WSBI

The Voice of
Savings and Retail Banking

YOUTH FINANCIAL INCLUSION IN KENYA: CO-CREATING A WAY FORWARD

Working with savings banks to double the number of savings accounts for the poor

February 2015

Research Paper

Research Paper

YOUTH FINANCIAL INCLUSION IN KENYA: CO-CREATING A WAY FORWARD

Working with savings banks to double the number of savings accounts for the poor

February 2015

Main author: Lise Paaskesen
Co-author: Weselina Angelow

SUMMARY

This study was commissioned by the World Savings and Retail Banking Institute (WSBI) within in the framework of the WSBI program "Working with savings banks in order to double the number of savings accounts in the hands of the poor". This specific study relates to sharing lessons under the program.

Qualitative and quantitative research was conducted in partnership with Kenya Post Office Savings Bank (KPOSB), also referred to in this paper as Postbank, in Nakuru and Gilgil in August 2014. Of its current 80,000 smata youth savings accounts, 75% are inactive or have gone inactive or dormant and many have not received deposits after the original opening deposit.

The qualitative aspect of the study focused on how usability of the smata youth savings account may be increased. Research on youth concluded that there was a need for increased autonomy, group accounts, redefining legal structures, restructuring the boundaries to smata and increased trust between Postbank, youth, trustees or parents, and the community.

Quantitative research outcomes concluded youth's role in household finances was rarely recognized and that more research needs to be done to indicate how finances move between members within the household, and the role of youth and young adults in financial management and decision-making. Solutions were co-created and a way forward includes increased marketing efforts, working with sales executives for support, reinterpreting legal structures for autonomy and testing mobile-enabled platforms for family group accounts.

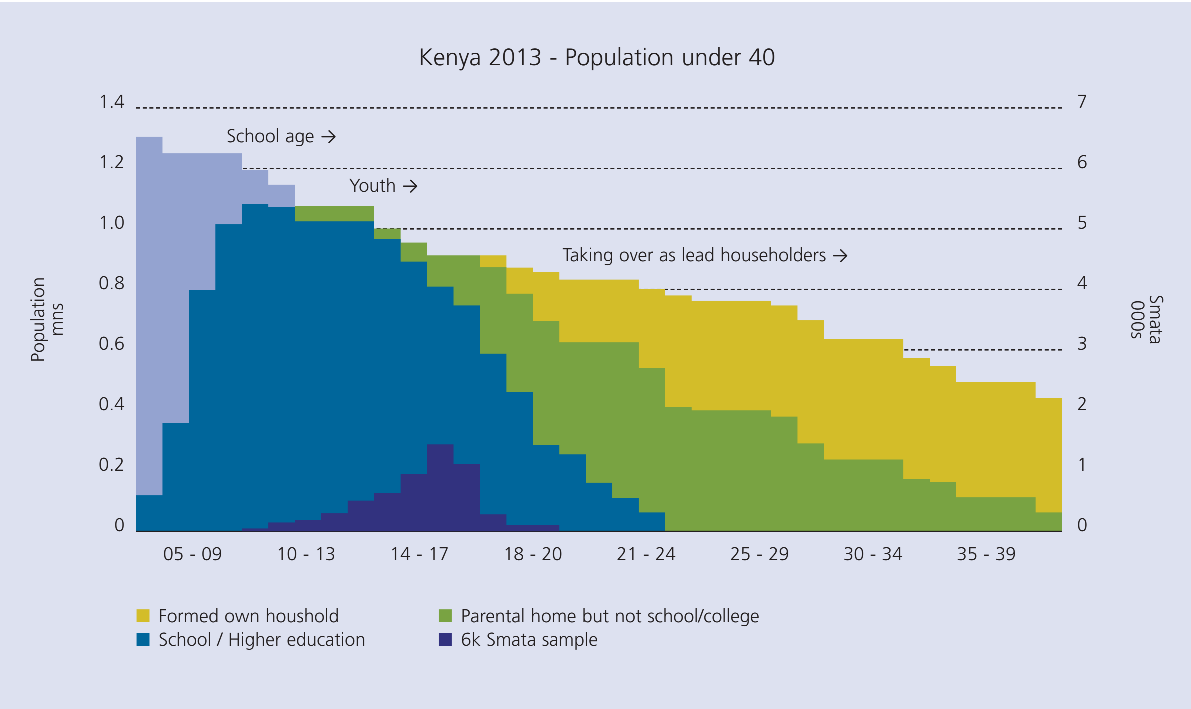
The authors would like to thank KPOSB and the Kenyan youth for their active contributions and participation in the co-creative process. We would further like to thank Stephen Peachey for his extensive data analysis of this research. The research builds on earlier work conducted in Morocco and Kenya and is the second publication launched by WSBI on youth financial services.[2]

1 Correspondence to mail@liseconsultancy.nl
2 Lise Paaskesen (June 2014), WSBI Learning Paper – Financial Inclusion for Youth and Young Adults.

