

Field Note 9

**BANKING ON THE FUTURE:
YOUTH AND DIGITAL FINANCIAL
SERVICES IN SUB-SAHARAN AFRICA**



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INTRODUCTION

Young Africans are less likely to have a bank account than adults on the continent. At the same time, they are more likely to have a mobile phone, try out new things and be aware of digital channels. This seems to suggest that digital banking could be a winning strategy for advancing financial inclusion among the youth. Youth in Sub-Saharan Africa have limited access to formal financial services despite their active financial lives. In the past year, 51 percent of young adults across the continent saved money and 44 percent borrowed money while only 26 percent have an account at a financial institution.¹ This demonstrates that many young Africans are actively using informal options to meet their financial needs.

Digital financial services (DFS) could be the solution to banking the youth. African youth are tech savvy and curious about digital channels. Research shows that youth's ability to use mobile phones has attracted them to mobile money. According to the Global Findex Database in 2017, 30 percent of youth across Sub-Saharan Africa received digital payments (compared to 37 percent of adults). In comparison to the gap between youth and adults in holding accounts at a financial institution, the gap for mobile money accounts is smaller and sometimes even reversed. This is shown in Table 1. With a clearer understanding of youth's needs and behaviors, DFS providers can target youth with strategies and products to meet their financial needs.

Table 1: Access to traditional and mobile money accounts across four countries

Country	Traditional account		Mobile money account	
	Adults (25+)	Youth (15-24)	Adults (25+)	Youth (15-24)
Uganda	35%	29%	50%	51%
Zambia	39%	30%	25%	28%
Ghana	48%	29%	36%	33%
Senegal	24%	13%	35%	27%

Source: Findex 2017, World Bank Databank

¹ The Global Findex Database, 2017

This report provides insights from existing research on youth and financial services in Africa. It provides data on youth's awareness and use of DFS, investigates the drivers of adoption of DFS, and examines the reasons youth hold inactive DFS accounts. It draws on research completed during the implementation of the IFC and Mastercard Foundation Partnership for Financial Inclusion program in Sub-Saharan Africa 2012-2018, and defines youth/young people as the population between the ages of 16-25.

The research studies which inform the findings in this report are as follows: (1) "An Ethnographic Study of the Perceptions and Attitudes to Mobile Money in Sub-Saharan Africa"² (a qualitative ethnographic study); (2) "Youth and Digital Financial Services in Four Markets in Sub-Saharan Africa" (a quantitative study); (3) "Customer Segmentation Study of Microcred Senegal" (a randomized control trial (RCT)); (4) "Drivers of Digital Financial Services Inactivity in Cote d'Ivoire"³ (an inactivity study); and (5) "Find The Gap: Can Big Data Help to Increase Digital Financial Services Adoption?"⁴ (a socio-economic and big data analytics study), as well as some preliminary findings from consumer research conducted by IFC in Ghana and Kenya.

With the spread of mobile phones, youth are increasingly using mobile money for simple transactions such as sending and receiving money. However, they also show an appetite for mobile savings and other services and in general have good financial literacy skills. Despite this increased interest and basic access, there is still a need for suitable financial services that offer incentives for youth to adopt and use DFS.

The report gleans insights into possible strategies to further increase DFS usage among youth, by identifying drivers of usage among youth as well as reasons for youth inactivity on DFS platforms. In sum, these findings provide the context for industry actors to design products and strategies to better meet the needs and desires of their current youth clientele and to expand reach to new youth customers.

² *A Sense of Inclusion: An Ethnographic Study of the Perceptions and Attitudes to Mobile Money in Sub-Saharan Africa*, IFC and Mastercard Foundation, 2017

³ *The Mobile Banking Customer that Isn't: Drivers of Digital Financial Services Inactivity in Cote d'Ivoire*, IFC and Mastercard Foundation, 2015

⁴ *Find the Gap: Can Big Data Help to Increase Digital Financial Services Adoption?*, IFC and Mastercard Foundation, 2014

FINDINGS

Characteristics of youth and their financial behavior

Financial literacy

Evidence from Zambia and Uganda shows that young people have a good understanding of how to use digital financial services. Compared to adults, youth are particularly familiar with technology, and as a result, have easily adapted to digital platforms. It is therefore unlikely that youth (unlike adults in rural areas who are less accustomed to these technologies) would have low aptitude for using DFS.

