Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.11, 2014

The Role of Financial Literacy in Promoting Children & Youth Savings Accounts: A Case of Commercial Banks in Kenya

Kubasu Alex[1*] Ayuo Amos[2]
1.Faculty of Commerce, Department of Accounting Finance and Management Science, Egerton University
P.O Box 13357, Nakuru-Kenya
2.Lecturer, Faculty of Commerce, Department of Business Administration, Egerton University
Campus College, P.O Box 13357, Nakuru-Kenya
Email of the corresponding author kkubasu@yahoo.com

Abstract
The main thrust of the study was to establish the effect of financial education as a component of the children and youth savings account. The study adopted a survey research design. This study considered 36 commercial bank branches in Nakuru town. The study findings established that provision of financial literacy to children and their parent/guardians increases the effectiveness of children and youth savings accounts in impacting financial management skills and financial wellbeing to these young stars.

1.0 Introduction

Financial literacy remains a virgin research area in both developed and developing economies, and has elicited much research interest in the recent past with the rapid change in the financial landscape across the globe. OECD (2005), defines financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (Miller et al., 2009). According to Wachira & Kahiu (2012), financial literacy helps in empowering and educating consumers so that they are knowledgeable about finance and enables them to use this knowledge to evaluate products/services and make informed decisions. It is widely acknowledged that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares consumers for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance.

Financial literacy facilitates the decision making processes such as payment of bills promptly, prudent debt management which improve the credit status of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes. Facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services. This is because financially literate consumers create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Consumers on their part are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions.

Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of this knowledge helps households to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility. (Hilgert, Hogarth, & Beverly, 2003) asserts that financial knowledge appears to be directly correlated with self-beneficial financial behavior. However, skeptics' (Lyons, Palmer, Jayaratne, & Scherpf, 2006) question the effectiveness of financial education in improving financial literacy. Van Rooij, Lusardi, and Alessie, 2007) in a study of Dutch adults, established that households with low levels of financial literacy are more likely than others to base their behavior on financial advice from friends and are less likely to invest in stocks.

According to Zimmerman et al., (2011), evidence shows that those who are less financially literate are likely to face more challenges with regard to debt management, savings and credit, and are less likely to plan for the future. Regulators of financial services, have a responsibility to help consumers of financial services in making informed financial decisions so as to promote consumer protection, public awareness, and maintenance of market confidence (Wachira & Kahiu (2012). Information asymmetry between financial institutions and potential users leads to weakened financial system. Financially literate consumers pose less risk to the financial system due to their responsible use of financial services which help to underpin financial market stability, and contribute to increased savings, wider economic growth and development.

Despite the growing attention to youth savings from the social development and financial service providers, there is neither comprehensive information on how and why savings initiatives are being implemented, nor conclusive evidence that they actually can achieve target goals (Deshpande and Zimmerman, 2010). The study focus on CYSAs aimed at those aged 12–18 because this is often a period of pivotal life choices (such as dropping out of school, initiating sexual activity and managing earnings) that emerging evidence indicates savings may be able to affect

1.1 Statement of the Problem

Individuals may acquire financial knowledge, attitudes, and behaviors from informal and formal sources. Informal sources include parents, other relatives, and friends. Formal sources include financial education courses are offered by public organizations (e.g., schools and the Cooperative Extension System) and private organizations (e.g., consumer credit counseling agencies, financial institutions, and private employers). Financial education is often a mandatory component of home-ownership and Individual Development Account (IDA) programs, and it is assumed that financial education leads to increased home ownership and saving (Caskey, 1998). One question of interest to the Children and Youth Savings Accounts (CYSAs) providers is whether formal financial education makes children and youth savings accounts more effective. In other words, are positive outcomes from CYSAs more likely when account-holders (or their parents) receive formal financial education?

1.2 General Objectives

This study seeks to establish the link between formal financial education and Children and Youth Savings Accounts (CYSAs).

1.2.1 Specific Objectives

i) To determine whether the inclusion of financial education as a component makes CYSAs more effective.
ii) To determine whether at preschool site, provision of financial education to parents makes CYSAs more effective.
iii) To determine whether at teen site, financial education provided to teens and delivered in school makes CYSAs more effective

2.0 Literature Review

2.1The Need for Children and Youth Savings Accounts

According to Deshpande and Zimmerman (2010), a third of the global population today is under age 19. With 90 per cent living in developing countries, and 45 per cent living on less than two dollars per day, there are more young people than ever who need support tools and opportunities to become productive, contributing adults. In the search for such tools, scholars and practitioners have focused increasingly on savings and asset building. Research and practice linking young people to savings opportunities suggest that children youth-owned savings accounts (CYSAs) could benefit low-income children and youth in at least two ways.

