CGAP

FOCUS NOTE

Emerging Perspectives on Youth Savings

The world's population of young people between the ages of 15 and 24 is estimated at 1.2 billion, with the vast majority living in poor countries.[1] Global economic progress has driven down mortality rates much faster than fertility rates such that the world has never had as many youth. In particular, many developing countries, such as India, Afghanistan, Uganda, and a number of countries in the Middle East, are experiencing a bulge in their youth populations. And this bulge, if managed well, could yield a demographic dividend. A demographic dividend refers to an increase in economic growth that tends to follow increases in the ratio of the working age population to dependents, as has been observed in developed countries (Bloom, Canning, and Sevilla 2003).

Notwithstanding the potential for economic growth, creating the many new jobs needed to productively absorb a burgeoning youth population is challenging. Globally, youth are over-represented among the unemployed and underemployed, even when unemployment rates are not high (Rosas 2011). Without sufficient job creation, civil, social, and political upheaval may ensue.

How countries manage this demographic transition depends in part on how they address the individual-level transitions that young people face as they enter adulthood, especially youth who are less well off. Though youth are not a homogenous group, there are some universal transitions that all youth make—or aspire to make—in their lives as they become adults. These major transitions have to do with learning, working, and navigating major life events, such as marriage or managing health issues (World Bank 2006). Studying these transitions can help us understand the opportunities and vulnerabilities young people face, as well as their preferences, choices, and behaviors.

The linear, predictable transitions (school, college, work, marriage, children, etc.) often observed among higher income youth are not strictly applicable to lower income youth. Low-income youth in developing countries begin earning income at a younger age than their wealthier counterparts, and they engage in complex financial transactions early on. They are often forced to drop out of school to help support their families financially. In some cases, they themselves are heads of households. Even lower income youth who are still in school are often engaged in some economic activity outside of school. Thus, for lower income youth, transitions start earlier—even before the age of majority—and happen in a compressed timeframe.

This paper examines the role of finance in the lives of low-income youth with a focus on the opportunities and challenges of offering them savings services. The opportunities and challenges presented, from the perspectives of policy makers and financial service providers, are not necessarily all proven, but rather *potential* or *possible*. This is because both the state of practice and the body of evidence on youth savings is still emerging. Throughout, we share examples of the progress of experimental work that is ongoing. Youth are primarily adolescents who are 10–19 years old, though some examples use different definitions.[2]

The Role of Finance: Focus on Youth Savings

In recent years, politicians, policy makers, donors, and financial service providers have been paying more attention to youth as an important segment that needs access to financial services. The Global Financial Inclusion Database (Findex) recently released by the World Bank shows that youth (aged 15–24) are 33 percent less likely to own a

1 See Brazier and Anthony (2011).
2 Defining who the youth are can be tricky as the age range varies greatly, from as young as age 10 to as old as age 35. The United Nations refers to persons between the ages of 10 and 19 as "adolescent" and persons between 15 and 24 years as "young."

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Tanaya Kilara and
Alexia Latortue

bank account than an adult (Demargic-Kunt and Klapper 2012). Only an estimated 4.2 million youth globally currently have access to financial services, with $186 million outstanding in credit, $48 million in savings, and $1.2 million in insurance (Making Cents International 2010). Yet, an estimated 800 million youth are living on less than $2 a day (Wyman 2007).

Understanding the needs of youth during key transitions and then determining the role that finance can play in fulfilling those needs is important. Providing youth with safe, quality, formal financial service options can help manage the transitions only if the financial tools and products offered address the specific challenges and opportunities youth face. Access to appropriate financial services can help ease the stress associated with major transitions, such as starting secondary school or university, getting married, having children, or suffering the death of a loved one. However, finance must be viewed as part of a more holistic set of interventions, many of which are nonfinancial, that youth require at these transition points. For example, financing for education, whether through savings or loans, is important for youth who are going to university or pursuing vocational training. But without high-quality learning institutions, qualified teachers, and curricula that provide skills that are relevant to the marketplace, finance alone cannot do much. As youth make transitions with regard to health and starting a family, insurance or savings for healthcare and emergencies could play an important role. Box 1 sheds further insights on the lives of youth and their relationship to money from market research conducted in nine sub-Saharan Africa (SSA) countries.