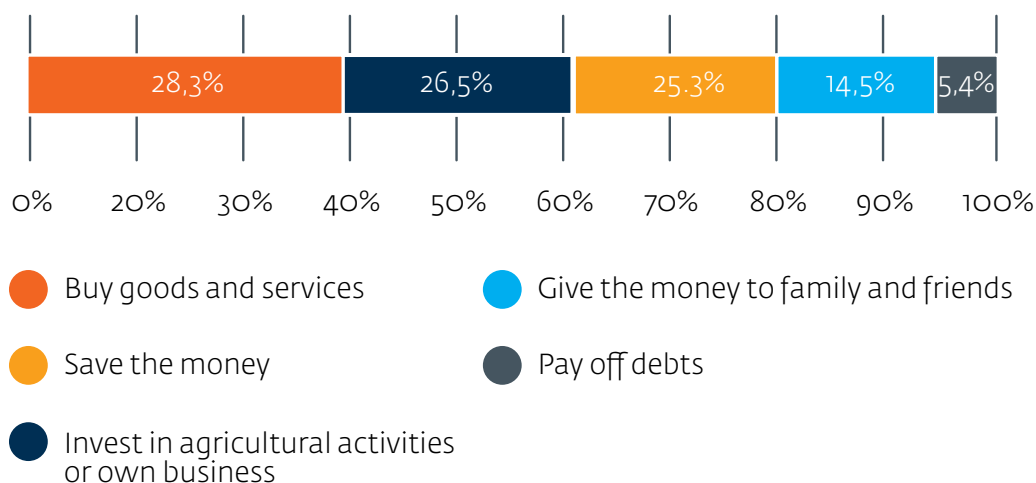
Money management practices

Our research findings show that many youths are keeping their savings at home rather than with a financial institution or in a mobile money account. In both Senegal and Zambia, youth prefer to save at home.

In Zambia, young people's second preference is to deposit their money into a mobile money account, followed by depositing their money into a formal bank account (the rank preferences hold for Zambian adults too). In Senegal, youth surveyed consistently indicated ease and safety as the main reasons for their preferred method of saving money at home.

When it comes to how youth use their money in Senegal, 27 percent said that they would invest their money in agricultural activities or in their own business, 28 percent said that they would use their money to buy goods and services, while 25.3 percent said that they would save their money. This demonstrates a strong savings culture, even though most Senegalese youth prefer not to save with a bank.

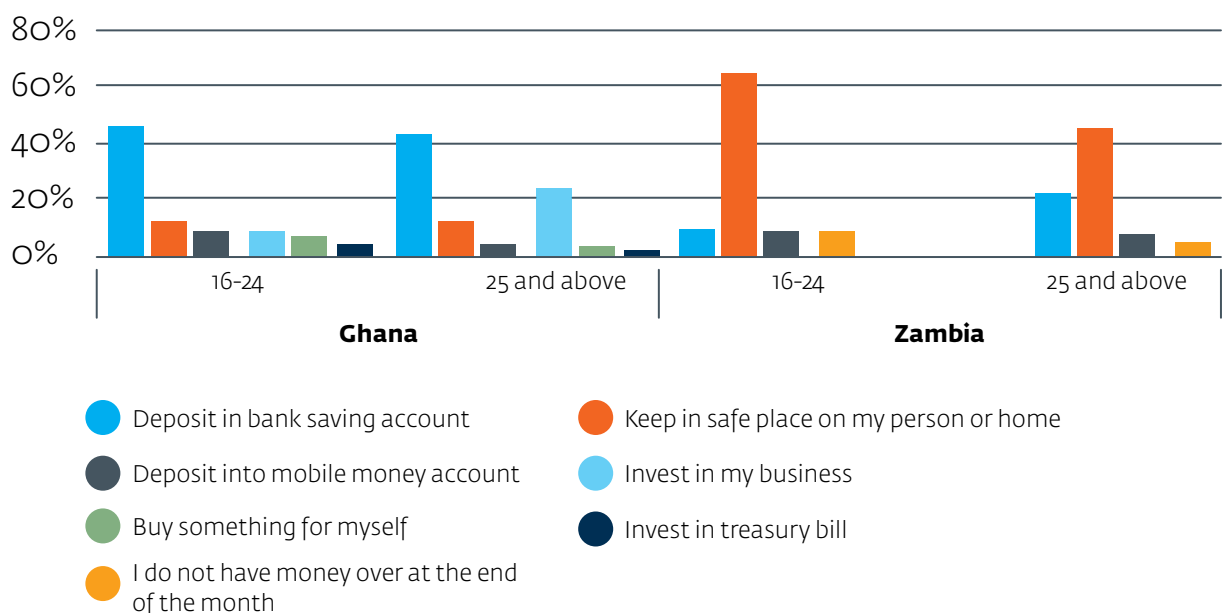
Figure 1: Use of 8,100 CFA by Young People (age 16-25) in Senegal, percentage use per purpose



However, the story is different in Ghana where the youth surveyed prefer to deposit their money into bank accounts over saving in mobile money accounts. This is mainly due to easier access to ATMs or bank branches in Ghana compared to other countries.

