REGULATORY ENVIRONMENTS FOR YOUTH SAVINGS IN THE DEVELOPING WORLD

SCARLETT ALDEBOT-GREEN + ALETA SPRAGUE

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Our experience with the YouthSave Project informed much of this report. Created in partnership with The MasterCard Foundation, YouthSave investigates the potential of savings accounts to promote youth financial inclusion and economic empowerment in developing countries by co-designing, with local financial institutions, tailored, sustainable savings products and tools, and assessing their performance and development outcomes with local researchers. The project is an initiative of the YouthSave Consortium, led by Save the Children in partnership with the Center for Social Development at Washington University, the New America Foundation, and the Consultative Group to Assist the Poor.

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Photo Page 1: Students complete HFC Bank's Enidaso account opening forms in Ghana during a 2013 event marking Global Money Week

Photo Page 9: Financial education workshop at Shree Nepal Rastriya Higher Secondary School in Surkhet, Nepal

Photo Page 13: Students in Pasto, Colombia take part in celebration launching financial education programming

Photo Page 18: Students in Bogotá, Colombia celebrate Global Money Week 2013

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EXECUTIVE SUMMARY

In recent years, savings accounts for youth have been increasingly considered as part of a growing set of development tools. The YouthSave initiative has been designed to explore the potential of this intervention, especially among lower-income youth in the developing world.[1] In theory, savings accounts can provide a vehicle for youth transitioning to adulthood to grow their assets—which they may use to finance emergencies or future needs like education or micro-enterprises—as well as help them develop positive behaviors as a result of participating in the saving process.[2]

Despite the potential benefits of facilitating access to youth-owned and -operated accounts, legal requirements can create unnecessary hurdles that prevent these accounts from flourishing in the marketplace. Creating a supportive regulatory environment for youth savings may require identifying specific barriers and proactively crafting policy to overcome them. The legal vulnerability of youth in many countries, particularly minors and girls, coupled with this population's often disadvantageous economic, social, and political position dictates that we tread carefully. On the other hand, policy solutions must address the vastly diverse realities of youth's lives in the developing world, their demands for rights, and their socio-economic contributions. Further, the diversity of country contexts, including the conditions and fiscal soundness of the banking system, means that these policies cannot be uniformly enacted. Rather, they will most likely have to be modified to fit local circumstances.

In other words, we must contextualize the benefits of the "right" to be banked with countries' or the financial industry's specific ability to furnish the necessary oversight and protection new regulations would require. In some contexts, the potential risks to youth—particularly minors or other vulnerable youth—of saving at a commercial bank may outweigh the rewards.[3] Banks, too, may simply be unwilling to create inclusive products in countries where the economic and institutional environment in which the financial system operates would leave them exceptionally vulnerable to financial loss. Policies aimed at encouraging commercial savings products for youth would need to protect banks and young customers from potential losses in places where the rule of law is problematic.[4]

YOUTH AND MINORS DEFINED

The United Nations defines "youth" as individuals between the ages of 15 and 24. This paper will use the term youth to refer to people in this age range and the term minor to describe youth below the age of contractual capacity in a given country. In both of these categorizations, we recognize that factors like psychological maturity, cultural norms, marriage, school status, and gender make these age groups non-homogenous. These are intended to serve as workable categories of analysis and must be contextualized appropriately in applying any schemas or recommendation herein. In 2010, the United Nations estimated that more than 1.2 billion people were between the ages of 15 and 24, representing 18% of the global population then, and that 40% of the world's total population was comprised of those below the age of 24. Out of these, the United Nations noted that 87% of youth lived in the developing world.[5]

Recommendations

In general, countries considering legislation to help youth overcome barriers to owning and operating savings accounts at financial institutions should acknowledge that a wide range of factors collectively shape the regulatory environment.

Developing new oversight mechanisms will work best if a range of stakeholders are engaged with developing, and buy in to, the proposed changes.

- **Regulatory bodies (ministry of youth, central bank, ministry of finance, etc.), banks, and youth stakeholders (NGOs working on youth issues, youth themselves, schools) should coordinate efforts in countries seeking to change the regulatory environment to facilitate youth financial inclusion in the form of savings at financial institutions.**

- **Oversight mechanisms and legislation must be concurrently developed or adjusted to ensure youth have access to institutional and legal recourse and that youth accounts are tailored to the needs of youth and have the necessary protection of federal governments, including deposit insurance. Child and Youth Finance International's (CYFI) Child and Youth Friendly Banking Principles, for example, could be modeled.**[6]

Specifically, two areas will need to be addressed to foster a more supportive regulatory environment for youth savings at financial institutions, accountholder identity and account control:

- **While we support government and international efforts to institute universal birth registration and documentation systems, barriers to both registration and securing proof of registration are likely to continue to affect many world-wide. We propose an interim solution of allowing for a more flexible form of identity verification for youth, and particularly minors, as a way to create a policy environment where youth savings in financial institutions can more readily flourish in the absence of true universal birth registration. Policymakers have a range of policy options to effectuate this recommendation, including issuing an exemption for low-balance accounts or creating tiered know-your-customer account frameworks. Alternatively, financial institutions or central banks could interpret existing regulations or legal frameworks in a way that allows for the use of a wider range of IDs to open an account.**

    - Creating safeguards can mitigate the risk to financial institutions and banks offering youth accounts. These include retaining more stringent identification requirements for co-signers, requiring photography at account opening, or creating tiered identity requirements based on account balances or other pre-determined risk thresholds.

    - To mitigate risk to youth, we caution against the use of biometric identification without comprehensive, age-appropriate customer education processes that allow young customers to weigh the benefits of account ownership with the potentially unforeseeable future risks of this technology's present use. Policymakers should also note that even in a context where such education and consent processes can be overwhelmingly guaranteed, the lack of regulation governing the storage, ownership, and future use of data – that may include location data – in most countries makes it an open question that the benefits of banking youth, particularly minors and other vulnerable youth, will outweigh the potential pitfalls of the use of this technology.

- **In terms of account control, we propose that governments and financial institutions ensure that youth have the maximum control over their accounts while benefiting from age-appropriate protections, by supporting flexibility around account opening, account management, and**

account closure or transformation at the age of majority.

- Alternative co-signer arrangements (allowing other trusted adults or institutions in lieu of or in addition to parent/guardian co-signers), decreasing the minimum age for account opening and management, and well-designed school banking efforts would facilitate independent account access and management by youth. Generally, the more flexibility, access and control that minor and other vulnerable youth have, the greater the need for a solid protective regulatory framework with adequate oversight.

- Financial institutions offering youth savings products should establish procedures for transitioning youth to adult accounts at the age of majority, to ensure that they maintain uninterrupted access to their funds.

CLIENT PROTECTION PRINCIPLES

The Smart Campaign, housed at the Center for Financial Inclusion at ACCION International, is a microfinance industry initiative that seeks to unite microfinance leaders around the goal of keeping clients at the center of their work. To that end, the Smart Campaign has outlined a set of principles for client protection. These protections might provide some useful guidelines to financial institutions seeking to bank youth clients. While all are not relevant to designing and delivering youth savings products, collectively, they represent a client-centric, protective, and balanced ethos that is informative in that context. The principles are organized around the following topics:

1. Appropriate product design and delivery
2. Prevention of over-idebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

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INTRODUCTION

"The place of asset-building and financial inclusion within this new paradigm, particularly as it relates to vulnerable populations, is ripe for analysis."

Social protection programs can play a critical role in global poverty alleviation. With the aim of reducing poverty and ameliorating vulnerabilities, social protection programs have increasingly been conceptualized as having the potential to address a compendium of development issues. In fact, noting that almost 80% of the world's population lacks access to

social protection, the UN has identified social protection as a development priority in the post-2015 UN development agenda. Social protection programs can help address a range of issues and can play an important role in reducing structural inequality. Programs under this rubric include social assistance programs, which typically support those already living in poverty (for example, through cash assistance) and social insurance programs, which support those who are vulnerable for a variety of reasons including personal circumstances (illness), life events (retirement), or life risks (crop insurance). A third type of social protection programing has received increasing attention in the development and philanthropic sectors in recent years. Social justice programming attempts to blend social protection programing in a way that seeks to address root causes of vulnerability and poverty. And, some, including the International Labor Organization, have advocated for a life-cycle approach to social protection programming in order to ensure the creation of systems, pathways, and structures that can accommodate more equitable and just development.

Asset building interventions can work well as one set of tools in a country's social protection schema. Building assets can have a range of impacts including helping an individual and family to reduce risk, mitigate the impact of economic shock, and/or amass resources for endeavors, such as education or entrepreneurship, that can reduce poverty. This shift, from welfare-based strategies to social-protection strategies is well underway. The place of asset-building and financial inclusion within this new paradigm, particularly as it relates to vulnerable populations, is ripe for analysis.

Within this field, practitioners are exploring a range of programs and projects including those that involve financial inclusion and asset building in partnership with commercial banks and other financial institutions. This brief seeks to engage with these debates and provide general policy recommendations to those interested in expanding youth financial inclusion and facilitating youth saving through commercial banks and other financial institutions. We aim to provide a point of departure for policymakers, regulatory bodies, financial service providers, think tanks, funders, and program deliverers as to the main regulatory obstacles and potential solutions available to effectuate broader youth financial inclusion, particularly access to savings accounts at financial institutions.

