

The Business Case for Youth Savings: A Framework

Financial service providers (FSPs) should not ignore the financial needs of young people. Today, youth under age 25 represent nearly half of the world's population (UNFPA 2005); tomorrow, they will be adults in need of financial services. Offering youth formal financial services, especially savings accounts, is likely to pay off for FSPs in the long term as these youth become adults who need other services and who are comfortable in the formal financial services environment.

However, despite this potential, there are unique challenges to banking youth. Youth are harder to reach through traditional channels, they are price sensitive, and their accounts tend to have very low balances. In many countries, documentation requirements can be a barrier to youth entering into the formal financial sector. Given these challenges, many FSPs are wondering whether it makes sense to offer youth savings *from a business case perspective*, and if so under what conditions.

Currently, few FSPs in developing countries target youth specifically, and for those that do, youth often represent a small part of their overall operations. An exception is Kenya Post Office Savings Bank (Postbank), a large state-owned bank in Kenya. Postbank operates in a competitive market where 43 percent of the population is younger than 15.¹ Postbank's challenge was that its average customer profile was aging. Entering the youth market helped it to attract a younger customer base to the bank and keep Postbank relevant. Since launching its SMATA Account in 2012, Postbank opened approximately 70,000 new savings accounts directed explicitly at adolescents. However, Postbank notes that youth are difficult to bank, despite their large potential to become and remain customers. For example, many youth struggle with obtaining documentation. They are also price-sensitive, discouraged by even small fees on accounts, and their accounts tend to have very low balances. Despite these challenges,

the youth accounts in the bank are growing at an increasing rate.

While it is easy to argue the social value of extending financial services to youth, the business case question is more uncertain. As more FSPs have entered the youth market, the question has been whether they can offer youth savings products sustainably. In other words, is there a business case for offering youth savings products?

There is no single answer as to whether there is a business case that applies across different contexts at different points in time. A more practical approach is to determine what drives value for FSPs offering savings products to youth. What factors at the market, institutional, and segment levels make youth savings an attractive proposition? This paper proposes a framework for understanding the conditions under which there may be a business case for FSPs to offer savings products to young clients. The framework is designed to expand our understanding of the many influences affecting the profitability of youth savings products and to guide FSPs as they make decisions about whether and how to sustainably offer these products. Because the framework can be customized to individual institutions' context and interests, it can serve as a strategic tool for analyzing the profitability of offering youth savings.

The state of practice in this field is still new, and conclusive data on the business case are not widely available. The framework was developed based on a literature review, macro-level data correlations, and qualitative interviews with a dozen financial institutions offering youth savings products around the world.² (Refer to Annex 1 for details on methodology). The goal of offering the framework is that it will be used by FSPs to help them make sound business decisions; we also hope the framework will be validated over time as it is used to collect data and assess actual cases. Policy makers and funders

¹ Kenya Population Data Sheet 2011, Population Reference Bureau.

² The institutions interviewed for this research include ADOPEM (Dominican Republic), Al Barid Bank (Morocco), Banco Caja Social (Colombia), Bank of Kathmandu (Nepal), BRAC (Bangladesh), CARD Bank (Philippines), Cooperative San Jose (Ecuador), Equity Bank (Tanzania and Kenya), HFC Bank (Ghana), Kenya Post Office Savings Bank (Kenya), Procredit (Ghana), Sparkassen (Germany), and Xac Bank (Mongolia).

Box 1. What is youth savings?

In this paper, the term “youth” refers to young people who are between the ages of 10 and 24, and who are undergoing key life transitions with respect to learning, work, starting a family, health, and citizenship (World Bank 2006).

Youth savings accounts share characteristics with other small-balance savings accounts. Savings accounts offered to youth are predominantly liquid savings accounts that give young people the flexibility to deposit and withdraw. There are a few cases of commitment savings accounts, which result in higher savings balances, being offered. These accounts are often similar to other small-balance savings since youth typically accumulate small amounts.

can play a key role in consolidating best practices, supporting data collection and analysis efforts, and funding activities that have upfront costs but positive externalities (such as market research or design of innovative delivery platforms).

This paper begins by offering a framework for understanding how different influences or “levers” affect costs and revenues and uses examples to explain how the framework can be applied as a decision-making tool. It then uses three brief case

Box 2. What do we mean by the “business case”?

In this paper, the “business case” is defined broadly as profitability, with quantifiable revenues outweighing the costs of serving youth, within some discrete time period.

A business case for youth savings may often require a long-term view. Although short-term, direct profitability is easiest to measure, longer-term and indirect revenues from youth clients are often crucial (Muñoz, Perdomo, and Hopkins 2013). This business case need not be based on a single product, but it can take a broader, longer-term view of profitability, and it may develop over time as clients’ relationships with institutions deepen (Bankable Frontier Associates 2012; Westley and Martin 2010).

studies (Bank of Kathmandu [BoK] in Nepal, XacBank in Mongolia, and Sparkassen in Germany) to illustrate the many influences that determine a business case. Finally, it offers suggestions for practitioners and policy makers.

I. Framework for the business case for youth savings

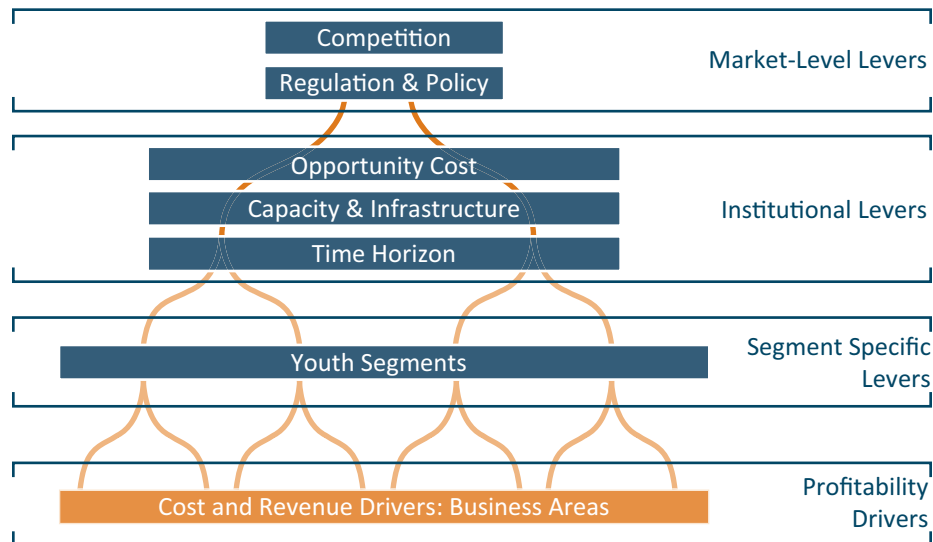
Increasingly, a variety of FSPs are serving low-income, or previously excluded, customers. While each FSP’s history, mission, scale, and environment contribute to the reasons it might find the youth segment attractive, the sheer size of the youth market is an important consideration. There are 1.8 billion youth between ages 10 and 24 worldwide as of 2013 (Population Reference Bureau 2013). They make up 25–30 percent of the population in most developing countries, yet they are largely underserved by formal financial services. The World Bank’s Global Financial Inclusion Database (Findex) found that youth were 33 percent less likely to own a bank account than adults (Demirguc-Kunt and Klapper 2012).

Targeting youth can shift an FSP’s overall client age profile; youth can deliver higher lifetime customer value than older customers (with the very important caveat that FSPs retain these customers over the long term). Youth clients offer long-term benefits at the institutional level. Additionally, FSPs may have an interest in serving youth as a means of fostering financial inclusion and developing economic opportunities for youth, which can contribute to political stability³ and/or advance the FSP’s core mission.

A sustainable business case for youth savings relies on an institution’s ability to balance the costs and revenues of this product offering. The framework outlined in Figure 1 reflects the varying internal and external contexts of different institutions, showing how influences at the market, institutional, and client segment level lead to different cost and revenue

³ Hatton Bank in Sri Lanka strongly believes that for a young country that has seen a great deal of political strife, investing in youth is essential to the long-term viability and sustainability of its institution.

Figure 1. Business case framework overview



streams and can drive different business case outcomes. It identifies specific “levers” that guide providers as they choose the youth segments they will serve and how these segments will support their business case.

a. Market-Level Levers

Decision Point 1: How competitive is the environment?

At the market level, the competitive environment is a key lever that influences the case for entering or not entering the youth savings market. The business case is generally much stronger and broader in high-competition environments where capturing future clients early on can create a key competitive edge. Competitive pressure can emerge in different ways: it may grow with account penetration among both youth and adults over time as the country becomes wealthier, more educated, and more urbanized (as in the case of Sparkassen in Germany, discussed later in this paper), or it may be influenced by other financial sector developments or government programs (as in the case of XacBank in Mongolia, also discussed later). At a country level, the use of other financial products (adult savings, adult and youth loans, debit card use) is strongly correlated with youth savings. These indicators can be viewed as a proxy for the country’s financial access level and for the

competitive atmosphere in the country. However, it is often difficult to characterize the competitive atmosphere of a country based solely on macro-level data (see Box 3).

Financial access is not uniform within most countries. Rural areas or small cities, for example, may have limited access, thus lowering a country’s overall rates of financial access, but institutions operating in a crowded urban capital may be facing tough competition. Middle- and upper-income individuals may already be highly banked, while competition for lower-income potential clients remains more limited. Indeed, all of the institutions interviewed for this research face some competitive pressure, at least within certain regions, demographic groups, or activities, and that pressure strongly influences how they view the business case.

Examples from practice

- Although overall account penetration in the Philippines is quite low (only 30 percent of adults age 25 and older have an account at a formal financial institution [Demirguc-Kunt and Klapper 2012]), account penetration and competition are much higher in the urban areas where CARD Bank and many other financial institutions focus their efforts. For CARD, this competition drives it to differentiate itself by offering products that

appeal to its adult clients and create loyalty, such as savings accounts for their children.

