



BCG

THE BOSTON CONSULTING GROUP

**FINANCIAL
SERVICES FOR
YOUNG PEOPLE:
PROSPECTS AND
CHALLENGES**



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EXECUTIVE SUMMARY

In recent years, there has been a growing recognition of the economic and social obstacles low-income young people face in making successful transitions to adulthood. The ability to manage money, build assets safely and plan for the future is a core component of a larger set of economic and social assets required to achieve more sustainable livelihoods. One of The MasterCard Foundation's earliest efforts explored how best to serve the financial needs of young people living in poverty, particularly in Sub-Saharan Africa. This exploration was prompted by a belief that access to appropriate financial services, coupled with financial education, can be a key enabler of a young person's move toward economic independence.

The MasterCard Foundation has funded and tested a range of approaches and models to deliver financial services and education to young people, most of which were related to the provision of savings services for low-income youth, (as opposed to credit or other financial services). The MasterCard Foundation engaged The Boston Consulting Group (BCG) to conduct a review of progress to date of its portfolio, using monitoring reports, mid- and end-term evaluations and other literature on programs to provide a sense of the current state of practice in this field.

This review involved four major areas of inquiry:

- Exploring how to better understand youth populations through customer segmentation;
- Studying the preliminary evidence of the impact financial services can have on young people's lives;
- Understanding whether a business case exists for delivering traditional financial savings services to young people; and
- Identifying the challenges involved in providing effective financial education.

The portfolio review also examined several key questions whose answers provide emerging evidence that will help to inform the future of financial inclusion for young people.

1) Do young people need financial services?

- **Demand for financial services among young people exists**, as shown by the number of youth participating in our partners' studies and by the number of accounts opened across The MasterCard Foundation's project portfolio. BCG estimates that across Sub-Saharan Africa, young people hold an estimated US \$2.2 billion in savings accounts. Low-income young people living on less than US \$2 a day account for almost half of this figure.
- **Low-income young people handle money**, whether it is acquired via parents or relatives or earned from odd or part-time jobs.
- **Young people save money**, even when they lack access to formal savings vehicles.
- **Young adults use credit**. Preliminary evidence shows that as young people reach their working years, they borrow to meet everyday needs, launch income-generating activities and plan for the future.
- **Young people are willing to pay for financial services** and are eager to learn about how to use them, if they perceive that products offer value and pricing is fair.

2) Does financial access benefit young people?

- **Indications of positive financial behaviours**, such as better saving and budgeting activities, are emerging among those who have been given the ability to save, either in formal or informal contexts.
- **Those with access to savings services appear to be able to accumulate assets and improve their ability to handle financial transactions**. Other apparent benefits that have been observed include a reduced cost of transactions and greater perceived safety of transactions.
- **Access to savings accounts may well trigger "halo" effects for young people**. These are secondary benefits that include greater financial security, access to opportunities, enhanced confidence and self-esteem, an orientation toward the future and the ability to set long-term goals.



3) What do we know about the business case for providing financial services to young people?

- **Initial analysis based on customer segmentation shows that offering savings-only services to young people is unattractive to financial service providers.** This is because of the low value of transactions and savings balances and the high cost of marketing and maintaining youth accounts.
- **Segmentation also reveals that some youth populations may become easier to serve.** Young, working-age urban residents are more attractive clients to financial service providers. Competition may drive down the costs involved in serving them, making this a viable segment to serve in the future. These populations may also be easier to serve if financial service providers are able to encourage clients to use their accounts more frequently, cross-sell additional products to their families and friends and apply technology to reduce costs in creative ways.
- **To serve the needs of vulnerable youth, larger economic and employment issues must be addressed.** Additional support from governments and donors may be needed to serve economically vulnerable youth, particularly those who live in rural or remote areas. These segments require specialized services and support. Further study of vulnerable populations and the role financial inclusion, skills development and job training could have in improving their lives is required. The MasterCard Foundation, through its Economic Opportunities for Youth programming, is pursuing such research, exploring how financial inclusion, in concert with skills and job training, can enable young people to achieve their economic goals.

4) How do we create conducive regulatory and policy environments for the greater financial inclusion of young people?

- **Broad engagement with financial service providers, regulators, national policymakers and civil society is needed to achieve financial inclusion for all young people and their households.** Regulators and policymakers must consider the bigger picture and balance the need for customer and institutional protections with the goal of financial inclusion for youth.
- **The costs of complying with Know Your Customer regulations and anti-money laundering regulations are high** for financial institutions, and reporting requirements are onerous. This makes it too expensive for financial service providers to offer services on a sustainable basis.
- **It is important to ensure that young people who open accounts are protected, but without imposing barriers to access.** Standard requirements to open a bank account, such as providing client identification, address and proof of majority age are often hurdles for low-income youth. Some financial service providers have already devised creative workarounds and there is room for more experimentation. Emerging identification technology could also help mitigate barriers.

Beyond the findings of the portfolio review, The MasterCard Foundation has identified several key issues that should be pursued to advance financial inclusion for young people.

- It is essential that all those involved in offering financial services to low-income young people document the impact that financial services has on a young person's life.
- It is important to explore the credit needs of young people as they approach working age.
- In the coming years, donor subsidies should target the populations that are currently the hardest to serve—the impoverished and those who live in rural and remote areas.

- The work that is conducted with rural youth will need to take place alongside other activities that help them build more sustainable livelihoods. The MasterCard Foundation has incorporated practical learning from programs on financial services for young people into the design and delivery of its Economic Opportunities for Youth strategy and its Financial Inclusion programming in rural communities. These programs are targeted at economically disadvantaged young people who are out of school. In addition to skills and entrepreneurship training, financial services are offered as an important part of a holistic package of services and support.



Financial Inclusion

The MasterCard Foundation recognizes that financial inclusion is not an end in itself, but rather a means to work toward the alleviation of poverty and, ultimately, more inclusive economic development. Financial inclusion means that excluded individuals, households and small businesses have access to and use a range of appropriate financial services. By “appropriate,” we mean that financial services, such as savings, insurance and credit, must be relevant to poor people. These financial services must also be provided responsibly, sustainably and in a well-regulated environment.



FINANCIAL INCLUSION FOR YOUNG PEOPLE

Financial inclusion alone cannot eradicate poverty. Research is beginning to show, however, that inclusive financial systems are important for achieving economic and social progress.¹ A weak financial system is not only inefficient but also has negative consequences for countries with high rates of poverty, particularly those in Sub-Saharan Africa.

Every modern economy needs an inclusive financial system that enables people and organizations to perform transactions, save, borrow and invest across distance and time. These activities allow people to insure against unexpected events, plan for the future, and, ultimately, improve household conditions through more consistent access to financial resources. This is particularly important for African countries with high rates of financial exclusion, where large percentages of their populations are under the age of 30.

