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A Framework to Analyze the Business Case for Youth Savings

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Not many financial institutions in developing countries target youth specifically, and for those that do, the youth market usually represents a small part of their overall operations. Other authors have argued the social value of extending savings services to youth, but the business case is less certain. As financial institutions have entered the youth market, the question has been whether they can offer youth savings products sustainably. In other words, is there a business case for offering youth savings products?

There is no answer that is universally true across all places, contexts, and times. A more practical approach is to analyze the value proposition. Which factors at the market, institutional, and segment levels make youth savings an attractive line of business? As a member of the YouthSave Consortium, CGAP proposed an analytic framework for understanding the conditions under which there may be a business case for financial institutions to offer savings products to young clients. The framework is designed to expand our understanding of the many factors affecting the profitability of youth savings products and to guide financial institutions as they decide

whether and how to offer these products on a sustainable basis. CGAP's Focus Note[1] lays out the framework in detail.

There are benefits that financial institutions can gain from offering youth savings accounts. As noted above, financial institutions may see a social value in serving youth: as a means of fostering financial inclusion and developing economic opportunities for youth, which can contribute to political stability[2] or to advance the institution's obligation to act as a good corporate citizen. But targeting youth can also bring diversity to the client pool, which may be especially valuable for financial institutions whose client base is skewing older. Indeed, youth can deliver higher customer lifetime value than older customers—with the very important caveat that the financial institutions retain these customers over the long term. Institutions that need to see a short-term business case often serve older youth who already earn income and hold cross-sell potential.

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A sustainable business case for youth savings relies on an institution's ability to balance the costs and revenues of this product offering, and to do that over the life cycle of the client. The figure on the next page reflects the varying internal and external contexts of different institutions, showing how influences at the market, institutional, and client segment level lead to different cost and revenue streams and can drive different business case outcomes. The figure identifies specific "levers" that financial institutions can consider as they choose the youth segments they will serve and how these segments will support their business case. These are based on research from the YouthSave project countries.

Market-Level Levers

Decision Point 1: How competitive is the environment?

At the market level, the competitive environment is a key lever that influences the case for entering or not entering the youth savings market. The business case is generally much stronger and broader in high-competition environments where capturing future clients early on can create a key competitive edge.

Decision Point 2: What are the regulatory parameters?

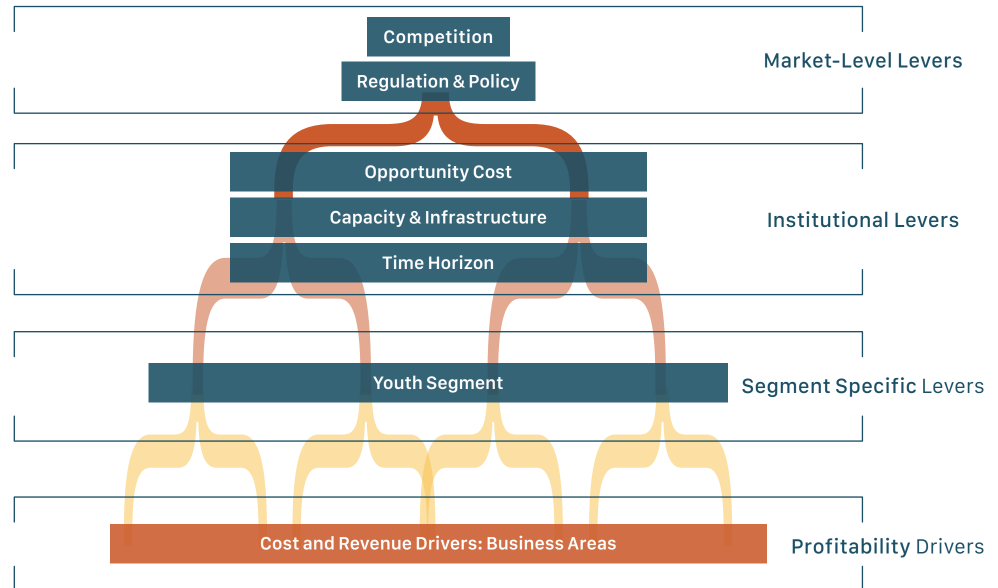
Minors under age 18 cannot legally be the sole owners of accounts in most countries, although the exact age of majority (at which they may own their own accounts) varies.[3] Restrictions on minors' account ownership may discourage some entrants into the youth market or at a minimum, create additional costs and complications to serving youth. In Ghana, for example, where children under age 18 cannot open a bank account on their own, YouthSave partner institution HFC Bank found that some potential clients were dissuaded from opening accounts because they preferred not