- Banco Caja Social reports that the middle and upper class, formal worker segment that most Colombian banks focus on is highly competitive; however, overall account penetration is relatively low (only 36 percent of adults have an account at a formal financial institution [Demirguc-Kunt and Klapper 2012]). Though its primary reason for serving lower-income clients is social (specifically, to enhance social inclusion through financial

inclusion), competition within the highly saturated segments is a complementary reason for focusing on the lower-income market and on youth clients, in particular.

Decision Point 2: What are the regulatory parameters?

Minors under age 18 cannot legally be the sole owners of accounts in most countries, although the exact age of majority (at which they may own their own accounts) varies (Deshpande 2012; Hirschland

Box 3. Macroeconomic and demographic correlations with youth savings

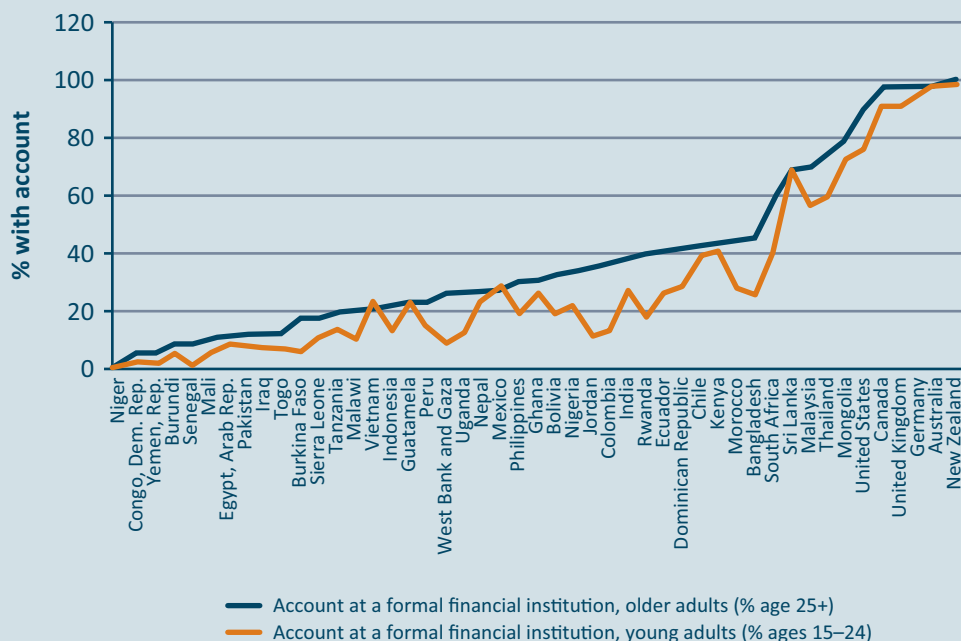
An analysis of macro-level data revealed correlations between youth account penetration and macroeconomic and demographic factors. Correlations were run between youth account penetration (percentage of youth under age 25 who have an account at a formal financial institution) and over 50 indicators gathered from Global Findex and other World Bank databases. This analysis included data from 48 different countries that were selected because of the presence of a youth savings program and regional prominence.

As might be expected, high correlations were found between youth savings and several indicators of socioeconomic status, including gross domestic product per capita and secondary school enrollment. This macro-level analysis also revealed that use of

other financial products (adult savings, adult and youth loans, debit card use) is strongly correlated with youth savings.

Many other indicators that might be expected to be highly correlated with the percentage of youth who had an account at a financial institution were not highly correlated (including the percentage of population that is urban, population density, youth population as a percentage of overall population, account dormancy, and commercial bank penetration). The absence of a strong correlation based on the specific indicators and countries selected, however, does not necessarily indicate that these factors are not in some cases relevant to youth account penetration (and to the business case). Read more about the macro-analysis in Annex 2.

Figure B3-1. Youth vs. Adult Account Penetration



2009; Kilara and Latortue 2012). This restriction on minors' account ownership may discourage some entrants into the youth market or at a minimum, create additional costs and complications to serving youth. By contrast, an enabling regulatory environment can encourage FSPs to serve minors.

Additional regulatory requirements (such as "know your customer" and other identification and documentation requirements) can also create challenges that disproportionately affect youth. Nonbank correspondents (outposts not directly affiliated with the bank through which clients can transact on accounts) may be particularly useful in reducing the cost of transactions and/or increasing outreach to youth clients, but are often subject to extensive regulatory restrictions, including their inability to open new accounts. The regulatory environment can shape the client segments an institution chooses to serve, the outreach strategies that it can employ, and the costs and revenues of doing so.

Examples from practice

- In Ghana, children under age 18 cannot open a bank account on their own. HFC Bank notes that a number of potential clients were dissuaded from opening accounts because they preferred not to have their parents as co-owners for reasons ranging from inconvenience to lack of trust. In response, HFC Bank has allowed trusted adults, such as teachers and adult siblings, to open accounts with youth. Children can make deposits on their own, but the adult must be present to open the account and make withdrawals.
- In the Philippines, children as young as seven can open bank accounts in their own names without a co-signor. CARD Bank notes that because there are no special regulatory challenges to serving youth clients, youth are treated, for purposes of account opening and use, as equivalent to adults by law. As a practical matter, however, significant involvement of parents is often necessary for young children even though it is not legally required.
- ADOPEM reports that in the Dominican Republic, the law does not provide for enrollment in savings

accounts outside branches. This presents a barrier to enrolling youth clients at schools and other nonbranch aggregation points. In response, ADOPEM brings computers to outreach events; information is input online and virtually viewed by the branch, which opens the account. This approach effectively overcomes the regulatory barrier, but at a cost.

- Kenya Post Office Savings Bank notes that despite significant demand from 16- and 17-year-olds to open an account without a parent's signature, they cannot do so without a government ID document, which is issued at age 18.

b. Institutional Levers

At the institutional level, an FSP's internal characteristics, strengths, and motivations all influence whether and when a business case may exist for youth savings, relative to other product lines and client segments.

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

For new institutions, or those in growing markets, the opportunity costs to FSPs of initiating a youth savings program can be substantial. Youth savings are often low-margin products that bring small returns over the short term and may require longer time frames to offer positive returns on investment. For growing institutions or those in environments where markets are not yet saturated, higher-return opportunities often abound. Not surprisingly, when faced with resource constraints, FSPs typically allocate their limited resources to the products and activities likely to generate greater returns, such as consumer loans, small and medium enterprise loans, or technological investments aimed at reducing transactions costs. The short-term gains from youth savings might pale in comparison. Most of the institutions interviewed for this research had a substantial youth savings activity, and all of these noted that they did not forgo opportunities for greater revenues. This was often because the institutions had reached a certain level of maturity internally or operated in adult markets with

limited growth opportunities. In some cases, FSPs mitigated their opportunity costs by limiting the resources they dedicated to the youth market—for example, leveraging existing operational and IT platforms or customer relationships. The low opportunity costs of entering this market allowed them to allocate time and resources to their youth savings activities.

Examples from practice

- CARD Bank in the Philippines chose to focus its initial efforts in the youth market on the children of its current adult members. As a result, marketing and delivery are in large part done through these parents (although there are some larger community-wide promotions), with little additional marginal effort and limited opportunity costs of expanding into this new market.
- As a large and wide-reaching bank, Banco Caja Social in Colombia saw no need to further expand infrastructure or staff to serve youth when these products were launched. As such, the marginal costs of expanding to youth were limited, and resources used to do so did not divert the bank from other projects such as expanding its microcredit portfolio simultaneously. This made the decision to enter the youth market easier than it might otherwise have been.

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

A related concept is the institution's existing infrastructure and capacity to leverage resources to develop a youth savings clientele. To reach youth, FSPs need to invest in developing appropriate products, creating distribution and marketing strategies, and cultivating partnerships with new delivery channels. These efforts require substantial management attention, staff time (and in some cases, new staff appropriate to the youth market), and other resources. Some institutions may be able to leverage an existing, wide-reaching branch network and other resources. Others may need to make significant investments in new distribution channels, management information systems, legal accommodations, and operational adaptations.

Institutional capacity and effective infrastructure are important elements of scalable youth savings programs.

Example from practice

- Al Barid Bank noted that scale is its key to achieving profitability with youth savings. As the leading bank in Morocco, it has the widest outreach and largest number of clients and branches in the country. It has leveraged this internal capacity to quickly reach a large number of young clients.

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

The business case for youth savings is generally most compelling when viewed over a long time horizon (over five years in most cases) (Deshpande and Zimmerman 2010; Kilara 2012). In addition to shaping how a business case emerges, this time horizon can strongly influence an institution's decision to enter (or remain in) the market. National institutions (which are limited to domestic markets) may have the strongest motivation to wait for a business case to develop, as they are not easily able to diversify across countries, and thus may diversify across sectors and segments. In contrast, multinational players may have less incentive to invest over the long term. They may pull out of a market segment, city, or country as a result of business decisions of their head offices unrelated to the local market environment. As a result, their investments might be more focused on the short term. While most institutions interviewed for this research take a long-term view of the business case and do not expect profits from youth savings immediately, few cited specific goals or data they track to measure how the business case develops. The importance of measurement is revisited in this paper's conclusion. Further, even in the short term, benefits to the institution are difficult to quantify, as cross-sales are difficult to identify and track.

Examples from practice

- Kenya Post Office Savings Bank takes a very long-term view of profitability. It begins targeting children at birth (with its Bidii Junior account),

and then automatically transitions them through accounts for school-aged children (SMATA account) and working youth (STEP account). The fact that it does not expect profits in the short or even medium term allows it to take this long-term approach. It invests in the youth as future customers of the bank in the belief that they will stay with Postbank through their lifetimes if they are satisfied with the services.

