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The Global Findex Database

Financial Inclusion of Youth

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Younger adults make up a disproportionately large share of unbanked adults worldwide. Data from the Global Financial Inclusion (Global Findex) database show that 44 percent of youth (ages 18–25) have an account at a formal financial institution, compared with 55 percent of older adults (ages 26–64). Just 18 percent of youth report having saved formally in the past year, and 6 percent having borrowed formally. The age gap in account penetration persists across regions and across income, gender, and education groups within economies. The Global Findex database can be used to track the effects of youth-specific financial inclusion policies worldwide and develop a deeper and more nuanced understanding of how younger adults save, borrow, make payments, and manage risk.

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Harnessing the productive capabilities of youth—who make up about 20 percent of all adults around the world—will prove critical in advancing economic growth, particularly in developing economies. Yet in the developing world about 56 percent of youth remain outside the formal financial system, which limits their ability to invest in education, start a business, or manage day-to-day risk. Across both high-income and developing economies youth (ages 18–25) are significantly less likely than older adults (ages 26–64) to have a formal account, even when other personal characteristics—such as income, gender, and education—are controlled for.[1] Increasing young people's access to financial services can increase their human capital investment, as evidenced by recent research in the United States exploring the effect of credit offered to youth under government programs.[2]

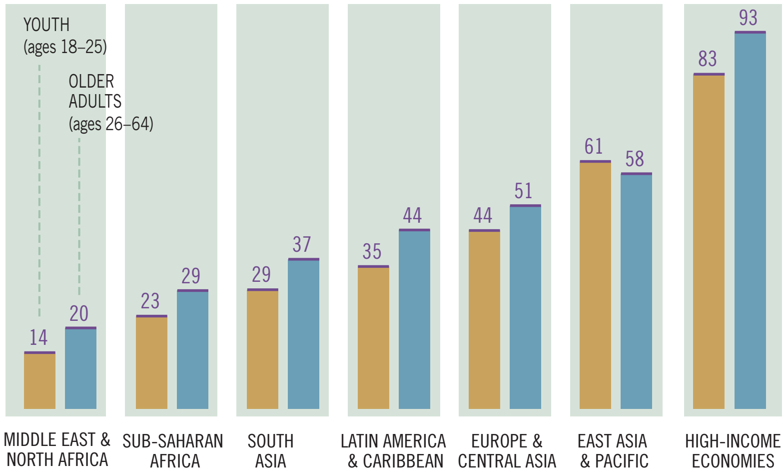
Lack of systematic data on the unique financial needs of youth and their use of financial services has hindered the provision of youth-specific financial services in many economies. The Global Findex database provides such indicators, measuring how people in 148 economies around the world save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on interviews with adults worldwide. Using these data, it explores differences in the use of financial services between younger and older adults, focusing mainly on youth in developing economies.

Is There an Age Gap in Account Penetration?

Globally, 44 percent of youth have an account at a formal financial institution—a bank, microfinance institution, credit union, cooperative, or post office—compared with 55 percent of older adults. As in other age segments, account penetration among youth is strongly related to country income level: while 83 percent of youth in high-income economies have a formal account, only 38 percent in the developing world do. There is also enormous variation within the developing world: In low-income economies 21 percent of youth have a formal account; in upper-middle-income economies 61 percent do. And just as among older

FIGURE 1
Account penetration by age group

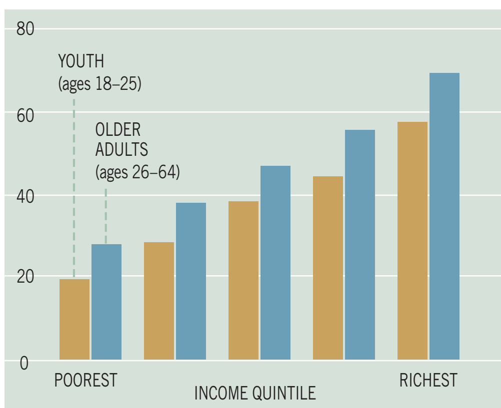
Share of age group with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper, forthcoming.

