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ADDRESSING THE CHALLENGE OF ACCOUNT DORMANCY IN YOUTH SAVINGS INITIATIVES

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Larger-scale efforts to connect youth with savings accounts as a means to promote a range of social policy outcomes have garnered increased attention in recent years.[1] Implemented in a variety of settings, this approach is based on the theory that giving young people the tools to accumulate savings can open up new economic opportunities and change their attitudes and behaviors.[2] For example, the act of saving can lead young people to pursue future educational endeavors and eventually help them afford those opportunities. Savings can also provide the seed capital required to open a small business, which can promote future economic stability and mobility. Research has confirmed that even small amounts of savings have been associated with improving self-esteem and developing a future orientation, which may lead to a set of productive choices that can keep youth in school and help them avoid risky behavior.[3]

The rationale for promoting youth savings builds on the more general case for promoting financial inclusion. These efforts, which have been pursued in a variety of national and local contexts across the globe in recent years, seek to overcome the direct correlation between living in poverty and having limited access to affordable financial services. When people don't have basic bank accounts that offer opportunities to save and manage their finances, they face greater hurdles to participating fully in their society. This holds true for people around the world, regardless of whether they live in a developed or developing country. Connecting people to high-quality and low-cost financial services is a poverty alleviation strategy. Financial inclusion has also emerged as a tool to advance social and economic development. This is reflected in an increasing number of social policy and programmatic efforts across the globe that promote greater access to savings accounts, platforms, and plans.

Given the range of regulations that govern financial services in various national settings, there has been a diverse set of experiences in designing and implementing these efforts. In order to launch these initiatives, much of the attention has been focused on enrollment and account opening. But, now that a number of large-scale initiatives are underway, greater attention should be given to learning more about how people use and engage with their accounts after opening. In many instances, these accounts lay dormant for prolonged periods of time, without deposits or withdrawals. This creates uncertainty about the extent to which account ownership alone can lead to positive outcomes. A high prevalence of account dormancy may call into question the value of these initiatives given the amount of time, energy, and money required to implement them. In some cases, account dormancy indicates a "no effect" relationship between the intervention and desired outcome. But in other cases, account dormancy reflects a "delayed" or "undetected" effect. Since these types of initiatives compete with other interventions for resources in both the public and private sector, it is important to increase our understanding of the factors that influence account

[1] Deshpande, Rani and Jamie Zimerman. 2010. "Savings Accounts for Young People in Developing Countries: Trends in Practice." Enterprise Development and Microfinance Vol. 21 No. 4.

[2] Sherraden, Michael. 1991. *Assets and the Poor: A New American Welfare Policy.* Armonk, NY: M. E. Sharpe.

[3] Elliott, William III, Hyun-a Song, and Ilsung Nam, 2013. "Relationships between College Savings and Enrollment, Graduation, and Student Loan Debt."(CSD Research Brief 13-09). St. Louis, MO: Washington University, Center for Social Development.

dormancy. Failure to understand the dynamics of engagement among account holders generally, and youth more specifically, may needlessly weaken support for valuable savings and financial inclusion initiatives whose potential and positive effects may unfold over an extended time horizon.

This paper will consider how to understand the challenge of dormancy in large-scale, account-based initiatives and policy efforts. It will first describe the range of issues related to account engagement from the perspective of financial institutions, policymakers, and account holders. The paper will then review experiences from the field to understand how the dormancy problem has been expressed in diverse settings and conclude with an assessment of specific issues that warrant further exploration.

PART I: THE CHALLENGE OF DORMANCY IN YOUTH SAVINGS ACCOUNT INITIATIVES

WHAT IS ACCOUNT DORMANCY?

A dormant account can generally be defined as a low-balance account that has seen no transactions (deposits or withdrawals) or other activity initiated by the account holder over an extended period of time.[4] This excludes activity related to the servicing of the account on the part of the financial institution, such as interest posted and service charges applied. Dormant accounts may also be referred to as inactive accounts, but the precise definition of a dormant account and how much time has to elapse to qualify as such will vary across jurisdictions, and among institutions within jurisdictions.[5] In some instances, 12 months of no activity is a threshold for dormancy; in other cases, it is 6 months. Regardless of the definition, the consequences of dormancy vary. Depending on the jurisdiction, there may be specific guidelines that trigger other action that may eventually lead to an account being closed and money returned. Funds held in some dormant accounts are subject to state seizure, but a more likely scenario is that the account balances are drained by fees that ultimately create a zero balance. A wide range of circumstances can contribute to an account becoming dormant; these include illness, poor recordkeeping, income constraints, forgetfulness, inaccessibility of bank branches, and death.

STAKEHOLDER PERSPECTIVES

In the context of large-scale, account-based initiatives generally—and specifically for those focused on youth savings—dormant accounts are an issue to consider since they may reflect limitations in design or impact. A high preponderance of dormant accounts may be perceived as a problem for a particular effort. Understanding the challenge of dormancy and how to respond to it can be informed by considering the range of stakeholder perspectives.

Financial institutions are wary of holding dormant accounts for a number of reasons. While the costs of servicing these accounts can be less given the lack of account activity, there can be higher costs for holding accounts with lower balances. Bank profitability is associated with assets under management, so maintaining a large number of accounts with few resources is not an attractive business proposition. In theory, low balance accounts have potential to grow and become more profitable, but many banks do not consider this extended time horizon in developing their business case. If dormant accounts stay inactive long enough to trigger other actions, like state seizure, the costs of managing these accounts may increase further. Before committing to participate in large-scale, account-based initiatives, financial institutions are likely to calculate the costs of small accounts as being greater than the benefits from a purely financial perspective. In this sense, dormant accounts are a problem to mitigate.

