



## Understanding people's use of financial services in Indonesia

**93**

districts

**4**

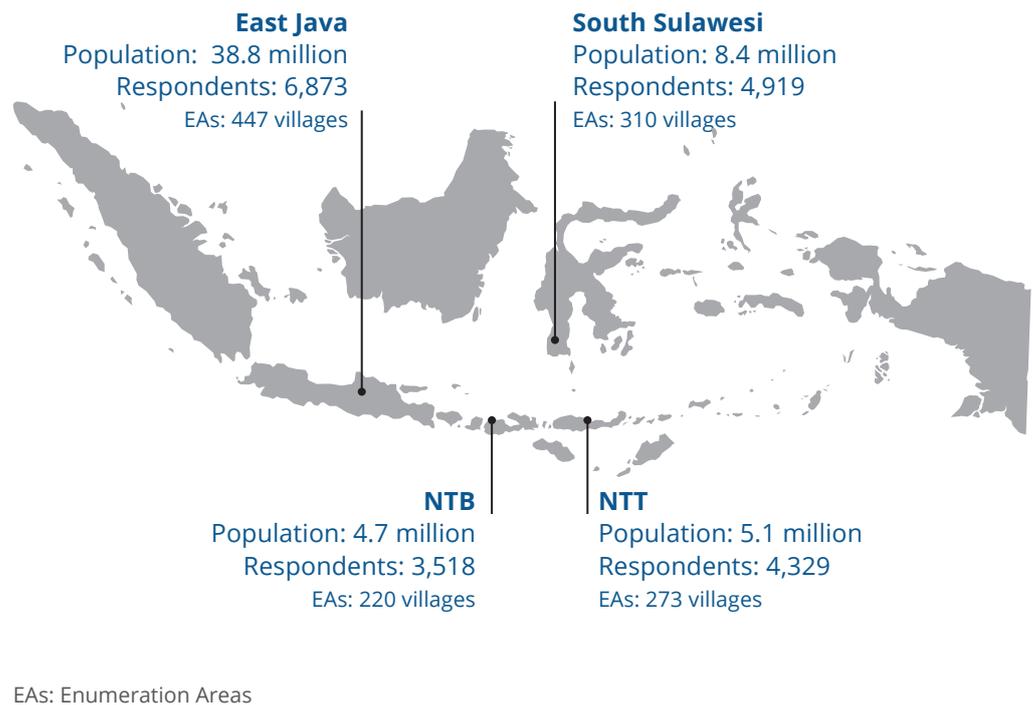
provinces  
in eastern  
Indonesia

**1,250**

Enumeration Areas  
(EAs) (villages)

**20,000**

individual  
respondents



Various stakeholders acknowledge the importance of serving the financially-excluded population – those who remain unbanked or underbanked. There is growing recognition that better information on different target groups or segments of the market is needed.

- Policy makers and regulators recognize the importance of promoting financial inclusion, especially among those in the low-income category, to spur their productivity and growth.
- Financial institutions, on the other hand, are aware of the commercial potential to reach new clients from among those who are largely unbanked.

Credible information and analysis on the financial lives of people need to be established to provide solid evidence both for policy-making and for developing appropriate financial products.