THE REGULATORY FRAMEWORK FOR YOUTH SAVINGS

Those who have made the policy case for youth savings base it on a fairly straightforward set of premises: 1) youth savings can potentially promote life-long asset building; 2) saving early in life can instill good financial habits that can help boost household financial security and improve a country's overall savings rate; and 3) participating in saving can have a range of beneficial youth development impacts.[7] From the perspective of financial institutions, expanding product portfolios to include youth-targeted savings vehicles could make business sense, particularly given the large number of youth in the developing world, when taking a long-term approach to profitability, and depending on the competition for the youth market segment in a given context.[8] For youth, having a safe place to save money for emergencies, education, raising a family, housing, and other medium- to long-term expenses can be beneficial; interviews with youth participating in youth saving projects such as YouthSave evidence potentially beneficial economic and developmental impacts.[9] Studies have also found positive associations between participation in saving and a range of valuable behaviors including improvement on HIV prevention scores, formulation of specific savings goals, developing a future orientation, and developing a college-bound identity, for example.[10] Governments in developing countries, therefore, might find it prudent to facilitate youth savings as one of many tools aimed at targeting youth development and poverty alleviation.

No doubt, in a global context in which adolescents and youth consistently capture policymakers' attention as potentially politically and economically problematic, global advocates urge countries to view the life-stages of adolescence and youth—and large youth cohorts in the developing world —as an economic and social opportunity.[11] With a view to harnessing the incredible

YOUTH AT RISK, NOT JUST A SOURCE OF RISK

Though financial institutions often view youth as a risky market segment, involvement with financial institutions can also be risky for youth themselves because of their lack of autonomy under government regulation, their potential mobility and their small deposits – which can lead to compounding fees if products are not structured appropriately.[14] Beyond the broader risks of bank instability, account structure for accounts targeting youth clients can pose a very real risk to youth, particularly as the age at which youth can control accounts without an adult custodian or co-signer drops, since younger youth might not fully appreciate the complexities of the agreement or contract with the bank, the banking fee structure, minimum limits, and other product features. These risks could result in youth's losing all of their money and even, in the medium- to long-term, owing money to the bank. In the absence of regulation, those in the financial inclusion field have proposed guidelines for the components of child/youth-friendly products which include consideration of and peer-guided and monitored solutions around potential legal, privacy, fraud, and other risk implications for youth.[15] Product customization is key, and government involvement in youth-friendly banking policy development that supports banks in creating youth-friendly fee structures is critical in decreasing risk potential for young or vulnerable account holders. OCBC Bank in Singapore, for example, established the FRANK bank account in 2011 that provides a 16- to 29-year-olds a savings and transacting account-in-one. The account has a zero minimum balance requirement and no monthly "balance fall below" fee, thus controlling the cost of the account for youth and making that cost predictable.[16]

productive capacity of youth, a wide range of NGOs and other entities, including the United Nations, have begun to experiment with financial inclusion models.

In part, these initiatives have aimed to create a bridge between childhood, adolescence, and adulthood through the provision of tools that may help youth manage this transition period and successfully launch as adults. Various countries have sought to start this process of financial inclusion relatively early. Some, such as the Philippines—where children as young as seven can open savings accounts at financial institutions—Uruguay, and India have begun to adapt policies seeking to include youth in the formal financial system.[12]

But expansion of these policies across different contexts must be carefully evaluated such that the benefits of any new policy outweighs its risks to youth, particularly the risk to minors and other more-vulnerable sub-populations of youth—homeless youth, youth who do not live with their parents or guardians, girls, and working minors, for example. Furthermore, wherever policies are expanded to facilitate the formal financial inclusion of minors in particular, the enactment of these policies must be carefully overseen. Policymakers must recognize that although youth may work, raise families, hold leadership positions, run businesses, and care for family members, some younger youth may not have developed the range of cognitive capabilities necessary to fairly contract with financial institutions. Others, even if they have developed these capabilities, may not be able to fully protect themselves from unscrupulous adults who may seek to use youth's accounts for illicit purposes, like money laundering.[13]

"...wherever policies are expanded to facilitate the formal financial inclusion of minors in particular, the enactment of these policies must be carefully overseen."

In other words, we must contextualize the benefits of the "right" to be banked with countries' or the financial industry's specific ability to furnish the necessary oversight and protection new regulations would require. In some contexts, then, the risks of saving at a commercial bank for youth, and particularly minors or other vulnerable youth, may outweigh the rewards.[17] Banks, too, may simply be unwilling to create products that may diminish financial exclusion in countries in which the economic and institutional environment in which the financial system operates would leave them exceptionally vulnerable to financial loss. Policies aimed at fomenting a proliferation of commercial savings products for youth would need to protect banks and young customers from potential losses in places where the rule of law is problematic.[18]

Thus, from the outset, we generally recommend that any country seeking to alter its legal and regulatory environment to facilitate youth savings at financial institutions, should engage the range of regulatory bodies involved in youth and banking/finance issues (ministry of youth, ministry of finance, central bank, etc.) in order develop a cohesive framework that ensures oversight over the new schema and administrative or legal recourse for youth. The example of Malaysia's public-private partnerships for promoting and providing financial education is a good example of multi-stakeholder engagement in a related field. In Malaysia, the Bank Negara Malaysia, the Ministry of Education, and a range of financial institutions have been collaborating since 1997 to financially educate Malaysia's youth. Each has its own responsibilities, with the Bank Negara Malaysia coordinating the "School Adoption Program" effort and allocating funds for teacher workshops and development, production of materials, website maintenance and other expenses, while other banks adopt schools, fund and organize activities at these schools, and produce education materials.[19] We also recommend that financial institutions seeking to bank youth adopt industry standards related to the protection of clients, and that protective legislation be enacted in these countries if new expansive frameworks for financial inclusion are adopted.

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While in some contexts there may very well not be a short- or medium-term business case for banking youth, broader considerations, including financial institutions’ interest in overall economic development, mean that commercial banks or other financial institutions may chose to take on banking youth. Hatton Bank in Sri Lanka, for example, has chosen to invest in youth because it believes the country’s history and political strife dictate that youth be prioritized in order to achieve long-term institutional viability and sustainability.[20]

In particular, this brief highlights two obstacles financial institutions frequently encounter – stringent identification requirements and regulatory barriers to youth control of accounts – that stand in the way of creating more fertile policy environments for youth banking. We posit some solutions that balance the government need to expand financial inclusion to youth and its capacity for oversight, the needs of the banking sector to grow its market segment while protecting itself against risk, and the needs of youth to have access to the means and opportunity to save in a safe place.

INNOVATION IS CRITICAL

The need for innovation in this field cannot be understated. Given the capacity challenges of the banking sector in some countries, including the lack of deposit insurance and the lack of supervisory structures,[21] for example, innovation, community buy-in and flexibility might be key to effectuating youth savings through financial institutions. Consequently, policymakers should support and sponsor policy experiments and research that involves financial institution innovation. Case studies demonstrate the importance of innovation and multi-stakeholder involvement in the field of youth financial inclusion and economic empowerment. For example, the Uganda Finance Trust, Ltd., supported by the UNCDF-YouthStart initiative, introduced a range of innovations to advance its goal of providing youth with an opportunity to open and save in a commercial savings account. [22] These innovations included accepting over nine different forms of identification (recognizing barriers to obtaining identification), segmenting youth by age, designing products that were responsive to the needs of two distinct youth age segments, training youth staff to provide financial education to savers’ groups, involving project communities, and establishing strong partnerships with parents, local leaders, and youth service providers, among others.[23]

ACCOUNTHOLDER IDENTITY

"The lack of legal identity, particularly the lack of documentation proving legal existence and establishing a relationship to a specific nation, is a critical issue for a large portion of the world's children and youth."

Most banks require individuals to provide some type of government-issued identification, typically a birth certificate or a passport, in order to comply with Know Your Customer/Client (KYC) regulations related to combating the financing of terrorism and the prevention of money laundering.[24] Identification requirements are a significant barrier for youth—and not just those seeking to open savings accounts at financial institutions.[25] The lack of legal identity, particularly the lack of documentation proving legal existence and establishing a relationship to a specific nation, is a critical issue for a large portion of the world's children and youth. Birth registration, which in many contexts readily establishes a child's legal identity and attaches legal responsibility for that child to a particular country, is often logistically or economically prohibitive.[26] This leaves many youth, particularly minors and poorer youth, in a large part of the world, lacking proof of identity.