The case for offering savings accounts to youth is relatively straightforward. Proponents of youth savings posit that youth savings can promote asset-building, instill good financial habits, and improve a country's overall gross savings rate. Their premise is that young people should start accumulating savings early (some would argue as soon as they are born) so they can mitigate the obstacles they face to saving as they enter adulthood when they have to pay for themselves to continue their education, start a business, buy a house, etc. A majority of youth in developing countries face a double disadvantage—they are young and have low incomes—and therefore have limited options. Building assets through saving

Box 1. Financial Habits of Youth Studied by YouthStart

YouthStart is a UN Capital Development Fund (UNCDF) inclusive finance program that aims to reach 200,000 youth (ages 12–24) by 2014, with a focus on youth in SSA. Its first step was to conduct market research on 6,000 youth across nine countries (Togo, Mali, Burkina Faso, Democratic Republic of Congo, Senegal, Ethiopia, Malawi, Uganda, and Rwanda).

The market research revealed that, in general, youth under the age of 14 tended to receive money from their parents or visiting relatives and earned some cash for occasional labor. Youth older than 15 earned a more diversified income, including wages from small or part-time jobs. Both groups used their money on typical expenses: buying food, clothing, and school supplies; assisting their parents; and accumulating savings.

The biggest difference among youth of different age groups was observed with regard to their savings goals. In Uganda, young children mainly saved for emergencies, school fees, and clothing, while teenagers who were still in school saved for entertainment and electronic goods, such as mobile phones, airtime, and the carnival. Out-of-school teenagers who were already working had yet other priorities, reflecting their more mature life stage. They were saving for school fees (to return to school), home improvement, and working capital for business. Young mothers were saving for clothing, food, emergencies, and school fees for their children.

Note: YouthStart aims to expand access to financial services, in particular savings, for youth by building the institutional capacity of financial service providers and facilitating knowledge-sharing about their experiences in serving this segment. It is funded by the MasterCard Foundation.

early on and developing sound financial habits can positively influence the course of a young person's life (Johnson and Sherraden 2006, p. 9).

There at least two major challenges, however, to offering youth savings accounts. First, there is little hard evidence on the social impact of youth savings in developed countries; indeed there are few impact studies available at all on this topic. The emerging body of literature on youth savings in developed countries, however, is quite promising. Second, there are relatively few well-documented cases of providing youth savings services in a profitable manner through the private sector. According to a 2009 survey by Making Cents International, 45 percent of microfinance providers indicate that their staff consider youth to be irresponsible, unable to manage money, and risky due to a lack of collateral.

It is encouraging that the increasing interest, experimentation, and research on savings accounts and their role in young people's lives will, over time, help develop a much more robust evidence base on both the opportunities of youth savings, as well as the outstanding questions. (For a list of publicly funded youth finance projects, refer to Annex 1).

The Policy Perspective—Opportunities and Obstacles for Policy Makers

Youth are not only a large demographic segment in most emerging countries—they are often a politically important group. Adolescents capture public policy attention from a protection perspective, while working age older youth represent an opportunity if their productive capacity can be harnessed. Given the large numbers of youth in developing countries and the many disadvantages that low-income youth face, youth financial inclusion is on the policy radar of many governments and international organizations, including the United Nations. Countries such as the Philippines (where children from the age of seven can open bank accounts) [3] and Uruguay (see Box 2) have begun to experiment with adapting policies to facilitate bringing youth into the formal financial system.

