



# Children and the Financial Regulatory Landscape in Latin America <sup>1</sup>

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## Abstract

In spite of the increasing evidence that has revealed that early access to financial services has long-term impacts, children and adolescents continue to face major obstacles to be financially included, particularly in the developing world. This document presents the main results of a survey conducted among 14 Latin American countries and reports the landscape of regulation and policies that may enhance child and youth financial inclusion in the region giving policy recommendations stemming from a cross-country analysis. The results of this mapping exercise suggest that a) there is a great diversity in approaches to financial service regulation for children and youth in the region, b) The policies or intentions from national authorities do not always resonate in either regulation or implementation and c) young people are not often seen as independent economic actors.

**JEL Classification:** D18, G28, O10.

**Keywords:** children and youth, developing countries, financial capability, financial education, financial inclusion, regulatory framework.

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## Marco regulatorio para la inclusión financiera de niños y jóvenes en América Latina

### Resumen

Este documento presenta los principales resultados de una encuesta a Autoridades Reguladoras del Sistema Financiero de catorce países de América Latina y el Caribe, exponiendo el panorama de la inclusión y la educación financiera de niños y jóvenes en la región. El documento propone recomendaciones de políticas a partir del análisis de las respuestas de las Autoridades Reguladoras en las temáticas de acceso a servicios financieros, protección al consumidor financiero y educación financiera. Los resultados sugieren que en la región hay una gran heterogeneidad en el abordaje de la inclusión financiera de niños y jóvenes, que las políticas diseñadas no siempre redundan en un marco regulatorio o implementación adecuados y que tanto jóvenes como niños no siempre son vistos desde las políticas públicas como actores económicos.

**Keywords:** capacidades financieras, educación financiera, inclusión financiera, niños y jóvenes, marco regulatorio, países en desarrollo.

## **Introduction**

Close to 5 percent of the youth population worldwide has access to a savings account, though they represent around 18 percent of the world population (United Nations Youth Fact Sheet; United Nations Capital Development Fund, 2012), and disparities are significant; in some economies (i.e Australia, France and New Zealand) around 70 percent of students of 15 years old have a bank account, though in others (Israel, Poland and Slovak Republic) the figure is less than 30 percent (OECD 2014). In spite of the increasing evidence that has revealed that early access to financial services has long-term impacts<sup>5</sup>, children and adolescents continue to face major obstacles to be financially included.

Access to reliable financial services is a first step towards true financial inclusion that enhances welfare and allows people to reach their economic goals. However, the lack of appropriate regulation, allowing children and youth to open and operate their own financial services as well as the lack of availability of products suitable for young people are big barriers to achieving this full financial inclusion. In addition, there is often a link between guardians' and youths' financial inclusion which adds on to the barriers for tackling minor's financial exclusion.

An adapted regulatory framework is needed to overcome such barriers, particularly in the developing world. Financial markets have specific features: unlike for other markets, issues such as consumer protection, information management (especially when it comes to children), and (financial) education are relevant. Management fees and balance requirements may put an additional burden on consumers and increase the prices of products. In addition, in emerging markets, authorities deal with the task of fostering the supply-side of financial services to remote areas, the need to reach vulnerable groups, and the low levels of financial inclusion among adults, which in the long term hamper the opportunities for children to be included.

Both financial inclusion and financial education are gaining space in the policy-making arena and its relevance has been recognized in international scenarios such as the Asia-Pacific Economic Cooperation (APEC), the G-20, the Organization for Economic Cooperation and Development (OECD), and the United Nations (UN), among others. Particularly, financial inclusion is being considered as a topic in the construction of the post-2015 development agenda of the UN.

Latin America is a region of contrasts and deep inequality between and within its economies; child poverty in the region affects more than 200 million infants. In this scenario, adequate financial inclusion for children and adolescents can be seen as a tool to fight against these scourges; however, without a regulatory reform and the corresponding enforcement mechanisms, financial inclusion may remain an uncompleted task of policy makers and stakeholders in the financial sector.

To contribute to this field of research, in March 2014, a survey was disseminated among the main regulatory bodies of the region, to collect information about policies on child financial inclusion from 14 Latin American countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and the British overseas territory of the Virgin Islands. This document presents the key findings of the survey and explores the landscape of regulation and policies that may enhance child and youth financial inclusion in the region giving policy recommendations stemming from a cross-country analysis. The second section gives a context and background of the countries analyzed; the third contains the conceptual framework behind the importance of enhancing financial inclusion for minors; the fourth explains

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<sup>5</sup> Ashby, J., Webley, P., & Schoon, I. (2011). Save now, save later? Linkages between saving behavior in adolescence and adulthood. *European Psychologist*, 16(3), 227-237 and Friedline, Terri (2012). The case for extending financial inclusion to children. The Role of Parent's Financial Resources and Implications for Policy Innovations. *New American foundation*.

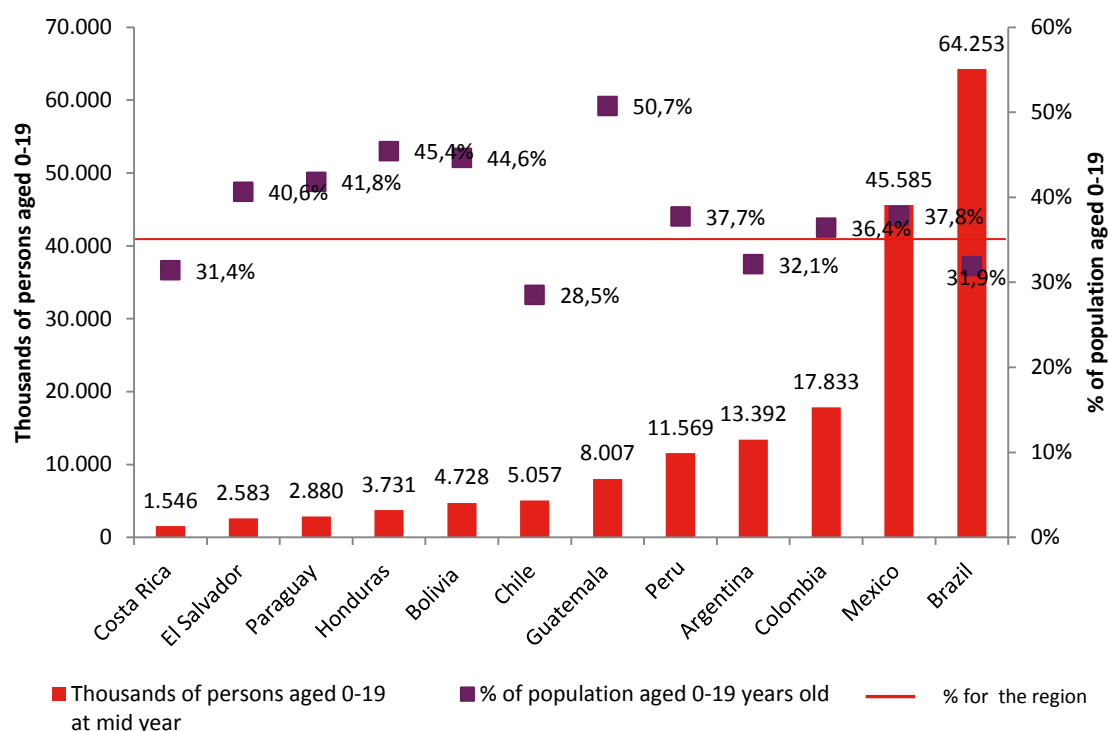
the methodology and shows the main trends found; the fifth shows the best practices in regulation, and finally some recommendations will be given stemming from the identified trends.

## 1. Financial Inclusion in the Latin American Context

Latin America is a young region where financial inclusion for minors plays a key role. Children and youth under 20 account for more than 215 million, which represents 35.5 percent of the total population. By 2040 this figure is projected to still be above 25 percent<sup>6</sup>. In the fourteen economies included in this document, the child and youth population adds to 181 million, Brazil and Mexico being the countries with the biggest population under 20 years of age (figure 1).

The different speed at which the demographic transition has taken place in the region has left some countries younger than others. On the one hand, with more than half of the population under the age of 20, and with a median age of 19.7, Guatemala is the youngest country of the sample analyzed in this document. On the other hand, in Chile less than one third of the population is “young”, and the median age reaches more than 30 years.

**Figure 1. Youth population (in thousands of persons) and share in Latin America**



Source: CELADE - Population Division of ECLAC. 2013

Latin America is a region of contrasts and deep inequality. The average Gross Domestic Product per capita for 2012 (at constant 2005 prices) is 5.797 USD; only Argentina (6.853 USD), Chile (9.452 USD), and Mexico (8.427

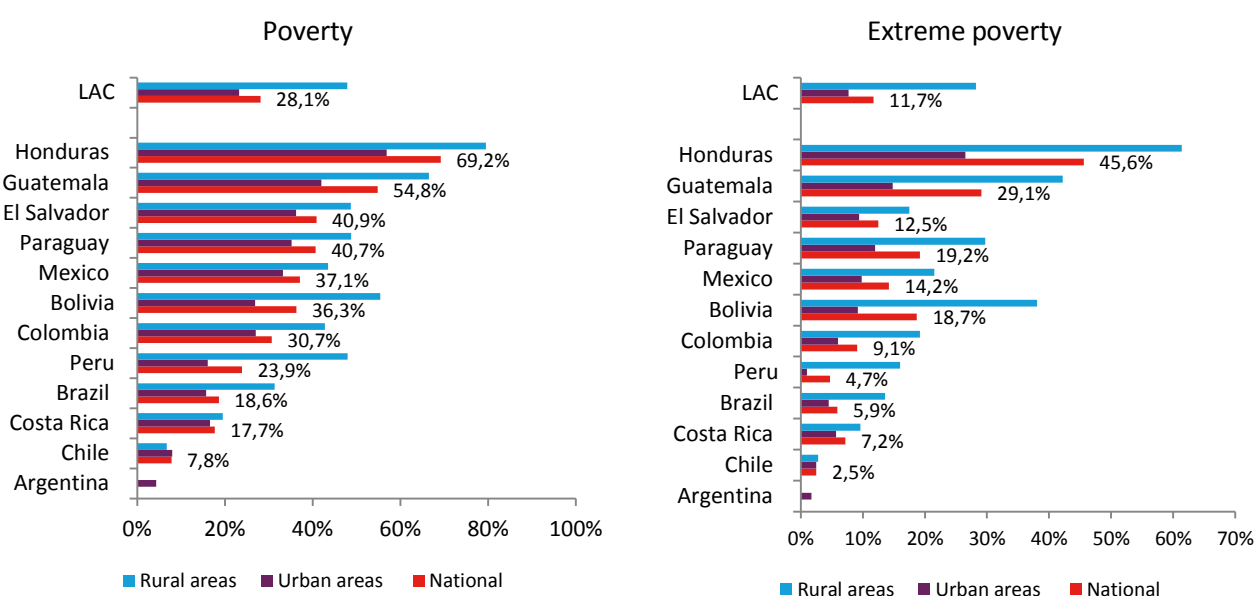
<sup>6</sup> CELADE (2013) Population Division of ECLAC. 2013 Revision.



