Financial Inclusion: Using Financial Education to Reach Out to Undeserved Groups and the Informal Sector

Conference on Financial Literacy: Financial education For All
Cape Town, South Africa
27-28 October 2011
The messages from our President

• In his keynote speech on the Global Policy Forum seminar in Bali, September 2010, our President has declared the Financial Inclusion to become the national agenda.

• Poverty alleviation is a top priority for Indonesia and financial inclusion is an essential component of its poverty-alleviation strategy. “Financial inclusion is a central theme for all of us because most of those in poverty do not have access to financial services—savings, loans, transfer payments, and insurance—at a reasonable cost. The exclusion of people will only perpetuate their poor lives.”

• Six conditions for a successful implementation of Innovative financial inclusion: 1) Leadership, 2) Accountability and coordination, 3) Diversity, 4) Innovation, 5) Relation with culture, and 6) Strong regulatory framework

• Each nation is advised to set own national targets, develop own objectives, commit to own appropriate targets and allocate resources for financial inclusion.
The next level of Financial Inclusion (implementation of policy solution) by emphasising on Financial Education

1) Leadership: movement toward govt commitment to FI
2) Mobile Financial Services: innovative model
3) Partnerships: public and private
4) Consumer empowerment and Market Conduct

BI initiatives in Financial Inclusion strategy
Coordination with Government Agency
Defining the National Strategy for Financial Inclusion

- Opportunity to self-assess progress in the financial inclusion especially financial education in our policymaking
- To share the definition of success, target and
- To encourage a commitment towards and developing concrete objectives in financial inclusion and financial education policy for 2012 and beyond.
Bank Indonesia Strategy: Banking Architecture Framework

Financial Inclusion, Financial Education and Consumer protection is part of Pillar 6

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

- Pilar 1: Sound Banking Structure
- Pilar 2: Effective Regulation System
- Pilar 3: Effective and Independent Supervisory System
- Pilar 4: Strong Banking Industry
- Pilar 5: Adequate Infrastructure
- Pilar 6: Robust Financial Inclusion, Financial Education and Consumer Protection

FINANCIAL STABILITY FRAMEWORK
BI’S Strategy on Financial Inclusion

• The financial inclusion is defined as the access to Bank through the following products: savings, credit, insurance, payment system and other financial services.

• The instruments or approaches to promote the access are: financial education, financial eligibility, supportive regulations, facilitating intermediation and expanding distribution channel.

• BI’s existing program mostly are for the saving and credit products.

• The future program to be explored are the mobile financial services and distribution channel.
National Strategy on Financial Inclusion

**VISION**

- To Achieve a Financial System that is Accessible by all Layers of the Community to Promote Economic Growth, Poverty Reduction and Income Equality in Indonesia

**MISSION**

- To make the financial inclusion strategy part of the grand strategy of economic development and poverty reduction.
- To provide financial services and products tailored to the needs of the community.
- To raise awareness and preparedness of good financial behavior in the community.
- To improve financial accessibility and services to the community.
- To strengthen the synergies between commercial banks, microfinance institutions and non-bank financial institutions.
- To optimize the role of information and communication technology (ICT) to expand the scope of financial services.
A people-centred strategy aiming at broadening access to financial services for all segments of population and at unlocking financial and small business opportunities.
Some notable features of our FI Strategy

- Greater synergy between banks and non-bank financial institutions, including microfinance institutions, considering the bank as dominant financial institution, whilst there are population segment that best served by MFI.

- **Innovative financial services**, especially in the Information and Communication Technology.