In 2013, UNICEF analyzed data on worldwide birth registration. UNICEF's report outlines some stark realities about disproportional birth registration and documentation throughout the world. First, birth registration was found to be lowest amongst developing nations and regions. In Asia, for example, 61 percent of children under the age of five were not registered. In countries under conflict, registration rates were almost negligible. In Somalia, for example, 97 percent of children under five were unregistered. Sub-Saharan Africa also had a low rate of registration, with 56 percent of those under five being unregistered. [27]

Despite the fact that between 2000 and 2010, global registration rates increased by seven percent, with least-developed-country rates spiking by thirty percent, the total number of unregistered children remains high. Population trends indicate that this number is predicted to increase, not decrease. In 2050, UNICEF estimates that the number of unregistered South and Eastern African children will be 55 million (up from 44 million in 2013) and, in Central Africa, the number is slated to double.[28]

Registration is particularly burdensome for socially disadvantaged children, those conceived outside of marriage, and those without a known father.[29] For example, in Bhutan, children without a known father cannot be registered, in Nepal the "birth notice form" must include the name of the father and grandfather to be valid, and in Nicaragua children born in a consensual union can only be temporarily registered if the father has not signed the birth record.[30]

Even when a family does register a child, a vast number of registered individuals lack official—and in many cases, any—proof of registration. Among children who are registered worldwide, one in seven does not have a birth certificate or other form of proof.[31] In Rwanda, for example, 63 percent of children are reportedly registered but only one in ten has a document that can attest to their legal existence in the country.[32]

It is unsurprising, then, that 70 percent of children in the least developed countries lack a birth certificate or registration document. [33] Direct and indirect barriers, such as the retrieveability of records (often housed in administrative offices far from parents' homes and requiring administratively complex processes), the

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cost of travel to administrative offices, and the cost of documentation fees also impede children's parents or guardians from obtaining identity documents.[34] As children age, registration statistics improve somewhat. Nevertheless, for a vast number of minors and youth, lack of identity is a lifetime barrier: at least 11 million people born each year will never be registered.[35] In Mexico, for example, seven million people, adults and children, lacked a birth certificate as of April 2012.[36] The issue of birth registration, then, concerns youth and adults alike, and is unlikely to be resolved in the short term, as other barriers, such as gender discrimination and registration-related expenses, can impact registration numbers despite universal birth registration efforts or central government regulations.[37]

Given the low proportion of youth in the developing world who have identification documents, the requirement that one present a birth certificate, birth registration form, or passport as the only valid form of identification in order to open a bank account presents a large barrier to expanding access to commercial savings accounts for these populations. In the absence of universal birth registration and guaranteed access to proof of this registration through identity documentation, which would most readily remove this barrier, we propose allowing for a more flexible form of identity verification for youth, and particularly minors, as a way to create a policy environment where youth savings in financial institutions can more readily flourish. Namely, because youth savings accounts are low-balance and low-transaction accounts, we posit that the rationale for ID requirements is less relevant. Policymakers have a range of policy options to effectuate this recommendation, including issuing an exemption for low-balance accounts or for children's savings accounts, creating tiered identity requirements, or interpreting regulations or legal frameworks in a way that allows the use of a wider range of IDs to open an account.[38]

Some policymakers and regulators have begun testing the waters of relaxing the ID requirement for youth savings accounts. In the Philippines, for example, the Central Bank permits individuals over the age of 12 to open and manage their own savings account and use a school ID as proof of identity. Launched in 2012, the program is a partnership between the Central Bank and the Bank Marketing Association of the Philippines and is supported by top Filipino banks, the Central Bank, and the Philippines Anti-Money Laundering Council, all of which agreed to the sufficiency of the school ID.[39]

As part of the UNCDF-YouthStart program, various partners of UNCDF-YouthStart have begun exploring the flexibility of regulations in order to accept a range of IDs from youth. Among these are UNCDF-YouthStart partner Finance Trust in Uganda, which accepts a recommendation letter from someone who knows the youth as a way to fulfill the ID requirement (recommendation letters can be a letter from an existing Finance Trust client, a letter from the head of school, or a letter from a church authority, among others), and Opportunity Bank Malawi, which accepts a letter from the chief if a youth lacks an ID but wants to open an account.[40] Those seeking to relax identity requirements, therefore, may have to address regulation barriers at various levels and may be able to exercise flexibility at various points, including in consultation with central banks or in partnership with financial institutions themselves, which might have flexibility to interpret central bank policies more openly or to seek exemptions from central banks for specific products or market segments. And, it is important to recognize that even when flexibility exists at the central bank level, some financial institutions may enact or retain more stringent identity requirements, believing that the risk to them does

not outweigh the benefits of banking the youth segment.

YouthSave partner banks have also made provisions for youth lacking more traditional government-issued identification. In Kenya, youth between the ages of 12 and 18 can open a PostBank SMATA account with a birth certificate, birth notification, baptism card, school leaving certificate, or a letter from a provincial administration or a church authority to introduce youth with no ID; this is a more expansive list of potentially acceptable documents than the birth certificate or passport that PostBank requires for other account openings.[41] Where solutions like this have been formulated, care should be taken that due diligence checks are done to ensure the individual or organization providing the reference for youth is who they claim to be and is acting in the best interest of the youth.

"In Kenya, the provisional requirement PostBank established for the purpose of the YouthSave project was noted to have helped increase financial inclusion especially in the case of youth attending boarding school, many of whom lacked possession of a birth certificate."

In Nepal, where 16 is the age of majority, Bank of Kathmandu has allowed youth under 16 who open a CYBY account to use a school registration certificate as an identity document in lieu of a birth certificate.[42] Youth over 16 must submit proof of citizenship through a citizenship card or a birth certificate.[43] Practically, this means that youth who age out of this exemption as it has been presently conceived of and who do not obtain the required documentation have their accounts frozen; for this reason we discuss the issue of account transition in a subsequent section. In Ghana, youth opening an HFC Enidaso account can use a range of documents to establish identity and age including a national ID, a voter ID, a national health insurance card, a passport, a birth certificate, or a driver's license. If a youth is missing these more difficult-to-obtain forms of identification, YouthSave's partner bank HFC will accept a student ID card, an introductory letter from school authorities, or an introductory letter from a recognized community leader or organization, in the case of out-of-school youth.[44]

Importantly, even in contexts where banks are more flexible regarding account ownership (an issue discussed later in this brief), they may decide to retain more stringent identity requirements due to their individual risk assessment. In Colombia, for example, the only YouthSave country that allows account ownership by youth starting at the age of 7, Banco Caja Social has remained steadfast in its requirement that youth present a birth certificate, a government child ID card, or a passport for account opening.[45]

The flexibility that has been introduced in terms of identity requirements in various contexts has expanded access to formal banking for youth. In Nepal, for example, YouthSave partner bank Bank of Kathmandu notes that in many schools, particularly rural and suburban schools, bank branches found that children did not have the requisite birth registration certificates to open accounts, which is why bank officials decided to accept school certificates for minor children seeking to open accounts.[46] Likewise, in Ghana, where HFC has noted that the majority of account holders did not have the required identification cards to open an account, the exception has been "very helpful" in facilitating youth banking.[47] In Kenya, the provisional requirement PostBank established for the purpose of the YouthSave project was noted to have helped increase financial inclusion especially in the case of youth attending boarding school, many of whom lacked possession of a birth certificate.[48]

Access vs. Risk for Financial Institutions

Sound policy in the area of relaxing youth identification

“Thus, while YouthSave countries have made exceptions to youth identity requirements, particularly for minor account holders, they have also preserved the spirit of KYC regulation by requiring adult co-signatories or account custodians to furnish passports or birth registration documents, by photographing young account holders and their co-signatories or account custodians, and/or by ensuring that both the youth and the adult sign all of the necessary account opening forms.”

requirements necessitates a consideration of the protections available to financial institutions when adopting more flexible standards. One way to ensure that the spirit of KYC regulation is respected despite the significantly lower likelihood that youth, and particularly minor customers with small-balance accounts, would be funding terrorism or laundering funds, is through ensuring sound practices around identity requirements for adult co-signatories or adult custodians. Additionally, establishing ways to identify youth customers throughout the banking relationship can help banks mitigate risk. While some of these policies might present barriers to youth account access, they nevertheless represent a way to balance the prerogatives of central banks and financial institutions with the goal of broader financial inclusion.

As the YouthSave products developed in Kenya and Ghana do not allow for youth ownership of accounts below the age of 18, they are instructive in ways that banks can mitigate risk with regard to young customers through establishing more stringent requirements for co-signers on youth accounts, in contexts where co-signers are required. On these custodial accounts, as neither country permits sole ownership of accounts prior to the age of majority, an adult must serve as the custodian and primary signatory of the account, until the youth reaches the age of majority—18 in both countries.[49] In Ghana, additional identity-related requirements for youth seeking to open an Enidaso savings account include the youth and adult signing all account opening forms and KYC forms, photographing the youth and the adult at the bank branch, and requiring the adult custodian to furnish a national ID, a voter ID, a passport, a driver’s license, or a health insurance card. In Kenya, SMATA account holders and adult custodians must sign account opening forms and have photographs taken at the bank branch, and adults must furnish identification that is KYC compliant. In Nepal, minors must furnish a parent’s or guardian’s citizenship verification document and must have a photograph of themselves and their parent or guardian taken. Thus, while YouthSave countries have made exceptions to youth identity requirements, particularly for minor account holders, they have also preserved the spirit of KYC regulation by requiring adult co-signatories or account custodians to furnish passports or birth registration documents, by photographing young account holders and their co-signatories or account custodians, and/or by ensuring that both the youth and the adult sign all of the necessary account opening forms.[50]

It bears mentioning that enthusiasm to expand youth access to formal banking, particularly savings, in the context of a financial sector seeking to prevent identity theft, fraud, terrorism financing, and money laundering can become problematic when flexible solutions are introduced that do not account for the broader safety and security of youth.