There are currently 370 million people in Sub-Saharan Africa between the ages of 15 and 24. In addition to education, skills and economic opportunities, each will need access to financial services. The transition from adolescence to adulthood involves significant changes, among them, finishing school, moving out of the parental home, earning a living and starting a family. This is a formative period when key habits and attitudes that may have consequences later in life are set. Financial planning, including managing and saving money, is an important part of successfully transitioning to adulthood.

Organizations working to increase financial inclusion, however, often overlook the importance of understanding the particular behaviours, preferences and needs of young people, especially those living in Africa.

1. "Financial Inclusion and Development: Recent Impact Evidence," Cull, Ehrbeck, and Hole: CGAP Focus Note, April 2014. <http://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf>

THE MASTERCARD FOUNDATION AND ITS FINANCIAL SERVICES FOR YOUNG PEOPLE PORTFOLIO

Beginning in 2008, The MasterCard Foundation formed partnerships with six organizations to develop programs that would improve access to financial services for young people. Collectively, these partners operated projects in 14 countries across Sub-Saharan Africa, as well as in Colombia, Ecuador, Morocco and Nepal. These projects worked with more than 30 financial service providers and non-profit organizations and represented an overall investment of US \$54 million over five years (See Exhibit 2).

The definition of a young person varied from country to country. In general, The MasterCard Foundation's programs targeted young people between the ages of 12 to 29, as this time frame captures a wide span of life stages for young people. These programs also ranged from working with informal youth savings groups in rural areas in Mali, Sierra Leone, Senegal and Niger to working with banks and other financial service providers in Ethiopia, Ghana, Kenya and Morocco. As a result, the programs cover a range of poverty levels across these countries. Throughout this report, the term "low income youth" is used to refer to a broad spectrum of young people living in some degree of poverty. Through these programs, the Foundation sought to understand the demand for financial services among this target population, how conducive the environment for such services might be and the requirements of financial service providers to meet the needs of these clients. The Foundation was also interested in whether these unique youth-specific products and services could be delivered over time on a sustainable basis. The programs explored the effectiveness of financial education and other non-financial services in satisfying the financial needs of young people.

These projects covered activities such as market research, product development and testing, expansion of products and the delivery of financial education, life-skills and other support. Some projects examined the potential scalability of financial services for young people.

Thus far, more than 762,100 young people have received financial education and life-skills instruction within this portfolio. The programs have also reached more than 720,100 young people with new savings accounts, of which 85 percent are in formal institutions.²

Two service delivery approaches have been explored by the Foundation and its partners: one through informal, community groups and one through formal financial service providers. Informal approaches included the formation of youth savings and loan groups (often referred to as "savings groups" or "village savings and loan associations") to instill basic financial habits through the discipline of peer groups. They are often organized in rural areas and implemented predominantly by non-profit organizations. Formal approaches included initiatives offered by banks and financial service providers, and involved a variety of products and services in savings and credit. Both approaches also included financial education as an integral element, so that young people participating would be able to use financial services in a responsible way.

At inception, these projects largely considered young populations within any given area as a homogeneous group, though certain projects targeted the needs of young women more specifically. Across the portfolio, women and girls made up an estimated 53 percent of participants who saved money. Initiatives with Plan Canada and Freedom from Hunger specifically set higher outreach targets for women and girls, and BRAC Uganda's programs were targeted exclusively towards women. By working with women's groups, these projects were able to address the social and cultural barriers to their participation. In the absence of these strategies, other projects struggled to achieve gender parity.

2. Figures are as of January 2015.

As the programs were rolled out, additional distinctions within youth populations emerged, ones that implicate how financial products and models are designed from the perspective of financial service providers. BCG's segmentation analysis enabled the identification of additional discrete client segments within youth markets.

The analysis involved looking at two dimensions:

- **The complexity of need for financial services**, based on life stage; and
- **The degree of access to services** offered by a formal institution.

The level of complexity of need for financial services is what determines client demand. It is a function of age, life stage and income level. Children, for example, have relatively simple financial requirements. These tend to centre on forming basic savings habits. The needs of young people become more complex as they grow older and their income streams diversify. Adolescents and young adults tend to want a range financial services such as insurance and, to some extent, credit.

The degree of access to services is what drives supply. People living in rural and remote communities are often most in need of stable financial instruments. However, they are usually underserved or unserved by formal institutions due to the high costs of building banking infrastructure and the perceived low return on this investment by financial institutions. For young people, this lack of access creates a lost opportunity to develop more complex financial management through the use of a bank account.

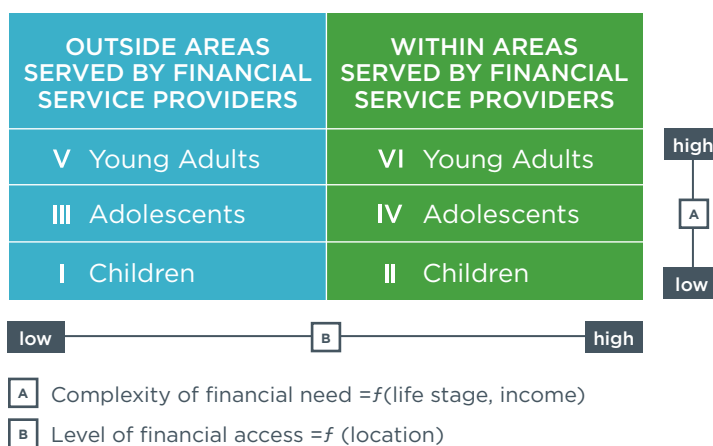


LIFE STAGES

Using these two dimensions—complexity of need and degree of access—three life stages or age brackets were delineated: children (elementary school age); adolescents (primarily teenagers who may or may not be attending school but who are starting to work, either for pay or to help their families); and young adults (age 20 and older).

Segmentation also involved delineating young people according to two geographic categories: those living within areas served by financial institutions and those living outside those areas. This approach yields a total of six segments, each with significantly different needs (See Exhibit 1).

EXHIBIT 1: YOUTH SEGMENTATION MODEL



For financial service providers, the hardest group of young people to serve is children living at home, particularly those living in rural areas beyond the reach of existing banking infrastructure. At the opposite end of the spectrum are young adults in primarily urban areas, many of whom are within the reach of financial institutions. These young people are generally working or looking for work, and many are already starting their own families.

As they grow older, young people develop greater independence and their needs regarding financial services become more complex. They begin working and participating more fully in the economy, either as employees, or (as is more likely in the informal economy) as workers with often multiple income streams, for example, from working in subsistence agriculture, microenterprises or odd jobs. Among these segments, there is a more visible potential to move young people from informal financial mechanisms such as savings groups to a larger range of formal products that meet their increasingly complex needs, such as student loans or life insurance.

