Session 6: Financial inclusion

Presentation

Financial Service Deepening

by

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Director, Financial Access and SME Development, Bank Indonesia

June 2014
SESSION 6: FINANCIAL INCLUSION
“FINANCIAL SERVICE DEEPENING”

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Financial Access & SME Development Department
BANK INDONESIA
June, 2014
THE AGENDA

1. INDONESIA AT GLANCE
2. FINANCIAL INCLUSION
3. DIGITAL FINANCIAL SERVICES
4. ENABLING ENVIRONMENT
5. ISSUE & CHALLENGE
01

INDONESIA

AT GLANCE
INDONESIA AT GLANCE

People & Financial Access

- **120** commercial banks
- **± 4,200** rural banks
- **± 187,000** cooperatives
- **± 600,000** MFI (including non-formal)

- **± 17,000** islands
- **± 247 M** population
- **± 155 M** adult people
- **± 28 M** poor people
- **± 44%** lives in city
INDONESIA AT GLANCE
Point Access & Poverty

POINT ACCESS \(^1\) & POVERTY\(^2\)

<table>
<thead>
<tr>
<th>Economic Growth (Regional GDP)</th>
<th>Savings and lending</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
<td>Underbanked</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>Low equilibrium banked</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>Middle equilibrium banked</td>
</tr>
<tr>
<td>Low</td>
<td>Medium High</td>
<td>Overbanked 1</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Overbanked 2 (Java, Bali)</td>
</tr>
<tr>
<td>Low</td>
<td>Very High</td>
<td>Overbanked 3 (DKI Jakarta)</td>
</tr>
</tbody>
</table>

Source: \(^1\)Banking Statistic (February 2014), \(^2\)BPS, September 2012, Process,
**INDONESIA AT GLANCE**

**High Financial Exclusion**

- **20%** Adults have account in formal financial institution
  
  *source: World Bank, Global Financial Inclusion Index - 2011*

**Saver’s Financial Inclusion**
- > 68% people do saving
- > 48% saving only in Banks

*source: Improving Access to Financial Services in Indonesia, World Bank, 2010*

**Borrower’s Financial Inclusion**
- > 40% can not borrow
- > 17% financing from Bank
- > 36% borrow from informal institution

*source: Bank Indonesia, April 2014*

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- **Total SME credit to bank credit only < 20%.**
- **Loan to Micro sector to MSME loan is < 19%**
- **SME loan rate is high (>15%)**
## Indonesia at a Glance

### Cause & Result

<table>
<thead>
<tr>
<th>Demand (people)</th>
<th>Supply (bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No bank around or it takes time and cost to the nearest branch</td>
<td>Higher cost for set-up a new branch in each corner</td>
</tr>
<tr>
<td>Higher cost for small transaction</td>
<td>Regulation by regulator</td>
</tr>
<tr>
<td>Low financial literacy</td>
<td>Requirement by bank</td>
</tr>
<tr>
<td>Unmet product</td>
<td>Complex process</td>
</tr>
<tr>
<td>Culture &amp; habit</td>
<td>High formality</td>
</tr>
<tr>
<td>Low income</td>
<td>Prefer non-grass root customer</td>
</tr>
<tr>
<td>Long queue</td>
<td>Prefer bigger transaction</td>
</tr>
</tbody>
</table>