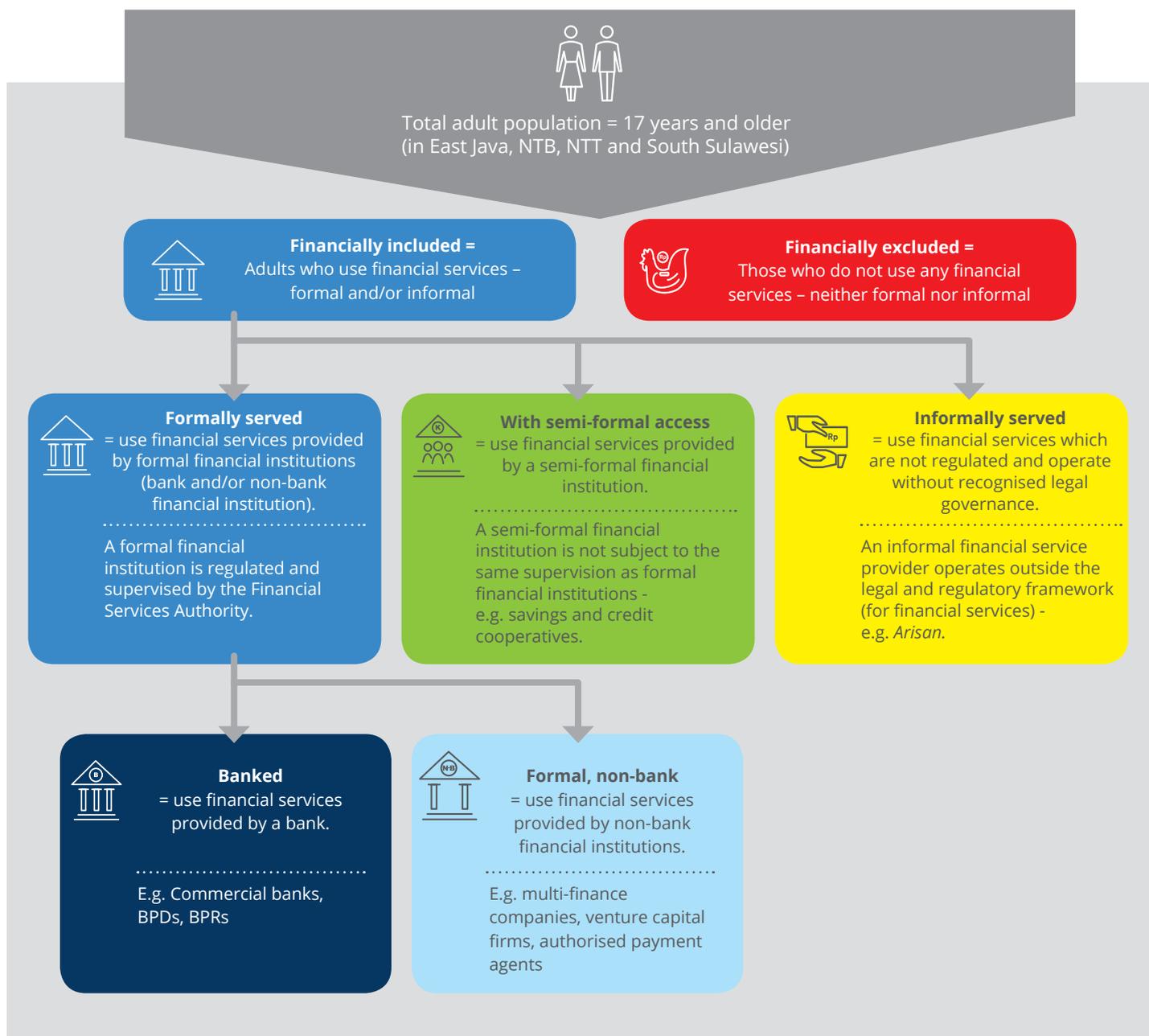
To support the achievement of the National Strategy on Financial Inclusion (SNKI) and recognising the importance of drawing evidence and data on people's use of financial services, the Government of Indonesia, the Governments of Australia and Switzerland, and various financial institutions agreed to conduct a survey on the demand for and use of financial services in eastern Indonesia. This survey, which is called the Survey on Financial Inclusion and Access (SOFIA), seeks to measure and profile levels of access to and use of financial services by all adults across income ranges and other demographics.

This very first implementation of SOFIA covered four provinces in eastern Indonesia, namely East Java, West Nusa Tenggara (NTB), East Nusa Tenggara (NTT) and South Sulawesi, with a total sample size of 20,000 individuals.

# Measuring financial inclusion

*How do (different groups of) people manage the cash they receive to meet their needs – including the need to build or acquire assets, manage risks and protect themselves against shocks, manage the regular payments they need to make?  
How many are using financial services and which types of services do people use?*

One of the key indicators of interest is the proportion of the adult population with access to financial services – or what is commonly referred to as the ‘Financial Access Strand’. This seeks to measure the proportion of the population who use different types of financial services, based on a classification of financial products.

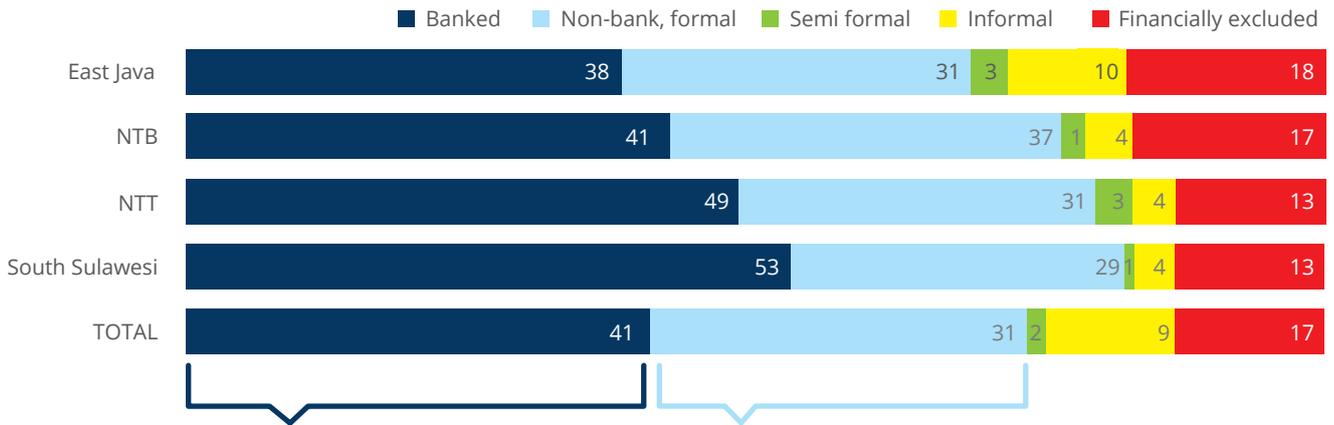


The overlaps in the usage of products are taken out in the Access Strand. For example, an individual who uses banking services as well as informal services is classified as ‘banked’.

