Women's World Banking

Building a sustainable youth proposition: Lessons from Banco ADOPEM

BANCO DE AHORRO Y CREDITO ADOPEM S.A. was established in 2004 as an initiative of ADOPEM NGO (led by Dr. Mercedes Canalda since its founding in 1982) and in that same year became part of the Women's World Banking network. Banco ADOPEM is a financial institution oriented towards serving micro, small and medium enterprises. Currently, the bank has 57 branches and 28 sub-agents all over the country (Dominican Republic). Banco ADOPEM is a member of the BBVA Microfinance Foundation, a non-profit organization created in 2007 as an act of Social Responsibility by the BBVA Group.

Banco ADOPEM has more than 339,000 savings customers and 196,000 credit customers. Its current loan portfolio is RD$4.152 million and it has RD$2.097 million in deposits. It offers a wide range of products such as: microcredit loans, agricultural and livestock loans, small and medium enterprise loans, remodeling and expansion of housing loans, solidarity group loans, as well as savings accounts, children's savings accounts, programmed savings, financial certificates, microinsurance, and remittances.

WOMEN'S WORLD BANKING is the global non-profit devoted to giving more low-income women access to the financial tools and resources essential to their security and prosperity. For more than 35 years we have worked with financial institutions to show them the benefit of investing in women as clients, and as leaders. We equip these institutions to meet women's needs through authoritative market research, leadership training, sustainable financial products and consumer education.

Introduction

Four years after collaborating with Banco ADOPEM to develop its youth savings program, which was designed as a new product called the Mía account, Women's World Banking returned to the bank to evaluate the impact of the program on its operations and assess lessons learned.

Youth under 25 make up almost half of the world's population[1] and there is widespread consensus among government officials, development experts and financial services providers about the importance of building youth financial capability. So why do 84 percent of youth in low-income economies still remain unbanked?[2]

Though banks may identify a market opportunity for youth savings, understand the potential branding benefits, along with the impact to clients themselves[3]—many banks are slow to invest in youth savings products. Except for a few recent studies, the evidence base demonstrating the bottom line impact of youth savings programs is still limited.[4]

With a grant from Barclays, Women's World Banking conducted an in-depth analysis[5] of the impact of youth savings thus far on Banco ADOPEM (Dominican Republic), which launched its youth savings program, "Mía" ("mine" in Spanish), in 2010.

Insights from this data analysis, in addition to Women's World Banking's experience with youth savings in many countries throughout the world, enabled Women's World Banking to identify five emerging areas that are essential to building a successful business case for youth savings. Building a business case is a long-term proposition, so looking back just four years can only provide initial insights on the necessary elements. We also recognize that every financial institution is different, and no single approach can be implemented across the board. However, these emerging principles can be broadly applied for financial services providers as they plan to offer youth savings or enhance existing offerings.

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[1] People under age 25 make up 43 percent of the world's population. Source: UNFPA, State of the World Population 2011. <http://foweb.unfpa.org/SWP2011/reports/EN-SWOP2011-FINAL.pdf>
Youth aged 10-24 make up 25 percent of total population (27 percent in less developed and 17 percent in more developed countries). Source: Population Reference Bureau, Youth Data Sheet 2013. <http://www.prb.org/pdf13/youth-data-sheet-2013.pdf>

[2] 16 percent of youth ages 15-24 in low-income economies have an account at a formal financial institution. Source: Asli Demirguc-Kunt and Leora Klapper, 2012, "Measuring Financial Inclusion: The Global Findex Database", World Bank Policy Research Paper 6025.