Other considerations for youth include the information they are provided with and knowledge about services that banks can offer them, and the perceived higher interest rate they receive on bank deposits.

Figure 2: Use case for excess money of young people versus adults in Zambia and Ghana, percentage use per purpose



Research shows that in some contexts where youth do use mobile money for transacting, they are starting to use it for savings as well. In Uganda, out of 72 percent of young respondents who said they have deposited money into their mobile money account at least once, 31 percent reported using their account to save. DFS providers thus have a clear opportunity to mobilize youth savings on their platforms.

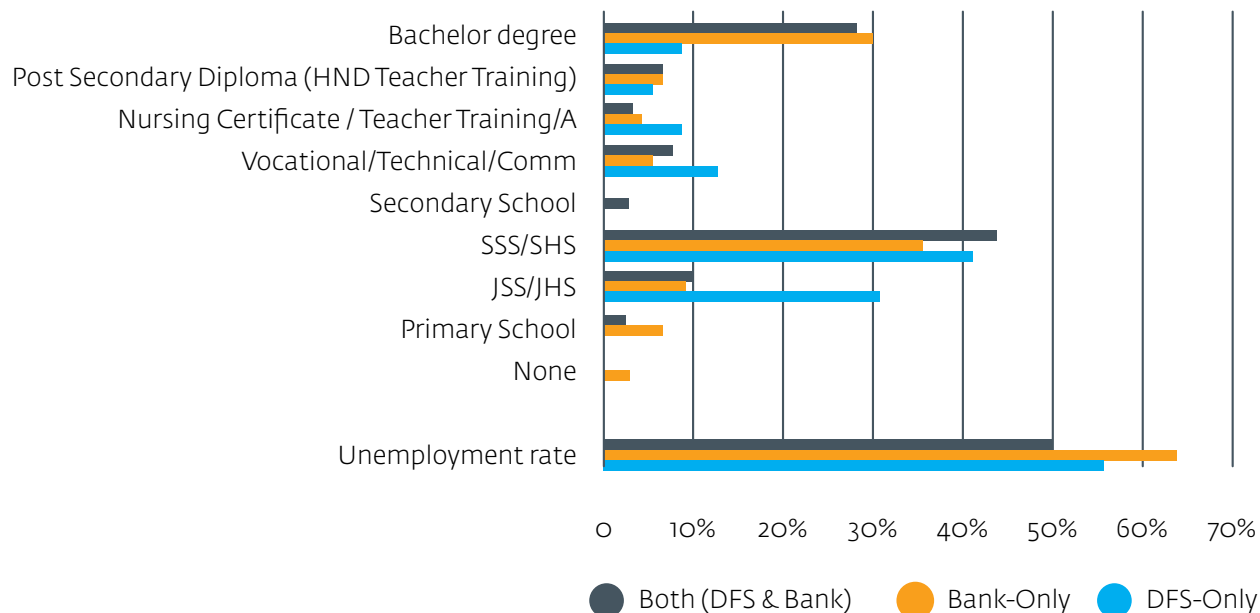
Education and employment

Level of education and employment status impact the likelihood of youth to use mobile money versus formal banking services. Findings in Ghana show that young "bank-only" customers, are, on average, better educated than young "DFS-only" users.⁵ In Ghana, the unemployment rate appears to be higher

for bank-only customers than DFS-only customers or for users of both services. One possible explanation for this might be that bank-only customers aim for the scarce skilled jobs, often in government, and are reluctant to accept casual/part-time jobs. The bank-only customers have high rates of mobile phone usage (voice, SMS, data), indicating that this customer segment is aware of DFS and uses their mobile phones frequently but does not currently use DFS. Our findings suggest that bank-only (i.e. no DFS account) customers and DFS-only (i.e. no bank account) are two relatively distinct groups of youth. The former is an interesting group for Mobile Network Operators (MNOs) to target with appropriate marketing and financial products.

⁵ Ghana inactivity study conducted by IFC in 2016. Mastercard partnership for financial inclusion.

