FINANCIAL EDUCATION FOR FINANCIAL INCLUSION: INDONESIA PERSPECTIVE

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Agenda

1. Background
2. Indonesia Practices
3. Indonesia Strategy For Financial Education (FE)
4. Financial Education
5. Challenges
6. Conclusions
1. Background
BACKGROUND: WHAT LEAD TO FINANCIAL EXCLUSION?

Time

Financial Illiteracy

Financial Discrimination

Financial Exclusion

Financial Exploitation

INNOVATIONS

Economic Growth

Financial Literacy

Financial Fairness

Financial Inclusion

Financial Wealth
BACKGROUND: FINANCIAL LITERACY FOR ECONOMIC GROWTH AND FINANCIAL STABILITY

Sustainable Economic Growth

Financial Stability

Financial Inclusion

Financial Literacy

Financial Education

Financial Information

Financial Tools

Coordination: Central Banks, Financial Regulator, Related Institutions
2. Indonesia Practices
Indonesia at Glance

- More than 17,000 islands
- 33 provinces, 399 municipalities, 79,075 villages
- Population: ± 237 million, 44% lives in the city.
- Poor people: 28,59 million (BPS, Sept 2012); spread in rural area: 18,08 million and urban area: 10,51 million people
- GDP per capita: USD 3,542.9 (BPS, Dec 2011)
- One bank office serves 15,992 people
- Bank deposit and credit: Deposit/GDP: 39.13%; Loan/GDP: 32.85% (Dec 2012)

Market Share of Indonesian Financial System by Total Assets, as of Dec 2011

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>3.36%</td>
</tr>
<tr>
<td>Rural Banks</td>
<td>0.06%</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>0.88%</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>6.01%</td>
</tr>
<tr>
<td>Multifinance Companies</td>
<td>2.92%</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>9.75%</td>
</tr>
<tr>
<td>Securities Companies</td>
<td>0.42%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>0.42%</td>
</tr>
<tr>
<td>Credit Guarantee Company</td>
<td>0.06%</td>
</tr>
<tr>
<td>Pawn Broker</td>
<td>0.06%</td>
</tr>
<tr>
<td>Source: Bank Indonesia and Related Ministries</td>
<td></td>
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</tbody>
</table>

Number of Financial Institution

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>120</td>
</tr>
<tr>
<td>Rural Banks</td>
<td>1,669</td>
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<tr>
<td>Insurance Companies</td>
<td>139</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>270</td>
</tr>
<tr>
<td>Multifinance Companies</td>
<td>194</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>86</td>
</tr>
<tr>
<td>Securities Companies</td>
<td>129</td>
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<tr>
<td>Mutual Funds</td>
<td>639</td>
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<tr>
<td>Credit Guarantee Company</td>
<td>4</td>
</tr>
<tr>
<td>Pawn Broker</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia and Related Ministries
BACKGROUND : HIGHER UNBANKED

- Financial Inclusion Index → Adult has account in formal financial sector

High income OECD and non-OECD
92%

Middle East & North Africa
42%

Central Asia & Eastern Europe
50%

East Asia & Pacific
42%

South Asia
22%

Latin America and Caribbean
12%

Sub-Saharan Africa

INDONESIA
19.6%
MALAYSIA
66.7%
PHILIPINA
26.5%
THAILAND
77.7%
VIETNAM
21.4%
INDIA
35.2%
CHINA
63.8%
RUSIA
48.2%
BRAZIL
55.9%

Source: Worldbank, Global Financial Inclusion Index 2011
Economic bank based but higher unbaked people......

**Saving**

- Total Population
  - 68% Save
  - 32% Don't Save
  - Main Reason:
    - i. No Money (79%)
    - ii. No Job (9%)
    - iii. Don’t see the benefit (4%)
    - iv. Don’t understand Banks (3%)

**Loan**

- Total Population
  - 60% Borrow
  - 40% Don't Borrow at Present
  - Informal
    - 43% Banks
  - Banks
    - 17%

Why Not?
- i. 60% are not credit worthy
- ii. 20% don't want it
- iii. 4% no collateral
- iv. 16% other

One of the dominant factors why people do not connected to formal financial services is because of the lack of knowledge about financial

Source: Improving Access to Financial Services in Indonesia, World Bank, 2010
1. Organizing **FINANCIAL INCLUSION (FI) PROGRAM:**