Box 2. A New Approach to Youth Savings in Uruguay

In 2010, Uruguay's parliament passed legislation to modify the Articles of Incorporation of Banco de la Republica Oriental del Uruguay, the country's state bank, to allow girls and boys, ages 12 and 14, respectively, to open savings accounts directly. The account will be the sole property of the youth who will be the only person authorized to make transactions. This reform is innovative in Latin America, where only Chile has a similar state child account that is the exclusive property of the youth. The idea was inspired by the Chilean experience and has its origins in the Uruguay National Postal Bank accounts for children. These accounts have been very popular in decades past as an asset-building tool for urban and rural families.

Opportunities for Policy Makers

Promoting asset-building

"Asset effects"—the theory that the ownership of assets has both material and behavioral effects (Sherraden 1991)—has been widely written about and there is an emerging body of evidence to back the theory from developed countries. In as much as a savings account is an asset that youth can turn to, many of the same asset effects should be observed. Savings are an asset that can be used later to pay for higher education, health care, a business, or a home. In addition, asset theory states that holding assets changes one's cognitive schemas, increasing future orientation, long-term thinking, and planning and self-efficacy (Scanlon and Adams 2006). In particular, positive economic,

3 Bangko Sentral NG Pilipinas (www.bsp.gov.ph).

psychological, social, health, and intergenerational effects have been cited from research in developed countries (Sherraden 1991).

Few studies on asset effects have been undertaken in developing countries to date. A recent study in Uganda found that offering AIDS-orphaned children a combination of financial services, including a matched savings account and nonfinancial services, such as business development and mentorship, was effective in reducing depression and risky behavior in these youth (Ssewamala, Neilands, Waldfogel, and Ismayilova 2011). Youth savings programs funded by international donors, such as YouthSave,[4] are now looking to test the premise that financial products, especially savings tools, have the potential to impact other developmental outcomes for youth and the household, including educational attainment, health, and other measures of well-being.

Instilling good financial habits

Investing in bringing youth into the financial system at a young age should help create a generation of adults with stronger money management habits (Johnson and Sherraden 2006, p. 9). As research in other areas of child development has shown, it is easier for children to build habits such as financial discipline when they are young (Knudsen, Heckman, Cameron, and Shonkoff 2006). Based on the notion that people learn best by doing and that positive behaviors and habits are best cultivated in childhood and adolescence, youth savings products may provide an opportunity to "practice" and cultivate financial capability early in life. [5]

Box 3. State Government Incentivizes Children to Save in Bayelsa, Nigeria

The Bayelsa state government in Nigeria launched a three-year Child Development Account pilot program in December 2010. The initial phase focuses on 1,000 junior secondary students (similar to seventh grade or middle school in other countries) from 24 schools across eight local government areas. The program incentivizes students to open accounts and to commit to saving on a quarterly basis by promising to double students' savings, up to a maximum annual cap of 40,000 Naira (approximately US$255). As of December 2011, more than 600 accounts had been opened through the program.

Alongside making financial services available, many policy makers in developing countries are looking for ways to introduce financial capability programs targeted to youth. The jury is still out, however, on the best way to improve youth financial behavior, or whether financial capability programs are impactful in general. There have been few impact studies released to date, though the Russia Financial Literacy and Education Trust Fund[6] and the Financial Education Fund[7] have in the pipeline several studies on the impact of financial capability programs.

Questions have also been raised about costs associated with the different approaches for building financial capability, from traditional classroom-based training to mass media. There are also questions about which approaches to financial capability work best and who is best suited to provide financial capability, including appropriate roles for financial service providers and how to draw the line between financial capability

4 YouthSave investigates the potential of savings accounts as a tool for youth development and financial inclusion in developing countries, by co-creating tailored, sustainable savings products with local financial institutions and assessing their performance and development outcomes with local researchers. The project is an initiative of the YouthSave Consortium, led by Save the Children in partnership with the Center for Social Development at Washington University in St. Louis, the New America Foundation, and CGAP. CGAP's contribution is partially funded by the Italian Ministry of Finance

5 Financial capability as defined by the U.S. Treasury Department, FINRA Investor Education Foundation (2009), is "the combination of knowledge, skills, attitudes, and especially behaviors that people need to make sound personal finance decisions, suited to their social and financial circumstances."