Figure 3: Education and unemployment levels of young “DFS-only” versus “Bank-only” users in Ghana, percentage of users



Exploring drivers of adoption for youth

Research from Uganda shows there are four common drivers of DFS adoption by youth, including the increase in accessibility through agent networks; low transaction costs; stable and reliable networks; and the ease of use and receiving fast service. Results from Côte d’Ivoire showed that compared to adults who greatly value the simplicity and ease of using DFS, youth put less of an emphasis on this factor. Similarly, in Uganda, while adults value simplicity, only 3.8 percent of youth (ages 16-20) surveyed said their preference for using a mobile money service is because it is simple.

Perhaps this is because while adults and older youth have had more exposure to other methods of financial services that are more difficult to use, younger youth have come to age during the boom of mobile money and therefore take the ease and simplicity of mobile money as a given. This suggests that industry actors may want to focus on other drivers of youth’s adoption of DFS when advertising to peak their interest and increase their commitment to products.

Young people's awareness of digital financial services

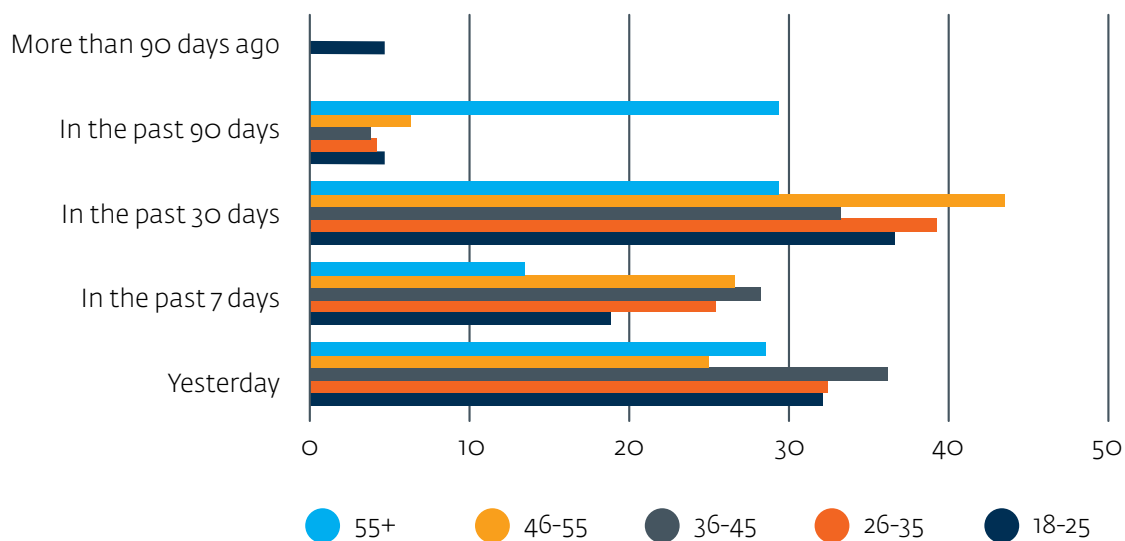
Young people are very aware of digital financial services. A quantitative study in Ghana, Senegal, Uganda, and Zambia shows that in all four countries 96-100 percent of youth are aware of digital financial services. However, the channels for building DFS awareness vary across countries. In Ghana and Zambia, traditional media outlets such as radio and TV are influential in driving awareness. In comparison, in Uganda, social networks and word-of-mouth are the main sources for information on DFS. Across all four countries, word of-mouth is an important channel for raising awareness. This finding is supported by external research on youth and their participation in society, which shows that family and peers are instrumental in shaping the choices young people make.⁶

Young people's usage of digital financial services

Findings from Ghana, Senegal, Uganda, and Zambia show that young people's awareness of DFS does not necessarily translate into usage. Across these four markets youth usage rates of DFS vary. In Zambia, at least 64 percent of study respondents who have registered for a mobile money account are active, which is above the average compared to other age groups.

In Ghana, youth are using their mobile money accounts regularly and at the same activity rate to other age groups. Thirty-two percent of respondents in the 18-25 age group stated that they used mobile money "yesterday", with 19 percent responding that they had used their mobile money accounts "in the past seven days". Overall, there is no significant gap between the activity rate of the youth cohort in comparison to the other age groups, with at least 37.9 percent of the respondents reporting that they have used their mobile money accounts within the past 30 days. Interestingly, results in Ghana showed that the 16-24 age group had the highest proportion of mobile money users and was the age group with the smallest gap between awareness of mobile money services and actual usage.

