The role of Central Bank in Financial Education Process in Indonesia

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OECD-BANQUE DU LIBAN INTERNATIONAL CONFERENCE ON FINANCIAL EDUCATION: BUILDING FINANCIALLY EMPOWERED INDIVIDUALS

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ACCESS TO FINANCE

- 2.5 billion adults, just over half of world's adult population, do not use formal financial services to save or borrow.
- 62% of adults, nearly 2.2 billion, living in Asia, Africa, Latin America and the Middle East are unserved.
- A little more than 800 million served adults live on less than $5 per day.

...Globally there are still many people who do not use formal financial products.....
% adult population in most developing country without bank account

Note: Estimated data
Source: Honohan (2007)
FACTS ON INDONESIA

- Population of Indonesia: approx. 220 million
- GDP per capita 2008: USD2.271
- Banking industry holds more than 80% of financial sector assets
- More than 90% of banks accounts are less than Rp100 million (less than USD10,000)
- Number of commercial banks: 123
- Number of rural banks: +9,300
- Number of cooperatives: +13,000
- Number of microfinance institutions: +8,000
Adult population is 64% of the Indonesia total population (± 138 million).

Indonesia Adult Population with bank account is only 42% of total adult population (± 58 million).

Source: Bank Indonesia (calculated, 2007)

*In Indonesia, formal financial institutions (banks in this case) have not penetrated very deeply into remote area*
Financial System In Indonesia

Market Share of Indonesian Financial System in 2008 (Based on Assets Total)
Problems in Building Financial Inclusion

**Community**

- Lack of knowledge/Financial Illiterate
- Legal aspect
- Lack of information (no track record)

**Borrowing**

**Saving**

- Lack of knowledge/Financial Illiterate
- High cost of participation (joining fee and administration fee)

**Financial Institution**

- Lack of capacity in providing services
- Problems in network coverage
- Lack of information

.... lack of knowledge/financial illiterate is one of the major problems for the community ....
Policy and regulation of financial inclusion in Indonesia

**Policy and Regulation of Financial Inclusion**

**Improve Financial Literacy**

- Financial Education
- Transparency on characteristics of Financial Product & Services
- Consumer protection

**Improve Public Acess**

- Providing information on potential economy sector or commodity to be financed
- Creating a database of financially potential population
- Promoting banking intermediary to microfinance as a step stone to the “unbanked”
The Indonesian Banking Architecture

Sound, strong, and efficient banking system to create financial system stability for promotion of national economic growth

- Healthy Banking Structure
- Independent and Effective Supervisory System
- Effective Regulatory System
- Strong Banking Industry
- Adequate Infrastructure
- Robust Consumer Protection

Pillar 1  Pillar 2  Pillar 3  Pillar 4  Pillar 5  Pillar 6
Programs under Pillar 6 of Indonesian Banking Architecture

empower customers and improve customer’s confidence to the financial sector, especially to the banking industry
Financial Education Program

2007
2008
2009
2010
2011

BLUEPRINT

NATIONAL CAMPAIGN IN BANKING EDUCATION

NATIONAL CAMPAIGN IN BANKING EDUCATION SLOGAN “3P”

NATIONAL CAMPAIGN OF INDONESIA SAVING MOVEMENT

LAUNCHING OF BASIC SAVING ACCOUNT
1. Bank Indonesia in cooperation with regional government and some Government Agencies such as the ministeries of Agriculture and Industry have set up a Business Development Service Provider (BDSP):
   - BDSP is functioning as a mediator between Banks and SMEs
   - BDSP will teach and assist SMEs in making financial report of their business so that the SMEs can access to the banks
   - Bank Indonesia provides technical assistance to increase capability of those BDSP

2. In the past we have a project called Micro Credit Project which was to extend credit to micro entreprises.
   - One component of this project is the technical assistance to the micro enterprises so that they can manage the fund and ensure that loan is paid back timely.
   - The technical assistance program is then replicated by other commercial-based micro credit project.
1. Financial education help to raise the awareness of the unbanked people about the banking products and services, especially savings.

2. The next level of financial education is in form of technical assistance for the potential borrowers, so that they can manage the fund properly and prepare a decent financial report.
Thank You