

*Youth-Inclusive Financial Services Case Study Series 2009:
Updated 2011*



**Youth-Inclusive Financial
Services Linkage Program
(YFS-Link)**

Case Study No. 1:

*The Role of Hatton National Bank in
Creating Access to Financial Services for
Youth in Sri Lanka*

September 2009-August 2011

Author: Chandula Abeywickrema, Hatton National Bank (HNB)

Copyright © 2009-2011 Making Cents International

Sections of this publication may be copied or adapted without permission from Making Cents International provided that the parts copied are distributed for free or at cost - not for profit.

Please credit Making Cents International and Hatton National Bank, Youth-Inclusive Financial Services Linkage Program Case Study #1 for those sections excerpted.

For any commercial reproduction, please obtain permission from Making Cents International.

For additional information, contact:

Making Cents International
Youth-Inclusive Financial Services Linkage Program (YFS-Link)
1155 30th St. NW, Suite 300
Washington, DC 20007
Tel.: 202-783-4090 Fax: 202-783-4091
Email: info@makingcents.com
Web: www.makingcents.com
Skype: makingcentsinfo

ABSTRACT

Hatton National Bank (HNB), a prominent commercial bank in Sri Lanka, has been committed to providing financial services in rural areas and to more vulnerable populations for decades. Although literacy rates in Sri Lanka have reached 94%, significant numbers of young people remain unemployed. In response, the Bank developed programs to serve the youth and rural poor by linking them to financial services to harness their entrepreneurial skills and to create economic opportunities. HNB focuses on serving youth through two programs: 1) establishing Student Banking Centres in schools and 2) targeting youth in rural areas through village microfinance programs providing both financial and non-financial services. By setting up mini-banks managed by the students within the schools, HNB has created a financial service delivery mechanism that is easily accessed by youth populations. HNB's microfinance program is managed by young professional Barefoot Bankers and Loan Officers who are encouraged to be role models and leaders for youth, in addition to providing loans and deposit-taking. Over 600,000 students have accessed services from HNB through the 200 Student Banking Centres with a total of nearly \$65 million in savings deposits. One critical element of the Bank's programs has been financial literacy that supports youth's ability to wisely manage financial products and services. The success of HNB's programs to reach youth demonstrate that it is possible to offer products and services that meet the needs of youth and contribute to the success of a financial institution with its eye not only on the present, but also on the future.

1. Background

Hatton National Bank has a history with a heritage of over 120 years from the day it first started in a small hamlet called Hatton in the hill country in Sri Lanka where the tea industry blossomed. The Hatton Bank (as it was known at that time) was started by two British Planters, mainly to cater to the flourishing tea industry and over a period of time it has evolved and changed hands to local owners and in 1970 it was incorporated as Hatton National Bank after a number of acquisitions and mergers. The Bank evolved from a small local bank to one of the largest private sector commercial banks in the country over the years.

During the last 30 years, the Bank has grown in stature in terms of not only of the key financial performance indicators, but also touching the lives of people of Sri Lanka economically. The Bank has a wide network of branches with over 180 branches spread across the country covering all major cities and towns from the North to the South and from the East to the West. The Bank serves, beginning from an infant to a senior citizen and from Micro Entrepreneurs to mega corporate entities. The Bank holds nearly 15% of the market share of the banking business of the country, which has a population of 20 million by serving all segments of the people by offering a variety of financial services from a simple Savings Account to sophisticated needs of high profile investors.

The Bank was judged the “Best Retail Bank in Sri Lanka” for the year 2008/2009 by Asia Banker based on a variety of criteria of retail banking services it provides to the country. The Bank’s vision is “to be the acknowledged leader and chosen partner in providing financial solutions through inspired people” and it is with this vision that has been able to create an impact on customers by being their Partner in Progress. This is in keeping with the Bank’s mission of “combining the entrepreneur spirit of empowered people with a leading edge technology to constantly exceed shareholder expectations.” Over the years, the Bank has been able to serve customers and create a positive impact by creating value to customers through its products of financial services and its delivery mechanisms, while maintaining the highest levels of regulatory discipline and standards for which, HNB was awarded the “Best Commercial Bank in Sri Lanka” in 2009 by Euro Money.

