Introduction

Numerous studies have been conducted to analyze the preferences and attitudes of the youth towards banking services in today's rapidly changing environment. Nevertheless, there are still inconsistencies present between different studies and research materials. That assumes that a further analysis is required to fill in the gaps between the previous ones.
This paper will discuss various savings products offered by financial institutions and which of them are more applicable for the youth, taking into account their preferences and needs. Moreover, differences and similarities of previous studies will be highlighted followed by a focus group analysis. Finally, the paper will include a further analysis based on possible behavioral causes, which could impact the decision-making process.

Varieties of Savings Accounts

1. *Passbook Accounts*

Passbook accounts provide complete liquidity and easy accessibility to clients. It requires a very low opening balance and offers a highly competitive rate of return. Credit unions pay higher interest on accounts with larger balance to compensate for the higher percentage paid for transaction costs on small accounts. Despite of the privileges of this savings account, there are also some drawbacks related to it. Those accounts are a low-cost source of funds for savings institutions and include high transaction costs, when the balances are low. Moreover, the operating costs to administer transactions and calculate interest in not-computerized institutions are high. And finally, the volatility of deposits and withdrawals is also a disadvantage, which can result in a complication of the daily and weekly cash flow. (Branch, 2008)

2. *Fixed term Certificates of deposit*

Fixed term savings accounts are targeted to the market niche with greater savings capacity. They are designed for net savers seeking to maximize returns on their savings and are willing to sacrifice liquidity to do so. The primary users are people who accumulated some stock of savings or wealth and who want to save for long-term goals, such as home building, land purchase or education. It provides limited liquidity, but higher returns in comparison to passbook accounts. In addition, it requires larger minimum opening balances and are not transferable and negotiable. The longer the term of the contract- the higher interest rate is paid. The money in this kind of accounts cannot be withdrawn until the date of maturity. However, it bears lower administrative costs with only one initial deposit transaction and one withdrawal transaction upon maturity. (Branch, 2008)

3. *Programmed savings accounts*

Programmed savings accounts are tailored to assist savers in the achievement of certain goals or setting targets. Those include accounts such as; Christmas club and vacation accounts, education accounts for families who save for cyclical school fees, housing accounts to save money for a certain period and then use it for a purchase of a house or land. The maturity of this type of accounts is usually one year. Those also offer higher returns than passbooks, so that provide clients with added incentives to make scheduled deposits. The money may not be withdrawn from a programmed account until the specified maturity date; otherwise, certain penalties will be applied. (Branch, 2008)

4. ***Youth savings***

Through *youth savings* programs a savings institution can establish early client relationships with the young people in the local market, develop the future loyalty of young savers and attract the parents of youth savers to become clients. The minimum balance required to open the account is usually lower than other accounts to address the low savings potential of this market. These accounts operate like passbooks, because they are liquid and offer variable market rates of return; however, the interest rates are relatively lower. Relatively small accounts require higher transaction and administrative costs, which is a drawback for the offering institutions. (Branch, 2008)

