

# BOOKLET FINANCIAL INCLUSION



Financial Access and SME Development Department  
Bank Indonesia  
2014

**The source of information in this booklet is the “*National Strategy for Financial Inclusion Fostering Economic Growth and Accelerating Poverty Reduction*” (Secretariat of the Vice President of the Republic of Indonesia – June 2012) and adjustment to discussion results with the relevant Ministries/Institutions.**



## EXECUTIVE SUMMARY

Financial inclusion is an effort to eliminate all forms of constraints with price and non-price characteristics on public access to use financial services. Financial inclusion is a national strategy to boost economic growth through equal income distribution, poverty reduction, and financial system stability.

The World Bank's survey (2010) shows that only 49 percent of Indonesian households have access to formal financial institutions. Bank Indonesia revealed the same in a Household Balance Sheet Survey (2011) showing that 48 percent of households save their money with formal financial institutions and non-financial institutions. This poor access is the result of low income, complicated bank operation, lack of financial and banking education, high bank administration fee, and far locations of banks from people's houses. Therefore, there is a thought to apply financial inclusion strategy to boost economic activities of those who unable to make use financial services, thereby promoting equal income distribution and poverty reduction.

Financial inclusion has become an important agenda at international and national levels. At international level, financial inclusion has been discussed in G20, OECD, AFI, APEC and ASEAN fora, wherein Indonesia actively participates. Meanwhile, at national level, the President of The Republic of Indonesia made a commitment as specified in the Chairman Statement in ASEAN Summit 2011 to have a National Strategy for Financial Inclusion.

In the National Strategy for Financial Inclusion, the financial inclusion strategy is elaborated to 6 pillars, namely financial education, public financial facility, mapping of financial information, supporting policy/regulation, intermediary and distribution facility, and consumer protection.

To realize a sustainable financial inclusion program, it is necessary to have close coordination between Bank Indonesia and the relevant ministries and institutions for development, priority setting and program implementation, as well as implementation of program monitoring and evaluation. With close coordination, it is expected the objective to increase public access to financial services may be met.

# **1. Vision and Mission of Financial Inclusion**

## **a. Importance of Financial Inclusion**

A successful development is marked with the establishment of a stable and useful financial system for all people. In this instance, financial institutions play a vital role through their intermediary function to boost economic growth, equal income distribution, poverty reduction, and achievement of financial system stability. Unfortunately, the rapid developing of financial industry is not always accompanied by an adequate financial access. Meanwhile, financial service access is an important prerequisite for community involvement in the economic system.

The World Bank's Survey (2010) shows that only 49 percent of Indonesian households have access to formal financial institutions. Bank Indonesia revealed the same in a Household Balance Sheet Survey (2011) showing that 48 percent of households save their money with formal financial institutions and non-financial institutions. Therefore, 52% of people do not have any savings with banks or non-bank financial institutions. The two surveys mutually reinforce and support that the access of Indonesian people to formal and non-formal financial institutions is still relatively low, and therefore, the access of Indonesian people to the financial service system must be increased.

However, amidst the issues mentioned above, public access to financial services in Indonesia is categorized moderate among the other developing countries. The access of Indonesian people to financial services is greater than two emerging giants, India and China, and is slightly lower than Thailand, Malaysia, and even South Korea. It means, there is enough space remains to make financial system more inclusive and gain bigger social advantages. Access to financial services is a complicated issue related to people as consumers and financial institutions as producers. It requires formulation of a multi-dimensional approach to improving public access to financial service.

Financial inclusion activities become one of the important agendas in the international world. International fora, such as G20, APEC, OECD, AFI and ASEAN, intensively discuss financial inclusion. In addition, financial inclusion is a priority of the Indonesian government. In June 2012, Bank Indonesia cooperated with the Vice President's Secretariat - National Team of Poverty Alleviation Acceleration (TNP2K) and Fiscal Policy Agency of Ministry of Finance – to issue a National Strategy for Financial Inclusion. This strategy contains framework, implementation, and steps to implement financial inclusion in the future.

In economic development in Indonesia, banks play a vital role to function as the driver of financial inclusion activities because Indonesian banks have a financial activity share up to 80%. However, financial inclusion involvement is related to not only the task of Bank Indonesia, but also the Government in efforts to provide financial services to the wider community. Financial inclusion is a national development strategy to boost economic growth through equal income distribution, poverty reduction, and financial system stability. Through National Strategy for Financial Inclusion, it is expected collaboration between government institutions and stakeholders may be created in a close and structured manner.