- BI and Ministry of Finance has softlaunched Indonesia National Strategy For Financial Inclusion
- Financial education as one pillar of the Financial Inclusion framework
- Indonesia National Strategy For Financial Inclusion refers to international practices and Indonesia financial system characteristics

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Cambodia, Indonesia, Laos, Nepal, Pakistan, Philippines, Vietnam</td>
</tr>
<tr>
<td>Afrika</td>
<td>Benin, Burkina Faso, Cameroon, Congo, Côte d'Ivoire, Ethiopia, Gambia, Liberia, Madagascar, Mali, Malawi, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, Senegal, South Africa, Tanzania, Togo, Uganda, Zimbabwe</td>
</tr>
<tr>
<td>Eropa &amp; Central Asia</td>
<td>Kyrgyz Republic, Russia, Uzbekistan</td>
</tr>
<tr>
<td>Middle East</td>
<td>Egypt, Jordan, Syria, Yemen</td>
</tr>
</tbody>
</table>

2. Launching **PROGRAMS**: Branchless banking, no frills account (TabunganKu), Financial Identity Number, etc

- All the programs must be accompanied by financial education

3. Indonesia Strategy for Financial Education (FE)
Main : Goal

To reach economic welfare through poverty reduction, distribution income, and financial system stability in Indonesia by creating financial system that can be accessed by whole people in this country

Equitable Income Distribution

Financial System Stability

Poverty reduction

Productive and high purchasing power society
Easy access to financial system

Target Groups

Migrant Employee Group and People in Remote Areas

Very Poor → Working poor/Productive → Near Poor → Non - Poor

Channel

Financial Product/Services
- Saving
- Credit
- Insurance
- Remittance
- Pension Fund
- Mutual Fund, dll

Resilience Intermediation Efficiency

Financial Institution (Bank & Non Bank)

Government

Public Financial
- Subsidy
- Fiscal Incentives
- Social welfare program

6 Pillars of Financial Inclusion

Financial Education

Public Financial Facility

Mapping on Financial Information

Supporting Regulation/Policy

Intermediary/Distribution Facility

Customer Protection

Strategy

Program
- Education (for example: migrant worker, student)
- National Campaign
- PKH
- Jamkesmas
- BLT
- Bansos
- Financial Identity Number (FIN)
- Credit Rating
- Multilicensing
- branchless banking
- “Start-up” credit
- TabunganKu
- Branchless banking
- “start-up” credit
- land certification
- Banking mediation
- Product transparency
On the issue of national strategies for financial inclusion (NSFI), Bank Indonesia and Ministry of Finance are of the view that it becomes necessity for a country to develop such **high-level strategy for financial inclusion**.

An inclusive financial system is a one of **important pre-requisites** to sustain country’s economic development and growth, since financial inclusion facilitates the population a better access to the financial sector services to enable them contributing more to the economy.

The end result of NSFI is not only a **higher and sustainable economic** growth; but also the **socio-economic** conditions of the population would be enhanced.

Now, Indonesia in the process of **launching NSFI**

Our Financial Inclusion Framework is reinforced with 6 pillars, one of which is **Financial Education**.
4. Financial Education
Financial Education

- On the financial education issue, National strategies for financial education are an important means to lay the grand design of financial education into practical implementation.

- The goals of financial education are:
  (i) Build bank-mindedness and awareness in society;
  (ii) Build public understanding of banking products and services and awareness of customer rights and obligations;
  (iii) Build risk awareness in relation to financial transactions; and
  (iv) Broader dissemination of information on availability of the complaints and dispute resolution mechanism for resolving problems with banks.

- The Central Bank together with commercial banks and rural banks have conducted number of campaigns to improve the consumer understanding of financial services, products, planning, management, and literacy.
Planning of Implementation on Banking Education

- Financial education given to:
  - the public
  - the lower class
  - society in remote/border areas
  - society with certain types of works which is assumed lack of knowledge in financial

- Financial education delivered in a way that easily accepted
- Financial education is a continues process
Progress of Financial Education Program: What have we done so far?