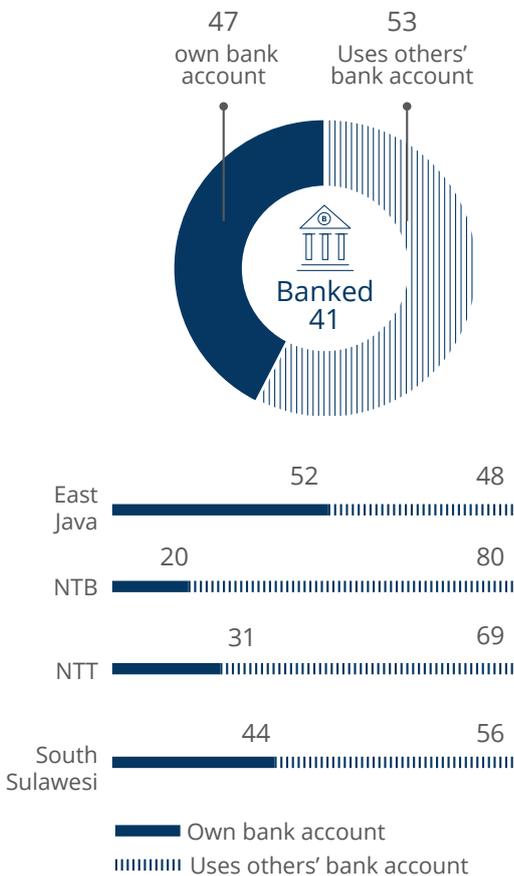
We consider ‘usage’ of financial services, which does not necessarily mean ownership. For example, a person may be able to use banking services but not necessarily own a bank account him/herself.

Financially-excluded individuals are those who do not use services that fall under the formal, semi-formal or informal categories, e.g. they may be keeping their savings at home or borrowing money from their family members or friends. The financially-excluded group does not, however, include those who are not using financial services – e.g. those who are not saving at all, are not borrowing money, are not making any payments or transfers, etc.

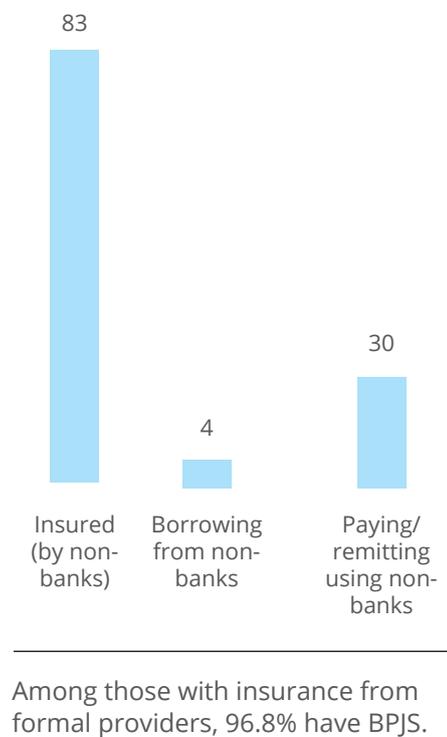
# The Financial Access Strand



## Ownership of banks accounts (%)



## What is driving access to formal, non-banks? (%)



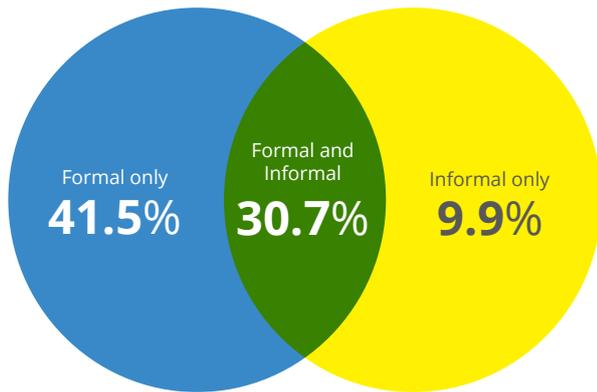
The majority of adults (a total of 72%) in the provinces of East Java, NTB, NTT and South Sulawesi are using formal financial services, i.e. those offered either by banks or formal non-bank financial institutions. This level of formal inclusion is remarkably high.

A high proportion of adults (41%) in these provinces are banked, but only less than half (almost 47%) of them actually own a bank account. Moreover, the high proportion of adults using formal, non-bank services is driven by the surprisingly high proportion of those who own insurance, the majority of whom have BPJS insurance.

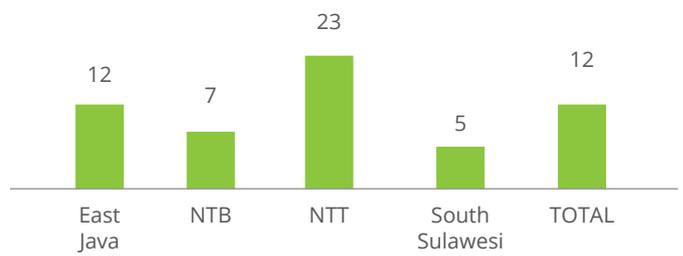
The use of informal financial services is significant. Informal financial and social networks are an important source of finance for different consumer segments, not just low-income individuals or those in agriculture. **Use of informal financial services remains prevalent even among those in urban locations who have access to banking services.** This presents opportunities for formal providers to understand their added value compared with informal options.