THE CONTEXT

The study, on which this publication is based, was commissioned by the World Savings and Retail Banking Institute (WSBI) and was conducted in partnership with Kenya Post Office Savings Bank (KPOSB), also referred to in this study as Postbank. The study was conducted in Nakuru and Gilgil in August 2014 and focused on increasing usability of the smata youth savings account.

Chart 1: Smata account population



Postbank is very successful in reaching youth in school, counting more than 80,000[3] smata account holders, but early enthusiasm rapidly morphs into inactivity. Chart 1 shows the smata account population consists of youth who are just about to leave school, which is a crucial point of transition.

As part of the study Postbank provided data on all 80,000 smata accounts.[4] Approximately 75% of them were opened with an initial deposit between August 2011 and August 2014 and have not been used since. With the operating balance being at KES 200 (USD2.22[5]), but the majority of accounts holding only KES 50, it is impossible for the majority of smata account holders to withdraw from their account. Similarly, the cost of withdrawing is KES 50 (USD 0.55), which provides little incentive for the smata account user to use their account.

The remaining 25% of smata accounts have seen more than one transaction, but less than 33% of these (and only 7% of all accounts) are long-term active. Meanwhile, 14% of all accounts have seen multiple transactions for a period typically of up to six months, after which, usually, another six months passed without any transactions. Finally, a small portion (4% of all accounts) have registered some activity but have not been open long enough to be measurably inactive. Charts 2 and 3 show an overview of opened smata accounts and smata account activity. Chart 3 also specifies multiple uses over a six-month period and any activity during the past six months.

3 As of August 2014.
4 Customer confidentiality was respected by Postbank. No account holders' names were shared with WSBI or the lead researcher.
5 1 KES = 0.0109789 USD on 9 January 2015.

Chart 2: Smata accounts opened between August 2011 and August 2014

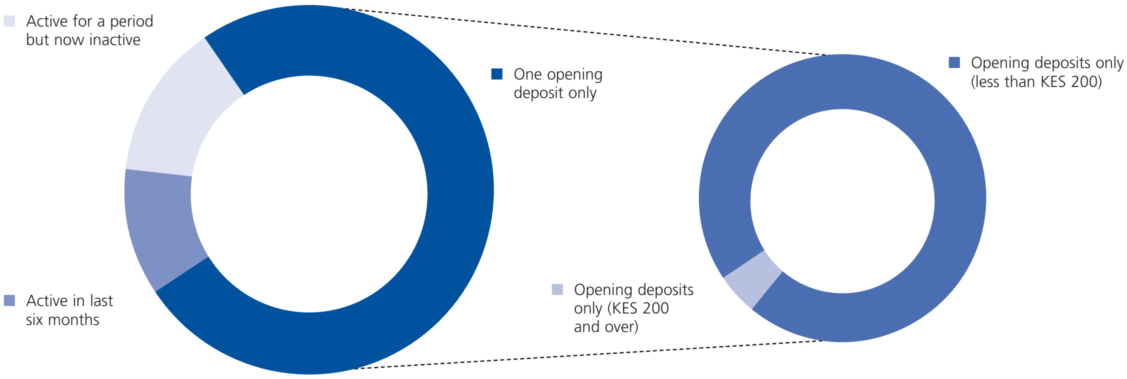
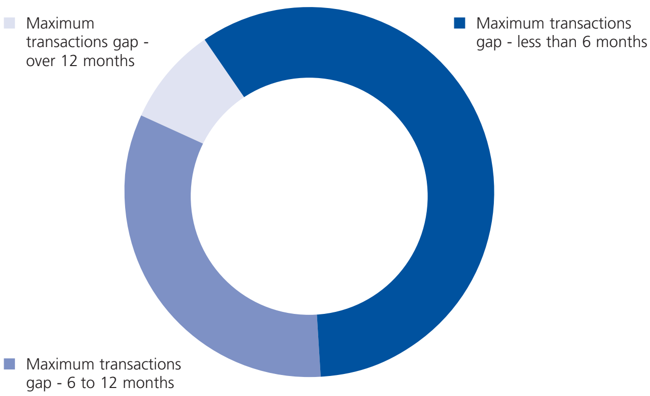