[4] High-balance accounts with no activity may also be called dormant but should be considered less problematic than a low-balance account and are not the focus of this discussion.

[5] Accounts with large balances that have no activity may also be referred to as dormant or inactive accounts but are less of a concern from the perspective of a range of stakeholders.

Financial institutions across the world do not have a clear answer to several basic questions of how low-balance accounts can be viable and profitable, and what would make low-income people more likely to use bank accounts to save.[6]

Beyond the issues associated with low-balance accounts held by low-income clients, banks must consider the special circumstances of tailoring their services to youth. For instance, most banks comply with Know Your Customer regulations by requiring individuals to provide some type of government–issued identification in order to open accounts. These identification requirements can be a significant barrier for youth who lack proof of legal identity, which is particularly prevalent in countries where birth registration is logistically or economically difficult.[7] Another set of rules govern account control. While many countries permit youth to open and manage accounts, they must do so in conjunction with a parent, guardian, or other trusted adult. In practice, this means that much of the ability to transact rests primarily with the adult.[8] Rules governing account control vary in different country contexts, but navigating the regulatory framework as it applies to youth is often a source of uncertainty for financial institutions, which often creates additional barriers to account engagement that can exacerbate the dormancy problem.

Policymakers and intermediaries will have a different set of issues to examine when considering the problem of dormant accounts, especially in the context of large-scale efforts. A high degree of inactivity may diminish program impact. Even if some participants engage with their accounts, there should be concern that the ones who do not engage with their accounts are missing potential benefits. Uneven engagement with accounts, reflected in high rates of inactivity and dormancy, is a major impediment for continued exploration of account-based interventions that promote increased savings and financial inclusion. It raises the basic threshold question as to whether the overall effort is worth the resources devoted to it or if there may be an alternative approach to achieve a greater level of results. Additionally, policymakers are tasked to create regulations that guide action in a wide range of scenarios. For example, there is the issue of escheatment, which is the process of turning over unclaimed or abandoned property to a state authority. Public policy has to identify the rules that govern this process, and intermediaries may be responsible for carrying them out, often in collaboration with financial institutions.

Account holders who are included in large-scale, account-based systems but do not actively participate may have decided that they do not derive any utility from engagement. On the other hand, it may be a lack of information or burdensome requirements that limit their involvement. Insights from the field of behavioral economics have demonstrated that inertia can be difficult to overcome, especially if there is low awareness of program rules or if there are too many decision points to assess.[9] In certain places, there may be an undeveloped saving culture, reflected in a low density of financial institutions. For some specific account holders, there may be low levels of financial education, so there is unfamiliarity with rules, procedures, and processes that accompany interacting with formal financial institutions. Others may understand the opportunity but need an additional incentive to engage, such as a higher interest rate.

Program design, and the use of intentional default settings, can play a significant role in encouraging or discouraging participation. For example, enrollment in a savings program may be higher if participation is contingent on another action that

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[6] This challenge motivated the Gateway Financial Innovations for Savings (GAFIS) to explore the potential of different account delivery channels, such as the use of agents rather than brick-and-mortar branches, to influence the outcomes for clients and banks. Gateway Financial Innovations for Savings (GAFIS). 2013. “Big Banks and Small Savers: A New Path to Profitability.” A GAFIS Project Report.

[7] Aldebot-Green, Scarlett and Aleta Sprague. 2014. Regulatory Environments for Youth Savings in the Developing World. Washington DC: New America.

[8] Aldebot-Green, Scarlett and Aleta Sprague. 2014. Regulatory Environments for Youth Savings in the Developing World. Washington DC: New America.

[9] Barr, Michael, Sendhil Mullainathan, and Eldar Shafir. 2008. “Behaviorally Informed Financial Services Regulation.” Washington, DC: New America Foundation.

happens as a matter of course, such as enrolling in a school or registering a birth certificate. Research has shown that savings schemes are more effective when they have automatic features, such as automatic enrollment and direct deposits from payroll deductions. For initiatives that specifically target youth, an additional set of issues are in play, including where the account holders are in their own social development and their relationships with other adults, peers, and institutions, which can facilitate or block account activity and engagement. Still, there may be features that could impact engagement and lead to more deposits, such as matches to deposits.

Appreciating the range of stakeholder perspectives on the challenge of dormant accounts underscores the basic finding that enrollment is a necessary but insufficient condition for ensuring a high degree of account engagement. There is more to learn about how specific design features can promote increased account activity, higher deposits, and, ultimately, larger impacts.

PART II. EXPERIENCES IN THE FIELD

The growing interest in the potential of assets to play a constructive role in supporting social development, financial security, and economic mobility has contributed to a proliferation of programmatic and policy initiatives designed to promote savings and asset development across the life course. A range of experiences in the field can be examined to gain insight into the challenges and opportunities of designing large-scale account based initiatives. Some efforts focus on connecting youth to financial services; other efforts are designed to promote future educational opportunities or entrepreneurial activities. While the contexts vary significantly across sites and country locations, there are valuable lessons to be learned for policy development and program design from considering these diverse experiences, especially with respect to understanding the challenge of maximizing engagement and minimizing account dormancy.

INTERNATIONAL YOUTH SAVINGS INITIATIVES

YOUTHSAVE[10]

YouthSave is a donor-led collaborative project designed to investigate the potential of savings accounts to facilitate youth development and financial inclusion in a developing country context.[11] YouthSave partnered with financial institutions in participating countries (Colombia, Ghana, Kenya, and Nepal) over a five-year period (2010-2015) to design and offer high-quality, low-cost savings products for youth between the ages of 12 and 18. In the absence of social policies to promote financial inclusion of youth, YouthSave served as a catalyst to enable commercial banks to explore how to extend services to lower-income youth. For the effort as a whole, approximately 48 percent of account holders had incomes of less than $2.50 per day. As a result of YouthSave, over 130,000 young people opened savings accounts across the four countries. Approximately 70,000 account holders on whom data was collected (as of May 2014) accumulated $1.8 million in assets with the average savings per youth varying by country: $262 in Colombia, $114 in Nepal, $33 in Ghana, and $9 in Kenya.