42% of adults across the four provinces use formal financial services only, and only 10% rely on informal financial services. These results do not, however, paint the complete picture: 31% of the population actually use a combination of formal and informal services, which more aptly depicts the widespread use of informal services.

### Overlap in usage: usage of formal and informal financial services



### Adults who use semi-formal financial services, per province (%)

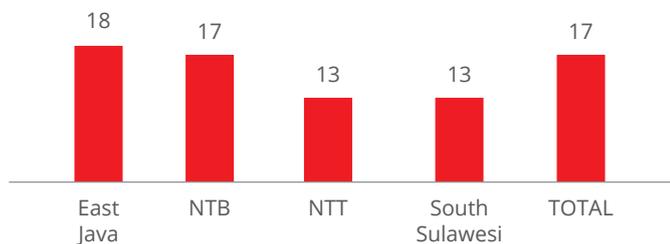


People who are using semi-formal financial services are more likely to be:



- Urban-based;
- In the 35-54 age group;
- Have achieved education levels of SMA and higher;
- Not involved in agricultural activities; and
- Are among the wealthier segments of the population.

### Financially-excluded adults, per province (%)

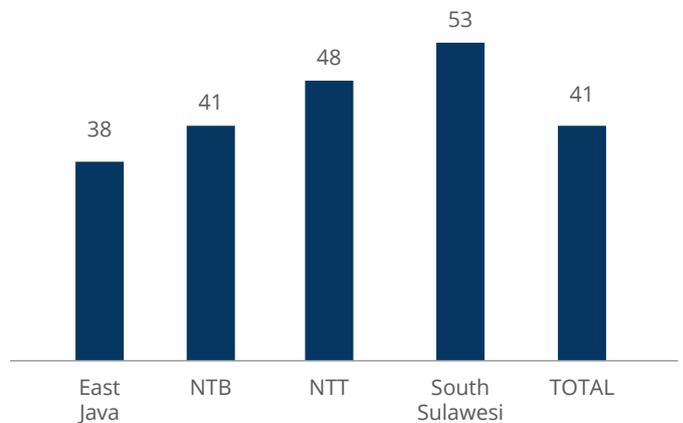


Adults who are financially excluded are more likely than other adults to be:



- Rural-based;
- Male;
- Younger than 25 years or older than 54 years;
- Have not had formal education, have not successfully completed any level of education or have achieved SD levels at most;
- Involved in agricultural activities; and
- Are among the poorest.

### Banked adults, per province (%)



Banked adults differ from other adults in the population in that they are more likely to be:

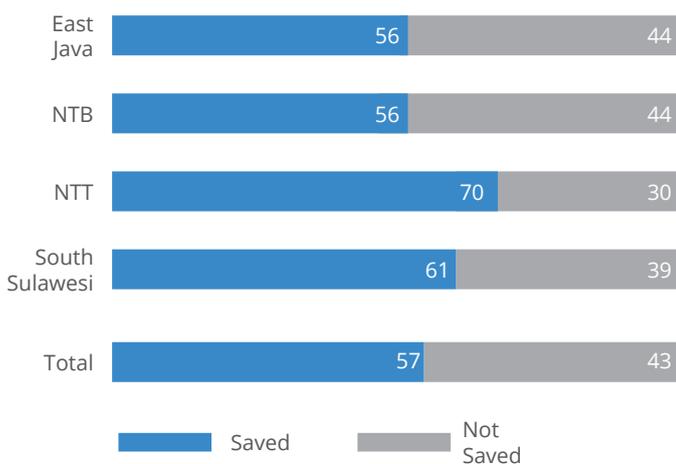


- Urban-based;
- Male;
- In the age group 17-54 years old;
- Have achieved education levels of SMP and higher;
- Not involved in agricultural activities; and
- Are in the mid- to upper range of the wealth spectrum.

# Savings

More than half (57%) of the population reported that they saved or set aside an amount of money for future use over the last 12 months. This is favourable considering the observation that Indonesians generally do not manage to save money, but rather focus on consumption.

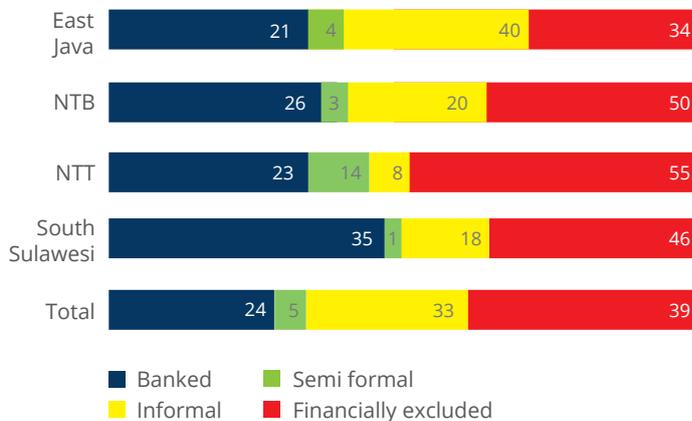
## Percentage of adults who save, by province (%)



Despite being a province with a high incidence of poverty, NTT has the highest proportion of the population who said that they saved.