6 This is a program of the World Bank, supported by contributions from the Russian Federation, implemented in part by the OECD to enhance financial knowledge and capabilities in the developing world.

7 This is a multi-donor fund, with initial start-up capital from the Department for International Development over three years.

and marketing. A recent Citi Foundation report recommended developing and piloting new models of product-linked financial education, perhaps through the establishment of a financial capability innovation fund.[8]

Improving gross savings rate

Household savings are important because they provide the funds to finance capital investment, and they also serve as a buffer against shocks. Many countries that have traditionally had low savings rates are interested in growing these rates. For example, Vision 2030 created by the Kenyan government encourages savings and investments by strengthening existing economic structures and instruments.[9] Governments, such as those of the Philippines and South Africa (Cronjé and Roux 2010), are also actively promoting a strong savings culture in their countries. They are creating incentives for a larger proportion of the population to save as well as encouraging people to save more so that per capita savings increases. The Philippines launched Banking on Your Future Kiddie Account in 2011 with the explicit objective of raising the country's savings rate.[10] One of the first results from the Russia Financial Literacy and Education Trust Fund showed that Brazil's school-based financial education pilot program increased savings rates by 1 percentage point.[11]

Obstacles for Policy Makers

Legal age to enter into contracts

Regulations that prohibit youth from owning and operating their own accounts pose major obstacles to youth savings. In almost all countries' regulations, minors are not considered sufficiently competent to enter into legally binding contracts, including opening and operating a bank account on their own. Regulators consider that youth may lack the developmental or cognitive capabilities to fully understand the terms, conditions, and overall meaning of the contract into which they are entering. Regulations thus provide protection against potential abuse of minors by financial institutions. Regulators fear that youth may also be vulnerable to pressure or manipulation from adults who want them to enter into contracts on their behalf, or that offering youth a savings account could implicitly nudge them toward work to acquire the money to save. Thus, contract law and financial regulation act to both protect the interests of young customers as well as manage risk for financial service providers.

For example, in Ghana the Law of Contracts requires a person to be 18 to enter into a contract; youth under 18 need the permission of a guardian to open and operate a bank account. Our initial research shows this is often the case. Emerging markets that consider bank accounts to be contracts include Bangladesh, Brazil, Ecuador, Nepal, Turkey (Child and Youth Finance International 2010), Uganda, and Senegal (Hopkins, Porter, Perdomo, and Munoz 2012); developed countries that consider bank accounts to be contracts include the United States and most of the European Union. Consequently, it is common to allow youth to open an account only in conjunction with a guardian.

There are distinctions, however, among account opening, ownership, and transacting. While, in many countries, a parent or guardian must open the account with the youth, the youth can then often conduct some transactions on the account without being accompanied by the parent. They are typically allowed to make deposits using various channels, such as debit cards and bank agents, as is the case with Postbank in Kenya. However, they may not be able to withdraw money on their

8 For more information, see Deb and Kubzansky (2012).
9 www.vision2030.go.ke
10 http://www.bsp.gov.ph/publications/media.asp?id=2650
11 www.finlitedu.org

own. The importance of this distinction from a regulator's perspective is that there is far less risk involved for both the customer and the institution in a deposit transaction than in a withdrawal.