### Self Reported Barriers to Use of Formal Services

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not enough money</td>
<td>30</td>
</tr>
<tr>
<td>Too expensive</td>
<td>25</td>
</tr>
<tr>
<td>Family member already has account</td>
<td>23</td>
</tr>
<tr>
<td>Too far away</td>
<td>20</td>
</tr>
<tr>
<td>Lack of necessary documentation</td>
<td>18</td>
</tr>
<tr>
<td>Lack of trust</td>
<td>13</td>
</tr>
<tr>
<td>Religious reasons</td>
<td>5</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Indicator</th>
<th>Total Population (million)*</th>
<th>Bank Branch/100,000 Adults</th>
<th>Bank Branch/1,000 km²</th>
<th>ATM / 100,000 Adults</th>
<th>ATM / 1,000 km²</th>
<th>Bank Saver/1,000 Adults</th>
<th>Bank Borrower/1,000 Adults</th>
<th>Loan/GDP (%)</th>
<th>Deposit/GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>154.7</td>
<td>8.08</td>
<td>64.72</td>
<td>5.03</td>
<td>40.32</td>
<td>513.31</td>
<td>87.10</td>
<td>55.50</td>
<td>68.93</td>
</tr>
<tr>
<td>Brazil</td>
<td>198.7</td>
<td>47.26</td>
<td>8.24</td>
<td>118.60</td>
<td>20.68</td>
<td>662.37</td>
<td>380.53</td>
<td>42.42</td>
<td>45.97</td>
</tr>
<tr>
<td>China</td>
<td>1.351</td>
<td>7.72</td>
<td>9.17</td>
<td>37.51</td>
<td>44.55</td>
<td>13.23</td>
<td>271.71</td>
<td>90.21</td>
<td>140.27</td>
</tr>
<tr>
<td>India</td>
<td>1.237</td>
<td>11.38</td>
<td>33.17</td>
<td>11.21</td>
<td>32.67</td>
<td>1042.48</td>
<td>151.06</td>
<td>54.24</td>
<td>68.64</td>
</tr>
<tr>
<td>Indonesia</td>
<td>246.9</td>
<td>9.59</td>
<td>9.24</td>
<td>36.47</td>
<td>35.15</td>
<td>708.12</td>
<td>225.89</td>
<td>32.85</td>
<td>39.13</td>
</tr>
<tr>
<td>Kenya</td>
<td>43.18</td>
<td>5.49</td>
<td>2.31</td>
<td>9.94</td>
<td>4.18</td>
<td>662.26</td>
<td>N/A</td>
<td>44.56</td>
<td>59.81</td>
</tr>
<tr>
<td>Malaysia</td>
<td>29.24</td>
<td>19.91</td>
<td>13.00</td>
<td>52.94</td>
<td>34.56</td>
<td>2305.81</td>
<td>725.22</td>
<td>117.09</td>
<td>146.93</td>
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<tr>
<td>Mexico</td>
<td>120.8</td>
<td>14.52</td>
<td>6.41</td>
<td>47.33</td>
<td>20.89</td>
<td>291.40</td>
<td>228.62</td>
<td>17.29</td>
<td>20.76</td>
</tr>
<tr>
<td>Pakistan</td>
<td>179.2</td>
<td>8.97</td>
<td>13.40</td>
<td>5.42</td>
<td>8.10</td>
<td>268.30</td>
<td>25.69</td>
<td>18.97</td>
<td>33.23</td>
</tr>
<tr>
<td>Philippines</td>
<td>96.71</td>
<td>8.13</td>
<td>17.26</td>
<td>19.31</td>
<td>41.00</td>
<td>497.57</td>
<td>N/A</td>
<td>20.94</td>
<td>38.15</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>20.33</td>
<td>17.49</td>
<td>43.71</td>
<td>15.41</td>
<td>38.51</td>
<td>N/A</td>
<td>N/A</td>
<td>44.83</td>
<td>46.38</td>
</tr>
<tr>
<td>Thailand</td>
<td>66.79</td>
<td>11.77</td>
<td>12.55</td>
<td>84.16</td>
<td>89.70</td>
<td>1,132.21</td>
<td>276.15</td>
<td>74.08</td>
<td>77.63</td>
</tr>
<tr>
<td>Vietnam</td>
<td>88.78</td>
<td>3.18</td>
<td>6.91</td>
<td>21.16</td>
<td>46.02</td>
<td>N/A</td>
<td>N/A</td>
<td>111.88</td>
<td>119.67</td>
</tr>
</tbody>
</table>


*) Countries Data, World Bank
02 FINANCIAL INCLUSION
**National Strategy for Financial Inclusion**

1. Leadership
2. Diversity
3. **Innovation**
4. Protection
5. Empowerment
6. Cooperation
7. Knowledge
8. Proportionality
9. Framework

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**Principles for Innovative Financial Inclusion (G20)**

- Education for students, migrant workers, & other community
- National campaign
- G2P
- Jamkesmas
- Financial Identity Number
- Credit rating
- Policy on Digital Financial Services
- Policy on start up credit
- Basic saving account
- Digital Financial Services through e-money
- Land certification
- Customer protection on payment system product
- Cust. protection for unbanked people
Why We Need Innovation

- Large unbanked people
- High inequality (gini ratio 2012=0.41)
- Low financial literacy
- Unsuitable products and services
- Complex business process
- No proper channel