Across the four provinces, a significantly higher proportion of females (64%) save, compared to males (48%) – which confirms a common observation of women as savers.

## How are people saving? (%)



About a quarter of the population save by keeping their money in savings accounts at banks.

A significant proportion of those who save (39%) are financially excluded – they save by either keeping the money at home or by purchasing goods (such as livestock and jewellery, that they could then sell later).

In East Java, a smaller proportion of adults save via banks. But it has the lowest rate of financial exclusion when it comes to savings, driven by the high proportion of adults in this province (40%) who actually save through informal means.

### What are people saving for?

Across the four provinces, people saved primarily to cover expenses related to basic needs, to pay for children’s school fees and related expenses, and for emergencies.

### Why do people save the way they do?

Those who save through accounts held at banks or cooperatives consider it “very easy” to do so and feel that “they can trust the institution”. On the other hand, those who save through informal means valued “being able to access the money quickly”, followed by “being able to save small amounts”.

# Loans

The majority of adults who have accessed loans (71%) do so either informally or outside the financial system (excluded).

Only 13% of borrowers in the four provinces access credit through banks.

An even smaller proportion (4%) access loans through a variety of formal, non-bank institutions – which include multi-finance companies, venture capital firms, and lending by pawnshops.

Most of those who access loans (almost 60%) borrow from family and/or friends. This constitutes the excluded population, in terms of loans.

Among those who borrow informally, the main sources of credit were buyers/traders (34%) and Arisan (33%).

### Why do people borrow the way they do?

People valued having a simple and easy loan process (#1), as well being able to access the loan amount quickly (#2). Loan product features matter: people valued being able to get a loan at a low (or with no) interest (#3), as well as having a loan amount that matched their needs (#4).

Given the high proportion of borrowing done through family and friends and informal sources of credit, most loans tend to be very small in size – less than IDR1 million and as little as IDR100,000 for loans extended by buyers/traders. Formal non-banks (such as multi-finance companies) and semi-formal providers of credit (such as cooperatives), tend to provide loans ranging between IDR 1-2 million. Loan amounts from banks tend to be largest. Among the different types of banks, loans from BPRs tend to be the lowest at IDR 3 million.

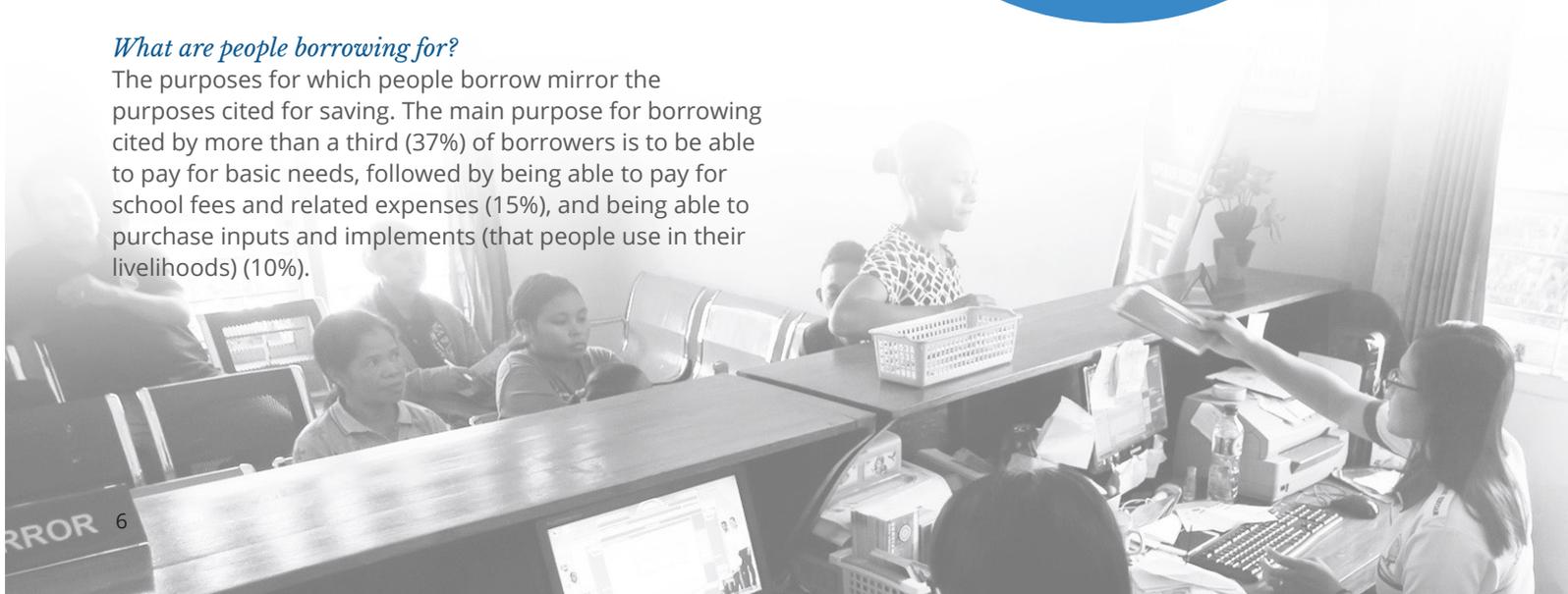
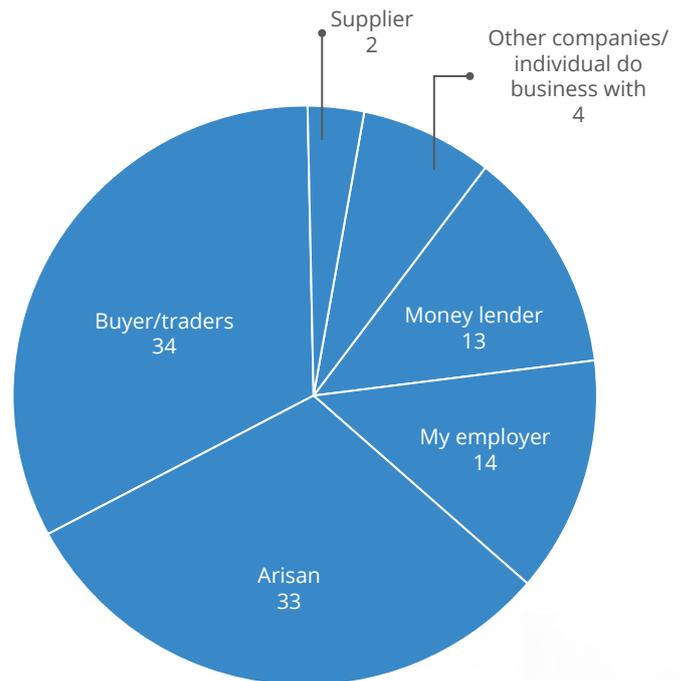
### What are people borrowing for?