USD) have higher levels, and Brazil (5.638) and Costa Rica (5.725) lower figures. Bolivia has the lowest value for this indicator (1.284 USD)<sup>7</sup>.

With a Gini coefficient of 0.496<sup>8</sup> Latin America remains one of the most unequal societies worldwide. Poverty in rural areas doubles that in urban ones, and extreme poverty among rural inhabitants quadruples that among their urban counterparts (Figure 2). In addition, children and adolescents are overrepresented among the poor: in 2011, 41.7 percent of minors lived in poor households; this is more than 10 percent above the total poverty rate in the region in the same year (Figure 3). Non-income measurement of child poverty includes nutrition, sanitation, housing, education, and information as the dimensions for estimating it; according to this indicator, close to 2011 70.5 millions of those under the age of 18 in the region (which represents 40.5% of them) suffered from either moderate or extreme poverty (one or more deprivations). These figures indicate that child poverty is an issue that should be urgently tackled particularly in the region.

**Figure 2. Poverty and extreme poverty by areas: 12 Latin American Countries, 2013\***



\*Figures for all countries correspond to 2013 except Argentina (2012), Bolivia (2011), Guatemala (2006), Honduras (2010) and Mexico (2012); LAC: Latin America and the Caribbean.

Source: ECLAC (2014).

Child and youth poverty is not the only scourge for minors in Latin America. Around 2012 the open unemployment rate for people aged 15-24 years old reached 15 percent<sup>9</sup> while the figure for total population was 6.6 percent, leaving minors overrepresented among the unemployed. Five of the fourteen countries analyzed (Brazil, Chile, Colombia, Costa Rica and Paraguay) have higher levels of youth unemployment than the average in the region (Figure 3). In addition, the rates of children and adolescents not being educated or employed are also a policy concern: according to ECLAC<sup>10</sup> young people under 20 not in education or employment (or not included in the working-age population group) account for close to 20 percent in some countries (Honduras, Guatemala and Peru), with even higher rates for youth aged 15 to 24 (Figure 4). According to the Global Financial Inclusion Index of the World Bank, financial inclusion levels in the sample of countries analyzed are very low. One of the indicators measuring one dimension of financial inclusion is the percentage of adults holding a bank account at a formal financial institution. In the region, less than 40

<sup>7</sup> ECLAC (2013). Social Panorama of Latin America 2013. United Nations publication. Santiago, Chile.

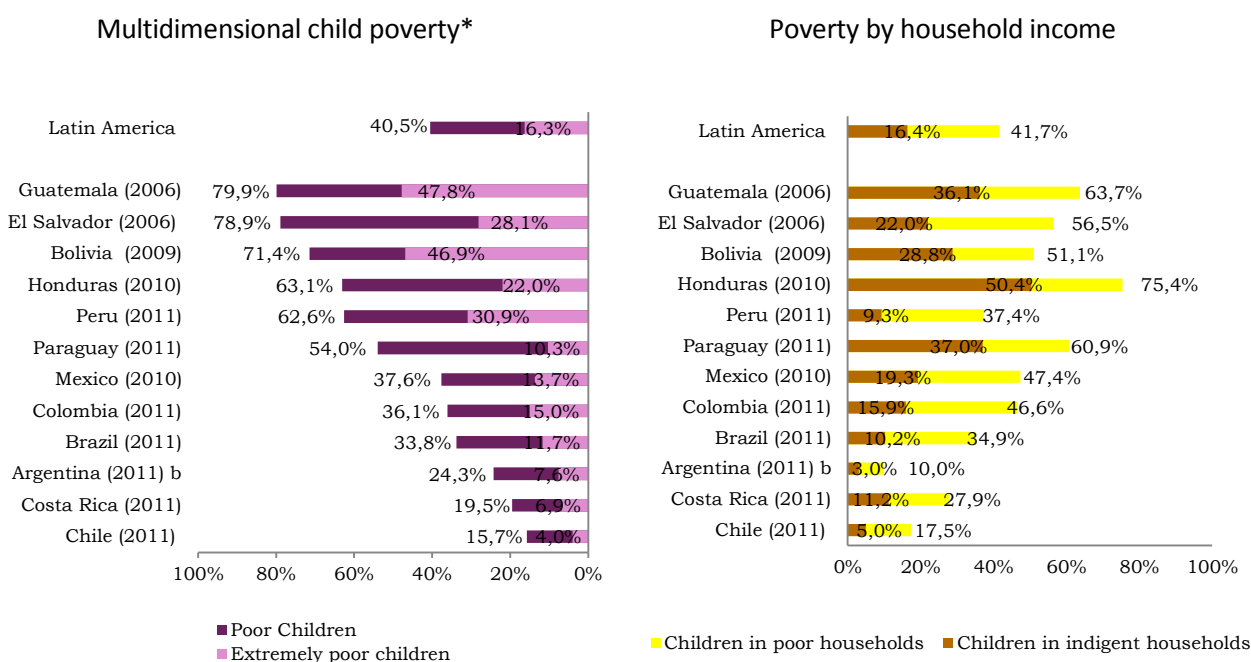
<sup>8</sup> ECLAC (2014). Statistical Yearbook for Latin America and the Caribbean. Nations publication. Santiago, Chile.

<sup>9</sup> ECLAC (2013). Social Panorama of Latin America 2013. United Nations publication. Santiago, Chile.

<sup>10</sup> ECLAC (2014). Statistical Yearbook for Latin America and the Caribbean. Nations publication. Santiago, Chile.

percent of adults have such product, with significant disparities among the countries analyzed (Figure 5) and between Latin American and global youth populations (Figure 6).

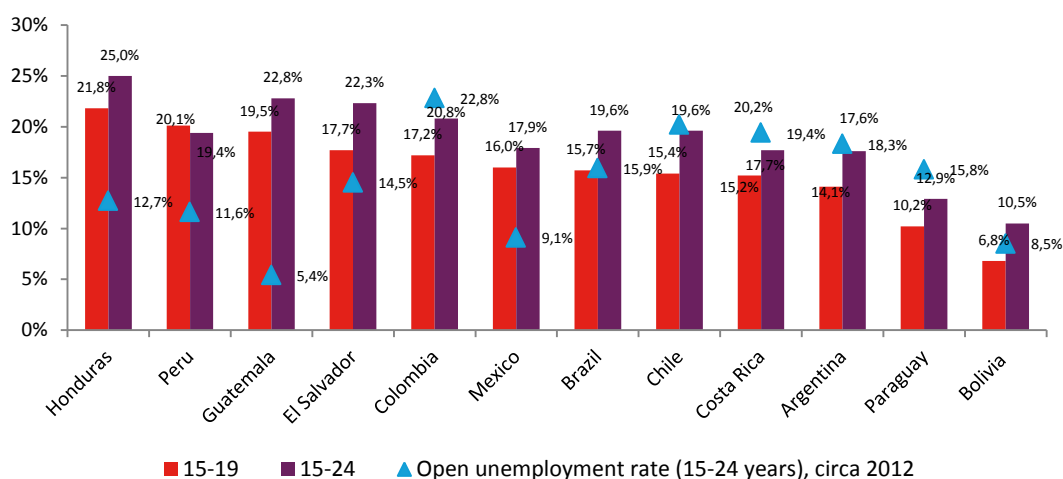
**Figure 3. Child poverty and child extreme poverty: 12 Latin American Countries, circa 2011\***



\*The figures for Argentina correspond to urban areas. \*\*Child poverty is estimated for children under 17 years old according to the UNICEF's definition.

Source: ECLAC (2013)

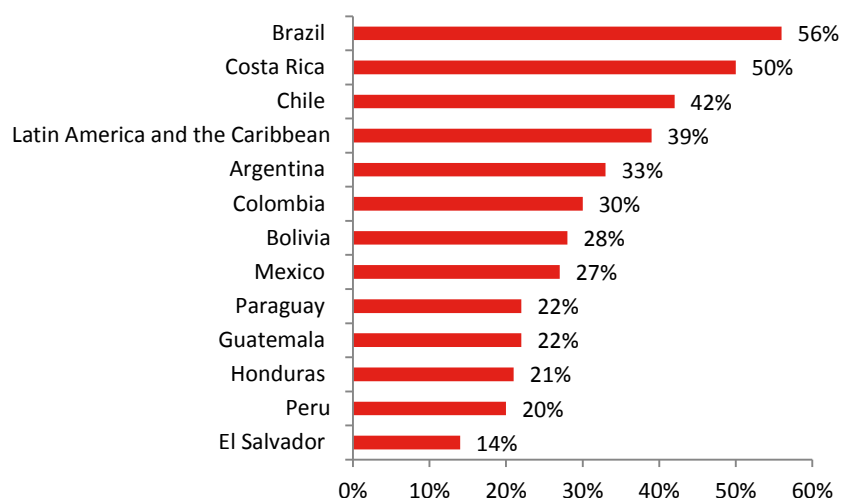
**Figure 4. Youth not in education or employment (circa 2013) and youth open unemployment rate (circa 2012) \***



\* Youth not in education or employment (%) Figures for Argentina only cover urban areas; data of unemployment rate for Guatemala refers to 2005.

Source: ECLAC, 2014 (Young people aged 15-24 years not in education or employment); ECLAC, 2013 (open unemployment rate).

**Figure 5. Adults with an account at a formal financial institution (%)**



Source: Results of the Worldbank-Global Findex survey (2011). The percentage is estimated over a sample of 1000 persons in each country.

**Figure 6: Financial Inclusion Indicators Youth 15-24**

Financial inclusion indicators Youth (15-24)	Latin America (%)	World youth aggregate (%)
Account at a formal financial institution	26.05	37.88
Formal accounts: Debit card	19.62	24.53
Accounts used for business purposes	2.59	3.88
Saved any money in the past year in bank account	27.7	30.34

Source: Results of the Worldbank-Global Findex survey (2011). The percentage is estimated over a sample of 1000 persons in each country.

In sum, the size and share of children and youth when compared to the population as a whole indicate the importance of minors as a key targets segment of social and economic policies; children and youth are poorer and more excluded from the labor market than the average population, which also can be seen as a waste of human capital. This situation reflects, in part, the disparities and heterogeneities of Latin American countries. This document builds on these realities while it presents the region’s regulatory framework and the way it can be utilized as a policy tool to tackle these issues.