Chart 3: Accounts with multiple uses over a six-month period and any activity during the past six months



As many smata account holders have not made more deposits than the original opening deposit, the challenge is to create an account that will move with youth as they transition from being in school to out-of school and that is built on a strong and trusting relationship between them and the Postbank. Research participants suggested this might be achieved through:

- increased autonomy;
- allowing both groups of youth and official youth groups to save together in a group account[6];
- redefining legal structures that currently prevent account efficiency and activity;
- restructuring the requirements to smata
- increasing trust between the Postbank, youth, trustees and the community.

Co-created solutions were based on these study outcomes.

6 The authors would like to thank YouthSave Project Director at Save the Children, Rani Deshpande, for pointing out that youth savings groups were among the initial recommendations for product features. Yet, youth group savings accounts were identified as a co-created solution, which may indicate distorted knowledge of product features.

THE STUDY

The study focused on youth in Nakuru and Gilgil, Kenya, in August 2014 and on providing the youth perspective and moving away from the traditional and dominant adult perspective in economic and market research. Relying on participatory action research methodology, youth and Postbank staff co-created solutions for reactivating smata accounts that have gone inactive or dormant[7] and opening new smata accounts.

Box 1: Smata account features:

- Available for those aged 12 to 18.
- For opening youth must provide two photos, account opening form and birth certificate/birth notification/baptism card/school ID/school leaving certificate. Minimum opening deposit is KES 50 (USD 0.55).
- At opening youth receive free bank card, savings diary, free branded moneybag.
- For opening trustees must provide their ID and two photos.
- Account holder is free to deposit. Minimum deposit is KES 50 (USD 0.55).
- Trustee must be present to make withdrawal. Withdrawal costs KES 50 (USD 0.55).
- Cost of closing the account is KES 50 (USD 0.55).
- The account operating balance is KES 200 (USD 2.22).
- Smata account holders do not have access to ATMs.

Youth and autonomy

*"My parents help me save.
They encourage me."*

~ Female research participant, aged 12 ~

*"It is my money. Nobody should tell me
what to do with my money."*

~ Female research participant, aged 15 ~

Youth in transition are in search of increased autonomy. This may be measured on a spectrum, ranging from full autonomy and no parental control to no autonomy and full parental control. As conscious financial decision makers, youth prove to be creative when it comes to saving money; they act in a way that guarantees their personal financial interests are met first.

Group savings accounts

Many research participants are members of savings groups. Though the reason for being a member of such a group varied, catering to youth group needs may **increase smata account efficiency and activity.**

Research participants stressed that youth savings groups tend to save with a goal in mind. As such, savings groups could be linked to the bank's Corporate Social Responsibility (CSR) agenda. An indirect outcome of savings groups may be thus an increase in **positive community relationships**.

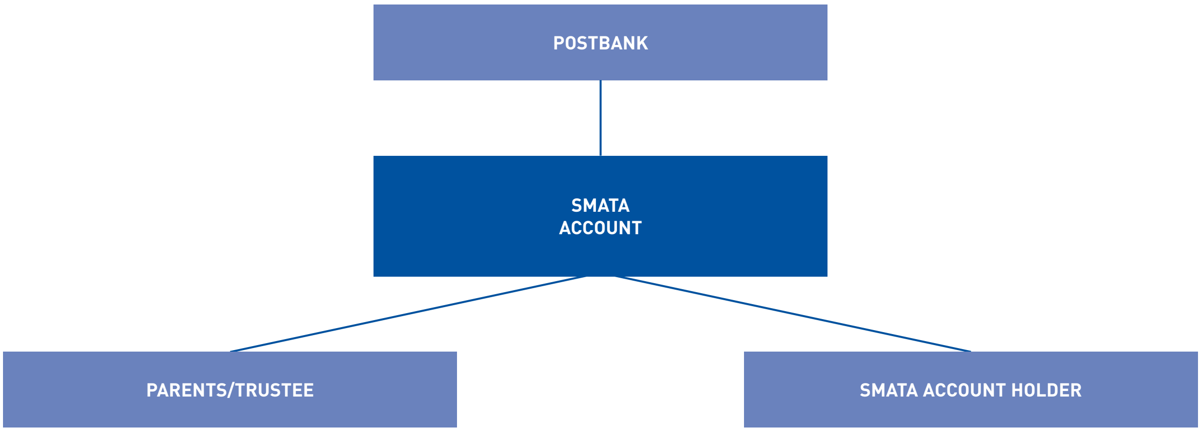
7 Inactive accounts are accounts that have not seen activity for at least six months. Dormant accounts are those that have not seen activity for 12 months or more.

