

Understanding people's use of financial services in Indonesia

Headline Results Report



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Executive Summary

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.

- Policymakers 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 needs to be established to provide solid evidence both for policy-making and for developing appropriate financial products. Even though financial institutions, such as banks, conduct their own market research, they do not capture information on the unbanked or segments of the market that are not currently served. A valuable opportunity to understand and target customer segments that fall outside the ‘traditional clientele’ of financial institutions is therefore missed.

On this basis, a consensus was reached among key stakeholders, including the Government of Indonesia, the Governments of Australia and Switzerland and various financial institutions, on the need to conduct a survey on the demand for and use of financial services in eastern Indonesia. The survey, which is called the Survey on Financial Inclusion and Access (SOFIA), builds on the FinScope methodology - a survey implemented in many other countries as part of broader initiatives to support the financial inclusion agenda.

The key objective of SOFIA is to measure and profile levels of access to and use of financial services by all adults across income ranges and other demographics, and to make this information available for use by key stakeholders in Indonesia such as policymakers, regulators, and financial service providers.

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.

The landscape of financial access

The results of SOFIA illustrate that most adults in the provinces surveyed save and borrow money to cover basic needs and pay for education (i.e. to manage liquidity and smooth consumption, both personally and within their households).

A high proportion of the population in these provinces (41%) use banking services, but less than half (almost 47%) of them actually own a bank account: a significant proportion of people who are using banking services, do so by using bank accounts that belong to other people (they know).

The high proportion of adults who are using formal, non-bank services is driven by the surprisingly high proportion of those who own insurance, the vast majority of whom have BPJS insurance. If BPJS insurance did not exist, the proportion of those falling under the formal, non-bank strand would be reduced and there would be an even higher proportion of individuals relying on informal financial services only. Semi-formal financial services, which include those provided by savings and credit cooperatives and government credit schemes that are not delivered through the banking system, have limited penetration overall and contribute minimally to the level of financial inclusion. Those served by semi-formal services are also not necessarily among the poor (nor indeed the poorest), and the clientele captured by semi-formal financial service providers include those who are already banked. The use of informal financial services is significant. Informal financial and social networks are an important source of finance for low-income individuals and those in agriculture – but the 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.

In terms of geographic disparities, NTT has a high proportion of its population using banking services, even higher than in NTB or East Java – an unexpected result. In East Java, there is a higher percentage of adults who either use informal financial

services (10%, compared to 4% in the other three provinces) or are financially excluded (18%). In terms of those who rely on semi-formal financial services, the highest proportions can be seen in NTT and East Java, consistent with the more widespread supply of cooperative financial provinces in these two provinces (compared to NTB or South Sulawesi).

Urban-based adults are more likely to be formally-served, and specifically more likely to be banked, than those in rural areas. Those involved in agriculture are more likely than those that are not, to be financially excluded. Those involved in agricultural activities are also more likely to rely only on informal financial services, while those who are not involved in agricultural activities are significantly more likely to be banked.

In terms of key demographics, more males are using banking services (43%, compared to 39% women), but male adults are at the same time more likely to be financially excluded (19%) than female adults (15%). A higher proportion of females are able to use formal, non-bank as well as informal services, which drives down the level of financial exclusion among women. The youngest (17-24 years) and oldest segments (55+ years) have the highest proportions of people who are financially excluded.

Wealthier segments have the highest likelihood of being banked, while those in poorer segments are more likely to be financially excluded.

Access to and use of savings products

More than half (57%) of the population in the four provinces reported that they saved an amount for future use over the last 12 months. Despite being a province with a high incidence of poverty, NTT has the highest proportion of the population who said that they saved.

A significantly higher proportion of females save, compared to males. There is also a higher proportion of the urban-based population who save, compared to those in rural locations. But the results nevertheless show that people in rural areas do save, and a significant proportion of them – more than half – do so.

About a quarter of the population save by keeping their money in savings accounts at banks. However, even though more than 70% of those who save reported that they have bank accounts, only two-thirds of these adults actually use their bank accounts for saving. This underscores the important distinction between ownership of a financial product versus its use, and demonstrates that people's access to services do not necessarily determine their use of that service.

A significant proportion of the population who save (39%) are financially excluded – i.e. they save by either keeping the money at home or by purchasing goods (that they could then sell later).

In East Java, a smaller proportion of adults save via banks (compared to the other three provinces). However, 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.

In NTT, we find the highest proportion of adults (14%) who save through cooperatives – but semi-formal savings is not enough to drive down the rate of financial exclusion (in terms of saving) in this province – at 55%, the highest among all the provinces surveyed.

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. 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”.

Access to and use of loans

More than 60% of the population in the four provinces surveyed reported that they borrowed money over the last year and/or have an outstanding loan that is being repaid over the last 12 months. A slightly higher proportion of the population in rural areas (60%) accessed loans, compared to those in urban areas (55%). Most of those who did not access loans in the last year did not borrow because they did not need to or they did not want to (89%), not because they wanted to access a loan but were refused, nor did they deem themselves to be unable to meet the requirements of the lender.

The majority of adults who have accessed loans (71%) do so either informally or outside the financial system. Most of those who access loans (almost 60%) borrow from family and/or friends. This constitutes the excluded population, in terms of loans.

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, peer-to-peer/internet/crowdfunding facilities, and lending by pawnshops. 12% access credit through cooperatives, and another 12% borrow through informal means. Among those who borrow informally, the main sources of credit were buyers/traders (34%) and Arisans (33%).

The leading reasons cited for choosing to borrow the way people do were process-driven: people considered most important having a simple and easy loan process, as well being able to access the loan amount quickly.

The purposes for which people borrow somewhat 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. This is 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%).

Access to and use of transfer and payments services

68% of respondents reported that they either received or sent remittances or have done both in the last year. Most remittances are domestic transfers. In some provinces, such as in NTB, a significant proportion of those who receive transfers (almost 20%) are from international sources.

The vast majority of those who receive (82%) or those who send remittances (almost 80%) do so outside the financial system: a very small proportion do so informally, while the rest receive money mainly through family and friends or by handing the money over in person to the recipient. Those who send money via banks use a variety of methods, the most popular are through ATMs and over the counter at bank branches. A very small proportion of adults who send money use mobile banking and internet banking facilities.

Among the four provinces, NTT has the highest proportion of adults who receive remittances through banks (30%), while East Java (13%) and NTB (18%) are the provinces with the lowest proportions. 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.

70% of those who remit money choose to remit money via family and friends and/or directly handing the money over 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 intended recipients of these remittances are able get the money quickly.

Ownership of insurance products

More than half (54%) of the respondents reported experiencing events that have led them to incur additional expenses in the last year. 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.

Among those who are making provisions, the most popular method 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).

This stands in contrast to the results on actual insurance coverage in these four provinces, where almost half (47%) of all adults have insurance – and this is 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 (i.e. they do not have any other insurance cover). Insurance penetration appears to be lowest in East Java, among all the provinces surveyed.

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 take any insurance, 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.

Key findings and opportunities

The SOFIA data suggest a number of opportunities in terms of both product development and delivery. The recommendations discussed in this report are, by no means, an exhaustive list of opportunities. As more ‘data-slicing’ and analysis is conducted with the use of the SOFIA dataset, other opportunities are expected to be unravelled.

The recommendations from this study for policymakers include:

- Explore ways to measure financial inclusion, 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 measurements in SOFIA would allow cross-country comparisons, especially as more and more countries in the region implement financial access surveys patterned after the FinScope methodology.
- 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 of Indonesia 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.
- Strengthen financial literacy programmes – there are notable opportunities in terms of incorporating relevant content into these programmes (given some findings in SOFIA), and developing programmes for some target groups, such as recipients or beneficiaries of social assistance, who are being introduced to the formal financial system.

The recommendations from this study for financial service providers include:

- 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.
- Strengthen linkages with 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 – targeting these services to merchants and other economic actors that are central to transactions that different groups of consumers make. 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 use and rely 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.

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Introduction

Limited access to financial services has been identified as one of the key constraints to people's participation in economic activity for many living in eastern Indonesia – especially amongst the poor and near-poor, those in rural areas, smallholder farmers, and those who operate micro, small to medium enterprises (MSMEs).

The financial services needed by this group include savings, payments and money transfer services, loans for working capital and small investments, as well as crop and livestock insurance. In many cases, people – especially those in more remote locations and those with low incomes – have to rely on their family members, friends, and informal money lenders for financial services.

Many stakeholders acknowledge the importance of serving the financially-excluded population – those who remain unbanked or underbanked. But 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. However, there is very limited information on the demand side: e.g. on economic characteristics, types of financial services needed, individual behavioural patterns related to the management of financial resources and expenditures, etc.

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. Understanding the financial lives of people and the market for financial services is a complex undertaking and will require the use of

a variety of tools for gathering and analysing data. However, the starting point should be a data-driven understanding of consumers of financial services and market segments. Although various financial institutions, such as banks, conduct their own market research, this does not capture information on the unbanked, unserved and under-served sections of the population. A valuable opportunity to understand and target customer segments that fall outside the 'traditional clientele' of financial institutions is therefore missed.

On this basis, a consensus was reached among key stakeholders, including the Government of Indonesia, development partners and various financial institutions, on the need to conduct a survey on the demand for and use of financial services in eastern Indonesia. The survey, which is called the **Survey on Financial Inclusion and Access (SOFIA)**, builds on the FinScope methodology, a survey instrument used in many other countries as part of broader initiatives to support the financial inclusion agenda.

The FinScope survey was developed by FinMark Trust and was first piloted in 2002 in South Africa. The survey has now been conducted in many other countries with the main objective of measuring and profiling the levels of access to and uptake of financial products/ services (both formal and informal) in a particular country, across income ranges and other demographics. FinScope surveys are nationally representative surveys of how individuals source their income and how they manage their financial lives. It assists in establishing credible benchmarks and indicators of financial inclusion, while at the same time providing insights into market obstacles to growth and highlighting opportunities for policy reform and innovation in product development and delivery.

The findings from the survey are aimed at supporting policymakers who wish to develop policies to improve the functioning of financial markets; private service providers who are able to design product strategies around the segmentation and trends highlighted by the data; and donors and non-governmental agencies who wish to support increased financial inclusion to specific regions or population groups. To date, FinScope surveys have been conducted in 26 countries (19 in Africa and 7 in Asia).

Source: <https://www.finmark.org.za/finscope/>

The key objective of SOFIA is to measure and profile levels of access to and use of financial services by all adults across income ranges and other demographics, and to make this information available for use by key stakeholders in Indonesia such as policymakers, regulators, and financial service providers. As such, SOFIA seeks:

- To measure the levels of financial inclusion (i.e. the proportion of the population using financial products and services – both formal and informal);
- To describe the landscape of access (i.e. the type of products and services used by financially included individuals);
- To identify the drivers of, and barriers to using financial products and services;
- To provide a basis of comparison of the level of financial inclusion (in Indonesia over time and against other countries);
- To help determine the needs for financial products in general and with particular emphasis on the agricultural sector, as well as the gap between:
 - Supply: Financial products (formal and informal) available and the current providers; and
 - Demand: Financial products currently available and their uptake and usage (formal and informal);
- To stimulate evidence-based dialogue that can ultimately lead to effective public and private sector interventions that can increase and deepen financial inclusion and financial literacy strategies; and
- To provide baseline information through which the impact of interventions to enhance access could be assessed by follow-up surveys.

This survey was implemented by Oxford Policy Management Ltd. (OPML), in partnership with the Ministry of National Development Planning (BAPPENAS), the Governments of Australia and Switzerland.

The implementation of SOFIA started in February 2016, with an extensive process of designing the survey questionnaire.¹ The household listing process was started in June 2016, and interviews of respondents kicked off in August and was completed in December 2016. Details of the methodology adopted for this survey are presented in Annex B.

¹ The questionnaire (in both English and Bahasa) is presented in Annex C.

The SOFIA Questionnaire

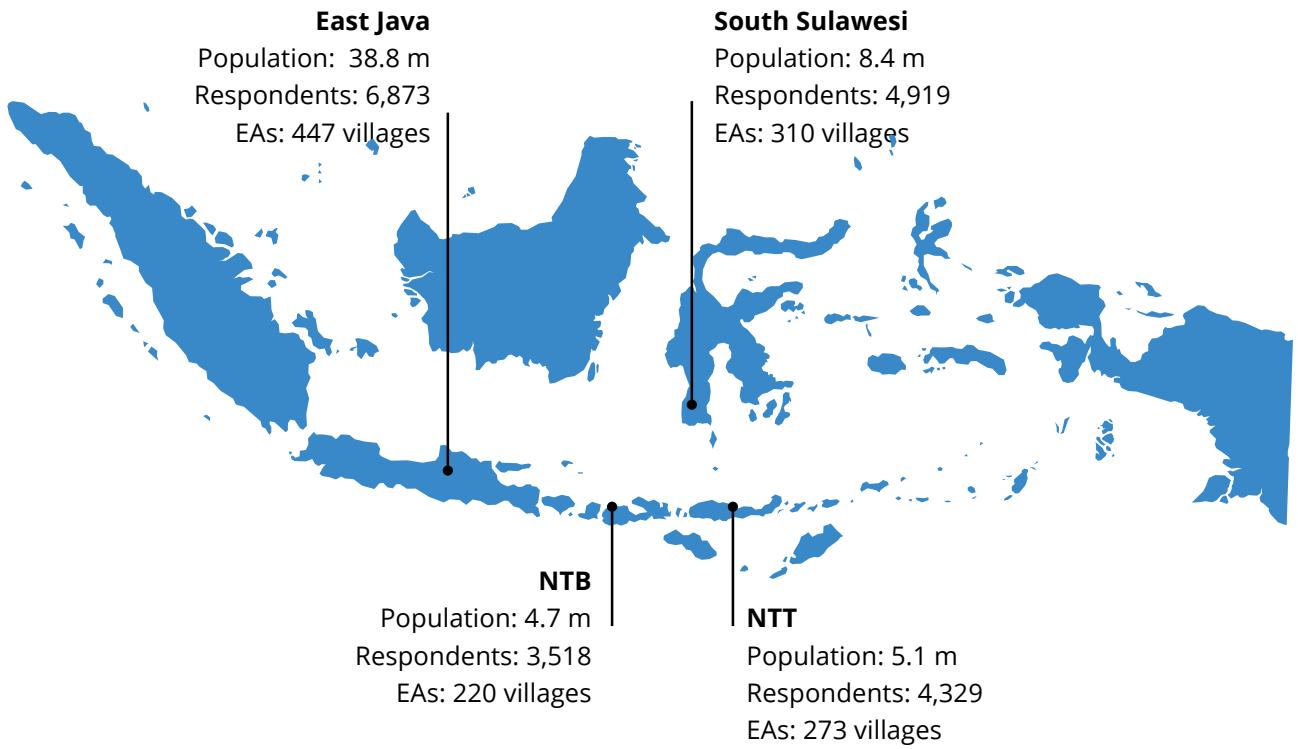
The questionnaire used in this survey is broken down into five key sections (or modules).

- Section 1 consists of questions aimed at developing a profile of the respondent. These cover a range of questions on general demographic characteristics, socio-economic status (including wealth/poverty, asset ownership, income source and financial capability). This section begins with a series of questions directed at the sampled household – e.g. questions pertaining to the housing quality. Upon selection of the individual respondent (randomly selected from the sampled household), all succeeding questions are then directed at the individual respondent.
- Section 2 consists of questions on savings.
- Section 3 explores use and access to loans or credit.
- Section 4 consists of questions on payments and transfer services – covering person-to-person remittances (sending and receiving money), bill payments, and use of mobile money services.
- And lastly, Section 5 explores the use of insurance services.

SOFIA is intended to be a national financial access survey of adults, which would have succeeding rounds over the years. This very first implementation of SOFIA covers 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.²

²This initial coverage of the survey was determined during a consultation process in 2015, where the coverage of the survey vis-à-vis the costs of implementation were considered by key stakeholders. There was a consensus among all types of interlocutors that a national level survey would be ideal, since (a) it would cover all potential financial service clients and (b) it would facilitate comparison between provinces. There was also acknowledgement, however, that this would be very costly. The consensus, including among Government stakeholders, was that the best solution would be a first survey covering provinces in eastern Indonesia and East Java. The expectation is that as the survey proves useful, a succeeding survey that is national in scope can be implemented two to three years after the first.

93 districts
4 provinces in eastern Indonesia
1,250 Enumeration Areas (EAs) (villages)
20,000 individual respondents



EAs: Enumeration Areas



Conceptual framework and definition of key terms used

2.1 Conceptual framework

Understanding the use of financial services by different groups of people entails looking at:

- How 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, etc.;
- Whether people are using financial products/services to manage their financial lives – including understanding ‘who’ is using which types of services; and
- What drives and constrains the use of different kinds of financial services by different groups of consumers.

How do people manage their financial lives

Cash flow management

Risk management

Asset building

Investment in productivity

Do they use financial services to do so ?

YES

Formal providers

Informal providers

NO

What are the barriers?

What are the needs?

What are the drivers of uptake (financial services)?

SOFIA is a survey of adult individuals. Thus, the determinants of financial inclusion are assessed in terms of the attributes which might influence the financial behaviour of the individual. These include:

- Personal attributes of the individual him/herself (e.g. his/her educational attainment);
- Attributes of the household which the individual is part of (e.g. the wealth profile of the household that an individual belongs to);
- Attributes of the environment/community within which the individual resides (e.g. the level of remoteness).

Further examples of the variables that fall under each of these categories are explained in the box below.

How the individual manages his/her financial life will depend on:

- The individual's personal attributes such as:
 - Demographics – gender, age, level of education;
 - Income generating capacity, income generating activity, and the amount of money he/she generates;
 - Financial capability – attitude towards money, financial discipline/planning, sources of financial information, awareness of and knowledge about financial services, drivers of choice, etc.
- The status of the household, and the position and responsibilities of the individual in the household including:
 - Level of 'financial wellbeing' of the household;
 - Presence of other income earners in the household, whether the individual is a main income earner for the household or not;
 - Position of the individual in the household and his/her financial decision-making role.
- The type of environment/community within which the individual resides:
- The quality of infrastructure, accessibility of a person's location
 - e.g. remoteness, availability of transportation, level of connectivity;
 - The availability or nearness of financial institutions or providers of financial services.

The analysis looks at 'what people have' and 'what they do with what they have'.

2.2 Definition of key terms used

(a) Financial Access Strand

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 have access to or are using different types of financial services, based on a classification of financial products. The Access Strand, as introduced under the FinScope surveys, focuses on the financial system in its broadest sense and assumes that all adults in a country will fall into one of the broad segments.³

In SOFIA, access to financial products and services is classified as:

- Banked;
- Formal, non-bank;
- Semi-formal;
- Informal; or
- Financially-excluded.

In developing the access strand, **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. S/he may be using an account that belongs to a household member – e.g. when receiving transfers, a wife uses her husband’s bank account. **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’.

The Financial Access Strand illustrates the extent of:

- **Financial exclusion** : The percentage of adults who do not use any financial services for the purposes of cash-flow management, risk management, asset-building or productive investment. These individuals rely only on themselves, other household members, family and/or friends for these purposes.
- **Informally served** : The percentage of adults who rely only (purely) on informal financial services (i.e. financial services that are not provided by an institution that is formally regulated or supervised).
- **Semi-formally served** : The percentage of adults who use semi-formal financial services - i.e. those services provided by institutions that are supervised but are not regulated by the Financial Services Authority, such as cooperatives. These individuals may also use informal services; but they do not use any other services provided by institutions that are regulated).






³ Countries that have implemented FinScope surveys define their segments accordingly.

- **Formal inclusion** : The percentage of adults who use services provided by institutions that are regulated by the Financial Services Authority. Formal inclusion is not exclusive – these individuals may or may not use other types of services (semi-formal and/or informal services) as well. They are, however, distinguished by their usage of formal services. Those who are formally included are further broken down into those who are:
 - **Formally-included, non-bank** – the percentage of adults who use formal financial services but not services provided by banks. These are non-bank formal financial institutions, such as multi-finance companies, authorized payment service providers, etc.
 - **Banked** – the percentage of adults who use services offered by banks. These include commercial banks, rural banks (BPRs) and regional development banks (BPDs). These individuals may or may not use non-bank formal services as well. They are however distinguished by their usage of commercial bank services.

The table below provides details to distinguish formal, semi-formal, and informal financial services.

Table 1. Formal, semi-formal and informal financial services			
	Formal	Semi-formal	Informal
Regulatory status	Regulated and supervised by the Financial Services Authority	Not subject to the same supervision as formal financial institutions	Operates outside the legal and regulatory framework (for financial services)
Types of providers	Banks: Commercial banks BPDs BPRs Non-banks: Multi-finance companies Venture capital firm Peer-to-peer/ internet lending/ crowdfunding Pawnshop (except pawning services)	Savings and credit cooperatives Credit schemes or programmes that are not delivered through banks	Arisan Moneylender Informal savings collector Employer Individuals whom people do business with – e.g. buyer/ trader, processor, supplier

In constructing the Access Strand for the purposes of SOFIA (see Section 3 of this report), we have set out five categories, namely: Banked; Formal, non-bank; Semi-formal; Informal; and Financially-excluded. These are further explained in the table below.