1 Kilara, Tanaya, Barbara Magnoni, and Emily Zimmerman. *The Business Case for Youth Savings: A Framework*. Focus Note No. 96. Washington, DC: CGAP, 2014. Available at: https://www.cgap.org/sites/default/files/Focus-Note-Business-Case-for-Youth-Savings-A-Framework-Jul-2014.pdf

2 Hatton Bank in Sri Lanka strongly believes that for a young country that has seen a great deal of political strife, investing in youth is essential to the long-term viability and sustainability of its institution.

3 For more information about age restrictions and institutions' ways of delivering responsive youth savings services while working within those legal restrictions, please see for example Deshpande (2012); Hirschland (2009); and Kilara and Latortue (2012).

Business case framework overview



to have their parents as co-owners (for reasons ranging from inconvenience to distrust). In response, HFC Bank has allowed trusted adults, such as teachers and adult siblings, to act as cosignatories (an arrangement allowed under Ghanaian regulations). Children can make deposits on their own, but the adult must be present to open the account and to make withdrawals. The take-home message is that an enabling regulatory environment can encourage financial institutions to serve minors.

Institutional Levers

Decision Point 3: What are the opportunity costs of offering youth savings as opposed to investing resources into other ventures?

For new institutions, or those in growing markets, the opportunity costs of pursuing a youth savings program can be substantial. Youth savings are often low-margin products that bring small returns over the short term, requiring long time horizons to offer positive returns on investment. For growing institutions or those in environments where markets are not yet saturated, higher-return opportunities often abound. Not surprisingly, when faced with resource constraints, financial institutions typically allocate limited resources to products and activities likely to generate greater returns over the short term than can be realistically expected from youth savings products.

Decision Point 4: What is the institution's infrastructure and capacity to allocate resources to youth savings?

To reach youth effectively, financial institutions need to invest in developing appropriate products, creating distribution and marketing strategies, and cultivating new delivery channels. These efforts require substantial management attention, staff time (and in some cases, new staff appropriate to the youth market), and other resources. Some institutions may be able to leverage an existing, wide-reaching branch network and other resources. But others may need to build from a lower starting point. As a large and wide-reaching bank, YouthSave partner institution Banco Caja Social in Colombia saw no need to expand infrastructure or staff to serve youth when it launched its YouthSave product. So in BCS's case, the marginal costs of expanding to youth were limited, and the resources required did not divert the bank from other projects (such as expanding its microcredit portfolio) pursued simultaneously.

Decision Point 5: Over what time horizon does an institution expect (or require) profitability from youth savings?

As noted above, the business case for youth savings is generally most compelling when viewed over a long time horizon, more than five years in most cases.[4] Rather than just shaping the return on investment calculations, the time-horizon question can strongly influence an institution's decision whether to enter the market in the first place—and whether to remain in it or exit. Kenya Post Office Savings Bank, for example, takes a very long-term view of profitability. It begins targeting children at birth (with its Bidii Junior account), and then automatically transitions them through accounts for school-aged children (the SMATA YouthSave account) and working youth (STEP account). Kenya Post Office Savings Bank invests in youth based on the belief that they will stay with Postbank through their lifetimes if they are satisfied with the services. By contrast, Banco Caja Social in Colombia expects profits from its youth savings products within a relatively short time frame: the financial model of the account is based on a five-year time period.

Decision Point 6: How strong of a motivating role do social mission and corporate social responsibility play?