[3] See "Creating the Business Case" (p. 16-23) in *Banking on Youth: A Guide to Developing Innovative Youth Savings Programs*, Women's World Banking 2012, 2014. < http://www.womensworldbanking.org/publications/publications_banking-youth-guide-developing-innovative-youth-savings-programs>

[4] See Munoz, L., Perdomo, L. and Hopkins, D. "Building the Business Case for Youth Services", UNCDF, September 2013. <http://www.uncdf.org/sites/default/files/Documents/yfs-bus-case.pdf>. See Loupeda, Christian. "Show Me the Money: Costs and Revenues of Youth Savings and Financial Education Services Offered by Credit Unions in Mali and Ecuador". Advancing Integrated Microfinance for Youth, Freedom from Hunger: Davis, CA. 53pp. (2014). < https://www.freedomfromhunger.org/sites/default/files/documents/AIMyouth_CostingStudy_Eng.pdf>. See Kilara, Tanaya, Barbara Magnoni, y Emily Zimmerman. 2014. "The Business Case for Youth Savings: A Framework." Focus Note 96. Washington, D.C.: CGAP. < http://www.cgap.org/publications/business-case-youth-savings-framework>.

[5] The data for this report was drawn from comprehensive client data provided by Banco ADOPEM, which covered historical lending, savings, as well as remittance and insurance transactions for all clients from January 1, 2010 through April 1, 2014. In addition, Banco ADOPEM shared detailed financial data, including per-product costing and profitability, as well as the marketing and savings (*Captaciones*) department budgets. Financial reports to the Nike Foundation, which detailed the amount and use of the donor funds, were also consulted and the team conducted several qualitative industry, competitor, and staff interviews.

WOMEN'S WORLD BANKING'S YOUTH SAVINGS WORK

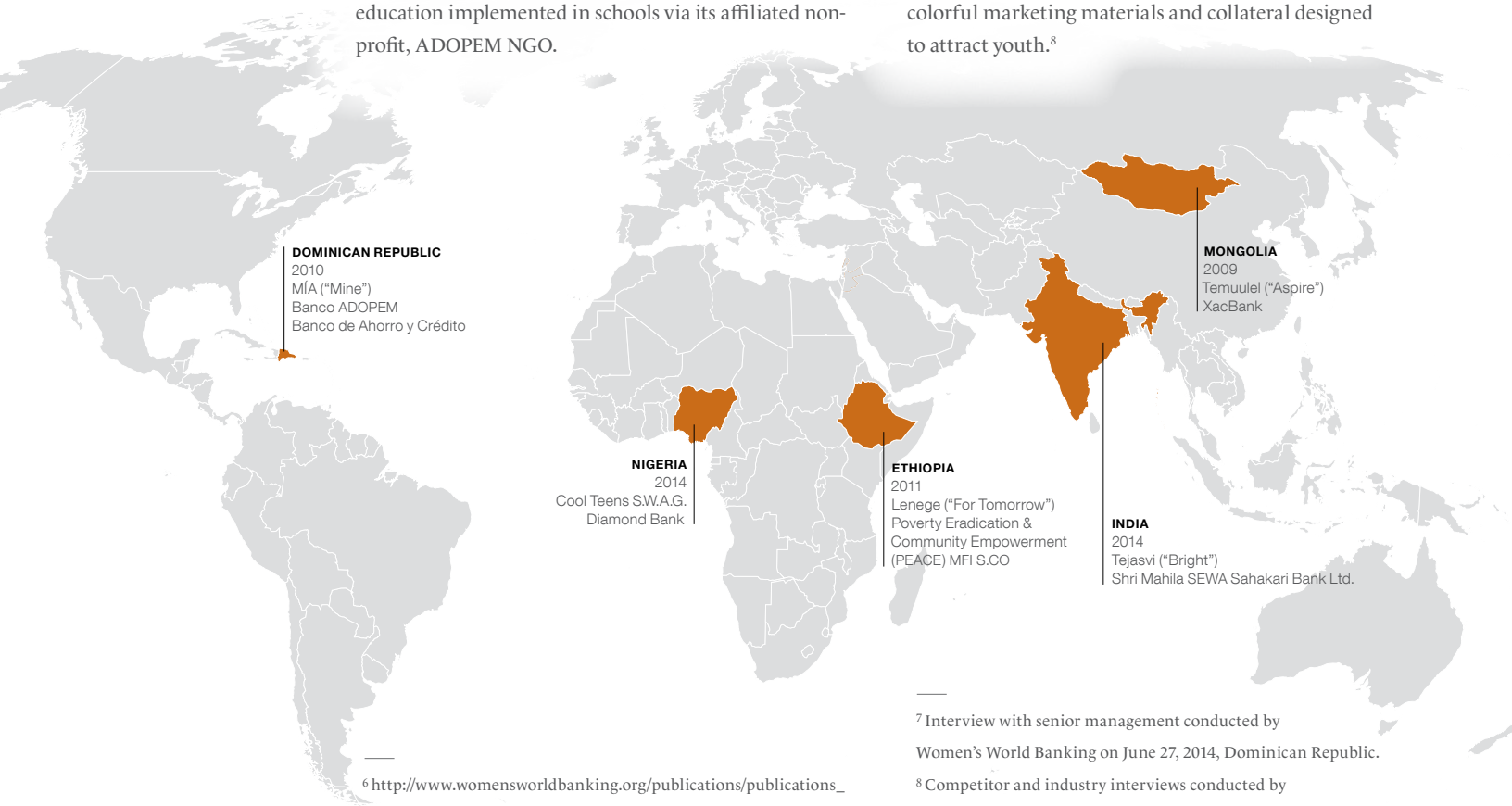
Women's World Banking piloted its youth savings and financial education work with XacBank (Mongolia) and expanded to Banco ADOPEM (Dominican Republic), PEACE MFI S.CO (Ethiopia), SEWA Bank (India), and Diamond Bank (Nigeria). Based on this work, Women's World Banking developed *Banking on Youth: A Guide to Developing Innovative Youth Savings Programs*[6], an interactive publication for deposit-taking institutions to help guide youth savings program development at any stage. More than 260,000 accounts have been opened to-date. Women's World Banking's strategy of researching, developing and piloting a product with one institution then adapting and expanding it to other markets has allowed us to develop best practices on how to reach unique youth markets.

