YouthSave
RESEARCH BRIEF

Colombia Ghana Kenya Nepal

Challenges and Opportunities for Youth Saving

April 2012 ○ YouthSave Research Brief No. 12-16

YouthSave is a pioneering project designed to study savings and development among low-income youth in Colombia, Ghana, Kenya, and Nepal. The goals of YouthSave research are to measure the uptake, savings outcomes, experiences, and impacts of Youth Savings Accounts (YSAs) on clients and financial institutions.

The aim of the YouthSave learning agenda is to produce critical knowledge to inform the design of savings products, services, and policies targeted for youth, and at the same time provide guidance in decisions and capabilities for asset-building strategies for youth and their families. One of the learning methods—a multi-faceted case study—informs the "story" of YouthSave in each country from contextual and demand-side perspectives.

Research Partners in all four countries, in collaboration with CSD, have conducted background research to understand the context of youth saving ahead of the launch of YSAs. This research brief highlights some of the challenges and opportunities in the four YouthSave countries.

Challenges for youth saving

The research team discerns five common types of challenges for youth saving, which cut across all four countries.

Regulatory

Of course, the regulatory environment greatly influences youth savings. Here we highlight the importance of age requirements and formal identity requirements.

Age requirement for account opening and operating. National regulations have specific age requirements for opening and operating a bank account. In Ghana and Kenya, a youth cannot open and operate an account until she turns 18 years old. For youth under 18, an adult parent or guardian may open and operate an account on their behalf. Youth under age 16 in Nepal are required to have a parent or guardian at account opening as a signatory. Youth aged 12 and above in Colombia are allowed to open and operate accounts independently. Most youth targeted by YouthSave (12-18 year olds), therefore, will need to involve their parent or guardian in the opening of and operating a YouthSave account. Such parent or guardian involvement in youth banking is at odds with youth's desire for autonomy, however, and may serve as a disincentive for account opening in YouthSave.

Formal identity. Know Your Customer policies require proof of formal identity such as a birth certificate or passport for anyone opening an account at any formal financial institution. Identity requirements are barriers for individuals of all ages who live in areas where ownership of a birth certificate or photo identity card may not be common. Unlike adults, however, youth may not have the knowledge, ability, and resources to procure identity documents without adult assistance. In some cases, parents may lack formal identity documents as well. This can be an additional barrier to account opening in countries where parental involvement in account opening and operation is required. Thus, YouthSave may sometimes have to appeal to parents as well as youth in order to open accounts.

Institutional

Most savings products require a minimum balance and a one-time account-opening fee that may discourage engagement with financial institutions. Other bank charges such as ATM usage fees, unfavorable returns, monthly operating fees, and withdrawal fees on savings may serve as additional disincentives. While these institutional requirements may be barriers for all low-income clients, youth may be particularly affected because of the relatively small size of their financial resources. In considering product design, YouthSave financial partners have considered low account opening fees and low minimum balance requirements to appeal to youth. In-depth interviews with youth, planned for after product rollout in all four countries, may indicate how effectively the YouthSave product design addresses

Washington University in St. Louis
Center for Social Development

these concerns.

Perceptional

Youth may avoid financial institutions because of their own beliefs or perceptions. Some youth, for example, perceive banks as for adults and thus do not believe that they can develop relationships with banks. An economist with the Ministry of Finance in Kenya has termed this avoidance as "self-exclusion," and notes that it "is boosted by lack of sensitization." In addition, some youth may lack trust in financial institutions, or may transfer negative experiences with informal saving to formal financial institutions. In Ghana in particular, liquidation and closure of distressed banks during 2008 and 2009 may have increased youth's concerns about savings with banks. In-depth interviews with youth, planned for after product rollout in all four countries, may indicate how effectively YouthSave marketing makes youth clients feel welcome in banks and increases their trust in financial institutions.

Geographic

Geographic barriers make it difficult for banks to deliver services, and expensive for individuals to save, particularly those in remote rural areas. Like institutional barriers, geographic barriers are salient for most customers in remote areas but may hit youth harder because of their limited financial resources. No bank in the four YouthSave implementation countries has 100% national coverage (branch and agents combined), even though significant progress has been made over the past decade in expanding financial services to rural populations. A Kenyan official notes that bus fare for customers to travel to the closest bank branch may be greater than the deposit they plan to make. A Nepali official points out that some areas in Nepal can only be reached on foot, and in these areas, youth often have no alternative to informal saving. Take-up rates and savings data collected as part of YouthSave will indicate how successful financial institutions are in providing affordable banking services to youth in these remote areas.