While the solutions posited in this section, on the whole, balance the possibly competing needs of the financial sector’s interest in authenticating the identity of a new youth accountholder and the youth’s interest in being banked, not all alternate ways of exacting sufficient identity verification may successfully strike this

balance. In some cases, such as the case of biometric technology, youth customers must be well-educated as to the potential risks of alternative methods of identity verification and tracking, to ensure they can make a fully-informed decision that weighs the benefits to them of saving at a financial institution versus the potential—and sometimes unforeseeable—risks of these alternative methods of identification. And, even with ample education, policymakers may still conclude that the weakness of regulatory schemes or lack of holistic oversight around storage, use and protection of databases created through new technologies, like biometric identification, may be too problematic.[51] In these cases, policymakers may choose to not permit youth to weigh for themselves the risks of using alternative methods of identification against the benefits of saving at a formal financial institution.

For example, India's use of biometric technology to uniquely identify an individual has been suggested as a possible way for youth to furnish adequate identification in a banking context. Despite the potential benefits and availability of this type of identification, policymakers may decide that the unforeseeable risks of its use, particularly as it relates to minors, are too great to allow it for banking purposes. The Aadhaar identification in India, for example, has been heavily criticized for potentially violating India's constitution with respect to the right to privacy, and these concerns, namely the uncertain security and potential future use of this data, could be judged to outweigh the benefits of youth financial inclusion—particularly as they relate to minors, poor youth, and other exceptionally vulnerable groups.[52] A related such set of concerns emerges when the push to bank youth early might result in alienating youth from their property once they no longer qualify for whatever modifications or exemptions from KYC regulation were made. This topic will be further addressed below in subsequent sections.

ACCOUNT CONTROL

We know from previous work that the benefits of saving derive not simply from the accumulation of resources, but also from the so-called "asset effects" – the "economic, social, behavioral, and psychological impacts of asset ownership."[53] Outcomes associated with financial inclusion of children and youth have been associated not only with economic and financial well-being or financial knowledge and skills, but also with psychological health, reproductive and sexual health, academic achievement and education attainment and expectations. [54]

Research suggests that youth who perceive their savings accounts as being truly their own and available to support their individual needs and aspirations are more likely to view long-term goals, like higher education, as within reach.[55] Similarly, a 2006 study of young female savers in India suggested that increased control over their accounts would enable greater decision-making and planning for the future.[56]

Consequently, policies to promote saving among youth should provide the greatest control possible over financial products designed to serve their needs—and that hold their funds—within the applicable legal and regulatory framework and in compliance with sound international financial practices. This principle aligns with recommendations put forth by the Child and Youth Finance International, and is a necessary pre-condition to expanding access to and take-up of youth savings products across the developing world.[57]

CHILD & YOUTH FINANCE INTERNATIONAL CHILD AND YOUTH FRIENDLY BANKING PRINCIPLES

The following principles were developed by the CYFI Secretariat, working closely with and in consultation with a broad range of stakeholders in the public and private financial sectors and are aimed at setting a benchmark for the development of reliable and safe children and youth banking products. Generally, financial products developed for youth and children should have the following characteristics:

1. Are availabe and accessible for children and youth
2. Allow for maximum control children and youth to have
3. Include positive financial incentives for children and youth
4. Proactively seek to reach unbanked children and youth
5. Employ child and youth friendly communication strategies
6. Include a component of economic citizenship education
7. Are monitored for child and youth satisfaction
8. Have internal controls in place on all of the principles[58]

Existing Framework

Currently, many developing countries permit youth to open and manage savings accounts jointly with a parent or guardian as either a co-signer or as a custodian of the account, until a youth reaches the age of majority.[59] While this framework typically allows youth to save in accounts in their own names, much of the ability to transact rests primarily with the adult co-signer or custodian. Consequently, this approach has several key shortcomings that limit its potential to reach certain vulnerable youth populations or enable participating youth to access the full range of saving's benefits.

First, focus groups and qualitative research with youth savers have revealed a widespread preference for greater control over their accounts, citing privacy, security and accessibility concerns. Specifically, participants in YouthSave and similar projects (including some targeting women's financial inclusion) have expressed their desire to keep their savings secret.[60] For some youth, there is an initial reticence in undertaking saving through a commercial bank because they fear parental knowledge of their savings, through a parent's co-signer or custodial status, may result in coerced withdrawals.[61]

Likewise, YouthSave participants in Ghana have expressed appreciation for "knowing that their accounts were truly theirs," while older participants explicitly "expressed the desire for even more control over their account, e.g., sole ownership, without a trusted adult."[62] Moreover, youth have indicated that they assess these features when deciding how to manage their savings; the ability to have greater control over their money is one factor some YouthSave participants have identified as an advantage to informal savings mechanisms, compared to currently available formal products.[63] Given the frequency and consistency of these responses, facilitating greater control by youth over their accounts is likely to increase take-up of youth savings products.

Second, savings programs that require an adult co-signer functionally exclude youth who are living on their own or in youth-headed households.[64] In India, for example, up to 18 million street children, defined as those "who might not necessarily be homeless or without families, but who live in situations where there is no protection, supervision, or direction from responsible adults," make money each day by selling goods and performing services, but often have no secure place to store their earnings.[65] These youth are both particularly vulnerable and, due to their active participation in the economy, are most in need of access to a safe and affordable savings product. Recent evaluations of YouthSave have found that very few out-of-school youth are participating in its programs.[66] In part, this may be a result of focused outreach to in-school youth, but it may also be that co-signer or custodian requirements are more difficult for youth working or living on the street to overcome.

Finally, even for children who can open accounts with a parent or guardian as a co-signer or account custodian, geographic obstacles may make it difficult to meaningfully access their savings.[67] For example, many youth in the YouthSave countries attend boarding schools at a significant distance from their parents.[68] Bank staff for PostBank's SMATA have reported that "marketing was challenging in secondary schools because many are boarding schools in which a youth's parents may not live nearby and cannot be readily available to serve as the trusted adult in the account-opening process."[69] Meanwhile, efforts to guarantee the security of youth savings create management challenges for accounts opened near home. As discussed in the following section, requiring that the youth accountholder be present for each branch transaction is one way of ensuring their maximum control over the account; however, opening an account near home may therefore impose substantial logistical barriers to making deposits and withdrawals for those youth attending school elsewhere.

Ensuring that youth have the maximum control over their accounts while benefitting from age-appropriate protections requires policy choices that support flexibility around account opening, account management, and account closure or transformation at the age of majority. The following sections address these three interrelated issues and posit some policy solutions.

Account Opening

The first policy decision regarding account control that governments and central banks seeking to expand access to financial institutions' savings account products must consider is the process of account opening.[70] As outlined in the preceding section, for minors, who are often below the age at which they are allowed to contract, opening the bank account itself is the first hurdle. Some countries have overcome this hurdle by seeking to interpret the opening of an account as a non-contractual process. In Colombia, where youth as young

"For particularly vulnerable youth—those who are not in school and have no "trusted adult" to turn to—financial institutions should provide institutional alternatives for account opening and management, and partner with local NGOs serving out-of-school youth to increase their access to and participation in youth savings projects."

as seven are allowed to open a savings account without the need for a co-signer and own that savings account themselves, banks have interpreted the process of opening a bank account as a non-contractual transaction because seven-year-olds are not allowed to enter into contracts in Colombia. In this case, then, banks interpret existing law to allow for increased minor account control; despite the fact that minors are not permitted by law to contract, they may open a savings account.[71]

Another possibility around this initial hurdle that provides flexibility for youth, one that many countries have already explored, is the creation of alternative co-signer arrangements that extend beyond a parent or guardian to any "trusted adult," such as a school teacher. The YouthSave financial institution in Ghana, HFC Bank, modified its accounts to introduce this option in response to participants' preferences. As of 2013, nearly half of YouthSave participants across Ghana, Nepal and Kenya had opened their accounts with a non-parent co-signer—often a teacher or older sibling.[72] Similarly, another youth savings project aimed specifically at vulnerable adolescent girls in Uganda and Kenya has explored a "financial mentor" model, in which each participant chooses an adult female to serve as a co-signer and participate in other financial empowerment programming.[73]

For students in boarding schools, the flexibility to open an account with multiple co-signers—both a parent and a teacher—can provide youth with broader opportunities to conduct transactions whether at school or at home. In Kenya, for example, where YouthSave participants can have up to two co-signers, youth can change co-signers or add a second co-signer when they return home between school terms. PostBank does not require the original co-signer to be present for the youth to add a second co-signer to the account. This flexibility enables boarding school students to maintain consistent access and control over their accounts throughout the year.[74]

For particularly vulnerable youth—those who are not in school and have no "trusted adult" to turn to—financial institutions should provide institutional alternatives for account opening and management, and partner with local NGOs serving out-of-school youth to increase their access to and participation in youth savings projects. A range of innovative practices and strategies are being presently deployed by banking institutions and financial inclusion projects that provide examples of how such models could be structured.

