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# Financial Inclusion among Youth in Latin America

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# 1. BACKGROUND INFORMATION

A central point in most government's agenda is the increase of financial inclusion for its three-dimensional impact: financial, economic and social. Financial development and inclusion's benefits range from enabling the poor to smooth their income, which reduces vulnerability, to the development of entire communities, which drives economic growth and empowers people.

There is a special need of focusing in the increase of financial inclusion of Youth in Latin America and the Caribbean (LAC) given that it is the youngest region in the world as one fourth of its population is between 15-29 years old. In 2015, this share represents in total 163 million young people. The region shows some good characteristics such as a well-developed banking infrastructure and a growing mobile ecosystem, and most importantly it presents a demographic bonus with low dependency ratio, which is a driver of growth. This represents an important window of opportunities for the region given that youth is an internal force for sustainable development in nations.

# 2. PURPOSE OF RESEARCH STUDY

The life path of young people living in developing countries is not as predictable as it might be for the ones living in developed countries. This is why it is crucial to understand who the youth are, what they face in their everyday life and what the current situation of youth financial inclusion in LAC looks like. To understand these elements will also help to provide the young people with relevant financial services according to their needs and to grasp the role that finance can play in facilitating them to navigate through life transitions successfully. Following this, we try to understand why some young people face barriers to access banking services and what the challenges of banks are to reach out to this market segment. Their size also indicates the importance of youth as key target segment of social and economic policies. Increasing youth financial inclusion can help break the vicious cycle of poverty, school dropout and unemployment. This tool together with the advantageous «demographic dividend » of LAC, where the proportion of the working-age population is higher than the proportion of the dependent-age population, is favourable for economic development and growth.

# 3. OVERVIEW OF FINDINGS

## 3.1. Youth in Latin America and the Caribbean

Youth in Latin America and the Caribbean (LAC) is not a homogenous group. Indeed, disparities remain within the countries and huge inequalities continue to exist between the urban and the rural youth, between young women and young men and between youth from different «age sub-groups ». Besides, many young people face poverty: 42% of the youth population is considered «vulnerable», 12% were considered «moderate poor» and 10% were considered «extreme poor». These many young people are going to transition into adulthood sooner rather than later and each life transition comes along with their challenges.

The current young population has better access to education than the former generations and the level of access is also higher. Nevertheless, the region faces the challenges of low-quality education and deficient institutions. Poverty plays a significant obstacle in school abandonment since some youth see themselves forced to work and support family or start their own family.

At the same time in LAC, having completed education does not guarantee a job as the transition from education into the formal labour market is not necessarily easy due to the lack of economic and employment opportunities. For instance, young people face a level of unemployment three times higher than the adults. In general, young people undergo unemployment, underemployment and low salaries. Thereupon, youth struggle to develop skills and knowledge through work experience. Because of the difficult entrance into the labour market, more than a third of young people aged 15-29 years old work in the informal sector, despite the weaknesses of this sector. Furthermore, this generation is more likely to go from workplace to workplace over the years, contrary to the older generations, which leads to the fact that young people are having a « portfolio career ». Besides, few of those who work in the informal sector are having access to social security systems. Finally, 20% of the youth population is neither working nor studying. This group is called «Not in Education, Employment or Training» (NEETs). 66% of these are women. This can be explained by the fact that many women take care of their children and work in the household.

Consequently, young people are more likely to become unhappier, to face health problems and to become socially excluded resulting in frustration and a more violent and hostile environment. To escape unemployment, self-employment becomes a substitute to being an employee. In LAC, 50% of their non-agricultural workforce is an entrepreneur or micro entrepreneur. In poorer countries this number goes up to 80%, whereas in the developed countries the share of population that is self-employed is only 6-7% of its workforce.
Furthermore, the young people are « technically savvy » and heavily networked. They use intensively the social media in their daily routine and they are extremely comfortable with the Internet and mobile devices. Thanks to the technology, young people are able to access information globally and to develop relationships with other agents on a scale never seen before.

In general, going through transition into adulthood, young people are growing to become independent and see their responsibilities increased. On the one hand, youth from 15-18 are in the stage of life where many go to school while figuring out the next step, such as their professional path. Within this phase, they prefer to become independent in their decision-makings. Young people from 19-29 tend to be more advanced in this professional path, their responsibilities and independence increases along with important expenses to consider, such as a place to live, transportation, food etc.