[10] Johnson, Lissa et al., (2015). "Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal: YouthSave Research Report 2015." St. Louis, MO: Center for Social Development.

[11] The YouthSave Consortium includes Save the Children Canada and USA, the Center for Social Development at Washington University in St. Louis, the Consultative Group to Assist the Poor, and New America. The four partner financial institutions are Banco Caja Social in Colombia, HFC Bank in Ghana, the Kenya Post Office Savings Bank (Postbank) in Kenya, and Bank of Kathmandu in Nepal. The research partners are Universidad de Los Andes in Colombia; the Institute of Statistical, Social and Economic Research at University of Ghana; the Kenya Institute for Public Policy Research and Analysis; and New Era in Nepal. YouthSave was made possible through the support of The MasterCard Foundation.

While youth are generally required to have their cosignatory adult present to make withdrawals, they could make deposits on their own. Other YouthSave account features varied by county:

- In Colombia, YouthSave partnered with Banco Caja Social to create the *Cuentamiga para Jóvenes* accounts. When youth become 18 years old, their savings can be migrated to products for adult, but there is no automatic conversion. To open an account, youth are required to fill out a form and provide proof of identification. At account opening, *Cuentamiga* account holders were asked to set a savings plan with monthly deposit targets. Interest rates range from 0.25 percent per year to 1 percent per year depending on the account balance. Fees apply for withdrawals and account closures if the savings goal is not achieved.
- In Ghana, YouthSave partnered with HFC Bank to establish the *Enidaso* accounts for youth. The interest rate on *Enidaso* accounts is 1.25 percent and fees exist for withdrawals, ATM cards, and paper statements. *Enidaso* accounts allow no withdrawals for the first three months. After that time, youth can make monthly withdrawals.
- In Kenya, Kenya Post Office Savings Bank (Postbank) worked with YouthSave to offer the *SMATA* account to youth. Interest rates range from 0.75 percent to 2.5 percent per year depending on the account balance; it compounds daily and is capitalized annually. Fees are in place for withdrawals, closures, and lost items, but there are no withdrawal restrictions for *SMATA* accounts.
- In Nepal, YouthSave Nepal and the Bank of Kathmandu designed the *Chetanshil Yuva Bachat Yojana (CYBY)* accounts for young people. Youth can open their own accounts at age 16, but they must have a parent or guardian cosignatory before that time. *CYBY* accounts have an interest rate of 4.5 percent on savings.

Financial institutions that offered YouthSave products defined dormancy by varying periods of time during which an account experienced no transactions; some considered an account to be dormant after six months, others after twelve months. To qualify these differences, YouthSave researchers referred to accounts as “inactive” after they 1) have been open for at least six months 2) with at least one deposit, and 3) no activity in the past six months. Based on this definition, 61 percent of YouthSave accounts were considered dormant. The length of time the average account has been open ranges from 13 months in Colombia and Nepal, to 11 months in Kenya, and 8 months in Ghana.

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Accounts that were opened with no initial deposit and never received one did not fit YouthSave’s definition of dormant and were therefore excluded from this sample. In Colombia, approximately 40 percent of accounts (1,114 accounts) were opened without an initial deposit and never received one. In Kenya, 3 percent of accounts (1,527 accounts) were opened with no initial deposit and never received one. Nepal and Ghana required an initial deposit to open an account.

Account transaction patterns varied by country. Account activity was highest in Ghana (64%), followed by Nepal (52%), Colombia (43%), and Kenya (33%). Analysis of account activity showed certain account holder characteristics are related to account activity. For instance, out-of-school youth were more likely to deposit more frequently than in-school youth, reflecting the importance of being able to generate income. Another important characteristic was the involvement of families with the youth account. When parents are the cosignatory, youth save more.

Account features also play a role. Those that improved uptake rates—such as not requiring an initial deposit—were associated with higher rates of dormancy. Withdrawal restrictions were linked with lower rates of uptake, but they were also associated with steadier savings, as was the case in Ghana. Conversely, no withdrawal restrictions resulted in youth using the accounts for transaction purposes, as opposed to pure savings, as was the case in Nepal. Another account feature that was associated with enhanced savings was the requirement to set a savings goals, which was pursued in Colombia. A corollary to this approach was that when youth in Colombia reached their savings goal, approximately 20 percent withdrew their money and closed their accounts. In Nepal, savings matches were available for some youth, which led to significantly greater savings, suggesting that savings matches may be an important tool for promoting engagement and avoiding high dormancy rates.

The manner in which youth learned about the accounts seemed to have an impact on account activity, although it also varied by country, suggesting that the extent and quality of a bank's outreach efforts may be an important variable to consider.[12] In Ghana, youth deposited more when they learned about the account through a bank campaign, while in Nepal youth deposited more when they learned about the account through school, friends, or family.

Transaction activity appears to be positively associated with technologically enhanced accounts, such as ATMs, debit cards, direct deposit of mobile phone banking. In both Kenya and Nepal, youth who accessed their accounts through these means had higher levels of account activity (deposits and withdrawals) than the rest of the YouthSave accounts. This reinforces the potential role of technology in providing accessible mechanisms for account transacting. In sum, the YouthSave experience demonstrates that achieving a balance between uptake, activity, and savings accumulation may be an important factor to successfully meeting program goals as well as provide the key to building a business case and taking savings programs to scale.