#### **b. Financial Inclusion Definition**

In the National Strategy for Financial Inclusion, financial inclusion is defined as:

*The right of every individual to have access to a full range of quality financial services in a timely, convenient, informed manner and at affordable cost in full respect of his/her personal dignity. Financial services are provided to all segments of the society, with a particular attention to low-income poor, productive poor, migrant workers and people living in remote areas.*

#### **c. Vision and Mission of Financial Inclusion**

The vision of national financial inclusion is formulated as follows:

*To achieve a financial system that is accessible by all layers of the community to promote economic growth, poverty reduction, income equality, and creation of financial system stability in Indonesia.*

The financial inclusion vision is elaborated in the following objectives:

**Objective 1: Make financial inclusion as a part of the grand strategy of economic development, poverty reduction, equal income distribution, and financial system stability.** Financial inclusion is a strategy to achieve a broader economic development objective, namely poverty reduction and public welfare increase, and to reach financial system stability. Poor and marginal people are categorized as a group with limited access to financial services. Financial inclusion aims to give wider public access to financial services, but there is a need to give more focus on poor people.

**Objective 2: Provide financial services and products tailored to the needs of the community.** Financial inclusion concept must meet all diverse needs of different segments of people through a holistic service.

**Objective 3: Improve people's knowledge on financial services.** The main constraint in financial inclusion is low level of financial literacy. This knowledge is important to make people feel safer in interacting with financial institutions.

**Objective 4: Improve people's access to financial services.** The general constraints for poor people to access financial services are geographical and administrative issues. Resolving this constraints will create a fundamental breakthrough to simplifying access to financial services.

**Objective 5: Strengthen the synergy between banks, microfinance institutions, and non-bank financial institutions.** The government must guarantee not only empowerment of branch offices, but also regulations allowing expansion of formal financial services. Therefore, synergy between Banks, Microfinance Institutions (MFI), and Non-Bank Financial Institutions becomes important primarily to support achievement of financial system stability.

**Objective 6: Optimize the role of information and communication technology (ICT) to expand the scope of financial services.** Technology can reduce transaction costs and expand formal financial system to more than savings and credit services. However, clear guidelines and regulations are necessary to balance the expansion and the risks.

## **2. Indonesia's Financial Inclusion Commitment in International Fora**

Indonesia plays an active role in financial inclusion discussions in international fora. As a member of **G-20**, Indonesia ensures that The nine G-20 Principles for Innovation Financial Inclusion are implemented at national level. Indonesia is also committed in OECD forum to develop financial education, including conducting financial literacy survey. In addition, Indonesia also plays an active role in APEC forum to share knowledge on various financial inclusion issues and topics. At regional level, Indonesia is also active in emphasizing the importance of financial inclusion, one of which is through the implementation of the *1<sup>st</sup> ASEAN Conference on Financial Inclusion* to consider the establishment of financial inclusion forum at **ASEAN** level. In **Alliance for Financial Inclusion (AFI)**, Indonesia is

committed to Maya Declaration aiming to support development, innovation, and implementation of financial inclusion program and plays an active role as a member of AFI steering committee.

### 3. National Strategy for Financial Inclusion

#### a. Financial Inclusion Target Group

Financial Inclusion is a national development strategy to boost economic growth through equal income distribution, poverty reduction, and financial system stability. This community-centered strategy needs to target groups facing constraints to access financial services. This financial inclusion strategy explicitly targets groups with the biggest need whose financial services are not met; they are placed in three categories (low-income poor, working poor/productive poor, and near-poor) and three cross-cutting categories (migrant workers, women, and people living in remote areas).

**Table 1. Characteristics of Targeted Groups**

Target Financial Capacity	Low-Income Poor	Working Poor / Productive poor	Near-Poor <sup>1</sup>
<b>Ability to save</b>	Do not have any savings ability / have very low ability without access to savings service	Have ability to save some of their income in informal manner	Have savings ability and access to formal banks
<b>Access to credit</b>	Unable to repay	Have access to informal credit. Able to repay credit, but do not have collateral which can be accepted by bank	Have access to some formal and informal sources Able to pay credit and have collateral
<b>Insurance needs</b>	Vulnerable to personal and public (economic) turbulence	Have some supports, but can be highly influenced by turbulence	Have various instruments to face risks
<b>Remittance needs</b>	Receive remittance from family members working as migrant workers	Need for remittance as well as possibility to remit money through mobile devices.	Possibly need to remit through banks, pay bills, etc
<b>Financial literacy</b>	None	Medium	Medium
<b>Financial Identity</b>	None	Limited	Limited

<sup>1</sup> This category, though focuses on near-poor group, also includes non-poor group (including middle class and economically capable people). Financial inclusion strategy includes all people outside a financial system, including non-poor group, who, despite its better access opportunity, is excluded for various reasons.