Product features

Product features of youth savings accounts play a significant role in enrolling youth. Kenya Postbank representatives observe that financial products are often imported from other countries, rather than being tailored to local context and needs. Therefore, a priority is to design a product particularly suited to Kenyan youth for YouthSave. Colombian Banco Caja Social representatives speculate that youth from low-income families may prefer assets with low liquidity, and that alternative or informal financial arrangements may offer better returns than formal institutions. Bank of Kathmandu representatives expressed concerns about designing a product that can serve heterogeneous groups among the youth population. Thorough market research was completed in each country to understand the product features and services desired by the youth. Transaction data for youth in YouthSave will offer insights into how successfully YouthSave products serve different populations of youth.

Opportunities for youth saving

Notwithstanding the challenges and barriers mentioned above, field research also identifies opportunities that are especially conducive to the YouthSave project.

Global commitment

With the influence of the G-20 making financial inclusion a priority on its multi-year development agenda, many national governments have become aware of the importance of financial inclusion to the national economy, especially in the current context of the world's financial turbulence. All four YouthSave countries have the potential to play a role in this global effort by increasing financial access.

Supportive policies

All four YouthSave countries have policies that can facilitate youth saving. For example, Colombia's flexibility in allowing banks to charge interest at market rates motivates financial institutions to serve youth sectors. The Kenyan Ministry of Youth Affairs and Sports is mandated to promote youth development through designing appropriate policies and programs, where financial and business skills are also part of the focus. Ghana's recent universal banking policy enables financial institutions to offer diversified products and services to satisfy different customers' needs. Nepal's Ministry of Youth and Sports continues to develop programs to improve youth's welfare and promote inclusion, especially among low-income and vulnerable groups. As YouthSave rolls out, ways in which supportive policies facilitate youth saving will become more clear.

Information technology

With increasing availability of branchless banking, smart technologies such as cell phones and payment cards have extended the service frontline to benefit millions of poor people around the world. The younger generation is believed to be more likely than their parents to adopt cell phones and bank cards for banking. Branchless banking provides business opportunities for financial institutions because of the possible linkage between savings and other financial products such as payments, remittances, and loans. All four YouthSave financial partners already offer branchless banking and express interest in exploring how to use smart technologies to reach more potential young customers, lower cost of delivery, and diversify distribution channels.

Financial capability

Consumers who have a certain level of financial knowledge and access to appropriate financial products are likely to have a more sophisticated understanding of financial transactions, make informed choices, and take active steps to save. In addition, financial partners in YouthSave have plans to implement multi-method marketing strategies—accompanied by diversified programming activities carried out by Save the Children—to enable youth customers to increase their financial capability. YouthSave has plans to assess youth participants' financial capability via multiple research methods. When these data are combined with data on participants' saving performance, it may be possible to learn more about how financial capability is related to saving outcomes.

Conclusions

Overall, the youth saving environment is dynamic. Youth savings is very much in development, and transitioning rapidly. Some conditions—especially information technology—indicate that this development will only accelerate going forward.

At this writing, YouthSave is near "rollout" to reach low-income youth with formal financial services in Colombia, Ghana, Kenya, and Ghana. There are many challenges and opportunities. Research Partners and CSD will continue documenting YouthSave results and lessons as the project moves ahead.

Acknowledgements

This brief is a product of the YouthSave Project. Supported by The MasterCard Foundation, 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, coordinated by Save the Children in partnership with the Center for Social Development at Washington University in St. Louis, the New America Foundation, and the Consultative Group to Assist the Poor (CGAP).

YouthSave Research Partners

Washington University

George Warren Brown School of Social Work
Center for Social Development
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899

University of Ghana

Institute for Statistical, Social and Economic Research (ISSER)
Legon, Ghana

Kenya Institute for Public Policy Research and Analysis (KIPPRA)

Nairobi, Kenya

New ERA

Kathmandu, Nepal

Universidad de los Andes

Bogotá, Colombia

University of North Carolina

School of Social Work
Chapel Hill, North Carolina

Columbia University

School of Social Work
New York, New York

Suggested Citation

Center for Social Development, Institute for Statistical, Social, and Economic Research, Kenya Institute for Public Policy Research & Analysis, New ERA, & Universidad de los Andes. (2012). *Challenges and opportunities for youth saving* (YouthSave Research Brief 12-16). St. Louis, MO: Washington University, Center for Social Development.