Figure 4: Mobile money usage in Ghana, percentage per age group



⁶ Nielsen, *Trust in Advertising – A global Nielsen Consumer Report, 2007*

In Kenya, a study that identified trends around product development and the behavior of youth customers over three years found that the adoption and usage of DFS grew consistently over time. The analysis indicates that over the three years a total number of 521,000 youth accounts were opened. On average, 166,000 of these accounts were active in a month. Over three years, the number of active accounts increased by 38 percent with a 56 percent increase in the number of transactions. These impressive trends set the stage for what growth could look like in other markets for the DFS sector if the right elements are in place. An analysis of the average account balance per customer also provides interesting insights. It shows that among the youth segment, the average account balance for females is consistently higher than that of their male counterparts.

Youth's use case of digital products and services

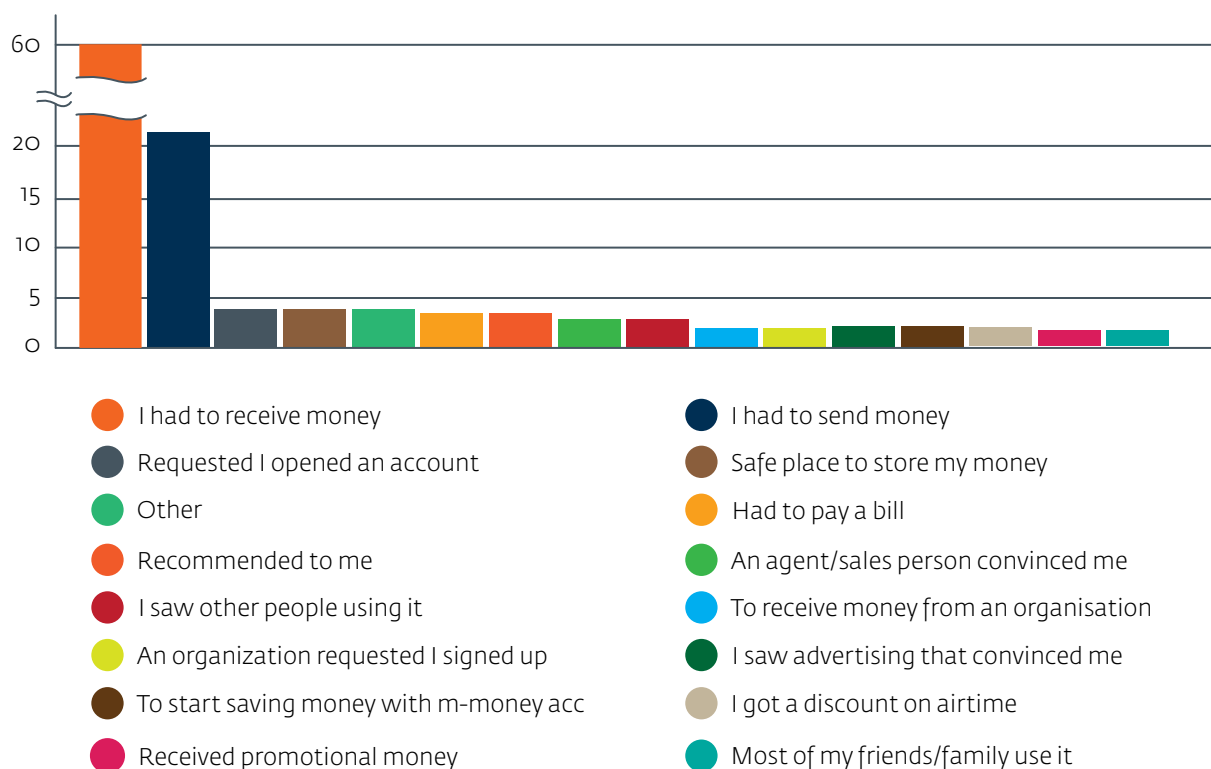
The most common reason for signing up for a DFS account among young people in Uganda and Zambia is the pragmatic need to send or receive money.

The second most mentioned reason is the pure interest in the product and the curiosity to try it. Finally, a third reason is the 'ease of use' of the mobile money transfer method. The findings are similar for youth in Ghana.

Findings from Uganda show that remittance transfers are a popular financial product for youth. At least 50 percent of youth surveyed in Uganda said that they use their mobile accounts to receive money from family members and friends, compared to 30 percent who reported using their mobile money accounts to send money to family members and friends.

The use case for youth surveyed in a separate consumer study for bank clients in Ghana shows that the 18-25 age group uses mobile money to receive (58.2 percent) and send (22.94 percent) money.