Redefining legal structures

The financial relationship is triangular (see Figure 1); it encompasses smata account holders, Postbank and parents/trustees. Many smata account holders were recruited in school, but when account holders sought to use their accounts outside of school structures, **logistics regarding the need to be accompanied by a trustee proved user-unfriendly** (see Box 2 for a detailed account). If the trustee was also an account holder, research participants pointed out, they would likely be more supportive of the youth account holder[8]

Though research participants recognized that their parents are an important source of income, there was a **sense of mistrust towards parents**, which for active use of the account reinforces the need for increased autonomy.

Figure 1: Relationship triangle



Restrictions and boundaries

The aim of the smata account is to encourage Kenyan youth to save. As such, **boundaries set to the account may act as an incentive to save** or may discourage withdrawals. Such boundaries may be subject to time or amount.

With a required opening deposit of just KES 50 (USD 0.55), the smata account is easy and cheap to open. However, research participants suggested **low opening deposits lowered the value of the account and therefore lowered youth's motivation to use it**. If they were made to save for it or work harder to get one, it would increase the value of the smata account and motivate account holders to actively use it.

Reaching out

It is clear that **youth's interest in and knowledge of the smata account do not align with Postbank's expectations** of account use. There is a disconnect between the structures of smata account holder recruitment and ease of use outside these structures (see Box 2 for a detailed account). It is therefore not surprising that the research participants suggested Postbank increase efforts to reach out to smata account customers.

The key to building a long-lasting relationship with youth is to focus on **strengthening relationships with them generally**, with smata account holders and **with community members**. Though Postbank makes a conscious effort to reach out to youth at schools, further and different efforts will solidify Postbank's position and will strengthen its relationship with youth.

8 For more information, see Ramírez, R.M. and Torres, V. (2014), *From One Generation to the Next: The Role of Parents in the Financial Inclusion of Young People*, Freedom from Hunger and the MasterCard Foundation.

Box 2: Disconnect between recruitment and ease of use

Sales executives

Postbank is currently running a program for recruitment of smata account holders in which (young) sales executives go to schools and tell youths about the smata account with the aim of opening new accounts. These sales executives work on commission, i.e. they receive payment on the basis of how many new smata accounts have been opened.

This has led to the creation of a culture in which sales executives merely focus on selling the account and neglecting to focus on account activity. This has inevitably contributed to high smata account inactivity rates.

Schools for recruitment

Most smata account holders have been recruited in schools. Schools provide a good structure for recruitment. Using only these structures, however, excludes youths who are not in school and complicates account activity once youths move outside school structures.

Trustee and parent control

Smata account holders must be accompanied by their trustee or parent when withdrawing money from their account. During the research youths related the logistical difficulties in getting the trustee or parent to the branch office and the high costs of transport for picking the trustee or parent up and going to and from the branch.

In addition, there is a sense of mistrust towards the trustee or parent. Most youths did not want or did not feel the need to be tracked or followed by their trustee or parent, sometimes out of fear that their trustee or parent might take the money from them. Youths therefore chose to simply not use their account.

Research Paper

HOUSEHOLD FINANCES, YOUTH AND YOUNG ADULTS

Separate from the qualitative study with youth in Nakuru and Gilgil in the mid-west of Kenya, research for increasing usability of Kenya Post Office Savings Bank's 80.000 smata youth savings accounts incorporated household surveys in Nakuru County.

THE SURVEY

This survey focused on gaining an understanding of how money moves in households and between household members. From the survey outcomes, there are some clear implications as to what a financial institution needs to deliver in order to tap the youth and young adult market.

The household survey reached 301 randomly selected households in urban, semi-urban and rural areas across Nakuru County. Before starting the survey good quality census data clearly indicated the importance of youth and young adults (15-34) in household structures: Youth and young adults account for 35-40% of total county population (slightly more in urban areas and slightly less in rural areas – see Charts 4 and 5 below) and they number at least as many as children.

Figure 1: Map of geographical area chosen for quantitative aspect of the study

As with all of Kenya, in Nakuru urban households (on average 3.4 persons) tend to be smaller in size than rural households (average 4.4), but in both cases these averages include 1.5 persons (43% in urban, semi-urban and rural towns and 32% in dispersed rural towns) in the youth and young adult segment. This meant that random surveying of households would easily identify enough that included youth and/or young adults. Only these were taken forward for a short survey at household level. Households that included slightly older adults (those 35 and older, with or without children) were ignored and no further distinctions of households nor of youth and young adults were made.

