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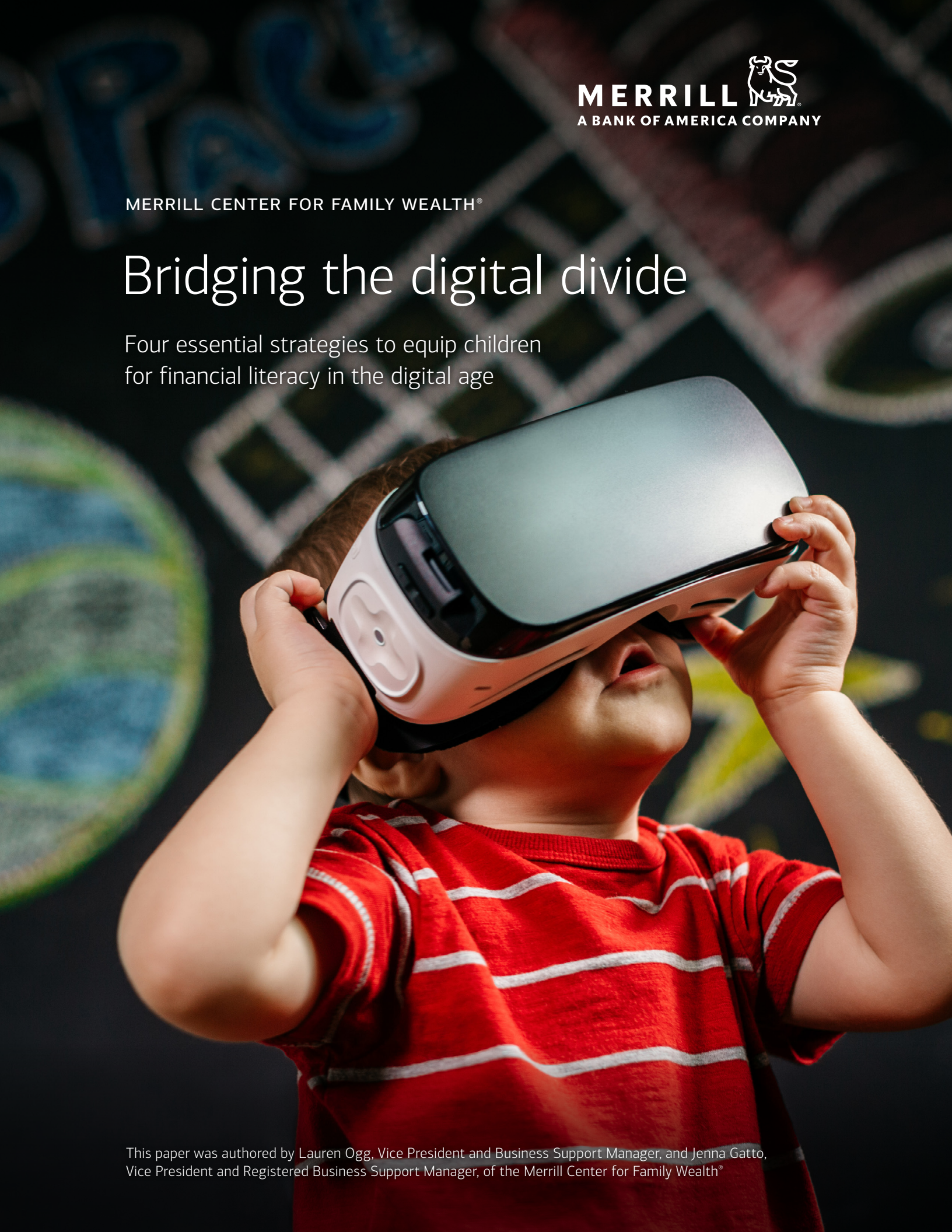
Bridging the digital divide

Four essential strategies to equip children for financial literacy in the digital age



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Equip the rising generation with skills to navigate the digital world of money

Financial markets are ever-evolving to keep up with the developments of the modern world. The last few decades have resulted in an explosion of technological advancements, forever changing the way our financial markets operate and how we engage with them.[1] These new technologies demand proper education to support the rising generation in their pursuit of financial success.

The importance of financial literacy cannot be overstated. Having a positive sense of control over one's finances is associated with better mental health, more life satisfaction and greater stability.[2] Historically, credit scores, budgets and 401(k)s have been the building blocks of typical financial literacy. In today's digital age, these basics aren't quite enough. Young people are constantly bombarded with in-game/in-app purchases, online credit card applications and hidden fees that are embedded in many online engagements.[3] In just the past few decades, the technology has changed the way we understand and interact with money.

Technological advances have changed transactions from tangible exchanges of physical cash and goods to be almost wholly digital, abstract and overwhelmingly pervasive. Though technology provides many benefits in different sectors (such as speed and ease of transaction), it comes at a cost. Technology needs to be treated with responsible care and education — especially when children are involved. Dr. Jason Yip, associate professor of Human Centered Design & Engineering at the University of Washington, studies the relationship between children and technology. He remarks that "Media systems are part of the ecosystem of a family. Digital is everywhere."

To prepare the rising generation to navigate an increasingly digital world, where technology is embedded in every interaction and transaction, we propose four key strategies that can be implemented at all ages and stages of childhood.

Four essential strategies

Helping children navigate the digital world requires thoughtful strategy due to the abstract nature of modern financial interactions. A full understanding of abstract concepts is not possible until the brain fully matures at the final stage of cognitive development. This last stage, defined by renowned Swiss psychologist Jean Piaget as the formal operational stage, begins at age 12 and continues to develop well into late adolescence and adulthood.[4] Yet children are exposed to these abstract ideas as toddlers via in-app purchases, online shopping and advertisements, for example, far before they're able to grasp such concepts.