Although it is uncommon in developing countries, many OECD countries allow youth to own or at least independently operate their own accounts. For instance, in the United Kingdom, children from the age of seven can not only own their own accounts as long as they have a form of identification, they can also transact in their own accounts (Child and Youth Finance International 2010). Policy makers interested in youth savings could take a "test and learn" approach by creating an innovation space for youth savings products. More recently, a few developing countries have implemented explicit age permissions to encourage youth to open bank accounts independently. In the Philippines, a child can open and operate an independent account starting at age seven.[12] In Ghana, the existing norm was to open trust accounts where the child had no control over the money at all until the child attains the age of majority. As part of the YouthSave project and on an experimental basis, the Central Bank of Ghana has given HFC Bank permission to open custodial accounts for youth, where the guardian cannot withdraw funds without the youth's permission (Center for Social Development 2011).

Documentation required to open an account

Some form of identification is required for individuals to participate in most formal financial transactions. According to the Global Findex, 18 percent of adults who do not own a bank account cite their lack of requisite documentation as the reason. Although these policies are not intended to impede youth access to finance, that is often the inadvertent consequence. Cumbersome identification requirements, including address proof, are challenging for many low-income people seeking access to formal financial services.

The rationale for the rigor countries use in identifying financial institution customers is related to anti-money laundering and combating the financing of terrorism measures. While this rationale is sound, the Financial Action Task Force has established a risk-based approach toward the implementation of customer identification requirements. Regulators can assess risk and then adapt documentation rules with certain predefined conditions (below a certain volume and value of deposits, for example) on an experimental basis, and keep close watch both on market development and risks. To reduce the documentation burden on youth, for instance, the Central Bank of the Philippines has allowed banks to use school identification cards as identification documents for a child/youth to open an account.

The Private Sector Perspective—Opportunities and Obstacles for Financial Services Providers

To reach the large number of youth who could use safe and secure deposits accounts, there must be a clear business case for providers. Subsidized programs, especially in low-income countries, will unlikely reach significant scale because public resources are limited and often unreliable over time.

Providers that have pursued the youth market perceive a business opportunity, mainly around acquiring and nurturing lifetime customers. Table 1 presents a diversity of providers, including cooperatives, commercial banks, and microfinance providers, across three continents that are serving youth at some scale (at least 20,000 customers). Many of these providers are leaders in their markets

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Table 1. Outreach to Youth, by Selected Financial Service Providers

Provider	Product	Outreach
Bancolombia, Colombia[a]	Savings	600,000
GSB Thailand[a]	Savings	513,000
Hatton National Bank, Sri Lanka[b]	Savings	1,000,000
BRAC, Bangladesh[a]	Savings	430,000
National Savings Bank, Sri Lanka[a]	Savings	390,000
Equity Bank, Kenya[b]	Credit, savings, insurance, remittances, payments	260,000
MICOOPE, Guatemala[a]	Savings	217,000
Padakhep Manabik Unnayan Kendra, Bangladesh[b]	Credit, savings, insurance, remittances, payments	210,000
ACSI, Ethiopia[a]	Savings	108,000
Xac Bank, Mongolia[c]	Savings	86,000
Bank Simpasan Nasional, Malaysia[a]	Savings	60,000
Dakahlya Businessmen's Association for Community, Egypt[b]	Credit	44,000
Alexandria Business Association, Egypt[b]	Credit, insurance	25,000
PostBank Uganda[b]	Savings, payments, credit and debit cards	26,000
Credito Con Educacion—CRECER, Bolivia[b]	Credit, savings, insurance	20,000

a. Deshpande and Zimerman (2010); outreach defined as number of accounts.
b. YFS Link Map data provided by Making Cents International. Outreach defined as number of youth served.
c. Interview with Xac Bank.

and have an explicitly stated vision of serving the poor. They mostly offer savings services, though a few also offer a more diverse range of services. Their definition of youth varies from starting at birth for some savings accounts to starting at age 18 for credit products.