As a commercial bank with a deeply rooted involvement in the rural economy that is at the forefront of economic development in the country, the Bank has been focusing on retail banking very aggressively, while also focusing on the corporate and investment banking of this niche market. This is amply observed as HNB has for the last 20 years embarked on moving into the far flung areas of the country away from the more lucrative Western Province. Though HNB has a significant presence in the rural and semi-urban areas of the other eight provinces in the country, it has been much involved in sustainable micro finance and agricultural-lending

initiatives. The Bank has been recognised by the Central Bank and the Government for its very pragmatic, world-renowned microfinance programme known as the “Gami Pubuduwa – Village Re-awakening,” managed by the Bank’s professional Barefoot Bankers who mingle with the rural population in order to create access to financial services for them.

2. Creating Access for Youth through Financial Services

In 1970, when the Bank was incorporated as Hatton National Bank after a successful merger with National & Grindlays Bank Branches in Sri Lanka, the Bank had to encounter a major hurdle with the change of government in mid-1970. A more socially oriented government took office, and their policy particularly restricted the privately owned banks from opening more branches in the urban and commercial cities of Sri Lanka. As a result, HNB had no option but to move into far flung villages and open a few branches in these remote areas. The only business that was possible at that time was to open the doors to the rural farmers and youth to access HNB.

The Bank had to recruit specialised staff who had qualifications in the field of agriculture and those who had specialised in agricultural-lending and rural development, while a few branches that were already established before the government restriction in Colombo, the capital of Sri Lanka, continued to functioned fairly well. The Bank’s expansion strategy mainly focussed on linking the rural youth, entrepreneurs and the farming communities to the Bank, thereby inadvertently developing an important avenue for the Bank’s future business. At that time, the initiative was not a planned strategy, rather a move that had evolved out of necessity, as the Bank had no other growth options. The resulting financial access that was extended to rural entrepreneurs, farmers and youth came to form what would become the DNA of HNB.

Sri Lanka is an island nation, and due to certain economic and political realities, has a significant number of unemployed youth. The situation is as distressing for successful students leaving school after passing examinations and for those who have university degrees, as it is for school dropouts; most youth are unable to find suitable employment opportunities. Due to the untenable youth unemployment, Sri Lanka experienced two youth insurrections in 1971 and in 1989, which started in the southern part of the country and represented a majority of the population (roughly 73%). On both occasions, a number of unemployed youth organised themselves into a revolutionary Marxist party and attempted to overthrow the democratically elected government. Both youth insurrections failed, which resulted in a large number of youth—from 12 to 26 years of age—killed or imprisoned.

It was in this environment that the leadership of HNB convened in 1990 and decided that as a private sector commercial entity, its survival depended first and foremost on a stable political

and economic foundation in the country. It is this realisation that propelled the Bank to recognise its responsibility to Sri Lankan society, particularly in regard to creating access to financial services to the youth and the rural population of the country. The Bank recognised its responsibility to nurture financial education among youth and the rural population, and its role in linking them to financial services. The Bank's plan was to build relationships by creating economic opportunities. Finally, the Bank felt that by empowering youth and facilitating and harnessing their entrepreneurial skills, Sri Lankan youth could be economically enriched, and that by partnering their progress with financial services, the Bank would be able to build a potential future customer base.

3. The Two Key Strategies in Linking Sri Lankan Youth to the Bank

The Bank recognised that the major impetus for the two failed youth uprisings was the high unemployment rate and the lack of suitable employment opportunities for youth in government or the private sector. In Sri Lanka, the policy of providing free education from primary to secondary and even University level meant that the majority of the country's younger generation was educated and had a high literacy rate of over 94%. A significant number of students, however, dropout from the primary and secondary levels and join the country's unemployed.

In view of this, the Bank recognised the need to link with youth through the country's educational system, especially by establishing links with youth at the rural village level.