- By contrast, Banco Caja Social in Colombia expects profits from its youth savings products within a relatively short time frame: the financial model of the account is based on a five-year time period.

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

While it cannot create a business case on its own, social commitment can help motivate an institution to offer youth savings in spite of the challenges noted above. In particular, it can justify a patient approach to the business case in an industry that typically expects more immediate results from its investments. Indeed, while the primary motivation for offering youth savings accounts varies, most institutions interviewed cited social mission as one important influence, as the potential social benefits to youth savings are great (Meyer, Zimmerman, and Boshara 2008).

Examples from practice

- BRAC, in Bangladesh, notes that its strong social mission is the primary reason for its involvement in youth savings. Though it sees a business case for offering youth products, other savings or credit products can almost always yield faster, easier, larger profits. In this way, the business case plays a supporting rather than a motivating role.
- Equity Bank in Kenya notes that while the corporate social responsibility benefits of offering youth savings are important, its primary motivation is the future revenues it expects from youth clients as they mature into adult clients of the bank: “We start them small, so they will grow with Equity Bank and never leave.”

c. Levers Specific to Youth Subsegment(s)

Decision Point 7: Which client subsegment(s) should the institution target?

An institution can choose to enter one or more specific youth subsegments. Each segment requires varying levels of investment and outreach over different time frames and with different costs and benefits, which are determined in large part by the levers described earlier. Thus, selecting the appropriate youth segment is key to a successful youth savings strategy. Financial institutions tend to identify three broad segments: minors (typically under age 18), youth students (age 18–25), and working youth (also age 18–25). These segments correspond to two crucial transitions youth make as they grow toward adulthood: attending and eventually leaving school, and beginning to work.⁴ The segments were commonly identified by institutions as having distinct needs and characteristics that lead to distinct cost and revenue drivers of profitability. Each segment can in turn respond to divergent needs of an institution, as they often come with different opportunity costs, require different levels of capacity, and can become profitable under varying time horizons. These transitions, and their corresponding segments, apply similarly to youth of a wide range of socioeconomic profiles. The institutions we spoke with did not generally target youth of different income levels with different products (though some had an explicit mission to serve the poor) but instead aimed to reach a broad youth client base with similar products.

Examples from practice

- HFC Bank targets relatively young children beginning at age 12 and makes explicit efforts to graduate children to youth and later adult products. Its decision to target young children and retain them as clients as they grow is driven largely by the competitive atmosphere in Ghana, as market competition for older youth is more intense.

⁴ World Bank (2007) outlines the transitions that the young undergo in learning, work, health, family, and citizenship; learning and work are most relevant to their engagement with financial products.

- Al Barid Bank focuses its efforts on older youth (ages 18–25), a substantial and still largely untapped market in Morocco (approximately 5 million older youth). The bank is looking to this group to support a business case. Though the bank also makes savings accounts available to children, these accounts have no special features and are not actively marketed to children. Its decision to target older youth is driven primarily by the large size of this market as well as its ability to leverage infrastructure and resources to reach older youth through existing distribution channels. The bank believes that these saving products enhance the financial education level and therefore youth employability and, moreover, recruiting young clients fuels the growth of the bank.

d. Cost and Revenue Drivers

Market and institutional levers help an institution decide which segments it will serve and how. Institutions need this information before they can begin identifying the specific costs and revenues of offering youth savings. All of these decisions, in turn, determine the profitability of youth savings over the short and long terms. For example, younger, unemployed segments may take longer to become profitable over time than older, employed youth. Once the segments are identified, an institution can begin to address the question of “is it profitable?”—articulating a reasonable business case based on specific planning of costs and revenues. These cost and revenue drivers fall into five main categories: marketing, product, delivery, operations, and risk.

Driver 1: Marketing

Marketing to youth often involves providing basic information about financial institutions and savings products and convincing youth to open accounts. Offering this information (and sometimes financial education) can be expensive, because youth may be unfamiliar with financial products (Deshpande and Zimmerman 2010; Hirschland 2009; Meyer, Zimmerman, and Boshara 2008; Schurer, Lule, and Lubwama 2011). One common approach is to engage parents where FSPs market and explain

products through them. Other FSPs market directly to youth, through low-touch methods, such as radio and television advertisements, and/or high-touch methods, such as community outreach and education in schools. While such outreach efforts can be difficult and costly, they can also be very effective in bridging information barriers, bringing in new youth clients, and creating publicity and enhancing the institution’s brand image.

Examples from practice

- BoK in Nepal uses a dual outreach strategy combining a low-touch media campaign with high-touch school campaigns. It provides a free lockable piggy bank as an incentive to all minors opening a new account, while older youth receive a free debit card.
- In Mongolia, XacBank’s Aspire product is delivered through schools and includes an extensive financial education component: bank representatives train school teachers, who in turn teach a 13-session education program to youth ages 14–18. Such incentives and other support require a significant upfront investment, but they can effectively encourage young clients to sign up for accounts. To support these efforts, XacBank offers promotions such as awarding 10 children, chosen through a lottery linked to deposits, a trip to Hong Kong Disneyland.
- CARD Bank in the Philippines leverages its strong relationships with existing clients as a marketing channel to reach the children of those clients in a cost-effective manner.

Driver 2: Product

Designing appropriate products for a new, unfamiliar client segment can be difficult and costly in itself (Center for Social Development 2011; Deshpande 2012; Hirschland 2009). However, many small-balance savings products (youth and adult) tend to have similar basic characteristics (Gepaya 2009; Making Cents International 2010). These product features mirror those required by all small-balance savers, but youth are often even more constrained than small-balance adults (Deshpande 2012; Hirschland 2009; Johnson et al. 2013; Kilara and Latortue 2012).

The institutions interviewed commonly mentioned that additional product features such as low or no minimum balance requirements, no fees, higher interest rates, and access to an automatic teller machine (ATM) card are important to youth clients. As a growing number of experiences emerge, institutions might not require extensive market research before introducing products similar to those already in the market, which can instead be designed quickly and inexpensively. However, validating a product concept may be beneficial nonetheless, because having the appropriate products can bring in youth clients and encourage them to stay and grow with the institution.

Examples from practice

- Kenya Postbank expresses the common view that youth are a cost-sensitive group and that, for many, price is the most important product feature, which acts to limit revenues from these products. As such, the bank charges no monthly fees and below-market fees for withdrawals and other service.
- Product characteristics may also be dictated by the competitive landscape. Al Barid Bank in Morocco noted that it could not charge fees on these products due to competition in the market: no other institutions charge fees on small-balance savings. It is also the only institution that provides a free debit card for these accounts, which it considers a true advantage that goes beyond matching the competition.
- Small gifts for opening accounts (such as the piggy banks given by HFC Bank Ghana, BoK in Nepal, and others) or other incentives to continue use (such as the lottery conducted by XacBank in Mongolia) can help to overcome lack of familiarity with banking products among youth but they can also add costs.
- A number of institutions, including HFC Bank Ghana, ProCredit Ghana, and BRAC in Bangladesh, make explicit efforts to graduate clients as they begin to need other products with age-appropriate features.

Driver 3: Delivery

Youth often require new delivery channels and approaches, for which institutions must establish

new relationships with aggregators (delivery channels that bring together large numbers of potential clients in one place) and/or hire new staff (Making Cents International 2010; Muñoz 2012; Mukaru 2011; Shurer, Lule, and Lubwama 2011). Some institutions deliver products through schools, which can be effective channels for reaching youth (Johnson et al. 2012), but this requires large upfront investments. In addition, regulation may complicate or prohibit the use of such channels. Mobile banking, which is gaining scale in certain regions, may be another viable delivery channel for youth savings.

Upfront investments in developing successful new delivery channels and approaches that increase the scale of youth savings operations will result in a decline in per-client delivery costs over time. These investments also create an opportunity to experiment with innovative delivery methods that may result in valuable lessons that can be leveraged for other client segments. In some cases, little upfront investment is needed because adult clients may be leveraged as effective channels to bring in younger relatives.

Opportunities for cross-selling other more profitable products are limited for youth clients compared to adults, though cross-sales revenues are available for older youth in the longer term (Deshpande and Zimmerman 2010; Nakamatte and Muñoz 2012).

Examples from practice

- Cooperativa San Jose in Ecuador hired staff to collect deposits in the field from youth and children; staff then offset the costs of these field visits by cross-selling more profitable products to adults during these visits.
- HFC Bank Ghana uses nontraditional delivery approaches to reach youth clients in Ghana. Using point of sale (POS) and other electronic applications and establishing relationships with schools and other aggregation points require large investments and increase upfront costs substantially. However, these technologies and

relationships ultimately drive the revenues HFC Bank earns from these products, as they enable product delivery to youth at much larger scale than when using more traditional methods. HFC Bank employed direct sales agents (below the line technique) in May 2013. By February 2014 account uptake had increased by about 75 percent.

- Sparkassen in Germany finds that the acquisition costs for youth clients, while not insignificant, are far lower for youth than they are for adult clients, who are typically already banked elsewhere. As a result, it focuses nearly all of its marketing activities on youth under 18.

Driver 4: Operations

Many of the operational costs an institution faces for youth clients are similar to those of other client segments, but they are large relative to the very low-balance accounts youth typically have. Westley and Martin (2010) describe the relative difficulty and high cost of mobilizing small-balance savings. Minimum balance requirements are one way to keep savings balances at a sustainable level, but these must be set at low levels to avoid excluding young clients. Youth often require additional support, such as education, reminders, or incentives, to effectively use accounts they open (Deshpande 2012).