In India, for example, several non-profits allow youth to open joint accounts in the name of both the youth and the NGO.[75] The NGOs typically keep some cash on hand so that youth can make withdrawals through their offices rather than directly from the banks. Still, some youth who open an account jointly with an NGO may fear that their money will not be returned to them, since the NGO is an entity with which they may or may not retain a long-term relationship. As a result, they may not experience the same psychological benefits of saving as youth who feel their accounts are fully within their control. However, this is not a solution that is likely to work at scale.

By contrast, a second innovative model in India is a youth-run bank, which gives youth control over their own deposits and withdrawals, but also the administration of the accounts themselves.[76] Established by the Indian non-profit Butterflies in 2001, the Children's Development Bank partners with volunteers from financial institutions to provide training about banking

are reserved for college costs; neither the child nor his parents can withdraw funds before the child enters a post-secondary institution (although families' contributions will be returned if the child does not enroll in college by age 25).[78]

Consequently, unlike with the NGO model in India, youth in the K2C program can feel confident that their money is safe. Still, most deposits for K2C will come from parents, rather than children, and thus the program may be less effective at inculcating a savings habit among youth or instilling a true sense of control and ownership over their accounts.[79] Finally, while in some countries the legal framework may initially appear to restrict account opening to adults, examples from Mongolia, Peru, and Ethiopia demonstrate how a reinterpretation of the law can enable younger individuals to open accounts.[80] In Mongolia, although the contractual age is 16, a lawyer from XacBank, who recognized a desire among youth for their own accounts, examined the civil code and found that youth ages 14 and over could enter into "petty domestic" transactions. XacBank's representative determined that opening and closing a bank account and conducting basic transactions fell within this definition, and as a result, XacBank became the first in the country to offer savings accounts to 14-year-olds.

Similarly, in Peru, although youth under 18 cannot enter into contracts, following a legal review, a local microfinance institution called Caja Arequipa determined that youth could initiate "everyday contracts" or transactions. Caja Arequipa proceeded to work with regulators to draft a contract for a youth account,

skills to youth ages 9 to 18. The youth themselves make decisions about membership and loan applications, and manage deposits and withdrawals. Today, the bank has 120 branches across South Asia, including India, Afghanistan, Nepal, Sri Lanka and Kyrgyzstan.[77]

In the United States, children's savings programs like the "Kindergarten to College" (K2C) initiative in San Francisco provide for automatic account opening on behalf of all public school children. While not specifically targeted at highly vulnerable youth, K2C employs automatic enrollment to facilitate account opening at an early age and eliminates the identification and paperwork requirements that can serve as barriers to youth in many contexts. The school district provides students' names, dates of birth and addresses to the city's Office of Financial Empowerment, which proceeds to open an account for each student, without requiring consent from parents (although they can opt out). The City of San Francisco holds a master account using its own tax identification number, while each participating family holds a sub-account with a unique account number in the kindergartener's name. Families' contributions to the account, as well as matching deposits made by the city,

DEVELOPING AND RETAINING TRUST

While crafting flexible policies is essential to expanding the reach of youth savings initiatives, ensuring the security of youth accounts is critical for the sustainability and overall effectiveness of these efforts. When asked about their perceptions of formal financial institutions in surveys, youth in developing countries have expressed fears that they will lose access to their money or lose their money in general due to fraud or high fees.[89] Consequently, to strengthen rather than further erode youth's trust in formal banking, institutions offering youth saving products should be vigilant about monitoring risks and ensuring bank personnel's compliance with established security procedures. For example, adhering to basic best practices like providing a receipt for every deposit made at a school will help youth account holders feel secure in the balance of their accounts and have will provide youth recourse should there be any future accounting discrepancy.

which still requires an adult co-signer, but establishes the account in the youth's name. The youth can also have exclusive control over a debit card linked to the account, although the parent/co-signer can establish withdrawal limits.[81] And in Ethiopia, lawyers argued that since youth ages 14 and older could enter into "light employment" labor contracts under applicable labor law, they could also enter into contracts to open and manage savings account. Consequently, Ethiopia carved out an exception to its standard minimum age requirement for opening an account (18) for youth who could demonstrate they were working.[82]

Account Management

The second major policy obstacle related to account control for these accounts is the degree to which youth may or may not be able to conduct account transactions. Proponents of the psychological benefits of youth banking argue that youth can benefit from the greatest control possible over their accounts within age-appropriate and developmental ability. Importantly, expanding transactional control to youth, particularly minors, should be accompanied by protective measures including measures against involuntary or coerced withdrawals. Furthermore, expanding transactional control may necessitate more than making it possible for youth to conduct certain transactions within banks, but also allowing youth to bank outside of bank branches.[83] Designing effective policies around youth account management therefore requires a careful balancing of facilitating access and ensuring security.

As previously discussed, the lack of bank branches near many youth's homes or schools creates a significant barrier to accessing their funds and conducting transactions. Some youth savings programs have begun bringing banking services directly to schools as way to overcome access barriers, with some notable success.[84] Typically, representatives from the bank will visit the school to collect deposits and, in some cases, provide financial education. Malaysia's Central Bank and Ministry of Education instituted a particularly successful program in 1997, the "School Adoption Programme," through which partnering financial institutions provide banking services and financial education to over 7,000 schools across the country.[85] In the United States, recent efforts to open bank branches directly in schools, staffed by students, have shown promise for increasing access to accounts among both youth and underserved, low-income parents.[86]

However, both regulatory obstacles and inadequate oversight can restrict the reach and effectiveness of school banking. In the Dominican Republic, for example, banks cannot enroll individuals in accounts outside of bank branches. To bypass this requirement, financial institutions send employees to schools with computers, where they can enroll students while the bank

"...this flexibility is particularly important for increasing access to commercial savings products to the most vulnerable youth, who are less likely to have formal documentation. However, without a similarly flexible procedure for converting youth accounts to adult accounts, this initial accommodation could have unintended, pernicious consequences when youth accountholders reach the age of majority."

branch opens accounts upon reviewing the students' information virtually. While this work-around strategy increases access, it comes at a cost to the banks.[87] Additionally, in some countries, such as Kenya, security regulations that require banks to have a police escort or armored vehicle to accept deposits outside of branches, for example, impede mass school banking efforts.[88] Given that most youth's deposits will be very small, modifying regulations like these to create an exemption for transactions below a certain dollar amount would facilitate school banking programs without creating a significant risk or needless expense for the banks.

Even with physical access to banking services, regulatory barriers may limit what types of transactions youth are able to conduct. The current YouthSave products in Ghana and Kenya do not permit youth to withdraw without the adult custodian or cosigner present.[90] These restrictions can have harmful consequences in the event of an emergency where a youth accountholder needs immediate access to their funds.[91] These restrictions may also discourage older minors from opening a savings account at a commercial bank, as they may perceive the restricted access as overly burdensome. Moreover, prohibiting older youth from independently withdrawing funds may be overly protective in contexts where, by the age of 18, many youth are working, preparing for marriage, or engaging in other activities associated with adulthood.[92] In contrast to the minor, the adult co-signatory generally has unfettered ability to withdraw from the youth account, creating the possibility of expropriation of youth savings. To protect against this, an increasing number of financial institutions administering youth savings programs require that both the youth and the adult be present for any withdrawal.

We recommend two potential policy options that can be combined to suit oversight capacity and financial institutions' needs, for policymakers seeking to boost older minor financial inclusion:

- **lowering the minimum age of transaction to a context-based age deemed suitable for other adult activities, provided sufficient regulatory protections are in place, and/or**
- **allowing some autonomous transactional control over withdrawals, while limiting the number of withdrawals or the minimum account balance to protect minors from "minimum balance" fees.**

As an example, one approach is to restrict withdrawals to certain amounts or for certain purposes, which also makes the accounts more fiscally feasible for the banks. Several of the YouthSave products either establish a periodic limit on withdrawals, or reward savers who do not make withdrawals over a given period with better interest rates. Some countries go even further and restrict youth savers' access to their deposits until they reach the age of majority; however, this lack of liquidity poses risks in the event of emergencies. Sri Lanka takes a slightly more moderate approach, by restricting withdrawals before the age of 18 except for school or medical expenses.[93] Importantly, even if these youth have limited access to their accounts, they will likely reap the psychological benefits of having an account in their name and designated to support their future needs.[94]

Account Transformation or Transition

The last issue related to youth account control is the process through which youth must go to either close or transform a youth savings account. While youth need flexibility to close or transform their accounts upon reaching the age of majority, or the age at which they age out of the youth savings account, policies aimed at increasing flexibility must balance the needs of financial institutions in maintaining coherent and sound systems. The processes banks create to age youth out of youth accounts are critical, especially as many banks have identified their long-term customer retention objectives as one of the primary impetus for banking youth.[95]

As outlined in section two, to facilitate youth account opening, certain financial institutions have demonstrated a willingness to relax identification requirements; this flexibility is particularly important for increasing access to commercial savings products to the most vulnerable youth, who are less likely to have formal documentation. However, without a similarly flexible procedure for converting youth accounts to adult accounts, this initial accommodation could have unintended, pernicious consequences when youth accountholders reach the age of majority.