4. Access to Youth by Establishing Student Banking Units in Schools

The Bank approached the Ministry of Education with a plan to adopt schools in the vicinity of HNB's respective branches. The benefits of this programme were designed to be reciprocal. The Bank would assist the schools in their infrastructure development and build capacity by sponsoring science laboratories, libraries and supporting sports programmes. In return, the Bank requested access to establish a Student Banking Unit within the premises of the school.

Through this process, the Bank aimed to inculcate the habit of saving, expose students to banking and impart financial education to the student population, to which the Ministry of Education readily agreed. This was the beginning of the Bank's Student Managers programme in 1990.

Through the Student Managers programme, the Bank establishes a mini bank within the premises of the school with less infrastructure cost. Every year the Bank selects five students who are in their initial stages of secondary education to manage this unit with a Teacher-in-Charge supervising them. Out of the five students, a Manager and an Assistant Manager are appointed with the other three becoming banking officials. These students are appointed for a period of one year and change annually to ensure a new batch of students take office in the Students Banking

Unit. The Bank also gives these students basic training in banking at the local branches, especially on savings, deposit mobilisation and other general knowledge on banking. The Bank trains them on key aspects of planning, developing strategies and achieving targets, which helps in running the respective Student Banking Unit.

Currently, the Bank runs 200 Student Banking Units in 200 schools across the country through 180 branches. For the last two decades, over 600,000 students have developed a relationship with HNB through the 200 Student Banking Units that, collectively, total nearly USD 65 million in savings deposits. The Bank has also trained over 30,000 students across the country and offered them certificates for successfully managing the Student Banking Units, which is considered a very useful certificate when these students seek employment in other institutions.

The Bank has offered scholarships to students of these respective schools for those who have gained entrance to universities. In the event a student who successfully managed a Student Banking Unit decides to not proceed with higher education, they are offered employment in the Bank as a Banking Trainee, provided they meet the educational qualifications. Any student who drops out of school and becomes self-employed or begins a microfinance enterprise is linked to the microfinance programme within Hatton National Bank.

The Student Banking programme is administered by a designated Manager-in-Charge from HNB's Head Office and co-ordinates with the respective Officers-in-Charge in branches, who assume responsibility of the supervision and management of the schools adopted by the local branches. Progress of the Student Banking Programme is closely monitored at the Head Office along with the Supervisors of the respective branches. On a quarterly basis, branch level training is given to the students, and special programmes are conducted at schools to educate the student population on banking and financial education. The 200 Student Banking Units come under the respective nine Regional Offices of the Bank for overall supervision, with the Bank conducting a regional level Student Managers Conference every quarter. Once a year, all Student Managers are brought to the Head Office in Colombo for a full day's Student Managers Conference to expose them to many new developments in banking, finance and technology, and to provide them with an outlook of the National & International economic progress; students also benefit from discussions of HNB future strategies.

In order to further strengthen the relationship between the Bank and the Ministry of Education, under whose purview all schools in the country operate, and also to demonstrate the Bank's conviction for preparing the youth of the country to face challenges of the future, the Bank conducts an annual nationwide competition with the objective of developing creative skills in the area of drama, music, art, speech and singing. The competition is conducted in 22 districts of the country and the students are recognised and rewarded at the Bank's regional level functions. The major event takes place in Colombo. The best 1,500 winners, selected nationwide, are rewarded with the participation and attendance of the highest level officials in the Government sector. In

the last year, over 200,000 students from 15,000 schools in the country participated in this programme titled the “Lowa Dinana Singiththo,” meaning “Preparing the youth to face challenges of tomorrow.”

The Bank annually spends USD 100,000- as a sponsorship for this programme. The Bank has received the highest recognition for these initiatives and has great support from the Government in successfully obtaining of approvals and running the Student Banking Units.

5. Linking Rural Youth to Village Based Microfinance Programmes

With 70% of the population rural based, Sri Lanka can be said to be a very agricultural based country, which results in a youth population that is also quite agricultural. The Bank felt that linking the rural youth to a microfinance initiative was of paramount importance to involve youth in economic development. This is the very reason that in 1989, the Bank embarked on a clear strategy to move into microfinance, specifically targeting rural youth in farming communities.