Examples from practice

- XacBank in Mongolia sends youth clients monthly text message reminders to make deposits.
- HFC Bank notes that its low-cost ATM card for youth clients (which can be used only to check account balances, not for withdrawals) is very popular with clients. It gives them opportunities to engage with the bank and monitor their balances.
- Banco Caja Social has found that the transactional flexibility and low-cost features of its Tuticuenta product make it very attractive to young clients, although it is more costly for the bank to offer than its Cuentamiga (Friendly Account) product, which attempts to keep these costs in check by limiting transactions.
- ADOPEM notes that even at quite low levels (US\$2.75), minimum balance requirements can

help to contain costs and instill discipline and awareness in young depositors.

- CARD Bank has found that while children need especially low minimum balance requirements, these can increase slightly for older youth; it sets minimum account opening amounts at only Php 50 (US\$1.12) for children under age 16, while older youth have a minimum opening amount of Php 100 (US\$2.24).

Driver 5: Credit and Reputational Risk

Because youth clients are typically offered only savings products and not credit, most institutions do not perceive any great risk associated with this client segment. However, some youth are targeted with the explicit goal of cross-selling loans, and as such, risk becomes an important consideration. FSPs often avoid lending to young people under age 25 because of their lack of experience with loans and relative newness in the labor market. Therefore, the additional cost of provisioning for and potentially analyzing these risks should be considered.

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

Examples from practice

- BRAC in Bangladesh is conscious that lending to youth clients can lead to over-indebtedness and therefore encourages good savings behavior before clients can be eligible for a loan. Loan sizes offered to youth are also smaller than other BRAC loan products.
- ProCredit Ghana makes note of the reputational risk in serving young clients, as it is often difficult to clearly communicate all product features and costs to them. ProCredit attempts to overcome this risk by working through parents and guardians at crucial stages rather than directly with children.

II. Walking through the business case with three youth savings providers

The three FSPs featured in this section—BoK in Nepal, XacBank in Mongolia, and Sparkassen in Germany—operate in different contexts and have different institutional mandates, but all three offer youth savings and have different business cases for doing so.

BoK targets younger adolescents in Nepal partially in response to competition among banks for older youth. It is able to target young clients because of its substantial infrastructure and a visionary leader willing to invest in the mass market (which helps it to maintain the patient outlook needed to achieve profitability serving young children as they grow with the bank).

XacBank operates in the highly competitive market of Mongolia, where a supportive policy environment has encouraged many institutions to become active in youth savings. It offers a commitment savings product to all children and, recently, a more flexible product that can be operated independent of parents to teenagers. Note, however, that BoK and XacBank both relied on substantial donor funding to initiate their investment.

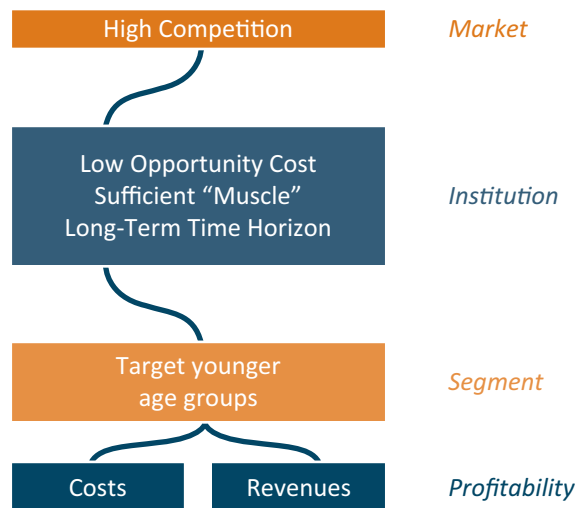
The experience of Sparkassen, a network of German financial institutions that has offered youth savings products for much of its 200-year history, reveals some compelling parallels (as well as notable differences) to the opportunities and challenges faced by FSPs in low-income countries today. We can see from the cases that there is no one-size-fits-all solution to achieving profitability. Institutions operate in different external and internal contexts and have different business case considerations influencing the choices they make and the profitability outcomes they achieve.

a. Walking through the Business Case with BoK

In 2011, BoK, a commercial bank with 50 branches throughout Nepal, piloted a youth savings product, with the support of the YouthSave initiative.⁵ The product was rolled out network-wide in 2012, and in 2013, it reached over 5,000 clients. BoK’s decision to offer youth savings products and the choices it made in doing so reflect many different influences, which are described below.

Market Level. BoK’s experience shows that even in a country with low overall account penetration, competition can be a driving force for entering the youth savings market. Overall bank account penetration in Nepal is low (nationwide, only 25 percent of adults age 25 and older have an account in a formal financial institution). However, in the urban areas of Nepal, competition is much greater, as account penetration among urban adults is significantly higher at 51 percent (Demirguc-Kunt and Klapper 2012). According to Raju Shrestha, senior officer of Marketing and Corporate Communication at BoK and product champion for the youth product,

Figure 2. BoK Business Case



⁵ Created in partnership with The MasterCard Foundation, YouthSave investigates the potential of savings accounts as a tool for youth development and financial inclusion in developing countries, by co-designing tailored, sustainable savings products with local financial institutions and assessing their performance and development outcomes with local researchers. Since 2010, the project has worked in Colombia, Ghana, Kenya, and Nepal, where over 85,000 youth have signed up for savings accounts. Through its work, the YouthSave Consortium will share lessons and resources on delivering savings services sustainably, while improving the life chances of low-income youth in the developing world.

more than 200 financial institutions and thousands of cooperatives compete for clients in the urban areas where BoK operates. This competitive atmosphere was a significant motivating factor in BoK's decision to offer youth savings accounts. The bank sees this market as a key to achieving its goal of doubling its customer base over the next four to five years. It has estimated the great potential of the youth market based on the relative size of the youth population (over half of Nepal's total population is under age 25 [United Nations 2013]) and the relatively low account penetration among youth. The age of majority in Nepal is 16, and youth over age 16 can own and operate their own accounts.

Institution. BoK did not face significant opportunity costs to offer youth savings and did not forgo any other projects when it made the decision to invest in youth savings, in part because of the donor support it received to develop and offer youth products. Having appropriate existing infrastructure (including branches at suitable locations and staff that were able to serve youth clients) was an important motivating factor in the decision to offer these products. The existing infrastructure and ability to devote significant staff time and other resources to youth savings are signs of the institutional infrastructure and capacity that support a business case. The bank views the business case for these products over the very long term. BoK's social mission, reinforced by strong support from its chief executive officer, is critical to this long-term view because it helps to justify the upfront investment and ensure the patience of its management and Board. Also relevant is the bank's strategic mission to pursue the mass market. It sees youth savings, and particularly the investment in communicating with clients in nontraditional ways, as well-aligned with this strategic mission (Deshpande 2013).

Segment. The bank segments the market by age, choosing to target younger children and adolescents with two similar products. The Chetanshil Yuwa Bachat Yojana (Conscientious Youth Savings Scheme) product targets low-income youth ages 10 to 22

and is marketed directly to youth; the Nava Kopila Bachat (Save for the Future) product targets all children under age 10 and is marketed to parents. The bank's youth clients, even within the older segment, are on average quite young (Johnson et al. [2013] found a mean participant age of 15.5). This is due in part to intentionally targeting young clients because other banks are more active serving older youth. The products were designed with the needs of younger children in mind; older children get the same product, but with an optional free debit card. Youth savings clients have the opportunity to migrate to other saving products or fixed-deposit products and may also apply for various loans when they reach the age of majority.

Profitability Drivers for Youth Savings

While the bank expects products offered to young clients to be profitable, it has no "rule of thumb" for testing the value of the product or for determining how long it is willing to wait for success.

Costs. Marketing is perhaps the most significant cost associated with youth accounts, especially in the product's initial years as the bank uses large-scale campaigns to create awareness of savings and its youth product among the target population. However, the bank believes this investment in marketing is paying off in customer acquisitions and creating loyal, mature customers in the long run. The bank sees a similar tradeoff in product design: the product features and incentives that are attractive to youth are costly, but also seem to greatly accelerate penetration. The cost of operations is also high compared to other products, though as the product matures in the long run, the bank expects this cost to drop significantly. BoK has made efforts to contain the costs of delivery, which are often very significant for youth savings providers. It reports that using existing bank branches to deliver the product brings it close to covering delivery costs in the short term. To the extent it can use its institutional infrastructure and capacity to effectively leverage these existing channels, delivery is relatively inexpensive. However, these existing channels are limited in their ability to reach youth.

In many places, the bank uses aggregation points, such as schools, which is driving up delivery costs. The bank is exploring ways to keep costs in check, particularly the cost of servicing accounts, through technology. Finally, risk is not viewed as a significant cost to serving these clients, since they are not yet borrowers.

Revenues. Savings products for young children offer few opportunities for revenues in the near term. The no-fee, low-minimum balance product itself does not generate substantial revenues, nor are there opportunities to cross-sell more profitable products to these children due to their young ages. In the immediate term, the business case depends on cross-selling, especially remittance and loan products, to family members of youth clients. While the bank expects these cross-sales to be substantial, it notes that they are very difficult to track, and as a result it is uncertain whether they cover the costs of serving youth. For this reason BoK takes a long-term view of the business case: it sees these children as profitable future adult customers. Its eagerness to serve them at young ages is largely a product of the competitive environment in which BoK operates. The bank’s institutional characteristics and strong leadership intent to serve the mass market enhance its ability to offer these products with the patience required to wait for a business case to emerge.

