Youth and Financial Inclusion

Fast Facts

Youth between the ages of 15-24 represent approximately 18% of the global population, 1.2 billion people

87% of youth live in developing countries

81 million of the 620 million (13%) economically active youth ages 15 to 24 were unemployed in 2009

Only 44% of youth have an account at a formal financial institution globally, compared to 55% of adults

Adults over age 24 have higher rates of formal savings in all regions

Lowest rates of formal accounts:
- Middle East and North Africa (12.8%)
- Sub-Saharan Africa (17%)
- South Asia (24.7%)

Too Much for “Homebanking,” Too Little for Formal Banking? “When I’m not in school, I sell. I take half of the profit and put it in the box. The other half I spend for myself. After four or five months I put the profit back in the business.” Mary, 22, lives in rural Liberia and through corn farming and selling salt, machetes, and rice, manages to contribute toward her schooling and family expenses.

However, the amounts are small and their frequency depends on school, church, and farming. Mary’s main concern is being able to safely accumulate lump sums of money that she can put towards business. Susus, informal savings groups, are common in her community, but recent large-scale thefts have left her weary of such services. “Susus eat your money. So I got my own bank in my house. It’s a box.” The nearest bank is too far and, therefore, not accessible. Another hurdle is information, as Mary does not know about associated costs, ID requirements, or banking hours.

What Do You Mean by Youth?

There is no consensus on what defines youth. The generally accepted ages are 15-24, according to the U.N. and African Union. Some countries, particularly in post-conflict settings, extend their definition of youth up to age 35. No matter the definition, youth are not homogenous, and their needs differ across continents, cultures, and age. For example, a 15-year-old female student in Zambia who works odd jobs for pocket money and to contribute to her family has very different financial needs than a 22-year-old single male who manages a small shop in the Philippines. Similarly, the financial services appropriate for each may vary drastically.

Global Snapshot: Where Is Exclusion the Worst?

In spite of its rapidly increasing youth populations, the lowest levels of formal accounts held by youth are in the Middle East and North Africa, and Europe and Central Asia. In contrast, sub-Saharan Africa ranks among the top two regions for youth that have saved any money (formal or informal) in the past year. This is likely due to society’s expectation of establishing a foundation of wealth for one’s family and community, and the prevalence of informal savings mechanisms. Nonetheless, formal savings rates for youth are just 9 percent in sub-Saharan Africa and only 19 percent for the leading region—East Asia and the Pacific.
As is the case with low-income adults, youth in developing countries commonly cite two reasons for not having an account at a formal institution: a perceived lack of money and high costs. Regulatory challenges are also an issue. Youth are also less likely to save formally, as only 18 percent reported saving in the past year, compared to 25 percent of older adults.

The Business Case for Serving Youth
In spite of these challenges, a business case for financial institutions to serve youth can be made. Young people are economically active and do save money. Their financial needs may be limited at first, but grow in volume and sophistication over time. As such, financial institutions that can develop low-cost products to engage young people at an early age have the opportunity to build a longer-term and loyal clientele. They can also cross-sell products to other members of the family, profiting from other revenue streams. In addition, despite fears that youth are higher risk, institutions have found that youth generally repay loans at the same rates as adults.

However, serving youth is not for all institutions, since it requires the development of specialized expertise and appropriate products. For example, successful youth products entail specific marketing, specially trained staff, and terms that may not be as lucrative at the outset.

Developing Youth-Inclusive Products
Institutions that decide to target youth should keep in mind that financial capability is especially important for youth to effectively access services. Financial literacy can help youth make appropriate financial choices and when financial capability involves family members and role models, this can help increase positive habits early and lead to longer-term asset accumulation and where applicable, higher credit scores. Youth are also more vulnerable, heightening the importance of consumer protection issues.

Savings. To support the opportunity to promote formal youth savings accounts, market research highlights youth preferences for a low opening balance, no fees, and ATM cards. Other providers differentiate their products through marketing and promotions rather than through product attributes. For example, XacBank and Banco Adopem use gender-differentiated passbooks and merchandise to attract youth customers. Improvements to the enabling environment can also contribute to inclusion. In many developing countries, the minimum age to open an account is the legal age of majority. However, decreasing regulatory restrictions may encourage youth to save formally. Banks can also take action to help overcome these barriers themselves.

Credit. In most countries, youth cannot access credit until they reach the age of majority. However, even these youth are often considered risky clients. As a result, many providers offer youth credit products with parent or adult guarantors. Recent evidence indicates positive results with such programs. Fundación Paraguaya found that youth have a similar portfolio at risk to adults when using guarantors and also saw an increase in loan size. In addition, loan guarantees can effectively introduce loans to youth, offer insurance for banks, and begin a lifelong relationship with new clients. Following an IDB-PROBIDE program in Peru, participating banks continued to lend to youth SME start-ups. Contributing to this success, a partner provided business planning courses, leading to a 75 percent survival rate of start-ups.