Figure 5: Use case for mobile money in Ghana, percentage use per category



Youth in Ghana, Uganda and Zambia are making deposits into their mobile money accounts. A household survey conducted in Ghana, Senegal, Uganda and Zambia on youth and DFS showed that 23 percent of the youth respondents in Ghana deposited money into their DFS accounts in the prior three months compared to 9.5 percent of the adults. In Zambia, 13 percent of youth stated that depositing money is their most frequent transaction, compared to 10 percent of adults. Almost 72 percent of youth respondents in Uganda reported depositing money into their mobile money account at least once (compared to 68 percent of the adults), while 31 percent reported using their account to save for future purchases. In general, the findings from the surveys in Ghana, Senegal, Uganda and Zambia indicate that young people in SSA are eager to deposit their money in mobile money accounts and that a significant share of youth use mobile money accounts to save their money.⁷ However, it appears to be a complex endeavor for both MNOs and FIs to create the appropriate savings account and successfully introduce them to the young target group. YouthSave (2015)⁸ pinpoints the need for financial institutions to ensure low (or no) minimum balances and a transparent and low-price cost schemes for youth.

Exploring the reasons for inactivity among youth

The same household survey showed that even though almost all youth respondents indicated that they are mobile phone users and aware of DFS, many are inactive customers. The most commonly used definition for mobile money inactivity is "90 days inactive". This means a customer has not performed a transaction in the past 90 days. This survey revealed that first-time experience using DFS is a crucial factor in its subsequent use and adoption. Results show that an early-on negative experience using DFS plays a key role in determining whether a young person will continue to use DFS. This finding is consistent for adult mobile money users as well. Although the study shows an overwhelmingly positive experience for many first-time youth

mobile money users across country contexts, it also confirms the damaging impact that a negative first-time DFS experience can have for youth user's future take up of DFS.

Financial literacy is another possible contributing factor to youth's DFS inactivity, but this does not appear to be the case across contexts. In Uganda and Zambia, financial literacy affects activity differently in each context, despite both countries' survey participants scoring equally high on their knowledge of DFS. Researchers were unable to find a statistically significant correlation between higher literacy and an increase in the likelihood of being a DFS user among youth in Zambia. In Uganda, however, results showed a positive correlation between financial literacy and activity among youth. An increase of financial literacy by one unit (one more correct answer) increased the predicted probability of being an active DFS-user by 5 percent, holding everything else constant. This effect remains robust even after controlling for socioeconomic factors (e.g. education, unemployment). The difference seen between Zambia and Uganda may be explained by the fact that Uganda has a competitive market with well-functioning DFS services; whereas in Zambia, only money transfer services function well and MNO-led products have yet to become attractive to customers. The continuing preference for keeping money under the mattress however means that efforts to support financial literacy are important in order to better explain real life use cases for DFS. But this can only be effective if industry players find a way to more effectively communicate DFS products and services offerings to young people. This means tapping into their social networks as social networks are effective in persuading youth to try out DFS.

⁷ It should be noted that for respondents who indicated that their first transaction was to send money, the agent technically performs the deposit transaction and the customer receives it as a first transaction. However, in this case, the customer initiates the deposit by going to the agent and asking for it. Their first active transaction is then the P2P transfer even though they had previously been on the receiving end of a passive transaction.