Table 2. Access strand categories					
					
	Banked	Formal, non-bank	Semi-formal	Informal	Financially excluded
Using financial products or services offered by...	Financial institutions that are recognised as banks	Non-bank financial institutions that are regulated / supervised by the financial services regulatory authority (OJK)	Non-bank financial institutions that are not regulated / supervised by the financial services regulatory authority (OJK)	(a) money-lenders, (b) village-based informal associations	Does not use financial services from any formal or semi-formal institution, nor through informal means
Examples of providers of financial services	Commercial banks BPDs BPRs	Multi-finance companies	Savings and credit cooperatives	Arisan	"I keep my extra cash/savings at home."

It is important to point out that financially-excluded individuals are those who do not use services that fall under the formal, semi-formal or informal categories. For example, 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.

(b) Types of financial products

This survey explores the use of four types of financial products or services, namely: savings, loans or borrowing, payments/transfers, and insurance.

Savings: In this survey, we define “saving” or setting aside money for future use as (a) actively putting aside the money (e.g. putting this in a savings account), as well as (b) leaving some amount unspent (passive) from the money the person receives (e.g. in the same account), but with the intention of saving it.

Loans: ‘Borrowing’ is defined as taking or receiving a value of money from another person or institution with the expectation that this will be paid back later. This does not, however, include pawning.

Payments and transfers: This covers how people transfer money – which is referred to as ‘remittances’. Although the term remittances is often used to refer to flows of money from individuals abroad (e.g. migrant workers who send money back home to their families), in this survey remittances also cover domestic transfers between individuals. This survey seeks to understand remittances both from the senders’ side, as well as from the recipients’ side.

Payments and transfers are distinguished from loans or borrowing in that the money is sent or received with no expectation of repayment. This could be remittances to and from individuals or payments made to institutions in exchange for goods and services. In SOFIA, we have specified a minimum value for payments or transfers, which is IDR 200,000 (around US\$15).

Insurance: For the purposes of this survey, the term ‘insurance’ does not only include provisioning in the event of risks, but also long-term contributions made by individuals towards specified goals, which are certain to occur. This broader definition is consistent with how the word ‘insurance’ is used in the Indonesian market to cover such products as “education insurance”, which is essentially a long-term commitment made by consumers to contribute towards a specified purpose – in this case, the financing of education. The element of uncertainty in this case is not whether the event will occur or not, but the cost implication of such an event.

(c) Key domains of interest

A domain is a major segment of the population for which estimates or results will be reported. This could consist of a geographical area (e.g. a province, a district), as well as a specified population category (e.g. the group of women within a given population, people of a similar economic activity).⁴ In determining the number and kinds of domains for the SOFIA survey, we were guided by specific points of interest among SOFIA's stakeholders; as well as the recognition that this has an important bearing on the size and distribution of the sample.

The key domains (for analysis in the SOFIA survey) include:

Table 3. Key analysis domains in SOFIA

Domains	Details
The four provinces covered in the SOFIA survey	East Java NTT NTB South Sulawesi
Urban and rural	This is based on the BPS classification of villages
Gender	Male vs. female
Age groups	The categories take into consideration rates of economic activity (e.g. given the results of the National Labour Force Survey), estimated level of disposable income, types of financial products demanded (including their propensity to use new services, such as mobile money / e-commerce). 17-24 year olds 45-54 year olds 25-34 year olds 55-64 year olds 35-44 year olds 65+ year olds
Educational attainment	SD (Primary School) D1-D3 (Tertiary: Diploma) SMP (Secondary School: Junior) S1+ (Tertiary: Bachelor Degree and above) SMA (Secondary School: Senior)

⁴ In the course of tabulating the data, results can be provided for many population segments. The specified domains would, however, be segments for which a certain level of detail and certain data reliability will be required. As such, apart from the key indicators that have been identified at the start of the survey project, key domains were also identified and have been incorporated in the process of formulating the questionnaire.

Domains	Details
<p>Wealth and income groups</p>	<p>Wealth and income groups are constructed based on the Progress out of Poverty Index (PPI) scores (generated for the household that an individual respondent belongs to), along with the estimated income for the group (which is calculated based on the reported incomes of individuals that fall under each PPI category).</p> <p>Using the PPI method, SOFIA respondents have been grouped into five quintiles based on their PPI score. The lower the PPI score of a household, the higher the probability that this household lives below the poverty line. PPI Quintile 1 (PPI-1), for example, includes respondents with scores ranging from 0 to 19, for which there is a 34.1% to 66.3% probability that the household lives below the poverty line. On the other hand, better-off households fall within the upper end of the spectrum – i.e. in PPI-4 and PPI-5.</p> <p>For a more detailed description of the wealth and income profile of the population, see Annex A.</p> <p>.....</p> <p>Over and above this, we are also looking at how different consumers might be characterised in terms of the assets they own and/or have access to, and especially those assets that influence an individual's access to financial services, such as a savings account in a bank, loans, and digitised payments or transfer services.</p> <p>To further understand the wealth/poverty level and socio-economic situation of the population, an asset index was constructed based on the types of assets that people could readily access and/or which they directly own. This is a non-monetary measure, which serves to complement the PPI index (discussed above). The types</p>

Domains	Details
	<p>of assets that were included in this index include real estate property (i.e. residential land and other land or properties owned); movable assets such as vehicles (cars, motorcycles, motorboats, tractors); key household assets (e.g. a refrigerator); livestock (e.g. cattle); and assets that facilitate connectivity (e.g. mobile phones, computers). Similar to the PPI, scores were assigned to (ownership of or access to) these assets, which then generated an 'asset score' that allows us to classify into five asset groupings: A-1 (the group with the least assets available at their disposal) through to A-5 (the group with the highest asset levels and considered to be the wealthiest). For a more detailed description of the asset profile of the population, see Annex A.</p>
Economic activity	<p>This domain consists of a comparison between two segments:</p> <ul style="list-style-type: none"> • Those who are or whose households are engaged in agricultural activity (i.e. crop farming, animal husbandry, and/or fisheries); • Those who are not or whose households are not engaged in agricultural activity at all.



Characterising financial access in four provinces in eastern Indonesia



The level of formal inclusion in the provinces of East Java, NTB, NTT and South Sulawesi is high: the vast majority of adults (a total of 72%) in these provinces are using formal financial services, i.e. those offered either by banks or formal non-banks. A high proportion of adults (41%) are banked in these provinces, but less than half (almost 47%) of them actually own a bank account. On the other hand, the high proportion of adults who are using formal, non-bank services is driven by the surprisingly high proportion of those who own insurance, the majority of whom have BPJS insurance.

Overall, only 12% of adults use semi-formal financial services; and only 2% rely on this type of services, which suggest that semi-formal financial services (which include those provided by savings and credit cooperatives and government credit schemes that are not delivered through the banking system) contribute minimally to the level of financial inclusion.

NTT has a high proportion of its population using banking services, even higher than in NTB or East Java – an unexpected result. In East Java, there is a higher percentage of adults who either use informal financial services

(10%, compared to 4% in the other three provinces) or are financially excluded (18%). The highest proportions of people using semi-formal services can be seen in NTT and East Java, consistent with the more widespread supply of cooperative financial provinces in these two provinces (compared to NTB or South Sulawesi).

.....

Urban-based adults are more likely to be formally-served, and specifically more likely to be banked, than those in rural areas.

.....

More males are using banking services (43%, compared to 39% women), but male adults are at the same time more likely to be financially excluded (19%) than female adults (15%). A higher proportion of females are able to use formal, non-bank as well as informal services, which drives down the level of financial exclusion among women.

.....

The youngest (17-24 years) and oldest segments (55+ years) have the highest proportions of people who are financially excluded.

.....

Financial exclusion is also skewed towards adults who have not attained formal education – a result that is consistent with expectations.

.....

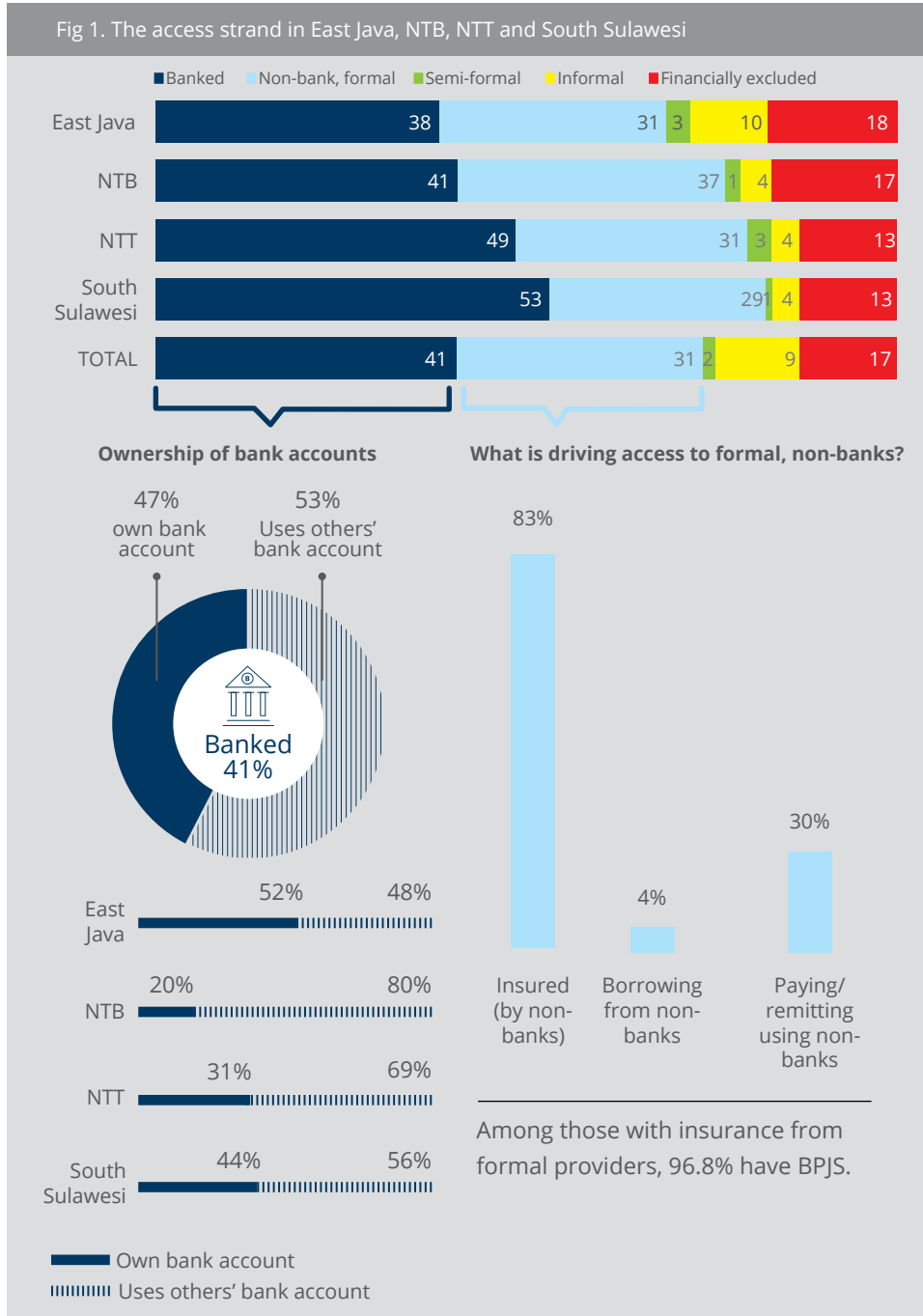
Those involved in agriculture are more likely to be financially excluded. They are also more likely to rely only on informal financial services, while those who are not involved in agricultural activities are significantly more likely to be banked.

.....

Wealthier segments have the highest likelihood of being banked, while those in poorer segments are more likely to be financially excluded.

3.1 The access strand

The Access Strand analysis reveals significant differences in terms of the extent that adults use financial services to manage their financial lives. The following section of this report will explore the extent of financial inclusion and the differences in terms of geographic, demographic and socio-economic characteristics.



The Figure above – the Access Strand – depicts the results for each of the four provinces and the total. The results show that the majority of adults in these four provinces (a total of 72%) are using formal financial services, i.e. those offered either by banks or formal non-banks. This level of formal inclusion is remarkably high. 17% of the adults across the four provinces, however, remain financially-excluded, 9% rely on informal financial services only, and a small proportion (2%) use semi-formal financial services.

Although there is a high proportion (41%) who are banked, less than half (47%) of them have bank accounts.

When comparing the four provinces, it is surprising to see that NTT has a high proportion of its population using banking services, even higher than in NTB or East Java. Financial exclusion is also slightly higher in NTB and in East Java than in South Sulawesi and NTT: use of banking services seem to drive exclusion levels down for these two latter provinces.

In East Java, there is a higher percentage of adults who either use informal financial services (10%, compared to 4% in the other three provinces) or are financially excluded (18%). Reliance on informal financial services is also skewed towards adults in East Java – they are more likely (than adults in other provinces) to rely only on informal services.

In terms of usage of semi-formal services, the highest proportions can be seen in NTT and East Java (at 3% each). These are provinces where there is a relatively higher number of cooperatives operating.

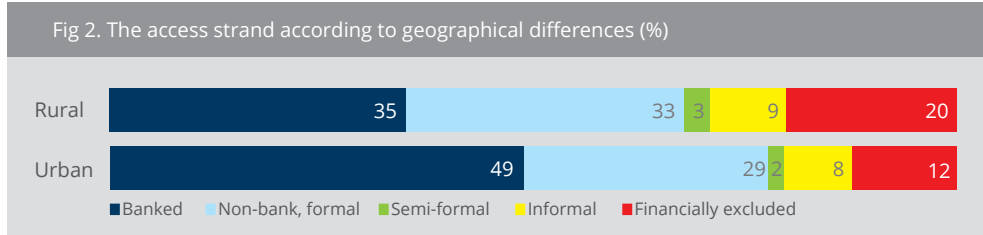
Although there is a high proportion of adults (41%) who are banked in these provinces, less than half (almost 47%) of them own a bank account, as shown in the Figure above. In other words, a significant proportion of people are using banking services, but do so by using bank accounts that belong to other people they know. The proportions of the population who use banking services without having their own account is higher when we look at the provinces of NTB (80.5%) and NTT (68.5%). In South Sulawesi, where we have the highest proportion of adults who are banked (53%), only 44.3% of these adults (less than half) own a bank account.

The high proportion of adults who are using formal, non-bank services is driven by the surprisingly high proportion of those who own insurance. Of those classified under formal, non-bank access (31% of the total population across the four provinces), more than 82% have formal insurance; and the vast majority of these individuals (96.8%) have BPJS insurance.⁵ If these individuals were not included in the formal, non-bank strand, the proportion of those relying on informal financial services will dramatically go up. In other words, if BPJS insurance did not exist, we would have a very different Access Strand – with a reduced proportion falling under the formal, non-bank strand and an even higher proportion of individuals relying on informal financial services.

⁵ The high proportion of individuals with BPJS-health cover is consistent with the rate of enrolment as reported by the Ministry of Health as of December 2016. The proportion of the population who have been registered for BPJS in the four provinces are as follows: in East Java, 59%; in NTB, 68%; in NTT, 73%; and in South Sulawesi, 77%.



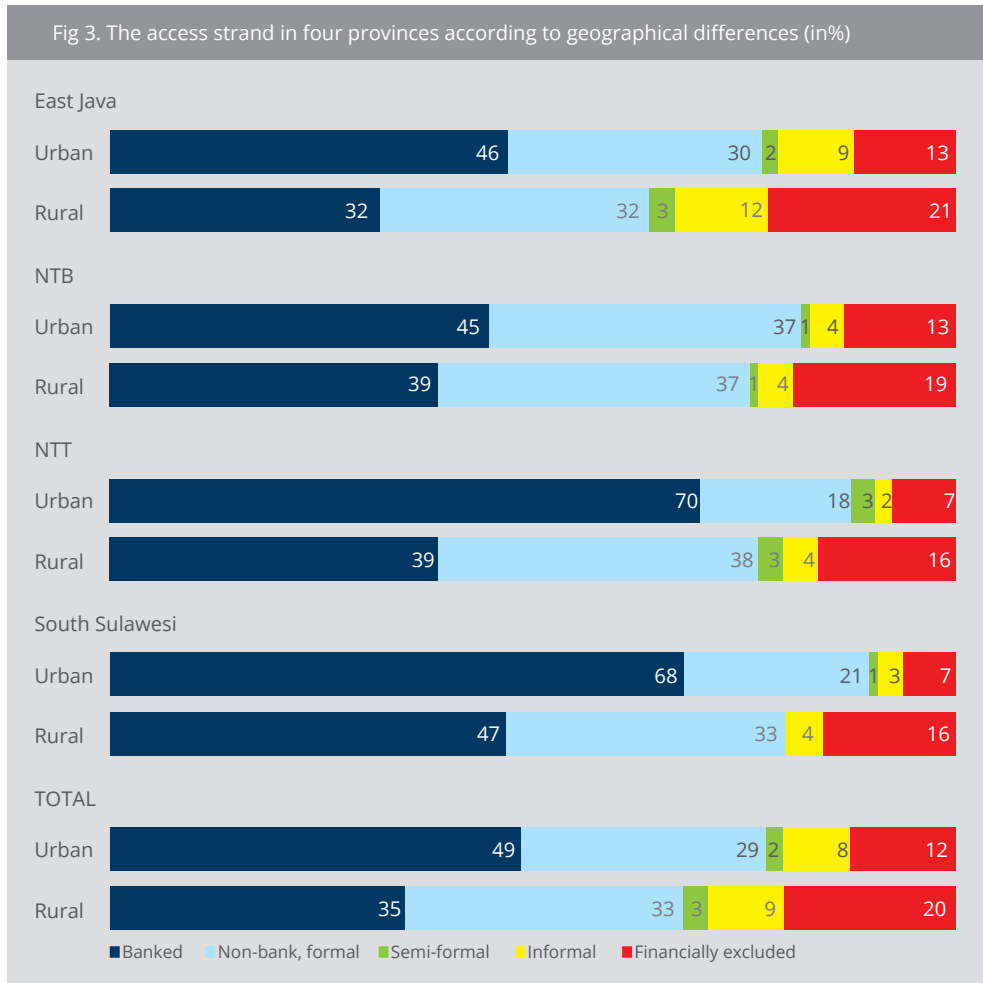
Rural and Urban



Further geographical differences in terms of inclusion are illustrated when rural and urban-based adults are compared. (See Figure above.) Urban-based adults are more likely to be formally-served, and specifically more likely to be banked, than those in rural areas. Financial exclusion is also higher in rural (20%) than in urban areas (12%). The figure below shows the results across urban and rural areas, disaggregated by province, are shown. Adults in urban areas in NTT and South Sulawesi are the most likely to be banked. These locations also have the lowest proportions of people who are financially-excluded.

Urban-based adults are more likely to be formally-served, and specifically more likely to be banked, than those in rural areas.

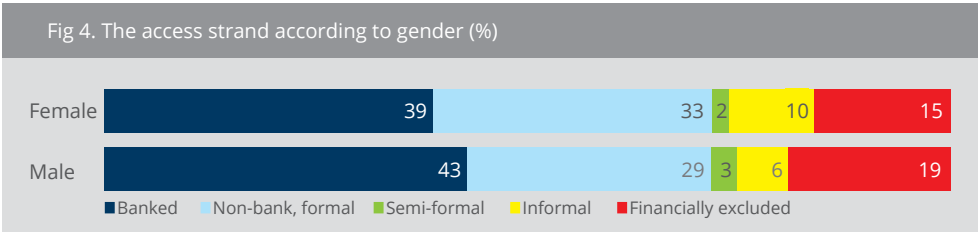
Financial exclusion is also higher in rural (20%) than in urban areas (12%).





Gender

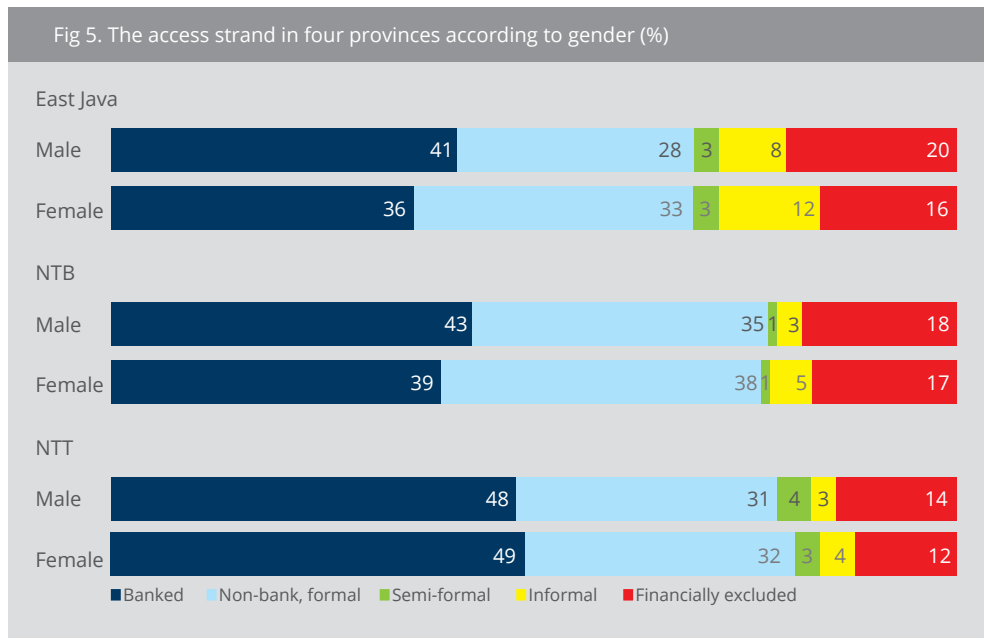
There are notable differences in financial access between the genders (see Figure below). While there are more males who are using bank services (43%, compared to 39% women), male adults are at the same time more likely to be financially excluded (19%) than female adults (15%).