To honor this developmental process, the four essential strategies presented throughout the rest of this guide have been paired with appropriate strategies and conversation topics to help meet children right where they are cognitively as they begin to navigate the digital world of finance.

1. Identify transactions across digital payment forms
2. Encourage interfacing — and learning — with relevant digital financial tools
3. Have family conversations about responsible digital financial behavior
4. Learn how digital transactions affect the brain

1 Identify transactions across digital payment forms

In today's digital market, financial transactions occur in a multitude of ways. Mobile wallet pay, smartwatch pay, tap to pay, card, direct bank transfer and biometric authentication (use of fingerprints, facial features and voice) are some of the most common. And these transactions are no longer limited to in-person purchases. Many are now initiated at home (or anywhere users might be) or recur automatically at a set frequency with presaved credit cards or pre-enrolled auto pay.[5]

While convenient and often perceived to be more secure, digital transactions are missing a crucial piece necessary for the development and understanding of young minds—the physical cash transaction that occurs between two parties. Additionally, the screens where transactions take place, whether they be at the grocery store, in an online store or within a game application, all look very similar. This conflation of money models and systems leads to the inability to recognize what is and what is not an actual transaction with real-life consequences, leading children to see all transactions as equal and often without tangible loss.

What's the trail of a transaction?

Tracing the "trail" of a transaction can help differentiate between different forms of digital payments. At the grocery store, you might pay with a tap of your phone and a biometric authentication. But what's actually happening? Consider explaining the step-by-step process to the young people in your life: "When paying, that tap is linked to a checking or savings account that holds money. The account may be funded through a bimonthly paycheck that's deposited digitally but ultimately is tied to a source of income connected to some kind of work." By describing the process that makes this transaction possible, the "tap" becomes real and connected to an asset that's easier to visualize.

Age-specific activities

Elementary school

- Take children to the ATM and narrate the process of removing money. Make the tangible connection between the plastic card and the money that the machine dispenses.
- Demonstrate how online shopping works. Include children in the process of purchasing and the steps you take to complete an online transaction.
- When shopping in person, point out that every time a card is swiped/tapped, that money is being removed from the bank account, resulting in less cash in the account now than before the transaction.
- When an in-app purchase is made, count out cash from your wallet together to show the link between online and physical purchases.
- Mobile pay uses biometric authentication and sounds. Make the link between this fun sound or face scan and a real transaction.

Middle school

- Before paying your credit card bill online, walk through a statement to share all the purchases — food, entertainment, etc. Link the swipe of a credit card to the actual cost that now has to be paid off.
- When you make an in-app or online purchase for something children are using a portion of their allowance on, consider asking them to pay the equivalent to you in cash to reinforce the connection.
- Explain the link of purchase and bank account deduction. These transactions appear fairly quickly, so showing the deduction in the bank account is a helpful visual.

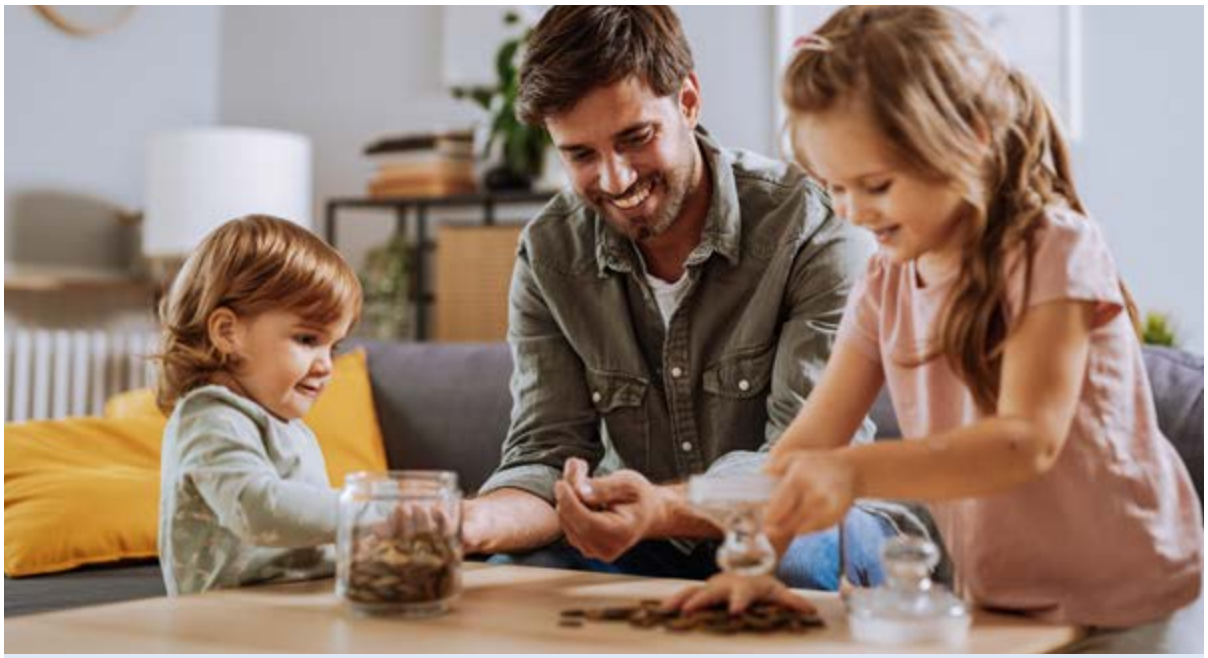
High school

- At this point, children should be comfortable using a debit card. Look over the digital statements together to make sure their spending stays on track.
- Go over what's in your digital wallet and what's in your high-schooler's digital wallet. Can you identify what each of the cards does? Is there anything that needs to be cleaned up?
- At this age, children may begin to show interest in alternative digital currencies. Have an honest conversation about the history, purpose and trends of this alternative currency.
- If working, discuss your children's paycheck and how to best divide the money between saving, spending and giving. Let them use their hard-earned money with a debit card or credit card that they are responsible for funding and paying off.