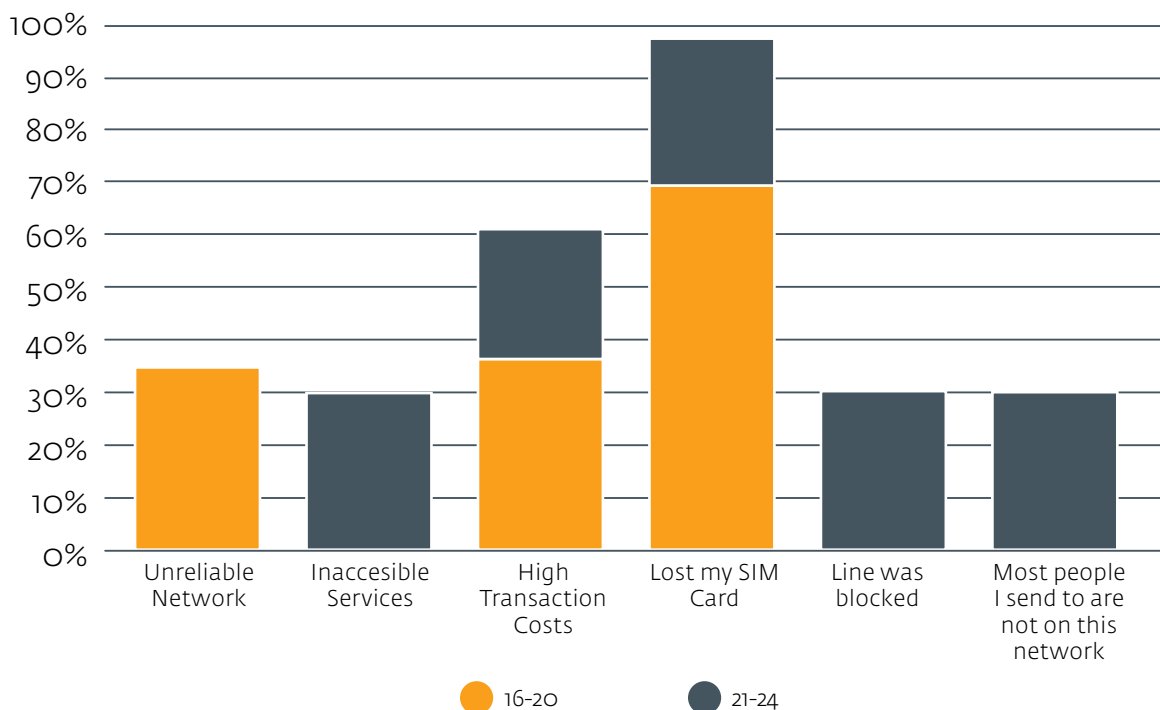
⁸ The YouthSave Consortium. "Design and Delivery of Youth Savings Accounts: Five Lessons from YouthSave", 2015

Lack of income and irregular income affect the activity rate of youth engaging in any type of financial service. Most of the young people surveyed in Ghana, for example, expressed that the reason for their inactivity is that they do not have money. Similarly, youth surveyed in Zambia said they do not send or receive money due to insufficient funds and a perception that service fees are too high. Young people in all surveyed countries stated that not having money prevents them from using DFS. Students, who are presumably and predominantly young, were twice as likely to report that lack of finance is the reason for being inactive. Additionally, irregularity of income also impacts the use of DFS. While it is complex to address youth's lack of income, mobile network operators and microfinance institutions could work to provide products and services that better cater to customers with low and irregular incomes. This could include providing transparent and lower charges for young people, and to put special emphasis on financial literacy in marketing campaigns targeting youth.

Legal and regulatory barriers also prevent young people from accessing financial services in developing countries.⁹ The typical age requirement to open an account is 18 years old and youth that do not meet this requirement need a parent as a cosignatory to open an account and even to withdraw money. In addition to the limitation of age, identification requirements are also often a barrier for youth to access financial services. According to the Commission on Legal Empowerment of the Poor and United Nations Development Program (2008), 70 percent of young people in developing countries do not have birth certificates or other identification documents. Thus, the requirements for youth account openings (e.g. minimum age, identification cards, and parents as cosignatories) must be adjusted as favorably as possible for young people.

Network and service limitations are other important reasons for DFS inactivity. In Uganda, when asked about reasons for mobile money inactivity, adults cited inaccessible service and blocked lines. In comparison, youth mentioned unreliable network, high transaction costs and lost SIM cards.

Figure 6: Reasons for inactivity of mobile money accounts in Uganda, percentage per reason