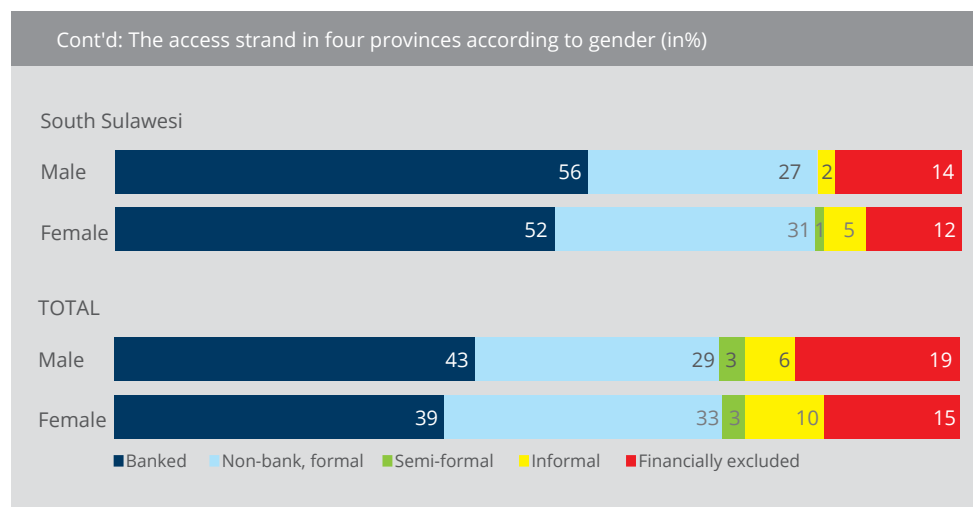


A higher proportion of females are able to use formal, non-bank as well as informal services, which drives down the level of financial exclusion among women.

These results suggest that although women tend to be less banked (compared to men), a higher proportion of females are able to use formal, non-bank as well as informal services, which drives down the level of financial exclusion among women. 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 such as Arisan.

The figure below, which disaggregates results according to the four provinces, shows that the same trend holds for each province, but is less pronounced in NTB (where 18% of males are financially-excluded vs. 17% of females) and NTT (14% of males vs. 12% of females).





Male adults in East Java are most likely to be financially-excluded (20%), while females in NTT and South Sulawesi (12%) are least likely to be financially-excluded. One of the reasons why female adults are less likely to be financially-excluded is that females are more likely than males to use informal financial services. Across the four provinces, 49% of females use informal services (exclusively, as well as non-exclusively), compared to 29% of males. This difference is most pronounced in East Java (12% of females in this province rely on informal services vs. 8% of males).

Overall, only 12% of adults **use semi-formal financial services** (exclusively, as well as non-exclusively); and only 2% rely on this type of financial services. These results suggest that semi-formal financial services, which include those provided by savings and credit cooperatives and government credit schemes that are not delivered through the banking system, contribute minimally to the level of financial inclusion. There is no difference between males and females in terms of the proportion using semi-formal financial services – even in terms of the proportion of those who rely on semi-formal services only. Across the four provinces, usage of semi-formal services is lowest in South Sulawesi, where only 5% of adults use these services (exclusively, as well as non-exclusively).

In total, 57% of adults in these provinces **use formal non-bank services** (exclusively, as well as non-exclusively). Formal non-bank services are those services extended by non-bank financial institutions that are regulated and supervised by the Financial Services Authority (OJK). These institutions typically extend credit/loan services (i.e. they do not collect deposits) or are among the authorised payment service providers. As explained earlier, this high proportion of adults using formal non-bank services is driven by the high number of individuals who have insurance cover, and particularly BPJS-health insurance.

There is no significant difference in the pattern of overall usage of formal non-bank services observed among males (56%) and females (57%). However, in terms of those who rely on non-bank formal services, there is a slight gender skew: 33% of females and 29% of males rely on non-bank services only. Within provinces, the skew towards female adults' reliance on non-bank formal services is illustrated in East Java (33% of females vs. 28% of males), in South Sulawesi (31% of females vs. 27% of males), and in NTB (38% of females vs. 35% of males). In NTT, the proportions of female (32%) and male (31%) adults who rely on formal non-bank services are comparable.

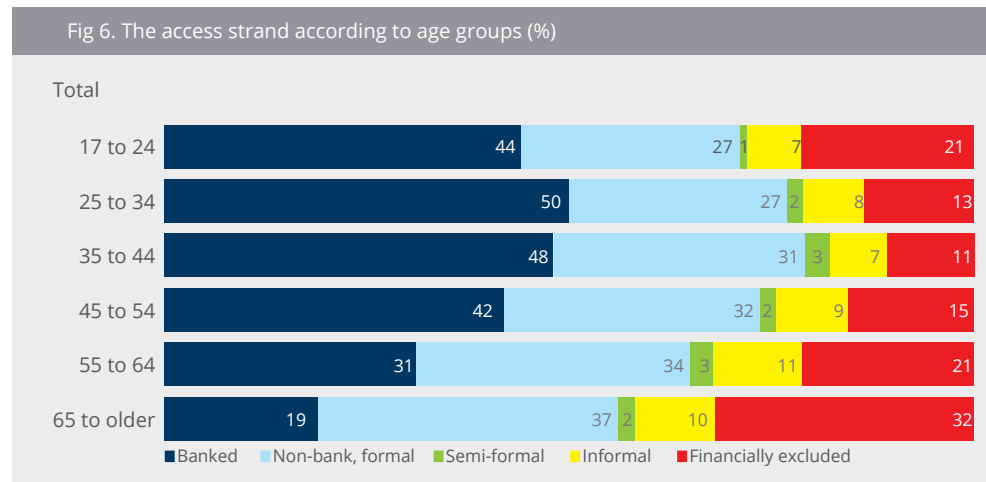
In total, 41% of adults in the provinces surveyed are **banked**. Usage of bank services, in contrast to formal non-bank services, are skewed towards male adults: 43% of male adults are banked vs. 39% of females. These gender differences are most significant in East Java (41% of males vs. 36% of females being banked), and less so in South Sulawesi (56% of males vs. 52% of females) and NTB (45% of males vs. 39% of females). In NTT, there is no significant gender difference with regard to banking: 49% of females in this province are banked vs. 48% of males.





Age Groups

The Figure below depicts the access strand results according to age groups. In total, financial exclusion is skewed towards the youth (17-24 years) and adults older than 54 years. In other words, **the youngest and oldest segments have the highest proportions of people who are financially excluded**. In South Sulawesi, financial exclusion is most pronounced among those older than 65 years; whereas, in NTT, financial exclusion is skewed towards those aged 24 years and below.



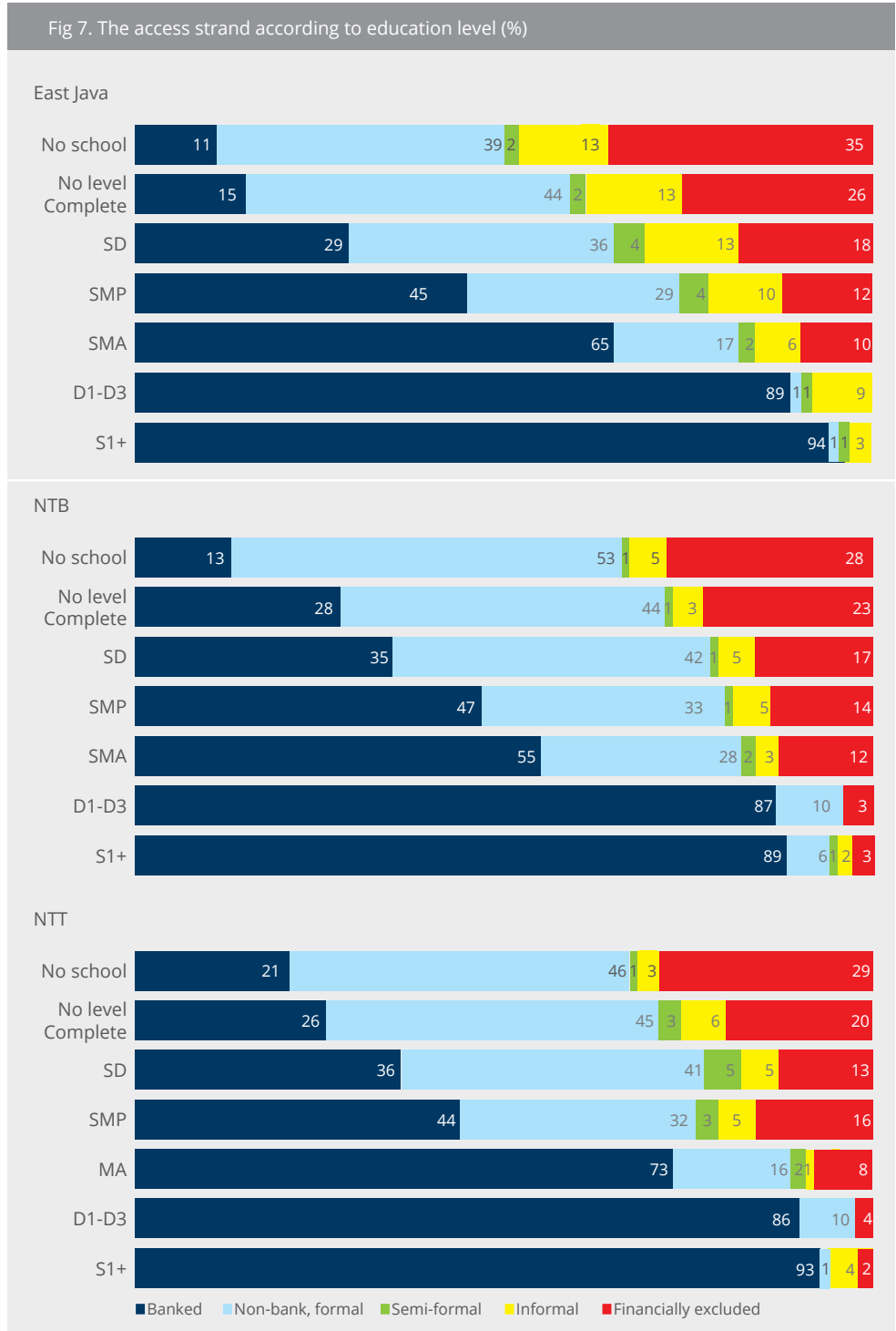
This level of financial exclusion is significant, considering that both segments (i.e. the youngest and oldest) often present opportunities to extend financial services that do not require the introduction of entirely new products. For example, in many countries including in Indonesia, basic banking accounts that target young people are already widely available. On the other hand, older segments of the population, especially those in receipt of pensions, would also benefit from having access to basic bank accounts.

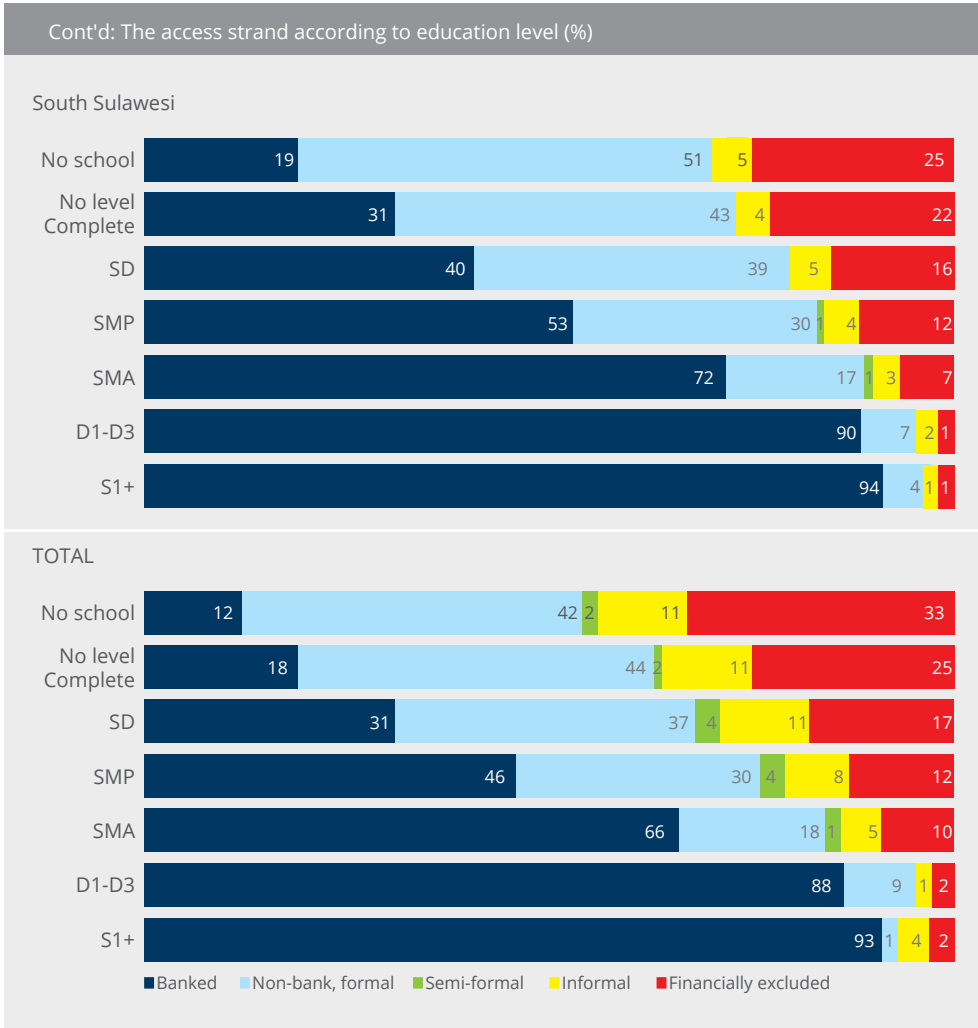
The use of formal non-bank services is skewed towards adults in the 25-44 age range and away from those older than 64 years. On the other hand, the use of informal financial services is most pronounced among adults in the 25-44 age category and away from the youth and adults older than 55 years old.



Educational attainment

The Figure below depicts the access strand results according to the level of education achieved.





Across all four provinces, financial exclusion is skewed towards adults who have not attained formal education.

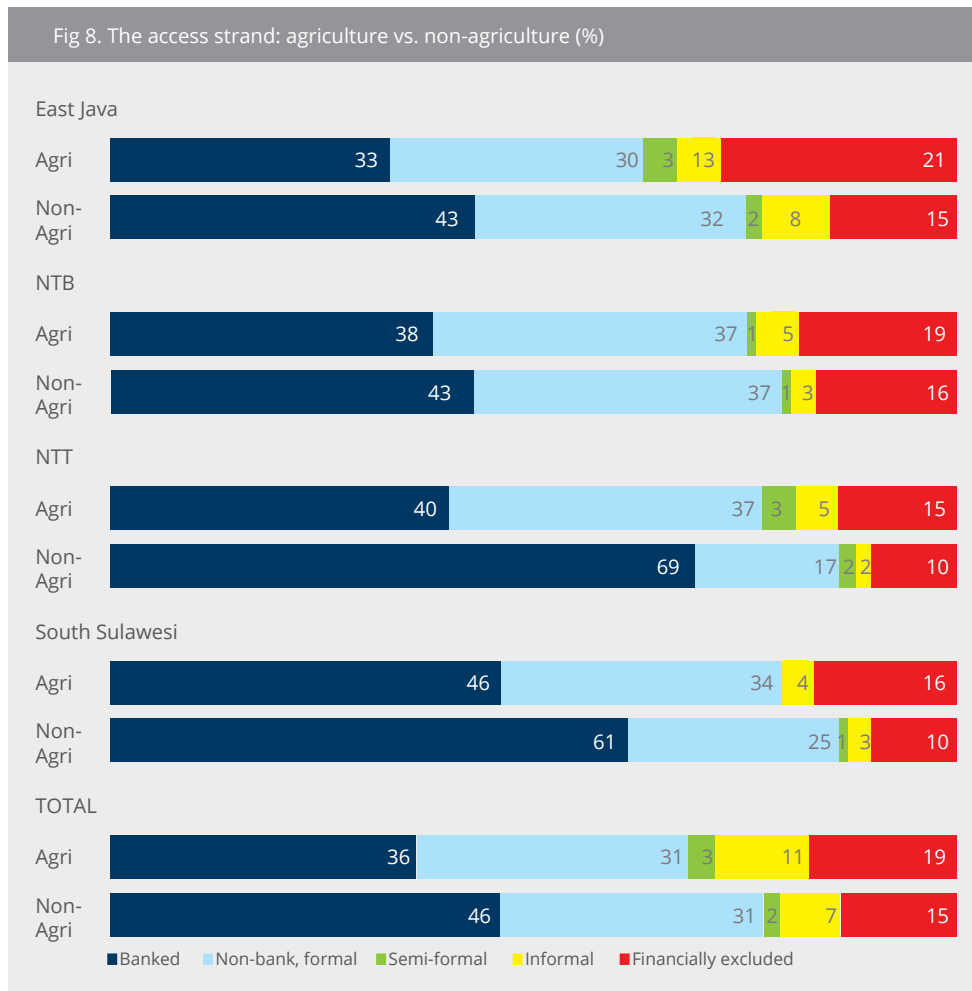
Across all four provinces, financial exclusion is skewed towards adults who have not attained formal education – a result that is consistent with expectations. The highest level of financial exclusion is amongst adults in East Java who have no formal education. On the other end of the spectrum, adults who have achieved SMA (Senior High School) levels are most likely to be banked; the highest proportion of banked adults in East Java and South Sulawesi are amongst those who have achieved S1+ levels of education (94%).



Economic activity: agriculture vs. non-agriculture

The Figure below depicts the levels of financial inclusion between adults involved in agricultural activities and those who are not engaged in agriculture. The results are consistent with expectations: **adults involved in agriculture are more likely than those that are not involved in agriculture, to be financially excluded.** Those involved in agricultural activities are also more likely to rely only on informal financial services, while those who are not involved in agricultural activities are significantly more likely to be banked.

Those involved in agricultural activities are more likely to rely on informal financial services...



These results are consistent with findings from other studies on the low level of penetration of banking services (and particularly, credit) in the agriculture and related sectors (e.g. livestock, fisheries and aquaculture).⁶

⁶The Indonesia Banking Statistics (as of November 2015), for example, indicate that only around 6% of the loan portfolio of commercial banks and 6.21% of rural banks' are in agriculture and related sectors, compared to higher shares in trading and processing (each at almost 20% of bank lending).