FIGURE 2
Account penetration in developing economies by age group and within-economy income quintile

Share of age group with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper, forthcoming.

adults, account penetration among youth is relatively high in East Asia and the Pacific and significantly lower in the Middle East and North Africa (figure 1).

Perhaps more relevant is the age gap, the difference in financial behavior between youth and older adults within a region or economy. Among regions, the largest age gaps in account penetration are in the Middle East and North Africa and South Asia, where youth are at least 30 percent less likely than older adults to have a formal account. But the largest ones in individual economies can be found outside those two regions—in Benin, Haiti, and Senegal, where the age gap exceeds 60 percent. Among developing regions, the largest absolute gap is in Latin America and the Caribbean, where account penetration is almost 9 percentage points lower among youth than among their older counterparts.

Within developing economies the age gap in account penetration persists across income quintiles. But it is larger at the extremes, in both lower and higher quintiles (figure 2).

Which Youth Are Most Likely to Have an Account?

In general, women, poor adults, and rural residents in developing economies are significantly less likely than their counterparts to have a formal account. With income held constant, however, the gap in account penetration between women and men is smaller among youth. The data show that while women ages 26–64 are 18 percent less likely than their male counterparts to have a formal account, the gender gap shrinks to 14 percent among those ages 18–25. Account penetration might increase more rapidly with age among men than among women because men are more likely to enter the workforce or take on the role of head of household. Generational factors may also be relevant, as gender equality tends to increase among younger generations in most economies.

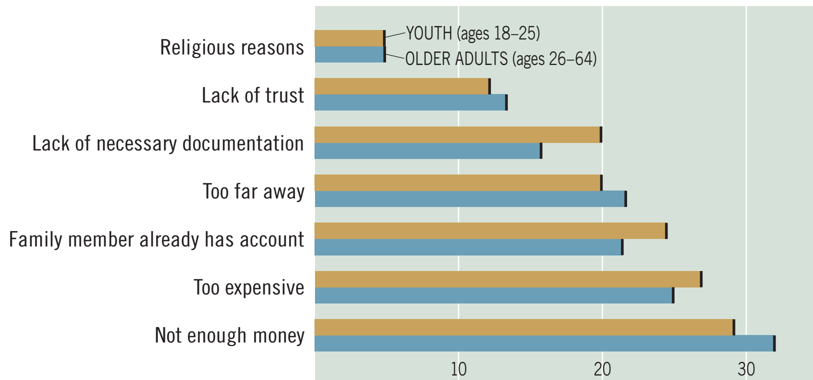
What are the barriers?

Why do more than 700 million youth in the developing world remain unbanked? As with older adults, the most frequently cited reason for not having an account is lack of enough money to use one: 67 percent of youth in developing economies give this response, with 29 percent citing it as the only reason for not owning an account (figure 3). The second most common reason—cited by 27 percent of youth without a formal account in developing

FIGURE 3

Self-reported barriers to use of formal accounts in developing economies by age group

Non-account-holders reporting barrier as a reason for not having an account (%)



Note: Respondents could choose more than one reason. The data for "not enough money" refer to the percentage of adults who reported only this reason.
Source: Demirguc-Kunt and Klapper, forthcoming.

economies (and 25 percent of their older counterparts)—is that the cost of having an account is too high. Another common reason for not having an account is that another family member already has one—24 percent of unbanked youth in developing economies cite this as a reason. While indirect use of an account may provide access to financial services, it may also limit financial independence and delay the establishment of a relationship with a formal financial institution.