## 2. Conceptual Framework and Current Evidence<sup>11</sup>

CYFI proposes that each child around the world should be financially capable, knows his or her rights and responsibilities within the community, and can build a sustainable livelihood for him or herself and hereby becomes an “economic citizen”. This Model of “Economic Citizenship proposes that financial education, social

<sup>11</sup> This chapter was based on information gathered for CYFI’s flagship publication, *CYFI, Children, Youth and Finance 2014* (Amsterdam, CYFI, 2014)



education, and financial inclusion are the building blocks of empowerment and financial capability that underpin economic citizenship for children and youth. Within this, financial capability has individual and structural components. It combines a person's ability to act with the opportunity to act. To be financially capable, people must have financial knowledge and skills as well as access to appropriate financial services to enhance social and economic well-being.<sup>12</sup> The opportunity to access financial services and put financial knowledge into practice is consequently a key step on the road to financial capability.

Still, research points out that children and youth are more likely than adults to be financially excluded.<sup>13</sup> This resonates with a common discomfort among policymakers and communities on linking children and money, or more specifically, linking children and formal financial services. Another common assumption is that children do not handle money. However, research increasingly shows that young people do handle money and also, in fact, save. A four-country case study conducted by the YouthSave Consortium indicates that the majority of young people handle money on a regular basis.<sup>14</sup> Research conducted by SEEP in 2013 showed that youth indeed have a variety of saving sources, such as allowance or part-time work, and they apply various conventional savings strategies, such as investment.<sup>15</sup> On the other hand, PISA results show that financial literacy levels of young people are low, lower than those of adults across the board, and strikingly varied across countries. For example, of the 13 participating OECD countries and economies, only one in ten students made the highest financial literacy proficiency level in PISA 2012.<sup>16</sup> The proportion of people with no high scores in financial knowledge, attitudes and behavior is also higher among youth than adult respondents.<sup>17</sup>

Access to youth savings accounts and to financial education are tools with the potential to encourage both financial capability, and eventually, economic citizenship. In this subchapter, we undertake an assessment of the rapidly growing body of research on programs that aim to increase financial inclusion and financial capability, and their potential impacts for young people.

### Children and Financial Inclusion

Financial inclusion has been proven to have the potential to play a key role on a micro and a macro level for adults, including to boost household welfare. Furthermore, macroeconomic level evidence shows that financial inclusion is positively correlated with growth and employment.<sup>18</sup> An analysis conducted by CGAP on youth account penetration (percentage of youth under 25 who have an account at a formal financial institution) and over 50 indicators from the Global Findex and World Bank databases, additionally revealed correlations between youth savings and several indicators of socioeconomic status, including gross domestic product per capita and secondary school enrollment. The use of other financial products (adult savings, adult and youth loans, debit card use) was also found to strongly correlate with youth savings. The researchers conclude that other indicators could be expected when studied in more detail.<sup>19</sup>

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<sup>12</sup> Sherraden, M. & Ansong, D. (2013). Research Evidence on the CYFI Model of Children and Youth as Economic Citizens 2013. CSD Research Review No. 13-04

<sup>13</sup> Based on Findex results for the 15-24 segment. Available on: <http://www.app.collinsindicate.com/worldbankatlas-fi/en-us>

<sup>14</sup> YouthSave (2013). *What do Youth Savers want? Results from Market Research in Four Countries*. Save the Children and the MasterCard Foundation.

<sup>15</sup> SEEP (2013). *Understanding Youth and their Financial Needs Youth and Financial Services Working Group*. Available on: <http://www.seepnetwork.org/understanding-youth-and-their-financial-needs-resources-1058.php>

<sup>16</sup> OECD (2014). *Do 15-year-olds know how to manage money?* PISA in Focus 41. Available on: [http://www.oecd.org/pisa/pisaproducts/pisainfocus/pisa-in-focus-n41-\(eng\)-final.pdf](http://www.oecd.org/pisa/pisaproducts/pisainfocus/pisa-in-focus-n41-(eng)-final.pdf)

<sup>17</sup> OECD & Russia Trust Fund (2013). *Financial Literacy and Inclusion: Results Of OECD/INFE Survey Across Countries And By Gender*. Retrieved from: [http://www.oecd.org/daf/fin/financial-education/TrustFund2013\\_OECD\\_INFE\\_Fin\\_Lit\\_and\\_Incl\\_SurveyResults\\_by\\_Country\\_and\\_Gender.pdf](http://www.oecd.org/daf/fin/financial-education/TrustFund2013_OECD_INFE_Fin_Lit_and_Incl_SurveyResults_by_Country_and_Gender.pdf)

<sup>18</sup> CGAP (2014). *Financial Inclusion and Development: Recent Impact Evidence*. Focus Note No. 92.

<sup>19</sup> Kilara, T., Magnoni, B. and Zimmerman, E. *The Business Case for Youth Savings: A Framework*.

Still, financial inclusion of young people aged 15-24 is low, as only 37.9 percent of those aged 15-24 have access to a savings account. Especially those under the age of 18 face serious barriers to access and use formal financial services, which are outlined below. .<sup>20</sup>

**Table 1 Barriers to access and use formal financial services**

1. Restrictions in the legal and regulatory environment <ul style="list-style-type: none"> <li>a. Identification requirements, such as a valid birth certificates or driver’s license, are a barrier to financial access for youth that lack such official documents.</li> <li>b. Even with access to banking services, regulatory barriers can limit what types of transactions youth are able to conduct as youth are often not permitted to withdraw without the adult custodian or co-signer present</li> </ul>
2. Inappropriate and inaccessible financial products offered by FSPs
3. Poor financial capabilities of youth or a lack of understanding of financial services available to them.
4. Cultural or gender norms that prevent vulnerable youth populations from having autonomy over their own savings account

Previous findings on financial access, inclusion and youth, suggest positive economic, social, and health outcomes for youth, falling in all into six broad categories: Economic and financial well-being; Financial knowledge and skills; Psychological health; Reproductive and sexual health; Academic achievement; Education attainment and expectations. Below, a short review is given on the most recent results (2013-2014) within the growing body of research on assets, savings and financial inclusion.

**Figure 7 Summary Research on Children’s and Parents’ Savings**

Study	Controls for Savings Accounts in Children’s Names	Controls for Parents’ Savings Accounts on Children’s Behalf	Savings Account at Outcome (n = 10)		Savings Amount at Outcome (n = 10)	
			Savings Accounts in Children’s Names is Significant	Parents’ Savings Accounts on Children’s Behalf is Significant	Savings Accounts in Children’s Names is Significant	Parents’ Savings Accounts on Children’s Behalf is Significant
Beverly, Kim, Sherraden, et al. (2012)	SEED OK	X	X	X	X	
Friedline (2012)	PSID		X	X		
Friedline & Elliott (2011)	PSID	X	X	X		X
Friedline & Elliott (2013)	PSID	X	X	X	X	
Friedline, Elliott, & Nam (2011)	PSID	X	X	X		X
Friedline, Elliott, & Nam (2012)	PSID		X		X	
Friedline, Elliott, & Chowa (2013)	PSID	X	X	X	X	
Friedline & Song (2013)	PSID	X	X	X	X	
Friedline, Nam, & Loke (in press)	PSID	X		X	X	
Huang, Nam, & Sherraden (2012)	SEED OK	X		X	X	
Kim & Chatterjee (2013)	PSID	X		X		
Mason, Nam, Clancy, et al. (2010)	SEED	X			X	
Nam, Kim, Clancy, et al. (2012)	SEED OK	X		X	X	

Source: Friedline (2014)

<sup>20</sup> Based on Scarlett Aldabot-Green and Aleta Sprague (2014). Regulatory Environments for Youth Savings in the Developing World, New America Foundation, [http://www.newamerica.org/downloads/Regulatory\\_Environments\\_for\\_Youth\\_Savings\\_Developing\\_World\\_Youthsave.pdf](http://www.newamerica.org/downloads/Regulatory_Environments_for_Youth_Savings_Developing_World_Youthsave.pdf) & UNCDF (2014). *Policy Opportunities and Constraints to Access Youth Financial Services* [http://www.uncdf.org/sites/default/files/Download/AccessstoYFS\\_05\\_for\\_printing.pdf](http://www.uncdf.org/sites/default/files/Download/AccessstoYFS_05_for_printing.pdf).

Within the more recent body of work, a large portion of research on asset building and savings looks into their effects on educational attainment. A study from 2013 on the Youthsave experiment, looked at the impact of household possessions on the academic achievement of youth in Ghana; findings affirm the hypothesis that these can have a positive impact on academic achievement as youth from households that reported owning at least one of the five appointed household possessions, scored higher on English than their peers from households that did not own any..<sup>21</sup>

In addition, using longitudinal data from a panel study on income dynamics, Friedline found evidence that parents owning savings accounts for their child emerged as the strongest predictor for young adults' savings account ownership. Young adults were almost three times more likely to own accounts when their parents were saving on their behalf seven years earlier, compared to neither children nor parents having savings accounts. Researchers indicate that if a purpose of children's savings policies is to improve children's financial behavior by staying connected with financial products such as savings accounts in young adulthood, CDAs (child development accounts) may produce this effect regardless of whether accounts are in children's names or whether parents save on children's behalf. They do point out that savings accounts in mainstream banking institutions and in savings programs are conceptually distinct from CDAs as mainstream banks require a parent or legal guardian to be named as an account custodian and it is up to them to designate accounts in children's names.<sup>22</sup> This evidence indicates the important role that regulation could play in this issue.

*"Parents owning savings accounts for their child emerged as the strongest predictor for young adults' savings account ownership."*

While research is incomplete and mostly focused on developed countries, there are a few studies that point to the potential for savings in childhood leading to continued savings later in life and improved financial well-being in adulthood. Friedline, Elliott and Chowa asked whether or not young adults in the US, among lower income households, were more likely to own savings accounts and to accumulate savings when they had access to savings accounts at banking institutions as adolescents. They used longitudinal data from the Panel Study of Income Dynamics and its supplements. Results supported the hypothesis. The researchers conclude that policies in place aimed to increase asset building and that prolong early access to savings accounts may improve savings outcomes for young people, which could potentially afford them with the economic means to lead a more productive life.<sup>23</sup>

The impact of Individual Development Accounts (IDAs) was additionally tested by Grinstein-Weiss et al. In a randomized control trial the impact of a 3-year matched savings program was tested on educational outcomes, 10 years after its initiation. The effect on (1) educational enrollment, (2) degree completion, and (3) increased education level was tested. The program provided low-income households with financial education and matching funds for qualified savings withdrawals. The results show a significant impact on education enrollment and positive (but non-significant) impacts on degree completion. They propose that "IDAs may be a desirable policy strategy to help increase education among low income adults."<sup>24</sup>

*"By the age of seven years, several basic concepts relating broadly to later 'finance' behaviors will typically have developed.. the enjoyment of doing something and n participating in "adult" activities such as going to the bank, provides sufficient motive for young children, and interventions to introduce or change young*

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<sup>21</sup> Chowa, G., Masa, R. D., Wretman, C. J. and Ansong, D. *The impact of household possessions on youth's academic achievement in the Ghana. Youthsave experiment: A propensity score analysis.* 69-81.