EXHIBIT 2: THE MASTERCARD FOUNDATION'S YOUTH FINANCIAL SERVICES PORTFOLIO AT A GLANCE (AS OF JANUARY 2015)

COUNTRY	PRODUCTS	INDIVIDUAL/GROUP	AGE	# OF PARTICIPANTS	# OF YOUTH RECEIVING FINANCIAL EDUCATION
YOUTHSAVE					
Colombia	Savings	Individual	>90%, 10-18	2,308	22,083
Kenya	Savings	Individual	>90%, 10-18	93,006	44,495
Ghana	Savings	Individual	>90%, 10-18	15,169	0
Nepal	Savings	Individual	>90%, 10-18	6,484	41,017
UNCDF YOUTHSTART					
Burkina Faso	Savings & Loans	Individual & Group	14-24	17,283	20,137
DR of Congo	Savings	Individual	14-24	18,342	19,719
Ethiopia	Savings & Loans	Individual	14-24	252,181	190,781
Ethiopia	Savings & Loans	Individual	14-24	21,273	47,779
Malawi	Savings & Loans	Individual & Group	14-24	26,620	43,487
Senegal	Savings & Loans	Individual	14-24	15,592	10,406
Uganda	Savings & Loans	Individual	14-24	26,947	19,145
Uganda	Savings	Individual	14-24	14,813	31,499
Togo	Savings & Loans	Individual	14-24	36,310	27,070
Rwanda	Savings & Loans	Individual & Group	14-24	28,536	27,551
FREEDOM FROM HUNGER*					
Mali	Savings	Individual & Group	13-24	26,645	21,728
Ecuador	Savings	Individual	13-24	5,701	12,763
MEDA					
Morocco	Savings	Individual	15-30	23,362	28,812
BRAC UGANDA*					
Uganda	Loans	Individual & Group	16-20	0	67,078
PLAN CANADA*					
Niger	Savings & Loans	Individual & Group	15-25	30,382	27,415
Sierra Leone	Savings & Loans	Individual & Group	15-25	17,690	17,690
Senegal	Savings & Loans	Individual & Group	15-25	41,481	41,481
TOTAL				720,125	762,136

* As of December 2013

WHAT WE HAVE LEARNED: ANSWERS TO FOUR CENTRAL QUESTIONS

Our projects have yielded many insights about young people and their financial needs, level of awareness and practices. These insights have been organized in the form of answers to the following four critical questions.

1 – DO YOUNG PEOPLE NEED FINANCIAL SERVICES?

Young people across these projects have active financial lives. They have, use and save money, are interested in credit and are willing to pay for financial services. Young people save through informal means, including traditional savings and loan groups, their parents and on their own. They also save through formal channels such as banks, mobile accounts, branchless banks and agent networks.

Demand for financial services exists

As of 2013 (the latest available figures), the aggregate value of cash deposits held by the total population of young people throughout Sub-Saharan Africa (in both formal and informal financial instruments) is estimated by BCG to be at US \$2.2 billion.³

The demand for financial services is real among young people, as evidenced by the feedback of young people surveyed by our partners and the number of accounts opened across the Foundation's projects. Demand is further demonstrated by the growing volume of savings in the markets in which our partners worked.

Young people engage in financial transactions

In terms of their financial transactions, young children are primarily savers and recipients of payments, and the money transfers they receive are for the most part intended to pay their school fees. Among older youth, a greater diversity of transactions takes place, including the need to both send and receive money.

In Kenya, for example, 62 percent of older youth ages 24 to 29 now use mobile banking to receive money, and 57 percent use it to send money.⁴

Young people save money

Many young people actively save either with formal financial service providers or using informal instruments such as savings groups. Across the six partnerships in the portfolio, over 720,000 young people have accessed financial services in a variety of contexts.

The Foundation's partnership with YouthSave, for example, found that nearly 11,000 participants being studied (in-school youth ages 12 to 18) kept their own savings, with the average balance in their accounts totalling GHS (Ghanaian Cedi) 26.67 (about US \$33.34 when converted using the Purchasing Power Parity factor).⁵

Depending on the nature of the account and service, the usage of these accounts varies considerably. Among informal savings groups, for example, young people regularly participate and access their accounts and interact in social, group settings. Among those using individual savings accounts with formal financial service providers, usage is less frequent. For example, a YouthSave partner bank in Ghana noticed that 91 percent of savings accounts had less than one deposit a month. In Kenya, 71 percent of accounts had less than one deposit per month. Further investigation is needed to understand usage patterns, including the reasons behind the lack of activity.⁶

3. Values for Sub-Saharan Africa savings held by those ages 15 to 24 (both total and low-income youth), as determined by BCG analysis and triangulated from BCG's 2013 Africa Consumer Sentiment Survey.

4. Findex.

5. Researchers used the Purchasing Power Parity (PPP) conversion rates for 2011 drawn from the IMF World Economic Outlook dataset. <http://www.imf.org/external/pubs/ft/weo/2012/01/index.htm>

6. *Savings Patterns and Performance in Colombia, Ghana, Kenya and Nepal*, YouthSave Research Report 2015 (CSD Publication 15-01), Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis, January 2015.



Voices of Young Savers: Quotes from two young people with accounts at Kenya Post Bank.

“There is no well-being like financial well-being. Savings provide just that. With savings, one knows that there is some money for anything that might come along. This will keep the youth’s spirits high and depression and stress at bay.”
— Brian Munaita

“Saving helps to make one focused in life. This is because, if one saves, he or she can use the saved money in the future to accomplish his or her goals and pay for education.”
— Cheah Akibah

Young adults use credit

The demand for credit among young people has not been studied as closely as the demand for savings services. However, initial indications from a variety of sources indicate that young adults in their working years need and will use credit products. Data from Foundation programs, as well as from mass-market loan providers such as M-Shwari in Kenya, show that working-age young people, unlike younger youth, use credit, and people ages 18 to 30 make up more than half of M-Shwari’s user base.

This is also true among young people using informal savings groups. In The MasterCard Foundation’s partnership with Freedom from Hunger in Mali, nearly 26,000 young people participated in informal savings groups and 10,000 of them took out loans from the groups. Youth borrowers reported using funds to meet their day-to-day needs (including emergencies), to launch income-generating activities and to plan for the future. Program participants indicated that they valued the ability to access loans. In savings groups that were managed by Plan Canada, 74 percent of young people in Niger, 63 percent in Senegal and 76 percent in Sierra Leone accessed loans in the preceding six months. They also took advantage of a broad suite of financial literacy and leadership tools and life-skills training courses.