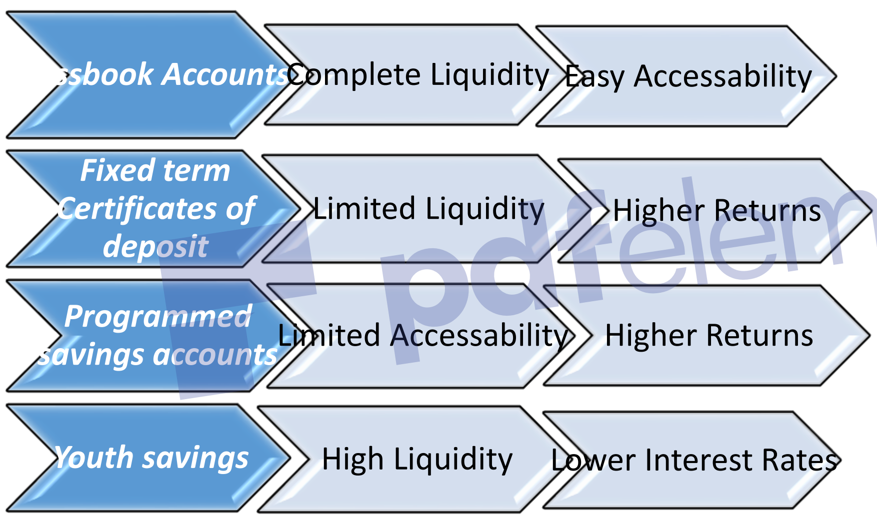

Figure 1

Differences and Similarities Between Research Papers on the Youth Savings Trends

According to a study conducted by the Wells Fargo Bank, Millennials and Generation Z view the world as a small, highly connected ecosystem. They search for ***trust*** and ***validity*** in the brands they do business with and the companies they work for. Their willingness to share personal data is much higher as long as they are rewarded with expected services. (Bank, 2017)
The research demonstrated that the ***community*** is also a significant factor for the young generation. Millennials and Generation Z are not constrained by *physical proximity*. Conversely, ***shared values and goals matter***. When choosing products and services, these recommendations often outrank other sources. Moreover, the youth is more likely to follow an advice of a family or a community member while making decisions. (Bank, 2017)

On the other hand, the youth prefers having fewer interactions with financial institutions and related paperwork and consultations. For banks and other service providers, this mindset upsets traditional business models that rely on face-to-face relationships, multistep processes, and one-size- fits- all interactions. While all customers value convenience and personalized services, Millennials and Generation Z set the bar far higher. They're eager to try out emerging technologies and willing to switch providers for better experiences. (Bank, 2017)
Unlike previous generations, ***Millennials show little loyalty to established banks or payment practices.*** More than two-thirds distrust the financial services industry. They have less desire for a face-to-face relationship; for most, their personal bank has always been in their pocket. Compared to other age groups, they are far more open to financial service offerings from nontraditional brands, such as Google, Amazon, or Apple. Their ***willingness to adopt new technologies*** is up to 2.5 times faster than other consumers', which is not favorable for banks, but it also contributes to the success of fintech start-ups as they develop disruptive solutions. (Bank, 2017)

The Financial Brand digital publication, which is focused on strategy issues affecting retail banks and credit unions, also analyzed the youth banking trends and highlighted certain factors that motivate them to choose between institutions. According to their study, *rewards* seem to be a highly valued perk offered by financial institutions, with the majority (more than eight out of 10, or 83%) of Millennials(ages 18-34) indicating ***they would switch banks if one offered more or better rewards*** (e.g., high interest rate on checking, cash back on purchases, ATM fee refunds) than another. (Brannan, 2017)
Additionally – and not surprisingly – ***fees are still hated***. In fact, according to the Kasasa April 2016 survey, the overwhelming majority (93%) of Millennials say no-fees banking is important when choosing a financial institution for their everyday banking needs, and just over the same amount (94%) shared this sentiment in Kasasa's December 2016 survey conducted by Harris Poll. (Brannan, 2017)
Finally, ***location is extremely important***. Nine out of 10 (90%) Millennials say convenient location is important when choosing a financial institution for their everyday banking needs. This bodes well for community financial institutions — with their local presence and coverage of areas that may be underserved by larger regional or national banks. (Brannan, 2017)
However, Millennials' preference for convenient locations can easily be trumped if there is a lack of convenient technology or certain tools, like a modern mobile platform. In fact, this can be a complete deal breaker for Millennials. With more than three quarters (77%) of Millennials saying they would only consider using a financial institution that offered ***online banking*** as well as in-branch operations, it seems that it is imperative to offer strong solutions for both digital and physical channels. (Brannan, 2017)