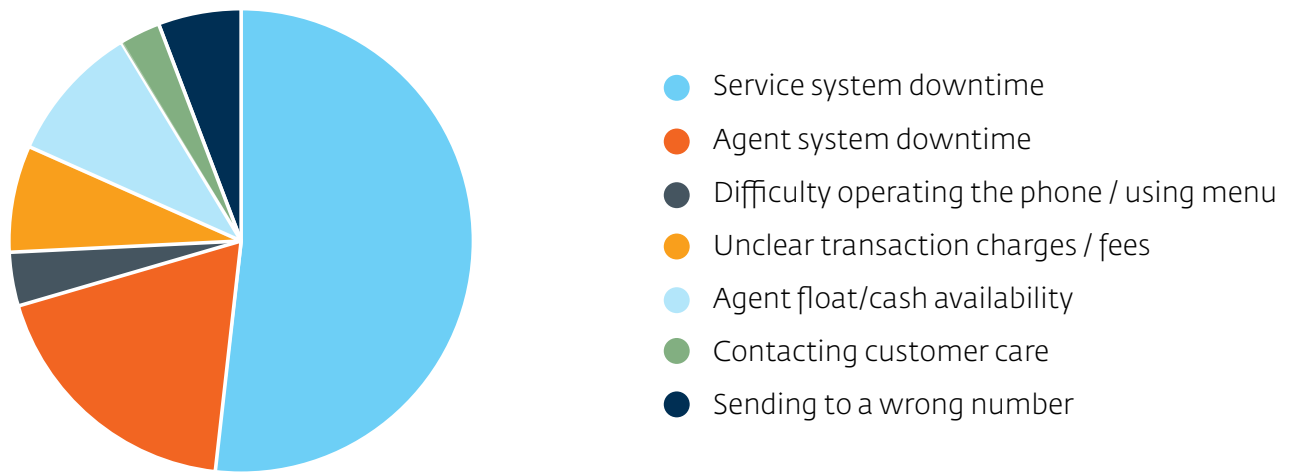


⁹ The Mastercard Foundation, *Understanding youth livelihoods in Ghana and Uganda, 2017*

Additionally, consumer survey data from Ghana shows that at least 51.9 percent of youth respondents indicated service downtime as the biggest challenge faced when using mobile money, followed by agent system downtime (18.6 percent).

Addressing these network and services challenges to using mobile money will be crucial to attract and attain youth customers.

Figure 7: Challenges using mobile money in Ghana, percentage per challenge



CONCLUSION

Digital financial services have increased financial inclusion for the underserved adult population in Sub-Saharan Africa. However, gaps persist in youth accessing financial services. DFS offers great potential for youth, as they are generally more inclined towards digital trends and are starting to use mobile money services for basic transactions.

Lessons drawn from this research provide initial insights around opportunities for financial service providers to scale DFS to youth. As evidenced in the findings, many youths still save their money at home. There is a big opportunity to provide incentives to them to save on mobile money platforms. Encouraging mobile savings can become a precursor for youth to pursue other digital products and services, such as micro loans.

The existence of "voice only", inactive DFS users suggests that the product offering of DFS is not engaging enough to young people yet, despite the potential for higher uptake as younger people use their mobile phones regularly. The youth segment should be approached with tailored marketing strategies and appropriate financial products and services to meet their needs.

Overall, the findings from this paper show there is potential in the market for youth financial services in Sub-Saharan Africa. Results show that receiving, sending, and storing money - as well as purchasing airtime or cellphone data - are the main products used by youth. This can provide a possible template for types of mobile banking services that should be offered to youth, i.e. savings accounts; checking or prepaid accounts, and micro lending accounts, to support youth's financial lives. Prioritizing the creation and marketing of these products could lead to increased use of digital financial services and ultimately to greater financial inclusion for the future of inclusive economic development in Sub-Saharan Africa.

METHOD

The purpose of this paper was to synthesize insights on youth and DFS usage based on research conducted in Sub-Saharan Africa by IFC and the Mastercard Foundation over the past six years. The analysis included 5 out of 37 research studies completed through the joint Partnership for Financial Inclusion. The studies were selected because the research questions and findings, while not directly related to youth, provided information on the youth segment. The high-level review question that guided the analysis for this report was: What are the drivers and the barriers of the adoption and use of digital financial services for youth in Sub-Saharan Africa?

The selected studies listed below used quantitative, qualitative or mixed methods approaches. Together they included analysis of the financial needs of target beneficiaries, the use of financial products, delivery channels and consumer behavior. Key findings on youth and financial inclusion guided the information extracted from these studies for this report.

- **An Ethnographic Study of the Perceptions and Attitudes to Mobile Money in Sub-Saharan Africa** - provides a description of the usage, perceptions and attitudes towards DFS in four countries in Sub-Saharan Africa (Cameroon, Democratic Republic of Congo (DRC), Senegal and Zambia) in the voices of the users. The purpose of the study is to provide insight into why people are motivated to use DFS and to contextualize these motivations.
- **Youth and Digital Financial Services in Four Markets in Sub-Saharan Africa** included surveys conducted with youth respondents in four markets in Sub-Saharan Africa. The study resulted in an initial report that provided an overview of the awareness and usage of DFS in the four markets.
- **Customer Segmentation Study of Microcred Senegal** a randomized-controlled trial study that focused on the characteristics of selected client segments, their money management practices, and their use of financial services. The RCT explored the drivers of taking up financial services, the role of agents in facilitating access to financial services, and the direct effect of financial service offerings through branches and agents on clients.
- **Drivers of Digital Financial Services Inactivity in Cote d'Ivoire** explores the reasons for client inactivity and provides recommendations on how they can be addressed.
- **Find the Gap: Can Big Data Help to Increase Digital Financial Services Adoption** provides insights into the ways in which big data and socio-economic research can assist in increasing adoption and usage of DFS.

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