Conversation starters

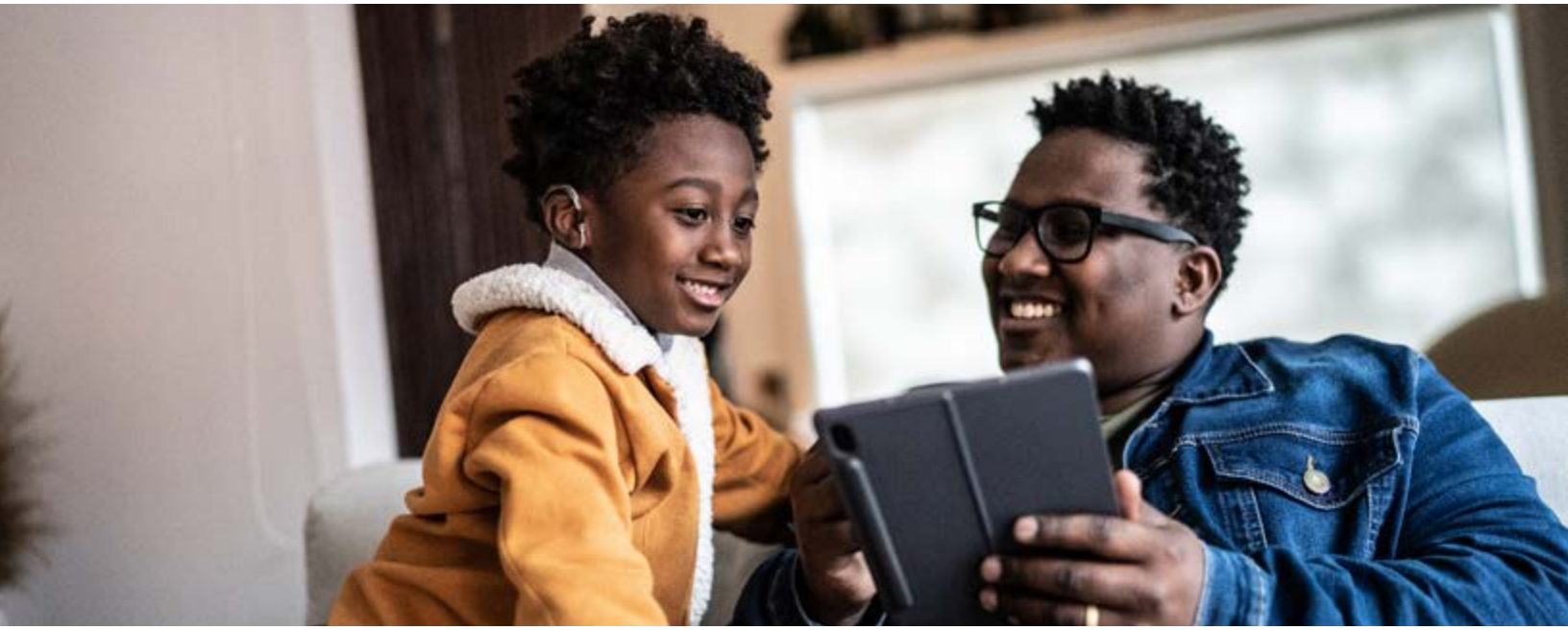
Use these questions to prompt microconversations when opportunities arise.

Elementary school	Middle school	High school
• How do you make sure you have enough money to purchase what you need? • Where is money stored? • Where do you think money comes from? • Do you know how packages get to our front door?	• How do you know what's real money and what's game money? • How can you identify a real transaction versus a fake one? • How do you know when you're using real money to buy something on the computer or in an app? • How do you think things are paid for when I tap my phone on the card reader?	• Have you ever seen a hidden transaction or hidden fee? When did you notice? • How do you know when you're buying something?



Key takeaway

Forms of digital payments are abstract — the more one can touch/feel/see these forms and trace their routes, the better the connection between digital and real. Look for examples in everyday life and purchases to make the connection between the abstract and concrete for your children.



2 Encourage interfacing — and learning — with relevant digital financial tools

There's a correlation to the adage "practice makes perfect" suggesting that the more comfortable children are when interfacing with finances and technology, the better they'll be at understanding it.[6] Taking this concept one step further, the greater children's understanding of money — albeit healthy and appropriate — the more success they're likely to find in their future money management. Studies show that when children had a savings account at the age of 12 or 13, they were more likely to have a "saver" money management style rather than a "spender" style or another unclear style.[7] Additionally, in a global study conducted by the Organisation for Economic Co-operation and Development (OECD), a greater percentage of students who felt confident both in dealing with traditional money matters and in using digital financial services reported holding an account at a bank, building society, post office or credit union.[8]

Thus, ongoing interactions with digital finance platforms and tools (especially regarding the use of a digital app) might foster a sound foundation of money skills for children when approached with care and intention. This may include helping children develop an understanding of vocabulary and types of transactions (deposit, credit, checking of balances) or a recognition of different safety measures in place. Having a strong familiarity and knowledge of these concepts helps young people make concrete sense of how the world of digital finance functions. These basic money skills serve as the bedrock to other more complex skills, such as investing and the compounding of money for the future.

Bank of America: SafeBalance® for Family Banking

To meet the needs of families and help children gain digital financial literacy, Bank of America has launched the SafeBalance® for Family Banking program, available for all account holders. The program empowers children of all ages, allowing them to have control over their own bank account and debit card. Children have their own unique login and can view their account from any device. Additionally, the account is safeguarded in several ways — children cannot view their parents' account, transfer money or overdraft their accounts. Parents can also place limits on certain spending categories (for example, online gaming) and restrict the amount of money children can spend in a week. To learn more about the offering, visit Bank of America's family banking webpage or connect with your Merrill advisor.

