

# **Financial Inclusion: Is it truly about access?**

## **Reaching Out the Indonesian Non-Inclusive Market**

A Qualitative Research Report Conducted by CXGO Consulting - 2018





According to the regulators, there are two main barriers to financial inclusion. The first one is about **access**, where current Indonesia's financial literacy rate at 29% is not sufficient to initiate people to access the financial products and services. The second one is about the **product** itself, where the available products and methods offered by banks do not fit the lifestyle and needs of the people. To further increase financial literacy and reinforce financial inclusion, regulators are pushing strategies through 3 main focus: refresher training and system on Laku Pandai agents, digitizing KYC process, and tailoring the products.

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From this study, we found common financial behaviors among the financially excluded. On payment and transaction, cash is preferred. as they still have trust issue where they need to see the money. Saving is not a prevalent behavior as they tend to spend what they earn, with limited income. Family and relatives are currently the main source in getting loan. For investment and insurance, they are aware of KIS, BPJS, and other form of investment such as property and in-kind asset such as gold, however, investing is irrelevant due to lack of earnings and savings.

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Among the financially excluded individuals, there are several perception that serves as barrier towards bank saving account: **trust issues, fees, and the need for a behavior change**. Consumer also felt low relevance as their needs has not yet addressed by banks. Simplicity and practicality of digital banking are expected to overcome these barriers.

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Specifically on loan, consumers have several negative perceptions on its relevance, tenure, payment, and debt collecting system. We found that the main expectation is to have a more flexible and adjustable loan (customizable amount, tenure and payments system, simple and quick process, flexible collateral), while less concern on interest. Loans based on occupation are highly expected.

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To further improve financial inclusion, the utilization of mobile phone for accessing financial products is very crucial. It may offer the simplicity, practicality, and transparency they look for. Banks need more intensive communication to reduce the perception of being complicated, less relevant and expensive. While fintech players need to integrate and partner up with banks to widen the inclusion coverage and should include more educational aspects in marketing activities.

## BACKGROUND, OBJECTIVE, METHODOLOGY


Based on the Financial Literacy and Inclusion National Survey conducted by OJK in 2016, financial literacy in Indonesia reached 29.6%, which is an increase from 21.8% in 2013. Meanwhile, financial inclusion index reached 67.8% which is an increase from 59.7% in 2013. The government is targeting by 2019, financial inclusion can reach 79%.

OJK, as an authority board for Indonesia's financial industry, has goal to increase financial literacy and inclusion and also protection to consumers of financial products. To do that, OJK has 2 focus to be pursued: to increase financial literacy through education and literacy programs (which goal is to engage society in conducting financial planning and savings habit), and to engage society to match the right type of financial product and/or company that match their profile, behavior, and characteristic.

The objective of this research is to gain in-depth insight, mainly from consumers' point of view on their financial behavior. This research will validate the findings from regulatory point of view with the consumers, thus closing the gap and seek ways for further improvements.

In-depth interview to OJK representative, as the regulator, to understand what is the goal, programs, and the result of the programs so far. The interview was conducted to Eko Ariantoro, as the Director of Financial Inclusion Development OJK, on May, 2018

In-depth interview to the 'financially excluded', to understand their point of view and how they stand in compared to the program so far. Interviews were conducted to 3 respondents with various characteristics and type of occupation: a housewife, a blue collar employee, and a blue collar worker that has lapsed from bank account ownership.





The World Bank defines financial inclusion as that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way (The World Bank). Financially included individuals are those who have an account in their name with a full-service financial institution.

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Meanwhile OJK has additional definition on top of World Bank's definition: to achieve **increased welfare** and **similar rights among all citizen** through a proper access and a proper consumer protection.

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## How do we define a financially included individual?

A person has uptake AND use individual account with institutions that offer a full financial services – savings, credit, money transfers, insurance, and investment.

## Financial Services and Companies that do not count

- Credit only institutions.
- Individuals who have no possessions and access to the individual account.
- Individuals who only use services, such as money guards, savings collectors, and digital recharge cards that are not attached to a bank/full service..

# FINANCIAL INCLUSION PROGRAMS HAPPENING NOW

## **Gerakan Indonesia Menabung**

- Banks are reinforced to create products that suit the need of the currently financial excluded.