YOUTH SAVINGS AT BANCO ADOPEM

In 2009, Women's World Banking, with support from the Nike Foundation's Girl Effect, provided technical assistance to Banco ADOPEM in developing Mía, a youth-inclusive savings account coupled with financial education implemented in schools via its affiliated non-profit, ADOPEM NGO.

Banco ADOPEM's mission is to serve low-income communities, especially women and girls. At that time, other financial institutions in the Dominican Republic had product offerings for youth through their parents, but Mía was the first to directly target youth to save for themselves. According to the bank's senior management, Mía was launched in order to instill a culture of savings in Dominican youth, promote "fidelización" or brand loyalty by introducing the next generation of clients to the bank, and ultimately advance financial inclusion for low-income Dominicans, especially girls.[7] Though originally intended for girls only, Mía was offered to boys as well to increase the client pool and the long-term sustainability of the product. It also helped make the product more attractive to parents and guardians who were interested in both their daughters and sons having access to the program.

The product was launched in 2010 and rolled out to all of Banco ADOPEM's branches by the end of 2011. Today, four years after product launch, Mía continues to be a key part of Banco ADOPEM's product offering and is one of its most visible products, due in large part to the colorful marketing materials and collateral designed to attract youth.[8]



[6] http://www.womensworldbanking.org/publications/publications_banking-youth-guide-developing-innovative-youth-savings-programs/

[7] Interview with senior management conducted by Women's World Banking on June 27, 2014, Dominican Republic.

[8] Competitor and industry interviews conducted by Women's World Banking, April and June 2014, Dominican Republic.

What is Mía?

There are two types of Mía accounts, as indicated in the chart below. Mía-Menores, an account required to be opened by a guardian for those youth under age 16; and Mía-Mayores, for those youth aged 16-24, which can be opened either by the youth (if they have an identification card or "cédula," which can be issued at age 16) or by the guardian.