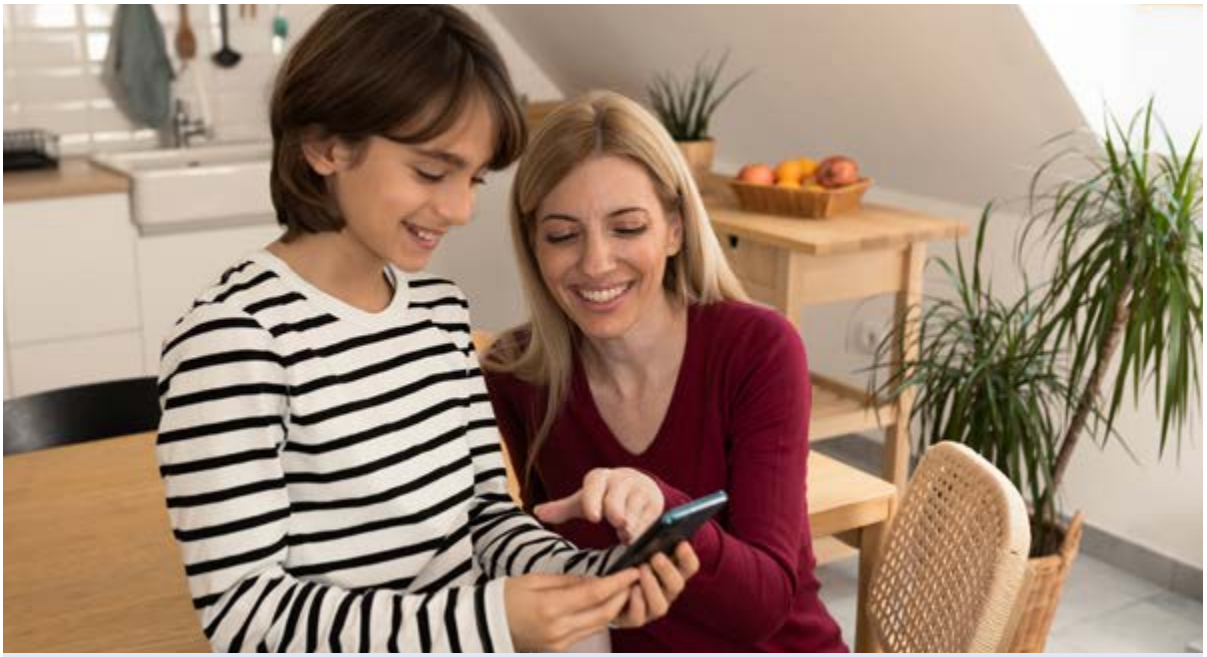
Age-specific activities

Elementary school	Middle school	High school
• Begin with foundational vocabulary (see the example list in the appendix). • Start using digital tokens that can be turned into rewards or cash. This process should help make the connection between the digital and physical. Consider using an allowance or chore app to make this practice easier (FamZoo, Homey, OurHome, iAllowance, RoosterMoney). • If your children play video games that include a banking/token system (for example, Animal Crossing, Roblox), talk about it together. Ask them what they notice: How do they know how much money they have? Where's the money stored? How can it be spent? • Consider opening a Bank of America Advantage SafeBalance® for Family Banking account for children. This gets them into the habit of using an online interface to check the balance of their account. • Encourage children to play with a bank simulator online. This gives them a feel for what online banking looks like.	• Expand vocabulary to include slightly more advanced terms. Use these terms in conversation (see the example list in the appendix). • Open a bank account with children and help them access the account on a mobile device. Deposit allowance and gifts directly into their new account. Check the account balance often with them. • Continue using the SafeBalance® for Family Banking account. Consider having children use the debit card attached to the account more frequently at this point. This allows them to gain comfort in using a card and navigate the corresponding service without the risk. • Discuss the importance of online banking safety.	• Connect vocabulary to personal applications and worldwide economic events (see the example list in the appendix). • When children are ready for more app features, consider moving their account from SafeBalance® for Family Banking to a SafeBalance Banking® account. For 16-year-olds, this account has more permissions while still incorporating some of the safeguards of Family Banking. • Explore the mobile banking app. Look for different statements, interest percentages on accounts, and routing and account numbers. • Continue to reinforce the importance of online banking safety.