The purposes for which people borrow mirror the purposes cited for saving. The main purpose for borrowing cited by more than a third (37%) of borrowers is to be able to pay for basic needs, followed by being able to pay for school fees and related expenses (15%), and being able to purchase inputs and implements (that people use in their livelihoods) (10%).

### How are people borrowing (%)



### Sources of informal credit (%)



# Payments and transfer services

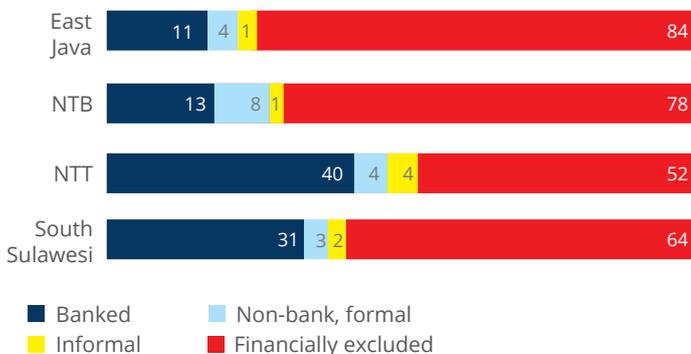
## How people receive money (%)



More than 2/3 of adults either received or sent remittances or have done both in the last year. Most remittances are domestic transfers. In NTB, a significant proportion of those who receive transfers (almost 20%) are from international sources.

Among the four provinces, NTT has the highest proportion of adults who receive remittances through banks (30%). A significantly higher proportion of adults in East Java (84%) receive remittances outside the financial system. Given the sheer size of the population in East Java, this translates to a very high number (in absolute terms) of people who receive remittances outside the financial system.

## How people send money (%)



Most transfers happen outside the financial system – mainly as cash delivered through family and friends. A little over 15% of adults who send money do so through banks, and the vast majority (almost 80%) send money through family and friends or by handing the money over in person to the recipient.

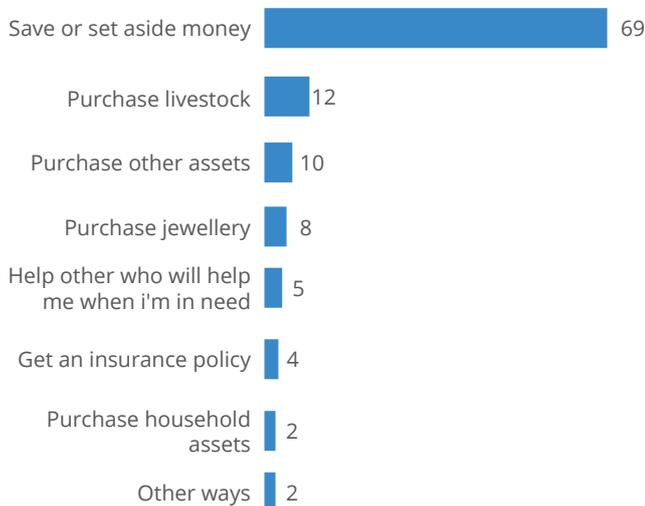
People who send money via banks do so mostly through ATMs and over the counter at bank branches. A very small proportion use mobile banking and internet banking facilities.

70% of those who remit money choose to do so via family and friends and/or directly handing over the money to the recipient. The number one reason cited by respondents for choosing to remit money this way (rather than through a bank, a non-bank or informal mechanism) is they find the process easy and simple to understand, followed by wanting to ensure that recipients get the money quickly.