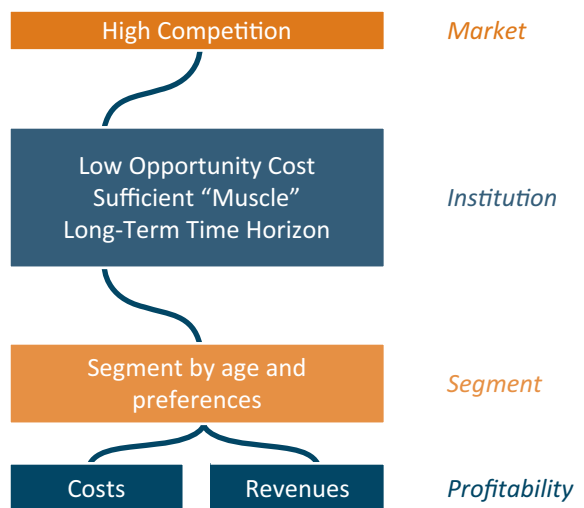
BoK sees a potential path to profitability through targeting young children and retaining them as clients into adulthood. XacBank, described below, takes a similar approach of adapting products to different age segments to meet young clients’ needs and demands at different ages, but it focuses on a slightly older age segment than BoK does. In addition to considering product features, XacBank recognizes the important role that extensive financial education can play in encouraging young clients to sign up and use products.

b. Walking through the Business Case with XacBank

XacBank is a Mongolian microfinance institution (MFI) and community development bank established in 2001 through the merger of two nonbank financial institutions. It has over 1 trillion Mongolian Tughriks in assets (US\$550 million) and 100 branches throughout Mongolia.⁶ It has an explicit goal of reaching underserved market segments. XacBank offers two youth savings products. The Future Millionaires commitment savings product, launched in 2002, is available to children from birth. Aspire was launched in 2009 in concert with an extensive financial education program, and is available to older youth ages 14–18.⁷ In 2013, approximately 192,000 children, or 19 percent of all children in Mongolia, had an account with XacBank.

Market. Like many other low-income countries, Mongolia is characterized by a large youth population (48 percent of the population is under age 25).⁸ It is distinguished, however, by very high account penetration among adults and especially among youth: 73 percent of youth age 14–24 have an account at a formal financial institution (Demirguc-Kunt and Klapper 2012). Densmaa Togtokh, head of

Figure 3. Xac Bank Business Case



6 <http://www.xacbank.mn/en/446/about-xacbank/history>

7 Details of the two products are available at <http://www.xacbank.mn/en/233/personal-banking/current-account/children>

8 <http://esa.un.org/unpd/wpp/unpp/p2k0data.asp>

XacBank's Savings Department, noted that this high account penetration is due in part to the presence of a large number of commercial banks relative to Mongolia's population operating in the country as a result of its strong mining industry. High account penetration among children is also due in part to the Child Money cash transfer program offered by the government, which led banks to compete to tap into this income stream through youth savings products. XacBank has captured a large share of the youth market and plans to expand its outreach further in coming years. It sees all 1 million Mongolian children as its potential market.

Institution. Though XacBank has a strong social mission, its primary motivation for offering youth savings is profit. It expects to achieve these profits both by cultivating future adult clients through its youth savings products and by cross-selling other products to the parents of youth clients. Social mission and financial inclusion are important secondary drivers of its involvement in the youth savings space, but they are not the main determinants. The bank received no direct government support for youth savings, but substantial donor funding from Nike Foundation and The MasterCard Foundation in partnership with the SEEP Network, and technical assistance from Women's World Banking, which was important to offset some of the large initial investments. Togtokh reflected that without this support XacBank as a for-profit company may not have been able to reach as many youth and offer extensive education, though it would still have offered the products itself. Though the bank views youth savings as a long-term strategy, it also focuses on short-term opportunities to earn profits through cross-selling.

Segment. The two youth savings products serve two overlapping client segments. XacBank originally offered only its Future Millionaires product to all children ages 0–18. Future Millionaires is a fixed-deposit account that matures when the client turns 18. A parent's permission is needed to open

the account, and the parent serves as one of the account holders. In response to a desire from older children for greater flexibility and control, the bank later launched its Aspire product. Aspire is available to children ages 14–18 and is linked to an extensive financial education product offered through schools (one mid-way step involves a visit with teachers to the bank to open an account). At age 14, Mongolian children are legally permitted to open and operate accounts by themselves, so no parental involvement or permission is required for the Aspire account. Account holders can choose among a fixed-deposit account, a monthly demand deposit account, or a debit account, each with a different interest rate.

Profitability Drivers for Youth Savings

Costs. XacBank takes a focused, segmented approach to marketing youth savings. The Future Millionaires account offers incentives for opening and using the account. For example, one marketing campaign launched in 2013 gave an age-appropriate gift (such as a book, game, or puzzle) to any child who deposited more than MNT 170,000 (US\$100) and tickets to a concert by a famous entertainer to any child who deposited over MNT 1 million (US\$588). Aspire combines marketing with a financial education component delivered through schools. Since 2010, XacBank has delivered financial and social education to younger children age 8–13 using the Aflatoun program curriculum.⁹ This education, however, is not directly linked to a product of the bank. While the financial education program is very expensive, it was created and sustained in its early years through donor support. This support recently expired, and XacBank continues to support the financial education program on its own.

Revenues. Short-term, direct revenues from both products are limited. Both do not charge fees and have very low minimum balance requirements of MNT 3,000 (US\$1.7). XacBank uses these youth accounts to cross-sell other products to the parents of youth clients (60 percent of whom have other

⁹ Aflatoun (Child Savings International) is a Dutch nongovernmental organization that focuses on educating children about their rights and responsibilities and managing financial resources; it has developed a financial education curriculum that has been implemented in 83 countries around the world.

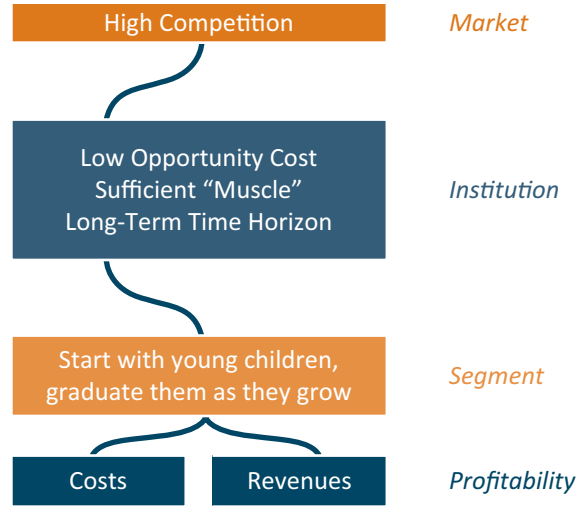
XacBank products, most often consumer loans). Such cross-selling is particularly relevant with parents of Future Millionaires account holders, who accompany their children to the bank, creating an opportunity to introduce them to other products. There is currently no cross-selling to children, though XacBank is working to develop an insurance product for youth. In line with XacBank’s long-term view, the core revenue stream from its youth products develops as children grow into adulthood. At age 18, their accounts are automatically converted into adult saving products with an associated adult debit card. Togtokh reports that these accounts are used actively and create opportunities to cross-sell other products to young adult clients. Finally, the promotional campaigns around youth savings and financial education in schools bolster XacBank’s brand and recognition, yielding more intangible benefits. In 2012, XacBank received the Pioneer Award from the Child and Youth Finance International Organization for innovation and implementation of unique products, with global sharing of best practices.

XacBank has identified clear market and social opportunities to serving youth clients, and its activities in the youth savings space are guided by these opportunities. Because of the bank’s long-term view, however, the profitability of these activities will become clear only over time. Sparkassen in Germany faced a similar opportunity and made a similar strategic choice to offer youth savings nearly 100 years ago. Its experience provides an example of how a business case can develop over time.

c. Walking through the Business Case with Sparkassen

The experience of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe), operating in a high-income, developed market, provides some interesting contrasts and many parallels to institutions in the developing world. This 200-year-old financial group is a network of 417 Sparkassen (savings banks) with about 15,000 branches throughout the country,

Figure 4. Sparkassen Business Case



offering a broad range of financial products with a focus on the low- and middle-income population as well as small and medium enterprises. Sparkassen is actively engaged in offering savings products to young people beginning from birth through adolescence, with a 60 percent market share in what it categorizes as the “youth market.” Sparkassen is older than most of Germany’s commercial banks and was established at the beginning of Germany’s industrialization process, a time of social and economic upheaval. Characteristics of that period are reminiscent of those in many of today’s developing countries: urbanization, rural poverty, and fast-growing urban slums.

Market Level. Germany is a highly developed, competitive market, and this characteristic is a driving force behind the business case for focusing on the youth market. Though youth make up a smaller percentage of the population in Germany (12 percent) than they do in many low-income countries, they are still viewed as a crucial segment due to the competitive nature of the market and high account penetration. Ninety-eight percent of the population over 15 years old has an account at a formal financial institution (Demirguc-Kunt and Klapper 2012). Niclus Bergmann, managing director of the Savings Banks Foundation for International Cooperation (SBFIC)¹⁰ notes that “there is research

¹⁰ SBFIC was founded in 1992 to help pass on the experience of Sparkassen to other countries; it has set up new MFIs and helped to formalize existing MFIs in over 20 countries.

from other banks that acquiring a new adult client costs up to EUR 300 (US\$417), and acquisition costs for youth are much cheaper, so it is better to invest when they are younger.”

Institution. Sparkassen-Finanzgruppe comprises around 600 financial institutions, among them more than 400¹¹ independent local savings banks. The coherence of the Sparkassen-Finanzgruppe is ensured by a common business philosophy and brand (Sparkasse). Also, all Sparkassen rely on the same IT service structure, leading to a standardization of products and helping to optimize processes within each institution. In addition, training facilities and other services are being developed or provided jointly by special entities from within Sparkassen-Finanzgruppe. This network has 30 percent of market share (total assets of the banking system) in Germany, serving 50 million clients (out of 80 million inhabitants). It is able to leverage this strong, developed infrastructure for its youth savings activities, which allows it to offer these products at scale. Another defining characteristic of Sparkassen is its strong social mission, a product of a regulatory mandate for all savings banks in Germany to promote a savings culture and financial education. As a result, it sees its core motivation for serving youth as a responsibility, not solely a business case. It nonetheless perceives a very strong business case in these products, particularly given its very long-term perspective, which aims to help people manage their lives more easily throughout each life-cycle.