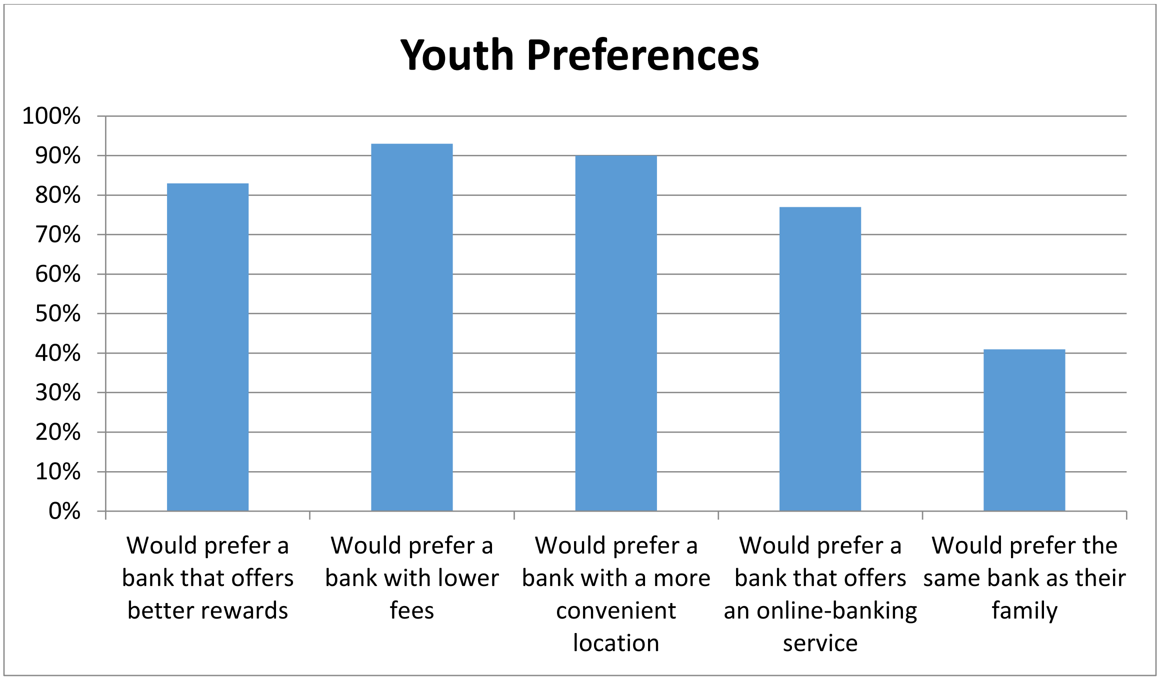

Figure 2

The research suggests that to become the institution of choice for Millennials, community banks and credit unions need to closely evaluate their product and service offerings and make sure it aligns with this group's unique needs. Millennials want rewards, no fees on banking and convenience, both in regards to location and technology – areas community institutions can succeed in. (Brannan, 2017)
Moreover, 41% of Millennials say it is important to them to conduct their banking at the same bank as their parents or other family members. This presents even more opportunity for institutions, where account holders can easily refer others, especially through channels Millennials prefer like social media. (Brannan, 2017)

The World Council of Credit Unions (WOCCU) has discovered a common pattern in what savers look for in a place to deposit their savings. The study found that savers most frequently report ***safety*** as the key feature they seek. Therefore, ***savings institutions have to be safe and secure*** first. Secondly, ***savers look for convenience; access and liquidity***. Savers want to be able to access their funds whenever they need them. Finally, savers look for a ***positive return*** on their savings. Interest rates determine the returns savers will receive on their deposits, so savings institutions should offer attractive rates. They should also pursue three general principles; 1) market-driven, competitive rates, 2) cost-based rate setting, 3) real return on savings. (Branch, 2008)

WOCCU came up with several statements:

- ***Youth save in small amounts due to limited incomes***

- Small and low- income savers often seek small accounts that offer high levels of liquidity, require minimum opening balances and give an immediate access to savings at all times

- Larger savers often prefer products such as fixed-term certificates of deposit, which provide higher returns

- ***Wealthier savers seek to maximize their returns on savings and sacrifice access for higher returns***

- Successful savings products most often have attractive and memorable names

- ***Savings services are designed by trading off liquidity with returns***

The Mentality behind the Choices and Decision-making

- Do younger generations prefer tracking their spending or does that make them feel insecure?
- How should financial institutions manage youth savings accounts?