	MÍA-MENORES "YOUNGER"	MÍA-MAYORES "OLDER"
AGE	0–15	16–24
MINIMUM BALANCE TO OPEN	DOP 100 (US $2.50)	DOP 200 (US $5.00)
MINIMUM ON-GOING BALANCE	DOP 25 (US $0.63)	DOP 25 (US $0.63)
TERM	none	none
INTEREST RATE	Same interest rate for all liquid savings accounts at Banco ADOPEM	
FEES	Dormancy fee of DOP 10/month after 6 consecutive months of inactivity (US $0.63)	
ACCOUNT OPENING REQUIREMENTS	Guardian with *cédula* (ID card)	*Cédula*, can be opened without guardian

MÍA PRODUCT PROFILE

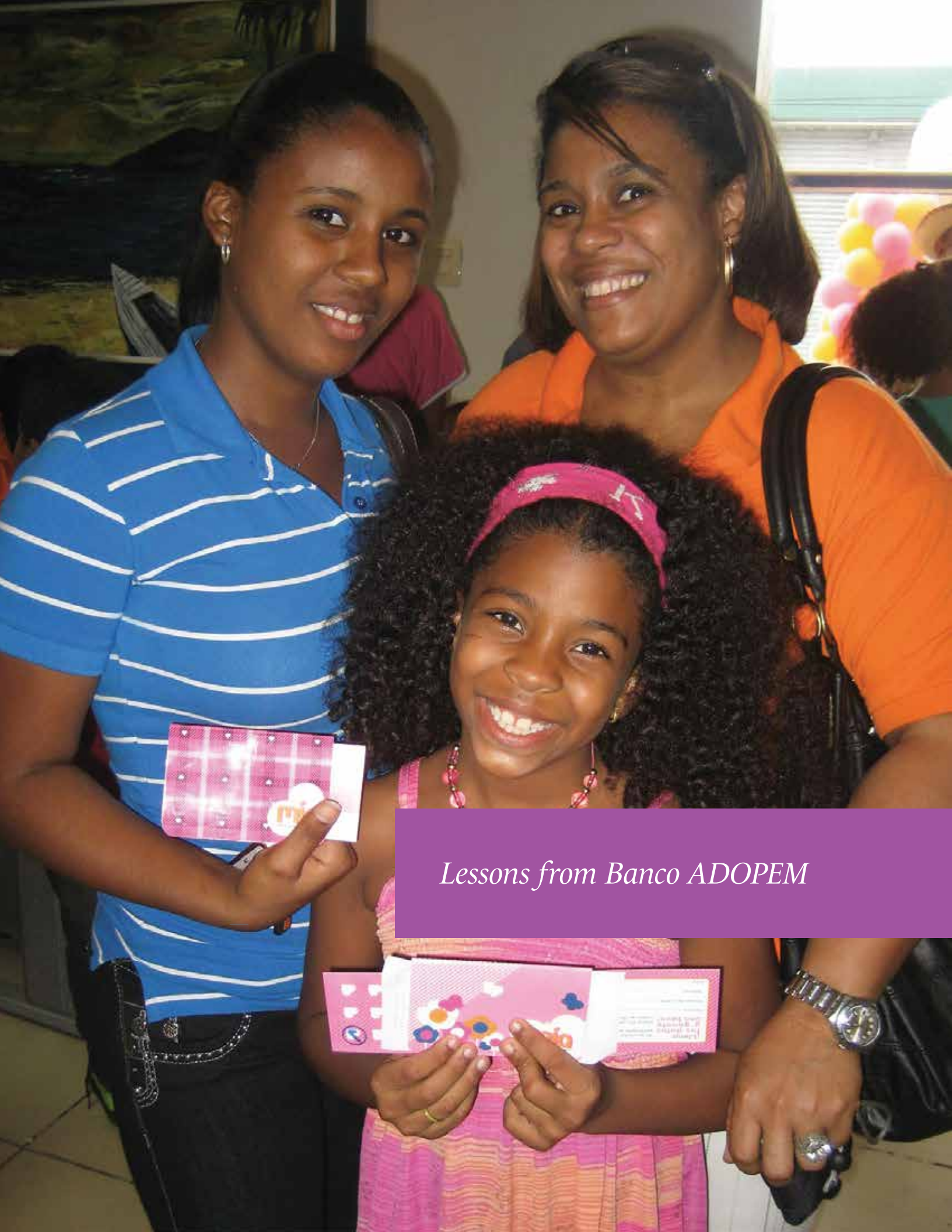
- 35,094 accounts opened
- 57 percent for girls
- 90 percent are Menores accounts
- Median age of youth (parent-opened accounts): 8 years
- Median age of youth (youth-opened accounts): 21 years

WHO IS A MÍA CLIENT?