Segment. Sparkassen sees youth in two general segments: from birth through 13 years old and from 14 to 25 years old. Children under age 14 are eligible only for passbook savings products that are generally not profitable. As young clients mature and become older youth, and eventually become adults, the bank generates profitability as they access other products. In this way, Sparkassen sees a short-term business case for serving older youth and adults, and a long-term business case for offering savings products to young

children. The motivation for serving young children is to build a client base, while serving older youth allows the bank to overcome some of the competitive forces in the market and opens opportunities for cross-selling other more profitable products.

By targeting different youth segments, Sparkassen is able to target different revenue streams at different time horizons, while leveraging some of the products, marketing, and channel expertise for youth as a whole. Its experience shows that a comprehensive approach to youth can be synergetic when an institution has the infrastructure and capacity to target a broad range of young people.

Profitability Drivers for Youth Savings

Costs. Marketing is a substantial cost, especially when targeting young children, for whom marketing efforts are most active. Bergmann notes that “[we] try to reach every child in the country. They are our customers of the future. This is how a 200-year-old institution thinks.” Sparkassen begins marketing savings products for children at birth, sending new parents a letter with a small gift voucher to open a savings account in the baby’s name, 75–80 percent of these new parents use the voucher. “This translates into market share,” according to Bergmann. Additional costs are incurred through incentives and financial education efforts for children who are already clients, such as special activities for a Juniors Club and gifts for children on World Savings Day.¹² Despite these costs, acquisition costs are generally lower for children than for adults who may already be banked elsewhere. As such, marketing activities even for youth over 18 years are generally limited. They typically focus on specific occasions (such as graduating, moving away from home, or starting a family) or target specific products, such as insurance. A more significant cost of attracting children is financial. To incentivize young children to save, Sparkassen offers interest rates as high as 2.0 percent p.a. compared to 0.25 percent for older youth and adult accounts.¹³

¹¹ 417 in 2014.

¹² Established at the first International Savings Bank Congress in 1924, to promote awareness and use of savings accounts around the world.

¹³ Interest rates as of Quarter 1, 2014.

Revenues. Sparkassen offers no-fee savings accounts to both children and youth in response to competition, as all other banks offer no-fee savings. By law, Sparkassen is obliged to open a savings account for everyone starting with a EUR 1 (US\$1.39) balance. As a result, revenues from savings products are limited, especially for low-balance accounts. However, as children grow older, they save more on average, and accounts start to become profitable. Average deposits into accounts of youth over 14 typically are EUR 30–180 (US\$42–111) per month as compared to over EUR 200 (US\$278) on adult accounts. Sparkassen noted that children tend to open current accounts where they already have a savings account, so getting children to save at a young age can be imperative as an acquisition strategy. As young clients begin to transition from studies to work life, they offer additional cross-selling opportunities, including life insurance, building society contracts, credit cards, and consumer loans. Cross-selling opportunities also emerge for older youth, most commonly for credit cards.

Sparkassen has built a strong business case for youth savings over time. The patient approach to the business case can be seen in both the long time period over which it established its aggregate market share and its view of profitability over youth clients' lifetime.

III. Concluding considerations for practitioners

Because youth savings are not high-margin products, important tensions arise in their cost and revenue drivers. On the cost side, there is a tension between the need to market products to a new youth segment and the high cost of servicing small accounts. On the revenue side, there is a tension between the difficulty in reaching scale and the scope of young people's product use, which is typically small and limited to one or two products. The framework proposed in this document can be a tool for institutions that are either active or interested in this market and want to

consider the potential drivers of costs and revenues of their activities. It can help identify the levers that will lead them to invest in specific market segments that will, in turn, define the costs and revenue drivers of profitability (Annex 3 provides a hypothetical example).

The business case for youth savings, as for any other venture, is dynamic and should be re-evaluated as market and institutional characteristics change over time. In particular, in many markets competition will increase; as this happens, the business case for youth savings may become stronger, and it may make sense to expand youth products to new subsegments and/or invest more in developing the youth market. Data collection on indicators that can help inform the business case for youth savings would serve institutions well. It should be focused on the costs and revenues that determine profitability. Measuring the short-term, direct profits from a youth savings product, as Muñoz, Perdomo, and Hopkins (2013) do, is a useful exercise, but it does not capture the broader business case for these products. To the extent an institution is taking a long-term approach to acquiring young clients early on, a life cycle approach to defining the business case may be more relevant. The measurement of costs and revenues should also take such an approach. Indirect revenues, such as those from cross-selling, and long-term revenues, such as those from account balances that increase over time, are particularly difficult to identify and measure, but are often crucial to verifying that a business case exists. The approach of Westley and Martin (2010) to measuring total client profitability for small savers is informative.¹⁴

The qualitative interviews conducted to develop this paper and recent research, including quantitative analysis by UNCDF (Muñoz, Perdomo, and Hopkins 2013) and Freedom from Hunger (Loupeda forthcoming), begin to illustrate an emerging set of guidelines or goal posts on generating cost and revenue efficiencies while offering youth savings products. We present these initial strategies here.

¹⁴ Westley and Martin (2020) use a client relationship-based approach, distinguishing between the returns from small savings accounts and the returns from small savers by focusing on "total client profitability." This approach considers the entire banking relationship of the small saver with the FSP over the long term, asserting that profitability increases over time as the balances of small savers' accounts increase or as they access loans and other products from the FSP.

Generating Cost Efficiencies

1. Focus on controlling marketing and delivery costs

The cost of marketing to a young person today is likely to be much lower than marketing to an adult in the future. Nonetheless, given the lean margins on youth products, below-the-line marketing techniques, such as community outreach, may deliver better value than above-the-line techniques, such as splashy television advertisements, which create a broad awareness of the product. FSPs can leverage aggregation points, such as schools, to spread costs over a larger number of clients and to take advantage of existing relationships between schools and children.

Delivery costs, in particular, the cost of labor, can be large and relatively rigid. Reducing these labor costs for youth savings may require some fundamental changes in how these products are delivered. FSPs could consider hiring different profiles of people to work with youth (not just bankers) and also piggyback on existing educational campaigns to reduce the amount of product education that must be incorporated into marketing.

Many institutions are already beginning to experiment with branchless solutions to reach youth clients, though they often face logistical and regulatory challenges. Mobile financial solutions can be particularly useful in reaching those with “limited mobility, limited time, and limited funds, of which typify the low-income youth demographic” (Zimmerman, Nowak, Arnold, and Rao 2013). When using mobile or other technological innovations to deliver savings to youth, it is important to consider that there can be a tension between establishing remote relationships with young customers and seeing them as a long-term investment. It remains to be seen whether youth require face-to-face contact to build a relationship with their FSP and whether they feel the same level of loyalty if they do not have face-to-face contact.

2. Reduce transaction costs

Technology can help streamline back-office costs, thus reducing transaction costs. It also helps to create efficiencies in branches and maximize operational

efficiencies (how much cash to keep on hand, staffing on busy versus slow days, etc.). Some of these efficiencies are independent of serving youth and apply to the delivery of financial services more broadly. Institutions should consider investing in those technological innovations that reduce operational costs broadly, rather than only for youth or even just for small savings, but that can be leveraged to support youth savings products.

Providers should be prepared to continually re-evaluate the potential role that technology may play in reducing costs and reaching new clients. A product met with high demand but also suffering from high costs may be well-served by technological innovation, for example.

3. Leverage other cost efficiencies

To reduce one-time product development costs, FSPs can leverage lessons on product design from other youth products in similar contexts to the extent possible and also look to bring youth savings offers closer to other offers at the institutions.¹⁵ Small savings infrastructure, in particular, can be leveraged to deliver youth savings, which can help reduce the overhead cost of these products. FSPs with the potential for mass market outreach will have a larger base from which to spread costs and are more likely to benefit from leveraging these cost efficiencies.

Generating Revenue Efficiencies

1. Take overall volume and size into account

FSPs might also have to consider different revenue strategies based on the volume of deposits they expect to leverage through the youth savings product. FSPs expecting a large volume of deposits would naturally focus on interest rate spread (the difference between cost of borrowing and cost of lending). More commonly, institutions expecting a smaller volume of deposits would focus on other revenue benefits, such as cross-selling, innovative distribution, or leveraging brand awareness.

2. Choose segments wisely

Choosing a particular youth segment to target has revenue implications. Focusing on older youth helps

¹⁵ A report by the SEEP Network (2013) summarizes market research findings.

an institution breakeven faster, whereas younger youth may help FSPs capture market share more effectively over the long term. When an FSP chooses to target younger children, it should make efforts to graduate these children to age-appropriate products as they mature.

3. Explore potential for cross-selling

Analyzing total client profitability over a lifetime can be an effective way of assessing the profitability of youth savings products. Cross-selling, a cornerstone in total client profitability analysis, is generally limited in the near term (where they exist at all) to older youth. For young children, cross-selling opportunities emerge over time. Understanding the retention of young clients with youth savings products can help to estimate total client profitability over time.

In the short-term, institutions can consider the concept of total *client* profitability to total *family* profitability, considering cross-selling to parents as part of the revenue stream coming from youth savings products. There is mixed evidence on the success of using youth savings as a strategy to bring in parents as customers, however, and the accessibility of parents for cross-selling also depends on their level of engagement in youth accounts.