**Challenge**

- Easy
- Low Price
- Affordable
- Secure & Reliable
- Convenience
- Proportional

**Solution**

- Innovation
  - Channel
  - Products
  - Regulation
  - Business Process
  - Device
  - Education
  - Consumer Protection
  - Price

**Example**

- Agent, mobile phone, etc
- Basic saving, micro insurance, etc
- Simple CDD
- Tablet PC, EDC, RPID, Mobile phone, etc
- Education trough mobile phone, agent, etc
- Complaint mechanism in agent
- Sinergy MNO & banks

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- *The fortune at bottom of the pyramid* (CK Prahalad, 2004): there is a propitious business at the level of less-fortunate people as long as corporate can find an appropriate business process.
- *Portfolio of the poor* (Collins, Morduch, Rutherford, Ruthven, 2010): the less fortunate people can also saving and become an active money managers.
- *A Radical Rethinking of the Way to Fight Global Poverty, Poor Economics* (Abhiit, Banarjee & Duflos, 2011),
Current Bank Indonesia Programs on Financial Inclusion

Financial Inclusion

Digital Financial Services

- Mobile Phone Number
  - E-money registered
    - Financial Identity Number
      - E-national identity
        - Database Development

- Mobile Agriculture
- Financial Education
- Remittance
  - Mobile Phone Number linked with Bank Account Number

Credit Rating

Customer Data Profile

Micro Credit

The bottom of the pyramid
# Current State

## Financial Inclusion

<table>
<thead>
<tr>
<th>No</th>
<th>ASPECT</th>
<th>REMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Infrastructure</td>
<td>- Regional credit insurance agency*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Credit rating for the SMEs*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Set-up SMEs database</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Pilot project branchless banking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- New business model for remittance*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Mobile agriculture*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Financial Identity Number (FIN)*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Financial Inclusion Index *</td>
</tr>
<tr>
<td>2</td>
<td>Payment system</td>
<td>- New business model for G2P (account based)*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Pilot project G2P through e-money*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- P2P transfer through mobile number and interoperable amongst Telco</td>
</tr>
<tr>
<td>3</td>
<td>Regulation</td>
<td>- New e-money</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Digital Financial Service (agent bank through e-money)</td>
</tr>
<tr>
<td>4</td>
<td>Financial Education</td>
<td>- For student including school curricula</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Sectoral (migrant worker, farmer, fisherman)</td>
</tr>
</tbody>
</table>

*) on progress
## Current State

### No | ASPECT | REMARK
---|---|---
5 | Product | - E-Money  
- Basic Savings Account (BSA)  
- Campaign “Let’s Go to the Bank”
6 | Financing | - Linkage Program: collaboration between rural banks and commercial bank in term of loan  
- APEX Bank: collaboration between rural banks and commercial banks in term of liquidity assistance  
- Clustering: mentorship for specific sector  
- Lending Model: set up financing scheme for specific sector  
- Loan Program for People (KUR): facilitator of financing for SMEs with partial guarantee by government
03 DIGITAL FINANCIAL SERVICES
What If?

DIGITAL FINANCIAL SERVICES

Thinking that financial services is a human right

Regulator / Gov.

Customer

- Can sign-up in front of their door
- Only need time 15 mins instead
- No cost for transportation

Point of Services

Every one is like a bank branch

Mobile phone could keep, send and receive money

Front-end

Every one, can send or money to anyone to any service providers around the world

Product

Mobile phone as a mobile wallet (e-money or savings), insurance and tool for micro loan

Interoperable

Cost of Processing

Services with tiny cost by financial service providers

DIGITAL FINANCIAL SERVICES
DIGITAL FINANCIAL SERVICES

Mechanism

E-Money
Register: No. HP

1. KYC
2. Open account, cash-in, cash-out, payment
3. Debit/credit
4. Support
5. 2 otenticationS

Agent Transaction

Mobile Account Transaction
Transfer & payment

1. Transfer & payment
2. credited
3. debited
4. Data
5. Merchant account
6. Customer account
Agen is Individual*)

- Bank
- Branch
- Agent
- E-MONEY
- TELCO
- Deposit
- Encryption
- Real Time Settlement
- Real Time Notification
- Dual Otentikasi
- Supervision
- SLA

Agen is Legal Entity**)

- Bank & Non Banks
- Branch
- Legal Entity Agent
- TELCO
- Deposit
- Encryption
- Real Time Settlement
- Real Time Notification
- Dual Otentikasi
- Supervision
- SLA

Customers

New regulation

*) Bank category 4: core capital > $5 billion

**) Any banks and non banks

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“the provision of some mix of financial and payment services that are delivered and managed using mobile or web technologies and a network of agents”

HIGH MOBILE PHONE PENETRATION

1) Source: Bank Indonesia Survey, 2012
Source: Telco’s Marketing Comparison Data, 2012
2) Source: National Statistic, August 2013.