YouthSave: Account and Transaction Activity by Country

	Colombia	Ghana	Kenya	Nepal
Active accounts	43%	64%	31%	52%
Inactive accounts	36%	36%	69%	48%
Closed accounts	21%	0.10%	0.02%	0.50%
Percent of youth that made withdrawals	45%	3%	11%	59%
Average number of deposits per account	5.6	2.3	1.6	3.8
Average savings per youth	$262	$33	$9	$114

Source: Johnson, Lissa et al., (2015). "Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal: YouthSave Research Report 2015." St. Louis, MO: Center for Social Development. See Figure 6.1 and Table 6.1.

[12] Johnson, Lissa et al., (2015). "Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal: YouthSave Research Report 2015." St. Louis, MO: Center for Social Development.

THE UNITED KINGDOM'S CHILD TRUST FUND[13]

The United Kingdom (UK) launched the Child Trust Fund (CTF) in 2005, which awarded parents vouchers worth £250 (almost $500) to open savings accounts on behalf of their children. The program was intended to reach every child born in the UK after 2002. Children from low-income households received an additional £250. Parents could choose among a set of participating financial institutions to open an account in their child's name. Family and friends could make annual contributions of up to £1,200, which could be held in a range of investment options. Interest and earnings on the account are tax-free. The account cannot be accessed until the child reaches age 18, at which point they have full and unrestricted access to the fund. The CTF was closed to new children in 2010 and was replaced by a voluntary system, called the Junior Individual Savings Account (JISA).

As of 2012, there were over 6 million CTF accounts opened in the UK, which held over £4.9 billion (over $8 billion) in assets. However, there is a wide variance in how families are engaging with the accounts. In any particular year, between 22 and 24 percent of accounts receive additional contributions beyond the public subsidy. Some of these accounts are relatively new for the youngest children, so this engagement may increase over time in terms of both the percentage of families participating and the amounts contributed. Further, there are pronounced differences among the accounts that qualified for the additional subsidy payment for parents with lower incomes. Only between 12 and 15 percent of these accounts receive any additional contributions in a particular year compared to between 27 and 30 percent of the accounts not receiving the additional initial contribution.

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The experience of the CTF confirms that account engagement will vary a great deal among participants in a universal account-based system. One unique feature of the CTF scheme that was used to achieve universality was a provision that automatically opened an account if the parents or legal guardian did not act on their own to open an account on the child's behalf within one year. This approach addressed the enrollment challenge for all households, regardless of their income, but also led to higher levels of dormancy, especially among lower-income families. The CTF experience has shown that the income level of households has been a significant variable when accounting for the potential for making deposits. The program intended to respond to this reality with the provision of making "top-up" contributions of public money when the account holder reached the age of 7. This increased the amounts in the account for eligible families and served as a prompt that the account was still in operation.

CANADA'S REGISTERED EDUCATION SAVINGS PLAN (RESP) ACCOUNTS[14]

Canada offers a special savings account, called a Registered Education Savings Plan (RESP), similar to 529 College Savings Plans in the U.S., to help families and youth save for higher education. Canada has additional policies to provide matched savings through the Canada Education Savings Grant (CESG), which provides a universal matching grant of up to $500 per year. All children are eligible to receive a grant of 20 percent on the first $2,500 in contributions made each year (up to $7,200 in grant contributions by the time a child reaches age 17).[15] Low- and moderate-income families are eligible for the Additional-CESG (A-CESG), which could provide an additional 10 or 20 percent bonus (depending on family income) on the first $500 in

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[13] HM Revenue and Customs: Detailed Distributional Analysis. Child Trust Fund Statistics. February 2013.

[14] Elliott, William III and Melinda Lewis (2014). "Examining the Canadian Educations Savings Program and its Implications for U.S. Child Savings Account (CSA) Policy." Lawrence, KS: Assets and Education Initiative.

[15] Lewis, Melinda and William Elliott III, 2014. "Lessons to Learn: Canadian Insights for U.S. Children's Savings Accounts (CSA) Policy. Lawrence, KS: Assets and Education Initiative.

contributions each year.[16] The lowest-income Canadian families are also eligible for the Canada Learning Bond (CLB), which provides an initial contribution of $500 and $100 annually until a child turns 16 (up to $2,000).

While nearly half (47%) of Canadian children live in households that have received the CESG, the lack of an automatic, universal enrollment process leaves a significant number of children underserved, particularly low-income children. In 2008, for example, 35 percent of low-income and 59 percent of high-income households had RESPs. Additionally, almost half of CESG recipients were eligible but did not apply for the A-CESG. Similarly, around 1 million eligible low-income children failed to receive the CLB in 2012.

Despite participation falling far short of universal levels, this set of incentives has significantly increased account ownership and engagement in the RESP system, particularly among low-income households. In 2013, more than 40 percent of newly-eligible children received the CLB and payments (triggered by contributions) have increased by more than 78 percent over the previous five years. In contrast, prior to the introduction of the CLB in 2005, RESP ownership reached less than a tenth of the poorest 20 percent of children. Incentives are also demonstrating a positive impact on savings behavior. Research indicates that 97 percent of CLB participants report saving in their RESP although the program does not require them to do so, and low-income households may be accumulating as much as $400/year more than they would without the CLB and A-CESG. In 2014, 77 percent of existing CESG beneficiaries made a contribution, reflecting a high level of engagement.[17]

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THE UNITED STATES' YOUTH SAVINGS EFFORTS

MAINE: HAROLD ALFOND COLLEGE CHALLENGE[18]

The Harold Alfond College Challenge is a partnership between the Alfond Scholarship Foundation (a 501(c)(3) non-profit), NextGen (Maine's 529 college savings plan), and the Finance Authority of Maine (a state chartered organization charged with promoting business development in Maine and which administers the NextGen program). The Alfond Challenge awards $500 educational savings grants to each child born as a resident of the State of Maine. The program is the nation's first statewide child savings account initiative from birth. While no data on account deposits is publicly available, this effort provides information on the challenge of facilitating enrollment even when tangible benefits are provided.