IV. Concluding considerations for policy makers and funders

This framework highlights that there can be a strong business case for youth savings, but that this may not apply to all institutions, countries, or contexts. It may also be a long-term play. It can be motivated by an institution's social mission, but is rarely sustained over time by social mission alone. On the other hand, the policy case for encouraging young people to save money is typically strong regardless of context and country. But a strong policy case does not mean that donors and governments should fund unsustainable programs. The role of outside stakeholders can be important in reducing the cost of entry and *building* a business case, but these stakeholders should be cautioned from sustaining an institution's offer of youth savings in the absence of one.

Areas where donor support may be particularly valuable include the following:

- **Consolidating and sharing best practices.** Much can be learned from the experiences of institutions that have already been active in youth savings. Their successes, but also their setbacks and failures, can be used to develop best practices and to understand the circumstances leading to a strong business case. Practitioners highlight the value of reciprocal information sharing; many were interested in hearing about other practitioners' products and responses to challenges, such as marketing in schools. The business case framework described in this paper may be a useful tool for understanding and comparing different institutions and products and drawing lessons from their combined experiences.
- **Supporting data collection and analysis efforts.** There is room for improvement in most institutions' collection and analysis of cost and revenue data, and donors may be well-suited to provide support in this area. While the framework is grounded in practice, data are not yet available to substantiate it. Measurement of *product*, *client lifetime*, and perhaps *total family* profitability would allow for a more robust tool, which could help new entrants to the field as well as existing practitioners make better informed choices about (1) whether and how to enter the youth savings market, (2) what to expect from youth savings products, (3) adaptations to products to increase profitability, and (4) whether to sustain their offer of these products. Donors can provide technical assistance to institutions in their data collection and analysis efforts. To the extent these efforts can be leveraged to compare programs (while balancing institutions' need to maintain confidentiality) the entire industry may benefit.
- **Funding activities that involve high upfront costs and/or have positive externalities** such as the following:
 - **Financial capability efforts.** Financial capability is created by understanding financial issues and products and having experience with products and the empowerment to use them appropriately. Financial capability can ensure that young clients

use savings products effectively and, as a result, support the policy objectives of offering youth savings. The long-term business case for providers can also be strengthened by financial capability, as it can help clients use financial products more actively and more responsibly. However, institutions may be reluctant to make the large upfront investments such education requires. They may also lack the expertise or the appropriate incentives to provide impartial information and education, but are often closest to clients. While the appropriate allocation of responsibilities among financial institutions, nongovernmental organizations, governments, and donors for building the financial capability of young clients is context-specific, there may often be an important role for donors in providing financial and/or technical support directly to institutions or through other channels that are close to youth, such as schools. Donors may also play an important role in a shared agenda for improving financial capability, developing more cost-efficient and effective methods of delivering information and training, and in sharing lessons learned and best practices (Deb and Kubzansky 2012).

- Market research and product development is another area in which financial institutions may underinvest. To the extent they expect competitors to copy products, institutions may be reluctant to incur large upfront costs in understanding the youth market and designing appropriate products and delivery strategies. Market research can be critical, not only to product development, but also to develop an appropriate marketing and delivery strategy for products, which in turn is critical for reaching scale. Extensive market research can be very expensive, but by consolidating and sharing best practices donors can help to overcome the need for such extensive research. Where the context is particularly unique or extensive market research is otherwise warranted, donors can help to overcome the reluctance of institutions by providing funding or technical assistance to support these efforts. Many practitioners associated with donor-funded projects noted

that subsidies were very helpful in convincing management to enter the market, in incentivizing greater involvement in the market, in reducing opportunity costs, or in pushing for innovation and new ideas. While some of these institutions may have entered the market even without donor support, they may have been less innovative and more risk-averse in testing new approaches. They may also have been less willing to invest in the more "difficult" youth segments, such as young children or low-income youth that often require a long time frame to support a business case.

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Annex 1: Methodology

The numbers point to the great potential of youth savings, but little information is available to provide evidence of when and how a business case emerges or how strong it is relative to the business case for other activities. This research is a step in understanding the business case for youth savings. It is largely based on first-hand experiences of practitioners that offer savings products for youth. These experiences help evaluate whether a reasonable business case exists and under what circumstances. They have informed a framework for evaluating the paths that contribute to a business case through specific drivers of costs and revenues associated with these products. This framework is primarily intended to help institutions and other stakeholders better understand the motivations to enter and continue in the youth savings market. It also seeks to inform data collection efforts that can validate and/or predict the business case in the future.

The research began with a desk review of relevant literature on business case considerations related to youth and small balance saving accounts, with a focus

on experiences in low- and middle-income countries. Macro-level data from 48 different countries (selected because of the presence of a youth savings program and regional prominence) were analyzed, and correlations were run with over 50 indicators gathered from the Global Financial Inclusion Index (Findex) and other World Bank databases (see Annex 2).

Qualitative interviews with FSPs (see Table A1-1), donors, advisers, and other stakeholders formed the core of data collection. These interviews were intended to validate and expand on the issues raised in the literature and to inform the development of a framework for determining when and how a business case may be made. A range of actors from various institutional and country contexts were interviewed to include a broad range of perspectives on these issues. This small number of interviews is not intended to encompass every possible perspective on the business case for youth savings, but rather to gain some understanding of the types of issues and considerations that are relevant both to building a business case and to understanding when and how one may exist. The framework was then vetted through a webinar with experts and further refined.

Table A1-1. Institutions Interviewed and Their Youth Savings Products

Institution	Country	Youth Savings Product(s)	Year Youth Savings Initiated	Number of Youth Accounts (2013)
ADOPEM	Dominican Republic	Cuentamia (My Account)	2010	1500 (as of 2011)
Al Barid Bank	Morocco	Pilot Product	March 2014	1000 (as of April 2014)
Banco Caja Social	Colombia	Cuentamiga para Jovenes (Friendly Account for Youth)	2012	2129
		Tuticuenta	1989	224,065
BoK	Nepal	Chetanshil Yuwa Bachat Yojana (Conscientious Youth Savings Scheme)	2011	5207
		Nava Kopila Bachat (Save for the Future)	2010	5480
BRAC	Bangladesh	Employment and Livelihoods for Adolescents (ELA)	2003	145,154
		Social and Financial Empowerment of Adolescents (SOFEA)	2009	10,562
Cooperativa San Jose	Ecuador	Ahorrando Ando (I Move Ahead Saving)	2009	2788
CARD Bank	Philippines	Kiddie Savings	2012	45,786

(continued)

Table A1-1. Institutions Interviewed and Their Youth Savings Products (continued)

Institution	Country	Youth Savings Product(s)	Year Youth Savings Initiated	Number of Youth Accounts (2013)
Equity Bank	Kenya and Tanzania	***	***	***
HFC Bank	Ghana	Enidaso	2011	7465
Kenya Post Office Savings Bank	Kenya	SMATA (The Smart One) STEP	2011	5777 137,041
ProCredit	Ghana	ProKid ProStudent	2007 2009	2,762 3,917
XacBank	Mongolia	Future Millionaires Aspire	2002 2009	180,342 11,208

***Current data not available

Annex 2: Macro-Level Analysis

Correlations were run between youth account penetration (percentage of youth under age 25 who have an account at a formal financial institution) and over 50 indicators gathered from Findex and other World Bank databases. This analysis included data from 48 different countries, selected because of the presence of a youth savings program and regional prominence.

The following countries were included in this analysis: Australia, Bangladesh, Bolivia, Burkina Faso, Burundi, Canada, Chile, Colombia, Congo Democratic Republic, Dominican Republic, Ecuador, Egypt Arab Republic, Ethiopia, Germany, Ghana, Guatemala, India, Indonesia, Iraq, Jordan, Kenya, Malawi, Malaysia, Mali, Mexico, Mongolia, Morocco, Nepal, New Zealand, Niger, Nigeria, Pakistan, Peru, Philippines, Rwanda, Senegal, Sierra Leone, South

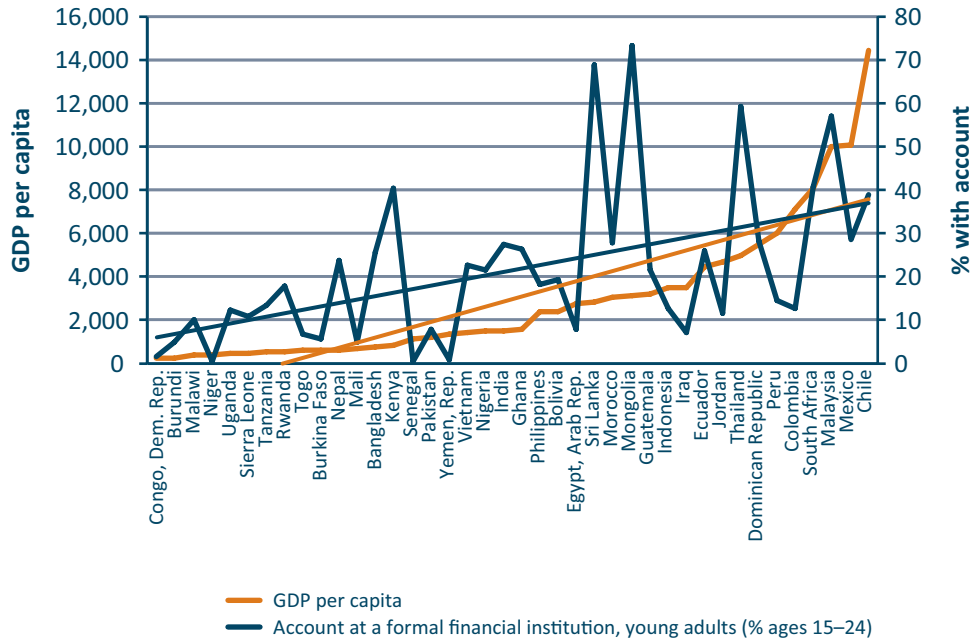
Africa, Sri Lanka, Tanzania, Thailand, Togo, Uganda, United Kingdom, United States, Vietnam, West Bank and Gaza, Yemen Republic.