<sup>22</sup> Friedline, T. (2014). *The Independent Effects of Savings Accounts in Children's Names on Their Savings Outcomes in Young Adulthood.* Journal of Financial Counseling and Planning 25 (1).

<sup>23</sup> Friedline, T., Elliott, W. and Chowa, G. (2013). *Testing an asset-building approach for young people: Early access to savings predicts later savings, Assets and Educational Attainment: Theory and Evidence.* Economics of Education Review. 33, 31-51.

<sup>24</sup> Ibid, p.21.

*children's financial behaviors should take advantage of such motivations. This is also based on the generally excepted premise that children learn from observation, instruction, and practice"*

### **Children and Financial Capability**

Where the above shows that financial inclusion can play a role in academic attainment as well as savings behavior, and vice versa, financial education can have an important role to play in helping individuals to access and use appropriate (formal financial products). In 2010, the OECD/INFE launched a project on the role that financial education could play in financial inclusion. The results show that low levels of financial inclusion are associated with lower levels of financial literacy.<sup>25</sup>

The interplay between financial inclusion and financial education has led some to embrace the concept of "financial capability" as having both individual and structural components. To be financially capable, people must have financial knowledge and skills *as well as* access to appropriate financial services to enhance social and economic well-being.<sup>26</sup> Several studies in the last few years have corroborated this thesis, especially focusing on financial literacy outcomes. This section will discuss those that came out in the last two years.

Some of the recent studies above already suggest the importance of games or activity based learning, but as early as 1985, research has suggested that "Children develop financial and economic understanding when they have "personal economic experiences"<sup>27</sup> as results showed that children learn from observation, instruction, and practice. For example, Sherraden & Johnson propose that financial capability results when individuals develop financial knowledge and skills, but also gain access to financial instruments and institutions.<sup>28</sup> More recently, Whitebread and Bingham reviewed the literature on habit formation, to gain a deep understanding of habits that can impact financial capability later in life. They find that "by the age of seven years, several basic concepts relating broadly to later 'finance' behaviors will typically have developed."<sup>29</sup> They go on to outline those behaviors and discuss counting, conservation, the ability to plan ahead and choice architecture. They conclude that the enjoyment of doing something with the parent, a familiar habit or the feeling of mastery in participating in "adult" activities such as going to the bank, provides sufficient motive for young children, and interventions to introduce or change young children's financial behaviors should take advantage of such motivations. This is also based on the generally excepted premise that children learn from observation, instruction, and practice.<sup>30</sup>

A study from 2014, conducted by Jamison, Karlan and Zinman, provides somewhat mixed evidence on the effectiveness of financial education in combination with formal savings accounts for youth. The study randomly assigns 250 youth clubs to receive financial education, access to a group account, or both. The financial education treatments showed to increase financial literacy where the account-only treatment did not. More importantly administrative data showed that the education plus account treatment increased bank savings relative to the account-only condition. However, survey-measured total savings showed approximately equal increases across all treatment conditions. Earned income also increased in all treatment arms. The researchers therefore conclude to have found little evidence that education and account access are strong complements, but some evidence they are substitutes.<sup>31</sup>

Conversely, the first ever rigorous assessment of impact of classroom based financial education and access to a bank or credit union at school, conducted in 2 school districts in Texas and Wisconsin, shows positive results for financial knowledge, behavior and attitudes. The treatment arms existed of randomly assignment

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<sup>25</sup> Atkinson, A. & Messy, F (2013). Promoting Financial Inclusion through Financial Education OECD/INFE EVIDENCE, POLICIES AND PRACTICE

<sup>26</sup> Sherraden & Ansong (2013), p. 4.

<sup>27</sup> Schug, M.C., and Birkey, C.J. (1985). *The development of children's economic reasoning*. Theory and Research in Social Education, 13(1), 31-42; in Whitebread, D. & Bingham, S. (2013). *Habit Formation and Learning in Young Children*. The Money Advice Service, May 2013

<sup>28</sup> Sherraden M.S. & Johnson, L. (2006). *From Financial Literacy to Financial Capability Among Youth*.

<sup>29</sup> Whitebread, D. & Bingham, S. (2013). *Habit Formation and Learning in Young Children*. The Money Advice Service.

<sup>30</sup> Ibid, p.16

<sup>31</sup> Jamison, J. Karlan, D. and Zinman, J. (2014) Financial Education and Access to Savings Accounts: Complements or Substitutes? Evidence from Ugandan Youth Clubs. May 2014, NBER Working Paper No. w20135

to in school financial education by classroom and/or assignment to an in school credit union or bank. This study, conducted by CFED, showed that all treatment arms compared to control groups showed a significant increase in score change. Students with bank accounts were found to have larger effects in changes in learning as opposed to students who just received financial education, in addition, this data, though limited for students with bank accounts, suggests that education is related to students more active usage of their accounts. Attitudes towards saving and banks also improved. In a 2 year follow up it was shown that this learning persisted over time. Researchers concluded from these results that a). Class-room based financial education could provide great benefits b)In-school bank branches may be an effective way to introduce financial capability to children c) If this measure continues to prove successful, financial institutions could use guidance on regulation and state laws on how to incorporate such a “schoolbank” in other schools, and within that protect the child.<sup>32</sup> The latter indicates the key role that appropriate regulation can play also in innovative solutions to increasing children’s financial capability.

### 3. Cross country analysis: Trends and Key Findings

#### Methodology and Data Description

This document bases its recommendations on the trends identified with the Child and Youth Finance International Regulation Survey (herein after Regulation Survey); this tool collected a wide range of information on the topics of access to financial services, consumer protection and financial education with a specific focus on children and youth (Annex 1). The data gathered include specific national regulation on access to financial services, policies in place to protect the rights of the child in the finance system, and development of national strategy for financial education and inclusion. This survey included both, open and closed ended questions.

The Regulation Survey for Latin America and the Caribbean collected the responses of 14 Latin American countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and the British overseas territory of the British Virgin Islands. This survey was disseminated by the Association of Supervisors of Banks of the Americas among its associated members, which include “Authorities devoted to regulation and supervision of banking institutions throughout the Americas. [...]”<sup>33</sup> These institutions were sent a written survey to complete during the month of March, 2014<sup>34</sup>.

The Regulation Survey was created under the supervision of the Research Coordination at the Child and Youth Finance International Secretariat and with the collaboration of Banco de la República de Colombia (Central Bank of Colombia), the Center for Latin American Monetary Studies (CEMLA), the University of Boston and the Association of Supervisors of Bank of the Americas.

In this chapter trends and key findings of the survey will be presented and discussed. This section includes close and open-ended questions, while illustrating the results with relevant examples from the respondent countries’ legislation. The main issues explored revolve around the topics of specific policies that promote the access of financial services to children and youth, access of this segment of the population to money transfer services and remittances services, consumer protection with a special focus on them, national initiatives to promote financial education and finally, country specific regulations to allow the access of children and youth into the formal financial system.

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<sup>32</sup> CFED (2014). Financial Education & Account Access Among Elementary Students: Findings from the Assessing Financial Capability Outcomes (AFCO) Youth Pilot. [http://cfed.org/assets/pdfs/AFCO\\_Youth\\_Full\\_Report\\_Final.pdf](http://cfed.org/assets/pdfs/AFCO_Youth_Full_Report_Final.pdf)

<sup>33</sup> Association of Supervisor of Banks of the Americas. About ASBA: Associated Members. Available at: <http://www.asba-supervision.org/en/acerca-de-asba/miembros-asociados>

<sup>34</sup> It is important to point out that after the information was gathered some institutional changes may have taken place in the respondent countries. Nonetheless, the results analyzed here use the information explicitly collected in the survey.

## A. Policies to Promote the Access to Financial Products for Children and Youth

First, the survey aimed to provide a picture on the policies created by financial regulatory bodies in the Latin American region that promote the access to financial products for children and youth. 11 countries answered that in their domestic context there is no specific law or policy in place to do so. In these cases, policies focused on increasing financial inclusion among the population are designed to address the general public. In this sense, children and youth might be part of overall policies, but they are not an explicit target segment, which for policy-making is particularly important. Mexico, Peru and El Salvador reported to currently be undertaking such efforts and are promoting the access to financial products for children and youth specifically. Mexico and Peru have both developed national strategies on financial inclusion that focus on adults and children. The three components of Peru's strategy are consumer protection, financial education and access to finance. Access to finance is here focused mostly on banking the unbanked. Financial Inclusion policies in Mexico focuses on access to finance in a different way, as they approach access mostly from the supply side and demand, as includes a focus on bank branches (for example) and use of services. In El Salvador, although it does not have a financial inclusion strategy, has developed a specific regulation to allow and promote for access to finance for those under the age of 16. In addition, there seems to be a strong interest from the private sector to offer bank accounts specifically directed to this population.

More importantly, if countries promote inclusion among this population, does the law also allow those under the age of 18 to open and operate on their accounts? In most cases, results report that a guardian is required to be involved in the opening and operating of the savings and current account of the child at all times. Regulation in El Salvador Mexico and Peru however, have included special conditions pursuant to which some of these age restrictions are not applied or different age limits are in place.

The case of El Salvador is particularly interesting, as children from the age of 16 are explicitly mentioned in the law, and there is clear reference to the provision of financial services for them. The law actually indicates that minors who have reached 16 years old can open and manage savings accounts and acquire bonds.<sup>35</sup>

The cases of Mexico and Peru are somewhat different. In spite of allowing children to be the account holders they have no legal capacity to open or operate the bank account autonomously. However, in the case of Peru, legislation gives individuals over the age of 16 the ability to act in full legal capacity, in accordance with standing regulations, and as holders of electronic money, once they have received one previous authorization of either of the parents or a legal tutor.<sup>36</sup> The case of Mexico is somewhat more restricted, as the law states that "Savings accounts may be opened on behalf of minors, without prejudice that, based on the common legislation, minors may celebrate [...] deposits of money. In all cases, only the legal guardian of the holder will be able to manage the funds."<sup>37</sup> In sum, minors can only make deposits of money and not open or operate the account under the age of 18.