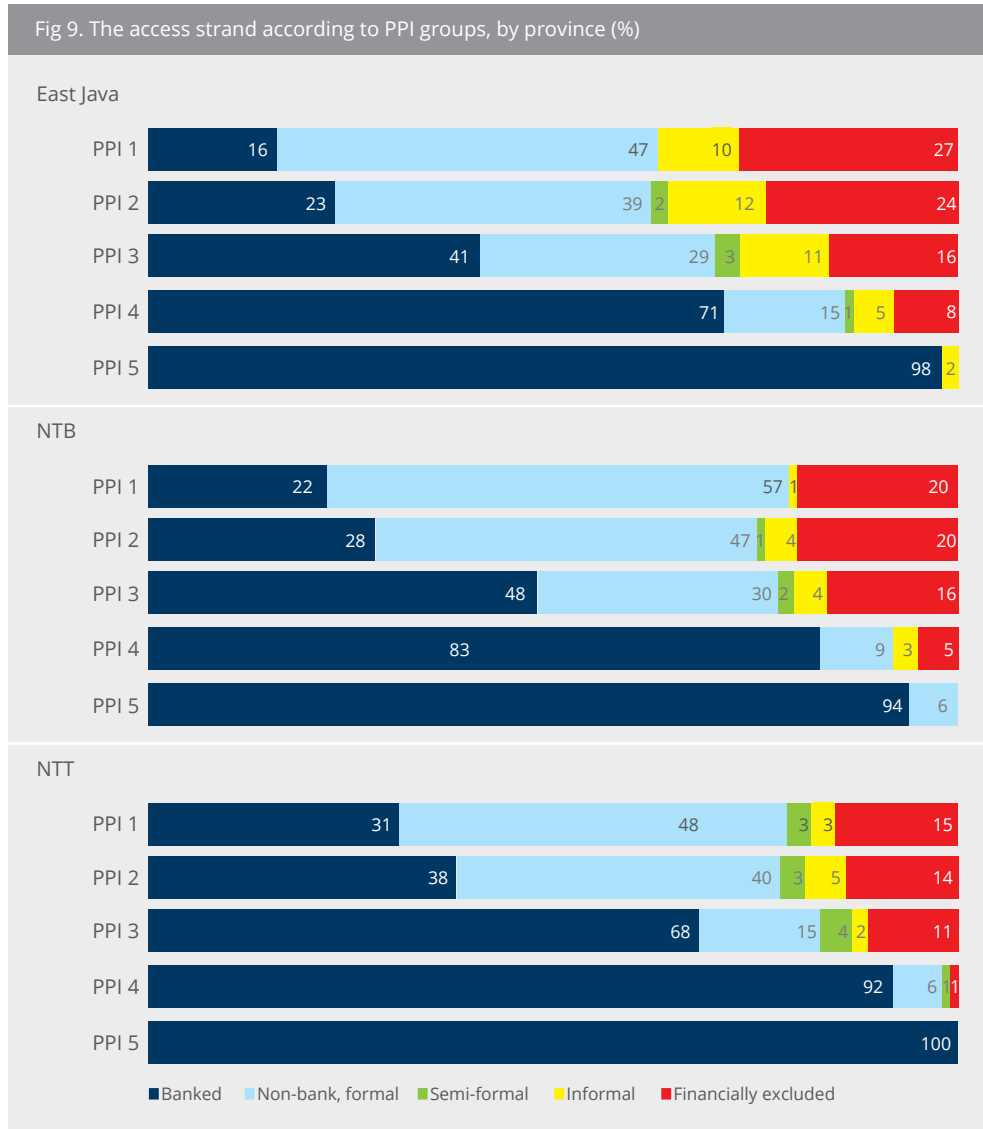
Wealth and income

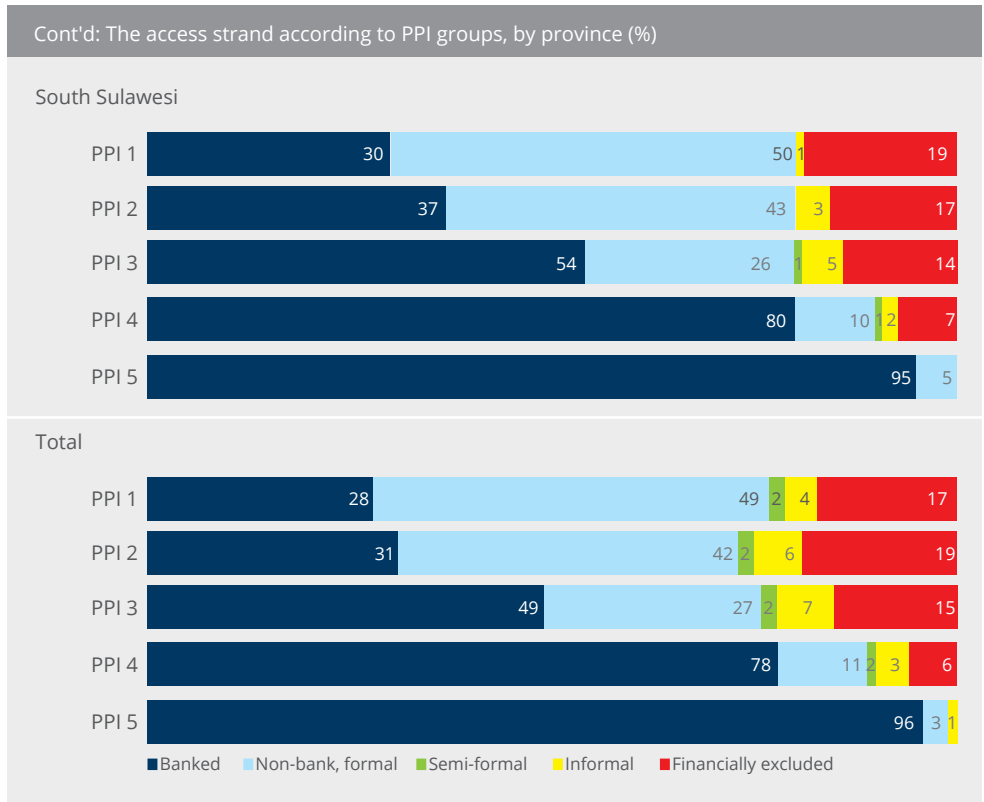
The Figure below explores the relationship between socio-economic status and financial inclusion – clearly illustrating the highest likelihood of being banked among wealthier segments (PPI 4 and 5 groups), whilst those in poorer segments (PPI 1 and 2) are more likely to be financially excluded.

These results are consistent with expectations regarding the relationship between socio-economic status and financial inclusion. The same linear relationship between the level of formal inclusion and social-economic status can also be seen when the asset-based index is used as a proxy for the socio-economic status of the household of an individual (A1-A5, A5 being the group with the highest asset levels).

Those in poorer segments (PPI 1 and 2) are more likely to be financially excluded.

Fig 9. The access strand according to PPI groups, by province (%)

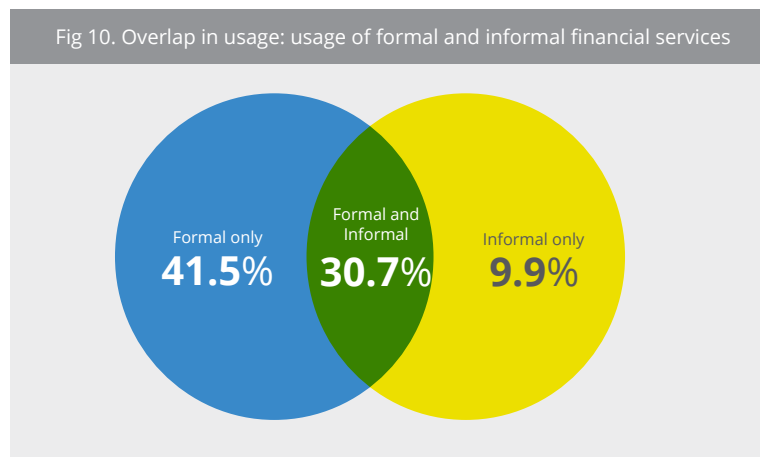






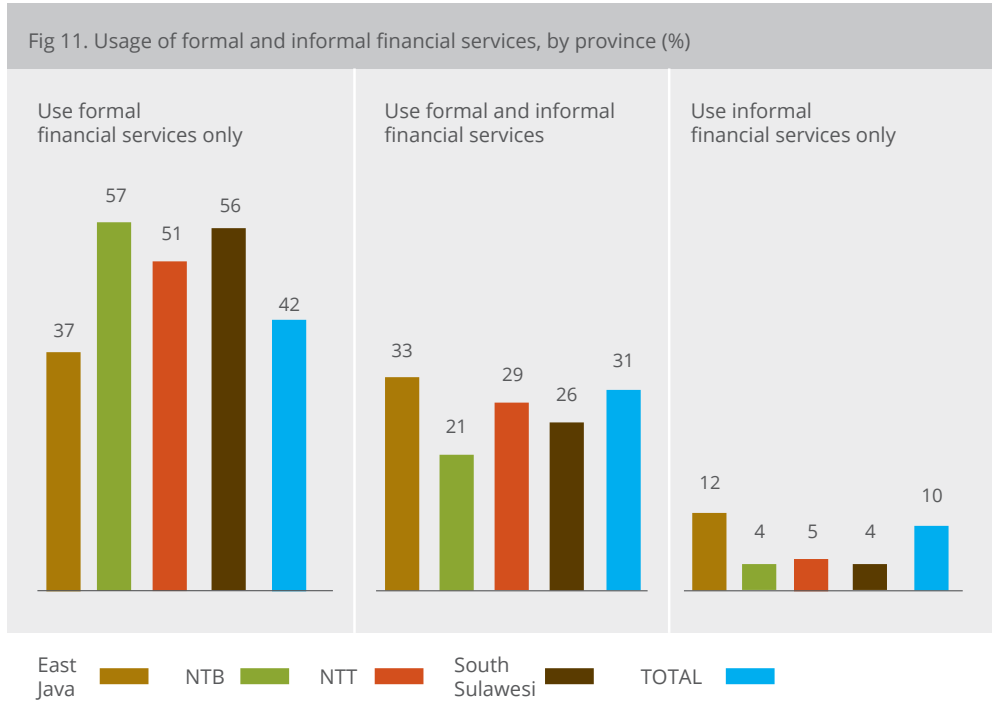
3.2 Profile of consumers vs. strands

In this section, the profiles of consumers using different types of services are presented. The results discussed below include estimates of the population who are using specific types of services – exclusively, as well as non-exclusively. This distinction is particularly relevant when we look at those who are using formal non-bank, semi-formal, and informal financial services.



Financially included individuals use either formal, semi-formal or informal services or a combination of different types of services to manage their financial lives. Currently 42% of adults across the four provinces use formal financial services only, and only 10% rely on informal financial services, which is lower than what was expected of informal usage. 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.

While more than a third (37%) of adults in East Java use only formal financial services, about a third of its adult population are also most likely to use both formal and informal financial services. On the other hand, adults in NTB are most likely to use only formal financial services, with only a fifth of the population reporting that they use a combination of formal and informal financial services.



As a result of the high level of formal financial inclusion, it is not surprising to find that adults who only use formal services do not differ significantly from the adult population in terms of their rural-urban distribution. Demographically, they are more likely to be male as well as not involved in agricultural activities.

Adults who use only informal financial services, on the other hand, are more likely than other adults to be:



- Rural-based;
- Female;
- Older than 54 years;
- Have achieved SMP or lower levels of education;
- Are from households in the lowest quintiles of the PPI distribution;
- Involved in agriculture.

Adults who use both formal and informal financial services are more likely than other adults to be:



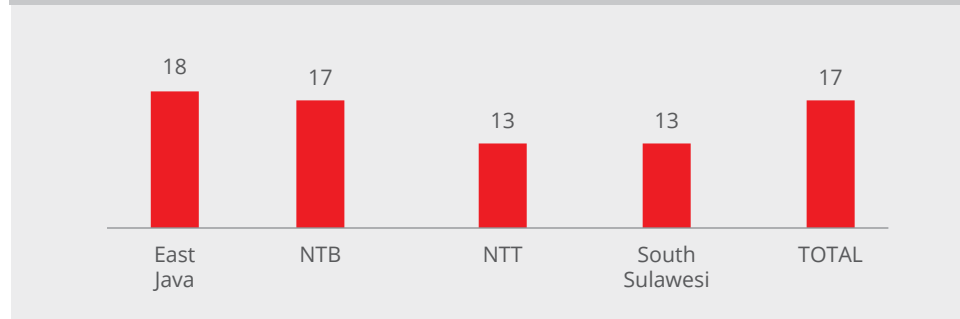
- Urban-based;
- Female;
- In the 25-54 age group;
- Have achieved at least SMP levels of education;
- Not involved in agricultural activities;
- Fall under PP1 3 and 4 (i.e. they are not among the poor).

Approximately 1 in 5 (17%) adults across the four provinces are financially excluded.

As discussed earlier, approximately 1 in 5 (17%) adults across the four provinces are financially excluded. Although, there is no significant difference between the four provinces in terms of the proportion of adults who are financially excluded (shown in the Figure below), in terms of the absolute number, about 77% of those who are financially excluded (close to two million adults) are from East Java.



Fig 12. Financially-excluded adults, per province (%)



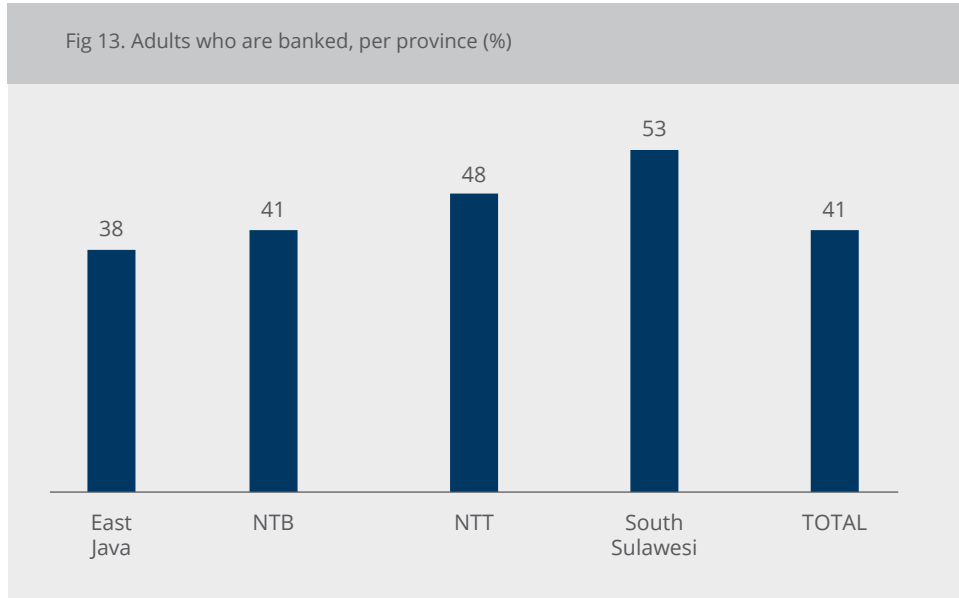
Adults who are financially excluded are more likely than other adults to be:



- 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;
- Fall under PPI 1 and 2 (i.e. they are among the poorest).



Fig 13. Adults who are banked, per province (%)



Of the four provinces surveyed, South Sulawesi has the highest proportion (53%) of the provincial population who are banked.

Close to half of the adult population (41%) across the four provinces are banked, as shown in the Figure above. Of the four provinces surveyed, South Sulawesi has the highest proportion (53%) of the provincial population who are banked; whereas, only a little over a third of the population (38%) in East Java are banked.

However, given the size of East Java in terms of its population relative to the other provinces, the number of banked individuals in the province represent more than two-thirds (68%) of the total population of banked individuals in all the four provinces.

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;
- From Quintiles 3-5 in terms of the PPI distribution (i.e. they represent mid- to upper range of the wealth spectrum).

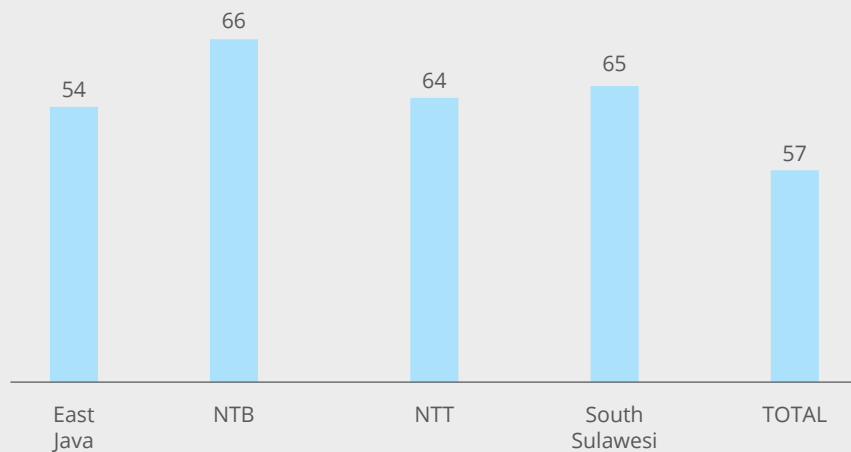
The analyses of drivers of uptake of banking services are discussed in the succeeding sections of this report. Broadly speaking, we note that:

- Adults in South Sulawesi (30%) and NTT (25%) are more likely to use banking services for the purpose of saving than those in NTB (20%) and East Java (17%);
- Adults in South Sulawesi are also slightly more likely (13%) to use banking services for the purpose of borrowing than those in NTT (10%), East Java (10%) and NTB (8%); and
- Adults in NTT (29%) and South Sulawesi (24%) are significantly more likely to use banking services for remittance purposes than those in East Java and NTB (13%).

More than half of the adult population (62%) across the four provinces use formal non-bank financial services, as shown in the Figure below. Higher proportions (>60%) of the populations in NTB, NTT and South Sulawesi are using these types of services, compared to the proportion (54%) in East Java.

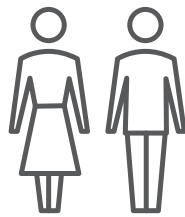


Fig 14. Adults who use formal non-bank financial services, per province (%)



Once again, the proportion of adults in East Java using this type of service is lower than that of the total population (for the four provinces). However, in terms of geographical distribution, most of the adults who use formal non-bank services (almost 6.1 million in number) reside in East Java.

The distinguishing characteristics of the adults who use formal non-bank financial services are listed below. They are more likely to -



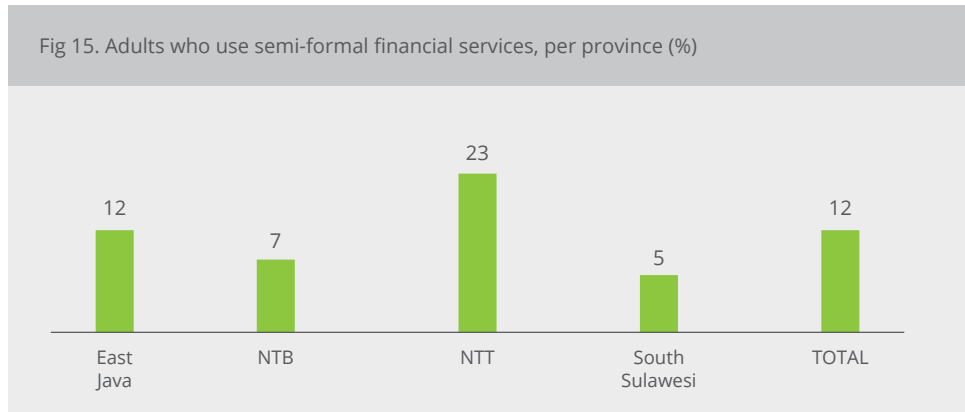
- Be urban-based;
- Have achieved education levels of SMA and higher; and
- Not involved in agricultural activities.

The key factor driving the high level of usage of formal non-bank financial services is insurance and payments, with 47% of all adults across the four provinces reporting to have insurance, and 15% use formal non-bank services for the purpose of making payments (e.g. through use of vouchers and prepaid cards, etc.). It is surprising to see that only 3% of adults use formal non-bank financial services for credit purposes, and only 2% for the purpose of sending or receiving remittances (i.e. person-to-person money transfers) – given the increasing number of non-bank financial institutions that operate in these provinces.

And lastly, the penetration of semi-formal financial services – defined as services extended by savings and credit cooperatives, as well as government credit schemes that are not delivered through banks – is low across the four provinces. Only 12% of adults across the population use this type of service. Usage is significantly skewed towards adults in NTT (23%), which can be explained in terms of the greater presence of cooperatives in this province relative to the other three locations. In terms of the absolute number, however, most users of semi-formal financial services reside in East Java (close to 1.4 million individuals).



Fig 15. Adults who use semi-formal financial services, per province (%)



5% of adults across the four provinces use semi-formal services for the purpose of saving, whilst 9% use it to access credit or loans.

People who are using semi-formal financial services differ from other adults in the population in that they 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;
- From Quintiles 4-5 in terms of the PPI distribution (i.e. they are among the wealthier segments of the population).





Access to and use of savings products



More than half (57%) of the population in the four provinces reported that they saved an amount for future use over the last 12 months. Despite being a province with a high incidence of poverty, NTT has the highest proportion of the population who said that they saved.

A significantly higher proportion of females save, compared to males.

A higher proportion of the urban-based population save, compared to those in rural locations. Despite this, more than half of the population in rural areas also save.

Not everyone who saves owns a bank account; and not everyone who owns a bank account uses it for saving. Across the four provinces surveyed, more than 70% of those who save reported that they have bank accounts. However, only two-thirds of these adults actually use their bank accounts for saving. This demonstrates that people's access to services does not ultimately determine their use of that service.

A very small proportion of those with bank accounts (5%) have a TabunganKu account.

A significant proportion of the population who save (39%) are financially excluded – i.e. they save by either keeping the money at home or by purchasing goods (that they could then sell later).

In East Java, a smaller proportion of adults save via banks (compared to the other three provinces). However, 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.

.....

In NTT, we find the highest proportion of adults (14%) who save through cooperatives – but semi-formal savings is not enough to drive down the rate of financial exclusion (in terms of saving) in this province – at 55%, the highest among all the provinces surveyed.

.....

As expected, the proportion of adults who save is highest among the wealthier segments (in PPI 4 and 5). However, a significant proportion of those who are in the poorer segments (PPI 1 and 2) do save.

.....

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.