## **Layanan Keuangan Digital**

- BI teaming up with telco companies and local agents to establish branchless banking. Once targeted to broaden access to financial institutions, now has evolved to increase digital economic activities.

## **Financial Identity Number (FIN)**

- Integrated with NIK from eKTP, the program enables financial institutions to identify new customers.

## **Information System for Farmers and Fishermen (SIPN)**

- Targeting farmers and fishermen (35% of total Indonesia work force), SIPN utilizes ownership of mobile phone to create an updated mobile agriculture for them.

## **Distribution of Government to Public Fund using Digital Financial Service**

- G2P fund being distributed to public through bank accounts, along with education sessions and assistance from Digital Financial Service agents. Also utilizes ownership of mobile phone as a means to give information about the bank account.

## **Remittance**

- Targeting Indonesia work force abroad who send money using informal channels, converting them to using bank account and digital financial service/telco agents.

## **LAKU PANDAI (Branchless banking through agents)**

- Distributing agents to rural areas, as they can perform simple financial transactions, such as opening account, deposit, withdrawal, checking balance, etc., and also become agents of information and education.

With all the above programs happening, the level of financial inclusion in Indonesia is still in need for a boost.

**What are the barriers?**

# THE BARRIERS ACCORDING TO THE REGULATOR

There is a gap between the **products** offered by Formal Financial Institution with the **needs** from the target market.

## ACCESS

- Indonesia's literacy rate, in 29%, is **not sufficient to initiate people to access the financial products and services**. Poor knowledge on the gain, the risk, the process, etc.
- The Know Your Customers (KYC) process is not quick enough to verify the data, resulting in low appeal and poor trust from the target customers.

## PRODUCT DID NOT FIT

- The available products and methods offered by the banks currently do not fit with the lifestyle and the needs of the target customers.

	Products Offered	Loan Needs
Traits	<ul style="list-style-type: none"> <li>Secure, low risk, perceived as complicated</li> <li>Relatively long tenure</li> <li>Monthly repayment terms</li> </ul>	<ul style="list-style-type: none"> <li>Fast and simple</li> <li>Short tenure</li> <li>Adjustable payment terms.</li> </ul>
Advantage / Needs	Advantages: gain and interest	Needs: capital to perform a short term business process
Example	KUR Cluster loan, with 7% interest, targeting small business within a collective scheme. Repayment is monthly, within 1 or 2 years.	<ul style="list-style-type: none"> <li>Farmers need a loan to buy seeds, that will harvest in 70 days. Money can be repaid after harvesting.</li> <li>Fishermen will sail for 2 weeks, money is need before sailing, can pay after fishing. 10% interest is accepted.</li> </ul>

# THE NEXT STEPS ACCORDING TO THE REGULATOR

Increasing literacy and reinforce inclusion with 3 main focus.

Based on evaluation of the on going programs, Bank Indonesia and OJK are making adjustments to improve the effectiveness. The adjustments will prioritize on 3 main aspects.

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## AGENTS

Laku Pandai Agents are seen as a breakthrough method in increasing financial inclusion starting 2013. However, the success rate declined overtime, and evaluation is required.

- Refresher training on product and system.
  - Evaluation on recruitment of agents. Can consider new agents with ongoing UMKM, or community leaders.
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## DIGITIZING KYC

- Government needs to speed up e-KTP and make it seamless with financial data.
  - A new technology is needed to achieve a fast, mobile and cheap KYC process. A shorter time in KYC increases trust among new customers; might induced transactions.
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## TAILORING THE BANKING PRODUCTS

- Banks need to be open to develop loans that suits the business process of each professions.
  - A simplified risk assessment and process are expected.
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# THE ROLE & IMPACT OF FINANCIAL TECHNOLOGY COMPANIES

The current rising financial technology companies has both positive and negative impact on financial inclusion.



## E-MONEY & DIGITAL WALLET

- Introduced people to the process of non-cash transaction, mostly digital, and increasing customer trust.
- Payment Point Online Banking (PPOB) to purchase phone credit is one of the processes that drive increased information on non-cash transactions.