Finally, LAC being the youngest region of the world, it is important to note that young people are poorer and more excluded from the labour market than the average total population. This could lead to a waste of human capital which could result in a demographic liability in the future. Apart from their important weight in the total population of LAC and its economic incidences, youth is going to be the future clientele for banks. This shows that banks should make an effort to target this market segment. Besides, at a macroeconomic level, if youth remain excluded, the region is not going to attain the benefits of financial intermediation such as a better allocation of resources to take advantage of productive opportunities.

## 3.2. Financial Inclusion Among Youth

Financial inclusion is particularly important for young people. Indeed, during their transition into adulthood, young people need to be equipped with tools to face their challenges, such as school failure, economic stress and poverty. Financial inclusion is a tool to break the circle of poverty trap for youth and is the first step towards social, economic and political inclusion. Nevertheless, we note that some young people do not have access to financial services because they are inappropriate for their needs and not affordable or because young people do not trust the financial institutions who, according to the youth's needs and desires, offer unattractive services.

In LAC, the level of youth financial inclusion is not high compared to the youth financial inclusion in the high-income OECD countries. Also, compared to the adults in LAC, young people are less likely to have a bank account, to save with a formal bank account or to borrow from a financial institution. Indeed, according to the data of the World Bank in 2014, only 37% of 15-24-year-olds in LAC have a formal bank account whereas 56% of the older adults have a formal bank account. 11% of youth has saved in a formal financial institution in the past year, whereas 14% of the older adults have formally saved in the past year. Finally, only 6% of young people in LAC have borrowed from a financial institution in the past year, whereas 13% of the older adults have taken a loan.

This financial exclusion has different reasons and barriers may vary as the youth population is heterogeneous. Consequently, we make a distinction between two types of main causes of financial exclusion: exclusion of youth due to the lack of access, called "involuntary exclusion", and the "voluntary self-exclusion".

The involuntary excluded youth do not have access to financial services because the products are inappropriate and unaffordable. These youth are willing to enter the financial system, however, because of their vulnerability and their poor living conditions, it is difficult to access formal offers. The further away from bigger cities the youth lives, the higher the increase of the poverty level, the more difficult it is for young people to access formal accounts and to use the services. These young people usually face poor quality services, inefficient education, precarious or informal jobs, scarce and informal savings and low social mobility perspectives. Consequently, the main reasons not to use formal accounts are the following ones: “not enough money”, “too expensive”, “too far”, “lack of necessary documentation”. Also, financial literacy is limited and young people are discouraged as there is a lack of understanding of available financial services. Furthermore, regulatory limitations, such as the obligation of a co-signer, does not encourage young people to reach out to formal banking services. Instead, they prefer to save in an informal way which is dangerous and harms the overall economy. A solution is then to categorize the population and to offer designed products that fit to their needs as they sail into the study and employment phases. To better categorize this market, it is imperative to be in touch with them, to know the youth personally, to help them transition into the financial and social participation world and to support them in their capacity- building activities.

Voluntarily self-excluded youth are those who have access to official financial services but who exclude themselves, usually they have higher income than their peers above. These youth are not reaching out to formal banking services due to lack of interest and lack of trust in financial institutions. Even though these young people would have access to formal financial services, they chose not to. They are part of a generation who has grown in the technological and communication revolution and are the most educated generation in history being also very “technically savvy”. We discovered in a survey that 71% would rather go to the dentist than to their bank and that 33% are open to switching banks in the next 90 days. The common characteristic of these young people is that the generation as a whole lived through the break-through of technology and most of their personal as well as professional lives developed through internet connection and, in recent years, through social media. They entered the workforce in a scenario of financial crisis and a strikingly slow economic recovery that has shaped them to be particularly mistrustful of the system. It is very important that financial institutions adapt to this new wave of customers and to understand which is the best way to engage with them. Furthermore, contrary to the previous generations, they tend to be the one who would “redefine aspects of the financial services”, because they expect to have a say in the product development, to have a range of quality-based services and efficient delivery channels.

In conclusion, barriers to access to formal financial services for youth may vary a lot as the youth population is heterogeneous. For some young people, the challenge is to access those financial services because of inappropriate and unaffordable products, and for some other young people, the lack of interest is the main reason of not reaching out to banking services. For each case, different approaches need to be taken into account by the banks and services need to be adapted to the needs and to the profile of potential clients.

## 3.3. Case Studies

Having realized a benchmarking of case studies of financial institutions who offer financial services specifically targeting the youth, we discovered that most of them offered savings products to young people. Also, financial institutions start to understand that the youth market is an interesting future potential market. Nevertheless, developing youth financial services is not an easy task since it requires a lot of investment in market research, product design and development, in staff and in infrastructure. Besides, it is important to analyze each youth age strata to offer adapted youth financial services such as credit for the 19-25 years old youth population.