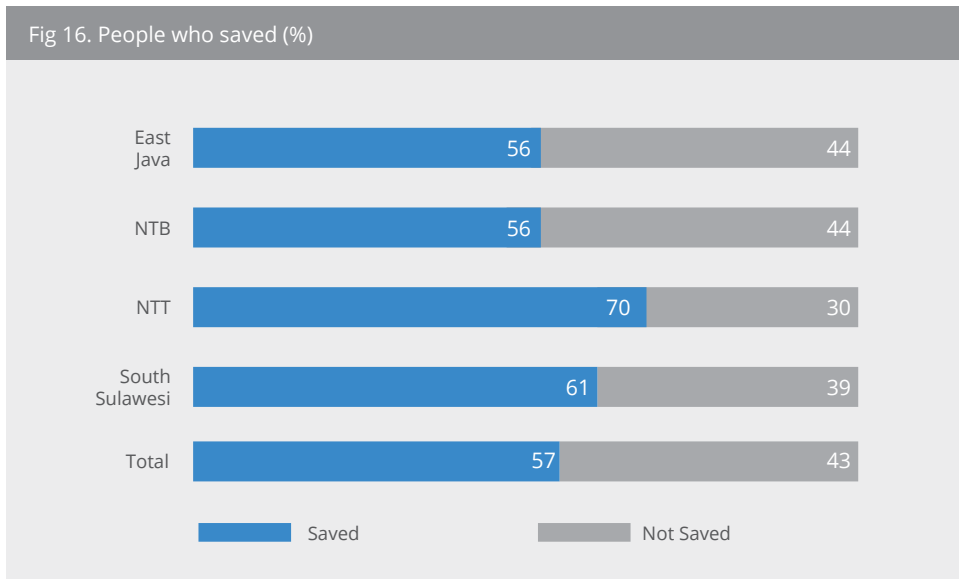
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Those who save through accounts held at banks or cooperatives consider it “very easy” to do so and feel that “they can trust the institution”. On the other hand, those who save through informal means valued “being able to access the money quickly”,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

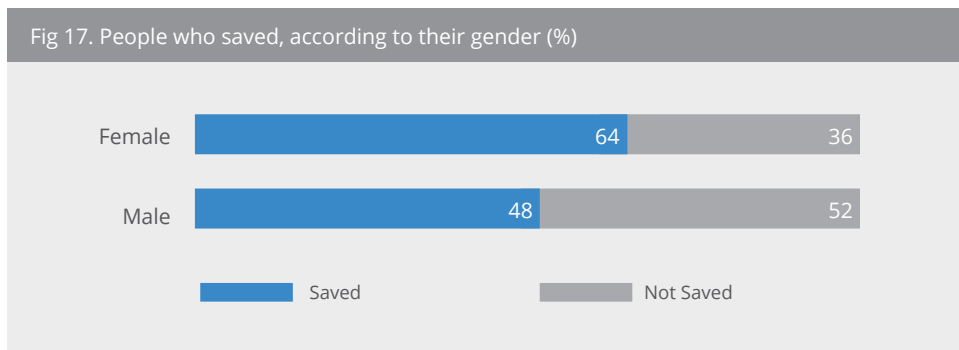
Savings behaviour

Across the four provinces surveyed, 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 a favourable result considering the assumption that Indonesians generally do not manage to save money, but rather focus on consumption.⁷

As shown in the Figure below, despite being a province with the highest incidence of poverty (among the four provinces surveyed), NTT has the highest proportion of the population (70%) who said that they saved, followed by South Sulawesi (61%).

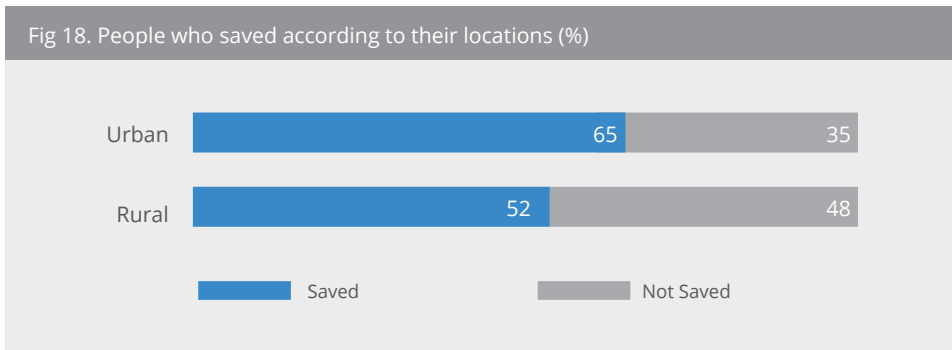


Across the four provinces, we find a significantly higher proportion of females (64%) who save, compared to males (48%) – which confirms a common observation of women as savers.



⁷This observation is based on the low savings rate in Indonesia as a whole, measured in terms of gross national savings per gross domestic product (GDP), which remained stagnant last year, according to a statement from the Financial Services Authority (OJK) in November 2016. Indonesia's gross national savings per GDP stood at a little over 30% in 2015, compared to Singapore and China which stood at 47% and 49%, respectively.

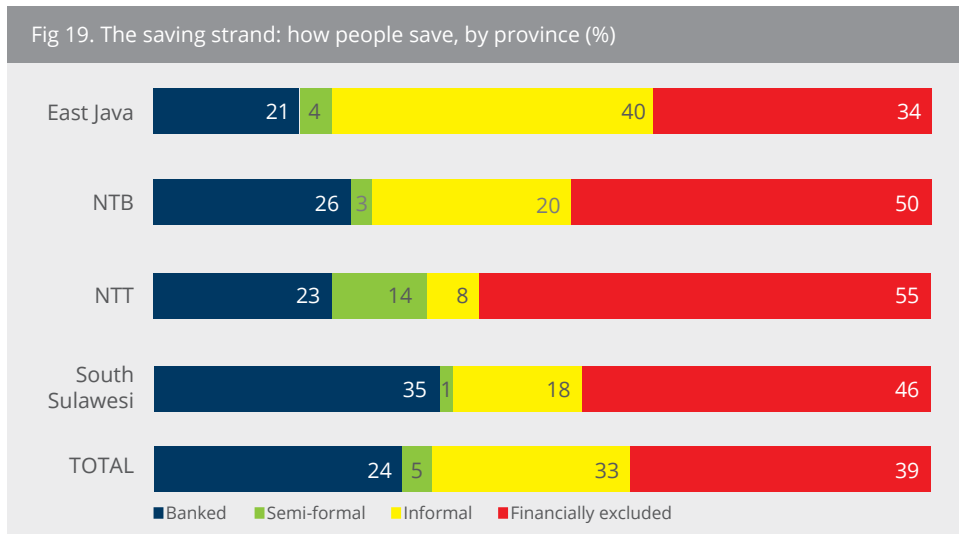
There is also a higher proportion of the urban-based population (65%) who save, compared to those in rural locations (52%). But this does not diminish the fact that people in rural areas do save and a significant proportion of them – more than half – do so.



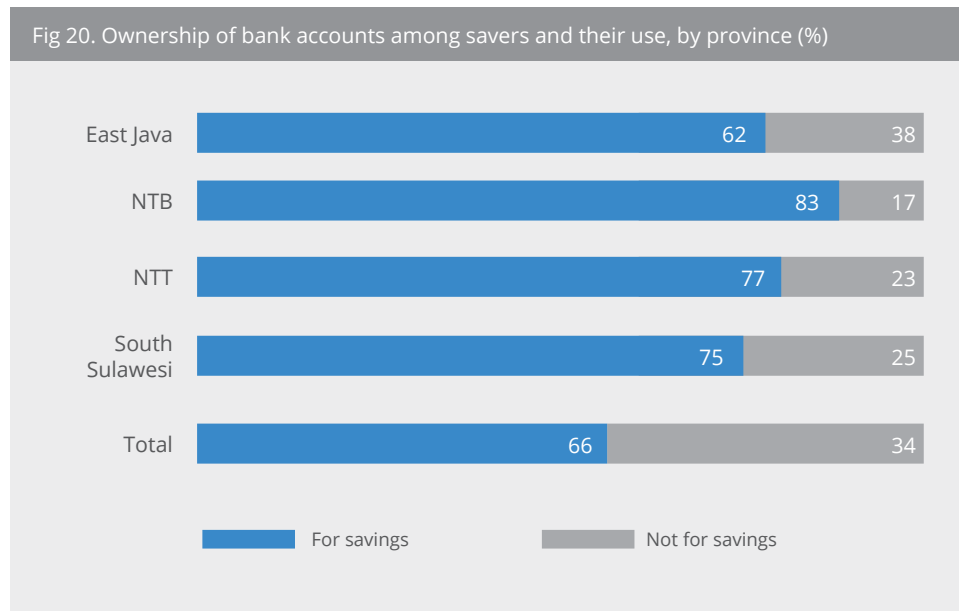
Those who do not save cite income-related reasons for not saving: 77% explain that their main reason for not saving is “all the money they receive gets spent”, while almost 20% explain that “they do not have (regular) income”. The inability to save is driven by people’s income levels. Individuals with low-incomes find it difficult to save as they barely have enough income to cover their basic needs (such as food, shelter, transportation costs, etc.). Recent economic developments, including the rise in inflation, would have had an impact on people's purchasing power.

How do people save?

Overall, about a quarter (24%) of the population save by keeping their money in savings accounts at banks (whether through a commercial bank, rural bank or BPD) (see Figure below). Among the four provinces, South Sulawesi has the highest proportion of adults (35%) who save via banks, while only about a fifth of those who save in East Java do so through banks.

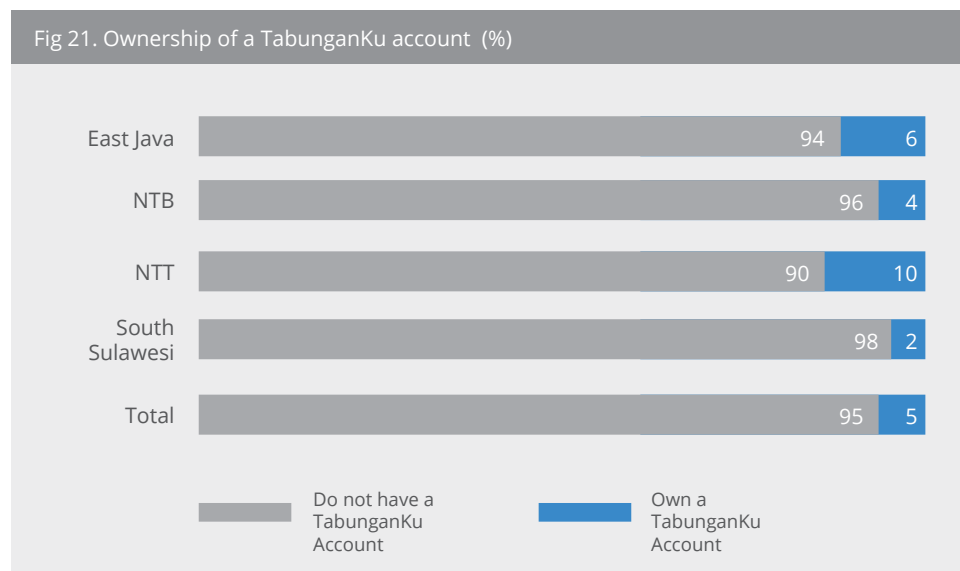


It is important to note that not everyone who saves owns a bank account; and not everyone who owns a bank account uses it for saving. Across the four provinces surveyed, more than 70% of those who save reported that they have bank accounts. However, only two-thirds of these adults actually use their bank accounts for saving, as shown in the Figure below. Interestingly, in South Sulawesi, a relatively smaller proportion of the population who save (less than 60%) actually own a bank account; however, a higher proportion of those who do (75%, as shown in the Figure below) use their bank accounts for saving.



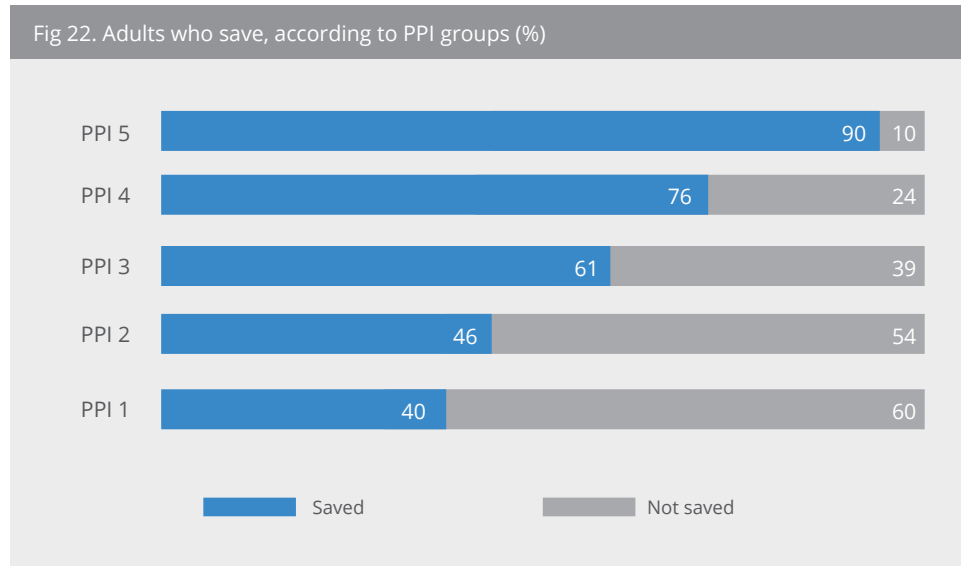
This finding underscores the important distinction between ownership of a financial product versus its use. Ownership of a product (in this case, a bank account) can influence behaviour (e.g. saving in a bank). But people's access to service does not ultimately determine their use of that service.

In this survey, we asked respondents whether they own a TabunganKu account – which is a basic savings product developed by the Government of Indonesia aimed to reach low-income individuals. As the results presented in the Figure below show, a very small proportion of those with bank accounts (5%) have a TabunganKu account. However, the results suggest a slightly better penetration of this product in NTT, where 10% of savers who have bank accounts reported that they own a TabunganKu account. This is a favourable result, considering the higher proportion of those classified as poor in this province.

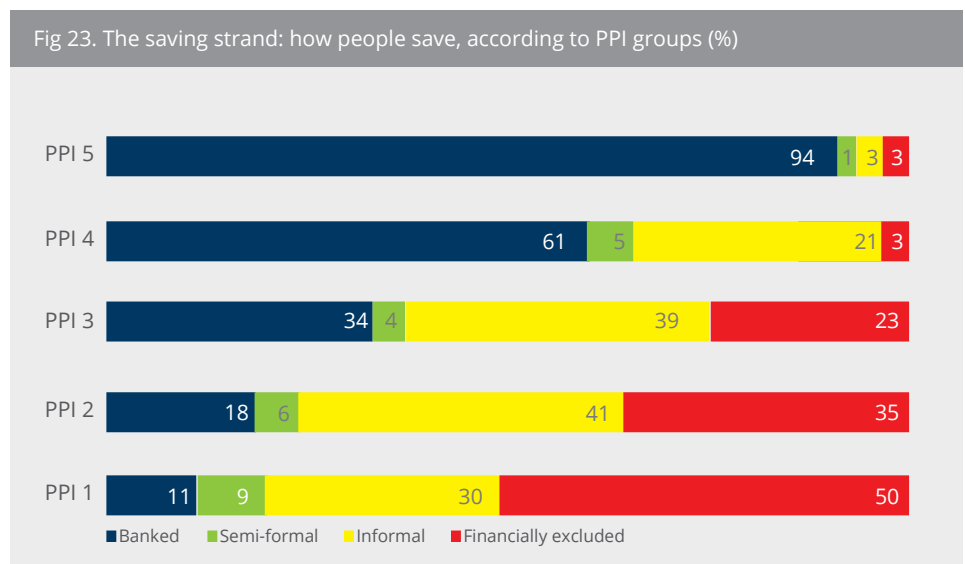


A significant proportion of the population who save (39%) are financially excluded – i.e. they save by either keeping the money at home or by purchasing goods (that they could then sell later). Although there is a lower proportion of adults who save via banks in East Java, it has the lowest rate of financial exclusion when it comes to savings. This is driven by the high proportion of adults in this province (40%) who save through informal means. Informal savings include saving through an Arisan, a collector, a daily savings scheme, or a savings scheme at children's schools. NTT is the province with the highest proportion of adults (14%) who save through cooperatives. This is, however, not enough to drive down the rate of financial exclusion (in terms of saving) in this province – at 55%, the highest among all the provinces surveyed.

The Figure below shows the proportion of adults who save, grouped by their wealth status. As expected, the proportion of adults who save is highest among the wealthier segments (in PPI 4 and 5, 76% and more than 90%, respectively). But it is important to emphasize that a good proportion of even those who are in the poorer segments do save – more than 40% of those in PPI 1 and 2.



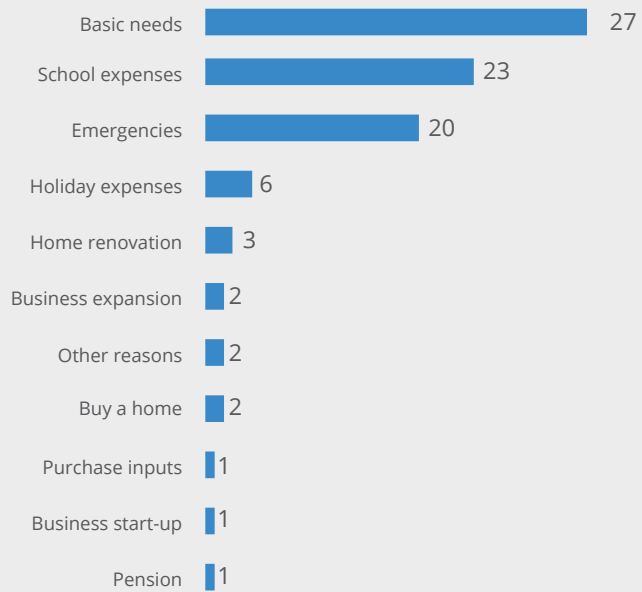
The vast majority of the poor save informally (30% of those in PPI 1) or by keeping their savings at home (i.e. they are financially excluded, 50% of those in PPI 1), as shown in the Figure below. In contrast, the majority of those in wealthier segments of the population (those in PPI 4 and 5) save their money in banks.



What are people saving for?

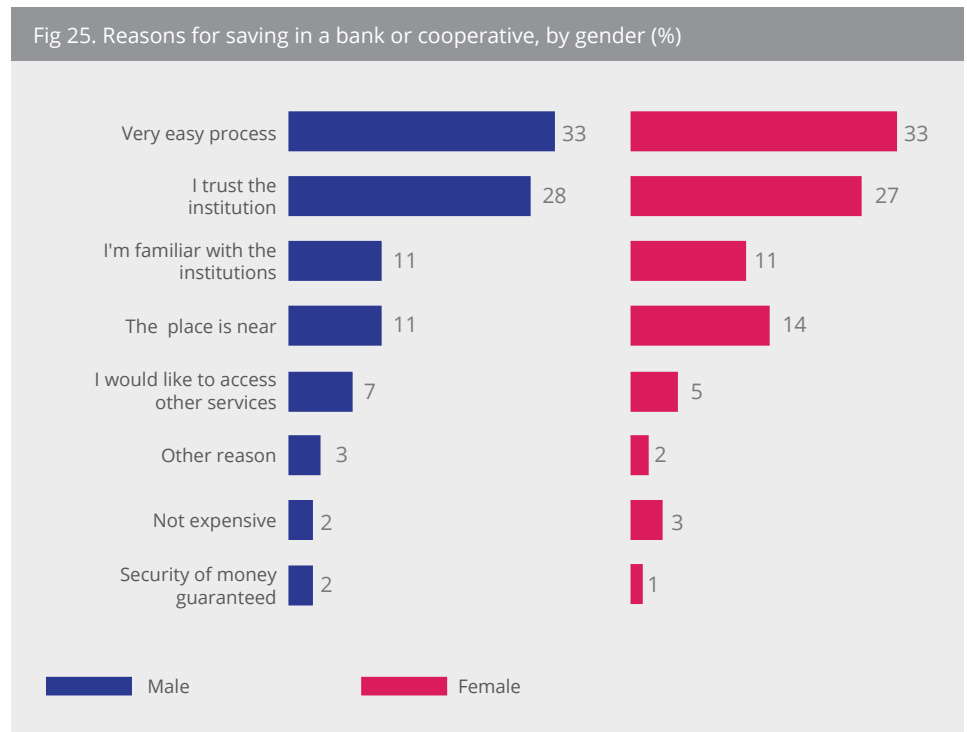
People save for a variety of purposes. The results depicted in the Figure below show that across the four provinces, people saved primarily to cover expenses related to basic needs, to pay for children's school fees and related expenses, and for emergencies. These were the top 3 purposes for saving. To a lesser degree, people also saved for other purposes, such as to cover holiday-related expenses (#4), to buy a home or land or undertake home renovation (#5), and to start or expand a business (#6).