Increasing use of e-money and digital wallet triggered expectations that financial services should be easy, transparent and accessible digitally.



## P2P LENDING

- Have positive effect due to simple process and coverage to the higher risk profiles and small business.
- However the practice is **not** supporting the inclusion in terms of:
  - providing education and trainings.
  - Encouraging interaction with formal financial institutions.
- P2P lending is also still maturing, which identified by the investors focus on high return and tempted to fund a more stable & low risk business to reduce their NPL.



While in a way P2P Lending companies are supporting increased welfare and inclusion, its small coverage and lack of actions in education is not in-line with the government's program in inclusion towards formal financial institutions.

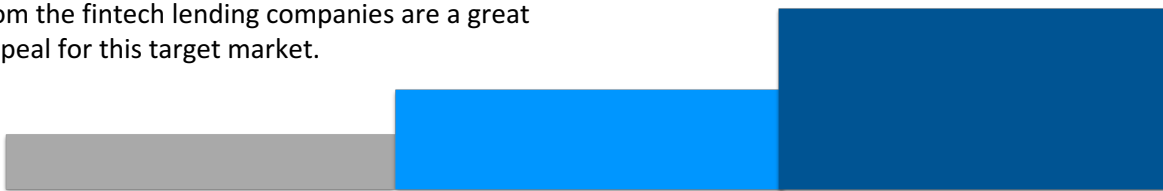


## NON PRODUCTIVE LOANS

- Looking from the financial inclusion's perspective, the non productive loans for the high risk profiles are giving adverse implications, as in the end, it is not targeting to increase welfare and accessibility towards financial products and services.
- However, the adjustable and flexible attributes from the fintech lending companies are a great appeal for this target market.



For the currently financial excluded individuals, loans that can be adjusted to their flow of income are very interesting. But it acts as the opposite of full-service financial companies.





# TALKING TO THE TARGET MARKET: THE UNBANKED INDIVIDUALS

People that we met felt low relevance with formal financial product and services, as they have a strong perception that they can not afford it.



**Lila, 24 years old, housewife with a small business, lives in Ciledug, Tangerang. Received Rp 40,000 daily from her husband.**

- Lila never felt the need for a bank account, or other financial products.
- She is aware of several nearby bank branches, but never visit any.
- From the Rp40,000 that she received daily, Lila saves around Rp 2,000 and kept in her room, dedicated for rainy days when she needs to spend more than what she received.

*"With small amount of money that I have, the bank will drain it by the fees."*



**Rofiq, 28 years old, single, security officer, lives in East Jakarta. Earnings: Rp 2,100,000/month**

- As he lives with his brother, Rofiq relies on his brother for any bank-related activities. He does not feel the need to have his own bank account.
- Rofiq is aware of the bank names, products, branch locations and the process. He has experiences in making transfer, manually in branch, as instructed by the employer.
- Rofiq received monthly pay in cash, he spend almost all of it for daily needs and to send to parents.

*"Every month I only have 30 – 50 thousand extra, what is to save?"*



**Daenuri, 25 years old, single, newly recruited as a security officer, lives in Cilebut, West Java.**

- His previous employer made him a bank account to receive his pay for a cleaning service job. The job lasts for 4 months, as well as the bank account. He does not feel comfortable using the bank account personally, as he can not see the money, and worry about the fees.
- Daenuri has relatively high awareness of bank names and products.
- He prefers cash for his current salary, and also prefers cash for transactions. He is thought by the parent to save before making purchases, never to use installments.

*"Cash is much simpler, you know exactly when you got paid without going to bank/ATM."*

# TARGET MARKET: THEIR COMMON FINANCIAL BEHAVIOR

Being the cash oriented segment, transaction, saving and loans are done conservatively.



## Payment & Transaction

- Prefers cash and make transactions over the counter.
- A printed receipt from utility providers assure them that it has been properly paid.
- Mostly performed transaction in traditional merchants, aside from phone credits (PPOB), but also paid by cash.
- Have adopted card-based emoney for transportation (TransJakarta), top-up using cash.

*"With cash, you hold the money and know that the money is yours. In banks, I don't know whether the money is still there or not."*



## Savings

- Earn → Spend → Save (if anything left)
- Save cash in the closet, manually and spend when the amount has reached the target.
- Join Arisan (informal saving group).