From 2008 to 2013, the Alfond College Challenge deposited $500 into a specially-created college savings account for any newborn in the State of Maine if the parents of that child enrolled in NextGen. During that period of time, more than $11.5 million was deposited on behalf of approximately 23,000 children. However, only 40 percent of children (approximately 5,000 each year) took advantage of this offer of free grant money, and those who did tended to come from better-educated, higher-income households. Beginning in 2014, the Alfond Challenge changed its enrollment mechanism from an "opt-in" model to an "opt-out" universal model, automatically enrolling every child born as a resident of the state unless the parents elected not to

[16] "Formative Evaluation of the Additional Canada Education Savings Grant and Canada Learning Bond," Evaluation Directorate, Strategic Policy and Research Branch, Human Resources and Skills Development Canada, SP-951-05-10E, November 2009.

[17] Elliott, William III and Melinda Lewis (2014). "Examining the Canadian Educations Savings Program and its Implications for U.S. Child Savings Account (CSA) Policy." Lawrence, KS: Assets and Education Initiative.

[18] Clancy, M., & Sherraden, M. (2014). Automatic deposits for all at birth: Maine's Harold Alfond College Challenge (CSD Policy Report 14-05). St. Louis, MO: Washington University, Center for Social Development.

participate. Under this new initiative, the Alfond Challenge expects to enroll 12,500 children each year. By the end of summer 2015, this program will have granted approximately $25 million to more than 50,000 Maine children.

In addition, the Finance Authority of Maine provides NextStep Matching Grants to eligible families that choose to open a NextGen 529 college savings account. This program offers a 50 percent match on contributions to the family-opened NextGen account (Alfond Challenge accounts do not accept additional family contributions, necessitating the opening of a separate account if families wish to save further). NextStep Matching Grants are capped at $300 annually with no lifetime limit. There is no income cap on eligibility for NextStep Matching Grants, a feature that allows the funds to be delivered automatically in most circumstances. Since the program's inception, over 37 percent of families that have opened NextGen 529 accounts in connection with an Alfond Grant and have made a contribution.[19]

The combination of automatic enrollment and an incentive to contribute may have some effect in promoting engagement and is worth future study. However, the requirement to open a separate NextGen account to receive additional contributions is a potential barrier to higher levels of engagement among accountholders. This approach offers some benefits as well. For example, the Alfond Challenge accounts do not count toward asset limits for any public assistance programs, and the Alfond Challenge funds cannot be accessed for any non-approved uses.

OKLAHOMA: SEED OK

Begun in 2007, SEED OK is a large-scale policy initiative designed to experimentally test the impact of automatic and progressive child development accounts in the United States.[20] SEED OK randomly assigned over 2,600 newborns in the State of Oklahoma to either a treatment or control group. Members of the treatment group were automatically enrolled in Oklahoma's 529 College Savings Plan and were provided a $1,000 initial deposit. Families in the treatment were also eligible to open an individual 529 account with a $100 incentive to do so, as well as 100 percent or 50 percent matches on deposits, depending on household income. The experimental design allows researchers to attribute different outcomes among participants to the experience of the intervention as opposed to individual characteristics.

> With this requirement, 17.3 percent opened an individual account, and less than 9 percent made an additional contribution to their individual account.

The successful implementation of the study was a notable finding in its own right, as it demonstrated the viability of an automatic account opening process, which can serve as a foundation for an inclusive system of youth accounts. SEED OK was able to connect 99.9 percent of treatment participants with accounts and ensure these accounts were held over time.[21] Even though the study is ongoing, research results to date have found a number of effects for the treatment group that are statistically significant. These outcomes include higher scores for children on a measure of social-emotional development, lower levels of depressive symptoms for mothers, and higher levels of savings.[22]

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19 Data on account opening and participation was provided by Colleen Quint, President & CEO of the Alfond Scholarship Foundation, via email and phone conversation in July 2015.

20 Beverly, Sondra, Margaret Clancy, and Michael Sherraden, 2014. "Testing Universal College Savings Accounts at Birth: Early Research from SEED for Oklahoma Kids." St. Louis, MO: Washington University, Center for Social Development.

21 Beverly, Sondra, Margaret Clancy, and Michael Sherraden, 2014. "Testing Universal College Savings Accounts at Birth: Early Research from SEED for Oklahoma Kids." St. Louis, MO: Washington University, Center for Social Development.

22 Ibid.

Although virtually all participants in the treatment group had 529 accounts opened on their behalf, parents needed to actively open another 529 account in order to make additional contributions. With this requirement, 17.3 percent opened an individual account, and less than 9 percent made an additional contribution to their individual account.[23] Perhaps more importantly, children in the treatment group were significantly more likely to have an individual account and savings in that account than children in the control. Dominant barriers to opening an individual account included lack of resources beyond basic living expenses and misunderstandings regarding the administration of the account.