The remaining 11 responses indicate the lack of policies and regulation that enable individuals under the age of 18 to acquire legal financial obligations, suggesting that children and youth are not often regarded as a segment of autonomous actors, let alone with financial needs and in the search of ways to cover them. In Belize, for example, although there is a crescent interest in youth issues –as reflected with the creation in 2012 of the National Youth Development Policy of Belize<sup>38</sup>– and how addressing them might contribute to the overall growth of the country, by the time this survey was disseminated, there were not specific efforts being made towards the inclusion of youth in the financial system. In some of these countries, children and youth have been given legal status to open and operate savings account with certain constraints. For example, while Colombia does not explicitly promote financial inclusion for under-eighteens, interestingly, the law recognizes

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<sup>35</sup> Law of Banks. Art. 56 Letter G. Available at: [http://www.bcr.gob.sv/esp/index.php?option=com\\_wrapper&view=wrapper&Itemid=334](http://www.bcr.gob.sv/esp/index.php?option=com_wrapper&view=wrapper&Itemid=334)

<sup>36</sup> El Reglamento de Operaciones con Dinero Electrónico, aprobado por la Resolución SBS N° 6283-2013

<sup>37</sup> Law for Credit Institutions, Chapter II, Art.59. Available at: <http://www.diputados.gob.mx/LeyesBiblio/ref/lic.htm>

<sup>38</sup> National Youth Development Policy of Belize. Available at: [http://www.youthpolicy.org/national/Belize\\_2013\\_National\\_Youth\\_Development\\_Policy.pdf](http://www.youthpolicy.org/national/Belize_2013_National_Youth_Development_Policy.pdf)



that young adults (between 14 and 18 years old) can acquire certain obligations, among them, administer a savings account independently, where individuals under the age of 14 can have access, but not operate the account.

In the case of Costa Rica, in the Labor Code, Art. 47, it is stated that minors are able to administer and to decide upon the goods that they may have acquired through their own work<sup>39</sup>. However, the Civil Code, which is the overriding law in this case, states that individuals under legal age lack the faculties to grant powers (authorizations), to enter into a credit, and to arrange and/or to encumber assets to their name by their own decision. Nevertheless, this faculty of administering and deciding upon goods is limited as established in the Civil Code. In that sense, where the Civil Code is the general rule, minors cannot be compromised in obligations, nor can they celebrate business transactions, excluding particularly those of commercial nature, which seems to be

In sum, initial analysis indicates that in the region minors are not a common target of regulation or policies that allows them to be financially included in an autonomous way. Moreover, national policies on financial inclusion do not necessarily resonate in the regulation which may hinder or allow this inclusion for young people. Whether this is a case of regulation simply lagging behind national policy, or a cautious consideration by regulators, remains to be fully understood.

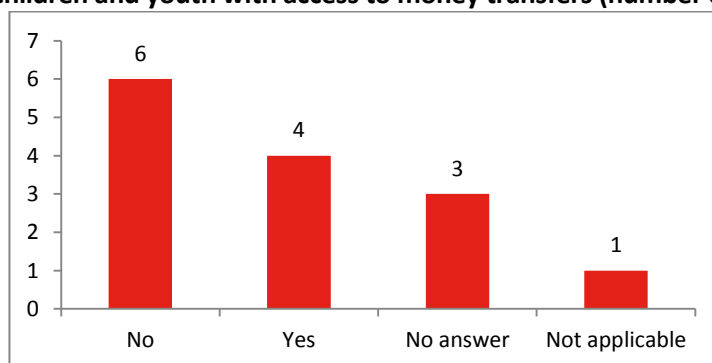
## B. Children and youth with access to Money Transfer and Remittances.

The second part of the survey looked into access to money transfers and remittances. Remittances have come to play an important role in the financial inclusion developments in the region. According to the World Bank Group the total amount of remittances received in Latin America and the Caribbean in 2013 were approximately USD 60,279 billion. Being an important part of the financial landscape of the region, the survey tried to establish a better understanding on access of children and youth to these services

### Money Transfers

Money transfers in this case include deposits, withdraws and movements between accounts. To the question whether children and youth have access to money transfers, answers offer an interesting contrast with the previous observations. Figure 6 indicates that in four of the respondent countries children and youth have access to money transfer transactions (Brazil, Colombia, Costa Rica and Peru). This suggests that there may indeed be another opportunity for financial access for children and youth in the region. It is important to highlight that, often, children and youth are only allowed to perform one kind of transaction, which is in most cases deposits.

**Figure 8. Children and youth with access to money transfers (number of countries)**



Source: Author's calculations based on the survey.

<sup>39</sup>Labor Code, Art. 47; available at: <http://www.mtss.go.cr/legislacion-laboral/codigo-de-trabajo.html>; and Code for Childhood and Adolescence Art. 86 available at: [http://www.oas.org/dil/esp/Codigo\\_Ninez\\_Adolescencia\\_Costa\\_Rica.pdf](http://www.oas.org/dil/esp/Codigo_Ninez_Adolescencia_Costa_Rica.pdf)

Nearly half of respondents reported that children and youth do not have access to money transactions within their jurisdiction. In this group it is important to differentiate between cases in which children and youth do not have any access to money transfer services, such is the case of Bolivia, British Virgin Islands, Guatemala and Paraguay, and a second group in which some restrictions apply, as it is the case of Honduras and Mexico. The first group is characterized by regulations that do not allow individuals under the age of 18 to acquire any legal commitment, consequently preventing them from participating in the formal financial system under any legal figure.

The second group presents some complexities that make worthwhile illustrating the cases with pieces of their corresponding legislation. In the case of Mexico, children and youth are allowed and encouraged to open savings accounts, however the legislation establishes that the child can only perform deposits to an account under his/her own name. In Honduras, children and youth have access to saving products, interestingly with no age limitations. This is due to the fact that the legislation defines the financial user as the natural or legal person who acquires or utilizes a service or product provided by a supervised institution. This concept is not discriminatory on age<sup>40</sup> However, children and youth are not allowed to perform any transaction without the physical presence of either the parents or legal tutor. In sum, children in Honduras can have an account under their own name from 0 years of age, however they cannot perform any kind of transactions until they are 18 years old.

### **Remittances**

Half of the countries that responded report that children and youth do not have access to remittances transfer services. Again, the main reason is the lack of legal capacity of those under the age of 18. A few cases that stand out, however, are highlighted below as they are different from those cases allowing money transfers.

In the British Virgin Islands individuals under the age of 18 do not have access to money transfers, but they can be the beneficiaries of remittances transfer services, with no age limitation. (The financial authority does not report on any particular piece of legislation to illustrate the point.) Conversely, in the cases of Costa Rica and Peru children and youth are allowed to perform money transfer transactions, but are unable to receive remittances. In Costa Rica, money transfers are possible only through the use of a savings account (deposits only). Regulations establishing legal majority of young people, prevents them from being able to perform any other act of financial nature. In Peru as mentioned previously, youth from the age of 16 have access to electronic money transactions and children under that age can do so with the presence of an adult. However, to be the beneficiary of remittances services, any individual under the age of 18 needs to be accompanied by his/her parents or legal tutor. The Peruvian legislation indicates that individuals under 18 do not have full capacity to exercise their civil rights.

From those 14 countries that replied to the survey only three reported that their regulation allows children and youth to perform both remittances and money transfers. These countries are Brazil, Colombia and El Salvador. In Brazil the regulator reports that "Remittances are regulated by Law 4131 of 09/03/1962[41], which does not specifically mention this matter. The purchase of currencies of up to USD \$3,000 does not require a form with the signature of the buyer or the seller, and therefore does not require consent from a legal tutor." The regulation also allows money transfer transactions for those under the age of 18 provided that some requirements are met, such as the minor being accompanied by its parents or legal tutor, or when a statement of emancipation has been issued no earlier than at the age of 16. Contrasting is the case of Colombia, in which the regulation recognizes that young adults can contract some legal

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<sup>40</sup> National Commission on Banks and Insurance of Honduras (CNBS). "Norms for the strengthening of transparency, financial culture, and attention to the financial user in the institutions supervised" Resolution GE No.1768/12-11-2013. Art. 3 Clause 11

<sup>41</sup> Available at: [http://www.planalto.gov.br/ccivil\\_03/LEIS/L4131.htm](http://www.planalto.gov.br/ccivil_03/LEIS/L4131.htm)

obligations. Therefore, children from the age of 14 are able to perform money transfer transactions and be the beneficiaries of remittances transfer services when in company of an adult.

The case of El Salvador is of particular interest due to the fact that from the age of 16 youth can manage their own savings accounts autonomously. The regulator reports that in most situations a national identity card is needed to receive remittances. However, if the individual beneficiary of the remittance has access to a savings account – even if he/she is under age – it is possible to receive the service through such an instrument.

**To sum up, some regulations are stronger than others allowing access to money transactions and remittances for children and adolescents; nonetheless, these laws appear less restrictive than those setting conditions for opening and operating savings accounts. The relevance of alternative transfer services such as the above, needs to be taken in consideration as they can provide a semi-formal tool for young people to invest in education and businesses, and therefore sustainable livelihoods.**

### C. The Protection of Children's Rights within the Financial System

In a changing global landscape impacted by the financial crisis with a focus on improving the financial behavior of consumers, children and youth are often considered. As children are learning about finance, earning money and often engaging with financial institutions, there has been a global debate on how financial institutions can better include children's rights in their consumer protection practice and regulation. UNICEF has spearheaded this movement, in which the Children's Rights and Business Principles provide a framework of protection.<sup>42</sup>

National initiatives on financial inclusion in the region have a strong focus on consumer protection. When dealing with minors, these issues need to be approached in a way in which the particular needs of this group are explicitly taken into account. 11 respondents from the Latin American region reported that there are no standing policies or laws in place that regulate the protection of children's rights within the financial system. This implies that in these countries, by default, those under the age of 18 do not fall within the regular consumer protection regulation, due to the fact that a minor does not have active legal capacity.

Brazil, El Salvador, Mexico and Spain are the only countries that listed to have a law regulating the protection of children in the financial system through regular consumer regulation. However, it becomes clear from the analysis of the legislation that in most of the cases, the law applies to *all* people participating in the financial system. This means that children and youth participating in the formal financial system are protected by default by established consumer protection laws, without a specific reference. Of those, Brazil, Mexico and Spain indicate to not have a specific regulation or code of conduct that financial institutions have to agree to, respect and follow when *approaching* children and youth. In addition, within the regulatory framework, they also report not to have any specific requirements that financial institutions have to fulfill to *ensure the respect for and protection of children rights* within their sector? (i.e. sign a code of conduct).

El Salvador, however, points towards its recently established Code of Good Practices for Providers of Financial Services<sup>43</sup>, which aims to promote good practices in the financial sector to the benefit of the consumers. It also aims to add to the transparency of the information provided by the financial entities to their users. As mentioned previously, Costa Rica stands out, as even though that there is not a specific mention of children and youth in the consumer protection law, the child protection law does make a reference to child and youth finance issues.