Among the institutions in our benchmarking, we analyzed two organisations closely. We firstly took a look closer to the organisation Pro Mujer, which is an organisation based in Bolivia that tried to offer credits to young people. In this case, young people are gathered in a « Youth solidarity Group » and they can apply for a loan for the creation of  an income-generating activity. They can also benefit from trainings and a practicum. Once the loan application is accepted, the selected young people join an adult communal bank of Pro Mujer where the adults mentor the younger clients. This credit product was developed in the context of youth facing difficulties in finding a job or having insufficient financial resources to start a business. However, this program did not last, but there are valuable lessons to consider. Indeed, many young people dropped our or repaid late after the second loan cycles. We assume that this may be due to a lack of understanding of what young people need. Furthermore, the women in the communal bank were not equipped to mento youth and even though this model could have saved costs, youth and women had challenges in their interactions. Besides, the trainings offered to young people were not always specifically targeted to their needs and life situation. Some topics, such as menopause, were not relevant for them. Finally, Pro Mujer still acknowledges that the youth market is an interesting future potential market to reach out to. However, the institution recognizes that developing youth financial services is not an easy task. It requires a lot of investment in market research, in product design and development, in  staff and in infrastructure. Besides, it is important to analyse youth age strata to offer youth financial services such as credit.

Secondly, we also made an evaluation of the case of Banco ADOPEM in Dominican Republic where a product called « Mia » was launched in 2010. This product is a savings product targeting specifically the young population in order to meet their needs. Banco ADOPEM reaches out to them thanks to a specific marketing strategy. The aim was to enhance the culture of savings among youth, to encourage them to make decisions for the future and to create a new customer base for the future of the bank. This product is divided in two sub-products: the "Mia-Menores" is targeting the children and youth up to 15 years old, who need a guardian, and the "Mia-Mayores" is targeting the youth between 16 and  24 years. The young clients can also benefit from a non-financial service, which is about financial education. « Mia » because one of the most important products within Banco ADOPEM. Even though it is not a profitable product, it helps the bank to create a life-long customer base for the future and thanks to the cross-selling, it helps to diversify the portfolio. Thanks to the marketing, long people have been attracted by this product. Indeed, the bank has invested a lot in the marketing department and in staff at the introduction of this product.

In conclusion, we may say that youth is not an easy target as the two cases above show us. The case of Pro Mujer reveals us the importance of segmentation and of investing in market research and innovating the delivery channels. Youth are not like the previous client-generation of financial institution and their needs and interests are different. The case of Banco ADOPEM demonstrates us that designing a financial product according to the needs of youth is of highest importance. Lowering requirements and conditions, offering the right incentives and cross-selling are recommendations for financial institutions that are worthy to be mentioned.

## 3.4. Fintech and its Impact

Financial technology, or its abbreviation FinTech, refers to the use of technology to innovatively design and deliver financial services and products. The introduction of this new tool into the intermediation market will undoubtedly lower transaction costs. This will enable consumers to complete financial transactions securely and quickly and on demand in a cost-efficient manner.

As all new disruptions and technologies, it creates some inclusion but also some exclusion. Well-managed FinTech is important otherwise we are going to further exclude the undigitilized who are most likely the lower-income population, those located in rural areas and those in areas with low connectivity. This, if not managed efficiently, could result in a slip for Microfinance as it depends deeply on client contact and on using the relationship built as an incentive, which can be harder to maintain.

Traditional banks that cover the  whole payment process and  financial intermediation are also going to add the FinTech approach to their services. This is the development of mobile and online banking and apps creation for faster and easier contracts of services and contact with the bank.

One of the most important qualities of FinTech technology is enabling financial inclusion. Low-income households in our opinion could benefit from having secure savings in the digitalized world, but this is a long way to come though, as PayPal studies reveal that 85% of world transactions are still conducted using cash.

Finally, Fintech can accelerate the phase of inclusion and, if correctly managed, can be used for inclusion instead of a divisive tool, which is important for the young population with limited access. The leverage of this is that young people are fast to catch up on technological use if correctly trained. In reference to Millennials, reaching them through Fintech tools is mandatory for the success of a youth-target program. This is the development of mobile and online banking and apps creation for faster and easier contracts of services and contact with the bank.