*"My son will register to school next year. To pay for the fee, I think I will need to get back to work (in next year)."*



## Loans

- Close relatives will be the main source of loan, if needed. Interest and repayment system are as agreed mutually.
- Other source would be from employer, or Arisan group.

*"I don't think I will ever apply loan from banks. I don't want any debt collectors coming into my house."*



## Investment & Insurance

- Some of the financially excluded are the target market for Kartu Indonesia Sehat (KIS) which do not require any premium.
- Those with BPJS membership do not pay the premium.
- Form of investment that they know of is property and in-kind asset such as gold jewelry.

*"I applied for BPJS before delivering my first baby, and then I stopped paying..."*

## TARGET MARKET: THEIR COMMON DIGITAL BEHAVIOR

The use of mobile phone is focused more on internet-based applications while they are far more exposed to digital application than formal financial services.

Most frequently used:



Most frequently used:



Shopping is made through the app, and payment is made cash in Indomaret counters.

Other application frequently used:



The financially excluded individuals are far more exposed to digital application than to formal financial services. Due to this, they are more familiar with activities such as:

- Online registrations.
- Signing in, concept and use of password.
- Concept and use of OTP and digital verification methods.

# VALIDATING THE PERCEIVED BARRIER: PRODUCT

Accessing a bank to create saving account is not the strongest barrier.

## Perception & Understanding on Bank Saving Account

Trust Issues	Fees	Change from conventional
<ul style="list-style-type: none"> <li>Not able to access/see/check money anytime.</li> <li>Concern on not able to use/withdraw money.</li> </ul>	<ul style="list-style-type: none"> <li>Banks will not accept saving in very small amount.</li> <li>Administration fee will suck up the saving.</li> <li>There is minimum amount that can not be withdrawn.</li> </ul>	<ul style="list-style-type: none"> <li>A lot of time and effort are needed to do transactions.</li> <li>Not used to do saving.</li> </ul>

### NEEDS:

Clear information on fees and minimum amount

Can be checked anytime, anywhere

Able to withdraw and deposit small amount, even below Rp 50k

Affordable fees, even for small amount of savings.

Able to withdraw even small amount

Quick and easy registration, in branch or branchless

**Simplified digital banking** may overcome several barriers in financial inclusion.

Utilizing the high ownership of mobile phone and applications



Digital Banking has a high chance to clear the **trust and transparency issues**, as they can see the money from their mobile phone.



A simple and easy to use User Interface in Digital Banking.

# VALIDATING THE PERCEIVED BARRIER: PRODUCT

With the current low level of literacy, a productive loan will not be seen as relevant for them. In addition, the products offered are not suitable with the needs.

## Perception & Understanding on **Loans** (from formal financial institutions)

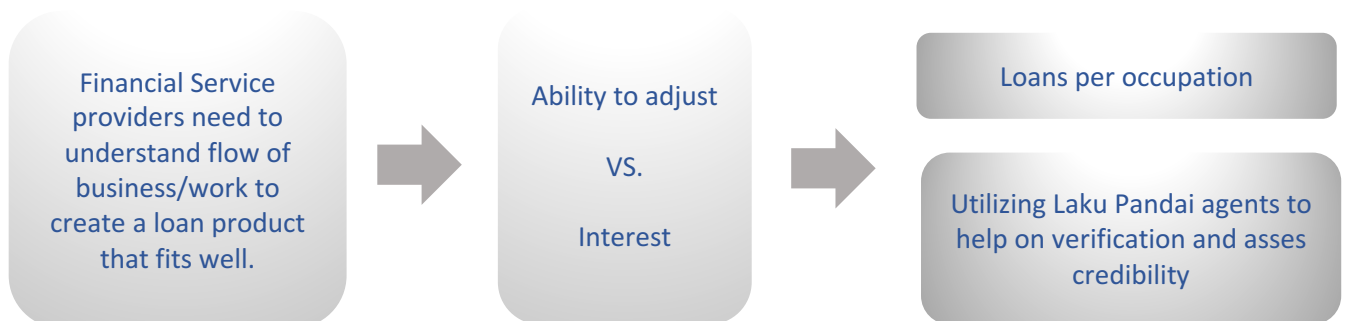
Relevance Issue	Tenure and Payment System	Debt Collecting
<ul style="list-style-type: none"> <li>Loans are perceived to be relevant only for large-scale business or employees of a big companies; not for blue collar or agricultural jobs.</li> <li>Requirements and administration are complicated and stressful.</li> <li>Not relevant, as do not have collateral.</li> </ul>	<ul style="list-style-type: none"> <li>For those with irregular earnings, monthly payments terms do not fit.</li> <li>Tenures offered do not fit with the needs.</li> </ul>	<ul style="list-style-type: none"> <li>Strong perception about aggressive debt collector behavior.</li> </ul>