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<sup>42</sup> UN Global Compact (2012). Children's Rights and Business Principles. Available on:

[https://www.unglobalcompact.org/docs/issues\\_doc/human\\_rights/CRBP/Childrens\\_Rights\\_and\\_Business\\_Principles.pdf](https://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf)

<sup>43</sup> Gobierno de El Salvador (2014). Codiga de Buenas Practicas Para Proveedores De Productos Y Servicios Financieros. Available on:

[http://www.defensoria.gob.sv/images/stories/descargas/Codigo\\_de\\_buenas\\_practicas.pdf](http://www.defensoria.gob.sv/images/stories/descargas/Codigo_de_buenas_practicas.pdf)

Due to the lack of focus on children within regulatory frameworks, it is key that financial institutions embed children's rights into their business's agenda. Initiatives such as the SMART campaign, work with microfinance leaders from around the world to provide microfinance institutions with the tools and resources to deliver transparent, and respectful services to all clients. Campaigns aiming for similar transparent services and protection for those under the age of 18 would contribute considerably to mitigating the risks that exist in providing minors access to mainstream financial services.

A second opportunity exists within the drafting and implementation of financial inclusion strategies. Where regulation does not specifically focus on consumer protection, several national strategies specifically mention consumer protection as a point of concern and focus. For example, the Mexican financial inclusion strategy exists of three main parts. Financial inclusion is defined as access to and *use of financial services* under formal regulation schemes to ensure *proper consumer protection* and promote *financial education* to improve financial capabilities of all segments of the population<sup>44</sup>, indicating a strong focus on protecting the rights of clients within the national policy. As it mentions all segments of the population, under 18s are also included within this scheme.

The Pillars of a national strategy for financial inclusion in Peru exist of costs, use, access and quality of products, consumer protection, financial education, institutional strengthening and legal capacities.<sup>45</sup> Moreover, the Maya declaration and the commitments made to it are part of the strategy itself.<sup>46</sup> Moreover, in the launch of the strategy the relationship with the new consumer protection law was explicitly mentioned by the superintendent<sup>47</sup>.

In those cases where financial inclusion strategies have a specific focus on minors, consumer protection could potentially be converted to standing regulation.

**In sum, protecting people's rights in financial markets turns more relevant when we refer to minors. Information asymmetries, complexity of financial products, and private information management make it of the utmost importance to regulate the relationship between the financial service providers and the clients. In addition, low levels of financial literacy (particularly among children) demand answers from the policy point of view. However, the results of the survey conducted reveal that this topic is not only left out of regulation but also general business practice.**

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<sup>44</sup> Agreement establishing the National Council for Financial Inclusion, Official Journal of the Federation, Mexico, October 3, 2011.

<sup>45</sup> David Álvarez Cisneros (2013). Oportunidades y Obstáculos a la Inclusión Financiera en Perú. Centre for Financial Inclusion, 21.

<sup>47</sup> Gestion (2014) La agenda inclusiva de la SBS y Asbanc. May 27, 2014.

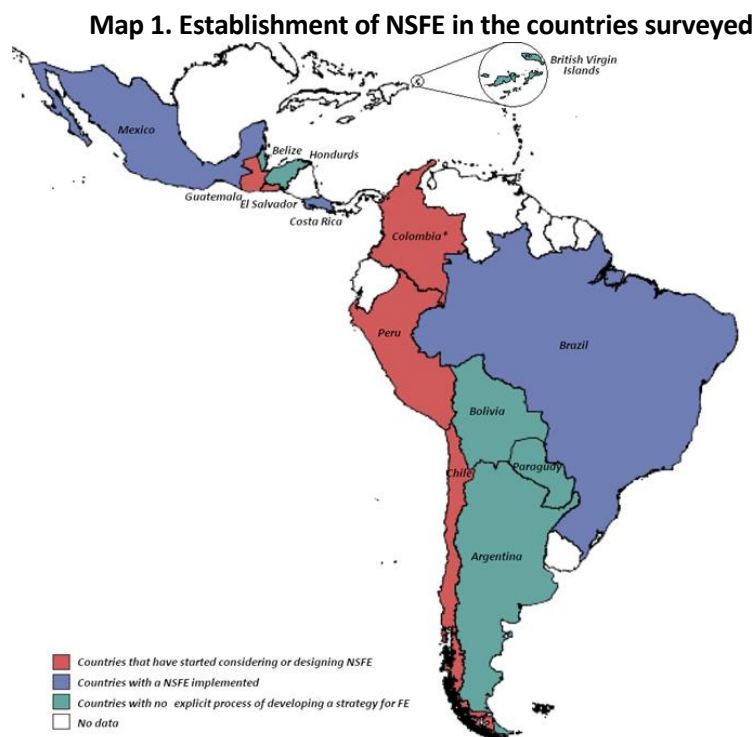
#### D. National Strategies for Financial Education and their Focus on Children

The design, development, implementation, and even the evaluation of a national strategy on financial education have become an agenda priority for some of the countries in the region, due to the importance of coordinating initiatives, and ensuring its quality. Currently, a significant number of countries is at a stage of design or implementation. Using the survey results, some trends can be identified: the establishment of a National Financial Education Strategy, the legal mandates linking financial institutions with financial education programs, and the leading institutions involved in financial education programs or in the Strategy.<sup>48</sup>

##### Establishment of a National Strategy for Financial Education

As defined by the International Network on Financial Education (INFE) a National Strategy of Financial Education (NSFE) is “a nationally coordinated approach to financial education which consists of an adapted framework or program” that recognizes the importance of FE, gathers different actors, defines a roadmap, and sheds light on individual FE programs<sup>49</sup>.

With regards to the existence of a National Strategy for Financial Education (NSFE), the economies analyzed reveal important heterogeneities in the region. Three out of the fourteen economies analyzed have a NSFE already in place. In this first group one country has evaluated the strategy and is in process of expansion. Five countries have started either considering or even designing the strategy and six did not mention in an explicit way the intention of developing it in the short run (Map 1).



\*Colombia launched its National financial Education Strategy (as well as the National Financial Inclusion Strategy) in 2014, one month after the survey was carried out.

The oldest NSFE among the countries analyzed dates from 2009 and is from Mexico, followed by Brazil and Costa Rica whose strategies were launched the following year and four years later, respectively. A month after the survey was conducted (March 2014), Colombia’s strategy was launched. With this updated

<sup>48</sup> This information was gathered in March 2014, so since then some strategies may be at a later stage of implementation

<sup>49</sup> Grifoni, A. and F. Messy (2012), “Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices”, OECD Working Papers on Finance, Insurance and Private Pensions, No. 16, OECD Publishing. <http://dx.doi.org/10.1787/5k9bcwct7xmn-en>

information, the number of countries with an official NSFE would reach four; still, less than half of the countries in the sample.

Disparities are present even in the countries with a NSFE already implemented. In Brazil the NSFE include two programs (FE in primary school and FE in high school). The program for high school students had its pilot between 2010 and 2011 and was evaluated hereafter with the support of the World Bank; at the moment the information for this study was gathered, the program was in the expansion phase with the goal of reaching more than 3.000 schools. In the case of Costa Rica and Mexico, impact evaluation has not yet taken place.

In the group of countries building their NSFE the advances are remarkable particularly regarding the institutional arrangements that in the future may foster the development of the strategy. For instance, Guatemala has a working group<sup>50</sup> in charge of designing the draft of the strategy, and in Peru the Financial Inclusion Commission will be in charge of the design of the financial inclusion strategy in which FE will be a component.

Among the countries that have not started designing a strategy or defined whether they will build one, financial education is anyway in the landscape. The British Virgin Islands have a Financial Literacy Program since 2011, Honduras has financial education programs focused on users of the financial system, and in Paraguay there is an agreement between the Ministry of Education and the Central Bank for training children, youth, and teachers.

The strategies currently implemented include children and youth as one of the main target, yet not as the only target segment<sup>51</sup>. In Brazil and Mexico minors can enter the programs through their formal education and at the moment the survey was conducted Costa Rica aimed to do this in a five-year period. Furthermore, Costa Rica may include minors outside the formal education system in the near future. In addition, in Colombia the NSFE recognizes the importance for the citizens of receiving financial education as early as possible in their life cycle, though it is not already in place.

For the countries in process of developing a strategy it is a general premise that minors are included as a key audience in one way or another. In Guatemala the Financial Education Fairs are directed to children (8-15); in Peru, since 2009 minors (12 – 17) receive FE in secondary school and it is expected to include this topic along all the basic education; in El Salvador children and youth in schools and tertiary education are part of FE campaigns.

Children and youth are an important target for financial education programs, even in countries with no process of developing a NSFE. This is the case for Argentina and Bolivia where the Central Bank's initiatives are directed toward children. In Honduras the FE programs are designed for general public, but recognize the importance of children and youth. In the short run Bolivia and Belize also expect to have FE in the curricula of schools. In Paraguay the partnership between the Central Bank and the Ministry of Education includes youth and teenagers as a key audience.

Some other general aspects deserve to be pointed out: in two economies there are explicit mentions of teachers' training as a component in the financial education (Peru and Paraguay); in three cases the answers reveal a specific link between financial education and citizenship (Argentina and Brazil) and entrepreneurship (Belize); three countries have followed guidelines of an international institution in the process of building their strategy or in the impact evaluation (Brazil, Colombia, and Mexico); there are four countries in which FE in school curricula is in place or in expansion plan (Brazil, Colombia, Costa Rica, and Mexico). In addition, wherever the central banks play an active role either in the NSFE or in the FE programs, the understanding of inflation and monetary policy aspects, and the role of that institution in the economy gains importance in the topics tackled by FE programs. Last, financial inclusion and financial education as policy tools seem to go

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<sup>50</sup> The name of the working group is "*Mesa Intersectorial de Educación Económica y Financiera*".

<sup>51</sup> This fact applies even for Colombia, though at the moment of the survey this country had not implemented the NSFE.



together in most of the countries through the work of the commissions associated or by including one of them as a component of the other.

Beyond the answers given in the survey, what factors can explain these differences among Latin American economies regarding their commitment to financial education matters? Two potential explanations may be proposed. On the one hand, the four countries<sup>52</sup> with a NSFE already developed are the countries with the highest levels of GDP per capita, and the economies that on average grow faster than the region as a whole: in Brazil recent economic progress has been translated into poverty and inequality reduction; during the last decade Colombia has kept greater growth rates than the region as a whole, and it is currently in the process of adhesion to the OECD; similarly, Costa Rica will soon begin the dialogue to be part of this group; Mexico belongs to the OECD, and has the second highest GDP pc of the region. With some exceptions (such as Argentina or Chile), it is possible to relate economic development with the interest and resources availability for building a strategy aimed to enhance financial literacy in the country.