The Bank observed that a significant number of youth were trying to move into cities or migrating to the Middle East or other Asian countries as migrant workers looking for employment. To address these needs, the Bank first designed and implemented two pilot projects in two remote villages by bringing financial education to youth within the farming majority, and by identifying their entrepreneurial skills and creating a workforce development programme to build entrepreneurial skills. The Bank used these programs to facilitate financing for the participants once they had completed the program. In 1991, after having seen that this model succeeded, the Bank branded its microfinance programme “Gami Pubuduwa,” meaning “Village Re-awakening” and identified young people who could fit into the role of professional Barefoot Banker whose job it would be to work with the farming community and the rural youth. They would not only facilitate loaning among the rural population, but also bring financial education with the rest of the financial services to the rural youth and the farming communities.

The role of the Microfinance Field Officer, whom the Bank had identified to work with the rural youth, was to initially select 20 such youth who had passed their secondary education and were more disposed towards the rural population. The bank would then have them trained in the area of micro-entrepreneurial skills development, knowledge in farming, agriculture and in community leadership. Their first task was to establish a relationship with the village opinion and community leaders and work with them to identify the potential in training people who were looking for opportunities to commence their micro-enterprise and self-employment projects. They would then take them through a process of familiarisation with the Bank and its objectives, and link them to the Bank’s Microfinance programme, which was launched with a multi-faceted approach. The role of the Microfinance Field Officer goes beyond money lending and deposit taking; (s)he needed to demonstrate leadership and innovation in pioneering and building people,

changing lives, changing habits and bringing financial solutions to facilitate micro-entrepreneur creation using the youth of the country, thereby linking the youth to the Bank's Microfinance programme. In the first five years, the Bank observed the success of this programme and how the Microfinance Field Officers became the most lovable personalities among the village community leaders, and were also recognised by youth for understanding their aspirations to build their lives economically. Further, through the Bank's financial education programme, efforts to enhance the financial literacy among the youth of these 25 villages proved a remarkable success.

Today, after two decades since launching the microfinance programme, branded as "Gami Pubuduwa," it has been recognised by the World Bank in their study as one of the best commercial banking models for downscaling into microfinance. Also, many national and international awards were received in recognition for the most successful microfinance programme initiated by a commercial bank today. The Bank has right across the country in addition to the 180 branches, 150 Microfinance Centres run by Microfinance Field Officers known as "Gami Pubuduwa Upadeshakas" and nearly 65% of the total microfinance portfolio falls onto the youth category in the age group of 18 – 26 years. The Bank's microfinance portfolio maintains a 97% recovery rate and is a testimony to the close relationship that the Bank's Microfinance Field Officers maintain with their majority youth customers. In addition to USD 40 million, as the lending portfolio, the Bank has also mobilised USD 20 million in savings deposits from the rural youth who are involved in the Bank's microfinance division.

The Bank also has branded its financial literacy programme to rural micro-entrepreneurs and rural population as "Divi Saviya" meaning "Strength to your life through the progress of knowledge." Over the last two decades, the Bank has facilitated over 100,000 youth micro-entrepreneurs to stand on their feet with successful business enterprises. Due to the close link of these twins "the Bank & Youth," the Bank's Micro Finance Field Officers identify potential micro-entrepreneurs for the graduation to the next level, whether small or medium, where they are nurtured and exposed to the Bank's other financial services and products.

Having pioneered these two significant initiatives, which have greatly impacted the youth in the country; the Bank has stood with them as their "Partner in Progress" thus reflecting the "Bank behind every Sri Lankan Smile."

ANNEX 1: BIBLIOGRAPHY OF YFS CASE STUDY SERIES

- 1. Abeywickrema, C. (2009, September). The role of the Hatton National Bank in creating access to financial services for youth in Sri Lanka. Hatton National Bank. Accessible at: http://www.makingcents.com/products_services/resources.php**

Hatton National Bank (HNB), a prominent commercial Bank in Sri Lanka, has been committed to providing financial services in rural areas and to more vulnerable populations for years. More recently, HNB has begun to focus on serving youth in two key ways: 1) establishing Student Banking Centers in schools 2) targeting youth in rural areas in their village microfinance programs to receive both financial and non-financial services. This case study examines key methodologies to effectively serving youth with financial services through a commercial lending model.