Fig 24. Reasons for Saving (%)

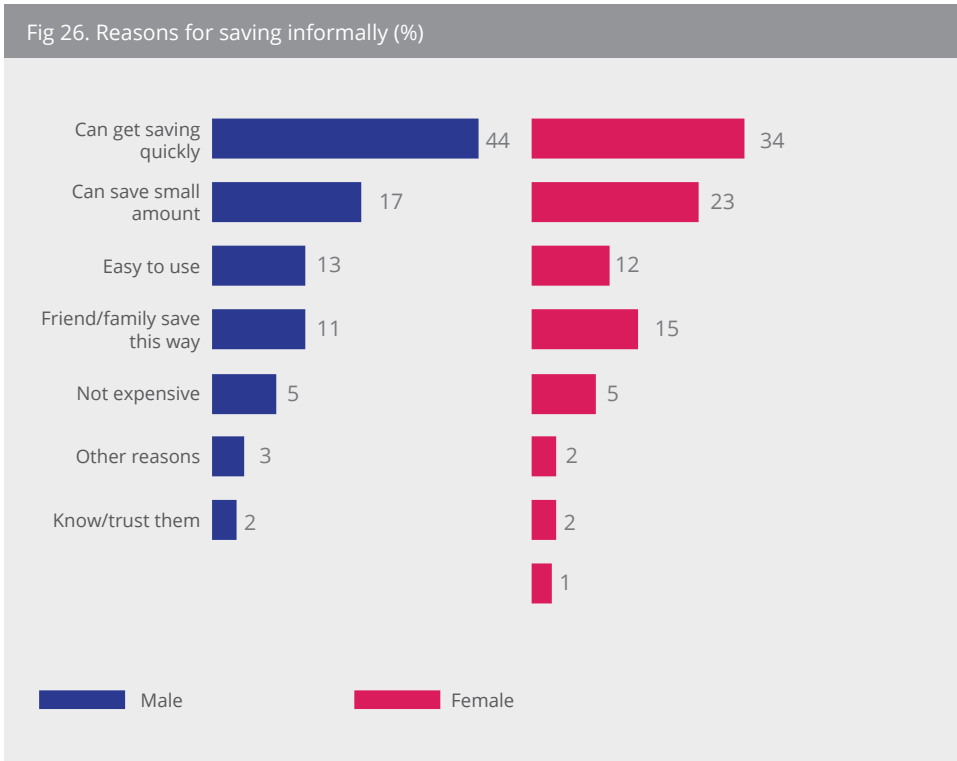


What determines people’s choices for saving the way they do?

People will have different motivations for saving 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”. This is consistent across both males and females, as shown in the Figure below. These supersede nearness of or familiarity with the institution, or indeed costs or the security associated with placing savings in these financial institutions.

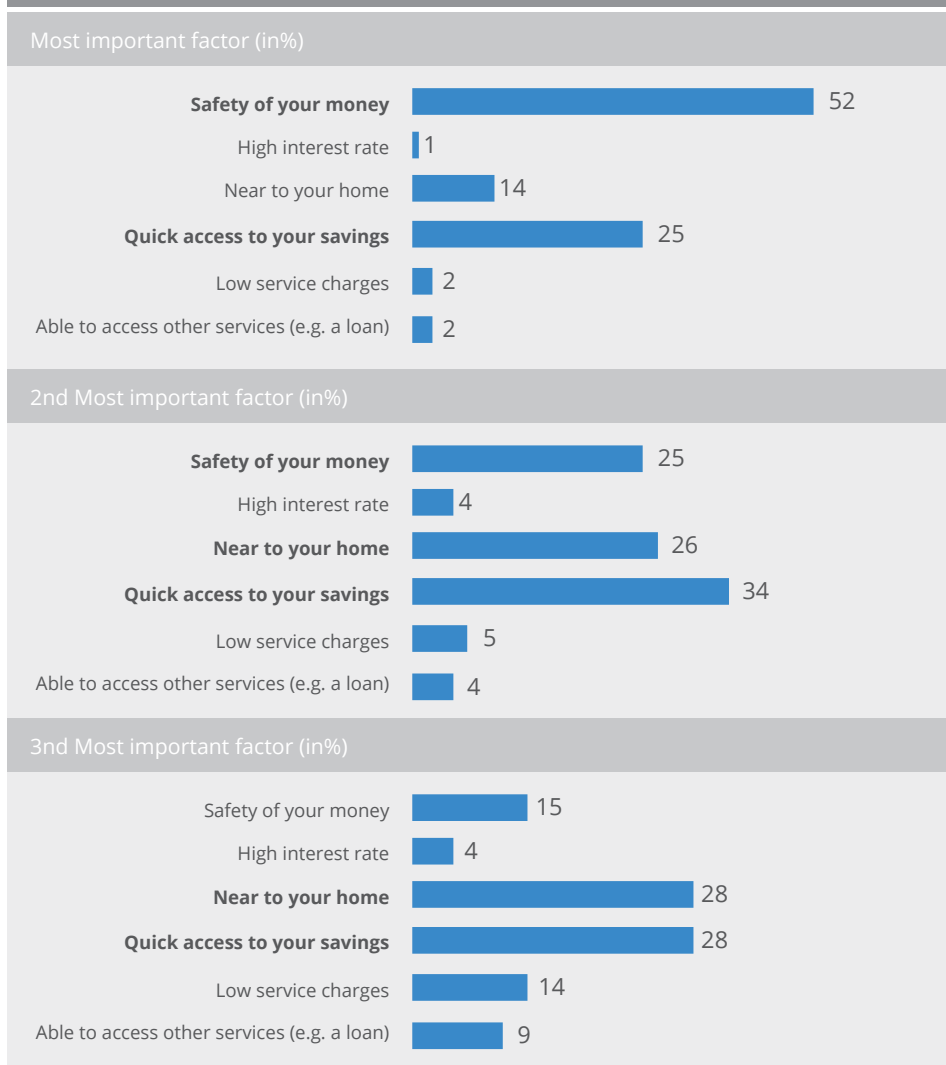


On the other hand, among those who save through informal means, people valued “being able to access the money quickly”, followed by “being able to save small amounts”. (See Figure below.) The results are broadly consistent across the genders, although women tend to place greater value on saving in a way similar to how their friends and family save, compared to men who consider ‘ease of use’ more important.



In this survey, we asked all respondents – regardless of whether they save or not – about the factors that they consider most important when they make decisions on where or how to save. As the results in the Figure below indicate, people value security or safety of their money, quick access and nearness (of the place to store savings) to their home as the three factors they value the most.

Fig 27. Most important factors people consider when choosing where to save



Among those who save at banks, cooperatives or through informal means, more than half (51.6%) reported that they either only have to walk or do not need to travel at all to reach the place where they put their savings. (People who save via savings collectors, for example, do not need to travel in order to deposit their savings as the collector usually visits them.) The other 42% use their own vehicles or mode of transportation; while less than 6% have to use public transportation (with very few reporting that they need to use a boat) to travel to the place where they put their savings. On average, the cost of travel ranges between IDR 2,000 to 10,000 per journey, with the highest average costs being reported in rural areas in NTT (IDR 10,000).



Access to and use of loans



More than 60% of the population in the four provinces surveyed reported that they borrowed money over the last year and/or have an outstanding loan that is being repaid over the last 12 months.

A slightly higher proportion of the population in rural areas (60%) accessed loans, compared to those in urban areas (55%).

Most of those who did not access loans in the last year did not borrow because they did not need to or they did not want to (89%) – not because they wanted to access a loan but were refused, nor did they deem themselves to be unable to meet the requirements of the lender.

The vast majority of adults who have accessed loans (71%) do so either informally or outside the financial system. Most of those who access loans (almost 60%) borrow from family and/or friends.

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, peer-to-peer/internet/crowdfunding facilities, and lending by pawnshops.

12% access credit through cooperatives, and another 12% borrow through informal means. Among those who borrow informally, the main sources of credit were buyers/traders (34%) and Arisan (33%).

Higher proportions of wealthier borrowers access loans from banks, while the vast majority of those in poorer segments rely on friends and family as sources of credit. There are also higher proportions of poor to middle income borrowers who borrow informally.

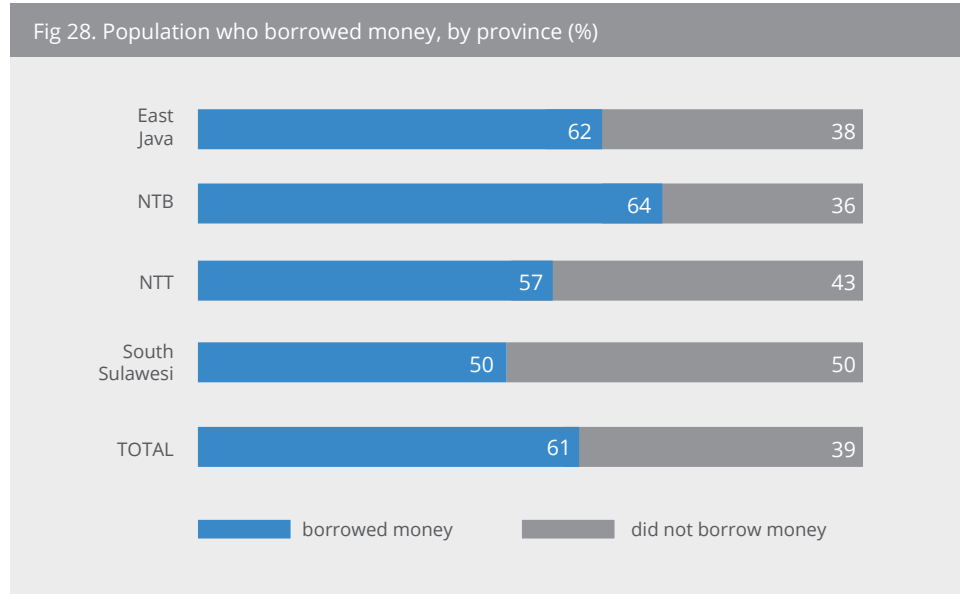
Although loans from semi-formal sources (which include cooperatives) are being accessed by those in poorer segments (PPI 1 and 2), semi-formal financial services also cater to a higher proportion of middle-income clients (PPI 3 and 4).

The leading reasons for choosing to borrow the way people do are process-driven: people valued having a simple and easy loan process, as well being able to access the loan amount quickly.

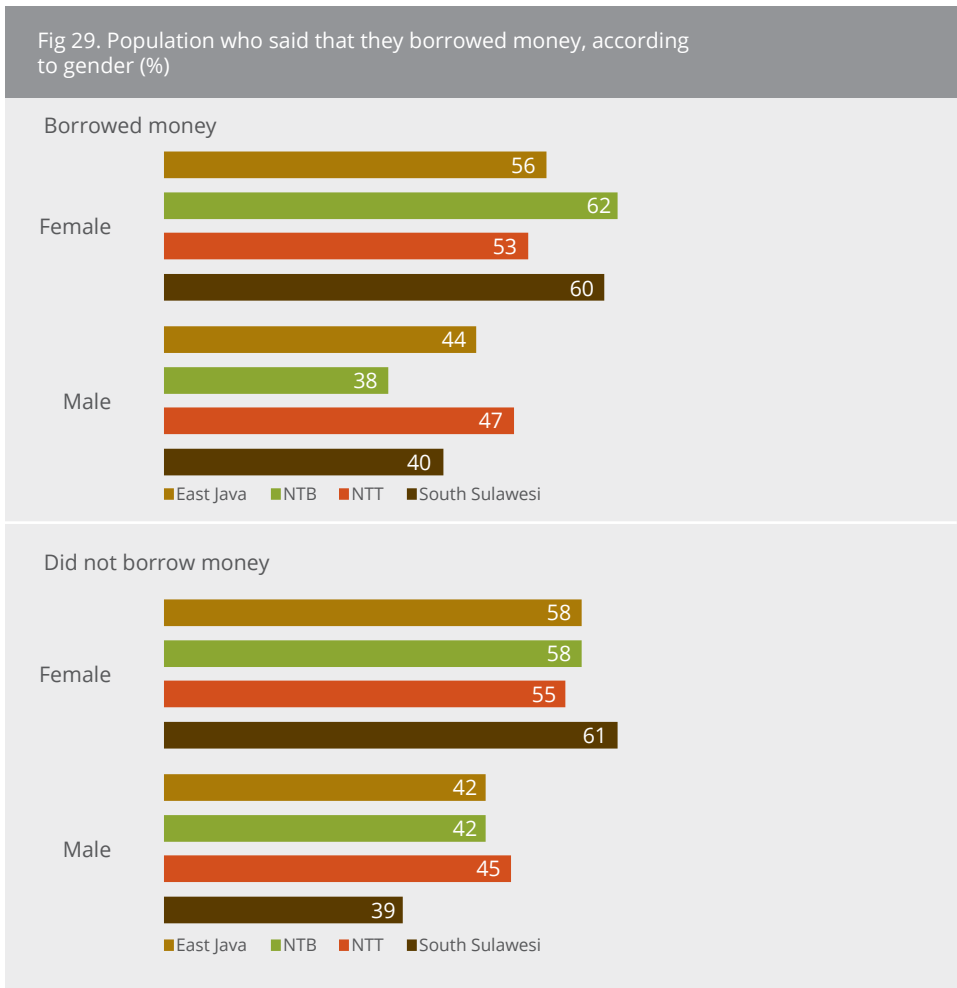
People's purposes for borrowing mirror the purposes cited for saving. The main purpose for borrowing cited by more than a third (37%) of borrowers is to be able to pay for basic needs. This is followed by being able to pay for school fees and related expenses (15%), and being able to purchase inputs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

Borrowing behaviour

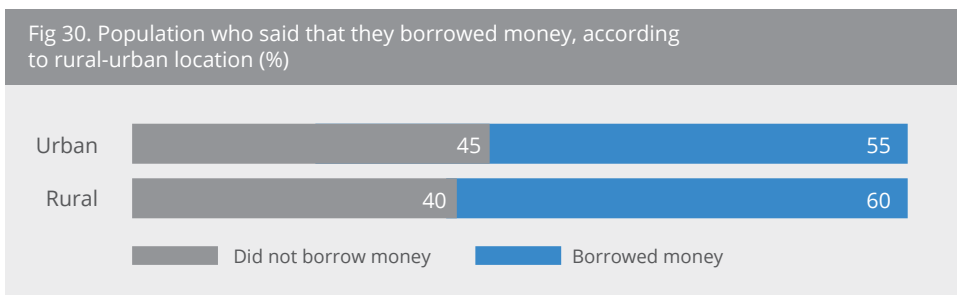
Across the four provinces, more than 60% of the population reported that they borrowed money over the last year and/or have an outstanding loan that is being repaid over the last 12 months. As the Figure below shows, NTB (64%) and East Java (62%) are the provinces with the highest proportion of adults who borrow, while only half of the population in South Sulawesi say they do.



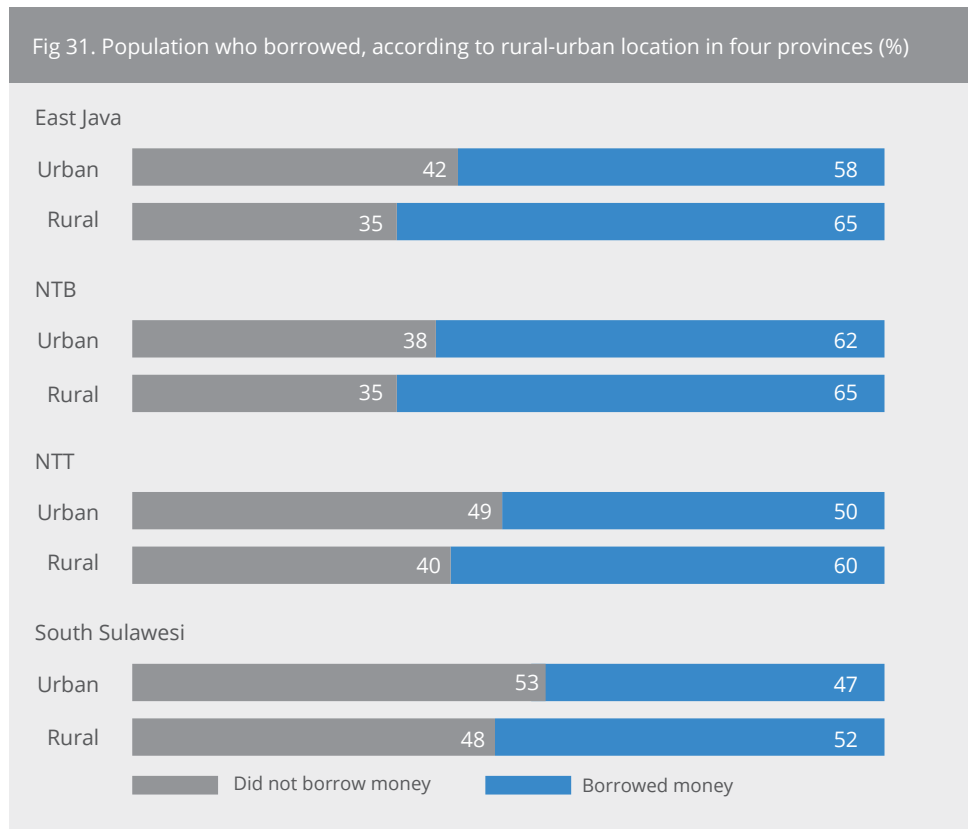
The pattern is broadly consistent across genders, with comparable proportions of borrowers versus non-borrowers across the four provinces. In NTB, however, females are more likely to have borrowed, while males are less likely to have taken out a loan.



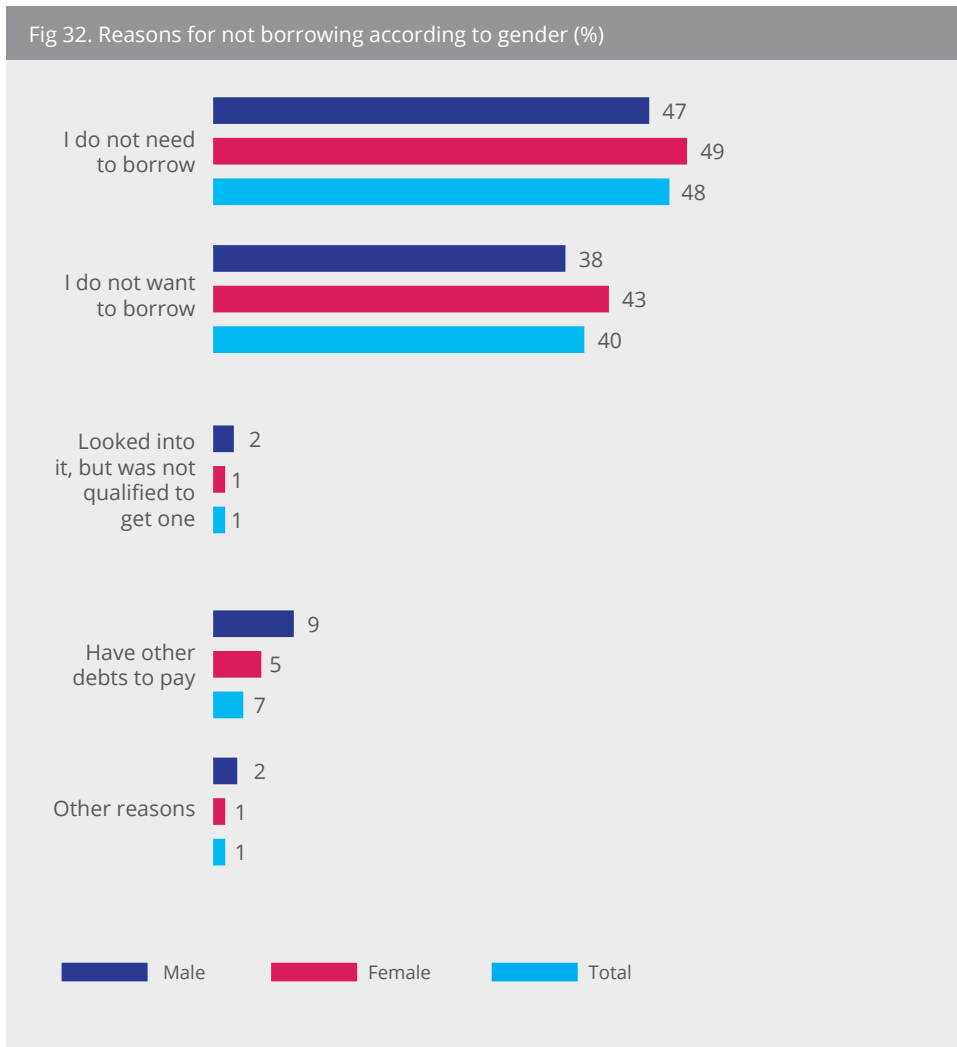
There is also a slightly higher proportion of the population in rural areas (60%) who accessed loans, compared to those in urban areas (55%), as shown in the Figure below.