On the other hand, institutional aspects may be involved. Both in the Mexican and Colombian case financial education was included as a component in the National Development Plan as key elements fostering the competitiveness of the financial systems in these economies.<sup>53</sup> These initiatives turned into Decrees in both cases. In the case of Brazil the initial version of the strategy was issued by the COREMEC (Committee for Regulation and Oversight of Financial, Capital, Insurance, Pension funds and Capitalization Markets) and integrated by four financial system regulators<sup>54</sup>. Similarly, in Costa Rica the strategy was an initiative of a four-member committee composed by superintendencies of the financial system.

#### **Legal mandates on linking financial institutions with financial education programs**

With regard to the existence of legal mandates requiring financial institutions to invest part of their revenue in financial educational programs and/or initiatives, only three countries responded positively.

Bolivia, Colombia, and Honduras are the three countries with a legislation that determines that financial institutions are required to carry out financial education programs for their consumers (table 2). There does not seem to be a relationship between this type of mandate and the implementation of the financial education strategy: at the moment the survey was conducted, none of these economies had implemented their NSFE.

Responses showed that in Belize, Brazil, Costa Rica and Mexico, there are no legal requirements for financial institutions to invest part of their revenue in this sort of initiatives. However, in Costa Rica some financial institutions carry out such initiatives as a component of their social responsibility programs.

When asked whether savings accounts or other financial products for children have to be formally linked with a financial educational program, only Mexico answered “preferably yes”. In this country, the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF) evaluates financial institutions with a point based system in which one of the main items is financial education programs. Therefore, it is not mandatory, but there are incentives for the financial institutions for developing such programs.

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<sup>52</sup> Taking into account Colombia.

<sup>53</sup> In the case of Mexico (Colombia), financial education was included in the National Development Plan 2007-2012 (2010-2014).

<sup>54</sup> See “Russia G-20 and OECD. Advancing National Strategies for Financial Education”. Chapter 4. “Brazil: Implementing the National Strategy”

**Table 2. Legal mandates requiring financial institutions to invest in FE programs**

Country	Legislation	Specific legal mandate
<b>Bolivia</b>	(2013) Law 393 of financial products, article 79.	“It is an obligation and responsibility of the financial companies to design, organize and carry out formalized programs on financial education for financial consumers (...).”
<b>Colombia</b>	(2009) Law 1328 of financial consumer protection, article 3.	“The companies under surveillance, the guild associations, consumer associations, public institutions that perform intervention and supervision on the financial sector, as well as the agencies of self-regulation will foster adequate education of the financial consumers regarding the financial products and services offered by the companies under surveillance, of the nature of the markets in which they act, of the institutions authorized to lend them, as well as of the different mechanisms established for the defense of their rights.”
<b>Honduras</b>	(2012) External letter National Commission of Banks and Insurance 140, Chapter 1, article 7,	The institutions under surveillance have to “develop and implement financial education programs and campaigns about the products and services they offer (...)”

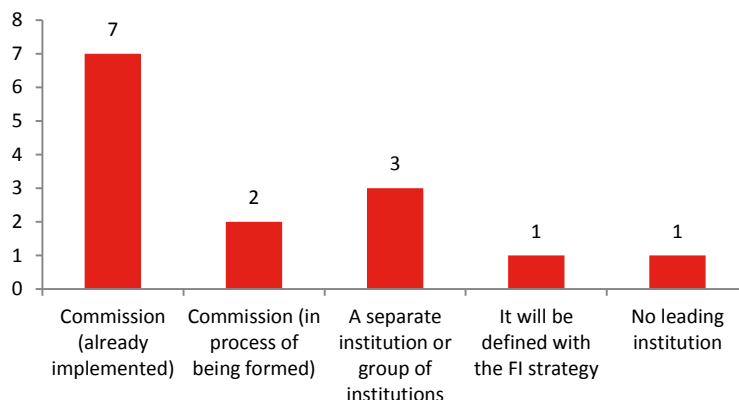
In Belize, Brazil, Colombia, Costa Rica and Honduras, financial products for children are not formally linked to FE programs. However, in the case of Brazil there is an indirect relationship between the NSFE and the financial institutions due to the composition of the National Committee on Financial Education (CONEF). There was no answer for the rest of the countries.

In general, among the fourteen economies engaged in the study, it is not common to have explicit legal mandates linking FE to financial products for minors.

### National leading institutions

Regardless of the existence of a NSFE , all respondent countries, except for the territory of the British Virgin Islands, indicated that there is at least one clear leading institution that is either developing or implementing the financial education strategy. (Figure9).

**Figure 9. Leading institution of FE programs/strategy in the countries analyzed**



Source: Author’s calculations based on the survey.

In nine of the countries analyzed in this study there is a leading group already formed or being defined: Brazil, Bolivia, Chile, Costa Rica, Colombia, Guatemala, Mexico, Peru, and El Salvador. The group takes the name of a commission, committee, working group or council devoted to financial education and/or financial inclusion issues. In the case of Colombia it was built after this survey was conducted. For the cases of Chile and Peru the creation of such group was being planned at the moment this survey was conducted.

Despite of their participation in a commission or not, central banks, ministries of finance and ministries of education are active members in the construction or implementation of the strategies or programs of FE. In six cases the central banks were mentioned (Argentina, Brazil, Colombia, Guatemala, El Salvador, Paraguay), regardless the fact of having implemented or not the NSFE. In five cases the ministries of education were mentioned as actors of the programs/strategy for FE (Brazil, Belize, Colombia, Guatemala and Peru), and the ministries of finance play an active role in five countries (Brazil, Colombia, Guatemala, Mexico and Paraguay).

Only in three cases specific child and youth organization were mentioned as actors (not necessarily leaders) in FE or FI programs for children: in Belize and Guatemala two international non-governmental organizations were mentioned (one in each case<sup>55</sup>); Costa Rica was the unique case bringing up a public institution (“National Patronage of the Infancy”).

To sum up, although the important differences in the levels of advancements towards the consolidation of national strategies for FE, the region shows political concern for tackling FE for children and youth, and three facts reveal this trend. First, half of the economies studied have a NSFE or are in the design process. Second, the school is recognized as the entrance door for receiving FE, and hence, many ministries of education are part of the strategies or of the programs carried out for fostering FE among minors. Third, leading institutions for FE initiatives are in general clearly defined.

Nonetheless, several challenges are also identified and there is still a lot of work ahead. In the first place, six countries revealed no explicit intention of building a strategy despite of the advantages of such national coordination effort. There is low engagement of ministries of childhood or youth (when it applies) or of the national institutions working for the minors rights or welfare. Last, FE initiatives lack the link with financial institutions offering products for minors, despite of the apparent link between FE and FI strategies in the region. For instance, when it comes to linking by a legal mandate FE and financial products for children, few countries have legislation on this topic.

#### **4. Benchmark Examples from Around the World**

National authorities need to take the lead to achieve legal and regulatory reform for financial inclusion and access to remittances. In the Philippines, Nigeria, Bangladesh, Uruguay, and Colombia reforms have been implemented to support this change for young people and are worth mentioning. These may be used as a good example for other national practices.

In the Philippines, by virtue of Presidential Decree No.734 June 25, 1975, minors are authorized to deposit and withdraw money from banks. These account holders have complete control over their accounts, without the intervention of any adults. Minors at least 7 years of age who are able to read and write, and who are not disqualified by any disability, are empowered to make savings or time deposits in their own names, withdraw money, and receive interest (where applicable) from banking institutions – all without the assistance of a parent or guardian. Adding another dimension that expands the possible reach of financial

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<sup>55</sup> “Peace work” in Belize and “Plan International” in Guatemala.

inclusion of young people in the Philippines, the country also enjoys one of the lowest average remittance costs in the East Asia and the Pacific region. The low cost is primarily driven by the active approach of the Bangko Sentral ng Pilipinas (BSP) to lower remittance cost, large volume of remittances, and the level of competition among local service providers. BSP has actively required banks and non-banks to disclose items related to remittance charges to allow consumer scrutiny on costs, as well as allowing smaller microfinance institutions to offer remittance services, therefore increasing the number of players. Finally, the pressure to lower costs were further stressed by the competition among local bank and non-bank remittance operators, which are allowed to have multiple branches all over the Philippine archipelago<sup>56</sup>.

In 2010, Uruguay's parliament passed legislation modifying the Banco de la Republica Oriental del Uruguay (BROU, Uruguay's commercial national bank) Articles of Incorporation. The modified Articles allow children and youth to open and manage savings accounts at BROU. This reform allows "the bank to open savings accounts for... children and adolescents... who may privately make deposits and withdrawals." In addition, "...legal representatives [such as parents] are not allowed to make withdrawals... without the account owner's consent." As a result, these accounts are the sole property of the children and youth that open them, and these children are the only ones authorized to conduct transactions on the account. This important reform is an example to other governments worldwide. One result of this legislation has been the development of "XmiCuenta" by BROU: a savings account directed at children between the ages of 14 to 17. The account has no minimum balance and no administrative charges. The account includes a debit card and online banking services at no extra charge. The account also offers the option of saving in both the local currency and indexed foreign currencies.

A Youth-Friendly Regulatory Environment was recently initiated in Ethiopia, where labor law recognizes "youth employment" starting at the age of 14 with restrictions for certain jobs (e.g. no family based employment). The Civil Code allows family to provide "special authorization" to children starting at the age of 15 to take on any and all rights of "majority" age, including marrying and signing a contract. As a result of this regulatory Environment, Ethiopia allows children aged 14 to 18 to open and manage an account on their own with any of the following documents: i) Kebele ID: the local administration such as village or ward councils (also known as "Kebele") can issue IDs earlier for "young workers" with proof of employment; and ii) Labor contract.<sup>57</sup>

In May 2014, the Reserve Bank of India (RBI) started to allow minors aged more than 10 years to open and operate savings bank accounts independently. A savings /fixed / recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian. Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently, if they so desire. Banks may, however, keeping in view their risk management systems, fix limits in terms of age and amount up to which minors may be allowed to operate the deposit accounts independently. They can also decide, in their own discretion, as to what minimum documents are required for opening of accounts by minors. On attaining majority, the erstwhile minor should confirm the balance in his/her account and if the account is operated by the natural guardian / legal guardian, fresh operating instructions and specimen signature of erstwhile minor should be obtained and kept on record for all operational purposes.<sup>58</sup> The bank explicitly mentions safety and consumer protection, indicating that KYC (know-your-customer) norms are quite stringent and take care of verification and validation of all accounts, and should provide as a safeguard for

<sup>56</sup> World Bank (2014). Migration and Remittances: Recent Developments and Outlook. *Migration and Development Brief Issue 22, April 2014*. Retrieved October 2014 from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf>

<sup>57</sup> UNCDF (2012). Policy Opportunities and Constraints to Access Youth Financial Services. Insights from UNCDF's YouthStart Programme. UNCDF & Mastercard 2012, p.11.