Opportunities for Financial Service Providers

Building a loyal, lifelong customer base

By acquiring a customer at a young age, financial service providers have the opportunity to be the bank of choice for this customer over his or her lifetime, as long as the bank continues to meet the customer's evolving needs. Research from developed countries strongly suggests that customers stay loyal to their first bank. A 2010 survey of 6,140 retail banking customers in Belgium, France, Germany, Italy, Spain, and the United Kingdom indicated that close to 80 percent never changed their main bank provider in their lifetime (Saiz and Pilorge 2010). It remains to be seen whether the same would hold true in emerging country contexts, where the competitive landscape may be more dynamic, with greater entry and exit points as markets mature over time.

Nurturing customer loyalty over the years requires the ability to offer youth other, relevant products over time. While it is unlikely that low-balance savings *products* will be profitable on a stand-alone basis, some financial service providers report that *customers* that enter with a youth savings account can become profitable. This is because providers can cross-sell other products to customers, making the customer profitable over time. More providers are beginning to focus on "total" or "lifetime" customer profitability.[13]

13 Conversations with Xac Bank, Hatton Bank, ACSI, and Banco Caja Social revealed their focus on customer lifetime profitability.

Few providers track levels of cross-selling, however. While specific research on the profitability of youth savings accounts is still underway, a 2010 study on the profitability of small-balance savings accounts targeted to low-income customers—the kinds of accounts also likely to be used by youth—found that even though the annual operating costs of low-balance savings accounts as a percentage of total deposit balances were 59 percent in the Dominican Republic and up to 241 percent in Uganda, "these high operating costs are more than overcome by the profits generated through cross-sales of loans and other products to the small savers and by the fee income derived from their savings accounts" (Westley and Martín Palomas 2010, p. 1). This strategy focuses on long-term value and encourages cross-selling and building customer retention and loyalty through superior customer service and products that remain relevant and evolve along with customer needs.

Tapping into young people's networks

Financial service providers also have the opportunity to tap into youth's social network, particularly their family, friends, and other members of their communities, to acquire new clients at low cost. The premise is that once a service relationship has been established with the youth, other members of the household would become more open to establishing a formal financial relationship. In the same vein, as a critical mass of youth in a community gains access to and value from accounts, the broader community might be more inclined to use the financial service provider's services. While this benefit is difficult to quantify given that providers generally do not have the management information systems set up to track this variable, there is some encouraging developed country experience. School Savings, a program approved by the U.S. Department of Education, offers savings accounts to over 5,000 schools and 2.5 million students in the United States. Program data show that in four years 52 percent of the providers' new deposits and 68 percent of new loans came from households that had a school saver in them (Avena 2012). In a sense, youth, by virtue of their uptake of formal savings services, can serve to market providers' services, thus lowering the cost of client acquisition.

Gaining market share, especially in competitive environments

In some countries, competition among banks, microfinance institutions, and other providers for traditional segments served by microfinance is becoming more intense (Porteous 2006). Some markets have experienced problems of overheating with specific client segments—for example, microentrepreneurs taking on working capital loans. Diversification of the portfolio and the customer base is one way for providers to reduce the risk from traditional segments and also pursue growth. For example, when analysis by the Kenya Post Office Savings Bank (KPOSB) revealed that its customer profile was aging, it actively targeted youth customers to drive the average age of customers down, helping the bank stay relevant in an increasingly competitive market. This was one of the bank's key motivations for partnering with the YouthSave project to offer savings accounts to youth aged 12–18.[14]

Solidifying brand and delivering on corporate social responsibility

Investing in youth is often equated with investing in the future success of a community and a country. By supporting aspiring workers, entrepreneurs, students, and young families, financial service providers can build on their brand and image as responsible corporate citizens.

14 Conversation with chief operating officer of KPOSB in November 2010.

Box 4. Banco Caja Social: Doing Good by Doing Well

Banco Caja Social (BCS) is a corporate division of Fundacion Social. Its mission is to help overcome the structural causes of poverty in Colombia. With 35 percent of the Colombian population under age 18, BCS is investigating the commercial viability of serving these youth. For BCS, the potential social benefits of serving low-income youth and the commercial process of building brand loyalty and gaining the business of tomorrow's small entrepreneurs, insurance consumers, and home owners are inextricable.