- 26,231 clients, or 8 percent of all Banco ADOPEM clients *(Approximately 1.34 accounts opened per client, one parent may open an account for each of her children)*
- 81 percent of Mía clients were existing clients
- 19 percent of Mía clients were new to the bank through Mía
- Guardians' median age is 31 vs 35 for Banco ADOPEM clients without Mía accounts
- Mostly women clients: 86 percent vs 69 percent for Banco ADOPEM clients without Mía accounts

TERMINOLOGY

From here onward, individuals called "Mía clients" are adults who, as the parent or guardian, have opened Menores or Mayores accounts for their children. Youth who have opened their own Mayores account (without a parent or guardian) are referred to as "Mía youth clients." Individuals, either adult or youth, whose first introduction to Banco ADOPEM is through Mía are referred to as "Mía–first clients."



Lessons from Banco ADOPEM

1. Offer a multi-generational proposition that addresses both youth and their parents

A financial institution's approach to youth savings should reflect the financial needs, preferences and behavior of both youth and parents or guardians.

A complementary multi-generational youth proposition, which targets both youth and parents, balances the longer-term payoff of the youth-controlled account with the shorter-term profitability of the parent-controlled account, resulting in a more profitable value proposition as a whole. Still, a successful business case for youth savings requires a program that strikes a balance between a strict business objective of profitability and sustainability with a social objective of financial inclusion.

Because of the dual proposition to parents and children, we take a client relationship-based approach[9] that considers not just the direct product profitability of the youth savings account itself, but the overall profitability from the client's entire banking relationship with the institution, which includes the indirect profitability from cross-sales to youth and their parents and guardians.

YOUTH

Youth represent a financial institution's next generation of clients. Accounts for youth should be in the youth's name and maximize youth control and usage of the account[10], even if a parent or guardian is legally required to open the account.

THE BANCO ADOPEM EXPERIENCE: A GATEWAY PRODUCT

Youth-opened Mía accounts served as a gateway product to the bank. Of the 1,539 Mía accounts opened by youth themselves, 52 percent were new to the bank, as compared to only 13 percent of the accounts opened by parents or guardians. This trend demonstrates the appeal of the account to youth and its ability to bring new business from the youth segment into the bank. Strengthening outreach to encourage the opening of more youth-controlled accounts could bring a larger pipeline of long-term clients for Banco ADOPEM.

Having a bank account in one's own name gives young people the opportunity to build assets and financial capability at an early age. Nevertheless, realizing the promise of attracting the next generation of clients to the banks has a much longer-term time horizon.

THE BANCO ADOPEM EXPERIENCE: YOUTH ARE ACTIVE

While 44 percent of parent-opened accounts lost all of their deposits through dormancy fees, only 13 percent of the youth-opened accounts lost all their deposits to dormancy fees. These accounts were more active than the parent-controlled accounts, indicating interest and desire to begin saving and transacting at a young age. Profitability for these accounts was primarily driven by onlending revenue; and while almost half of these youth went on to borrow from the bank, they primarily engaged in the less profitable group lending product. Nevertheless, this cross-selling opportunity reinforces the long-term opportunity of youth as profitable clients.

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[9] Westley, Glenn D., and Xavier Martín Palomas. 2010. "Is There a Business Case for Small Savers?" Occasional Paper 18. Washington, D.C.: CGAP, September. <http://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Is-There-A-Business-Case-for-Small-Savers-Sep-2010.pdf>

[10] See "Components of a Youth Savings Program" (p 14) in *Banking on Youth*.

PARENTS

Many parents want to save for their children's future and help teach their children to save and are thus looking for opportunities to do so.

THE BANCO ADOPEM EXPERIENCE: ENGAGING PARENTS

Parent-controlled accounts represent 90 percent of accounts, and they open more than one account for their children.

Thirteen percent of the parent-controlled accounts were opened by guardians that were new to Banco ADOPEM, indicating that offering a youth savings account can bring new adult clients to a bank, in addition to new youth clients.