SAN FRANCISCO: KINDERGARTEN TO COLLEGE

In 2011, the City and County of San Francisco launched the Kindergarten to College (K2C) program, which is opening college savings accounts for every kindergartner enrolled in the City's public schools. K2C accounts are opened with a $50 seed deposit. Parents and students can contribute up to $2,500 each year and earn matching funds on the first $100 of contributions each year; an additional $100 is available for parents who make a minimum of $10 contributions for six consecutive months. Children eligible for free or reduced price lunch can receive an additional $50 bonus. The funds are held in a special account that is delivered through a partnership with Citi Bank. Withdrawals are restricted to qualified post-secondary educational expenses, including tuition, fees, and books.[24]

Administered by the San Francisco Treasurer's Office of Financial Empowerment, the program is supported by both public and private resources. Approximately 19,000 students had been enrolled, and this number will increase as a result of new cohorts being added in future years. The automatic-enrollment structure of the K2C initiative was designed to ensure universal account ownership for the public school population in the City of San Francisco. Although parents can opt out of the program, as of 2013, less than 1 percent of families had elected to do so.[25] Deposits to the accounts can be made at a bank branch, online, and by mail. There is no minimum deposit requirement and anyone can make a contribution on behalf of the student. Still, there are barriers for account engagement, as reflected by the fact that only about 15 percent of accounts have received additional contributions.[26] At least 85 percent of accounts are dormant.

> Only 15 percent of accounts have received additional contributions, marking barriers to engagement.

According to a survey of parents with children receiving K2C accounts, the most frequently cited reasons for not contributing include not getting around to doing so (27%) and financial hardship (21%). Significantly, though, 12 percent of parents reported a preference for saving in a pre-existing account. In fact, among parents who reported saving for college, 35 percent were doing so in a basic savings account, compared to 34 percent utilizing the K2C account.[27] The dynamics of saving in K2C accounts is currently solely a function of adult engagement since the children are still in primary school. There is the potential for increased engagement as children get closer to college age and parents increase their contributions or youth are able to make their own contributions to their own account.

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[23] Ibid.

[24] Phillips, Leigh and Anne Sthuhldreher, 2011. "Kindergarten to College: A First-in-the-Nation Initiative to Set All Kindergartners on the Path to College." Washington, D.C.: New America Foundation.

[25] EARN Research Institute (2013). "Children's Education Savings Accounts: A Case Study of San Francisco's K2C Program." San Francisco: CA: EARN Research Institute.

[26] Beva, Jade Shipman, 2013. "Children's Education Savings Accounts: A Case Study of San Francisco's K2C Program," San Francisco, CA: EARN Research Institute.

[27] Ibid.

INTERNATIONAL FINANCIAL INCLUSION EFFORTS

INDIA: JAN DHAN YOJANA (BANKING-FOR-ALL)

In August 2014, Indian Prime Minister Narendra Modi initiated a program, called Jan Dhan Yojana, to provide a bank account for every household.[28] The financial inclusion effort was specifically intended to reach the 40 percent of society without access to basic financial services. With cooperation from the private banking sector and government support, account holders obtain a zero-balance account and a debit card, overdraft protection, and the ability to directly receive any government payment. With this effort, the government's aim is to curb the use of cash, limit corruption, reduce reliance of the poor on expensive financial services, and bring the informal economy into the economic mainstream. In less than a year's time, over 135 million accounts have been opened under the initiative, although it is unclear how many of these accounts belong to people who did not previously own an account.[29]

While this effort was not targeted to youth, it is an example of a large-scale effort to connect people to accounts who previously used other means of managing money. In this respect, the effort is confronting a similar set of issues as youth savings initiatives. One of the main obstacles to the plan is that many low-income Indian lack the identity documents which are required to open bank accounts.

> As of June 2015, approximately half of the accounts that have been opened have not been used.

Another challenge is how to promote engagement once the accounts have been opened. As of June 2015, approximately half of the accounts that have been opened have not been used. Money in active accounts opened under the scheme totaled $2.8 billion (as of June 2015). While the government has pledged to use the accounts to deliver future welfare payments, empty accounts are costly for banks to maintain and there is no requirement of a deposit to open an account under the program. However, since the Indian federal and provincial governments subsidize a number of commodities and services, such as food and fuel, the potential of these funds (almost $60 billion a year) to subsidize account costs is substantial. As this effort is implemented, it is likely that additional account features will be added that can make these accounts more attractive to the target population. Until that happens, account usage may lag. This experience will continue to provide insights into the dynamics of account engagement and dormancy as the effort unfolds in the coming years.

GATEWAY FINANCIAL INNOVATIONS FOR SAVINGS

Gateway Financial Innovations for Savings (GAFIS) set out to address the challenge of how to make low-balance accounts, used by the small saver, profitable and viable for large-scale financial service providers.[30] Supported by the Gates Foundation, Rockefeller Philanthropy Advisors, and Bankable Frontier Associates, this effort engaged five commercial banks in the developing world in a project to understand the factors that impact low-income clients, affect institutional capacity to serve them, and contribute to a sustainable business model.[31] Over a four-year period (2010-2013), the banks tested new approaches to serve this market.

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[28] See JanDhanYojana.net for more details.

[29] Parussini, Gabriele. "India's Push for Banks for All Leaves Some Still Outside." Wall Street Journal. April 8, 2015.

[30] Gateway Financial Innovations for Savings (GAFIS). 2013. "Big Banks and Small Savers: A New Path to Profitability." A GAFIS Project Report.

[31] Participating banks included Bancolombia, BANSEFI (Mexico), Equity Bank (Kenya), ICICI Bank (India), and Standard Bank (South Africa), which collectively held more than $250 billion in assets with a customer base of over 77 million.

While not focused explicitly on youth, the project generated a number of relevant insights, particularly with respect to understanding how new delivery mechanisms can be leveraged to increase engagement. Specifically, GAFIS was able to demonstrate how the development of "an agent channel" which deployed people in the field outside traditional bank branches, was able to originate new accounts and facilitate increased deposits, identifying valuable strategies to reduce dormancy. GAFIS banks were also able to successfully deploy new communication channels, such as SMS messages with reminders, to stimulate higher levels of engagement, which bolster the business case for these accounts. The GAFIS experience reflects the promise of addressing the dormancy challenge in the developing country context by deploying a range of strategies that include more flexible products, greater use of mobile phone technologies, and deployment of agents in the field to market and support use of low-balance accounts.

