics:

- How to save
- Why it is important to save
- How to make good choices in spending

Most student report that they do not receive financial education but the focus of the education on savings can help to explain why student should have favourable savings attitudes.

### **The Role of Parents and Guardians**

Parents are the primary sources for how student learn about money and can affect how their children's financial attitudes and behaviour develop (American Savings Education Council, 1999; Danes, 1994; Sallie Mae, 2009). Serido, Shim, Mishra, and Tang (2010) found that college students who perceived that they could discuss financial topics with their parents had lower levels of financial stress. In a qualitative study of 49 African-American high school students, Slaughter (2006) found that parents and other family members had a strong impact on students' financial knowledge, attitudes, and behaviour. Shobe and Christy-McMullin (2005) described how discussing money and observing the financial behaviours of parents and other family members shaped the

financial knowledge and attitudes of low-income African-American women participating in an Individual Development Account (IDA) program.

Cooper and Luengo-Prado (2009) found that low-income children whose parents saved more were more likely to move out of the lowest income quintile as adults than low-income children whose parents saved less. While the studies mentioned above were conducted in the US, they all indicate that parents and guardians may influence the financial lives of their children. Therefore, parents and guardians in the study area were asked about their financial interactions with their children to see whether these influences may be present in Chittagongian families as well.

Table 2 shows the frequency with which parents and guardians talk with their child about different financial topics. "Often" means that parents or guardians talk with their child at least once a month and as frequently as almost every day.

**Table 2: Parent-Child Interactions**

Topic	Often	Never
How my child can earn money	45%	46%
How my child can save money	62%	29%
How we manage and make financial decisions in our family	42%	49%

These findings vary little by gender, education level, or age. Smaller percentages (12%, 16%, and 15%) of parents and guardians talk with their children almost every day about how to earn money, how to save money, and how family financial decisions are made, respectively. Another finding is that 57% of parents and guardians never talk to their children about how they make financial decisions.

Most parents and guardians report frequently engaging in behaviours like careful spending that their children might observe and emulate. The most common reason why parents and guardians save is for unexpected expenses (45% of all possible responses), followed by paying for their children's school needs (30%). Fewer responses were given for future-oriented savings purposes such as buying a business asset (10%), paying for children's future education expenses (9%), and retirement (6%).

Interestingly, while 53% of student says that they have savings, only 26% of parents or guardians agree that this is true. However, across all student subgroups, student set aside money for short durations and mostly consumptive purposes. Thus, it may be that student and their parents and guardians think about saving in different ways. Student focus on near-term uses of money they set aside, while parents and guardians think about longer-term purposes and may be setting aside larger amounts accordingly.

### Financial Socialization and Saving Behaviours

Student can have different social interactions—types of financial socialization—that may be associated with various savings behaviours. How much student say they save each month was examined in relation to three types of financial socialization: receiving financial education, talking to parents or guardians about money, and visiting a bank.

As seen in Table3, the average monthly amount that student report that they save is greater when they report having each of the socialization experiences. However, these greater amounts are statistically significant only for having received financial education ( $p<.05$ ) and having visited a bank ( $p<.001$ ).

**Table 3: Average Monthly Savings By Financial Socialization Experience**

Topic	N	Averag Monthly Savings (BDT)	P*
Parent explains financial decisions			
Sometimes, most of the time or always	2270	12.1	ns
Never or once in long time	2305	13.52	
Ever received financial education classes			
Yes	3461	14.16	0.5
No	1090	12.70	
Financial education hours			
More than 5 hours	304	16.30	ns
Less than 5 hours	2979	13.87	
Ever visited a bank with parent or other family member			
Yes	1925	15.56	.001
No	2624	12.55	
* $p<.05$ , two-tailed independent samples t-test			

### Conclusion and Suggestions

In order to understand the students' financial capacity, this study offers a first glimpse into the financial knowledge and attitudes of Bangladeshi student in Chittagong and their financial socialization experiences. Students learn about money mostly from school and parents, with an emphasis on saving. Parents feel that saving and using formal financial institutions are important for the children, though students and their parents or guardians

are likely to have different ideas about what savings means. About half of student talks to their parents or guardians about money at least some of the time, while the other half do so very infrequently or never. How much parent or student interacts about money appears to vary widely. Financial socialisation experiences are generally associated with greater student savings, suggesting that both school and parents may be important sources of guidance for student.

In view of the above, the sustainability of the school banking product may be increased implementing the following suggestions:

1. BB should continue programme of school banking in different parts of the country regularly, and the commercial banks should discuss the importance of school banking in its different customers meetings.
2. Financial management related topics may be included or increased in the curriculum of different levels of education. The focus of the education on savings can help to explain why student should have favourable savings attitudes.
3. As one of the purpose of school banking is ensuring the participation of school students in the economic *vis a vis* banking activities through savings and creating savings attitude among the student through involving them in modern banking service and technology, IBBL should maintain the 'Student *Mudaraba* Savings Account' on daily product basis, so that savings grow faster.
4. IBBL may launch 'education investment scheme' for the higher education of the student, who saved money regularly, up to a certain limit, in the Student *Mudaraba* Savings Account of the Bank.

Implementation of the above suggestions shall also increase the students' capability of school banking. In future, socio-economic impacts of the school banking may be studied.

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