**Low-Income Poor:** This category includes those with very limited access or without any access to all types of financial services. This category refers to extremely poor group of people who may receive social assistance and lower segment of poor category as parts of community empowerment program.

**The Working Poor:** This category includes poor people having their own jobs, including small and marginal farmers, fishermen, artists and craftsmen, small traders, and micro businesspeople in informal sector in urban and rural areas. Lack of resources limits their ability to expand production or improve productivity and income.

**Non-Poor:** This category includes all people who do not meet criteria to fit in the lowest income poor people and working poor people.

**Domestic and International Migrant Workers:** Indonesia is the third largest remittance recipients in Asia Pacific region. Around 80 percent of migrant workers, or also known as Indonesian Migrant Workers, are women and more than 85 percent of them work in informal sectors. Migrant workers are usually untouched by financial sector or have limited access to financial services. They primarily need facilities to remit money in a secure and quick manner and at a low cost from their workplaces to their houses, which are frequently located in remote and disadvantaged areas. Migrant workers generally come from poor farmer households in rural areas with low income. They have a very limited access to formal financial products or services to support them in migration phase process (i.e. pre-migration, during migration, and post-migration).

**Women:** In many developing countries, a huge difference is frequently observed between men and women in terms of their accesses, needs, and preferences for financial services; therefore, in improving access to financial services, it is important to recognize such difference. In Indonesia, men and women have an equal opportunity to have savings account. However, the main motivation of men to open savings accounts is mostly to obtain credit, while women save for future needs. In terms of insurance ownership, women more frequently buy education insurance, while men elect life insurance, and at a certain level, they also have insurance for their assets.

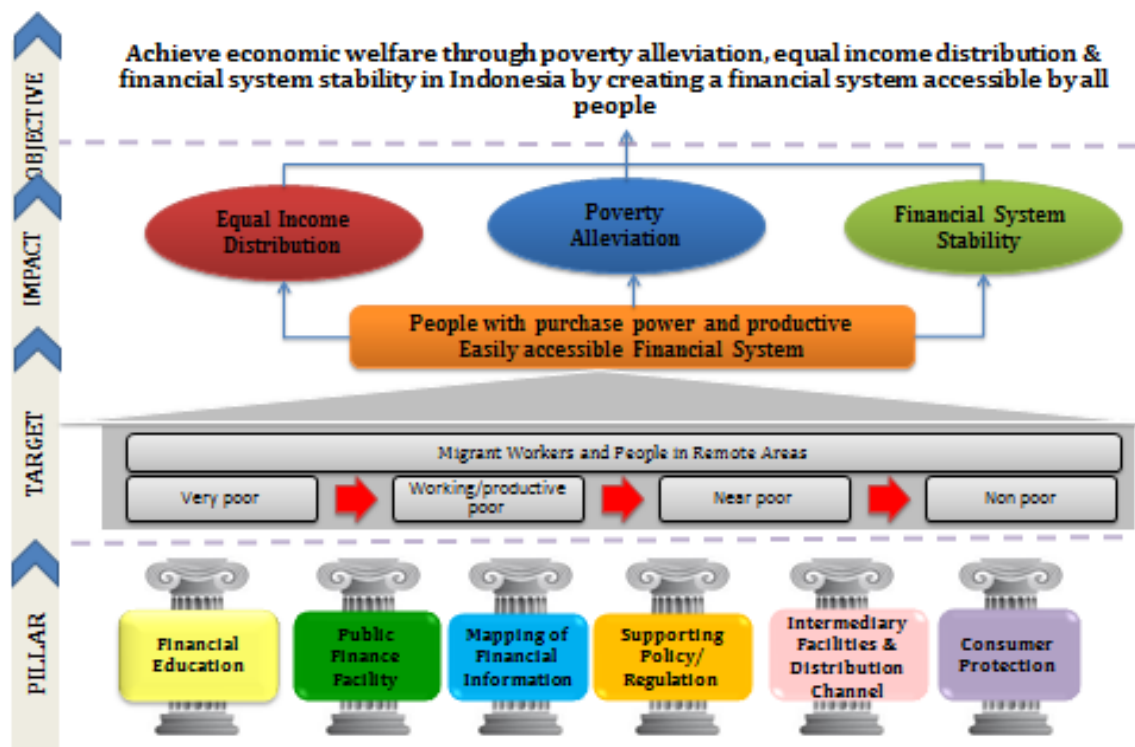
**People in remote areas:** Around 52 percent of Indonesian people live in rural areas and around 60 percent of them do not have access to formal financial services. Out of 12.49 percent of people living below the poverty line, around 64 percent live in rural areas. These

figures and geographical distribution condition of Indonesian archipelago indicate the importance of the National Strategy for Financial Inclusion to pay special attention to people in remote areas. Gap in access to financial services for this category may partly be addressed by the use of information and communication technology (e.g. mobile money to facilitate transfer and payment transactions between islands and between rural and urban areas).