In partnership with the YouthSave project, BCS conducted market research that revealed that youth had a desire to save for the long term. Based on this, BCS launched its youth product Cuenta Amiga para Jovenes, a programmed account where youth set up a savings goal, in February 2012. The youth savings account restricts withdrawals to one per year, thus compelling youth to save—a design feature intended to work for youth and lower costs for the bank.

Serving youth can earn public relations points for providers in the eyes of the community. In 1990, the leadership of Hatton National Bank in Sri Lanka realized that its survival depended on a stable political and economic environment. This realization made the bank recognize its responsibility to society, particularly by creating access to financial services for youth and rural communities (Abeywickrema 2009). Some institutions, such as the Bank of Kathmandu in Nepal, are even prepared to absorb losses on their products in the short-term if it leads to the benefit of motivating staff and leaving them excited about serving the community.[15] In addition, there could be an effect on the provider's share price by the market perceiving it to be a more socially responsible institution. This effect has been shown in areas such as the environment (Kolbel and Ford 2010). Box 4 provides an example of combining a social mission with a business objective.

Obstacles for Financial Service Providers

Short-term customer profitability

Any commercial financial service provider considering launching a savings product targeted to youth will be interested in whether the product has the potential for stand-alone profitability. Compared to other customer segments, youth typically save smaller amounts, use fewer financial products, and transact less frequently. Providers thus receive lower revenues, while the fixed costs of offering a savings account, for example, are the same regardless of whether it has a balance of $5 or $500.

The cost of acquisition may also be higher, especially for youth who have dropped out of school to work and are, therefore, harder to reach (and correspondingly more costly). Out-of-school youth are often not part of regular networks, and reaching them through a cost-effective delivery channel, such as schools, is not an option. It might be possible to reach these youth through religious institutions, youth groups, sports clubs, etc., but early experiences through the YouthSave project have shown that these youth are difficult to mobilize. In Ghana, out-of-school youth often do not want to admit that they are no longer in school and are sometimes afraid of repercussions from the government if they are known to have migrated or dropped out of school. In addition, they often lack the necessary documentation (birth certificates, identification cards) and a trusted adult guardian who can satisfy the legal requirements on their behalf (Deshpande 2012).

Technology might be one of the ways to ease the short-run profitability challenge. Experiences with technology-enabled business models—for example, using cell phones—show that technology can help bypass traditional branch-based methods of product delivery, cutting costs significantly. A study of 16

15 Conversation with chief executive officer of Bank of Kathmandu in July 2011.

leading branchless banking providers found that, on average, branchless banking was 19 percent cheaper than branch-based banking (McKay and Pickens 2010). This finding, coupled with the fact that youth have been shown to be early adopters of technology (Pickens, Porteous, and Rotman 2009), offers providers a viable opportunity to dramatically cut costs for reaching youth. Providers should also consider the imposition of transparent and reasonable fees on the account as another way to ease the short-term profitability challenge.

Long-term customer profitability

To capitalize on the long-term opportunities the youth segment may offer, most financial service providers will need to give themselves considerably more time to become profitable. Providers generally look to break even on a product in the short to medium term, while the benefits of youth loyalty, cross-selling, and brand recognition are likely to take longer to materialize. Not all boards and shareholders are ready to consider profitability prospects over the long term, especially in markets where growth is still happening with current customer segments.

Considerations for Moving Ahead

This paper has presented some emerging perspectives, but there is more work to be done on both the business case and public policy case for youth savings. Simultaneously, the role of finance in managing youth transitions needs to be better understood. There is scope for more evidence-based experimentation and policy making.