Table A2-1 summarizes the findings of this analysis. Youth account ownership was highly correlated with several indicators of socioeconomic status, including GDP per capita (see Figure A2-1). It was also highly correlated with a number of other financial product ownership and use indicators, including adult account penetration (see Figure A2-2) and loans (see Figure A2-3). A correlation was *not* found for a number of other indicators that might be expected to be related to youth account ownership, including urban population, population density, and bank branches per 100,000 adults. The absence of a correlation at the macro level does not, however, mean that these factors are not under some circumstances very relevant to youth account penetration.

Table A2-1: Correlation between percentage of youth age 15–24 who have an account at a formal financial institution and other financial and social indicators

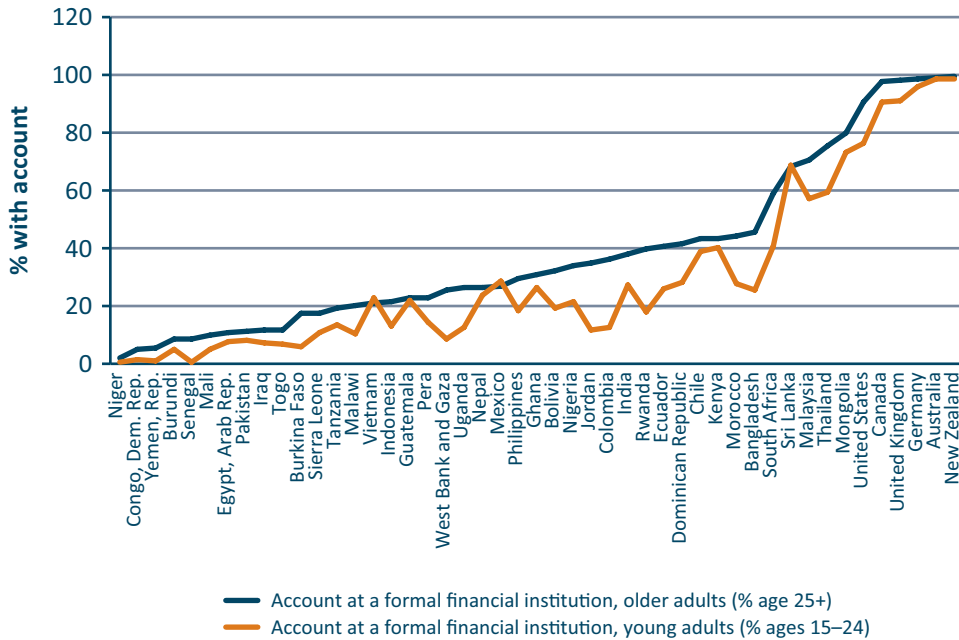
High correlation with youth savings	Low correlation with youth savings
<p>High positive correlation (>0.6):</p> <ul style="list-style-type: none"> • Account at financial institution, total (% age 15+) • Account at financial institution (% age 25+) • Secondary school enrollment • Saved any money in the past year (% age 15+) • Saved any money in the past year, older adults (% age 25+) • Saved any money in the past year, young adults (% ages 15–24) • Saved at a financial institution in the past year (% age 15+) • Saved at a financial institution in the past year, older adults (% age 25+) • Saved at a financial institution in the past year, young adults (% ages 15–24) • Credit card (% age 15+) • Credit card, older adults (% age 25+) • Credit card, young adults (% ages 15–24) • Debit card (% age 15+) • Debit card, older adults (% age 25+) • Debit card, young adults (% ages 15–24) • GDP per capita • GNI per capita (PPP) • Loan from financial institution in past year (% 15+) • Loan from financial institution in past year (% 25+) • Outstanding loan to purchase a home (% age 15+) • Outstanding loan to purchase a home, older adults (% age 25+) <p>High negative correlation (<–0.6):</p> <ul style="list-style-type: none"> • Youth population, age 0–14 (as % of total) • Population growth • % of population between the ages of 15–24 	<ul style="list-style-type: none"> • 0 deposits/withdrawals in month (age 15+) • 0 deposits/withdrawals in month (age 15–24) • Teenage mothers • Total population • Rural population as % of total • Population density • % of youth unemployment age 15–24 • Unemployment rate (Average 2008–2011) • Branches, commercial banks (per 100,000 adults) • GDP growth (average 2006–2011) • GINI Coefficient (inequality) Average 2008–2012 • Loan from financial institution in past year (% 15–24) • Loan from a private lender in past year (% 15+) • Loan from a private lender in past year (% 25+) • Loan from a private lender in past year (% 15–24) • Loan in the past year (% age 15+) • Loan in the past year (% 25+) • Loan in the past year (% 15–24) • Outstanding loan for funerals or weddings (% age 15+) • Outstanding loan for funerals or weddings, older adults (% age 25+) • Outstanding loan for funerals or weddings, young adults (% ages 15–24) • Outstanding loan for health or emergencies (% age 15+) • Outstanding loan for health or emergencies, older adults (% age 25+) • Outstanding loan for health or emergencies, young adults (% ages 15–24) • Outstanding loan for home construction (% age 15+) • Outstanding loan for home construction, older adults (% age 25+) • Outstanding loan for home construction, young adults (% ages 15–24) • Outstanding loan to pay school fees (% age 15+) • Outstanding loan to pay school fees, older adults (% age 25+) • Outstanding loan to pay school fees, young adults (% ages 15–24) • Outstanding loan to purchase a home, young adults (% ages 15–24)

Figure A2-1. GDP per Capita and % of Youth with Accounts



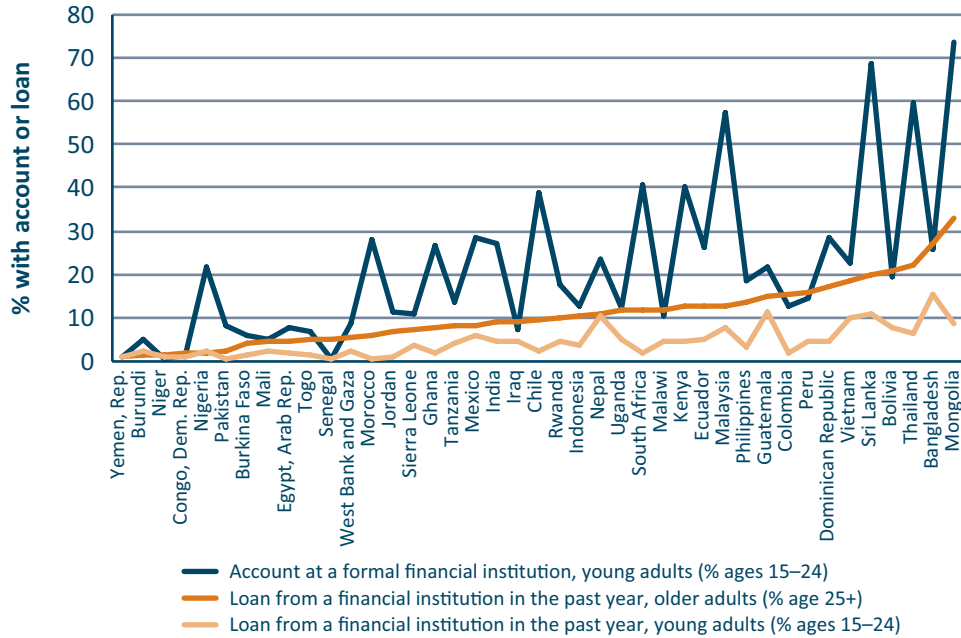
Ethiopia and West Bank and Gaza omitted due to lack of data. OECD countries removed.
Source: Findex

Figure A2-2. Youth vs. Adult Account Penetration



Ethiopia omitted due to lack of data.
Source: Findex

Figure A2-3. Youth Accounts and Loans (to youth and adults)



Ethiopia omitted due to lack of data. OECD countries removed.
Source: Findex

Annex 3: Using the Framework to Inform Business Decisions: Hypothetical Example

Two FSPs (Bank A and Bank B) are considering offering youth savings. The Business Case Framework can be used to guide the decision of whether and how to do so.

Market Levers

- Bank A operates in a large market with a high youth presence and relatively high market penetration of adult accounts.
- Bank B operates in rural areas, where bank penetration is low and operating costs are high.

Institutional Levers

- Bank A believes that it can invest in a youth savings program, including young school children, with a long-term view to developing the customers of tomorrow. However, Bank A also needs to show its management that its

investment in a marketing program for youth will pay off relatively soon.

- Bank B is concerned with its rising costs of delivering financial products and is looking for short-term profitability. It focuses on its lending business, targeting rural microenterprises and farmers for small- and medium-sized loans and is unsure of how youth can be profitable in the near term.

Segmentation

- Bank A decides to target young children, older students, and recent graduates. Older students will be employed within 1–2 years and can become premium bank clients, including clients for consumer loans and mortgages. Recent graduates have an even shorter-term potential to bring in business. Young children, on the other hand, will take a long time before they can offer the bank direct profits.
- Bank B takes a different route. Bank B identifies opportunities to offer savings accounts to young business owners and young wage earners who

labor on farms. In many cases, loans for extended studies, training, or business investment will also be marketed to these savers to boost revenues from cross-selling.

Is This Profitable?

- Bank A can now begin to calculate its expected market size, fee revenues, and costs associated with these new accounts. It can calculate costs and revenues specific to each segment, and
- Bank B can now estimate the investment it needs to increase its outreach to younger clients. Most likely it will involve tweaking existing prospecting policies rather than changing distribution and its costs significantly. It can also estimate the potential size of its new youth accounts and make some reasonable assumptions about revenues from cross selling loans to these accounts.

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