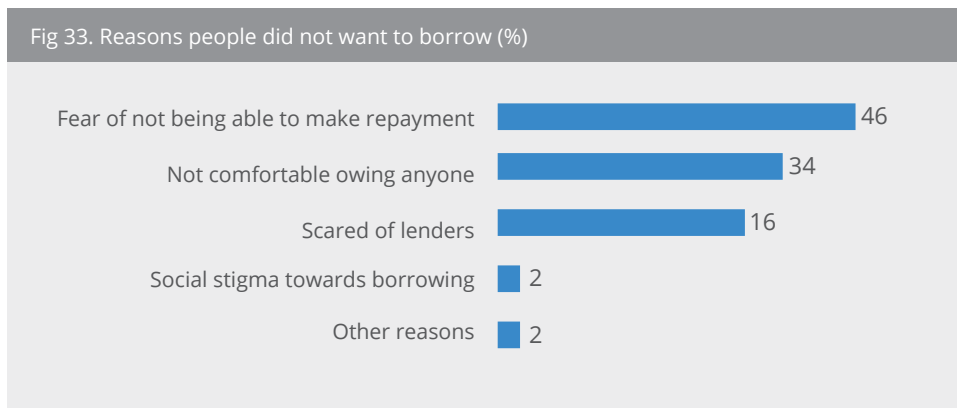
This pattern is consistent across the provinces surveyed, except in South Sulawesi: in this province, there are slightly more adults in urban areas who do not borrow (53%) versus those who do (47%).



Most of those who did not access loans in the last year did not borrow because they did not need to or they did not want to (89%), as shown in the Figure below. None of them reported that they wanted to access a loan but were refused; and only 2% of those who did not borrow looked into a loan, but determined (themselves) that they could meet the requirements of the lender.



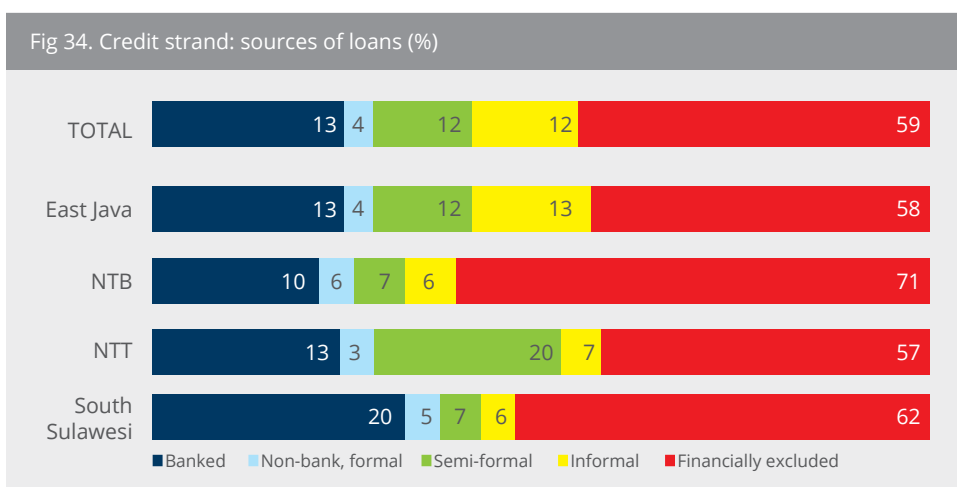
Of those who said that they did not want to borrow, 46% explained that they were scared about not being able to repay the loan, while 34% were not comfortable with the idea of owing money to anyone.



How do people borrow: sources of loans

The Figure below depicts the credit strand for the four provinces surveyed.

- The majority of adults who have accessed loans (71%) do so either informally or outside the financial system.
- Only 13% of borrowers in the four provinces access credit through banks (commercial banks, BPRs or BPDs).
- An even smaller proportion (4%) access loans through a variety of formal, non-bank institutions – which include multi-finance companies, venture capital firms, peer-to-peer/ internet/ crowdfunding facilities, and lending by pawnshops.
- 12% access credit through cooperatives, and another 12% borrow through informal means.

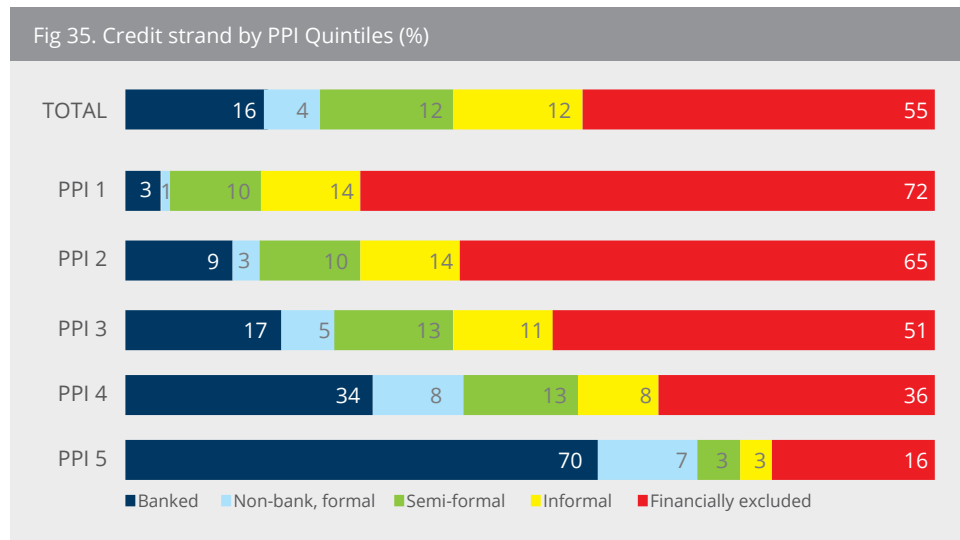


Similar to the results on ownership of a TabunganKu account (discussed in the previous section), only less than 5% of those who borrowed or have been repaying loans over the past year have a KUR loan. The majority of active borrowers either have other types of bank loans or do not have a loan from banks.

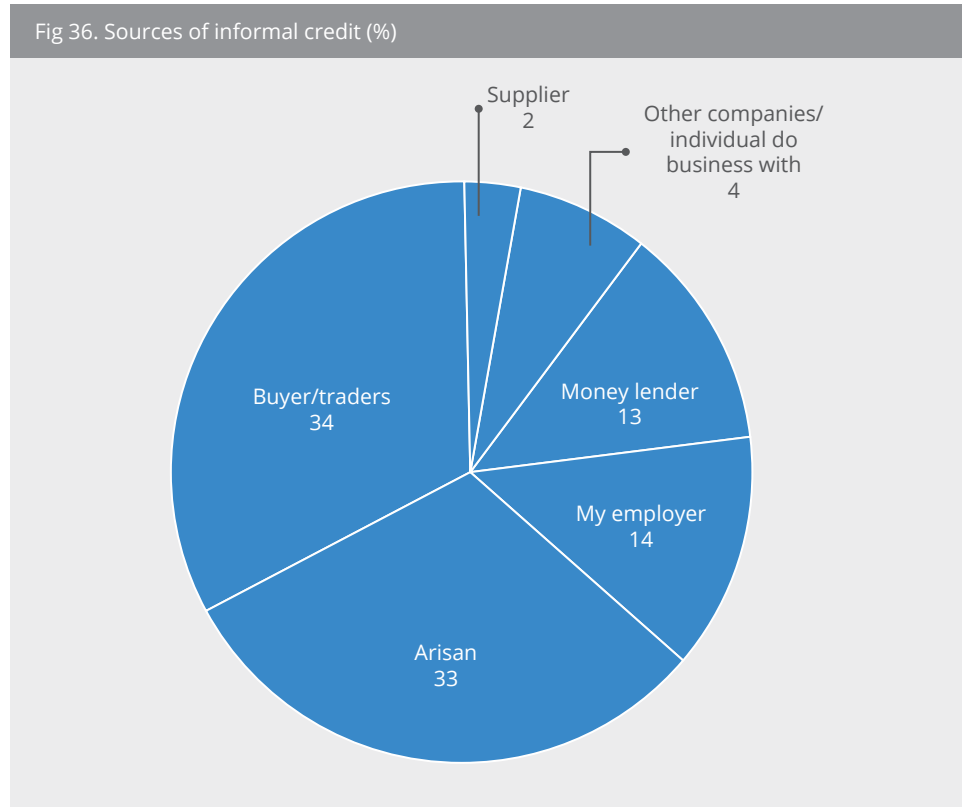
Most of those who access loans (almost 60%) borrow from family and/or friends. This constitutes the excluded population, in terms of loans.

Consistent with expectations, the sources of people’s loans appear to be driven by their socio-economic status. As the Figure below shows, higher proportions of borrowers that fall within the wealthier segments (PPI 4 and 5) access loans from banks, while the majority of those in poorer segments (PPI 1 and 2) rely on friends and family as sources of credit. There are also higher proportions of borrowers in PPI quintiles 1, 2, 3 who borrow informally.

What is interesting from the results presented below are the results for semi-formal loans. These results suggest that although loans from semi-formal sources (which include cooperatives) are being accessed by those in poorer segments (PPI 1 and 2), a slightly higher proportion of borrowers that fall under the ‘middle-income’ range – i.e. those in PPI 3 and 4 – access this type of loans (at 14% and 13%, respectively). This is indicative of the tendency for semi-formal financial services to cater to clients who are not necessarily among the poor.



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

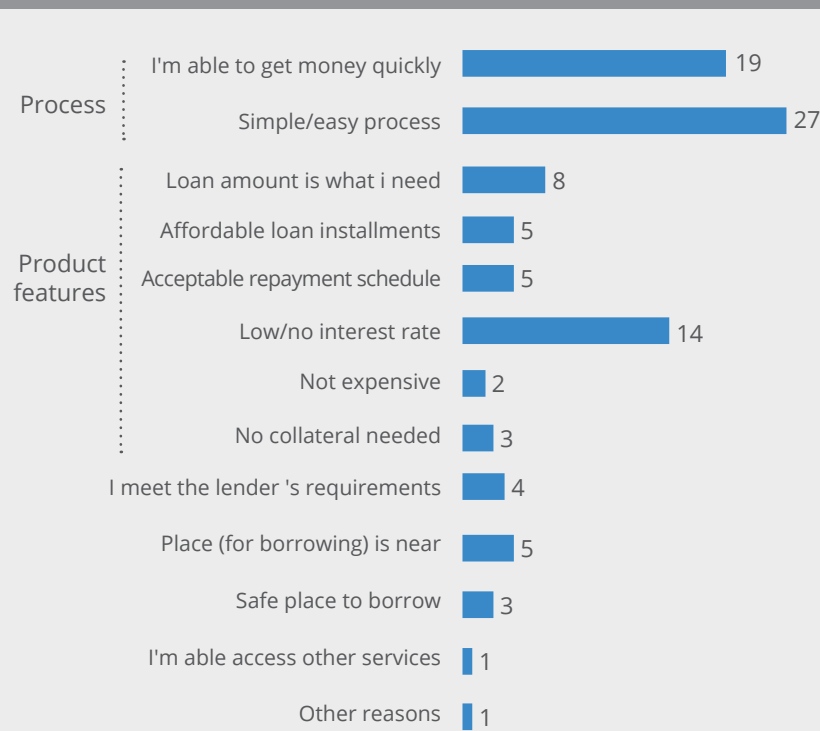


Why people borrow the way they do

There are various factors that drive the choice of lender. These factors can be related to the process through which a loan can be accessed by individuals, or features of the loan product vis-à-vis the particular needs of individual borrowers.

We asked respondents of this survey the reasons why they have chosen to borrow the way they have – whether through a bank, a cooperative, a non-bank credit provider, or informally. (See Figure below.) The leading reasons cited were process-driven: people valued having a simple and easy loan process (#1), as well being able to access the loan amount quickly (#2). Loan product features also matter: people valued that they were able to get a loan at low (or with no) interest (#3), as well as having a loan amount that matched their needs (#4).

Fig 37. Reasons people choose to borrow the way they do (%)



... most loans tend to be very small in size – less than IDR 1 million and as little as IDR 100,000 for loans extended by buyers/traders.

We asked respondents to indicate the value of their last loan and the table below provides the median value according to each type of lender. Given the high proportion of borrowing that is done through family and friends and through informal suppliers of credit, most loans tend to be very small in size – less than IDR 1 million and as little as IDR 100,000 for loans extended by buyers/traders. Formal non-banks (such as multi-finance companies) and semi-formal providers of credit (such as cooperatives), on the other hand, tend to provide loans that fall between IDR 1-2 million.

As expected, 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, which demonstrates how rural banks play an important role in serving clients that require small-scale financial services

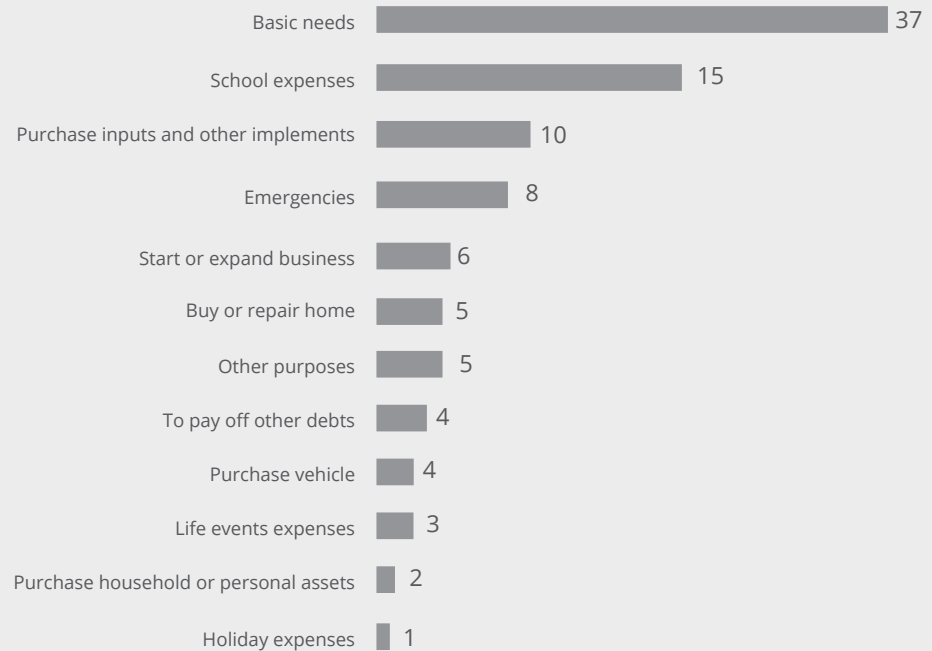
Table 4. Median amount borrowed from different lenders	
Type of lender	Median value of loans, in IDR
Commercial bank	10,000,000
BPD	15,000,000
BPR	3,000,000
A cooperative / credit union	1,500,000
A multi-finance company	1,500,000
A government lending scheme that is not delivered through a bank (e.g. RLDSF or other similar schemes)	1,500,000
A venture capital firm	1,000,000
Family/friends	200,000
Pawnshop (<i>Pegadaian</i> or <i>Gadai-Umum</i>)	2,000,000
My employer/the person I am working for	400,000
An Arisan (informal rotating savings and loans group) that I am a member of	500,000
A moneylender	500,000
A buyer/trader	100,000
A processor	585,000
A supplier (input, raw materials)	690,000
Other companies or individuals I do business with	500,000

When respondents were asked why they borrow the way they do, only 3% cited the importance of not being required to produce collateral for the loans they accessed. The majority of respondents who accessed loans across the four provinces (almost 79%) reported that they did not need to provide collateral for their loans. The province with the highest proportion of borrowers who did not need collateral are in NTB (more than 86%). This is relevant given that collateral requirements are often cited as a major barrier that people face when it comes to accessing loans.

What are people borrowing for?

Interestingly, the purposes for which people borrow somewhat 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. This is 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%).

Fig 38. What people are borrowing for (%)



Almost 15% of the total population in the four provinces surveyed also access 'non-cash credit'. This appears to be more prevalent among women (19%), compared to men (10%). The main sources of non-cash credit are general merchandise retailers (41%), buyers/traders (34%), and family/friends (13%).





Access to and use of transfer and payments services



68% of respondents reported that they received or sent remittances or have done both in the last year. Most remittances are domestic transfers made within Indonesia. In some provinces, such as in NTB, a significant proportion (almost 20%) receive transfers from international sources.

The majority of those who receive remittances (82%) do so outside the financial system: a very small proportion do so informally, while the rest receive money mainly through family and friends. Similarly, a little over 15% of adults send money through banks, and the majority (almost 80%) do so through family and friends or by handing the money over.

Those who send money via banks use a variety of methods, the most popular are ATMs and over the counter at bank branches. A very small proportion of the respondents who use banks use mobile banking and internet banking facilities.

NTT has the highest proportion of adults who receive remittances through banks (30%), while East Java (13%) and NTB (18%) are the provinces with the lowest proportions. 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 into a very high number (in absolute terms) of people who receive remittances outside the financial system.

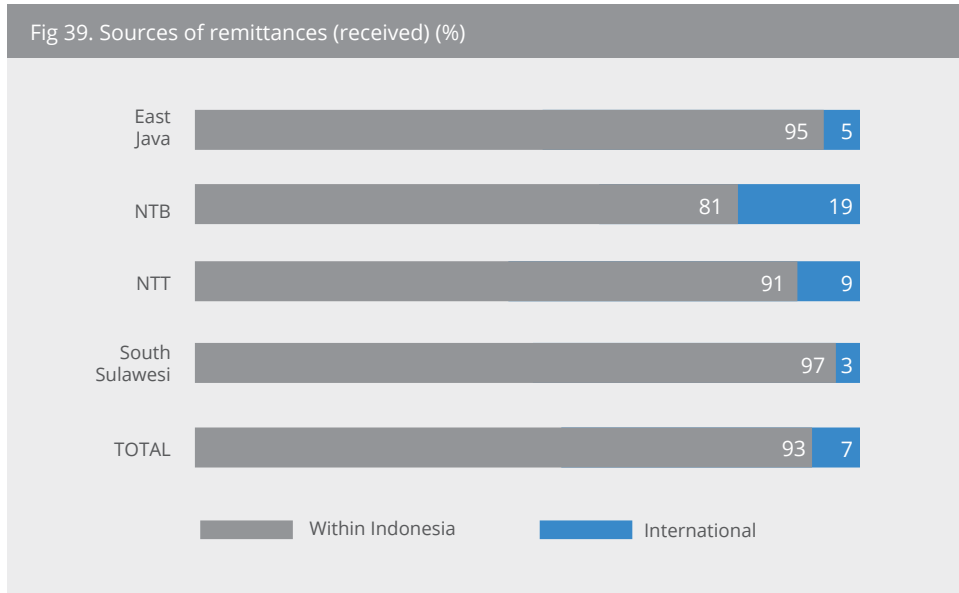
A larger share of females (18%) use banking services to receive remittances, compared to males (12%).

Those who receive remittances through banks tend to be younger populations – i.e. those between 17-34 years old.

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



68% of respondents reported that they either received or sent remittances or have done both in the last year. Disaggregating this figure into recipients and senders, we find that 55% of all the respondents received remittances, while a smaller proportion (41%) sent money to others.



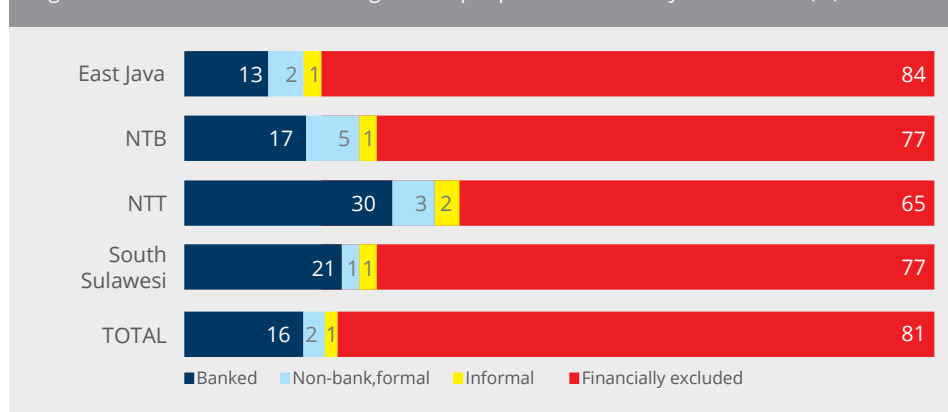
Most remittances are domestic transfers. In some provinces, however, such as in NTB, a significant proportion of those who receive transfers (almost 20%) receive money from international sources.

Receiving money from others

The Figure below depicts how people receive money from others.

- 'Banked recipients' refer to those who are receiving money through banking services – e.g. through an ATM, or over the counter at a bank branch.
- 'Other formal non-bank service providers' refer to authorised payment providers such as Western Union, Indomaret outlets, Post Offices and *Pegadaian* branches.
- 'Informal service providers' refer to couriers, messengers or agents that deliver cash to individuals (but are not working as agents of banks or non-bank financial institutions).
- And lastly, those who are 'financially-excluded' are those who receive the money via family members or friends or are directly handed over by the sender him/herself.