On the policy side, more data on the social impact of youth savings will help policy makers evaluate the efficacy of youth savings as a policy instrument. Regulators can take a test-and-learn approach to reducing barriers for the private sector to deliver youth savings. However, special attention must be paid to protecting deposits under this approach, with consumer protection policies built in for dealing with minors. Coordination among various government ministries is also important in implementing youth savings initiatives, ideally within a comprehensive youth policy. Governments typically have a number of schemes targeted at youth, each run by a separate ministry. Even in countries such as Ghana, that have a National Youth Policy, the responsibility for youth services is spread across various ministries, such as Education, Youth and Sport, and Labor. These agencies should work together to design focused and relevant financial interventions that form a cohesive whole with other youth interventions.

On the financial service provider side, there is a need for innovation and experimentation around understanding subsegments of the youth market, product design, marketing, and financial capability. Providers still must decide whether new products need to be designed for youth or if adult products need only to be marketed differently and offered through youth-appropriate delivery channels to attract youth. A larger point still to be answered is whether this customer segment can be profitable for providers. This question is unlikely to have a simple answer, and the answer will vary by provider,

Annex 1. Selected Youth Programs

Program	Partners	Funder	Geography	Area of focus
Access to Credit Services Initiative	CHF International	CHF International	Iraq	Developing and expanding demand-driven financial services for youth to create entrepreneurial opportunities by facilitating access to finance
Advancing Integrated Microfinance for Youth (AIM Youth)	Freedom from Hunger	The MasterCard Foundation	Mali and Ecuador	Testing how integrated microfinance and financial education can be effectively designed and delivered to poor youth
Expanded and Sustained Access to Financial Services (ESAF)	CHF Ryada	USAID	Palestine	Design, market, and roll out microfinance product to youth who want to be self-employed
Ishaka—Courage for the Future	CARE	The Nike Foundation	Burundi	Economic and social empowerment of 20,000 adolescent girls using village savings and loans solidarity groups
Making Financial Services and Business Skills Development Available to African Children and Youth	PLAN International	Swedish International Development Agency	Senegal, Sierra-Leone, Niger	Creating opportunities for youth to actively and independently improve their living conditions using village savings and loans methodologies
Safe Spaces, Financial Education and Savings for Vulnerable Adolescent Girls	Population Council	The Nike Foundation	Kenya and Uganda	Testing a combined program of savings, financial education, life-skills and mentoring, and safe spaces as tool for economic empowerment of adolescent girls
Savings Innovation and Expansion for Adolescent Girls and Young Women	Women's World Banking, Xac Bank	The Nike Foundation	Mongolia	Testing if tailored savings products and financial education leave girls socially and economically empowered
SUUBI	SUUBI Project, Columbia University	U.S. National Institute of Mental Health	Uganda	Economic empowerment of orphaned youth by offering a matched savings account
Tap and Reposition Youth (TRY)	Population Council and K-Rep Development Agency	Population Council and K-Rep Development Agency	Kenya	Reduce vulnerability of teens and young women by offering integrated program of savings, credit, business and life skills training, and adult mentoring
Youth Economic Empowerment (YEE) Programme	Plan International Indonesia	World Bank partnership for youth investment	Indonesia	Microfinance program for adolescent girls and young women promoting a group-based. savings-led model
YouthInvest	MEDA	The MasterCard Foundation	Morocco and Egypt	Youth entrepreneurship and life skills training
YouthSave	Save the Children, Center for Social Development, New America Foundation, CGAP	The MasterCard Foundation	Global—pilots in Kenya, Ghana, Colombia, and Nepal	Study developmental outcomes and business case of youth savings accounts
YouthStart	UNCDF	The MasterCard Foundation	Sub-Saharan Africa	Testing if youth financial services can reach scale

Sources: Making Cents YFS Link and YouthSave Consortium "Youth Savings in Developing Countries" 2010

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CGAP
1818 H Street, NW
MSN P3-300
Washington, DC
20433 USA

Tel: 202-473-9594
Fax: 202-522-3744

Email:
cgap@worldbank.org
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