# Insurance

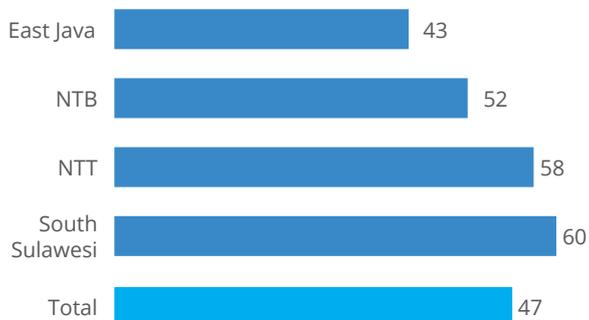
## How people provision for sudden expenses (%)



People experience events that create an additional expense burden. These events or shocks include sudden illness and loss of an income earner in the family, loss of harvest, rising cost of education and volatility in the prices of the goods sold/produced. Of those who reported experiencing these unforeseen events, less than a third (32%) were making provisions to deal with such shocks.

The most popular method of provisioning is saving money (69%), followed by purchasing livestock (12%), and purchasing other items that can be sold in the event that cash is needed (9%). Only 4% of the respondents reported having an insurance policy (that addresses the risk they experienced in the last year).

## Percentage of adults with insurance (%)

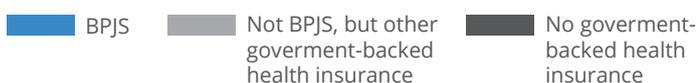
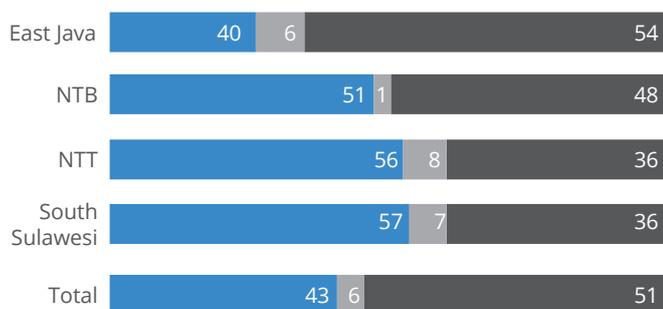


This stands in contrast to the results on actual insurance coverage in these four provinces: almost half (47%) of all adults have insurance, largely driven by the mandatory government-backed insurance called BPJS (*Badan Penyelenggara Jaminan Sosial*). Close to half (43%) of the adult population have BPJS, and most of those who are insured have only BPJS insurance.

Apart from the mandatory nature of some insurance products, people chose to get insurance because they would like to be able to pay for unexpected health-related expenses.

On the other hand, adults without any insurance cover explain that they do not have the money to pay for insurance, and that it is not a priority for them. Although "not having the money or income" figures prominently among the reasons why people choose not to have any insurance cover, the second most significant barrier to insurance uptake is the lack of understanding of how insurance products work. It is important to recognise how these two barriers to uptake could potentially reinforce each other.

## Ownership of BPJS Insurance, by province (%)





## Women and financial services

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Inequalities in asset ownership between men and women continue to persist: women have relatively lower scores on the asset index as compared to men. They are less likely to own land and property, or even bank accounts.

However, women are much more active savers than men: 64% of women save, compared to 48% of men. Women are also active in the credit market, with 57% of women borrowing, as compared to 43% of men.

The survey found that women are able financial managers. They make financial decisions, track income and expenses, and are actively using different types of financial services.

- 61% of women made financial decisions independently, compared to 24% of men. In contrast, 59% of men make decisions in consultation with their spouses, compared to 31% of women who do the same.
- 69% of women keep track of their income and expenditure, compared to 52% of men.

The most common ways for women to save is through informal means – such as in Arisan, or by saving money at home. The use of informal financial services is particularly significant among women, which is not surprising, given the more common practice among women to form or participate in informal groups.





## Key recommendations for policymakers

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**Explore ways to measure financial inclusion more comprehensively, to incorporate usage of a range of financial products that matter to different types of consumers – i.e. savings, loans, payments/transfer services, as well as insurance.** As the Government of Indonesia may be interested to track its performance in terms of financial inclusion relative to other countries, the use of these SOFIA measurements would allow cross-country comparisons, especially as more and more countries in the region implement financial access surveys patterned after the FinScope methodology.



**Further develop financial literacy programmes to tackle specific behavioural changes and to target population segments that are being introduced to the formal financial system.**

There is scope to incorporate relevant content (given some of the findings in SOFIA) in existing financial literacy programmes, and to develop financial education programmes for target groups, such as recipients of social assistance beneficiaries who are being introduced to the formal financial system.



**Review financial products and services developed by the government, jointly with banks – this covers such products as KUR and TabunganKu accounts.** It is recommended that the government and the financial services industry undertake a review of the usefulness of these services to different consumers and the extent to which these products help in the promotion of financial inclusion.





## Key recommendations for financial service providers



**Design savings products to meet medium to long-term needs of consumers** – e.g. to finance education expenses, to acquire property or for home renovation, or to meet religious goals.