Chart 4: Population mix - urban, semi-urban and rural towns

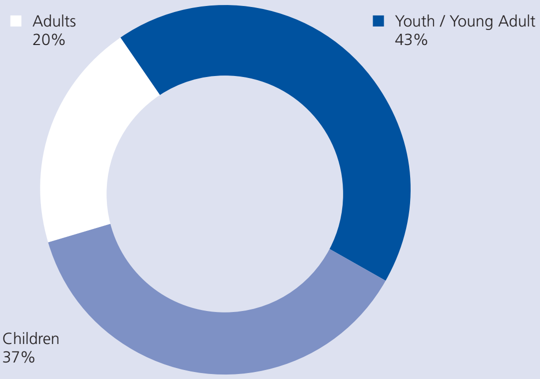
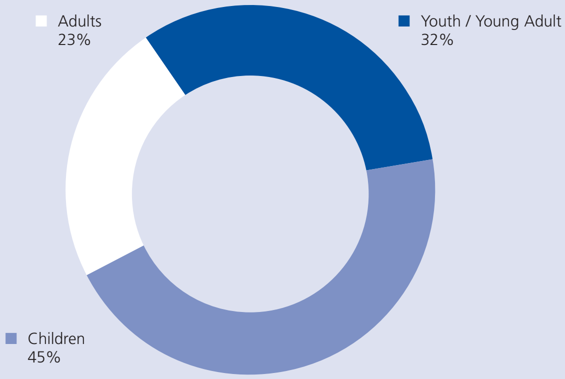


Chart 5: Population mix - dispersed rural



Household types and their behavior patterns

Interestingly, by focusing on households that included youth and young adults the survey came up with slightly larger household sizes (3.8 for urban and 4.8 for rural) than the overall averages for Nakuru as concluded from the population census. Based on an analysis of data taken from the survey, three stereotypical household profiles emerged for those that included youth and/or young adults. The table below describes these and indicates the frequency of their occurrence:

Table 1

TYPE	STRUCTURE	FREQUENCY OF OCCURRENCE	
1. Older family	In the vast majority, the head of household and/or his/her partner or spouse are 35 years or older. All of these households include youth and/or young adults who are not lead householders and most are of the age that suggests they are offspring of the head of household. About two-thirds of these households include children.[9]	45% of surveyed households	44% of all youth/ young adults in surveyed households
2. Single-head households	The head of household has no partner or spouse and tends to be female. Three-quarters of them are 35 years or older. All of these households include youth and/or young adults who are not lead householders.[10] About two-thirds of these households include children.	42% of surveyed households	39% of all youth/ young adults in surveyed households
3. Young household	Both the head of household and their partner or spouse are young adults (15-34); 40% of these households include youth, suggesting they are siblings if the head of household, not offspring. All of these households include children aged 14 or younger.	13% of surveyed households	17% of all youth/ young-adults in surveyed households

9 Children are defined as those younger than 15.
10 Lead householders are those who dominated the survey process. Head of household is the official head of the household and her/his spouse or partner.

Implications for financial service suppliers trying to reach youth/young adults

Census data suggests it is almost guaranteed that there will be at least one youth or young adult in any household. When marketing retail banking services, there should thus be a general presumption to ask any lead householder (head of household or partner/spouse) about any unbanked youth and young adults in the household.

Survey results suggest a set of rules of thumb for directly addressing youth and young adults in households. These rules of thumb are based on the conclusion that very few young adults are young spouses of much older men. Youth and young adults will then either be in a young household (one-in-five) or be a youth or young adult in an older person's household (four in five).

If the youth or young adult lives in a household where the head of household is 35 years or older (type one or two), ascertain whether the youth or young adult is:

- still at school;
- out of school but dependent on parents;
- out of school but autonomous.

If the youth or young adult is part of a young household (type 3), ascertain what role the youth or young adult plays in that household, whether it is:

- lead householder;
- living with an older brother or sister.

The role of youth and young adults in household finances

The survey attempted to gather evidence on the extent the youth or young adult plays a role in spending money they have earned or that is taken from the household income and spent for their benefit. Although the sample size is a bit small, two conclusions came across very strongly for all categories of households that include youth/young adults:

- 80% of household income goes into a common pot for spending on family needs;
- 90% of households move money within the household on a daily basis and almost entirely in cash.