Although it cannot create a business case on its own, social commitment can help motivate an institution to offer youth savings in spite of the challenges noted above. In particular, a social commitment can justify a patient approach to the business case—the long time horizon discussed above—in an industry that typically expects more immediate results from its investments. Indeed, although the primary motivation for offering youth savings accounts varies, most institutions interviewed by CGAP during the course of the YouthSave project cited social mission as one important influence, as the potential social benefits to youth savings are great.

4 The time horizon for profitability is elaborated in Deshpande and Zimmerman (2010) and Kilara (2012).

Levers Specific to Youth Sub-segment(s)

Decision Point 7: Which youth sub-segment(s) should the institution target?

An institution can choose to enter one or more specific youth sub-segments. Each requires varying levels of investment and outreach over different time frames and with different costs and benefits, which are determined in large part by the levers described above. Thus, financial institutions have to make choices between targeting older, working-age youth (who are often targeted by multiple institutions), very young sub-segments who cannot operate their accounts except through their parents; or youth who can operate their own savings accounts but where cross-sell is not possible for a number of years. HFC Bank in Ghana targets children beginning at age 12 and makes explicit efforts to graduate them to older-youth and later to adult products. Its decision to target young children and retain them as clients as they grow is driven largely by the competitive atmosphere in Ghana, as market competition for older youth is more intense.

Cost and Revenue Drivers

Market, institutional and segment-specific levers help an institution decide which segments it will serve and how. Then once the segments are identified, an institution can begin to address the question "is it profitable?"—articulating a reasonable business case based on specific planning of costs and revenues. These cost and revenue drivers fall into five main categories: marketing, product, delivery, operations, and risk.

Driver 1: Marketing

Marketing to youth often involves providing basic information about financial institutions and savings products and convincing youth to open accounts. Offering this information (and sometimes financial education) can be expensive because youth may be generally unfamiliar with

financial products.[5] One common approach is to engage parents and explain products through them. Other financial institutions market directly to youth, through low-touch methods, such as the radio and television advertisements, or high-touch methods, such as community outreach and education in schools. Such outreach efforts can be difficult and costly. But they can also be very effective in bridging information barriers, bringing in new youth clients, and creating positive publicity to enhance the institution's brand.

Driver 2: Product and price

Designing appropriate products for a new, unfamiliar client segment can be difficult and costly,[6] but many small-balance savings products (youth and adult) tend to have similar basic characteristics.[7] Research published by YouthSave partners and other scholars indicate that small-balance young savers are often even more constrained than their adult counterparts.[8] The institutions interviewed commonly mentioned that additional product features such as low or no minimum balance requirements, no fees, higher interest rates, and access to an automatic teller machine (ATM) card are important to youth clients. As the youth savings field continues to experiment and to document its experiences, financial institutions may be correspondingly more able just to introduce products similar to those tried before, a faster and lower-cost way to get product to market than having to conduct extensive market research of their own. However, it is always advisable to validate a given product concept (e.g., through a small-scale pilot) within its specific proposed market.

5 See discussions in Deshpande and Zimmerman (2010); Hirschland (2009) Meyer, Zimmerman, and Boshara (2008); and Schurer, Lule, and Lubwama (2011).

6 See for example the discussions in Center for Social Development (2011); Deshpande (2012); and Hirschland (2009).

7 See for example the discussions in Gepaya (2009); Making Cents International (2010).

8 Deshpande (2012); Hirschland (2009); Johnson et al. (2015); Kilara and Latortue (2012).

Driver 3: Delivery

Building a youth-market business often requires financial institutions to hire new staff or to establish new relationships with other institutions or entities that bring together young people in significant numbers, especially schools.[9] Schools can be especially effective channels for reaching youth[10] but this requires large upfront investments and may be complicated, or even prohibited, by regulation. Mobile banking has the potential to help reach more youth at significantly lower costs, especially given that youth tend to be early adopters of technology and often have access to a mobile phone.