- **People-oriented financial inclusion strategy**, the financial inclusion should improve the welfare of the people. Hence, the financial services should be tailored to the specific needs of different population group.
National Strategy for Financial Inclusion

Policy target
- Low – Income Poor
- Working poor/ micro and small enterprise
- Special needs (migrant workers or remote area)
- Non poor

The product
- Savings
- Credit
- Insurance
- Transfer facilities
- Mixed products

Policy Instruments
- Financial eligibility
- Financial education
- Facilitating intermediation
- Supportive regulation
- Distribution channel
Some ongoing financial inclusion initiatives in BI:

1. Financial education
   - BI has set up a financial education curriculum for elementary, junior and high school.
   - This activity is a cooperation between Bank Indonesia and the Ministry of Education

2. Financial literacy survey
   - As a tool to measure the knowledge and utilization of financial products and services by most people.
   - As the preliminary stage, the household survey will take place.

3. Credit rating system
   - To assess the creditworthiness of the SMEs
   - To bridge the information asymmetry between bank and SMEs
4. Credit Bureaus
   • To expand its function as an institution to provide a complete, accurate and current information regarding debtor quality
   • To encourage the establishment of private credit bureaus which will be more flexible in providing services as a reference for bank

5. Financial Identity Project – supported by AFI
   • To establish the financial identity for the poor people and MSMEs.
   • To provide financial identification that enables MSMEs and the poor to have financial access to the banks.
   • To reach out to local communities and use local mechanism
   • To scale the existing customers up in terms of quality and variety of services
6. National Campaign for Indonesia Saving Movement through Financial Education

• “Indonesia Saving Movement” aims to increase the marginal propensity to save of Indonesian people
• To accommodate the needs of the community to save, Bank Indonesia and the banking industry have launched a new savings scheme called TabunganKu
• Main features of TabunganKu: no monthly administration fee, low initial deposit, low interest rate
• Current Data of TabunganKu per July, 2011: 1.870.032 accounts, amounting to: Rp 1.873 billion or the average saving amount is Rp 1 million/saver.
The Importance of Financial Education

• Financial education is something that can not be ruled out to establish the **financial literated community**; good understanding in financial institutions, financial products and services, as well as financial management to achieve a better living in the future.

• Financial education is an effort to change public behavior. Therefore, financial education is a long-term program (more than 5 years).

• Bank Indonesia in this regard have been initiated implementing banking education since 2007 and intensified starting in 2008 with the declaration of banking education year.

.... The importance of financial education to improve the financial knowledge of the community .....
The Importance of Financial Education

Goals of banking education programs:

• To build people's interest in banking (bank-minded & awareness)
• To increase public awareness in banking products and services as well as awareness of the rights and obligations of customers
• To increase public awareness in prudential aspects of financial transactions (risk awareness); and
• To increase awareness of the availability of complaints and dispute settlement mechanisms to resolve problems with the bank
Notable successful initiatives in Indonesia (Case Study)

<table>
<thead>
<tr>
<th>Needs</th>
<th>Key Players</th>
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</table>
| **Micro Business** | **BRI** (since 1895):  
- 4,000+ outlets mostly in remote areas;  
- ~5 mio customers  
- Saving and loan products  

**Danamon** (since 2004):  
- 1,200+ outlets; ~500,000 customers  
- Focus on trade sector in urban area  
- Packaged product: Saving + Loan  

**BTPN** (since 2009):  
- 600 outlets; ~250,000 customers  
- Focus on trade sector in traditional markets  
- Packaged product: (Saving + Loan + Insurance) + Capacity Building Program  |

**Productive Poor**  
- Daily expenditure < USD2  
- Loan size: ~USD200  
- 36 mio people  
- < 5% have access to banking  

**Financial:**  
- Transaction  
- Saving  
- Loans  
- Insurance  

**Capacity Building:**  
- Practical Business Training  
- Market Access  

**A Better Future:**  
- Capital to start/grow a business  
- Financial discipline  
- Practical Business Training  

**BTPN** (since Oct 2010):  
- 20 outlets  
- Gender, religious/sharia & group approach  
- Character Formation: Courage, Discipline, Hardwork, Solidarity  
- Packaged product: 5 Year Financial Package + Membership System + Capacity Building Program  
- > 30,000 customers in 8 months  
- **Roll-out Plan:**  
  - 1,000 outlets by 2012  
  - 4 mio customers by 2014  

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- Loan size: ~USD 5,000  
- 15 mio entities  
- < 40% have access to banking
LESSON LEARNED

Institutions/Banks:
- Innovative Business Models that can be scaled up quickly
- Economies of scale in order to be commercially sustainable
- Be willing to commit the right caliber of leadership team and resources
- Be prepared to invest and have long-term commitment

Customer Needs:
- A BETTER LIFE - beyond financial needs; it is about Capacity Building and Character Formation. And this is only could be achieved through the comprehensive financial education policy.