Though Mía was not specifically segmented to separately target parents as savers, the Menores account has become more of a parent-controlled account, given the very young median age of the youth. Over 85 percent of the accounts opened by parents were opened by existing adult clients.

THE BANCO ADOPEM EXPERIENCE: CROSS-SELL OPPORTUNITIES

The opportunity to cross-sell to parents makes them valuable sources of profitability for a youth savings program, effectively subsidizing the costs of serving youth who are less profitable due to lower balances and higher transaction and marketing costs.

When attributing profitability to the Mía product, this study only considered the cross-selling revenues from "Mía-first" clients since it can be assumed that all of this cross-selling revenue can be attributed to the Mía account. These clients opened Mía first and subsequently took out loans from Banco ADOPEM at a later date, unlike existing clients who were already borrowers at the bank and then opened Mía. For existing clients, ascribing profit is more difficult, since causality and the influence of the Mía account on these clients' other activities cannot be determined and may well be minimal.

Existing clients who open a Mía account are a stand-out category of clients: they are the most profitable clients for the bank *overall* as they generate the highest cross-sale profit and have better retention and default rates relative to Mía account holders as a whole, as well as the average Banco ADOPEM client. Though they borrow less than the average non-Mía client at the bank, they borrow in larger amounts and they have lower defaults when they do borrow. This performance is primarily attributed to the parents and guardians, not the youth themselves.

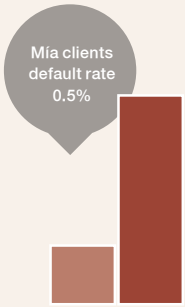
Thus, Banco ADOPEM has been able to cross-sell Mía to its best clients, which may further enhance their loyalty and deepen their relationship with the bank. While the profitability and retention value from these clients cannot be attributed only to Mía, the ability to retain these stand-out clients through Mía, among other factors, contributes to the overall profitability of the bank.

THE IMPORTANCE OF TRACKING CLIENT DATA

Investing in the systems and technology to adequately track client data is a foundational step in determining the success of financial products. It allows the institution to understand its relationship with the client and its evolution over time, as well as provide insights about groups of clients that may not be otherwise apparent. Tracking young clients' data longitudinally is critical because their profitability will not be evident until long after they graduate from their first youth account. Women's World Banking requires our partner institutions to invest in robust tracking systems and establish relevant key performance indicators (KPIs) for new product initiatives.[11]

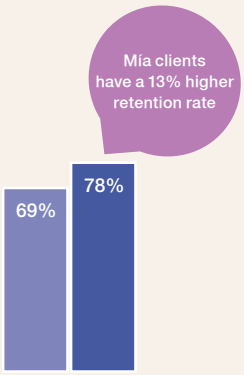
Tracking enabled Banco ADOPEM to know that Mía clients are better-performing, more profitable clients: they have a lower default rate on loans, save more, and are more likely to stay with the institution than the average Banco ADOPEM client.

Mía clients as a whole save more than the average Banco ADOPEM saver: 1,966 DOP vs 982 DOP.



Mía clients are better borrowers: they have a 0.5 percent default rate vs 1.8 percent for the average Banco ADOPEM client.

Mía clients are more likely to use remittances with 3.2 percent of Mía clients having sent/received at least one remittance compared to the 1.1 percent for the average Banco ADOPEM client. The remittances Mía clients receive are substantially larger than the average Banco ADOPEM client: 82,000 DOP per remittance vs 56,000 DOP.



Mía clients have a higher retention rate than the average Banco ADOPEM client: of those who joined the bank in 2011, 78 percent still had an active loan or savings account whereas only 69 percent of the average Banco ADOPEM clients did.

[11] See "Designing Key Performance Indicators" (p 59) in *Banking on Youth*.

2. Optimize product design for onlending

Youth savings accounts are often at risk of inactivity, given youth's irregular cash flows and interactions with the bank. Dormancy fees are a bank strategy to encourage account activation but also to generate income in the case of lapsed accounts. Youth-controlled accounts also typically have low balances, so the accounts that go dormant run the risk of losing most, if not all, of the balance to dormancy fees. These fees offer a short-term source of profitability for the bank, but in the long run can erode the product's deposit base. Encouraging the small balances to grow instead of losing them to fees can encourage more onlending, a more stable source of income for the program.

