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Who Saves and How:

Findings from the YouthSave Savings Demand Assessment

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If given the opportunity, would young people in developing countries save and accumulate assets with formal financial institutions? This is the primary question YouthSave sought to answer through the Savings Demand Assessment (SDA). The final SDA annual report, published in January 2015, presents two-year findings (2012–2014) on account uptake and saving patterns and performance in youth savings accounts in Colombia, Ghana, Kenya, and Nepal. This chapter summarizes some of the SDA's key findings and lessons.

Many young people save informally, but access to formal services is often limited by regulatory policy, geographic location, identity verification requirements, affordability, and information.[1] But research has also shown that financial inclusion has a positive effect on youth

1 An extensive body of research has explored constraints on youth access to formal financial services. See for example Aggarwal & Klapper (2013); Child & Youth Finance International (2014); Demirgüç-Kunt & Klapper (2012); Karlan, Ratan, & Zinman (2013); Porter, Blaufuss, & Owusu Acheampong (2007).

development.[2] So removing barriers to financial inclusion could help young people accumulate assets and position them to begin reaping the positive impact of doing so. Findings from the SDA inform next steps in financial product and policy development for expanding youth financial participation.

SDA data runs from product rollout date (which varies by country) through May 31, 2014. As of that date, accounts had been open for an average of 13 months in Colombia and Nepal, 11 months in Kenya, and eight months in Ghana. The data is based on demographic information on account holders the financial institutions collected at account opening, and the accounts' transaction data. Researchers also received data on financial institution involvement in financial education and outreach, including participation in Save the Children-sponsored financial education workshops and youth clubs, and school visits to inform youth about the YouthSave product, open accounts, and take deposits.

Research Design and Procedures

At project onset, the research team reviewed existing savings account applications from partner financial institutions and added youth and household demographic questions. The research team pilot-tested the questions to ensure clarity, consistency, and cultural compatibility. In Colombia, BCS chose not to include the research questionnaire in its account opening process in order to preserve its standard operating procedures and avoid legal complications with the informed consent process. So the Colombia data for YouthSave account holders and their households is more limited compared to the other three YouthSave countries.

Out of the 98,485 total youth who had opened accounts as of May 31, 2014, the research team obtained permission for research from 69,247. This latter number comprises the "research accounts" referenced here and reflects the total demographic data presented. The research team cleaned the data for quality control and merged transaction records with demographic records for savings analyses. The resulting number of 66,606 accounts had both transaction record and corresponding demographic record for savings analyses. Original savings outcomes (which had been expressed in the national currency for each country) were converted into comparable USD using purchasing power parity (PPP) rates.

Results of the SDA research method include descriptive information on the number of youth clients who adopted the savings product and all of their savings account transactions. Statistical analyses assess which youth and household characteristics are associated with savings performance. We present patterns and correlations rather than causal linkages because there was no control condition to serve

2 As discussed in for example Chowa & Ansong (2010); Deshpande & Zimmerman (2010); Elliott (2012); Prina (2014); Scanlon & Adams (2009); Sherraden & Ansong (2013); and Ssewamala & Ismayilova (2009).

as a counterfactual. Where possible, analyses also examine how financial product and service design and delivery may affect account uptake and savings performance.

Key Findings

Each country that participated in YouthSave has particular characteristics and contexts that led to divergent financial products and services.[3] Nevertheless, SDA data highlight common themes that can inform design and implementation of youth savings products and services more generally, as well as related governmental policies and regulations.

Account Uptake

- *When offered the opportunity, many youth open savings accounts.* A significant proportion of the youth reached were from the target population in terms of income and age. Over 80 percent of those who opened accounts were aged between 12 and 18 years, most had no prior formal bank account, and an estimated 48 percent lived below a consumption expenditure of USD 2.50 per day (in 2005 PPP). However, most youth reached were not from the very poorest households in their respective countries, and only 1.6 percent were out-of-school youth.

- *Meeting young people where they are encourages inclusion.* Direct outreach by financial institutions at locations where youth congregate (e.g., schools, youth clubs) facilitated overall account uptake. Direct outreach at low-income schools and girls' schools facilitated higher percentages of account opening among those cohorts. For example, the 80 percent of Ghanaian account holders who indicated they had learned about the account from the HFC Bank program (which targeted low-income schools) had higher poverty likelihood than other account holders. In Nepal, more of the girls indicated learning about the account from locations where Bank of Kathmandu (BoK) had conducted outreach such as bank fairs, schools, and financial education workshops. In general, most youth account holders were in school at the time of account opening; alternative strategies will be needed to reach out-of-school youth.

- *Regulatory policy can influence account uptake.* Regulatory policy influences the number of accounts opened and who can operate them. In Nepal, where the age of majority is 16, youth own and operate 42 percent of the accounts. In Kenya, flexibility in bank policies allowed "trusted adults" to be cosignatories on minors' accounts, a policy already allowed in Ghana. In these two countries, non-relatives are cosignatory on 56 percent and 47 percent of accounts, respectively. In Ghana, the Central Bank approved use of custodial accounts rather than trust accounts, which allows minors greater control of their account. The conclusion is that greater flexibility in bank policies may facilitate greater youth financial participation.