In Kenya, PostBank has taken proactive measures to retain its YouthSave customers by establishing a process to transition them into a STEP account, designed for individuals between 18 and 28 years old, when they reach majority. Once a PostBank SMATA account holder turns 18, the bank's system alerts the teller interacting with the customer, who notifies the customer that she should transition to the STEP account (in the future, the bank intends to deliver these notifications via SMS). To transition to this account, however, youth must secure a state-issued identification. Though bank staff acknowledge that some time will lapse before youth may obtain this identification, PostBank does not intend to lock youth out of their SMATA accounts and will allow the account to remain operational during the transition period.[96]

Nevertheless, documentation requirements may create an outright barrier—or at least a delay—for some. As mentioned, opening a STEP account requires either a passport or a national identity card. A passport costs 35 U.S. dollars, and is therefore prohibitive to many. By contrast, the national identity card is free, and available through over 200 offices throughout the country. Applicants must typically provide a birth certificate to obtain national identity card, although alternative means of proving age—such as a church document received upon baptism—can serve as a substitute. Thus, while an individual may be able to obtain the national identity card, without an initial birth certificate the process becomes multi-stepped and potentially cumbersome. Furthermore, without a concrete policy in place that easily enables individuals to be notified and switch accounts, this intended process may be administered ad hoc throughout the country and may result in account abandonment or customer loss for the bank.

Unlike in Kenya, Nepal's account transformation process is more rigid. Once an individual reaches the age of 16, the age of majority in Nepal, he or she must apply for documentation of citizenship.[97] Because a citizenship certificate is required under Nepalese regulation for opening a bank account as an adult, Bank of Kathmandu requires this certificate to transform a youth account into an adult account. If a youth does not or cannot obtain a citizenship certificate and kept their account open through their 16th birthday, that youth's account will be frozen until the account can be transformed.[98] Under this process, youth cannot access the funds they have saved since, potentially, the age of ten. Unfortunately, while Bank of Kathmandu recognizes that there is a slim chance that youth will apply for citizenship soon after turning 16 and that freezing a youth account is not desirable, regulations leave little choice if the bank seeks to expand inclusion by making identity requirements more flexible for younger youth.

It appears, then, that in the absence of flexibility with regards to account transformation, relaxing identity requirements can be problematic. Once youth reach

the age of majority, a point at which more stringent identity requirements might be triggered, youth without that documentation could be barred from accessing their accounts. In Colombia, where a birth certificate is required to open youth accounts, as of April 2014, accountholders of Cuentamiga para Jovenes, the Banco Caja Social YouthSave product, will be automatically transitioned to an adult account after aging out of the youth account.[99] It must be noted that, given the difference in fees and terms between youth and adult accounts, policies designed to operate an automatic transformation of youth accounts to adult accounts should require that youth be notified and that they assent to this transformation. The option to withdraw all funds and close the account without penalty should exist.

Unlike Banco Caja Social's YouthSave product, in Ghana the YouthSave account will remain open even after a youth has aged out of the account. Accountholders will be encouraged to obtain the necessary recommendation to transition into an adult account. However, recognizing the burden that this could pose to accountholders, and recognizing the fact that accountholders would, by the time of transition, be "known" to the bank and have an established relationship with the bank, HFC is exploring the possibility, with Ghana's Central Bank, of allowing youth to transition into an adult account without the need for additional documentation, because it is "the bank's position … that once an account has been opened for the youth by the bank, the identification process the bank followed for the initial account opening should be relevant and enough to allow transition."[100]

These examples demonstrate the interest banks have in retaining youth customers beyond the age of

"Creating a regulatory framework through which youth savers can easily transition to an adult account would further both the developmental and financial inclusion objectives of youth saving efforts and protect the interests of financial institutions."

LOWERING THE AGE OF ACCOUNT OWNERSHIP

Lowering the age at which youth can independently open and operate accounts can go a long way toward creating an environment that fosters youth saving at financial institutions. So, while the business case for banking younger youth in most contexts is weaker than the business case for banking older youth—since profitability may be further along in the horizon—the dynamic between the regulatory environment and the business case when deployed strategically can usher innovation. That is to say, examples from contexts where regulatory changes have been directed at encouraging innovation in the area of youth financial inclusion have evidenced promising results. These results hint to the fact that the calculation for undertaking banking youth is a complex one for financial institutions. In 2010 Uruguay's parliament passed a legislation that modified the Articles of Incorporation of Banco de la Republica Oriental del Uruguay to allow minors (12-year-old girls and 14-year-old boys) to open savings accounts in their own name and with sole authority to transact. Innovation followed. "X Mi Cuenta" (It is my account), a savings account for children as young as 14 was created. The account allows youth to begin banking autonomously, has no minimum balance to open, does not have fees assessed for administration or for a low balance, has an associated debit card, and allows for online banking.

"...it is prudent to lower the age of account ownership to more readily correspond with the responsibilities accorded to youth in their countries. It seems contrary to public policy, for example, to allow youth as young as twelve years old to legally work while disabling them from accessing the tools to manage or save their earnings."

minority, since they are likely to become increasingly profitable as they age. A criticism of YouthSave and similar initiatives has been the lack of profitability for partnering financial institutions, which may imperil the programs' sustainability and scalability. Creating a regulatory framework through which youth savers can easily transition to an adult account would further both the developmental and financial inclusion objectives of youth saving efforts and protect the interests of financial institutions.[101]

Age and Gender

A high minimum age requirement for account opening is the "most common barrier for youth to access financial services throughout developing countries."[102] While it is necessary to establish a starter age, the age of majority is often too high and substantially inhibits youth financial inclusion.[103] Though many minors already have earnings, restricting account opening to those who have reached the age of majority perpetuates the idea that "banks are only for adults," and may leave youth with no option but to save informally and insecurely, if at all. [104] In Kenya, for example, where the minimum age to open an account is 18, PostBank reported that some youth "had to be turned away [from participating in YouthSave] due to laws regulating [the age allowed for independently] opening of accounts."[105] Thus, despite the fact that the YouthSave product is available to minors as young as twelve and had a flexible co-signer requirement, the age barrier was still problematic for youth who wished to own their accounts and exert control over them independent of an adult.

Like Kenya, most developing countries maintain a minimum age requirement of 16 or 18 years for opening an account and independently conducting transactions, though there are some notable exceptions.[106] For example, the Reserve Bank of India recently reduced its minimum age requirement for independently opening an account to 10, citing the "objective of financial inclusion."[107] Both the Philippines and Colombia permit youth to open accounts on their own at age 7, while the minimum age in Armenia is 14.[108] In Ethiopia, exceptions are made specifically for

working youth, who can open accounts at 14.[109] Still, these countries are outliers, and more comprehensive reforms to age requirements will be necessary to better support efforts to bank youth worldwide.

Additionally, some countries have instituted different minimum age requirements based on gender, corresponding with their gender-specific ages of majority or contractual capacity. Uruguay, for example, lowered the minimum age for independent account opening to 12 and 14 for girls and boys, respectively, in 2012. Similarly, in some countries, women who marry have limited ability to open their own bank accounts. [110] These restrictions, in addition to community property laws, have implications for youth saving since many young women in developing countries marry during their teens. While some evidence suggests that financial empowerment efforts and access to savings products have a positive effect on girls' health decisions and can help delay early marriage by facilitating continued education, anticipating the impact of marriage on both property rights and contractual capacity is an important consideration for youth saving efforts.[111]

Further, as discussed in the previous section, the barriers imposed by minimum age requirements for accounts are often exacerbated by the identification requirements of KYC rules. Consequently, reducing the minimum age requirement is not enough—it is also important for financial institutions targeting youth to accept alternative methods of proving age. In countries with particularly strict identification laws, such as Kenya, Greece and South Africa, the law generally requires youth to provide both a birth certificate or ID and proof of residence to open an account. As a result, some youth have used fake documentation to open accounts, leading to even tighter regulation.[112] However, as noted, several countries are exploring alternative age verification requirements to better accommodate younger savers. Permitting youth to prove their age through recommendation letters, school IDs, or baptismal records, for example, will bolster the impact of reducing the minimum age requirements. Still, while policymakers may consider it important to expand access to accounts to older minors, financial institutions must also maintain safeguards to encourage responsible decision-making and mitigate the higher financial and administrative risks that younger, less sophisticated accountholders may pose.

Nevertheless, in contexts where countries have implemented a lower minimum age for account opening, such as Colombia and Uruguay, dramatic risks to the banking sector have not materialized. Policy seeking to lower the age of account ownership should balance the benefits of financial inclusion and the potential pitfalls of exposing youth too young to understand the potential risks of banking transactions or entering into contracts generally. Nevertheless, it is prudent to lower the age of account ownership to more readily correspond with the responsibilities accorded to youth in their countries. It seems contrary to public policy, for example, to allow youth as young as twelve years old to legally work while disabling them from accessing the tools to manage or save their earnings.[113]

CONCLUSION

This brief has addressed two primary barriers to facilitating access for youth to savings accounts at financial institutions in the developing world: accountholder identity requirements and account control. The policy recommendations advanced in this brief represent an acknowledgement of the balance that policymakers must strike between expanding the rights of youth, protecting vulnerable populations, and protecting the soundness and integrity of the banking system.[114] We have acknowledged, also, that proposed solutions must be evaluated for each particular context, given their vastly different realities. And, we have suggested that this evaluation include consultation with a wide range of stakeholders, including youth themselves.[115]

We recognize that increasing youth access to commercial savings products through banks is not always a possible—or even a desirable—policy goal. Nevertheless, in countries in which the benefits of expansion outweigh the potential pitfalls, we aim for these policy recommendations to serve as a starting point for the development of more nuanced and context-specific interventions. Ideally, the design of these efforts can also be shaped by a wide range of stakeholders, including youth themselves.