PART III: POLICY ISSUES TO EXPLORE

Any large-scale effort to promote savings, whether it is advanced by the public or private sector, is likely to encounter challenges in ensuring that participants make steady contributions to their accounts. Understanding the underlying dynamics of account dormancy is certainly a puzzle to solve, but it is less clear as to when the prevalence of dormancy becomes a problem to such a degree that it undercuts the value of the entire effort. Depending upon their perspective, various stakeholders will approach this question differently. Financial institutions will be concerned with the relative cost of maintaining low balance accounts, and policymakers and other NGO intermediaries may associate account inactivity with low impacts. Given the growing number of initiatives that have been established to connect people—and specifically youth—to accounts, there is a wide set of experiences to consider. The variation among these experiences offers an opportunity to identify an initial set of policy issues that warrant further exploration.

PROGRAM DESIGN MATTERS

When implementing innovative savings account programs, there is a great deal of focus on initial enrollment. The design choices made in these cases may determine the extent of each program's reach. Programs that have been able to automatically enroll participants have gone a long way to solving the problem of access. SEED OK yielded a 99.9 percent participation rate through auto-enrollment; and virtually none of the children enrolled in San Francisco's K2C program opted out of the accounts. In the UK, the Child Trust Fund issued vouchers, which parents could redeem at participating financial institutions to create accounts for their children. If a parent failed to do so an account would be created for them automatically after one year, ensuring universal access to the program. Automatic enrollment features have been shown to be effective in a variety of settings and there seems to be value in exploring additional automatic features to promote contributions.

It is evident that the challenge of enrollment is distinct from that of facilitating subsequent account engagement. The information available to date on account engagement and the diversity of program efforts paint an uneven picture with respect to how account holders interact with their accounts over time. While it can be assumed that program design also influences engagement, it shouldn't be assumed that a high prevalence of dormant accounts necessarily stems from a poorly-designed program. The individual circumstance of each account holder is unique, and not all participants are in a position to make use of their accounts. In addition to income constraints and consumption priorities, there are alternative ways for people to store money and manage finances. In many cases, especially in accounts for youth, dormant accounts may be best thought of as offering future potential. A child may not be able to make use of an account until she reaches

It is evident that the challenge of enrollment is distinct from that of facilitating subsequent account engagement.

a more advanced age and begins to earn income or receive a level of financial education that may trigger engagement with her account. But if the account is available when she needs it, it may provide an aspirational effect in the meantime.

Account structure can create engagement barriers, such as in the programs (SEED OK and the Harold Alfond College Challenge are examples) where parents had to open a second account to take full advantage of savings opportunities. The power of inertia is strong and can be difficult to overcome if account rules are too complex or require an account holder or parent to take multiple steps to make deposits. A valuable qualitative study on barriers to youth financial inclusion in Kenya concluded that a number of strategies to address dormancy related to program design and account rules could be pursued. These included modifying account rules to allow for greater autonomy among youth account holders, creating additional opportunities for group accounts, and finding ways to increase trust between the bank, youth, parents, and the community.[32]

INCENTIVES MAY INCREASE DEPOSITS

To the extent that account engagement is reflected by deposits, experience in the field demonstrates the potential of incorporating incentives into the program design of large-scale, account-based initiatives. One type of promising incentive is to provide a direct match to account holder contributions. This is being implemented in the Canada Education Savings Grant program as well as with San Francisco's K2C program and Maine's Alfond Challenge. The value of this approach is that it increases account balances and serves as an immediate reward for action. Still, the value of a savings match or an initial seed deposit may not be enough to overcome the challenge of dormancy if the account structure is overly complex, as reflected in the SEED OK experience. Another type of incentive takes the form of a tax credit, which account holders can claim at a later date. Depending on how the policy is structured, one downside of the tax credit approach is that the benefits may not end up deposited in the account, which limits their impact on overall accumulations. While incentives provided by the public sector may be effective and have the potential to achieve scale, incentives provided by financial institutions may also be used to promote account engagement and address dormancy. The YouthSave experience in Nepal provided evidence of the value of this approach, as account holders that received a savings matched contributed at higher rates than those who did not.

Canada's experience with their Registered Education Savings Plan (RESP) reflects both the potential benefits and limitations in using savings incentives. They have used matched savings and seed deposits available through a different program, the Canada Education Savings Grant (CESG), to promote account openings and deposits in the RESP. Since this opportunity was made available, Canada has seen significantly higher take-up and deposit rates, reflecting the effectiveness of the incentive structure. But it also has reinforced economic disparities; as 59 percent of higher-income households have an account compared to 35 percent of lower-income households. While it makes sense to tailor the structure of incentives to the target population given resource constraints, identifying effective approaches may require more experimentation. For example, savings incentives may be more effective for lower-income people if they promote regularity, rather than a particular threshold amount.

Even though the diverse experiences in the field make program comparisons difficult, it seems evident that programs with robust incentives to save have higher rates of engagement than those with less robust incentives. Programs engagement with Canada's RESP accounts is high because of the incentive structure; families eligible to receive the incentives for saving in the SEED OK project were more likely to open accounts than families not eligible to receive the incentives. These experiences seem to support the conclusion that additional saving incentives above and beyond simply offering access to an account are valuable in order to achieve the broader goals of asset-based policy interventions.