Conversation starters

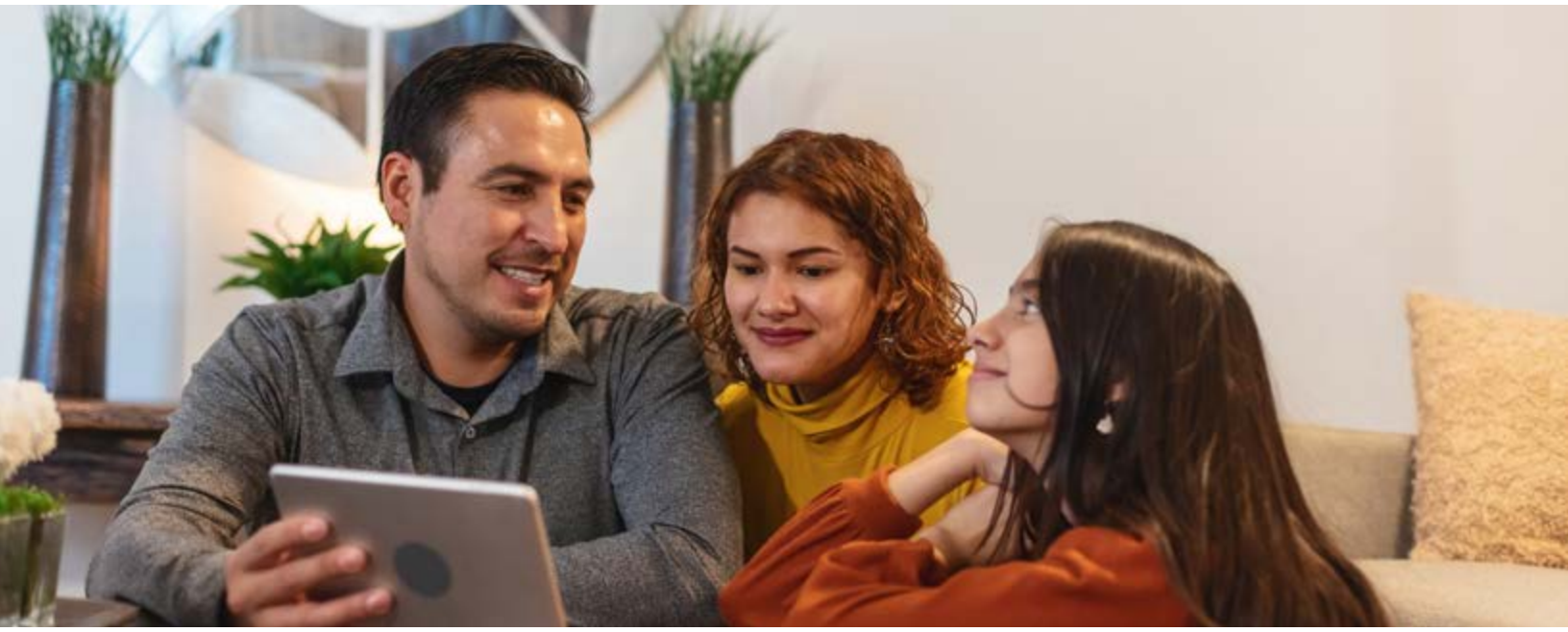
Use these questions to prompt microconversations when opportunities arise.

Elementary school	Middle school	High school
• Why do people have bank accounts? • How do you save and spend money while playing video games? Do you think that's similar to how people spend money in their bank accounts?	• What can you check on an online banking app? • How do you know how much money you have? • When you use a card to pay at the store, how do you know how much money is left on it? • Do you know what it means to overdraw your account? What happens if you overdraw?	• How can you stay safe when using online banking apps and websites? • What's the difference between banking apps and money transfer apps? • What are common scam patterns on digital apps?



Key takeaway

The more comfortable children are with digital platforms and exploring navigational prompts and tabs, the higher the likelihood of digital financial success.



3 Have family conversations about responsible digital financial behavior

Parental figures and family are a child's first and most impactful form of socialization.[9] So much so that even prior to word comprehension, children are very attuned to tones and attitudes toward certain topics in the household and whether those topics have positive or negative connotations. These tones and attitudes — and later, conversations — form the bedrock of children's beliefs about the world.

Research tells us that most adult money behaviors and beliefs are formed by the age of 7.[10] For example, one might view extra cash received as "spending money" or money that needs to be "saved for a rainy day," highlighting how early money messages impact later behaviors. These attitudes develop early, depending on how money was used in their family of origin. Young children are incredibly perceptive and pick up on how money is viewed by their parents and caretakers, which may impact their money mindset in later years. These formative years at home create a powerful opportunity to prepare children for success far before they'll need to rely on these skills for financial independence. Money conversations have long been stigmatized, mostly gaining the reputation of being rude and taboo. However, holding money conversations in age- and stage-appropriate ways allows children to ask important questions that are vital to their money comprehension and setting them up for their own financial success.

Rather than sharing specific dollar values first, share concepts, processes and decision-making rationale within the household. The degree to which these conversations are embedded as part of everyday language has a direct correlation to the way children view and interact with the digital world of money.

Ideally, conversations that revolve around money and the digital ecosystem also incorporate family values and beliefs and help children understand what's important to their families and the role money plays in supporting them.

Age-specific activities

Elementary school	Middle school	High school
• Involve children in age-appropriate decisions. This might include choosing what to have for dinner and calculating the cost, or selecting which type of milk, bread or eggs to buy based on price comparison and other factors. Explain your thought process aloud. • Talk about money as a neutral tool that's used to purchase things you want or need. Avoid categorizing it as good or bad. • Chances are, children have seen something on television or at school that discusses money in some way. Ask them frequently what they've heard or noticed and have a conversation about it. The idea is to normalize and promote open dialogue, not to have all the answers.	• Continue involving children in age-appropriate decisions. At this age, you might discuss a vacation budget and how decisions are made between luxury accommodations or more adventurous excursions. Compare these options online. • Look over online bills with children — electricity, heat, internet, phone — to illustrate how things that seem automatic actually have a cost. • Discuss how money is earned. You might explain how paychecks are deposited and how it all works in the digital realm. This is a good opportunity to ask children about their current interests and which careers they might pursue in the future.	• Involve children in conversations about the next phase of their life: Are they interested in attending college? What universities appeal to them? What are the costs associated with different universities (tuition, room and board, textbooks, etc.)? Look online together to find the answers. • Take online bill pay one step further and illustrate how bills are actually paid — and what happens if you don't pay. Walk through the process of setting up automatic payments if you've chosen to do that. Keep to bills that feel appropriate — utilities are neutral and a good place to start. • Talk openly about what money means to you. Be honest about your feelings and what you feel are strengths and what you could improve upon.