<table>
<thead>
<tr>
<th>No</th>
<th>FACTOR</th>
<th>REMARK</th>
</tr>
</thead>
</table>
| 1  | Infrastructure | - Quality of telecomunication network  
|    |           | - Adequate security                                       
|    |           | - Interoperability                                        |
| 2  | Provider  | - Sustain business model                                   
|    |           | - Understanding customer needs                             
|    |           | - Quality of services                                      
|    |           | - Proper customer protection                               
|    |           | - Combating AML/CFT                                        
|    |           | - Inactive client and agent                                |
| 3  | Agent     | - Cash management                                          
|    |           | - Quality of services                                      
|    |           | - KYC                                                       |
| 4  | Customer  | - Literacy level                                           
|    |           | - Lack of trust to agent and mobile phone                  
|    |           | - Marketing target                                         |
| 5  | Regulator | - Balancing risk & innovation                              
|    |           | - Balancing KYC and combating AML/CFT                      
|    |           | - Private sector leadership                                
|    |           | - Balance competition                                      
|    |           | - Interoperability VS systemic concern                     
|    |           | - Coordination                                             |
04 ENABLING ENVIRONMENT
Enabling: Providing Rule of the Game

Rule of the game to provide:
- Balance between risk and innovation
- Responsible finance
- Financial integrity

INTEGRITY
- Risk Based Approach
- Transparency
- Compliance mechanism
- Customer Protection
- Education

ACCESS
- Go branchless & digital
- High Capital Bank
- Good risk management
- Governance
- IT & internal control

TECHNOLOGY
- Real time transaction
- Dual authentication
- High standard security in software, hardware & network
- Fraud detection & automatic log-off

Customer Protection
- Clear charge
- Call center
- Financial education

Risk Management
- Integrity, competency & reputation
- Local people
- Has own business in permanent place
- Deposit
- Non-exclusive

AML/CFT
- Full KYC
- CDD by agent
- Approval by bank
- Limit

Expansion

Provider

Agent
ENABLING ENVIRONMENT

Enabling: Creating People Awareness

- Financial Education for Students
- Financial Education & Entrepreneurship for Migrant worker
- Financial Education & Entrepreneurship for Specific Target Groups (Farmers, Fisherman, Labor, etc)
- Financial Education for DFS Agents
- National Campaign
- Release Financial Education Publication
### Other Enablers

<table>
<thead>
<tr>
<th>No</th>
<th>FACTOR</th>
<th>REMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Infrastructure</td>
<td>- Interoperability</td>
</tr>
<tr>
<td>2</td>
<td>Agent</td>
<td>- Non Exclusive</td>
</tr>
<tr>
<td>3</td>
<td>Customer</td>
<td>- Financial management education</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Customize solutions for specific groups</td>
</tr>
<tr>
<td></td>
<td></td>
<td>i.e G2P recipient</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Linked with other program related i.e remittance, mobile agriculture</td>
</tr>
<tr>
<td>4</td>
<td>Regulator</td>
<td>- Coordination with other ministries</td>
</tr>
</tbody>
</table>
05 ISSUE & CHALLENGE
• **Condition:** Demographic and geographic condition of Indonesia are the main challenges for financial inclusion program.

• **Coordination:** Sharing role on some financial inclusion programs among institutions need collaboration and coordination effort effectively and efficiently.

• **Financial Literacy:** High level of financial illiteracy caused people hard to accept the new technology and innovation of financial services.

• **Culture:** Change the people way of life from traditional view to use formal financial services and its products.

• **Cost & Time:** Implementation need time & costly.

• **Level Playing Field:** Creating balance and fair competition among provider.

• **Infrastructure:** Financial inclusion program need technology that support secure, fast and affordable transaction.

• **Regulation:** Balance risk and innovation.
Thank you