<sup>58</sup> Reserve Bank of India (2014). Opening of Bank Accounts in the Names of Minors. May 6, 2014. RBI/2013-14/581  
DBOD.No.Leg.BC.108/09.07.005/2013-14

children as well. Moreover, the central bank has said this step will promote financial inclusion and bring uniformity among banks in opening and operating minors' accounts.<sup>59</sup>

In these examples the stringency of KYC norms are mentioned both as a way to protect the child from fraud but also mentioned as a barrier to financial inclusion, due to the fact that children often do not have the legal documentation to fit the KYC norm. Still, it is often mentioned that “enthusiasm to expand youth access to formal banking, particularly savings, in the context of a financial sector seeking to prevent identity theft, fraud, terrorism financing, and money laundering can become problematic when flexible solutions are introduced that do not account for the broader safety and security of youth.”<sup>60</sup> Questions remain on how these adaptations in financial regulation interact and relate to consumer protection law as a whole, as well as with general national laws on legal capacity.

## 5. Conclusions and Policy Recommendations

Latin America is a region of contrasts and heterogeneities, and financial inclusion for children and youth is not an exception. The results of this mapping exercise suggest that a) there is a great diversity in approaches to financial service regulation for children and youth in the region, b) The policies or intentions from national authorities do not always resonate in either regulation or implementation and c) young people are not often seen as independent economic actors.

In the region, the financial inclusion picture for young people often represents the following scenario: On the one hand, financial education and creating financial capabilities among children and youth is a key focus point on the agenda of the national authority. This is in line with the current global focus of creating a savings culture and creating saving habits. On the other hand, in the current regulatory framework of most countries, minors are not allowed to open a savings account without parental supervision. In addition, an account can only be managed as of the age of 18, limiting the child's saving activity to saving in the informal sector. In the region, children and youth are frequently not explicitly mentioned in the regulatory framework or in the financial education strategies.

A possible hypothesis behind such low levels of financial inclusion for children and youth in the region is that regulated financial institutions are further obligated to strictly comply with the know-your-customer (KYC) rules that require them to conduct client identity checks and verification. Most banks require individuals to provide some type of government-issued identification, typically a birth certificate or a passport, in order to comport with regulations related to combating the financing of terrorism or for money laundering, issues that gain relevance in developing economies. Even though these requirements, related to the management of accounts and consumer protection, are meant to guard against abuse and fraud for youth, they often are obstacles to financial inclusion. Though well on the way, policy and legal system reform have a long road ahead to create a truly inclusive picture.

To tackle the issue of financial inclusion for children and youth, particularly in the Latin American context, national authorities could take upon the following recommendations, stemming from the results found in the survey:

- As far as we know the data collection presented in this report is the first attempt to map the regulatory landscape of financial inclusion for children and youth in the region. Consequently, the first recommendation that naturally arises is to increase efforts to obtain more information and statistics; ideally that allow comparisons between countries; that allow policy makers to dive into this issue. Once more data is obtained, more research questions should be raised, such as how to connect financial inclusion for children and youth with (economic) citizenship and social cohesion in Latin America. Due to the specificities of this region mentioned in this document, analyzing the link with children's social

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<sup>59</sup> Business Standard (2014). Savings accounts for minors to promote financial inclusion. May 9, 2014

<sup>60</sup> Aldebot-Green, S. & Sprague, A (2014). Regulatory Environments For Youth Savings In The Developing World. New America Foundation 2014.

behavior and interaction in society can be more deeply studied. For this purpose, it may also be important to use a unique definition for children and youth regarding the age that this group covers.

- Financial exclusion, particularly for children and youth, can be considered as a deprivation in multidimensional measurements of poverty. At the moment, the Economic Commission for Latin America and the Caribbean (ECLAC, United Nations) computes child poverty based on nutrition, sanitation, housing, education and information (this last dimension includes access to electricity, radio, and television). As long as financial inclusion has long-term impacts on the child's life, by considering it as a dimension in this kind of measurements, the topic may gain importance in the political agenda in the region.
- Due to the particularities of the region, some financial services can be of special importance with regards to financial inclusion of minors, and could be a starting point for policy making wherever minors are financially excluded. For instance, allowing children and youth to receiving remittances could empower them and let them be part of the decisions made inside the household with the money received. Research indicates that remittances may be able to play an essential role in improving the livelihoods of young people, in the form of inclusion<sup>61</sup>, increased income <sup>62</sup> and youth self-employment<sup>63</sup>.
- It may be important to foster regional integration looking to enhance financial literacy among children and youth. Partnerships or alliances with more experienced organizations or countries can have positive externalities and this practice was not widely identified among the countries analyzed. In addition, international organizations can also cooperate in this task. For instance, in the region (including North America) these would be departments of organizations like the Organization of American States (OAS) specialized in childhood and adolescence called "IIN" (Inter-American Children's Institute), which provides assistance to its members in the development of public policies for the benefit of children and youth. Support from organizations like this, and other multilaterals (i.e OECD, World Bank, United Nations, just to name a few) are essential for shedding light on this type of initiatives devoted to enhance the welfare of children and youth in the region.
- Learning from existing examples in the region, a case can be made for increasing access to finance for young people at an early age. National authorities need to share knowledge on and actively explore benchmark examples in the region, communicate on the current various approaches and start taking steps towards fundamental changes in regulation, to allow children and youth to take part in the financial system.
- Finally, it is key to point out that theoretical and empirical literature regarding financial inclusion is growing. Nonetheless, it remains to be seen whether financial inclusion, in its many forms, may also be linked to increased confidence, outlook on the future, and employment for youth. Also, although the evidence on this concept linked to financial capability is still in development, it does indicate that teaching children financial capability that includes a "learning while doing" approach, could generate benefits over teaching 'financial' knowledge alone. Practice has long been seen as a key component in learning and needs to be taken into consideration.

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<sup>61</sup> Including Anzoategui, D. Demirgüç-Kunt, A. and Martínez Pería, M S (2011) and

<sup>62</sup> Braga, Michela (2009). When the Manna Comes from Abroad - Remittances and Youth Labor Market Behavior in Albania  
University of Milan - DEAS

<sup>63</sup> Partnership for Economic Policy. <http://www.pep-net.org/themes/PAGE/pageproject-macedonia>



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## **Annex 1 CYFI Survey on Regulatory Frameworks**

### **Financial Inclusion for Children and Youth**

#### **Country-level Regulatory and Policy overview**

Dear Madame, Sir,

The purpose of this survey is the mapping of the current status of different legal frameworks regulating access to financial products for children and youth in countries around the world. Within the purpose of this research, we refer to children and youth as individuals of an age range of 0- 18 years old.

Please provide all articles, references, links to documents or websites of the regulation and legislation in question. The data gathered with this survey will be included in the database of the Financial Inclusion Guide: A Practitioner's Resource for Navigating the Financial Inclusion Legal Environment of Boston University's Centre for Finance, Law and Policy.

Thank you for your contribution and cooperation.

Sincerely,

**The CYFI Secretariat**

*For any Questions please contact Floor Knoote, Research Coordinator, CYFI at [floor@childfinance.org](mailto:floor@childfinance.org)*

## Financial Access

### 1. Does your country have a specific policy or law PROMOTING the access to financial products for children and youth?

**Yes.** If so, could you briefly indicate the reference to the policy and/or regulation and the time it was implemented? (i.e. links to websites, law references, articles or literature)

**No.** If not, could you please explain (in so far as possible) if there is a reason there is no policy or regulation in place, and whether there are any discussions taking place at the moment on this topic? You can skip to question 4 after this answer.

### 2. If the answer to question 1 is yes, please reply to the following questions:

*(Please add articles, references or links to websites where possible):*

**A. What are the general age restrictions to OPEN a savings account?**

**B. Are parents or guardians required to be involved in the opening of the savings account of the child?**

**C. What is the minimum age to OPERATE the savings accounts?**

**D. Are there any special conditions pursuant to which these age restrictions are not applied?** (e.g. in Ethiopia a 14-year-old youngster with a formal job and the consensus of the parents, can subscribe a waiver and be legally recognized as an adult in opening a bank account.)

**E. Do financial institutions have to fulfill any specific requirement to TARGET children with financial products?**

(i.e. specific product marketing strategies, financial education programs)

**F. Do children have to fulfill any specific requirement to be eligible to subscribe to savings accounts?**

(i.e. specific compliance procedures, KYC, financial literacy minimum requirements)

### 3. Money Transfers

**A. Do children and youth have access to money transfer services?**

Yes. At what age?

No.

**B. Do children and youth have access to remittances transfer services?**

Yes. At what age?

No.



**Consumer protection:**

**4. Does your country have a specific policy or law regulating the PROTECTION of children's rights within the financial system?**

**\_\_Yes.** There is a policy and/or law especially designed for children as financial consumers.

**\_\_Yes.** Children are part of a general financial consumer protection policy and/or law applicable for the whole population.

**\_\_No.** If not, could you please explain (where possible) why your country does not have such a policy or law and whether there are any discussions taking place at the moment on this topic? Please continue to question 6 after this answer.

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**5. If the answer to question 4 is yes, please reply to the following questions:**

(Please add articles, references or links to websites where possible):

**A. Is there a specific regulation or code of conduct that financial institutions have to agree, respect and follow when approaching children and youth? \_\_**

*(i.e. employees following a specific training for dealing with children; usage of child friendly language for product descriptions)*

**B. For how long has this policy and/or law been in place? \_\_**

**C. Within the regulatory framework, are there any specific requirements that financial institutions have to fulfill to ensure the respect for and protection of children rights within their sector? \_\_**

*(i.e. sign a code of conduct)*

**D. Is the supervision of respecting the rights of the child as a financial consumer an active process or a passive one? \_\_**

*(By passive we mean, only active upon the receipt of complaints.)*

**6. Which organization(s) is/are responsible for regulation, monitoring and supervision in the field of children's rights relating to access to finance? \_\_**

*(Governmental organization(s) , Private organization(s))*

## Economic Citizenship Education

### 7. Does your country have a national strategy for financial education with a specific focus on children?

**Yes.** If so, at what age do children start to receive this financial education?

Please briefly clarify the policy and its components.

Does it include a social and/or livelihoods component next to the financial component?

*(or provide references/link to the strategy website)*

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**No.** If not, could you please explain (in so far as possible) why there is no such education and whether regulators are including this topic in their discussions?

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### 8. If the answer to question 7 is yes, could you please reply to the following questions:

*(Please add articles, references or links to websites where possible):*

**A. Does your national law require financial institutions to invest part of their revenue in financial educational programs and/or initiatives?**

**B. Do savings accounts for children (or other financial products) have to be formally linked with a financial educational program or do they have to have an educational component?**

**9. Which organization(s) is/are leading the development of the financial education strategy on national level and which are the other (regional) organizations or actors involved in its design and implementation?**

**Thank you for your time!**

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