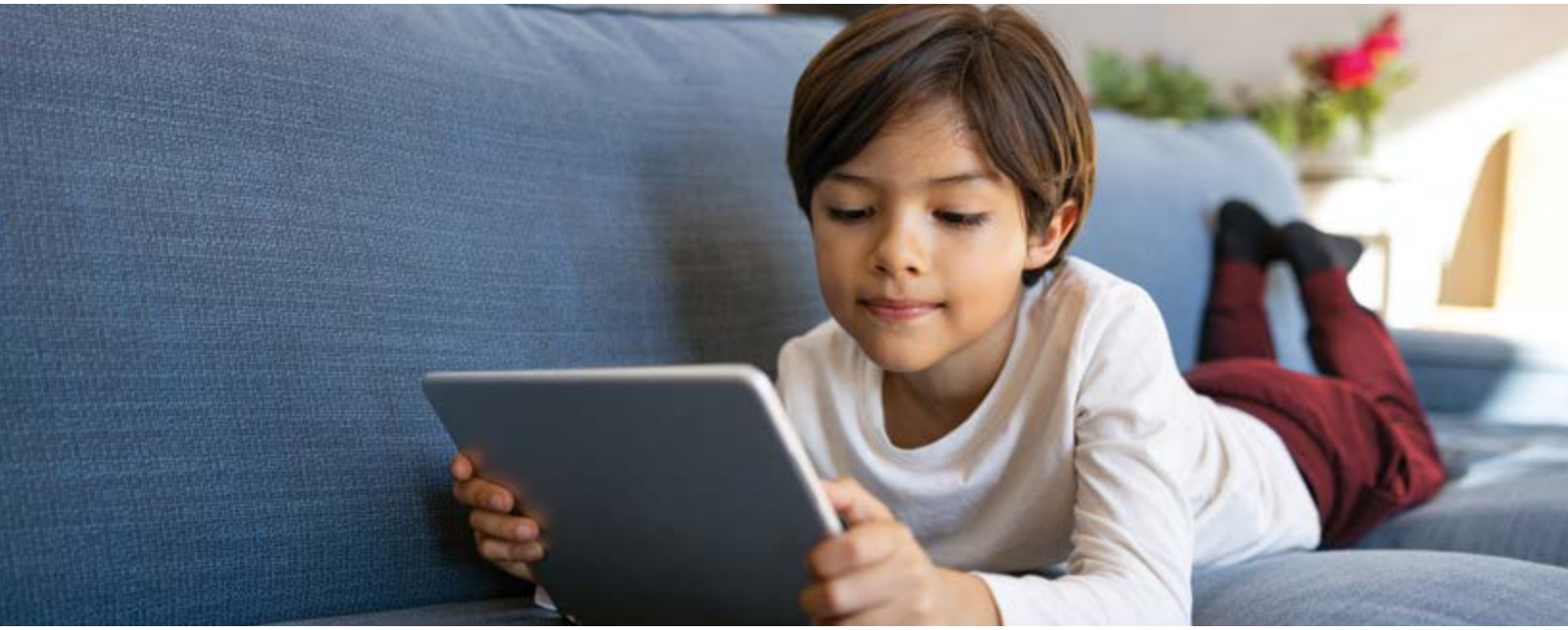
Conversation starters

Use these questions to prompt microconversations when opportunities arise.

Elementary school	Middle school	High school
• What do you think about money? What is it for? • How should we make decisions about what to buy or what not to buy? • How does money make you feel? • What do you hear about money on TV and at school? Is it the same or different from the ways we talk about money at home?	• What are bills? Why do we get them? • How do we pay for household expenses online? Why is it important to stay on top of these expenses? • What questions do you have about money? • How do people earn money? How do they receive the money they earn?	• What's something you really want to buy? How will you save up for it? • Have you ever regretted buying something? • What types of online investing have you heard of or seen in advertisements? What do you think about all the different options?

Key takeaway

Children are required to lean on parents and adults for help navigating money and financial institutions, since they're often unable to access these systems on their own due to age limitations. During children's early years, parents have an opportunity to model and discuss responsible digital financial behavior that's tied to family values and culture.



4 Learn how digital transactions affect the brain

Fifty-eight percent of all consumer spending now occurs online, with a prediction that 64% of all transactions will be online within the next 10 years; currently 32% of these purchases take place on a mobile phone.[11] In-app and game purchases are quickly purchased and downloaded, promoting instant gratification without seeing a corresponding reduction in bank account balances in real time. Often, game purchases occur during "freemium" games (free games that promote micropurchases to level up or unlock new features) and are timed at consequential points of gaming.[12] Users are drawn in after playing a "free" version of the game and thus are more inclined to then continue making purchases for access to higher levels in the game. This manipulation is most effective when used on young children and teenagers due to developing impulse control.[13] The strategy has been highly successful for video game companies. Users were found to be more willing to make purchases when the brain was experiencing "high emotional arousal" at these consequential points within the game.[13]

Similarly, studies have shown that online shopping can make one feel "instantly happier," in control and autonomous.[14] Designed to prey on impulses and desires, online flash sales and targeted advertisements sway shoppers who are looking for instant gratification while mistakenly believing that they're saving money. Researchers argue that online shopping provides a more "gratifying experience" than in-person shopping due to "less friction, less barriers, less behavioral cost, more specificity and more choice."[14]

Many adults who grew up in a time when a purchase required having enough cash on hand, going to the store, and exchanging cash for the desired goods were able to develop healthy impulse control, making online shopping convenient and satisfying. It's no different for children; however, children haven't had the opportunity to exchange cash for goods or develop healthy impulse control.

Adults and children both navigate the same challenges of the internet, and anything that affects those with fully developed brains most certainly affects children who have less cognitive development. In conjunction with showing children how to operate and manage the ecosystem of digital applications, it's crucial to acknowledge the dangers and consequences. Sharing the science (in an age-appropriate way) creates awareness and normalization of heightened emotions that may arise during online game play and browsing. Awareness creates more mindful and responsible consumers.