Regulators:
- Be prepared to adapt certain regulations (e.g. simplify KYC, allow remote account opening, simplify reporting requirement) without compromising on prudential principle
- Possibility to regulate the level of playing field for each players in micro segment, to avoid over indebtedness of the poor
THE CHALLENGES AHEAD

• Closer coordination within the government and with the private sector
• The urgency to set up a regulatory framework, especially for mobile banking transactions
• The importance of resource allocation in implementing the financial inclusion strategies and objectives
• To have the similar level of understanding and passion on financial inclusion among relevant stakeholders
• The measurement on the level of financial literacy
Attachment
<table>
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<tr>
<th>Low – Income Poor</th>
<th>Working Poor/MSME</th>
<th>Special Needs</th>
<th>Non-poor</th>
<th>Bank Indonesia’s Pillars</th>
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<tr>
<td>No frills account (TabunganKu)</td>
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<td>TKI savings (limited)</td>
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<td>Financial Eligibility</td>
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<td>G2P</td>
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<td><strong>Credit</strong></td>
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<td>Cluster program</td>
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<td>KUR TKI</td>
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<td>Financial Eligibility + Facilitating Intermediation + Distribution channel</td>
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<td>PNPM</td>
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<td>KUR</td>
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<td>Linkage program</td>
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<td>Credit rating and promotion of credit bureaus</td>
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<td>Establishing local credit guarantee companies (PPKD)</td>
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<td><strong>Savings + Credit</strong></td>
<td>Replication of innovative schemes based on CSR (e.g. SOE PKBL)</td>
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<td>Supportive Regulation</td>
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<tr>
<td>Agent banking</td>
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<tr>
<td><strong>Insurance</strong></td>
<td>Jamkesmas</td>
<td>TKI insurance</td>
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<td>Financial Eligibility</td>
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<td>Microinsurance</td>
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<tr>
<td><strong>Savings + Credit + Insurance</strong></td>
<td>Bundle insurance program (Credit/savings + insurance)</td>
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<td>Distribution channel</td>
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<td><strong>Transfer facilities</strong></td>
<td>Promoting expansion of ICT based distribution methods &amp; possible implementation</td>
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<td>Mobile money</td>
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<td>Mobile banking</td>
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<td><strong>Financial Education</strong></td>
<td>Financial education by local government</td>
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<td>Financial education training for MWs &amp; families</td>
<td>Financial Education</td>
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<td><strong>Financial Identity</strong></td>
<td>Financial Identity number</td>
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<td>Financial Eligibility</td>
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<td><strong>Regulation</strong></td>
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<td>Enabling regulatory environment</td>
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<td>Supportive Regulation</td>
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**Notes:**
- On going
- Will be implemented
BI HOUS HOLD SURVEY 2010 : Savings

Without savings 61.65%

Savings 38.35%

Save at Banks 34.60%

Save at Non Bank Financial Institution 3.75%

BI’S PROGRAMS:

LET’S GO TO THE BANK

MY SAVING
BI HOUSEHOLD SURVEY 2010: Credit

With loans: 40.92%
Without loans: 59.08%

Source of loan:
- Banks: 18.25%
- MFIs: 12.33%
- Non Banks & Non MFIs: 66.28%
- Rural Banks: 3.14%
The methodology:

1. Baseline FIN Survey
   - In order to gather basic information
   - To collect 130,000 samples directly via micro unit-banks and microfinance institution, following the bank best-practices in collecting data

2. Comprehensive FIN Survey
   - A Survey to 2,000 households and micro and small enterprises
   - The survey will reconstruct and build financial statements for micro enterprises and micro entrepreneurs.
   - The survey will collect the financial picture of the respondent (financial history, cash flows)
Immediate Output (During Project)

- 130,000 respondents received FIN with basic information on Know Your Customer (KYC)
- The recorded data and basic information on KYC of 130,000 respondents
- Recorded data and comprehensive financial information of 2,000 respondents of Comprehensive FIN Survey
- Change the conventional perspective on Know-Your Customer (KYC) Method
  - financial institutions will know more about the financial condition of their customers than the customers themselves
### Medium and Long Term Output

1. Financial information and track records of a FIN card holder’s financial transactions could be accessed in a relatively short time

2. Cost of borrowing will be significantly reduced

3. We could suggest how much a FIN card holder can borrow and save without putting them in a difficult financial situation

4. We could develop credit rating of the FIN card holders

5. We could design an early warning system (EWS) for default/credit crises
Medium and Long Term Output

6. Analysis of shifting trends in the demand and supply for financial inclusion

7. Financial institutions could identify and suggest a FIN holder the right financial services that suits the FIN card holder based on the similar characteristics of the FIN card holder.

8. Data Mining → The use of the information of a group of FIN card holder with similar characteristics as reference in evaluating the financial performance of a certain FIN holder.
• Establish minimum standards for transparency of product information:
  • Characteristic of product that should be disclosed to customer
  • Usage of customer’s personal data for commercial purposes.

• Be part of banks’ corporate governance
  • ""
A comprehensive program is directed to all consumers

- **Schools**
  - Skills to make informed decisions
  - Skills to understand the impact of decisions of individuals, businesses and governments on the lives of others

- **Those outside formal education**
  - Mass media

- **Special focus on**
  - Rural areas
  - Low income
  - Sectoral
2007:
• Issuance of Blueprint for Public Education in Banking
• Establishment of working group on public education in banking to implement the blueprint

2008
• BI campaign programs on financial education: “Ayo ke Bank” (2008), ‘3P =

2009
• BI campaign programs on financial education: ‘3P = Whatever the product, Remember 3 Ps: Ensure Benefits, Understand the risk, Consider Costs”

2010
• Launching of “Indonesia Saving Campaign” and basic saving product: TabunganKu

2011
• Integration of financial education in elementary and junior high school curriculum (pilot project)
• Student Saving Movement campaign
• Extension of information access (enhancement of BI’s website with consumer education and information)
• Financial Education for Migrant worker
• Establish minimum requirements for consumer complaints mechanism
• Monitor and evaluate implementation of regulations governing the customer complaint mechanism
• Banks are required to report to Bank Indonesia in quarterly basis
## Market Conduct Framework in Consumer Protection

### Objectives
- To support market conduct implementation in banking industry
- To strengthen fair treatment for banking customers
- To increase financial capability
- To coordinate other financial authorities in implementing consumer protection

### Institutional Set up

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Supervision</th>
<th>Education</th>
<th>Complaint and Mediation</th>
</tr>
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<tbody>
<tr>
<td>Formulation of policy and regulation in customer protection (based on audit result, customer complaints, and reports)</td>
<td>Surveillance and enforcement</td>
<td>Improvement of financial capability</td>
<td>Ensuring complaint and mediation process to maintain customer rights and obligations</td>
</tr>
</tbody>
</table>
Consumer Protection : 4. Dispute Resolution

• provide a simple and rapid process of dispute resolution on banking matters at a lower cost.

• Complaints that are escalated into disputes between customer and bank may be settled using mediation scheme provided by Bank Indonesia

• There will be an independent banking mediation agency outside of Bank Indonesia in the future to handle banking mediation

• Dispute with financial demands ≤ IDR 500 million.