2007 - 2012

**Blueprint of Financial Education**

- National Campaign “Let’s Go to the Bank”
  - Distribution of leaflet, booklet, brochure, and comics
  - Education mobile
  - MoU with related government agencies, Indonesian Consumer Organization
  - Thematic Education: *card edu.day*, edu to migrant worker

**National Campaign “3P”**

- (Indonesia Saving Movement (Gerakan Indonesia Menabung)
  - Advertising
  - TabunganKu*)
  - Saving Movement for Students
  - Intensive campaign of GIM in 6 pilot project area
  - MoU with Ministry of Manpower and Transmigration
  - The increase of quality of TabunganKu
  - Website for information & Consumer Education
  - Financial Literacy Survey
  - Curriculum for elementary dan junior high school

*) TabunganKu is sort of no frills account

Education on financial and entrepreneurship to migrant worker
Financial Education: Channel and Focus

A comprehensive program is directed to all channels

– 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

– Focus on
  • Public
  • Rural areas
  • Low income
  • Segment: students, child and youth, migrant worker, etc
Channels of Banking Education Champaign

**Education Car**

- One of channel for socialization and dissemination of educational materials made through education car that visit some places as center of public crowd such as schools, markets, housing complexes, office buildings, etc.
- Implementation MOBED conducted in Jakarta & surrounding areas, as well as in other 6 major cities (Medan, Bandung, Semarang, Surabaya, Denpasar & Makassar)

**Website**

Information and materials on banking education are can be seen on Bank Indonesia's website and members of banking education working group

**Brochures**

48 kinds of brochure concerning 6 topics
- Banking institution
- Customer complaint and mediation
- Saving and investment
- Loan
- Banking services;
- Other informations, including “Tips to address the global financial situation”
Selamat datang di Bank Indonesia

Bank Indonesia mempunyai satu tujuan tunggal yakni menopapi dan menjaga kestabilan nilai mata uang negara. Hal ini mengandung dua aspek yakni kestabilan nilai mata uang rupiah terhadap barang dan jasa yang tercermin pada laju inflasi; serta kestabilan nilai mata uang rupiah terhadap mata uang negara lain yang tercermin pada perkembangan nilai tukar. Dari segi pelaksanaan tugas dan wewenang, Bank Indonesia menerapkan prinsip akuntabilitas dan transparansi melalui penyampaian informasi kepada masyarakat luas secara terbuka melalui media massa setiap awal tahun mengenai pelaksanaan kebijakan moneter, dan serta rencana kebijakan moneter dan penetapan dasar-dasar moneter pada tahun yang akan datang. Informasi tersebut juga disampaikan secara tertulis kepada Presiden dan DPR sesuai dengan amanat Undang-Undang. *Detail*

**INFORMASI & EDUKASI KONSUMEN**

**Data ILMU**

**Informasi**

**Biweekly**

**Monthly**

**Quarterly**

**Annual**

**Contact**

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Email: humas@bi.go.id

**INDONESIA INFLATION TARGETING**

**Stabilis Kuantif**

**Makmur**

**Konseling**

**Penerbitan Bank**

**Pertukaran**

**INVESTOR RELATION UNIT**

**INFO UMKM**
CONTINUES PROCESS

Implementation of financial education program

Monitoring, through:
- Interviews
- Questionnaire
- Observation (Qualitative)
- Statistic Analysis (Quantitative) → positive correlation: financial education and access to formal financial services?

Evaluation:
- Review the result
- Preparing plan to next program: revision and expansion program
5. Challenges
Challenges in Implementing Financial Education Program

• Financial education is an **ongoing process** that requires a strong commitment among the parties.

• Shifting the paradigm from “education is just a charity program” to “education is **part of business**”. This means that financial institutions must include financial education program in running their business.

• A vigorous and **continuous campaign** of saving especially for **young people and children**. This will create a younger generation who have been provided with good financial management.

• To optimize the result of financial education program, it should be supported with the presence of **formal financial services** in the area. In case there is no financial institution branch in the area, placing agents of financial institution could be a solution.

• To achieve optimal results should be supported by **adequate monitoring and evaluation mechanisms**. However, we need quantitative indicator.

• **Costs** allocated for **education** is expensive.
6. Conclusions
Conclusions

• Financial Education is a **starting point** for the creation of inclusive society.

• Financial education is an **ongoing process**, which includes education in changing behaviours and culture “to be familiar“ with the financial.

• Continues financial education program needs **coordination and collaboration** amongst institutions.
Thank You