To the extent that adults from among the existing client base can bring in younger relatives, then the financial institution's cost to develop new delivery channels can be reduced. And of course in general, the upfront investments required to capture a new market, whether of youth savers or any other segment, will decline on a unit basis as that new market's pool expands. There is also an opportunity to experiment with innovative delivery methods that may ultimately be suitable for other client types, driving down costs (or increasing outreach, or both) in those segments as well.

9 Making Cents International (2010); Muñoz (2012); Mukaru video interview (2011); Shurer, Lule, and Lubwama (2011).

10 Johnson, Lissa, YungSoo Lee, David Ansong, et al. 2015. *Youth Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal*. YouthSave Research Report 2015. St. Louis, MO: Center for Social Development at Washington University. Available at: http://csd.wustl.edu/Publications/Documents/RR15-01.pdf

That said, it is important to remember that compared to adults, the opportunities are more limited for cross-selling higher margin products (e.g., loans) to youth clients. But such opportunities may already exist among older youth sub-segments, and will develop over time to the extent that the long-term goal—to develop life-long customer loyalty—is met.[11]

Driver 4: Operations

Many of the operational costs an institution faces for youth clients are similar to those of other client segments, but those costs are large relative to the very low-balance accounts youth typically have.[12] Minimum balance requirements are one way to keep savings balances at a sustainable level, but these must be set at low levels to avoid excluding young clients. Youth often require additional support, such as education, reminders (shown through a YouthSave experiment in Colombia to be successful), or incentives, to effectively use accounts they open.[13]

Driver 5: Credit and reputational risk

Because youth clients are typically offered only savings products and not credit, most institutions do not associate this client segment with risk. However, when youth are targeted with the explicit goal of cross-selling loans, as is sometimes the case, then risk becomes an important consideration. Financial institutions often avoid lending to people under age 25 because of their lack of financial experience and relative newness in the labor market. Financial institutions contemplating youth-focused loan products should carefully consider the additional cost of provisioning for, and analyzing, the associated risks.

Another consideration for an institution is the reputational risk of offering products to youth, especially minors. To the extent that young people do not understand or remember all product details and costs, there is a risk of disappointment and negative word-of-mouth. This can lead to ongoing distrust of financial services by young clients and possibly broader reputational costs to providers.

Summary

Since youth savings are not high-margin products, important tensions arise among their cost and revenue drivers. On the cost side, there is a tension between the need to market products to a new youth segment and the high cost of servicing small accounts. On the revenue side, there is a tension between the difficulty in reaching scale and the scope of young people's product use, which is typically small and limited to one or two products. The framework proposed in this chapter can be a tool for institutions that are either active or interested in this market. It can help identify the levers that will lead them to invest in specific market segments that will, in turn, define the costs and revenue drivers of profitability.

The business case for youth savings, as for any other venture, is dynamic. It should be re-evaluated as market and institutional characteristics change over time. In many markets competition will increase; as this happens, the business case for youth savings may become stronger, and it may make sense to expand youth products to new sub-segments or to invest more in developing the youth market generally. On-going data collection and analysis, and especially a long-term time horizon, will remain fundamentally important to any financial institution contemplating building a strong presence in the youth market.

11 Deshpande and Zimmerman (2010); Nakamatte and Muñoz (2012)

12 Westley and Martin (2010) describe in detail the relative difficulty and high cost of mobilizing small-balance savings.

13 Deshpande, Rani. 2012. *What Do Youth Savers Want? Results from Market Research in Four Countries.* Washington, D.C.: Save the Children Federation, Inc. Available at: http://mastercardfdn.org/wp-content/uploads/YouthSave-Market-Research-Report_FINAL1.pdf

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The YouthSave Consortium is grateful to all the scholars and practitioners whose writings have helped shape our project and the fields of youth financial services and youth wellbeing generally. Where possible, we have provided URLs where interested readers can download the works cited in this report. Please note that URLs were valid at the time of writing. We regret that, with the exception of YouthSave's own work products, we cannot be responsible for any links that may break or decay over time, nor can we ensure that downloads are or will remain free of charge. Works produced under the auspices of the YouthSave Consortium itself are indicated with an asterisk (*).

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