There are many challenges related to savings that are applicable to everyone worldwide. One of them is an ***attitudinal***. Many financial institutions, banks and other organizations have a perception that poor people or those individuals who do not earn money cannot save. That is why many banks do not believe there is enough demand for savings products for lower-income people. In most of the cases the youth is also included into that category. (Starita, 2012)

A field researcher in the Philippines conducted a study on the savings practices in that region and found an interesting occasion. A single woman in one of the villages bought a golden ring with her savings, because in her opinion a ***ring is "harder to spend."*** And that is not the only case there. Here comes another challenge to savings. People around the globe buy rings, bracelets or a goat just because those are "harder to spend." In that way they feel more secure that they will not spend all their savings. That practice is especially broad among people who have a weak level of tolerance and self-efficacy. (Brounen, 2015) Most of those people, when deciding between savings accounts, choose the one with withdrawal restrictions. They believe that otherwise the account will not be useful for keeping savings, because it will make the access to the money too easy. (Starita, 2012)

In order to manage people's saving behavior, a special program was established in the Philippines in which a savings collector from a microfinance institution visited savers on a bi-weekly or monthly basis to pick up their deposits. That service was not free, but people were ready to pay for it and that was actually very successful as it increased the average savings balance of participants by 25 percent over 10 months, and those clients borrowed less money. (Starita, 2012)

Another financial institution in Bolivia created lock boxes equipped with a daily alarm to help people save more. The only way to turn off the alarm is to deposit cash into an account. People have to break the box in order to get the money inside. The idea was again to make the access to money more difficult to manage the spending behavior of customers. (Starita, 2012)

Lower-income consumers recognize the limits of mental accounting strategies and believe that current transaction management practices are not sufficient to build savings. The latter mentioned mental accounting refers to the tendency people have to separate their money into different “virtual accounts” based on subjective criteria, including the source of the money and the intended use for each account. (Karlsson, 1997) While individuals have a different approach to personal funds classification, it leads to a plenty of irrational decision-making in their spending and investment behavior. (Zhang, 2017) In the same way, one can choose to have only one single account for all the expenses and the other one tens of accounts. (Chan, 2011)

A research conducted by “New America Foundation” showed that ***risk-averse consumers prefer more certain returns of matches or a lump sum bonus, while risk-seeking consumers may prefer a prize-linked incentive.*** Considering the fact that most of the youth is not working, they should be categorized under risk-averse consumers. (Chan, 2011) Hui Wang and Sherman Hanna, professors from South Carolina and The Ohio State University also discussed the effect of risk tolerance and age and came up with several conclusions. The research suggests that human capital accounts for a relatively large portion of net wealth for young people, and financial wealth accounts for a relatively small portion of their net wealth. Therefore, young people may appear more risk averse since it is hard for them to endure any short-term investment losses with limited financial resources. (Hui Wang, 1997) (Guiso, 2004) (Chatterjee, 2017) Fishbein and Ajzen, a physician and a social psychologist came up with two theories; Theory of reasoned action and Theory of planned behavior those explain the cognitive choice processes and the attitude-behavior relation. They believe that attitude is a person’s overall evaluation of a concept, which assumes that the more positive a person’s overall evaluation of a product (in this case savings account), the more likely the person is to buy or use it. However, in many cases, knowledge of a person’s attitude is not a good predictor of behavior. For instance, one may choose a savings account based on a friend’s advice, but later regret about that decision because of certain drawbacks encountered. (Ajzen, 1975) (Center for Social Development, 2012)

<u>Key points in reaching Sustainability while serving the Youth with Financial Services</u>

- Banks must take a ***multi-generational approach***, focusing both on the youth and on the parents who are saving for their children’s future. In that way they will broaden their future prospects by involving more and more generations into one unified system.
- Youth accounts should be ***optimized for on-lending***, which will allow them to lend money that they have borrowed from another organization or person. That will add a value to liquidity and flexibility of accounts.
- To realize the ***long-term profitability of serving youth clients*** throughout their lifetime, financial institutions must build in retention strategies. That assumes that they should keep providing youth with innovative solutions to meet their demanding requirements.