THE BANCO ADOPEM EXPERIENCE:

Dormancy fees are the second largest profit driver for Mía, derived mainly from adult accounts. More than 50 percent of parent-opened accounts lose half or more of their deposits through dormancy fees. Including dormancy fees in product design forces a trade-off between short-term profitability and long-term sustainability along with client goodwill.

Nearly half of all Mía accounts have small balances and experience high transactional account activity, making onlending a lower source of revenue than is ideal for a savings program, especially if dormancy fees are removed. Educating clients about the value of saving and growing balances can help increase onlending's share of revenue.

ANALYSIS

Women's World Banking conducted a sensitivity analysis and found that if Banco ADOPEM eliminates dormancy fees, breakeven would be delayed by at least one year, as profitability would be driven only by onlending revenue and cross-sales. For example, balances would need to grow by more than 30 percent to offset the loss of dormancy fee income through onlending. Nevertheless, Mía would still be profitable in the longer-term even without factoring in cross-sales revenue.

3. Establish a migration plan

To realize the long-term profitability of serving youth clients, throughout their lifecycle, financial institutions must build in retention strategies and migration plans to ensure youth stay with the bank.

According to an analysis of European youth accounts, youth become more profitable as they age and they are less expensive to acquire when young because they deliver revenue to the institution over a longer lifetime.[12] However, if youth do not stay with the bank over the long term, the bank misses a valuable opportunity.[13]

Thus, financial institutions must implement plans that ensure that youth accounts migrate—ideally automatically if regulation permits, with appropriate notification and engagement—to an adult account and access to the full range of financial products at the bank as they transition to adulthood. Financial institutions should have a tracking mechanism, such as a client identification number assigned to youth that is separate from their guardian's identification number, to be able to appropriately serve youth throughout their lifecycle. Without a clear migration plan, the long-term profitability and retention potential of youth clients is at risk. Furthermore, if youth clients have a negative first experience with banks—in that they do not feel engaged, or their deposits are all lost to dormancy fees—the bank also risks losing this next generation of clients and tarnishing its brand.

THE BANCO ADOPEM EXPERIENCE:

Banco ADOPEM did not have a system in place to track youth clients who transition into adult clients. In accordance with government regulation, Banco ADOPEM assigns a unique identification number to clients who have an identification card ("*cédula*"), which young people cannot obtain until 16 years of age, though the majority does not obtain it until age 18. Without the identification number, the bank cannot identify Mía youth once they take out loans or any other product with the bank. However, data from youth who are non-Mía clients show a promising picture. Though older by just one to two years than Mía youth clients, they take out more microenterprise loans (average of 1.11 compared to 0.51 for Mía youth) which make them more profitable for the bank. Automating and tracking these relationships with youth will give the bank data with which to understand their long-term relationship with the client and plan initiatives to further engage them with other services.

[12] Child and Youth Finance International and MasterCard, "Banking a New Generation: Developing Responsible Retail Banking Products for Children and Youth", March 2014 (25). <http://www.childfinanceinternational.org/resources/publications/2014-banking-a-new-generation.pdf>.

[13] Kilara, Magnoni, and Zimmerman. CGAP. 2014 (2).

4. Invest in marketing and financial education

Marketing and financial education support both the business and social objectives for offering youth savings. Marketing can encourage positive transaction behaviors such as higher deposit amounts and reduced withdrawals that will contribute to the program's profitability.[14] Efforts to build youth financial capability can increase youth confidence and comfort with using formal financial services and building assets; for the bank, financial education efforts can help build a more financially responsible and informed customer base. The format and content of any marketing campaign and financial education program must appropriately respond to client needs, as well as the capacity and resources of the financial institution.

ADOPEM NGO initially trained teachers at partner schools to deliver an eight-session financial education curriculum; however, the cost structure and operating model were more challenging than anticipated, so the curriculum was reduced to two sessions.