- *Account rules affect account uptake and savings performance.* In Ghana, where the YouthSave product included restrictions on withdrawals, savings balances remained relatively stable. Account holders in Nepal, where there were no withdrawal restrictions or fees, were more likely to use their savings accounts like transaction accounts. A commitment account with set monthly deposit goals correlated with higher numbers of deposits in Colombia but also may have led to more account closures when goals were met.

- *Sales incentives for financial institution staff boost account uptake.* Incentives for reaching account sales targets appear to increase uptake across all countries.

3 See *YouthSave 2010-2015: Findings from a Global Financial Inclusion Partnership* for more information on country contexts (Chapter 2) and for product features (Appendix 2).

In tracking the timeframe of these activities, the number of accounts increases in parallel.

- *Account holder incentives can improve account uptake and savings performance*. In Nepal, BoK offered cash incentives to new and existing account holders for a period of seven months. Approximately 25 percent of all Nepal youth account holders took advantage of the cash incentives to open their accounts during that time period. Youth who received the incentives had statistically significant higher average monthly savings than those who did not receive the incentives. These findings suggest that incentives can have positive effects on account uptake and on account balances.

Savings Performance

- *Youth save in formal savings accounts*. Simply put, youth, including low-income youth, do save as evidenced by the USD 1.8 million (PPP-adjusted)[4] that had been accumulated as of May 2014 by the 66,606 account holders who made deposits across the four countries. Average balance per account in each country is small, at USD 262 in Colombia, USD 114 in Nepal, USD 33 in Ghana, and USD 9 in Kenya.

- *Age matters*. Measured by average monthly net savings (net monthly savings based on length of time account has been open), youth aged younger than 13 years save more than older youth, in part because younger youth withdraw less. This highlights the importance of starting to save early.

- *Parents matter*. When parents are cosignatories, youth save significantly more. Engaging parents in the savings process is important to help youth save and accumulate assets.

- *If provided an opportunity, female youth also save*. In all the countries, females save as much or more than males, and the difference is statistically significant in Nepal. This finding and the lower female account uptake rate of 41 percent in Nepal and Kenya suggest that, for females, access may be a bigger and gender-specific barrier than the knowledge of how to save.

- *Electronic transactions facilitate savings*. Regardless of age, the use of electronic transactions (e.g., of M-PESA in Kenya and, in Nepal, of point-of-sale, ATM, debit card, and direct deposit of salary) correlates with significantly greater transaction activity and with higher amounts of deposits and withdrawals. Those using M-PESA in Kenya and ATMs in Nepal also have significantly higher average monthly net savings. These findings reinforce the value of technology in facilitating transaction access.

- *Multifaceted outreach strategies maximize account uptake and savings*. Consistently across Ghana, Kenya, and Nepal, youth who said they had learned about the account through friends, family, or mass media saved more than those who had learned about the account through other means, such as information at school, a bank campaign, or a financial education workshop. However, the majority of youth in Ghana and Kenya, and 40 percent in Nepal reported learning about the account through these other means, suggesting that media and personal contacts may attract fewer but higher savers, and other strategies may increase financial inclusion. These findings suggest that multifaceted outreach strategies may be required to achieve the dual outcomes of increasing financial inclusion overall and also attracting youth who can maintain higher savings balances.

4 NB: The non-PPP-adjusted figure of USD 1 million appears elsewhere in *YouthSave 2010-2015* (e.g., foreword, infographic). Non-PPP-adjusted figure is straight conversion from local currencies into USD using conversion rates in effect at time of reporting. *Ed*.

Savings activity over time

- *Once accounts are open, depositing becomes the priority for both account holder and the financial institution.* During the first two years of product rollout, financial institutions focused more on opening accounts to reach target goals than on increasing savings. About 39 percent of youth were actively using their account during the last six months of the study, which suggests that an important next step is for financial institutions to focus on ways to increase youth deposits and engagement. Positive findings from cash incentives for account holders and use of monthly deposit goals suggest potential strategies to encourage deposits over time.

- *Responses to saving product features vary by age and life stage.* Given that younger youth had higher monthly net savings, and withdrawals were associated with older youth or those in higher levels of education, one way to encourage both short- and long-term savings might be to establish savings targets based on needs at different life stages (e.g. education, business development, land). One type of account cannot necessarily respond to all circumstances. A lifelong savings account accompanied by other products as needs and life circumstances change with age may help youth manage expenses and also save consistently.

Summary

Youth, including low-income youth, can and do save when provided an accessible, safe, and affordable way to do so. With support from parents, account access at an earlier age may stimulate greater savings. Bringing savings services and financial education into schools may generate more inclusive participation. Offering cash incentives may encourage savings, and setting goals on deposits and limits on withdrawals may ensure a more stable growth curve in savings over time. Findings from the SDA have contributed to understanding youth participation in the financial sector of four developing countries, but there is much more to learn, especially on ways to increase savings. Continued research can inform interventions that affect both the demand and supply side—youth savings and development, youth financial capability, and public and private sector commitment to sustainable youth saving products and services.

References and Background Reading

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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