### b. National Financial Inclusion Framework

The World Bank (2010) revealed that at least there are four types of financial services considered vital to people’s life, namely fund deposit, credit, payment system, and insurance, including pension fund. These four aspects are the fundamental requirements for people to live a better life. Increase of public access to financial institutions is a complex issue, which needs cross-sectoral coordination involving bank authorities, non-bank financial services, ministries, or other institutions focusing on poverty reduction, and therefore, a comprehensive and holistic policy is needed in a National Strategy for Financial Inclusion.

Figure 1. Six Pillars of Financial Inclusion Strategy



The general framework of financial inclusion is built on the following six pillars:

***Pillar 1 Financial Education.*** It aims to increase public knowledge and awareness on financial products and services that available in the formal financial market, consumer protection aspect, and understanding on risk management. The scope of this financial education includes: a) knowledge and awareness on the various types of financial products and services, b) knowledge and awareness on risks related to financial products, c) consumer protection, d) financial management skill.

***Pillar 2 Public Financial Facility.*** The strategy for this pillar refers to the government's ability and role in providing direct or conditional public financial funding to boost community's economic empowerment. Several initiatives in this pillar include: a) subsidy and social assistance, b) community empowerment, c) SME empowerment.

***Pillar 3 Mapping of Financial Information.*** It aims to build the public capacity, primarily those categorized not eligible to become eligible or unbankable to become bankable by normal financial institutions, particularly productive poor people and micro and small businesses. Initiatives made in this pillar include :a) capacity building (through training and technical assistance), b) alternative of gurantee system (simpler but still considering their relevant risks), c) provision of simpler credit services, d) identification of potential customers.

***Pillar 4: Supporting Policies/Regulations.*** Implementation of an inclusive financial program requires policy support from the government and Bank Indonesia to improve access to financial services. Initiatives made to support this pillar include: a) Policy to promote dissemination of financial service products matching to public needs, b) prepare product schemes which met the public needs, c) encourage change of provisions by observing the principle of prudence in a proportional manner, d) make regulations on **assistance fund disbursement** mechanism through banks, e) strengthen legal grounds to improve consumer protection in financial services, f) make studies related to financial inclusion to determine policy direction in a sustainable manner.

***Pillar 5 Intermediary Facilities and Distribution Channels.*** It aims to increase the awareness of financial institutions on the existence of potential segments in the community and expand the outreach of financial institution services by using alternative distribution channels. Several aspects in this pillar include: a) intermediary forum facilities to allow

financial institutions to meet productive community groups (eligible and unbanked) to solve asymmetric information issues, b) increase cooperation between financial institutions in order to increase business unit scale, c) explore various possibilities of products, services, and innovative distribution channels by observing the prudential principles.

**Pillar 6 Consumer Protection.** It aims to make people have a guarantee for security in interacting with financial institutions to utilize the offered financial products and services. Components of this pillar include: a) product transparency, b) handling of consumer complaints, c) mediation, d) consumer education.

The six pillars are further elaborated into programs adjusted to the category of people implemented by Bank Indonesia and the relevant ministries. Some examples of ongoing programs are as follows:

**Table 2. Examples of Programs and Targeted Groups**

Pillar and Target	Migrant Workers and People in Remote Areas			
	Very Poor	Working / Productive Poor	Near Poor	Non Poor
Financial Education	Financial Education to (students, Migrant workers, general public)			
	Campaign to promote savings culture			
	Financial Literacy Survey			
	Mini website special for consumer information and education			
Mapping of Financial Information	Financial Identity Number			
	Credit Rating Agency for MSME			
	Credit Information Bureau			
	MSME Database			
Supporting Policy/Regulation	Multilicensing Policy			
	Start-up Credit Policy			
	Digital Financial Services Policy <sup>2</sup>			
	Micro Insurance Policy			
Intermediary & Distribution Facilitation	TabunganKu/My Savings			
	Land Certificate			
	Mobile Financial Services, Money Transfer Business Activity (KUPU)			
	Digital Financial Services <sup>2</sup>			
	Regional Credit Insurance Agency (LPKD)			
	Start up credit			
	APEX Bank Linkage, economic cluster, financial consultants as bank's partners, lending model, and baseline economic survey			
Public Financial Facility	Non-Cash conditional cash transfer (PKH)			
	Non-Cash Bantuan Siswa Miskin (BSM)			
	Revolving Fund PNPM (Community Empowerment National Program)			
	KUR (People's Business Credit)			
Consumer Protection	Product Transparency			
	Special unit for customer complaint handling			
	Banking Mediation			