Youth are willing to pay, eager to learn

There is a common perception that young people cannot afford financial services and that if providers simply lowered their fees, young people would engage. The evidence, however, shows that youth across all segments are willing and able to pay for financial services, provided that they perceive that the products offer value and that the pricing is transparent and fair. Kenya Post Bank, a partner in the YouthSave program, charges 30 KES (Kenyan Shillings) per withdrawal, which creates an incentive for savers to keep their money in their account. Of the nearly 50,000 accounts that are being tracked, over US \$425,000 had been accumulated. Despite significant gaps in financial literacy, studies conducted among the Foundation’s partnerships show that young people also want to learn more about managing money.

2 - DOES FINANCIAL ACCESS BENEFIT YOUNG PEOPLE?

Through The MasterCard Foundation's programs, it is possible to identify three distinct areas in which access to financial services has the potential to positively impact youth: instilling positive financial behaviours, enabling asset accumulation and transaction management, and fostering ancillary or "halo" effects.

Instilling positive financial behaviours

Instilling positive behaviour—such as saving and budgeting—is important and is a key objective of the financial services for young people portfolio. Evidence of the long-term impact of saving at a young age and on saving behaviour in adulthood is limited to a few studies from developed countries.

Being able to open a savings account alone does not guarantee that positive behaviours will be adopted. How these services are used is important to understand. As an individual uses a financial service, a habit is established and it becomes second nature. Usage also creates positive reinforcement by producing results—savers see balances grow and planners see money accumulate toward a goal.

Increases in youth savings balances, while not a perfect proxy, suggest that youth are actively using their accounts and learning how to save and make transactions. With their structured peer driven approach to weekly saving, savings groups help young people to commit to saving regularly and to make savings a priority. In effect, savings groups appear to be an effective "nudging" mechanism with young people. The MasterCard Foundation has noted a rise in savings balances in savings groups managed by Plan Canada and Freedom from Hunger.

On the other hand, projects run by financial service providers are effective in driving account uptake, but have struggled to promote regular account usage. In our YouthSave program, only about 20 percent of youth in Kenya made one or more deposit per month during the first year of the project. In Ghana, the figure was even lower, at 10 percent.

Fostering regular, beneficial account usage should be a goal of service providers. Among the emerging ideas devised by participating financial service providers are incentives to promote more account activity. In Uganda, some financial service providers link insurance or school discounts to usage or balance activity. Others set limits. For example, YouthSave's Ghanaian partner, HFC Bank, prohibits withdrawals within three months of opening an account. Encouraging users to protect and regularly build their savings may be one tactic for promoting regular, beneficial usage.

Certain technologies used with adult savers might be extended to young people. One study tested the effectiveness of text messaging versus in-person savings group meetings.⁷ Micro-entrepreneurs identified as "under-savers" were sent weekly savings reminders via text message. The text messages were almost as effective as the more expensive in-person meetings at increasing savings amounts—another example of how nudges can be effective in shaping positive behaviours.

Enabling asset accumulation and transaction management

While frequent use of a savings account is a sign of positive behaviour, does access to savings accounts help youth grow their assets and better manage their transactions? Although the evidence regarding young people is still emerging, it is possible to find clues in studies focused on adults. A Malawi study exploring the effect of "commitment" savings accounts showed an average balance of US \$150 for farmers who deposited their savings into a basic bank account, versus US \$36 for those not using one. Those with a commitment account accumulated even more—an average of US \$243. This study also demonstrates the added impact of the behavioural nudge—in this case, the commitment feature.

Another example comes from Saving for Change, a Malian program for women that helps them organize self-managed savings and credit groups. The study, which included a Randomized Control Trial, showed that women who participated in the program increased their savings by 27 percent as compared to a control group of women who did not participate in the program. They also used their accumulated assets to smooth consumption and protect against unexpected shocks.

When applying these insights to young people in Sub-Saharan Africa, the evidence, though directional, is encouraging. Participants in the Foundation's program with Freedom from Hunger reported increases in their overall savings. In the program executed with an NGO called Conseils et Appui pour l'Éducation (CAEB), savings grew from US \$9.10 to US \$18. With the program carried out with the NGO Nyèsigiso, savings balances grew from US \$44 to \$60.

7. "Under-Savers Anonymous: Evidence on Self-Help Groups and Peer Pressure as a Savings Commitment Device," Felipe Kast, Stephan Meier, Dina Pomeranz; The National Bureau of Economic Research, NBER Working Paper No. 18417, September 2012.

There is also promising anecdotal evidence that access to savings helps reduce transaction costs. Moreover, access enables young people to better safeguard their assets. Making transactions is safer, as is saving, because the risk of loss through theft is gone. In essays written for a *Kenya Post* contest about money management, a young person elaborated on the value of being able to make transactions safely.

“[Formal] savings has reduced the rate of money insecurity in our homes. Keep in mind that the rate of theft in our villages is getting higher and higher each morning and evening. [Formal] savings has helped by providing full security of people’s money.”
— Chea Akibah

Fostering halo effects

Engaging young people in financial services is intended to instill in them healthy financial behaviours, such as managing finances and accumulating assets. Preliminary surveys, however, show the potential for secondary, or “halo” benefits, including positive psychological, behavioural, educational and health effects. These effects can lead to financial security and access to opportunities, as well as enhanced confidence and self-esteem, an orientation toward the future and an ability to set long-term goals.

A small-sample study on child development accounts in Uganda suggested, for example, that young people who had received savings education and who also held savings accounts were more likely to have plans for their future education than peers who did not.⁸ Those with savings accounts had higher expectations and greater confidence in their educational plans. Another study linked the use of savings accounts with aspirations to higher education. These effects seemed more pronounced among low- and moderate-income youth than among those from higher-income families.⁹

The Foundation’s partnership with Plan Canada showed similar effects. The project worked with youth savings groups in Niger, Senegal and Sierra Leone, providing additional financial literacy and life-skills training to participating youth. The youth, ages 15 to 25, showed growing levels of confidence in and control over

their lives, as reflected in the self-assessments that were included in their financial diaries. They indicated a significant increase in the degree of control over decisions about the overall well-being of their families. Similarly, their degree of confidence in speaking at public gatherings rose substantially, as did their perceived ability to influence community decisions.

In Sierra Leone, young women and men who had families of their own reported using loans to pay off their tuition or the school fees of their children and, as a result, had developed greater confidence in their ability to build a better future.

More rigorous studies of these types of impacts will help establish clarity about the benefits young people obtain when exposed to financial services.

YouthSave in Ghana: Understanding the Impact of Financial Inclusion on Young People

Part of the Foundation’s YouthSave project involves a major study looking at the impact of savings services on young people. It is the largest study of its kind on youth financial inclusion in developing countries.

Using a Randomized Control Trial methodology, researchers are studying the effects of savings accounts that were offered to young people aged 12 to 18 in Ghanaian schools. One hundred schools were randomly selected from eight of Ghana’s 10 regions. Half were offered the savings account service from HFC Bank and half did not have access to the accounts. Collection of baseline data on almost 6,000 young people began in 2011 and was completed in 2014.