- ***Investing in marketing and financial education*** can encourage clients to build confidence with formal financial services, become better savers, and maintain healthier balances. It has been proven by many studies that plenty of people worldwide lack of financial knowledge. For instance, an analysis of youth financial inclusion and exclusion in rural areas of Mozambique revealed that young people have lack of knowledge about financial terminology. The only word most of them know is the "bank". Furthermore, they do not know about mobile money transactions and any other innovative methods present in the financial market. (Newton, 2015) (Mozambique)

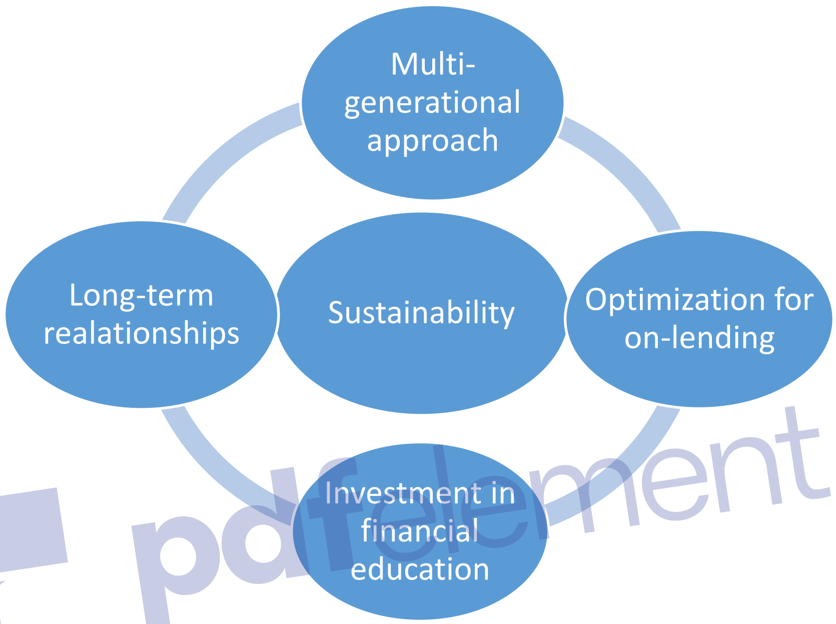

Figure 3

Focus Group Research

A focus group research was conducted among 4 young people of different ages and nationalities. The main aim of the study was to better understand the actual financial needs and trends of the youth aged 16-25 years old in Europe.

Participants

Male, French, 16yo	Female, Hungarian, 18yo	Male, Italian, 22yo	Female, German, 24yo
- Public school student - Middle class family - Had to work to cover school -related expenses	- Private school student - Upper class family - Never had financial problems	- Master of Science in Economics student - Low class family - Started to work at the age of 17	- Bachelor of Arts in Business student - Middle class family - Severe financial issues

Questions Discussed

- ***General usability and satisfaction level of savings accounts***
- ***The main aim of having a savings account***
- ***The conditions and discipline in respect to the accounts***
- ***Core benefits and features to be included***

Top reasons why the younger generation (16-25 years old) prefers having/not having savings accounts

Main Findings

Despite the fact that the participants were from different countries, they had something in common; all of them lived in an international environment. Due to the latter fact, their discussions and ideas were based on broader reference points. While making arguments, participants were referring to their communities in terms of general behavior and attitude towards the product. In parallel to similarities of the focus group members, there were differences in their responses to certain questions. After a further analysis some possible behavioral causes were identified, which shaped the answers of participants.