CYSAs can facilitate 'asset effects' – economic, social, psychological and behavioural changes caused by asset ownership – which can improve multiple development outcomes for vulnerable youth. Over the last 20 years, a growing body of evidence has shown that building assets, and specifically savings, can bring a range of benefits to individuals and households, including those with low incomes (Sherraden, 1991; Schreiner and Sherraden, 2007; Shanks et al., 2010; Chowa et al., 2010). Recent experiments in developing countries have begun to show links between CYSAs and development outcomes including mental health functioning, education, and health behaviours (Ssewamala et al., 2009). Second, youth-owned savings accounts have the potential to promote financial inclusion. At the most basic level, this would occur by bringing more people into the formal financial system at an earlier age, and giving them access to more diverse strategies for household economic management as they begin their adult lives. But substantive financial inclusion encompasses more than simple access to financial services; it requires the educated and savvy use of these services, or financial capability, among clients. Promoting savings could enhance this type of substantive financial inclusion by increasing young people's knowledge of and experience with financial services, inculcating good habits when they are relatively easy to form.

2.2 Informal Financial Education

As one might expect, parental involvement in teaching or modeling saving behavior appears to influence children's attitudes regarding finances (Matthew Greenwald & Associates, Inc., 1999; 2001). In fact, 94 percent of students say that they are likely to use their parents as a source of financial information (Matthew Greenwald & Associates, Inc., 1999), and 60 percent of parents say that their child has asked about financial matters (Matthew Greenwald & Associates, Inc., 2001). In one study of 1,619 employed high school seniors and their parents, students who saved were more likely to have parents who saved in general, who saved specifically for college, and who planned how they would use their money (Pritchard et al., 1989).

When asked how effective were their parents in engaging them in financial matters. According to Matthew Greenwald & Associates, Inc., (1999), 31% of students say their parents rarely or never discuss with them setting financial goals), and less than half of parents can think of more than one thing they have done to teach their children about financial matters (Matthew Greenwald & Associates, Inc., 2001). Parents with incomes of less than $35,000 may be less equipped than parents with higher household incomes to be sources of financial information for their children (Matthew Greenwald & Associates, Inc., 2001). These findings suggest that informal sources of financial education are inadequate in equipping children and youth with financial knowledge.

2.3 Formal Financial Education

In developed countries, adults' financial information is delivered in the workplace and is related to retirement savings, (e.g, the 401(k) plans in the USA). Retirement-saving material focuses on increasing knowledge of financial topics and, because 401(k) plan participation is typically voluntary, the link between current choices and retirement income. Limited research on 401(k) plans indicates that both plan participation rates and saving rates increase with employees' exposure to financial education (Bayer, Bernheim, and Scholz, 1996; Clark & Schreiber, 2008). Bernheim and Garrett (2003) found that in firms that offered financial education, participation rates were 20 percentage points higher for employees who chose to attend than for those who did not, and that employer-based education significantly increased household and retirement savings. Garman et al. (1999) also found that financial planning workshops produced positive changes in employees' personal financial behaviors. Low earners are less likely than more highly compensated individuals to work for employers who offer 401(k) plans and are therefore less likely to receive workplace financial education. However, some low-income adults receive financial education through IDA programs. Two studies of IDA participants suggest that completing up to 12 hours of financial education has large, positive effects on saving deposits (Schreiner et al., 2007) and on saving frequency (Clancy et al., 2001).

According to Tobe (2005), personal finance classes for youth may also positively impact financial knowledge and saving behavior. In a study of 418 teens participating in a high school financial planning program (Boyle et al., 2002), financial knowledge, behavior, and self-efficacy improved immediately after program participation. Additional progress was reported three months after program participation: fifty-eight percent of participants reported changes in spending habits (e.g., thinking more carefully about spending, saving money for purchases, or buying only necessary items), and 56 percent reported changes in savings habits (e.g., starting to save, or saving more than previously).

In another study of 418 students who completed a personal finance course, 41 percent of participants said the course altered the way they handled money. Behavior changes included initiating saving, increasing saving, investing savings differently, and developing a budget (Matthew Greenwald & Associates, Inc., 1999). Ultimately, evidence suggests that participation in a financial education curriculum during high school may raise saving rates when youth reach adulthood (Bernheim, Garrett & Maki, 2001).