Lack of necessary documentation, also frequently cited as a reason for not having an account, is significantly more common among younger than older adults. This reason is cited by 20 percent of unbanked youth in developing economies but 16 percent of older adults without an account. Youth may find it harder than older adults to obtain the documents needed to use financial services because of such factors as low financial literacy and limited mobility. Indeed, studies have found that the young are less likely than the middle-aged to be financially literate, which may affect the level of trust in and awareness of formal financial services.[3]

Saving and Borrowing Less Prevalent among Youth

Globally, younger adults are less likely than older adults to save and borrow. While 18 percent of youth report having saved formally in the past year—using a bank, credit union, or microfinance institution—25 percent of older adults report having done so. This is consistent with expected patterns in the use of financial services over the life cycle—as people start careers and families, they have both higher income and higher potential savings as well as greater expenses and greater demand for credit (such as a home mortgage).

Beyond differences in their tendency to save, younger and older adults also exhibit differences in their savings goals. Although 69 percent of both age groups report saving for future expenses such as education, a wedding, or a big purchase, older adults are more likely than their younger counterparts to report saving for a future emergency. While 70 percent of youth cite providing for emergencies as a savings goal (multiple responses were permitted), almost 78 percent of older adults do so.

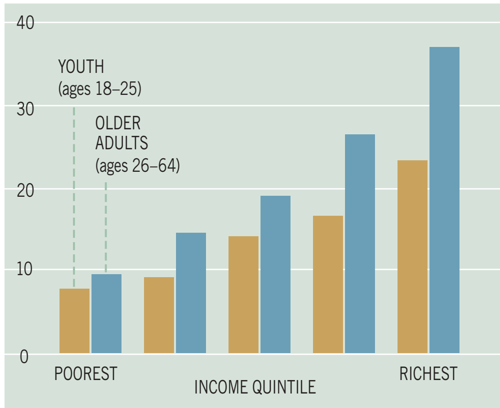
There is also a significant age gap in formal borrowing behavior—6 percent of youth report having borrowed from a bank, credit union, or microfinance institution in the past year, compared with 11 percent of older adults. Interestingly, there is no significant difference in informal borrowing behavior between younger and older adults. Worldwide, 28 percent of youth and 24 percent of older adults report having borrowed money from family or friends in the past year.

Among youth in high-income economies, school fees are the most commonly reported reason for borrowing money in the past year.[4] Although only 6 percent report borrowing for this reason, the frequency of this reason relative to others is consistent with the notion that education-related expenses can be among the largest financial burdens for young adults. In the developing world emergency or health purposes are cited most frequently as a reason

FIGURE 4

Formal saving in developing economies by age group and within-economy income quintile

Share of age group saving at a formal financial institution in the past year (%)



Source: Demirguc-Kunt and Klapper, forthcoming.

for borrowing money in the past year both among youth (with 10 percent reporting this type of borrowing) and among older adults (12 percent). The differences in borrowing purposes between youth in high-income economies and those in developing economies probably reflect differences in the attainment of postsecondary education.

The age gap in saving and borrowing varies across regions and country income groups, across income quintiles within economies (figure 4), and across modes of saving and borrowing. The age gap in formal saving, for example, is greater in the developing world than in high-income economies. In developing economies 14 percent of youth report saving formally, compared with 20 percent of older adults—while in high-income economies 46 percent of youth, and 48 percent of older adults, report doing so. In addition, a larger share of youth in developing economies report borrowing (34 percent) than report saving (29 percent), whether formally or informally.

Conclusion

The Global Findex data highlight differences in account ownership and other financial behaviors between younger and older adults worldwide. As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how youth around the world save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly.

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1. Allen and others 2012.
2. Lochner and Monge-Naranjo 2011.
3. Lusardi and Mitchell 2011.
4. Respondents choose from a list of borrowing purposes that include home purchase, home construction, emergency or health purposes, and funerals or weddings. Other borrowing purposes, such as the purchase of consumer goods, may be more common.

The reference citation for the Global Findex data is as follows:

Demirguc-Kunt, A., and L. Klapper. Forthcoming. "Measuring Financial Inclusion: The Global Findex Database." *Brookings Papers on Economic Activity.*

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