**Develop savings accounts and transactional services for young people and those 55 years and older.**



**Establish links between formal financial institutions and informal providers of credit,** to capitalise on the specific strengths and advantages of both formal and informal providers and improve the provision of financial services to end-users without unduly increasing the cost of intermediation nor the transaction costs that consumers have to bear in order to access these financial services.



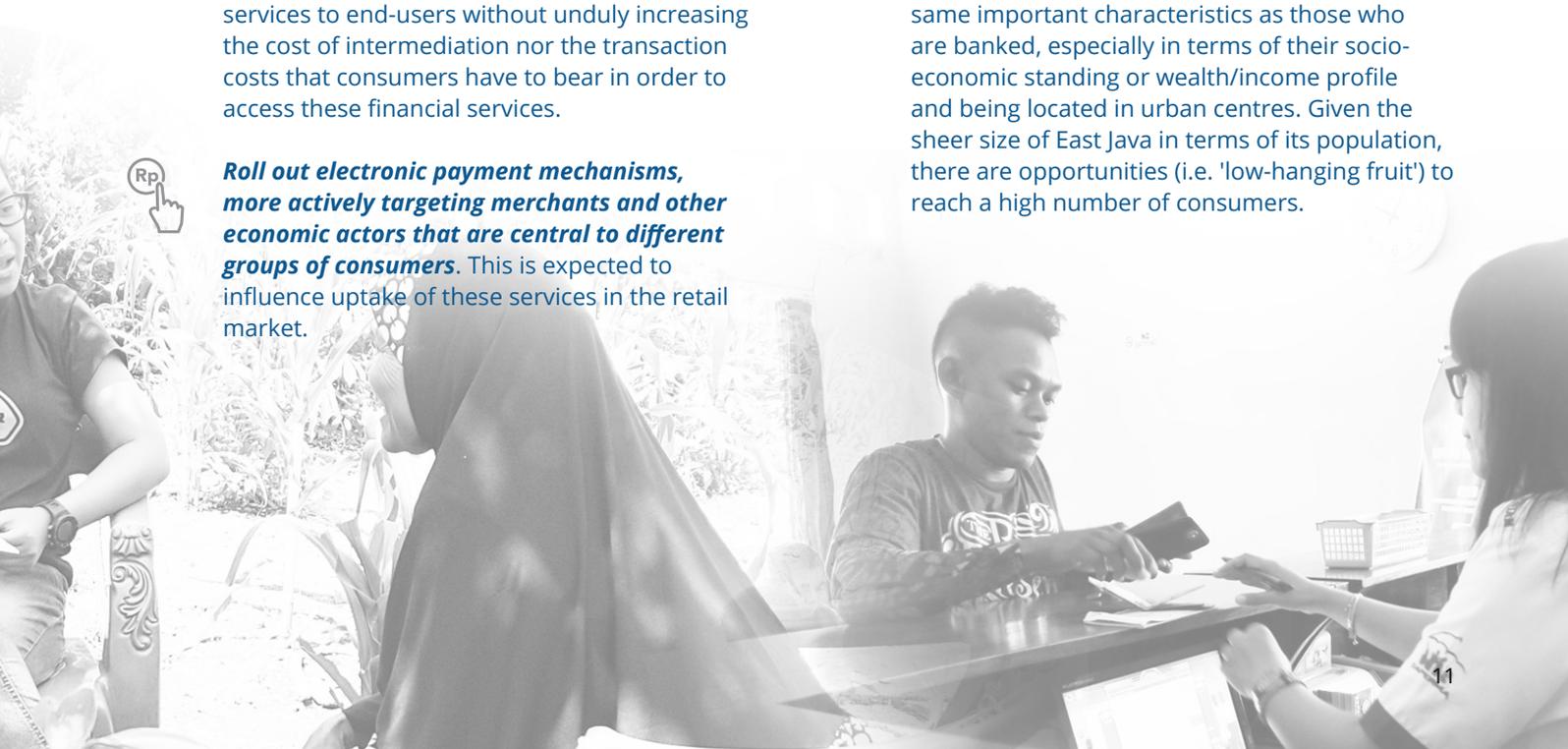
**Roll out electronic payment mechanisms, more actively targeting merchants and other economic actors that are central to different groups of consumers.** This is expected to influence uptake of these services in the retail market.



**Engage with women to better understand household spending and financial choices** - given how women play a critical role as 'hidden financial managers' in households.



**Seize geographically-driven opportunities** - The expectation that **East Java** is already a 'saturated market', in terms of the provision of formal financial services, has been questioned in light of the results of this survey. A significant proportion of the population in this province uses and relies on informal financial services only. Moreover, a significant proportion of those who are unbanked in this province share the same important characteristics as those who are banked, especially in terms of their socio-economic standing or wealth/income profile and being located in urban centres. Given the sheer size of East Java in terms of its population, there are opportunities (i.e. 'low-hanging fruit') to reach a high number of consumers.





# SOFIA

Survey on Financial Inclusion and Access

You can download a copy of the full report and focus notes on SOFIA at <http://opml.co.uk/projects/survey-financial-inclusion-and-access-sofia>.

For feedback on the contents of this note or to request further information regarding SOFIA, please contact [sofia@opml.co.id](mailto:sofia@opml.co.id).



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