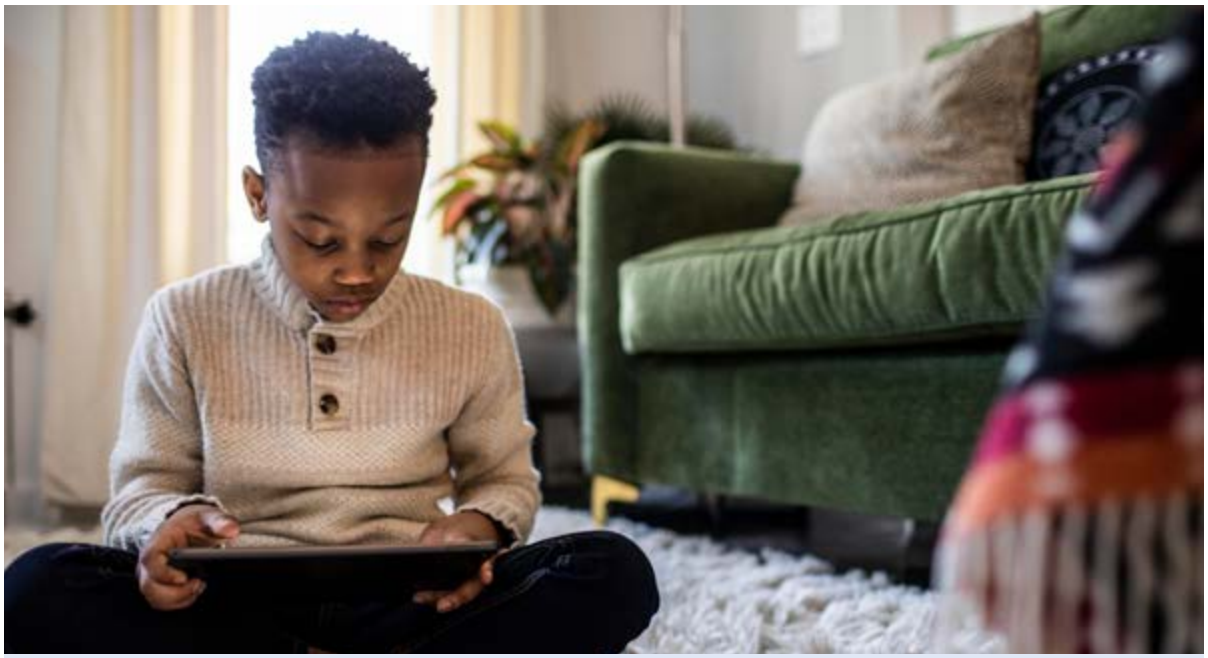
Age-specific activities

Elementary school	Middle school	High school
• Eliminate all card information that's stored in apps for in-game purchases. • Have a conversation with your children each time they want to buy something within an app. The conversation helps to control the impulse. • Consider implementing time limits on games and internet browsing. • Talk openly with children about the way they feel when they play games and buy things online. While it's likely too early to discuss specific biological processes, feelings are developmentally appropriate.	• Set ground rules for online shopping. Which retailers are allowed? What's the process for approval? • Monitor social media access. Social media is often littered with ads, playing into the pervasive digital shopping landscape. Consider implementing a social media contract (a template is available in the appendix). • If your children are going to make a purchase online, ask them to do price comparisons. This extra step slows down the impulses and teaches them the basics of a free market. • Talk openly about security risks when shopping online. Scams, fees and security breaches are all things to look out for. • Move from a discussion about feelings to what the brain is doing when you shop online.	• Children should have a personal debit card for any automatic card usage on apps and games. This responsibility should help with more thoughtful decision-making. • Continue with ground rules for online shopping. Consider loosening some restrictions or asking children to present a plan for purchasing, depending on their needs. • Have an open dialogue about social media and be frank about the way it might make them feel. Encourage healthy usage. • Continue the conversation about the processes that occur in the brain when it releases chemicals. Ask your children if they can identify their feelings and actions when this release happens.

Conversation starters

Use these questions to prompt microconversations when opportunities arise.

Elementary school	Middle school	High school
• How do you feel when you beat a level in a game? • How do you feel when a game asks you to buy something, knowing that it will help you get to the next level?	• How do you feel when you order something online? • How do you feel when something you order arrives at the door? • How do you feel when you spend too much time online?	• Why do you think it's so easy to buy things online? • What do you think about social media? How does it make you feel when you use it? • Does social media influence the purchases you make? • How do you know if you're being asked to buy something in an app or game? How do you make the decision to buy or not to buy?



Key takeaway

Technology is designed to light up the pathways of the brain, releasing chemicals that make you feel good.[15] This is a biological process — the more aware children are of how their brains and technology work, the better they can understand and address their impulses.

What's next?

This paper aims to outline four strategies to help children better understand their interactions with money in a digital world in an age-appropriate way. The implementation of these strategies has a direct correlation to children's success in managing their own money in the future. We encourage adults to help children better understand these abstract concepts by tracing the pathway of online purchases, helping them navigate different online platforms, understanding the effect that online purchases have on the brain, and talking about them openly — not as one-time occurrences, but as learning opportunities that come up each day on an ongoing basis.

When talking about money with your children, it's OK not to have all the answers. Often money conversations are avoided due to the newness and ever-changing nature of the digital world; however, given the importance of exposing children to digital financial concepts in a healthy way, having a conversation where you don't know all the answers is far better than simply not having one at all. Acknowledging that money conversations are difficult and often don't take place in families may be the first step in accepting that this will be a learning journey for parents and children alike.

The four essential strategies and their key takeaways

Identify transactions across digital payment forms	Forms of digital payments are abstract — the more one can touch/feel/see these forms and trace their routes, the better the connection between digital and real. Look for examples in everyday life and purchases to make the connection between the abstract and concrete for your children.
Encourage interfacing — and learning — with relevant digital financial tools	The more comfortable children are with digital platforms and exploring navigational prompts and tabs, the higher the likelihood of digital financial success.
Have family conversations about responsible digital financial behavior	Children are required to lean on parents and adults for help navigating money and financial institutions, since they're often unable to access these systems on their own due to age limitations. During children's early years, parents have an opportunity to model and discuss responsible digital financial behavior that's tied to family values and culture.
Learn how digital transactions affect the brain	Technology is designed to light up the pathways of the brain, releasing chemicals that make you feel good.[15] This is a biological process — the more aware children are of how their brains and technology work, the better they can understand and address their impulses.