By mid-2015, YouthSave Ghana will report on the results. This landmark study will greatly enhance the understanding of financial inclusion for young people. Research will provide credible evidence about whether savings accounts promote positive development behaviours, increase financial assets, and enhance young people’s aspirations, expectations and orientations towards the future.

8. “Assets and Education Outcomes: Child Development Accounts for Orphaned Children in Uganda,” (SUUBI Project), Jami Curley, Fred Ssewamala, and Chang-Keun Han; *Children and Youth Services Review*, Vol. 32, issue 11, November 2010.

9. “Research Evidence on the CYFI Model of Children and Youth as Economic Citizens,” Center for Social Development, George Warren Brown School of Social Work, CSD Research Review No. 13-04, 2013.

3 - WHAT DO WE KNOW ABOUT THE BUSINESS CASE FOR PROVIDING FINANCIAL SERVICES TO YOUNG PEOPLE?

Some financial service providers are already engaged in the financial services market for young people, regardless of the immediate bottom line results. Without a sound business case, however, it is challenging for most financial service providers to dedicate the necessary resources and attention to young people, particularly in rural and remote communities. Attracting enough customers to justify the investments made will require a critical mass of financial service providers and clients.

The need for a long-term view of young clients

There are constraints for financial institutions in serving poor populations profitably, but for young people, these constraints are amplified. Preliminary investigations, when taken with the lessons of earlier work on financial inclusion, show that in the short-term it is difficult to serve youth profitably.

The economics of serving small savers, regardless of their age, are problematic. A recent study by Gateway Financial Innovations for Savings (GAFIS) highlights an array of obstacles in the small-saver market, especially for financial service providers. The study shows that while traditional low-balance bank accounts are not profitable, a “retail bank of the future” model that combines agent and mobile channels with flexible, tailored products is more likely to achieve profitability.¹⁰ These insights also apply to serving young people.

The unique characteristics of young people make the economics of youth savings products even more challenging. Young people on the whole save less than adults and are harder to reach, especially once they are out of school. Because of customers’ earlier starting age, financial service providers have a longer time horizon to realize profit. The longer trajectory to customer value also makes customer loyalty less certain. These characteristics translate to lower revenues, higher acquisition and operating costs, and inevitably, a longer investment horizon (see Exhibit 3).

As a whole, however, there is a significant market worth considering, especially in Sub-Saharan Africa. As noted earlier, the market for economically disadvantaged youth—those currently living on less than US \$2 a day—is estimated at approximately US \$1.1 billion in assets for Sub-Saharan Africa. In the context of total savings deposits from low-income clients, this is a significant sum.

EXHIBIT 3: THREE-YEAR CUMULATIVE COSTS AND REVENUES FOR A YOUNG ADULT CUSTOMER: A HIGH-LEVEL VIEW

REVENUE PER CUSTOMER	BASE CASE ¹	OPTIMISTIC CASE ²
Float revenue, based on customer account balance	\$4	\$4
Account transaction fees	\$7	\$7
Cross-sell of additional products (loans, etc.)	\$0	\$26
TOTAL REVENUE	\$11	\$37
<hr/>		
COST PER CUSTOMER		
Origination cost	(\$12)	(\$5)
Cost to serve	(\$37)	(\$25)
TOTAL COST	(\$48)	(\$30)
<hr/>		
NET PROFITABILITY	(\$37)	(\$7)

Table based on detailed analysis of data gathered and triangulated from a number of public and proprietary sources, including: The MasterCard Foundation Youth Financial Services portfolio usage statistics; “Is There a Business Case for Small Savers?” CGAP paper, September 2010; “The Impact of Gateway Dynamics on the Business Case for Small Balance Savings,” GAFIS Focus Note 3, April 2012; “Advancing Financial Inclusion through Use of Market Archetypes,” CGAP Focus Note No. 86, April 2013; and BCG estimates.

To develop the base case, nine key inputs were considered. Then, three profitability levers (percent cross-sell, cost of origination and cost of ongoing service) were applied to improve the profitability of the base-case customer scenario, creating a “better case” and an “optimistic case.” Finally, a separate set of scenarios was developed to model the impact of delivering financial education.

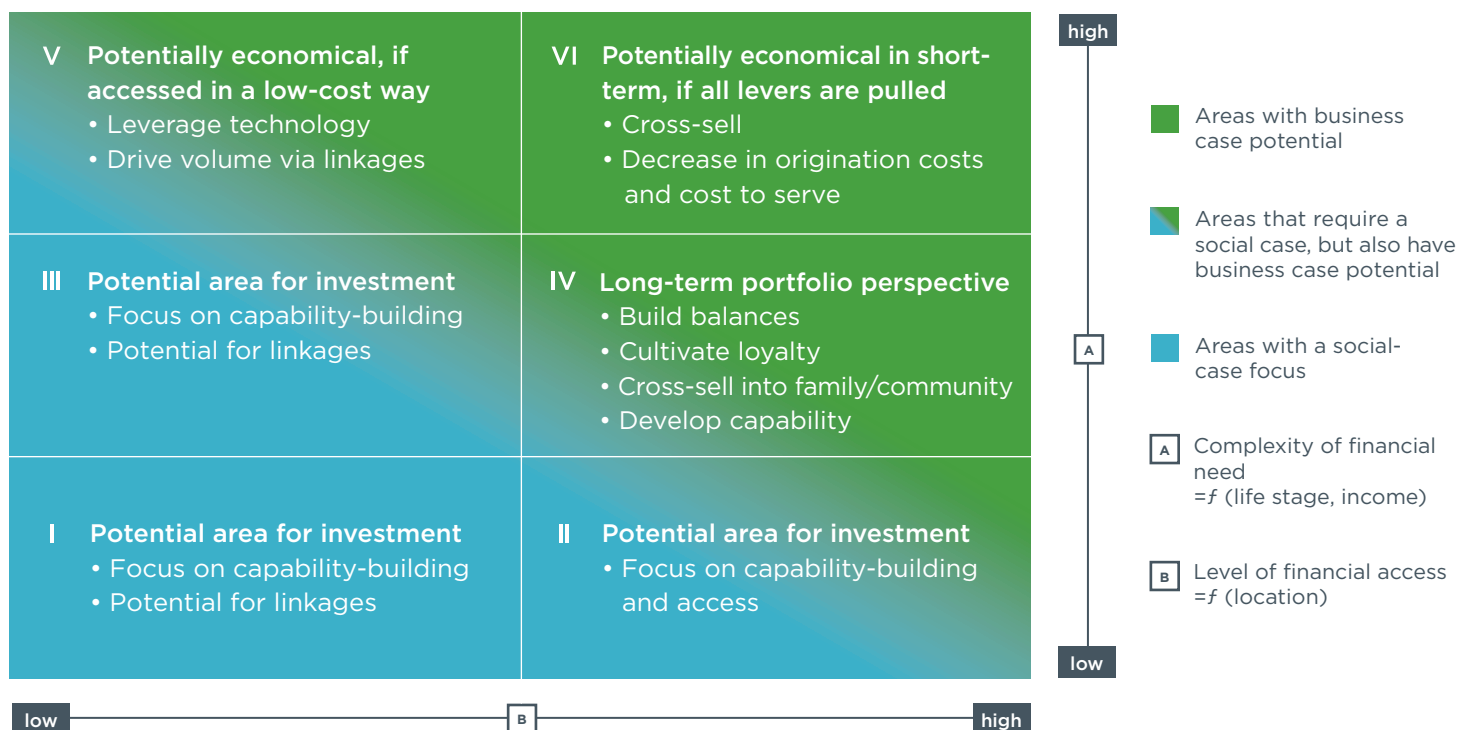
NOTES:

1. Based on a savings-only customer transacting within the traditional “brick and mortar” delivery model.
2. Based on a customer using savings and lending products, transacting within a more efficient, technology-enabled environment (thus, with lower origination and service costs).

Source: BCG Analysis

10. *Big Banks and Small Savers, A New Path to Profitability*, Gateway Financial Innovation for Savings (GAFIS) project report, December 2013.

EXHIBIT 4: BUSINESS CASE POTENTIAL BY SEGMENT



Segments of young people that are closest to commercial viability

For now, the urban young adult segment holds the most potential for financial service providers. When cross-selling is factored in—that is, selling a wider array of products as the young person comes of age—these urban young adults become more attractive as clients to financial institutions (see Exhibit 4).

More young people would be included in the financial system if financial institutions are able to provide these clients with access to services and encourage their usage of services in a cost-effective manner.

- **Encouraging regular account usage.** For financial service providers, encouraging more regular savings activity would increase not only account balances, but also the number of revenue-generating transactions. Active usage also promotes “stickiness” and customer loyalty, so finding efficient ways to stimulate positive behaviour is important.
- **“Nudging” appropriate financial behaviours in a cost-effective way.** As usage and volume of savings accounts is critical to profitability for financial service providers, they will have to find effective low-cost approaches to prompt appropriate financial behaviours. For example, financial service providers

may be able to use mobile technologies or SMS messaging to remind or “nudge” youth clients to make more frequent deposits.

- **Cross-selling.** Financial service providers frequently offer products that are unprofitable on a standalone basis. When viewed in terms of the full life-time value of a customer, these offerings can boost overall profitability and thus make commercial sense. In the context of financial services for young people in Sub-Saharan Africa, this would mean finding opportunities to eventually cross-sell other products such as loans or insurance to youth customers. Doing so would generate incremental revenue, as well as help subsidize acquisition costs across the financial service provider’s broader product portfolio.
- **Cross-selling to families and communities.** Leveraging relationships with young customers could help create a strong connection with their households as well as their communities. If a financial program for young people succeeds in getting youth to use banks, their families and communities become aware that their children are benefiting, and might be more predisposed to access the services of a financial service provider.
- **Developing the right technology platforms.** In addition to offering a low-cost means of delivering learning and nudges, technology will need to dramatically lower

the costs to serve these populations. For financial service providers, this avenue would likely require not just incremental changes (such as adding mobile bill payment), but a fundamental rethinking of the value proposition.

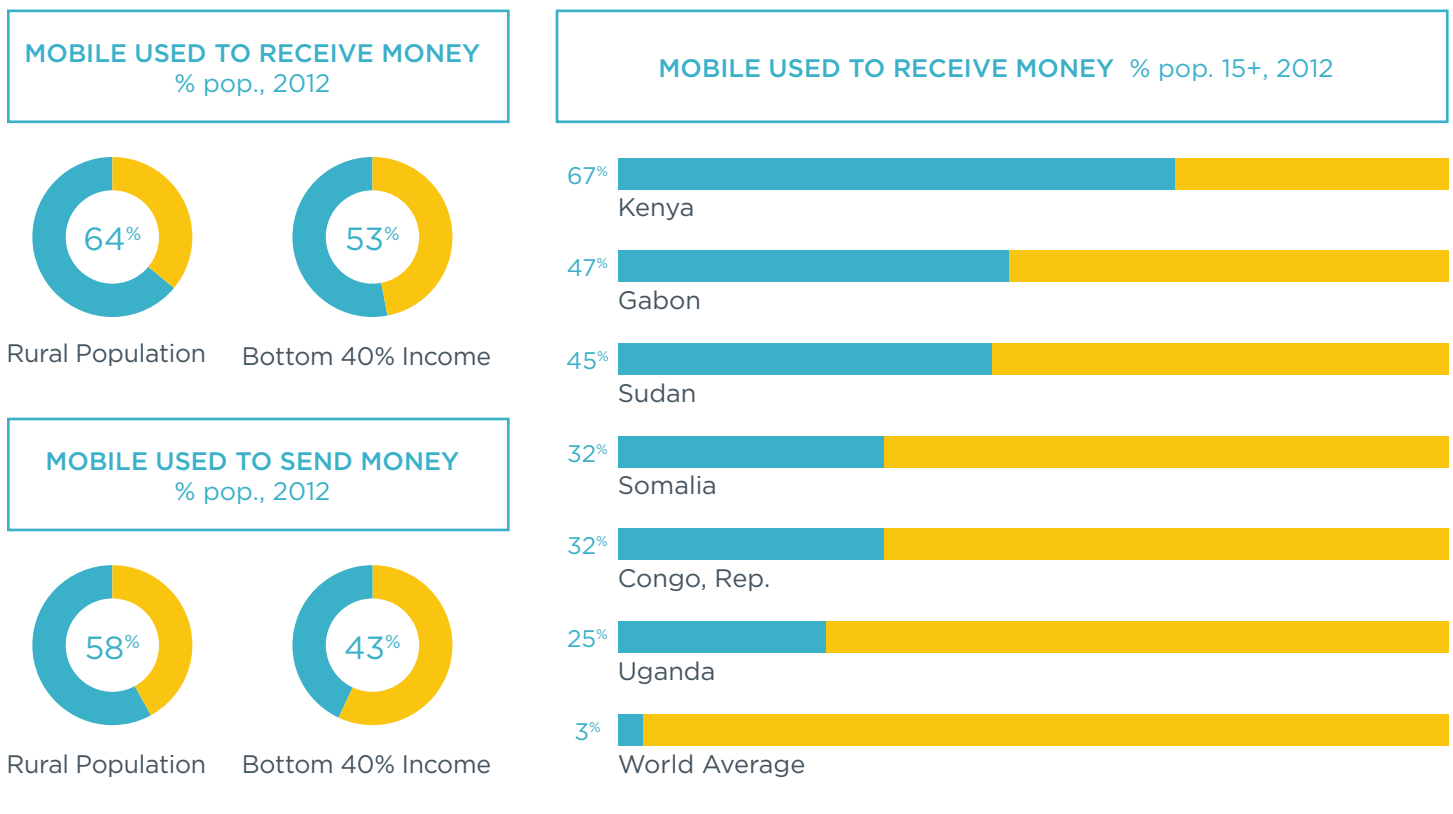
- Creating a major shift in the business model.**
 Transforming the economics of offering financial services to young people will take much more than leveraging technology within the parameters of the current model. High-opportunity areas include agent networks and partnerships, as well as digital banking.