Most students aged 16-22 have never taken a personal finance class (Matthew Greenwald & Associates, Inc., 1999). In 2000, the average score for 723 public high school seniors on a personal finance test was 52 percent (Mandell, n.d.). The average score for 1,532 high school seniors on the same test in 1997 was 57 percent (Mandell, 2009), perhaps indicating that financial literacy among youth is declining.

Existing evidence regarding the effectiveness of financial education is limited. Studies on financial education although few, are concentrated in developed economies. No studies have been done in developing country on the significance of financial literacy among children and youth. Due to differing economic and social environment studies done elsewhere may not apply in the developing countries context. According to Wachira & Kahiu (2012), more studies on financial literacy should be encouraged so as to establish the dynamics about financial education and its outcomes. Campbell (2006) argues that with financial education poor financial decisions are likely to be reconciled with economic theory given that households have been found to make sub optimal decisions which deviate from what economic theory suggests. This will also help to state the depth to which financial service providers (Miller *et al., (*2009).

3.0 Research Methodology

This study employed a survey as its research design. The purpose of a survey is to explore and describe observed phenomena, (Kathuri and Pals, 1993). Surveys are effective in obtaining information relating to people's thoughts feelings and opinions. Surveys are suitable where the population under study is relatively large and the phenomenon under investigation can be observed directly by the researcher, (Borg and Gall, 1983). The target area of the study was Nakuru County in Kenya. The target population consisted of the 36 commercial bank branches customer relations managers in Nakuru town. A census of the entire customer relations manager was taken. Questionnaires were used to collect data. Data was analyzed using descriptive statistics.

4.0 Findings and Conclusions

Table 4.1 Financial Education as Component of CYSAs

Table 4.1 shows results on the effectiveness of financial education as a component of CYSAs. Majority of the respondents 72% and 64% think that it equips children and youth with ability to ask questions, a feeling of being in control of their finances and encourage savings and investment respectively. Equipping trainees with skills to use financial instruments to smooth consumption at 12%. Understanding budgeting concepts and ability to manage debt tie at 50%, going without basics in order to save at 31%, judging and assessing financial options at 42% and finally having funds remaining after bills are paid 28%.

Item	Frequency	% of Response
Feeling in control of finances	23	64.0
Understand budgeting concepts	18	50.0
Having funds remaining after bills are paid	10	28.0
Going without basics in order to save	11	31.0
Using financial instruments to smooth consumption	20	56.0
Savings for investment	23	64.0
Judging and assessing options	15	42.0
Ability to ask questions	26	72.0
Ability to manage debt	18	50.0

Table 4.2 Pre-teen, Financial education to Parents/Guardians

The study sought to determine whether the provision of financial education to parents/guardians. Table 4.2 shows that a majority of the respondents agree (over 80%) it increases the effectiveness of CYSAs as a means of promoting financial inclusiveness.

Item	Frequency	% of Response
Inculcates the responsibility to teach kids about money & savings	32	89.0
Enables parents review bank statements with their kids monthly	30	83.0
Enables parents to match their children's savings	29	81.0

4.3 Financial Education delivered in Schools

Finally the study sought to find out whether the provision of financial education delivered in schools makes CYSAs more effective. Majority of the respondents 64% enabled users to understand the number of credit lines, 55% indicated inculcated the feeling of being in control of their finances. Familiar with practices of financial institutions at 47% , planning day to day expenditures at 44 and demand clarity from providers of financial services at 42%

Item	Frequency	% of response
Financial education enables children to be disciplined planners	18	50.0
Planning day-to-day expenditures.	16	44.0
Feeling in control of finances	20	55.0
Familiar with practices of financial institutions	17	47.0
Demand clarity from providers of financial services	15	42.0
Number of credit sources	23	64.0

5.0 Summary and Conclusions

The findings indicate that inclusion of financial education as a package on CYSAs increases the financial literacy among children and youth. Equally provision of financial education to parents/guardians increases the effectiveness of CYSAs. Finally the inclusion of financial education and delivered in schools also enhances the financial ability of children and youth. The study therefore recommends the inclusion of financial education in YCSAs progrmmes to teens, youth and their parents/guardians.

References

Bayer, P. J., Berheim, B.D., & Scholz, J. K. (1996). T*he effects of financial education in the workplace: Evidence from a survey of employers.* Working Paper Issue 5655, Cambridge, M. A: NBER.