<sup>2</sup> Digital Financial Services previously called as Branchless Banking

### c. *Financial Inclusion Indicators*

To understand the extent of financial inclusion activity development, key performance indicators are needed. From some references, the following indicators may be used to measure financial inclusion development by a country:

1. **Availability/access:** measure the ability of formal financial service use in terms of physical and price affordability.
2. **Use:** measure the ability of actual use of financial products and services (i.g. regularity, frequency, and duration).
3. **Quality:** to measure whether attributes of financial products and services have met consumers' needs.
4. **Welfare:** measure the impacts of financial services on the degree of lives of service users.

**Table 3. Financial Inclusion Indicators used by Bank Indonesia**

Dimension	Indicator	Remarks
Access	The number of access points per 10,000 adult population at national level is segmented by type and administrative unit	<ul style="list-style-type: none"> <li>▪ Access point: any physical entity where individual can perform cash-in/cash-out transactions (Bank, ATM, agent/UPLK (financial service intermediary unit)).</li> <li>▪ Type of access point</li> <li>▪ Administrative unit: province and district</li> <li>▪ The number of adult population in productive age (20 years old and above)</li> </ul>
	Percentage of administrative units with at least one access point	Administrative unit: province and district
	Percentage of total population living in administrative units with at least one access point	Total population in a province and district
	The number of access points per 10 km <sup>2</sup>	Access point: any physical entity where individual can perform cash-in/cash-out transactions (Bank, ATM, agent/UPLK (financial service intermediary unit))
Use	Percentage of adult population with at least one type regulated deposit account (a country without this data can use the number of deposit accounts per 10,000 adult population)	<ul style="list-style-type: none"> <li>▪ The number of deposit accounts per 10,000 adult population</li> <li>▪ Deposit accounts: demand deposit, savings account, time deposit</li> </ul>
	Percentage of population with at least one type of regulated credit account (a country without this data can use the number of deposit accounts per 10,000 adult population)	The number of deposit accounts per 10,000 adult population

Source: *Alliance for Financial Inclusion Set of Indicators*

## **4. Implementation of National Strategy for Financial Inclusion**

Various initiatives have been introduced by the relevant ministries/institutions in implementation of National Strategy for Financial Inclusion. It shows the commitment of the relevant ministries/institutions to actively strive to implement future plans and programs related to the National Strategy for Financial Inclusion. The roadmap of initiative implementation is distinguished into financial inclusion activity programs and quick win programs.

## **5. Role of Bank Indonesia**

Bank Indonesia supports the implementation of National Strategy for Financial Inclusion through the following roles:

### **1. Coordinating financial inclusion activities with the relevant ministries/institutions.**

Coordinate with the relevant ministries/institutions in planning and implementation of financial inclusion programs.

### **2. Mapping of regional potentials as the basis for setting programs and priorities of financial inclusion activities.**

Mapping of regional potentials are made to among others economic sector, program beneficiaries parties, and the relevant stakeholders.

### **3. Setting programs and priorities of financial inclusion activities.**

Programs and priorities of financial inclusion activities will be set after coordination with the relevant ministries/institutions. Such programs and priorities are set according to the result of regional potential mapping by Bank Indonesia. In order to simplify the implementation, guideline for financial inclusion program implementation will be formulated.

### **4. Become a focal point of certain activities under the authority of Bank Indonesia for implementation of National Strategy for Financial Inclusion.**

Bank Indonesia is a focal point focusing on education, consumer protection, regulation and supervision in payment system; financial planning education; arrangement and mapping of information system of financial inclusion; and SME financial access development.

### **5. Disseminating financial inclusion program.**

Disseminate financial inclusion activity program, primarily to the Regional Offices of Bank Indonesia and the relevant stakeholders.

**6. Building cooperation with the relevant stakeholders outside of Bank Indonesia.**

To expand financial inclusion development, it is necessary to make cooperation with various institutions at national, regional, and international levels.

**7. Implementing financial inclusion activities.**

Implement financial inclusion activities relevant to the tasks and authority of Bank Indonesia.

**8. Evaluating financial inclusion activity program.**

Together with the relevant ministries, evaluate financial inclusion development for improvement and development of future activities.

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