THE BANCO ADOPEM EXPERIENCE:

There was significantly higher marketing spend and allocated staff time at the beginning of the project, which correlated to higher account opening and activity. Banco ADOPEM tested different incentive strategies, conducted several marketing campaigns, and focused on building the brand. Tracking return on investment on these efforts can help optimize future campaigns.

The bank and ADOPEM NGO invested heavily in financial education during the first two years of the project, which also contributed to uptake. However, we cannot determine the impact of financial education on savings behavior and account performance because of data limitations. The financial education participant names were tracked manually and identifier information (such as a *cédula* or address) was either not tracked or unavailable. In the future, better tracking mechanisms that show the relationship between financial education and account performance can help financial institutions make decisions about how much to invest in financial education—no matter the delivery model selected.[15]

[14] See Women's World Banking, *Can Financial Education be the Engine for Savings Growth?* 2013. <http://www.womensworldbanking.org/wp-content/uploads/2013/06/Can-Financial-Education-be-the-Engine-for-Savings-Growth.pdf>

[15] See "Financial Education Delivery Models" (p 54) in *Banking on Youth*.

5. Plan for sustainability beyond donor funding

Marketing, product design, financial education and upfront salary costs are primary cost drivers in any new product introduction. For youth products, marketing and financial education costs can be even more significant. Donor funds that cover these high costs allow a bank to temper the perceived risk in investing in youth savings and secure institutional commitment. It allows institutions to test and evaluate marketing and financial education strategies that the institution might otherwise not have had the budget to explore. Furthermore, external funds allow an institution to shorten the breakeven timeline.

Funders and recipients should develop cost-sharing models, when possible, to ensure program continuity and mitigate grant dependency. Also, institutions receiving donor funds should perform strategic business case analysis and planning before and during the transition away from donor funds in order to:

- understand impact of external funds;
- determine what costs the institution needs to absorb and to what extent;
- reach internal alignment about the program's future.

Donor funds must complement other resources and the funder and institution together should identify how to transition or adapt.

THE BANCO ADOPEM EXPERIENCE:

Funding from the Nike Foundation's Girl Effect initiative allowed Banco ADOPEM to break even two years earlier in terms of cumulative net income, even though revenue drivers were not ideal.

The Nike Foundation grant enabled Banco ADOPEM to have a strong launch with an expensive marketing push, which was eventually rolled back when the grant period ended. Banco ADOPEM limited marketing to back-to-school and holiday campaigns, as well as intermittent branch events.

In terms of financial education, the Nike grant funded staff time dedicated to youth financial education and tracked performance against ambitious targets. Once the funds were phased out, the discrete youth financial education expenses were no longer covered and had not been absorbed into a broader budget; thus, financial education activities were reduced.

ANALYSIS

Sensitivity analysis indicated, however, that if after the end of the Nike grant, Banco ADOPEM continued spending on financial education at the same levels as in the first few years of the program when financial education was more comprehensive and intensive, the program would still break even in the same year, though with lower, but still positive, net and cumulative income levels. Building this kind of analysis into transition planning—in addition to analyzing the effectiveness of financial education investments —can ensure that important components of the youth savings program continue even after external funding ends.

Evolving approach to youth savings

Women's World Banking began its work in youth savings in 2008 in Mongolia and has been taking best practices learned from each implementation, refining and adapting its strategy to the next site.

Building a successful business case for youth savings requires a balance between the financial institution's business objective of sustainable profitability and the social objective of financial inclusion. When establishing a framework for analyzing a program's success, institutions must consider the right combination of profitability drivers and costs associated with efforts that promote financial inclusion and capability among youth.

Since introducing Mía at Banco ADOPEM, Women's World Banking has introduced youth savings with partners in Ethiopia, India and Nigeria. Our work in this area continues to evolve: increasingly we look to leverage technology to lower costs and increase accessibility to low-income youth. We are currently experimenting with including mobile and agent banking as part of the entire youth savings value proposition.

We look forward to assisting more financial institutions to begin serving this important market with well-designed, sustainable youth savings programs.

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Daniel Rozas (Independent Consultant) conducted the data analysis for this study in collaboration with Women's World Banking.

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