The youngest participant from France, aged 16 was very enthusiastic about opening a savings account with a purpose of launching a business or investing in the future. He mentioned a need for multiple accounts, so that the distribution of money will be under control. In his opinion a monthly consistent growth of interest rates is the best motivation to continue saving. Moreover, according to his prior experience, most of his classmates (who are the same age as he is or a bit older) do not want any discipline and prefer being independent, having a control over their accounts. At the same time he said that those people who keep such accounts are more reliable and detail oriented.

Another participant from Hungary, aged 18 was very reluctant about keeping a savings account. In her point of view, savings accounts are not necessary for young people of her age. The main reasoning for that was people of her age consider it to be time -consuming and they can save money on their own. Accordingly, she considered flexibility and convenience to be the most important features when choosing an account. During the discussion it became obvious that she is not concerned about her future financials.

The third participant was from Italy, aged 22. He has been using a savings account for over a year and was very satisfied with it. According to him, discipline and flexibility are key factors in choosing an account. In his point of view savings accounts make people more responsible for their financial decisions. He also mentioned that most of his friends who have successful careers use savings accounts for various purposes. Moreover, he pointed out that effectiveness and profitability are the logical outcome of using savings accounts.

The last member from Germany was the oldest in the focus group, aged 24. She did not have an account but had a strong willingness to open one very soon for family -related purposes. Discipline and convenience of the account were the vital features for her. Moreover, she found having more than one account inefficient. In her opinion that could cause difficulties in tracking the total balance of available savings. She believes that young people of her age need savings accounts to be more careful and productive with their financials.

The possible Reasons behind

After a further analysis of the given responses it turned out that there was a special pattern related to that. The two youngest participants had some contradicting views about the product. One of them studying in an ordinary high school and being from a middle class family was very enthusiastic about opening a savings account and taking care of the financials.
On the other hand, the second participant from an upper class family studying in a prestigious school found those accounts useless. Obviously she has never dealt with financial problems before and for her that was not necessary. Despite the fact that many people try to reject that they are biased and that a large portion of their decisions is shaped by the environment they live in, that is the reality in most of the cases. And that was the reason behind different responses of the participants.
Subsequently, the Italian who was relatively older had a much better understanding of the product. He associated responsibility, effectiveness and profitability to owning savings accounts. Coming from a low class family motivated him to earn and save more money. He also connected that to having a successful career, which was according to prior experience among his friends. And the oldest participant was more interested in opening an account for family -related purposes. The reason behind was her plans to get married next year. And again, because of the fact that she was from a middle class family with severe financial issues, she was concerned about tracking her savings in future.

Conclusion and Recommendations

The focus group research showed that there is a diversification of view points on the youth savings trends. It turns out that *people from upper class families tend not to think about savings as much as the ones from middle and low class families*. The main reason behind that is they expect to be rich in the future as well, so there is no point in saving for the current period. Whereas, those people who experienced financial difficulties previously, are more concerned about keeping a savings account. Additionally, they have promising future plans, like launching a business or investing, which can be beneficial for their future partners.
The study showed that financial institutions should pay more attention to targeting low and middle class families. Special benefit packages may be provided to people earning salaries corresponding to that range. That will definitely motivate more youngsters to think about savings earlier and to plan their future accordingly.
Moreover, most of the people interested in savings accounts valued flexibility and convenience of the product, which should also be considered. The young generation aged 16 to 25 expects to

have more control over things they own and savings are not an exception. They want to be able to track their accounts anytime and withdraw/deposit money whenever they want. And additionally to the latter mentioned features, younger people expect to have no problem with location; having a mobile application is one of the options to solve that problem.

Finally, ***financial institutions providing savings accounts should consider that most of the decisions made by youngsters are biased and the most efficient way to reach them is to target their families and relatives***. The logical reasoning behind is that from a very young age they will get familiar with different products and will have the required knowledge to make the right choice in the future.

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