Bernheim , B., douglas and Daniel M. Garret, (2003). "The Effects of Financial education in the workplace: Evidence from a Survey of Households." *Journal of Public Economics*. 87: 1487-1519

Bernheim , B., douglas and Daniel M. Garret and Dean M. Maki (2001). "Education and Saving: The Long-term Effects of High School Financial Curriculum Mandates." *Journal of Public Economics*. 80: 435-465

Boyle, M.H. (2002). "Home Ownership and the Emotional and Behevioral Problems of Children and Youth: *Child Developmen*t, 73(3), 883-892.

Campbell, John, 2006. "Household Finance." NBER Working Paper 12149

Caskey, J. P. (1998) Can financial literacy education promotes asset accumulation for poor? (Manuscript). Swarthmore College.

Chowa, G., & Ansong, D., (2010). Youth and savings in Assets in Africa. *Child and Youth Services Review*, 32(11), 1591-1596.

Clark, Robert L and Madeleine d' Ambrosio, 2008. *"Adjusting Retirement Goals and Savings Behavior: The Role of Financial Education in overcoming the savings slump"* Ed. Lusardi, annamaria. P. 237-255. Chicago University Press, Chicago

Clancy, Margaret, Michal Grinstein-Weiss and Mark Schreiner, (2001). "Financial Education and Savings Outcomes in Individual Development Accounts". Working Paper. Washington University in St. Louis.

Deshpande, R. , & Zimmerman, J., (Eds.) (2010). *Youth savings in developing countries: Trends in practice, gaps in knowledge* (A report of the YouthSave Consortium). Washington, DC: YouthSave.

Garman, E.T., Kim, J., Kratzer. C. Y., Brunson, R. H. (1999). Workplace financial education improves personal financial wellness. *Financial Counselling and Planning,* 10, 79-88.

Greenspan, A. (2002). Financial Literacy: A Tool for Economic Progress. *The Futurist, 36, (4): 37-41*.

Hilgert, M. A., Hogarth, J. M. & Beverly, S. G. (2003). Household financial management: the connection between knowledge and behaviour. *Federal Reserve Bulletin, 89, 302-322*.

Kathuri N. J., and Pals A.D., (1993). Introduction to Educational Research. Njoro: Egerton, University

Lyons, A. C., Palmer, L., Jayaratne, K.S. U. & Scherpf, E. (2006). Are we making the grade? National overview of financial education and program evaluation. The Journal of Consumer Affairs, 40, 208-235.

Mandell, Lewis (2009). The Financial Literacy of Young American Adults, an Analysis of the Jump$tart Coalituion 2008 biennial survey. Washington, DC: Jump$tart Coalition.

Miller, M., Godfrey, N., Levesque, B. & Stark, E. (2009). The Case for Financial in Developing Countries: Promoting Access to Finance by empowering Consumers. World Bank, DFID, OECD, and CGAP joint note Washington DC: World Bank (Retrieved Feburuary 23, 2014 from http:brigaders.wdfiles.com/local-files/professional%3Abusiness –project-resources/Financial %20Literacy.pdf).

Mwangi, I., & Kihiu, N. (2012). *Impact of Financial Literacy on Access to Financial Services in Kenya.* International Journal of Business and Social Science. Vol.3 No.19.

OECD (2005). *Improving Financial Literacy: Analysis of Issues and Policies*. Paris: OECD Publishing

Schreiner, M., & Sherraden, M. (2007). *Can the poor save? Savings and asset building in Individual Development Accounts*. New Brunswick, NJ: Transaction.

Sherraden, M. , (1991). *Assets and the poor: A new American welfare policy*. Armonk: M. E. Sharpe, Inc.

Ssewamala, F. M,, & Ismyilova, l. (2009). Integrating children savings accounts in the care and support of orphaned adolescents in rural Uganda. *Social Service Review*, 34(1), 218-224.

Tobe, E. (2005). Successful State Collaborations. *Credit Union Magazine*, 71 16A-17A.

Van Rooji, M., Lusardi, A., & Alessie, R. (2007). *Financial literacy and stock market participation*, National Bureau of Economics Research Working Paper No.1365, Cambridge, MA: NEBR.

Zimmerman, J. M., & Holmes, J., (2011), *Savings-linked conditional cash transfer: Lessons, Challenges, and Directions*. Washington, DC: New American Foundation.