### NEEDS:

- Customizable loans – amount, tenure, payment system.
- Simple and quick process.
- Flexible collateral (or no collateral). Warranty and verification based on social acknowledgement and communities.

The expectations are similar to getting loans from relatives/arisan groups. More concern on **flexibility**, less concern on **interest**

**Loans adjusting to occupation is highly expected.**



# CULTURAL ASPECTS AFFECTING FINANCIAL BEHAVIOR

In reaching the currently financial exclusive targets, that there are multiple factors affecting and leading their behavior.



## **To be independent is not reinforced by the culture.**

- Living their life collectively is a tradition which is hard to break. Even in a geographically different area, people tend to main intense communication with relatives.
- Family, friends, and relatives are a source of money in times of shortage.
- This is a good opportunity for remittance to be developed as one of the main product.



## **In regards to religious views, majority of consumers belief that God will give the sufficient amount of His blessing for people to live accordingly.**

- Therefore, living as it is and not striving for more becomes a lifestyle.
- Beliefs suggesting that each person's path (and blessing) is written, makes people accept the financial condition that they are in, and reluctant to try to make a change.





For financially excluded individuals, access might be a barrier as it involves cost, distance and hesitance to interact. However, these barriers are not the main thing hampering them from inclusion – the understanding and literacy are.

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The low rate of literacy among Indonesians is clearly reflected by the poor understanding of the **purpose** and **benefits** of getting financially included, followed by the negative perception on **transparency** and **security**.



This findings is also inline with result from Intermedia Indonesia FII tracker survey in Sep-Nov 2016 which stated that only 8% of Indonesian adults with no bank account claimed that they do not know how to open an account, while 21% claimed that they do not need bank account.

What is essential among the target market are the ability to check their money instantly, the assurance on the ability to use/cash out their money, and a clear explanation on fees and interests.

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Saving is not ingrained in Indonesian behavior. Culturally, Indonesians are taking advantage of living collectively, and taught to be grateful and have high acceptance towards life conditions, including financially (The same survey also said that 33% of the unbanked's main reason for not having a bank account is not having sufficient money).

A push to make a planning in life and finance is needed to reinforce saving behavior. This target market urgently need education on saving vs. loans, and how it differs in terms of benefits and risks.

Based on findings from this qualitative research, to further improve financial inclusion, the below actions are encouraged:

Further utilizing mobile phone as the access to financial products. Points to be considered:



- The product and service in mobile phone must be **Simple & Practical**, adjusting to the financial literacy level and the need for basic features.
- It should also be **transparent**, to solve the trust issues, where the customers need to see their money, and access the transaction history, fees, interests and other details.



Both banks and fintech players in Indonesia need to incorporate the two aspects above in communicating their products → Simple & Transparent, and intensify the education aspects.



In line with the next steps from OJK on refreshing the financial agents Laku Pandai → banks and fintech companies need to perform assessments on the recruitment and training system, and ways to increase transactions.



Particularly for **banks**, a more intensive communication is needed as the formal financial institutions are carrying a strong perception of being complicated, less relevant and expensive.

While specifically for **fintech players**, in order to further support financial inclusion in Indonesia:

- Integration and partnership with banks are needed to widen the inclusion coverage.
- The marketing activities need to include more educational aspects to increase literacy and inclusion.

Findings on this report is based on qualitative research with minimum respondent. A larger coverage and validation need to be performed using different research methodologies.



# Thank You

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