Generally, then, we recommend that regulatory bodies, banks, and youth stakeholders coordinate efforts to facilitate youth financial inclusion in the form of savings at financial institutions, including commercial banks. We further recommend that expansion of access should be accompanied by a commensurate expansion of mechanisms and legislation that ensure necessary protection for youth and oversight of bank interactions with youth, particularly minor, clients. We suggest tailoring products specifically to youth, as modeled by Child and Youth Finance International's Child Friendly Banking Principles, for example.

Specifically, we propose allowing for more flexible forms of identity verification for youth while retaining some protections for banks through, for example, limits on account balances or ensuring other forms of client tracking. We note that where these flexibilities are considered, it would be prudent to also make provisions for the transfer or transition of accounts once these have reached the threshold upon which more stringent identity requirements would be enacted, to ensure youth have continuous access to their funds. We also caution against the use of certain less-regulated technologies as potential alternative identification methods without more exploration into the risks for youth, particularly minors and other more vulnerable groups. But, we suggest that in some cases, allowing well-educated customers themselves to weigh the risks and benefits may be a good strategy. Lastly, we propose that financial institutions allow youth to exercise the maximum possible amount of control and ownership over accounts while ensuring that age-appropriate protections are in place.

Expanding access to youth of formal savings accounts at financial institutions may very well be a successful development tool, particularly when combined with other strategies, in facilitating the transition between childhood and adulthood for the large population of the world's youth. Doing so requires a careful balance between the benefits and risks to banks and youth. We aim for this brief to provide a starting point for policymakers considering increasing youth financial inclusion.

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NOTES

1 YouthSave is a consortium project led by Save the Children in partnership with the Center for Social Development at Washington University in St. Louis (CSD), the New America Foundation, CGAP (Consultative Group to Assist the Poor), and supported by The MasterCard Foundation. The YouthSave Consortium and its local partners - financial institutions and researchers - are committed to developing, delivering, and testing savings products accessible to low-income youth in Colombia, Ghana, Kenya, and Nepal.

2 The evidence on the behavioral effects of youth saving is largely from the so-called developed world. Tanaya Kilara and Alexia Latortue (2012). YouthSave's impact study in Ghana seeks to investigate the impact of youth savings accounts on a battery of youth development outcomes (financial capability, youth aspirations, school attendance, school educational performance, nutrition and health status, HIV/AIDS awareness and sexual protection, attitude and outlook of caregivers and parents) and households' well-being and finances. YouthSave, Broad and Deep (2011), 8.

3 The example of Canada's Registered Education Savings Plans (RESP) here is instructive. Although these accounts are owned by parents, not children, they are part of a policy initiative to fund youth education through incentivized savings from birth. While the initiative is government-based, the accounts are housed and administered with private financial institutions. One particular type of vehicle for delivering this product, group RESPs, have been criticized for the high front-loaded enrolment fees, penalties upon withdrawal, penalties for breach of the initial contribution schedule, among other elements that can cause participants to lose a significant amount of their funds and that are particularly problematic for consumers less familiar with banking, saving and investing; these are the very consumers who arguably stand to benefit the most from both the process of saving and the end-goal of saving, in this case their children's higher education. Tom McFeat (2014).

4 Liliana Rojas-Suarez (2014).

5 United Nations, "International Year" (2010).

6 CYFI and MasterCard Corp. (2014); CYFI and UNICEF (2013).

7 Michael Sherraden (1991); Michael Sherraden and Julia Stevens (2010); F. M. Ssewamala, T. B. Neilands, J. Waldfogel, & L. Ismayilova (2012); Tanaya Kilara and Alexia Latortue (2012). This publication cites the work of our colleagues in the YouthSave consortium from the Center for Social Development (CSD) at Washington University in St. Louis. Particularly, CSD's 2013 publication, "Savings Patterns and Performance in Colombia, Ghana, Kenya, and Nepal" is a valuable source of research, data, and preliminary conclusions related to the YouthSave project. We would like to acknowledge all of the authors of that publication for their contribution to this work: Lissa Johnson, YungSoo Lee, Michael Sherraden, Gina A. N. Chowa, David Ansong, Fred Ssewamala, Margaret Sherraden, and Li Zou from the Center for Social Development; Moses Njenga and Joseph Kieyah from KIPPRA, Kenya; Issac Osei-Akoto from ISSER, Ghana; Sharad Sharma and Jyoti Manandhar from New ERA, Napal; and Catherine Rodriguez, Federico Merchán, and Juan Saavedra from Universidad de los Andes, Colombia.

8 T. Kilara, B. Magnoni, and, E. Zimmerman (2014).

9 F.M. Ssewamala, J. Wang, P. Nabunya, and L. Karimli (2011); F.M. Ssewamala, E. Sperber, J. Zimmerman, and L. Karimli, (2010); F.M., Ssewamala,

C-K, Han, and T.B. Neilands, (2009). See also YouthSave Client interviews here: https://vimeo.com/97327086 and https://vimeo.com/94984391.

10 Researchers have found a positive association between net savings, higher income, and household assets and participation in a youth savings program. Annabel S. Erulkar and Erica Chong (2005). In Uganda researchers found that youth participating in an economic intervention program that included a youth saving component in a youth savings account was positively associated with higher savings levels. F. M. Ssewamala and L. Ismayilova (2009), 453. There is also evidence that reproductive and sexual health knowledge and behavior could be impacted by participation in savings based on two key studies in Kenya and Uganda in which participants in a savings project improved their HIV prevention scores. R. Masa, M. S. Sherraden, L. Zou et al (2010). In India a study found an association between adolescent girls and young women who had control over their own savings and how they formed specific savings goals. Shveta Kalyanwala and Jennefer Sebstad (2006). N. Kagotho, P. Nabunya, F. Ssewamala, and V. Ilic (2013), 21.

11 Jean Fares, Varun Gauri, Emmanuel Y. Jimenez et al (2006). UNICEF, "The State of the World's Children," (2011).

12 Kilara and Latortue, "Emerging Perspectives," 3. "10-year-olds can open and operate bank accounts alone: RBI," The Times of India, May 7, 2014, http://timesofindia.indiatimes.com/business/10-year-olds-can-open-and-operate-bank-account-alone-RBI/articleshow/34759256.cms.

13 The financial sector generally understands the risks involved in serving this more vulnerable population. Even in an ad hoc manner, banks report actions and some training around these issues. Carolina Guzmán Suárez, telephone interview by Scarlett Aldebot-Green, July 16, 2014. In Colombia, for example, while the law allows minors as young as seven to open bank accounts in their names without an adult, Carolina Guzmán Suárez, Innovation Coordinator, Banco Caja Social, reported that tellers might be reticent to serve an unaccompanied seven-year-old because of potential risks. While the bank might ultimately honor the youth's request, it is important to know that despite the letter of the law there is recognition of the potential vulnerability of some youth. This recognition should translate into a training and oversight framework that would enable banks to address the related issues of incapacity and vulnerability more holistically. Kasio Mutuku, telephone interview by Scarlett Aldebot-Green, July 1, 2014. Similarly, Kasio Mutuku, Manager Product and Sales, Kenya Post Office Savings Bank, indicated that tellers in many branches had received training involving increased awareness of possible adult coercion when youth sought to open accounts with a person other than the guardian as a co-signer or to change co-signers.

14 T. Kilara, B. Magnoni, and E. Zimmerman (2014); D. Hopkins, Beth Porter, Maria Perdomo, and Laura Muñoz (2012). YouthSave has proactively strived to mitigate any potential risk of providing youth with the tools and opportunity to save through a risk monitoring process established early in the project. That process, which included risk assessments across all four YouthSave project countries and the establishment of risk management strategies—including staff traveling throughout the countries and meeting with youth groups to assess potential risks—in response to the information garnered during this assessment process, is unique to the YouthSave and similar projects. YouthSave also addressed risk prevention through staff training and the creation of informational flyers with safety tips. It is very unlikely that comprehensive risk management would be undertaken (by governments or financial institutions if regulations are relaxed to allow for greater youth financial inclusion) absent significant outside funding and outside of the framework of a research project such as YouthSave. Consequently, many of the potential risks to youth YouthSave identified—potential engagement in income-generating risky

behavior, safety risks associated with carrying cash, mistreatment by project or bank staff, family members, and peers, and family member appropriation and use of savings—and others that may be unforeseen would likely be risks to which youth would be exposed.