Taken together, these actions would enhance the attractiveness of young clients living in urban areas to financial service providers. Nonetheless, the economics remain challenging. The other five youth client segments could become easier to serve with the right levers in

place to bolster the business model, including appropriate and adequate cross-selling; an economical means of distribution; and powerful (yet cost-effective) learning and nudging tactics (see Exhibit 5). Within the financial inclusion community, the focus should be on supporting the social and economic development of these youth segments as a way of effectively building new markets.

For the younger segments, particularly those beyond the geographic reach of financial service providers, the business case is less compelling, and more work is needed to address the needs of these populations. Unless the economics of the business model fundamentally shift, the savings-only approaches that might be most appropriate for these youth segments cannot, on their own, provide a sufficient platform for revenue generation.

EXHIBIT 5: TECHNOLOGY (MOBILE MONEY) IS BRINGING FINANCIAL ACCESS TO DIFFERENT SEGMENTS



Kenya leads, but mobile money is gaining prevalence across many countries in Sub-Saharan Africa. In Kenya, mobile money is bringing financial access to marginalized populations.

Source: Findex, 2013

The promise of technology

The rapid adoption of mobile phone technology—along with the growth of mobile banking—suggests that digital financial services hold promise for advancing financial services to young people. For financial service providers, mobile technology vastly lowers costs and boosts economies of scale. For customers, it translates into lower prices. Mobile has the potential to improve access and usage of financial services for multiple youth segments.

As it has done with adults, mobile technology can expand financial access to large numbers of the unbanked. It represents a low-cost way of teaching and influencing healthy financial practices by providing behavioural nudges and building financial capabilities.

The possibilities are numerous—targeting customers, providing interactive learning experiences, even offering “edutainment”—education presented in an entertaining manner, including video games and apps (see the sidebar “Mobile’s Multiple Advantages”).

Technology expands the possibilities for, and effectiveness of, behavioural nudges, as they can be distributed widely, in real time and at little cost. Besides delivering nudges, automated text messages can be used to engage people in interactive Q&A experiences and to offer incentives or prizes.¹¹

Mobile’s Multiple Advantages: Scope, Scale, Youth Appeal

Since 2000, mobile phone subscriptions in Sub-Saharan Africa have increased 34 percent each year. By 2012, 76 percent of the population had network coverage. Because the mobile penetration rates exceed the percentage of the population that is banked, mobile financial services have ample room to grow.

Over the past decade, mobile (branchless) banking has exploded in Africa. In at least four large countries—Kenya, Madagascar, Tanzania and Uganda—there are more mobile money accounts than standard bank accounts. Since the launch of M-Pesa in Kenya, the number of mobile financial service providers increased from two in 2007 to 84 in 2012. Mobile money is now available in 34 of the 48 Sub-Saharan African countries. According to a leading industry survey, mobile banking in Sub-Saharan Africa will soon expand to reach the vast majority of the currently unbanked population. Kenya, in particular, shows that mobile banking opens access for lower-income people. More than half of all low-income Kenyans use it to receive money and 43 percent use it to send money.

Mobile cuts the cost to serve. Financial service providers’ costs can be slashed to a fraction of brick-and-mortar costs—from a per-transaction cost of US \$1.00 to \$1.50 at a branch to \$0.01 for a mobile transaction. Distribution costs can be halved. In addition, network operators and financial service providers can—and are already—collaborating to lower their cost base. While early entrants have concentrated on providing high-volume basic products such as cash deposits and withdrawals and remittances, some providers are rapidly expanding their offerings to more high-margin products. M-Shwari in Kenya, for example, acquired 1.6 million users within three months and wrote US \$4 million in loans. MicroEnsure and Tigo launched a mobile life insurance offering in Ghana, Tanzania and Senegal. Kenya has clearly excelled in developing a digital economy, and while it is not easy to replicate, it serves as an encouraging example of what is possible in this area.

Mobile’s youth appeal makes it a natural for engaging and educating young customers. Young people are generally comfortable with using technology, and they embrace mobile devices readily. Although many younger (and poorer) youth can’t afford mobile phones, young people nonetheless represent a large percentage of non-traditional banking transactions. Throughout Sub-Saharan Africa, they use mobile financial services at rates similar to adults.

11. Several ideas are outlined in *Beyond the Buzz: The Allure and Challenge of Using Mobile Phones to Increase Youth Financial Inclusion*, Zimmerman, Nowak, Carls, Arnold, and Rao; New America Foundation policy brief, September 2013. http://gap.newamerica.net/sites/newamerica.net/files/policydocs/Beyond_the_BuzzFINAL.pdf

4 - HOW DO WE CREATE CONDUCTIVE REGULATORY AND POLICY ENVIRONMENTS FOR THE GREATER FINANCIAL INCLUSION OF YOUNG PEOPLE?

Regulation is intended to protect customers, service providers and the marketplace in general—to preserve the public good by ensuring safety and fairness. But these very protections can inhibit the development of financial services for young people. Many standard requirements such as proof-of-birth documentation create hurdles for the economically disadvantaged, whether they are adults or young people. Privacy concerns related to technology and the use of digital data, as legitimate as they are, create an additional layer of complexity for service providers (see the sidebar “The Digital Footprint”).

The cost of complying with Know Your Customer (KYC) regulations—regulations designed with customer protection in mind—and anti-money laundering regulations is prohibitive for financial institutions, especially when small transaction and balance sizes are factored in. Reporting requirements are particularly onerous, as they frequently involve extensive paperwork. Financial service providers must build these costs into their customer pricing strategy. This means, of course, that the cost of services can be well beyond the reach of young people.

Moreover, the age requirement for establishing accounts often bars youth from access to formal financial services. In Ghana, children under the age of 18 cannot legally open a bank account on their own. Kenya Post Bank, a leading savings bank, notes that despite significant demand, 16- and 17-year-olds are prohibited from opening a savings account without a government ID document—which is issued at the age of 18—unless a parent provides his or her signature.

Some financial service providers have already devised creative solutions to alleviate regulatory burdens. In Ghana, for example, HFC Bank allows youth to open an account if a parent is the co-owner, or with the supervision of a teacher or other caretaker. Uganda Finance Trust and Opportunity International Bank Malawi allow in-school youth to use their school identification to open accounts; out-of-school youth can open accounts with a letter from a village leader or church committee member. Another option for identification is mobile-based PIN numbers.