- 2. Ahammed, I. (2009, September). A case study on financial services for street children. Padakhep. Accessible at: http://www.makingcents.com/products_services/resources.php**

Padakhep is a non-government organization (NGO) in Bangladesh that strives to reach street children through an integrated approach. This case study details the innovative “Introduction of Financial Services” program which provides both credit and savings services to Dhaka street kids to encourage them to initiate income generating activities of their own. A key lesson that emerged was that flexible terms and conditions of financial products are essential for working with an extremely vulnerable target population like urban street children.

- 3. Austrian, K. & Ngurukie, C. (2009, September). Safe and smart savings products for vulnerable adolescent girls in Kenya & Uganda. Population Council & MicroSave Consulting Ltd. Accessible at: http://www.makingcents.com/products_services/resources.php**

This case study details the unique partnership between Population Council, a research-focused NGO, and MicroSave, a consulting firm, to develop and deliver critical financial services to adolescent girls by partnering with four financial institutions in Kenya. This case study shows that by offering girls secure savings products they can mitigate some of the hardships they endure as well as encourage positive savings habits, thereby increasing their economic stability as they transition to adulthood.

- 4. Chandani, T. & Twamuhabwa, W. (2009, September). A partnership to offer educational loans to nursing students in Uganda. Banyan Global & Equity Bank. Accessible at: http://www.makingcents.com/products_services/resources.php**

Equity Bank-Uganda and Banyan Global have successfully partnered in Uganda to develop an innovative loan product that links workforce development in the health sector with microfinance. This case study describes the key elements of success of their pilot to bring education loans to aspiring nurses between the ages of 17 and 24. Equity Bank proves that by approaching youth who are formally affiliated with a training institution can be critical to alleviating risk, gaining trust and achieving market share.

- 5. Kashfi, F. (2009, September). Youth financial services: The case of BRAC and the adolescent girls of Bangladesh. BRAC. Accessible at: <http://www.cyesnetwork.org/sites/default/files/Case%20Study%20on%20BRAC%20and%20Youth.pdf>**

Ten years after beginning adolescent-focused initiatives in Bangladesh, BRAC realized that financial independence can play a key role in empowering adolescent girls further. This case study focuses on the Employment and Livelihood for Adolescents (ELA), which offers both credit and savings services to adolescent girls. Findings indicate that using a holistic approach to financial service delivery customized to the needs of adolescents will equip the girls to invest better and take higher loans on average.

- 6. Gepaya, L.Y. (2009, September). Youth inclusive financial services: Marketing and delivery is what matters. Panabo Multi-Purpose Cooperative. Accessible at: http://www.makingcents.com/products_services/resources.php**

The Panabo Multi-Purpose Cooperative (PMPC) is a cooperative based in the Philippines and a part of the global World Council of Credit Unions (WOCCU) network. This case study describes how PMPC discovered that partnerships with schools can be an effective form of growing membership, promoting a culture of savings at a young age, and delivering much-needed financial services to underserved youth populations.

- 7. Harnest, J. & Neilson, E. (2009, September). Microfinance and “the next generation” The FINCA Aflatoun curriculum implemented in an MFI setting. Finca Peru & Aflatoun. Accessible at: http://www.makingcents.com/products_services/resources.php**
-

YFS Case Study No. #1: *The Role of Hatton National Bank in Creating Access to Financial Services for Youth in Sri Lanka*

Aflatoun, an organization committed to social development and financial literacy for children between the ages of 6-14, has begun partnering with select microfinance institutions (MFIs) to offer its curricula to clients' children. This case study discusses Aflatoun's work with FINCA Peru detailing the strengths, weaknesses, opportunities and challenges associated with implementing Aflatoun curricula in a non-formal school setting with children of microfinance beneficiaries. Findings from this project indicate that children who consistently attend classes have demonstrated a strong willingness to save.