[32] Paaskesen, Lise and Weselina Angelow. 2015. "Youth Financial Inclusion in Kenya: Co-Creating a Way Forward. WSBI.

DIVERSE ENGAGEMENT STRATEGIES SHOULD BE PURSUED

Beyond direct saving incentives, other program features and engagement strategies may be employed to increase account activity. Some of these strategies are financial, such as matched contributions offered to spur engagement by participants in Canada's RESP accounts and Maine's Harold Alfond College Challenge. Another challenge is how to sustain engagement over time. In YouthSave, there was some evidence that the frequency of deposits decreased after an initial period of engagement.[33] Banks tried to counteract this tendency with a promotion (in Colombia) and a seasonal savings match campaign (in Nepal); both of which appeared successful in increasing deposits. The UK's Child Trust Fund program included initial seed deposits but also a one-time top-up contribution when account holders reach 7 years of age. The top-up was intended to remind families of the presence of the account at the time their children were being exposed to a curriculum of financial education in primary school. This approach is interesting because it acknowledges that parents and youth will require different strategies to prompt engagement, some of which require a longer time horizon to be effective.

For younger populations, such as those that were the intended beneficiaries of the YouthSave program, other kinds of incentives for participation may work best. YouthSave offered incentives to open accounts in the form of small gifts intended to appeal to the young participants of the program, such as piggy banks, pens, t-shirts, and wristbands. These might be tried in future efforts to attract contributions as well. An additional challenge with YouthSave was to engage with children and youth whose parents might be unbanked. When there is less experience interacting with formal financial institutions, there may be benefits for using strategies that are designed to build trust. Building relationships through intermediaries may be a valuable approach. The growing ubiquity of mobile phones offers another opportunity to increase account engagement. Many institutions are already finding value in increasing the tools available to make deposits and contributions as well as sending additional information and reminders via text messages. In YouthSave Colombia, researchers found that simple savings reminders delivered through text messages can increase net savings.[34] As technology changes, new avenues may open up to prompt deposits among accountholders. Given the wide range of circumstances in play, a variety of engagement and commitment strategies should be explored and eventually assessed, such as the role of savings groups, nudges, financial education, outreach through media, and other promotional activities.

PUBLIC POLICY HAS A ROLE TO PLAY

While many asset-based interventions have been successfully implemented with private means, there remains a crucial role for the public sector to achieve the scale of universality and to overcome industry resistance to small-dollar and temporarily dormant accounts. All of the case studies presented in this paper involved the public sector to varying degrees. It is a responsibility of government to oversee the regulation of the financial sector that will likely be involved in the administration of a large-scale system of accounts. At a minimum, the public sector defines standards for banks to follow with respect to how to verify the identity of account holders and determine who can exert control over the account, which is particularly relevant when the account holder is a minor.

In the case of San Francisco's K2C and the UK's Child Trust Fund, the role of the government not only mandates universality but it ensures everyone gets a first deposit. Public money has been allocated so every child in the target population is covered. In Maine, although the effort is privately funded, its implementation depends on coordinating with the state government, which provides access to birth records and other vital statistics that make possible a universal and auto-enrollment program.

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[33] Johnson, Lissa et al., 2015. "Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal: YouthSave Research Report 2015." St. Louis, MO: Washington University, Center for Social Development.

[34] Ibid.

One consequence of implementing programs that are universal and automatic is that not all participants will be in a position to engage with their accounts soon after the accounts are established. This is often perceived as a problem among financial institutions and other for-profit custodians of the accounts because the industry model relies on higher-balance accounts to be economically feasible. But to the extent that the public will benefit if these savings opportunities are available over the long run, government can set rules and regulations that ensure these accounts are set up and maintained rather than abandoned or eroded by fees. Further, additional public resources, in the form of matched saving incentives or top-up deposits, may be employed to triggered increased engagement at a later date. Another strategy, being deployed in India's Jan Dhan Yojana scheme, is to deliver public benefits into accounts. This approach not only will increase account balances but also improve the business case for commercial institutions that would benefit from higher amounts of assets under management.

Experiences in the field illustrate that the public sector can provide the subsidies, in the form of an initial seed deposit, savings match, top-up, or indirect tax credit, which can bolster a large-scale effort. Beyond that, the public sector has an invaluable role to play as a rule maker that sets standards and ensures compliance. One of the standards that the public sector might embrace is to ensure that those in a society with lower incomes and fewer resources are given a fair opportunity to increase their economic well-being over time. Embracing a policy of universal or widely-held savings accounts may be one means to reach this goal.

MORE TO LEARN

A considerable amount of evidence is now available showing the positive benefits of offering asset-building opportunities to youth and other lower-income individuals. Extending those benefits as widely as possible should be a central goal of policymakers and one that can best be achieved through large-scale enrollment. As the case studies above demonstrate, even when accounts are opened on behalf of individuals, many may not fully participate. While ongoing engagement is desirable, there are many obstacles that must be navigated to ensure people interact with their accounts on a sustained basis. Furthermore, the presence of dormant accounts does not necessarily equate to a design failure. There is much more to learn about the dynamics in play in these large-scale savings efforts.

One of the most important reasons for offering asset-building accounts to individuals is to provide a route to financial stability in the long-term through having access to an account when it is needed. To achieve the further goal of increasing engagement in saving behavior, certain design elements must be incorporated. Incentivizing account activity in the form of matching amounts and seeded funds is an important way to lower the likelihood of high rates of dormancy and to increase the value of the accounts for underserved groups. There is also an important role for the public sector in both ensuring universal coverage and reducing account dormancy. By acknowledging that dormant accounts are not just a problem to be solved, but also an opportunity to be seized, policymakers can streamline the design and implementation of these promising account-based savings interventions in the future.

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