In terms of public sector efforts, governments should be encouraged to modify regulations in such a way as to reduce KYC costs to financial service providers, without sacrificing the intended protections.

One possibility would be tiered KYC regulations in which a transaction threshold is set for each level of identification. This would allow youth users to open accounts more easily, thus reducing the burden of identity proof, while keeping necessary safeguards.

Technology could also help to mitigate regulatory barriers and burdens. Governments could develop centralized electronic databases that financial service providers could access, or create innovative ID systems such as biometric scans. Consider Aadhar, the Indian government’s identification system that assigns a unique ID number to every Indian resident to provide proof of identity and address. Aadhar has the potential to have a profound impact on the ability of previously excluded populations in India to become integrated within the financial system.

Financial service providers seeking pragmatic approaches to address regulatory barriers and to support the financial inclusion of youth must work alongside policymakers and regulators to find ways to balance the need for customer and institutional protections.

The Digital Footprint

As economies and individuals increasingly embrace the use of digital tools (such as digital money) and electronic transactions, they leave an ever-larger digital footprint. This record of individuals’ transactions, credit and savings histories, and financial activities establishes a credible history that can smooth the way for access to more substantial financial services. This record could create significant opportunities for financial service providers. The digital footprint could serve other purposes as well, from differentiated pricing to job screening.

Because every action people take can affect their future, their digital footprint, such as their social media footprint, can work to their advantage or disadvantage. Youth are especially vulnerable because they are often less aware of security issues and risks, as well as of the consequences of their actions. In addition to needing protection for themselves and their assets, young people should be made aware early on of the potential consequences of impulsive or reckless financial behaviours that could later burden them.



REFLECTIONS AND CONSIDERATIONS

This review of The MasterCard Foundation’s programs raises implications for its future initiatives, as well as considerations for other funders.

- **Rigorously document the impact financial services have on young people’s lives.** The MasterCard Foundation’s YouthSave study in Ghana will provide valuable insight into the financial inclusion of young people. We anticipate that this major piece of research will help advance the field’s appreciation for the role of financial inclusion in youth development.
 - **Explore the credit needs of young people as they enter working age.** While The MasterCard Foundation’s initial work in this portfolio focused on savings and financial education, we see a potential opportunity to explore the ways in which credit can help young people invest either in themselves or in enterprises they launch when they enter their working years.
 - **Donor funding and programming must target young people who are currently hardest to serve, owing to poverty and distance from financial infrastructure.** Although much work remains to reach low-income youth populations in urban areas, private-sector led approaches to serving this market will inevitably emerge as innovation drives down costs and creates new models. Young people in rural and remote areas are chronically underserved by the marketplace, even though they are the population most in need of financial services and the benefits they provide.
 - **Work done with “excluded” populations of young people should coincide with other activities that contribute to more sustainable livelihoods.** Financial inclusion in rural and remote areas is about more than just providing access to services and products. Efforts must be holistic, helping to address issues related to income-generation, the development of sustainable livelihoods and economic development so that the provision of financial services coincides with better financial trajectories.
- To this end, The MasterCard Foundation’s Economic Opportunities for Youth programming will incorporate lessons learned from the Youth Financial Services portfolio in future programs, particularly with regard to the provision of financial services as part of larger skill and entrepreneurship-training initiatives.

FURTHER READING

The MasterCard Foundation and its partners have published many reports, articles and papers related to youth financial services. Among them:

The Business Case for Youth Savings: A Framework

CGAP Note No. 96, July 2014

<http://www.cgap.org/sites/default/files/Focus-Note-Business-Case-for-Youth-Savings-A-Framework-Jul-2014.pdf>

Regulatory Environments for Youth Savings in the Developing World

New America, 2014

http://newamerica.org/downloads/Regulatory_Environments_for_Youth_Savings_Developing_World_Youthsave.pdf

Testing the Waters: YouthSave Pilot Results from Three Markets

A Save the Children YouthSave Note

Save the Children Federation, Inc., 2013

http://www.mastercardfdn.org/wp-content/uploads/YouthSave_Testing_the_Waters-vf.pdf

Understanding Youth and their Financial Needs

The SEEP Network, 2013

http://www.seepnetwork.org/filebin/pdf/resources/Understanding_Youth_and_their_Financial_Needs_April_2013.pdf

Assessing New Youth-Focused Products: Pilot Testing Financial and Non-Financial Services for Youth in Sub-Saharan Africa

UN Capital Development Fund, September 2012

http://www.unCDF.org/sites/default/files/Documents/youthstart_pilottest_0.pdf

Emerging Perspectives on Youth Savings

CGAP Note No. 82, July 2012

<https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Emerging-Perspectives-on-Youth-Savings-Aug-2012.pdf>

Policy Opportunities and Constraints to Access Youth Financial Services

Insights from UNCDF's YouthStart Programme

UN Capital Development Fund, 2012

http://www.unCDF.org/sites/default/files/Download/AccessstoYFS_05_for_printing.pdf

What Do Youth Savers Want? Results from Market Research in Four Countries

A Save the Children YouthSave Note

Save the Children Federation, Inc., 2012

http://youthsave.org/sites/youthsave.org/files/YouthSave%20Market%20Research%20Report_FINAL.pdf

Listening to Youth: Market Research to Design Financial and Non-Financial Services for Youth in Sub-Saharan Africa

UN Capital Development Fund, 2011

http://www.unCDF.org/sites/default/files/Download/youthstart_market.pdf

YouthSave Project: Frequently Asked Questions About Youth Savings Accounts

YouthSave Project, May 2011

http://www.youthsave.org/sites/youthsave.org/files/YouthSaveFAQMay11%20final_0.pdf

“Savings accounts for young people in developing countries: Trends in practice,”

by Rani Deshpande and Jamie Zimmerman, Enterprise Development and Microfinance, Vol. 21, No. 4, December 2010

<http://www.mastercardfdn.org/pdfs/Savings%20account%20for%20young%20people%20in%20developing%20countires.pdf>

Youth Savings in Developing Countries: Trends in Practice, Gaps in Knowledge: A report of the YouthSave Consortium, May 2010

<http://www.mastercardfdn.org/pdfs/YouthSavingsMay2010Web.pdf>

THE AUTHORS

Ruth Dueck-Mbeba is Senior Program Manager, Financial Inclusion at The MasterCard Foundation.

Samir Khan is Senior Manager, Strategic Content, Communications at the Foundation.

Nan DasGupta is a Partner and Managing Director in the Toronto office of The Boston Consulting Group (BCG).

Sarah Cairns-Smith is a Senior Partner and Managing Director of BCG's Boston office. **Hala Kosyura** is a Principal in the firm's Toronto office.

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