8. Denomy, J. (2009, September). MEDA works with youth: YouthInvest. Mennonite Economic Development Associates. Accessible at: http://www.makingcents.com/products_services/resources.php

This case study provides an overview of MEDA's work on increasing youth access to financial services, particularly through YouthInvest in Egypt and Morocco. Detailed in this case study, YouthInvest was designed with a strong market research component, the results of which are crucial to designing successful financial and non-financial services for youth.

9. Massie, J.(2009, September). Using innovative partnerships and market research to link financial education and savings products for girls. MicroFinance Opportunities. Accessible at: http://www.makingcents.com/products_services/resources.php

Microfinance Opportunities working with Savings and Economic Empowerment grantees to develop financial literacy modules that will be closely linked to their savings products. For the first time, market research is informing both the design of financial education and financial products for young women. This effort is carried out through innovative partnerships between MFO, youth service organizations, and financial institutions. This case study provides an overview of these partnerships and how they conduct market research, the integral role of these results in designing of appropriate savings products for youth.

10. Nazneen, S. (2009, September). Save the Children's youth financial services: Adolescent girls project. Save the Children. Accessible at: http://www.makingcents.com/products_services/resources.php

This case study describes the Kishoree Kontha (Adolescent Girls' Voices) Project implemented by Save the Children in 5 sub-districts of southern Bangladesh. The goal of this intervention is to link savings schemes with other non-financial services, such as health and education, to allow rural adolescent girls to build their human, social and economic assets. Additionally, this case study details how Save the Children dealt with traditional gender roles, as adolescent girls are not decision-makers, through intense community outreach and sensitization.

11. Cilimkovic, S. & Jahic, S. (2009, September). Youth inclusive financial services: A case study from Bosnia. Partner Microcredit Foundation. Accessible at: http://www.makingcents.com/products_services/resources.php

Partner Microcredit Foundation is a non-profit microfinance institution in Bosnia Herzegovina that recently piloted a youth loan product. The goal of this youth program was to increase self-employment opportunities for young people in Bosnia and Herzegovina by providing access to loan capital in addition to market-oriented business training and mentorship services for youth clients. This case study describes in extensive detail the experience of Partner MK in conducting market, research, designing a specialized youth loan product, and the preliminary outcomes and lessons learned of this program.

12. Schiller, J. (2009, September). Making financial services and business skills development available to African children and youth: Accomplishments and limitations of research and monitoring. Plan International. Accessible at: http://www.makingcents.com/products_services/resources.php

This case study examines Plan International's situation analysis research carried out in Senegal, Niger and Sierra Leone. This project identifies active youth groups and presents a profile of youth and their activities and their general socio-economic conditions in each locality. This project focuses on the Village Savings and Loan (VSL) program in the three countries. The associations formed are sustainable and replicable, and the local implementing partner institutions have been effective and successful in all three program countries. Overall, youth's response has encouraged the project to believe that dramatic upscale is possible.

13. Storm-Swire, L. (2009, September). Exploring youth financial services: The case of ProMujer in Bolivia. ProMujer. Accessible at: http://www.makingcents.com/products_services/resources.php

Pro Mujer is an international women's development and microfinance organization that alleviates poverty in Latin America by providing financial services, healthcare and training to poor women entrepreneurs. This case study details the process of developing a group-based

YFS Case Study No. #1: *The Role of Hatton National Bank in Creating Access to Financial Services for Youth in Sri Lanka*

loan product targeted at youth, with results indicating that significant investment in proper market research, product development, staff and infrastructure is required to determine the differing needs of this heterogeneous market.

14. Shell, B. (2009, September). Product development for girls: Girls' savings and financial education. Women's World Banking.
Accessible at: http://www.makingcents.com/products_services/resources.php

This case study examines how Women's World Banking has helped two of its network members, XacBank of Mongolia and Banco ADOPEM in the Dominican Republic, design and roll out savings products and financial education programs for girls and young woman ages 7-24. WWB found that reaching girls cost-effectively required developing strategic partnerships – with experienced youth education professionals, since the Bank did not have that expertise in-house, and with institutions already interacting with girls, since convenience is an important issue for both the products and the financial education program.