15 Child and Youth Finance International and the MasterCard Corporation (2014), 42 and 52.

16 Ibid, 25.

17 See footnote 4.

18 L. Rojas-Suarez (2014).

19 Financial Literacy & Education Russia Trust Fund, 54-55.

20 T. Kilara, B. Magnoni, and E. Zimmerman (2014).

21 Marc Quintyn and Michael W. Taylor.

22 Myka Reinsch, 17 and 25.

23 Ibid., 25.

24 L. Johnson, et. al. (2013); A. Allan, M. Massu, and C. Svarer.

25 D. Hopkins, et. al. (2012); R. Deshpande (2012); A. Demirguc-Kunt and Leora Klapper (2012).

26 M. Lynch (2008); United Nations Children's Fund (2013), 36.

27 Ibid.

28 Ibid.

29 Ibid., 37.

30 Ibid., 13; S. Duryea, A. Olgiati, and S. Stone (2006).

31 Ibid., 18.

32 Ibid.

33 K. Mercado Asencio (2012).

34 Ibid.

35 Ibid.

36 Ibid.

37 Nicole McCloy, Rebecca Wallace, and Karen Wylie (2012).

38 In 2011, for example, Mexico authorized a tiered identity requirement scheme for credit institution deposit accounts based on various levels of risk assessments and restrictions on accounts. The identity requirements for the simplified accounts progressively increase as transaction limits are relaxed; this approach allows for financial inclusion while protecting banks. Xavier Faz (2013).

39 D. Hopkins, et. al. (2012).

40 Ibid.

41 Mark-Sowah, Naa Adjorkor. Interview by Scarlett Aldebot-Green, July 30, 2014. Naa Adjorkor Mark-Sowah, Business Development Division, HFC Bank Ghana, Ltd., noted the importance of this flexibility for youth lacking registration documents. L. Johnson, et. al. (2013).

42 Raju Shrestha. Interview by Scarlett Aldebot-Green, July 18, 2014. According to Raju, Shrestha, Head of Development Credit Unit, Bank of Kathmandu Ltd., this allowance was made in recognition of the need for flexibility. L. Johnson, et. al., "Savings Patterns and Performance," 28. At the beginning of the YouthSave project, the Nepal Central Bank passed a new regulation that required identification documents from an account holder's family's past generation but that regulation was lifted.

43 L. Johnson, et. al., "Savings Patterns and Performance," 28.

44 Ibid. Mark-Sowah, Naa Adjorkor. Interview by Scarlett Aldebot-Green.

45 L. Johnson, et. al., "Savings Patterns and Performance," 28. Suárez, interview by Scarlett Aldebot-Green.

46 Shrestha, interview by Scarlett Aldebot-Green.

47 Mutuku, interview by Scarlett Aldebot-Green.

48 Ibid.

49 Age and control of accounts will be discussed starting on page 17.

50 L. Johnson, et. al., "Savings Patterns and Performance."

51 Ian Parker (2011).

52 Robert Ribeiro (2013); Usha Ramanathan (2014); Unique Identification Authority of India.

53 Rani Deshpande and Jamie M. Zimmerman (2010), 1.

54 M.S. Sherraden and D. Ansong (2013), 7.

55 William Elliott (2012).

56 Shveta Kalyanwala and Jennefer Sebstad (2006).

57 UNCDF, "Fact Sheet."

58 Child and Youth Finance International and the MasterCard Corporation (2014), 18.

59 L. Johnson, et. al. (2013)," 16.

60 Rani Deshpande (2012), 6; Youth and Financial Services Working Group (2013), 28-30.

61 Ibid.

62 Corrinne Ngurukie and Rani Deshpande (2013), 13.

63 Ibid., 5-6.

64 "In practice, minor saving schemes apply only to those children who are not orphaned and whose parents are account holders, thus, completely closing off the option to orphans and street children." International HIV/AIDS Alliance in India (2007), 23. Among the YouthSave countries, data so far indicates that 7.3% of participants Ghana, 4.4% in Kenya, and 3.2% in Nepal are living in households headed by someone other than a parent.

65 B. Pietkiewicz-Pareek (2012), 982.

66 As of 2013, only 2.8% of the total YouthSave population was out of school; half of these participants signed up for accounts on their own. L. Johnson, et. al. (2013), 75.

67 Guzman Suárez, interview by Scarlett Aldebot-Green.

68 In Ghana, for example, most high school-age YouthSave participants are in boarding school. Ibid., 79. See also Corrinne Ngurukie, Moses Njenga and Vilma Ilic (2012).

69 Ibid.

70 It is important to note here that there are two interrelated issues at play in the process of account opening. The first issue relates to account ownership. In some countries youth may not own accounts until a certain age but policies may be relaxed to allow for youth to transact to a limited extent (or exercise control) such as checking balances without an co-signor or depositing. The second, related issue, is control, which may or may not be exercised by youth whether they are sole owners of the account or not.

71 Guzman Suárez, interview by Scarlett Aldebot-Green.

72 L. Johnson, et. al. (2013), 40.

73 Karen Austrian, et. al. (2012).

74 Mutuku, interview by Scarlett Aldebot-Green.

75 International HIV/AIDS Alliance in India (2007), 18.

76 Jenny Mead and Patricia H. Werhane (2013).

77 Butterflies, "Children's Development Khazana."

78 Anne Stuhldreher and Leigh Phillips (2011); K2C Website, https://mysavingsaccount.com/k2c/en/Login.html.

79 For example, the K2C website is oriented entirely toward parents, with no section for youth or any indication that youth might be contributing to their own accounts. This example reflects a broader shortcoming of custodial accounts, which rarely provide youth with sufficient control or autonomy over their accounts to produce the beneficial psychological and behavioral impacts.

80 Women's World Banking (2014), 33-34.

81 Ibid.

82 Ibid.

83 Though prohibitions on offsite banking are not generally youth-specific, they tend to have a disproportionate impact on youth. Youth may have a more difficult time accessing bank branches themselves or in tandem with a co-signer who may not reside with them, such as the case of youth who attend boarding school and whose parents are co-signers on their accounts.

84 Ngurukie, Corrinne and Rani Deshpande (2013), 6; Mutuku, interview by Scarlett Aldebot-Green. Mr. Mutuko suggested that legislatively requiring financial and savings education in schools could reduce costs and ensure the sustainability of youth savings efforts.

85 Aflatoun (2013).

86 Alex Schmidt (2014).

87 T. Kilara, B. Magnoni, and E. Zimmerman (2014), 5.

88 Mutuku, interview by Scarlett Aldebot-Green.

89 Youth and Financial Services Working Group (2013), 25.

90 L. Johnson, et. al. (2013), 40; Child Finance International (2013), 28.

91 Participants in YouthSave have cited medical emergencies as one of the most important reasons for prioritizing the accessibility of their savings. Rani Deshpande (2012), 6.

92 International Center for Research on Women, "Child Marriage Facts and Figures." For example, one-third of girls worldwide are married before the age of 18. So, while this is fact that many seek change for a range of economic and development imperatives, recognizing this reality, much like recognizing the reality of working youth, might lead to regulations with regards to youth savings that are better aligned to the needs of older minors and younger youth.

93 Rani Deshpande and Jamie M. Zimmerman (2010), 8.

94 This is part of the reasoning behind the "baby bonds" proposal and others that would establish accounts for children at birth or at a very young age.

95 T. Kilara, B. Magnoni, and E. Zimmerman (2014).

96 Mutuku, interview by Scarlett Aldebot-Green.

97 Nepal Citizenship Act 2063 (2006), Sec. 8.

98 Shrestha, interview by Scarlett Aldebot-Green.

99 Suárez, interview by Scarlett Aldebot-Green.

100 Mark-Sowah, interview by Scarlett Aldebot-Green.

101 T. Kilara, B. Magnoni, and E. Zimmerman (2014).

102 Maria Perdomo (2013), 5.

103 Bryce Kam (2011).

104 Youth and Financial Services Working Group (2013).

105 Mutuku, interview by Scarlett Aldebot-Green.

106 D. Hopkins, et. al. (2012), 24.

107 Reserve Bank of India (2014).

108 The "Kiddie Account Program" in the Philippines permits children over the age of 7 to open accounts with their school ID cards, while the Cuentamiga Para Jovenes program in Colombia permits account opening with a Child ID. Tanaya Kilara (2011); L. Johnson, et. al. (2013), 85.

109 D. Hopkins, et. al. (2012), 14.

110 World Bank and IFC (2014), 16-17.

111 Jennefer Sebstad (2011).

112 Youth Economic Opportunities (2012), Chapter 8.1, "Policy and Regulation Play a Critical Role in Increasing Youth Access to Financial Services."

113 "Bolivia Law Allows 'Self-Employed Children' Aged 10 to Work," BBC, July 17, 2014.

114 The Consultative Group to Assist the Poor has written extensively on the issue of creating enabling and protective regulatory environments. CGAP, "Regulation and Supervision."

115 CYFI Youth Committee and their international/ regional youth meetings can provide some insight into how groups of stakeholders and policymakers can structure input from youth delegates. See, for example, CYFI's 2014 Annual Meeting Report and their report on their second Europe and Central Asia regional meeting. Child and Youth Finance International, "A Chance for Change: Child and Youth Finance and the Post-2015 Agenda," Annual Meeting Report 2014, available at http://childfinanceinternational.org/resources/meetings/2014-cyfi-uncdf-chanceforchange-report.pdf. Child and Youth Finance International, "The Second Child and Youth Finance Regional Meeting for Europe and Central Asia, 4-5 November 2013, Frankfurt am Main, Germany," available at http://www.childfinanceinternational.org/resources/meetings/2013-europe-ca-regional-meeting-report.pdf.

@NewAmerica | NewAmerica.org | 1899 L Street, NW, Suite 400, Washington DC 20036