# 4. LESSONS AND RECOMMENDATIONS

Financial institutions can play an important role in offering products targeting youth and addressing their specific challenges and opportunities. Indeed, it helps to smooth their life transitions. Henceforth, financial institution can offer a range of different products: savings, debit cards, transfers, financial education, loans and insurance. In most cases, we noticed that the most offered product was savings. Nevertheless, covering costs is challenging. For this reason, many institutions cross-sell the products and have long-term expectations about revenues, by creating a loyal customer-base and approaching them now with the expectations that they become profitable clients in the future.

It was shown that it is very fitting for financial institutions to have interest in youth and to consider them as a valuable market segment. In that way, retail banks can generate higher shareholder value by focusing their acquisition resources on nurturing the youth segment, seen as the optimum point of market entry. The average annual profit per customer depended on the age and the number of products offered to them. In short, this could mean that the adults with a more established career path have more products at the bank and are the most profitable clients. However, they found out that the total customer profitability is determined by the sum of all future annual profit contributions. Consequently, assuming that, in general, younger clients contribute their earnings to the financial institutions throughout their entire lifetime, we can say that they deliver a greater number of annual revenues. This amount of revenue increases as the customer ages. Profitability goes up alongside the age, so does the average cost of acquisition (COA) of a new client, meaning that the COA for teens and youth is very low.

The characteristics of youth, the key transitions and products that can be provided to youth in each strata can be summarized in the following table:

| | Characteristics | Life Strata & Situation | What Banks can Offer |
|---|---|---|---|
| 15-18 | - Growing independence but shared responsibility with their parents<br>- Increasing financial responsiblity and interest in money<br>- Accountable for decision making<br>- Start making their own decisions about spending and savings | - In the mids of or finishing high school<br>- Starting to think about their future: Career – work<br>- Experiencing work for the first time: Part-time jobs, internships<br>- Living with their parents | - Savings account still often maintained and needed since they start receiving payments<br>- Debit cards<br>- Technologically savvy youth needs transfers to pay for products, transfer to friends, expenses<br>- Financial education: importance of saving and correct spending |
| 19-29 | - Independent financial management and budgeting<br>- Increased freedom and control over own life<br>- Greater responsiblities<br>- Living with their parents<br>- New and more expenses such as accomodation, tuition fees, food, socialising, transport | - In the midst of starting/finishing College<br>- Trying to establish a working path or career<br>- Several years of work experience<br>- Moving away from home<br>- First car or means of transport | - Savings account starts having more movement<br>- Debit and credit facilities<br>- Transfers and deposits for salary<br>- Financial education such as budgeting, financial planning, cash flow<br>- First loan, student loans and Entrepreneurial Loans<br>- Insurance |

*Source: Children and Youth Financial Inclusion (2014)*

Not only is it important to consider the age of the young population in order to design the product, but also to acknowledge the reasons of financial exclusion. Therefore, we recommend to categorize the population and to offer specifically designed products which fit to their needs. To categorize this youth market, it is imperative to be in touch with them, to know the young population, to help them transition into the financial and social participation world and to support them in their capacity-building activities.

To address involuntarily excluded youth, who are living far away in terms of geography, technology can help to reduce the costs, to reinforce relationships and to promote financial education and literacy. However, by using digital technology, it is important to be careful and to manage these technologies well in order to avoid the exclusion of non-connected youth. To reduce the risk of exclusion of the less-connected rural population, institutions should pay close attention to adapt their services to the client's needs.

To address voluntarily-excluded youth, who are "technology-savvy", we suggest that the institutions tackle the lack of interest to interact with them, to rely on mobile banking applications. For instance, online chatting can be a solution to meet the needs of impatient young clients as they can have access to immediate information.

Furthermore, we recommend institutions to be more social conscious as having a social and environmental mission can attract voluntarily-excluded youth. To improve the positive reputation by serving young people is in our opinion also a way to attract new potential partners.

In overall, considering the importance of targeting youth and offering products meeting their needs, it is important to invest in the innovation and design of products, delivery channels and financial education services. Henceforth, institutions should not hesitate to invest in market research, segmentation, design and development of products. Finally, the sector being conditioned by local regulations, it is of great value to design safe products and to respect the right protection and the privacy, considering the importance of reaching a balance between the independence of young people and their responsibilities with the financial products.

To conclude, reaching out to youth is not an easy task, as the population is heterogeneous and the activity's profitability only increases in time. However, we conclude that banks could reach out to youth and be part of their movement into financial inclusion, and even of a movement to economic citizenship of a whole generation.

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