Appendix

Sample social media policy

It's important to develop guardrails for children's online education strategy. Use this sample policy as a place to start.

Note: *This policy is designed to begin at age 13 — the age that all major social media corporations consider the legal age of use. This decision is based on the 1999 U.S. law that established the Children's Online Privacy Protection Rule (COPPA).*[16]

An effective governance framework is unique to each family and is often developed through collaboration of family members. This can be a helpful way of introducing the concept of governance and setting the precedent that along with opportunity, wealth brings responsibility. Keep in mind that there's no one right answer. What's important is that the principles sincerely reflect the family's values and that members feel accountable to the shared values.

When developing a governance framework, the first step is to clarify the underlying principles — the articulated shared family values, purpose of wealth and vision for the family. They serve as a foundation to guide direction and decision-making.

Based on the individual needs of a family, members may then build out multiple policies or clearly defined guidelines and agreed-upon expectations that help family members act in accordance with their shared principles. It's important to then agree upon a set of practices or actions and ongoing traditions by which the family lives out its governing principles and policies.

Sample framework

Principles	Policies	Practices
• We value privacy, safeguarding information and family members' personal safety. • We value the preservation of our family reputation, putting our best foot forward in how we portray ourselves. • We value a quiet demonstration of wealth.	• Children will have a collaborative discussion with their parent(s)/guardian(s) to draft and sign a social media agreement before creating a new social media account. (See the social media agreement on the next page for sample guidelines, adapted from various online resources.)	• Revisit the agreement for each new social media account. • Collaborate to modify the agreement if the need should arise. • Check in for feedback and to assess progress of the agreement. Answer any questions and adjust the agreement as needed.

Sample social media agreement

General principles

Child must initial each point to show it's been read and understood.

Setting up

Initial	Policy agreement
	I will ask my parents' permission before joining any social media network.
	I will set my account to the most private setting.
	I will only "follow" or "friend" people I personally know.
	I will not share my passwords with anyone other than my family.

Using my account

Initial	Policy agreement
	I will not post or share any offensive or inappropriate images, language, videos or other content.
	I will not comment on or share information about someone that could be hurtful, untrue or mean.
	I will be thoughtful about everything I post, share and "like."
	I will let my parents know if I experience any online bullying.
	I will be mindful of how much time I spend in front of screens and will be intentional in making time for enjoying other people and activities in my life.
	I will work with my parents to set media time limits that make sense and adhere to them.

Aligning with family principles

Initial	Policy agreement
	I will tell my family if I'm struggling with social media use, have made a mistake online or need help.
	I will not post anything about gifts I receive, family trips or big displays of wealth.
	I will not post photos of my family or friends without their permission.
	I will not give out any private information, such as my full name, date of birth, address or phone number.

Special items

Initial	Policy agreement
	I understand that this contract can change if my parents/guardian believe it's necessary. I understand that — bottom line — it's my parents' choice and responsibility to change or not change the contract. We will review this agreement and make changes as needed.
	I understand that having access to the internet and a mobile device is a privilege that can be taken away if I do not adhere to the statements present in this agreement.

Summary: I will abide by the rules in this agreement, and I accept the consequences and penalties if I do not. I recognize my parents' authority in deciding whether I may use social media. That authority is final until I am an adult living independently of my parents.

Child: Date:

Parent/Guardian: Date:

Parent/Guardian: Date:

Personal finance vocabulary[17]

Elementary school

Bank: A business that holds money, makes loans and handles other transactions

Budget: A plan that outlines what money you expect to earn and how you plan to spend it

Cash: Paper or coin money

Cost: The amount of money that's needed to pay for or buy something

Earn: To receive money in exchange for goods/services

Lend: The act of giving something to someone with the understanding that the person will give it back to you

Needs: Basic things people must have to survive

Save: Setting something, like money, aside to use in the future

Savings account: An account at a bank used to set aside money

Spend: Using money to buy goods/services

Wants: Things that are nice to have but aren't necessary for survival

Middle school

Borrow: To receive something on a loan with the understanding that eventually you'll have to repay it

Certificate of deposit (CD): A savings account with a fixed interest rate that holds your money for a set amount of time

Checking account: An account at a bank that allows you to deposit your money; the account has a debit card attached that permits you to make purchases with the money in the account

Debit card: The card connected to your checking account

Debt: Money you owe another person or business

Direct deposit: Money electronically sent to your bank account

Income: Money earned or received, such as wages, salaries or commissions

Investment: Something you spend your money on that you expect will earn more money over time

High school

Annual percentage rate (APR): The cost of borrowing money on a yearly basis, expressed as a percentage rate

Asset: An item with economic value, such as stock or real estate

Bond: A type of debt where you're lending to the issuer, who promises to pay a specific rate of interest during the life of the bond and repay the face value after it matures

Capital gain/loss: Profit or loss that comes from selling an investment for more or less than you paid for it

Credit card: An open-ended loan that allows you to borrow money and carry a balance month to month; carries high interest rates that are applied to any unpaid balance at the end of each month

Credit score: A number that's generated from several factors and states your borrowing reliability; can make it harder or easier to get loans, rent apartments and secure a job

Income tax: Federal, state and local taxes on income

Inflation: When the prices of goods and services increase over time

Interest: A fee charged by a lender and paid by a borrower for the use of money

Liquidity: A measure of the ability and ease with which you can access and use your money

Overdraft fee: A charge that occurs when you don't have enough money in your account to cover a transaction

Stock: A type of investment that gives people a share of ownership in a company

About the authors

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Endnotes

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