The latter point is true for even the most conservative households, where the head claims to generate all household income and be responsible for all household expenditure. What did not come across is exactly how or to what extent youth and young adults are involved in the creation, management and spending of household money.

Only 40% of older youth (20+) and young adults aged 25-34 had their role in household finances acknowledged, and barely one in ten of surveyed younger youth (15-19) were ascribed any sort of role. This may signify the common belief that young adults do not have expenses and should therefore not be given a decision-making role in household financial matters.

Our qualitative research outcomes tell us that this belief is untrue: youth and young adults generally have money to spend and save. It also suggests that lead householders are blind to the true extent of economic activity undertaken by youth. This must discourage many youth from being fully open about the extent of that activity and thus creates a bias in survey work. The truth may only be proved in qualitative work.

There is much focus on tapping into the market related to the money entering and leaving the household, but what happens in between – when the money is moving inside the household – is not well identified. In low- to middle-income countries such as Kenya the amounts involved may be measurable in billions of dollars per week. To gain a better understanding of these money flows, more research needs to be done on youth' and young adults' sources of revenue and revenue streams vis-à-vis household finances. The most obvious methodology for this is almost certainly financial diaries, though the standard model would need adapting to spend as much time on intra-household flows as on flows in and out of the household.

To summarize, there is an untapped market for financial institutions and an opportunity for organizations to tap it. It is quite possible that the route to reaching most of the remaining unbanked involves working at the family level. Work must focus on empowering youth and young adults so that they may gradually formalize economic activity, which currently goes largely unrecognized and is trapped in an almost entirely cash economy.

Below are some recommendations for financial institutions and organizations aiming to increase (youth and young adult) financial inclusion:

RECOMMENDATIONS

- Engage in a diary study to indicate how the finances move in the household and between members, and the role of youth and young adults in financial management and decision-making within the household.
- Encourage family group accounts for family-based and user-friendly financial inclusion.
- Develop mobile-enabled solutions for easy and efficient transfer of household finances between members.

THE WAY FORWARD

More than 80,000 youth have signed up to the smata account, most of them in school. Low activity rates and plummeting enthusiasm proves that the account does not appeal to youth in transition: Youth leaving school, youth who are economically inactive and youth still living in the parental home.

A work plan was developed based on research outcomes and includes:

- increased marketing efforts;
- working with sales executives;
- reinterpreting legal structures;
- family group accounts.

Increased marketing efforts

Reaching out to smata account holders, youth and community members is essential. Therefore, marketing efforts need to increase and will contribute to increasing the number of smata accounts as well as maintaining existing ones. Special focus must be placed on **reactivating smata accounts that have gone inactive or dormant, by improving customer relations**.

Working with sales executives

The bank is currently running a program for sales executives (for more information on this program see Box 2, page 6). Currently, the focus is on selling, which neglects the focus on activity. Further development of the existing program will encompass recruiting, training, monitoring and funding sales executives' activities with the **aim of restructuring or rethinking the sales executives program of increased support for account use and activity.**

Reinterpreting legal structures

Interpretation of Kenyan laws in regard to youth autonomy has restricted account efficiency. **A review of applicable laws, however, shows that conditional autonomy may be granted to smata account holders** if the *parent*, or the legal guardian in case of the parent's death or other absence, agrees to grant the said autonomy to their child *on signing* the registration form and if the registration form provides *full disclosure* of information and risks.

This approach is based on the idea that youth's parents engage in a contract with Postbank, but that the parent – not Postbank – assesses the youth's financial capabilities. The trick, however, is to balance legal and social or ethical responsibilities, which include protecting Postbank's customers from risks and providing efficient savings opportunities for youth.

Family group accounts

The Kenya Post Office Savings Bank has been working with 30 pilot chama[11] groups and is currently working towards launching the Village Banking Model in 2015. In line with current piloting work, there is the possibility of testing the mobile-enabled chama platform on family group accounts in villages at small transaction costs within household structures and between family members.

CONCLUSION

Work on the above-mentioned initiatives should increase the number of smata accounts opened and the activity of both existing and any new accounts that will be opened. The aim is to improve the current and long-term relationship between youth, trustees and/or parents and Postbank, increase activity, keep accounts from going inactive or dormant and increase revenue to Postbank.

11 A chama is an informal cooperative society used to pool and invest savings. The chama phenomenon may also be referred to as "micro-savings groups."

WSBI

WSBI
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99
info@wsbi-esbg.org ■ www.wsbi-esbg.org