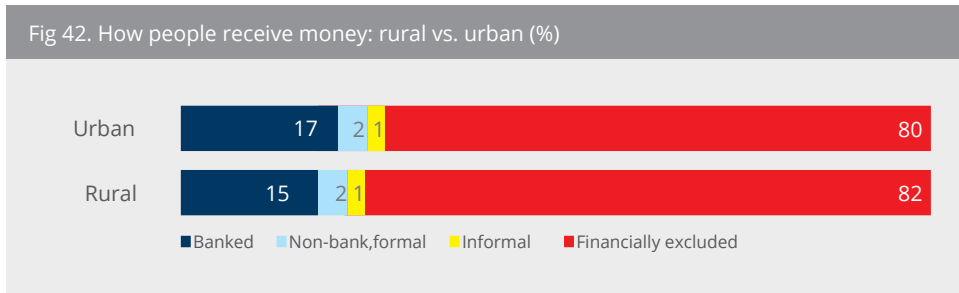
Fig 41. The access strand according to how people receive money from others (%)



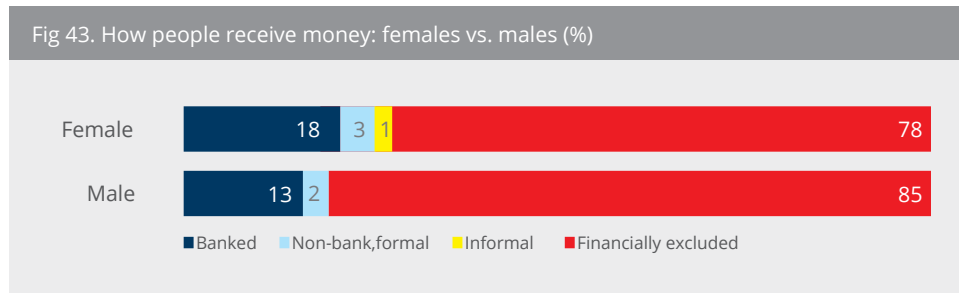
As the Figure above shows, the majority of those who receive remittances (82%) do so outside the financial system: a very small proportion (1%) do so informally, while the rest receive money mainly through family and friends.

There are marked differences between the provinces, as shown in the Figure below. Among the four provinces, NTT has the highest proportion of adults who receive remittances through banks (30%), while East Java (13%) and NTB (18%) are the provinces with the lowest proportions. The use of informal ways to receive money is comparable across the provinces. However, the results show that 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.

In the Figure below, the results are disaggregated by rural/urban location, and shows that there are negligible differences between the channels of remittances used between rural- and urban-based populations. It is worth pointing out, however, that there is a slightly higher proportion of individuals who use formal, non-bank services in rural areas (3%) compared to those in urban areas (2%).

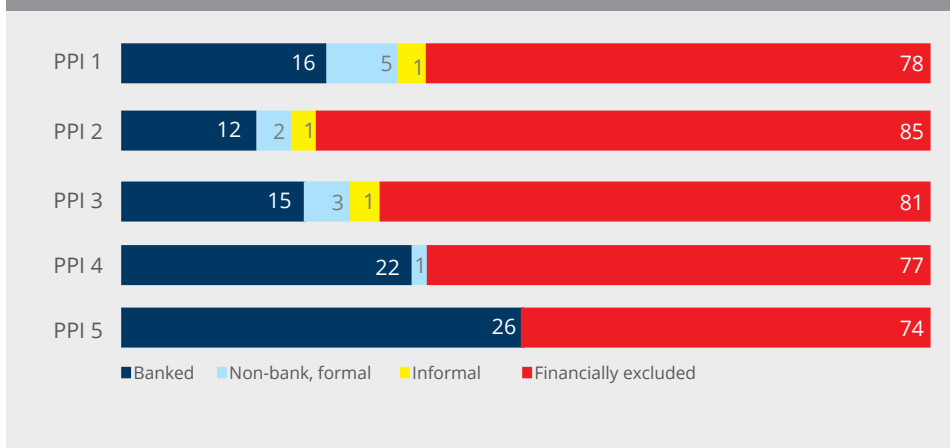


There are notable differences when we look at the results in terms of gender. The results show a higher proportion of females (18%) use banking services to receive remittances, compared to males (12%) (see Figure below). This also appears to be driving the higher proportion of males who receive remittances outside the financial system.



Those who receive remittances through banks tend to be younger populations – i.e. those between 17-34 years old, whereas, those who receive remittances outside the financial system tend to be 45 years old and above. Respondents in the 65+ age group has the lowest proportion of remittance recipients who use banks (8%, compared to 27% among those in the 17-24 age bracket) and the highest percentage of financially excluded individuals from a remittance standpoint (88%, compared to only 70% among those in 17-24 age bracket).

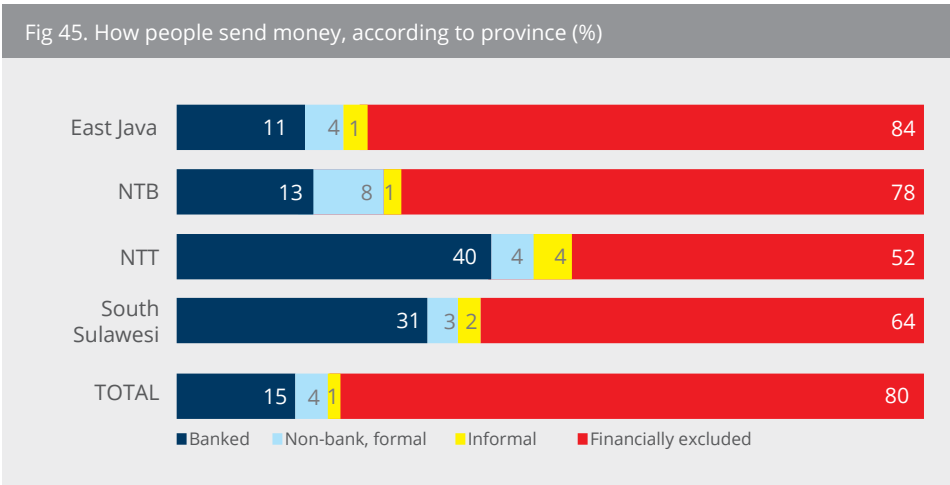
Fig 44. Remittances strand, according to PPI Quintiles (%)



The Figure above depicts the results, disaggregated by PPI Quintiles. As expected, adults in the highest PPI quintiles (i.e. PPI 4 and 5, which are the wealthier segments) have the highest proportion of individuals who receive remittances through banks (22% and 26%, respectively). Despite this, three-quarters of those who fall under these wealthier segments of the population still receive remittances outside the financial system. Looking at those in the poorer segments of the population – i.e. PPI 1, 2, 3 – we see a more marked use of formal, non-bank services among those who receive remittances. As much as 5% of those in PPI 1, in particular, use this type of service when receiving money from others.

Sending money to others

As with remittances that are received, the majority of individuals who send money to others (almost 81%) do so outside the financial system, as shown in the Figure below.

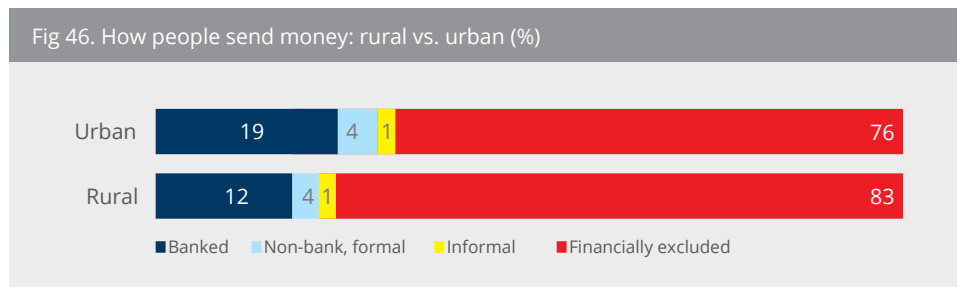


The access strand below (depicting how people send money to others) almost mirrors the access strand in terms of receipt of remittances. A little over 15% of adults who send money do so through banks, and the majority (almost 80%) do so through family and friends or by handing the money over in person to the recipient. There is a higher proportion of individuals, however, who send money through formal, non-bank services (almost 4%), compared to those who reported receiving money in this manner (2%).

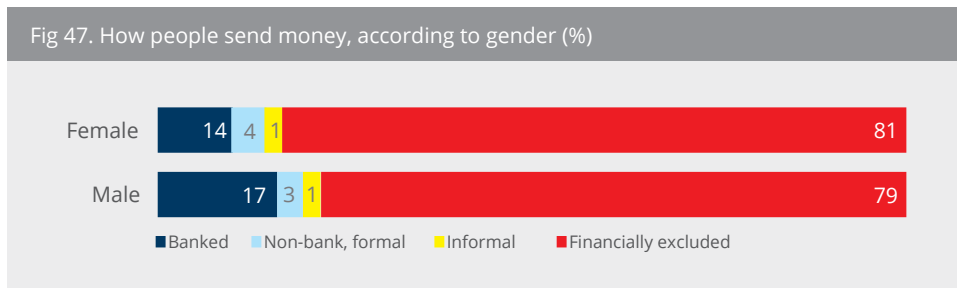
Those who send money via banks use a variety of methods, the most popular are through ATMs (53.7%) and over the counter at bank branches (40.76%). A very small proportion of the respondents who use banks to send money reported using mobile banking (1.9%) and internet banking (1.5%) facilities.

The provinces with the highest proportions of the population who send money via banks are NTT (40%) and South Sulawesi (31%), as shown in Figure above. This more significant use of banking services to send money is also driving the lower percentage of adults in these provinces who send money outside the financial system – 56% in NTT and 66% in South Sulawesi, compared to the higher proportions in NTB (79%) and in East Java (85%). It is worth pointing out that in NTB, we find a significantly higher proportion of adults who send money via formal, non-bank services – as much as 8%, which is more than double the proportions for the other provinces.

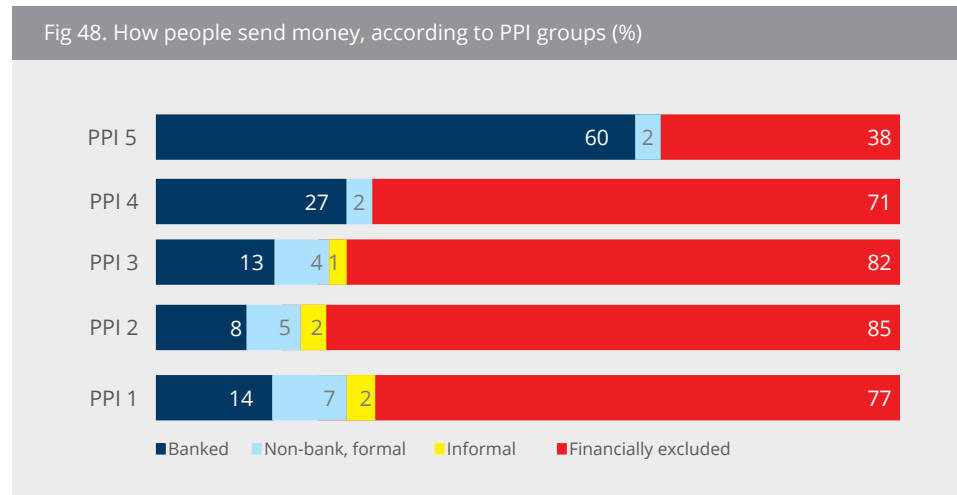
Looking at the results disaggregated by rural vs. urban location, we find differences in terms of those who are using banking services and those who send money outside the financial system. As shown in the Figure below, a higher proportion of the rural-based population are excluded from the financial system, compared to urban-based individuals. This is being driven by a higher proportion of individuals (in urban areas) who use banks to remit money.



There are also differences when we look at the results in terms of the gender of remittance senders. A higher proportion of males (17%) who send money do so via banks vis-à-vis only 14% of female senders. There is also a slightly larger share of female senders (82%) who send money outside the financial system, compared to males (80%), as well as a higher proportion of females (4%) who are using formal, non-bank services when sending money.



In terms of age groups, those using banking services when sending money to others tend to be those in younger age brackets (i.e. 17-34 years old); while those who send money outside the financial system tend to be in the more mature categories (35 years old and above). Individuals in the 65+ age bracket tend to be financially excluded and the least banked when it comes to sending remittances. However, there is a significantly higher proportion of people in this age group who use formal, non-bank services when sending money compared to all the other age groups.



The Figure above depicts the results, disaggregated according to PPI Quintiles. As expected, respondents in the highest PPI quintile – PPI-5, which is the wealthiest segment – have the highest proportion of individuals (60%) who send remittances through banks, and only 38% who do so outside the financial system. It is interesting to note though that the proportion of adults who use banking services reduces significantly when we look at PPI-4, with only 27%. Looking at those in the poorer segments of the population – i.e. PPI 1, 2, 3 – we see a more marked use of formal, non-bank services among those who send remittances. As much as 7% of those in PPI-1, use this type of service when sending remittances.

Drivers of choice when sending money to others

70% of respondents who remit money are excluded from the financial system, both formal and informal. They choose to remit money via family and friends and/or directly handing the money over 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. This is followed by wanting to ensure that recipients of these remittances are able get the money quickly.

Among those who send money via banks, non-banks and informal mechanisms, 12% noted that they chose these methods to transfer money as “it was the only channel they could use to send money”, while 8% noted that the choice of channel is largely driven by what the recipients could use to receive the money. The distance of the payment point to recipients was also a key reason for directly transferring money.

This pattern is consistent across males and females, rural- and urban-based populations, different provinces and income sources.

Interestingly, amongst the senders who chose to remit money through banks, two out of the three main reasons that drive senders’ choice of channel when sending money were similar as the reasons for exclusion: 37% of respondents said that the process was easy to understand, and 14% said it was because the recipients would get quick access to the money. In addition to this, 18% of the respondents chose banks to remit money as they considered this a safe process, and 9% cited convenience when sending money through banks given the banks’ opening hours.





Ownership of insurance products



More than half (54%) of the respondents reported experiencing events that have led them to incur additional expenses in the last year. 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. Less than a third (32%) were making provisions to deal with such shocks.

Among those who are making provisions, the most popular method 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).

This is in contrast to the results insurance coverage in these four provinces, where almost half (47%) of all adults have insurance. Ownership of insurance is largely driven by the mandatory BPJS scheme (Badan Penyelenggara Jaminan Sosial). Close to half (43%) of the adult population have BPJS, and most of those who are insured do not have any other insurance cover.

Insurance penetration appears to be lowest in East Java, among all the provinces surveyed.

People chose to get insurance because they would like to be able to pay for unexpected health-related expenses.

Adults without insurance explain that they do not have the money to pay for insurance, and that it is not a priority for them. The second most significant barrier to insurance uptake is the lack of understanding of how insurance products work.

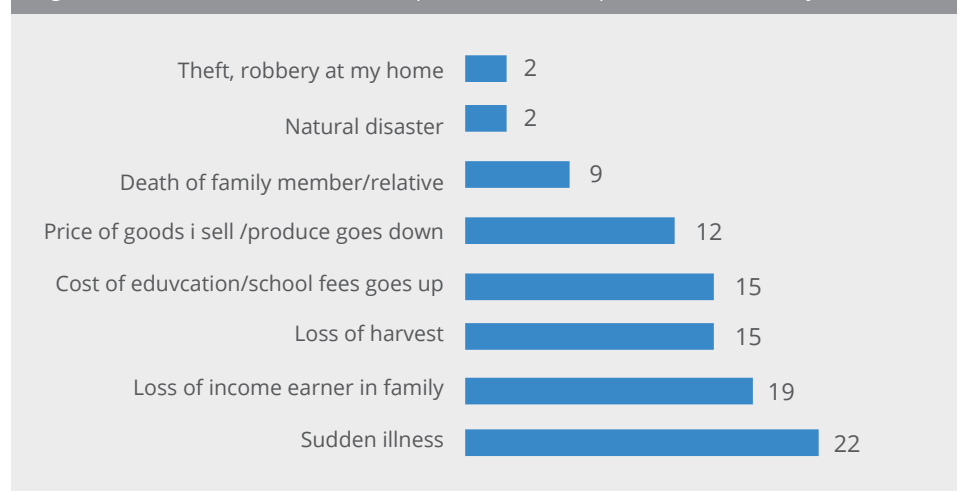


All people – whether rich or poor – are exposed to different kinds of risks. This can be the risk to one’s life and overall health and wellbeing, one’s property, or one’s ability to generate income. Risks involve losses. In many cases, the expenses incurred after an accident, the death of a loved one, or a disability are beyond the savings or wealth that a person may have accumulated. It is for this reason that insurance is such an important component of financial planning. Insurance is a financial product that mitigates the costs or effects of such losses. It does not prevent an unwanted event (i.e. the risk) from happening, but helps to protect those exposed to risks by compensating them if such risks materialise.

Understanding the risks people face and the coping mechanisms they use

In this survey, we asked respondents about the events that lead to expected (additional) expenses, which they experience and feel vulnerable to. More than half (54%) of the respondents reported experiencing events that have led them to incur additional expenses in the last year. As shown in the Figure below, the most commonly experienced events are sudden illness in the family (22%), loss of income earner in the family (19%), loss of harvest (15%), followed by rising cost of education (15%) and reduction (volatility) in the prices of the goods sold/produced (12%).

Fig 49. Events that create additional expense burdens, experienced in the last year (%)



Demographically, both women (53%) and men (55%) reported experiencing these unforeseen events. In terms of age groups, experiencing these events were most pronounced among those 55 years and older, as well as younger people in the 17-24 age bracket. Those who relied on other people (e.g. other household members) or institutions (NGOs or government assistance programmes) for their income, as well as those classified as entrepreneurs, were also most likely to experience these events or shocks in the last year.

Of those who reported experiencing these unforeseen events, less than a third (32%) were making provisions to deal with such shocks. A similar pattern can be seen among those who said that they did not experience any of these events or risks: very few are making provisions to cover unexpected expenses or losses associated with these events occurring.

Among those who are making provisions, the most popular method of provisioning is by saving money (69%), followed by purchasing livestock (12%) and purchasing other items that can be sold (9%) if cash is needed.

Fig 50. How people provision for sudden expenses (%)



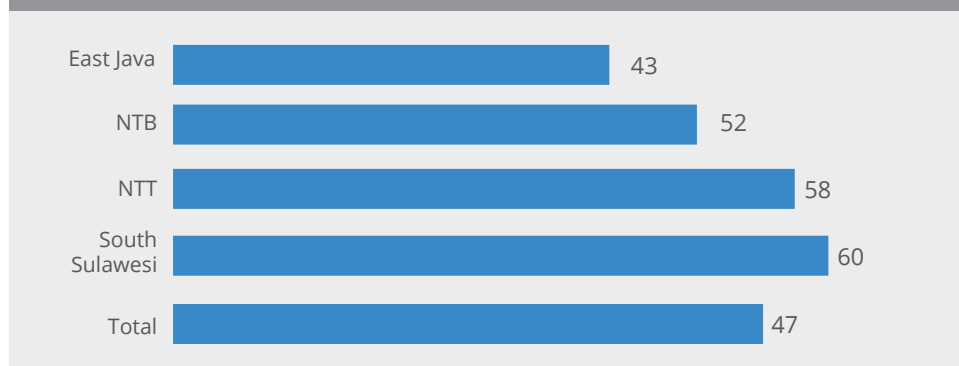
While saving or setting aside money is the most common way of provisioning for sudden expenses for both males and females, a higher proportion of females (72%) reported using this method, compared to males (65%). As expected, a higher percentage of males (16%) purchase livestock, compared to females (9%); and a higher proportion of females (11%) purchase jewellery to provision for sudden expenses, compared to males (4%).

Only 4% of the respondents reported having an insurance policy (that addresses the risk they experienced in the last year). The highest percentage of those having an insurance policy belong to the 35-54 age group. This is in contrast to the results in terms of insurance coverage, discussed below.

Uptake of insurance products

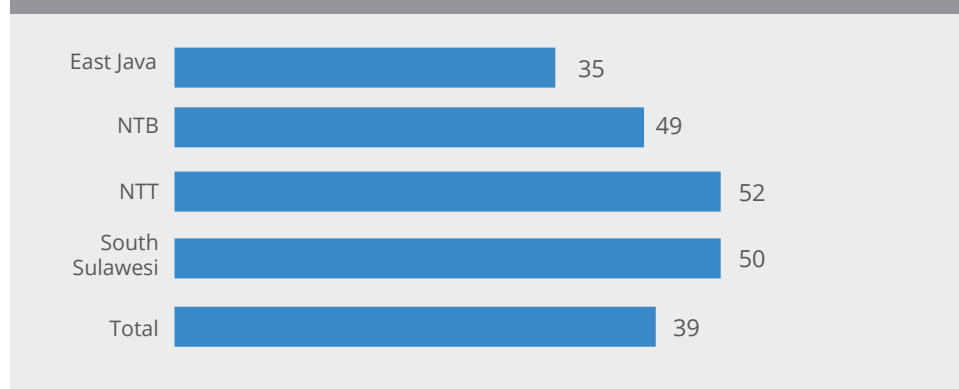
Across the four provinces surveyed, almost half (47%) of all adults have insurance, as shown in the Figure below. Insurance penetration appears to be lowest in East Java – although most of those who are insured are from this province (almost 4.9 million adults). Other provinces, such as South Sulawesi (60%) and NTT (58%) have higher proportions of their populations who have insurance.

Fig 51. Adults with insurance (%)

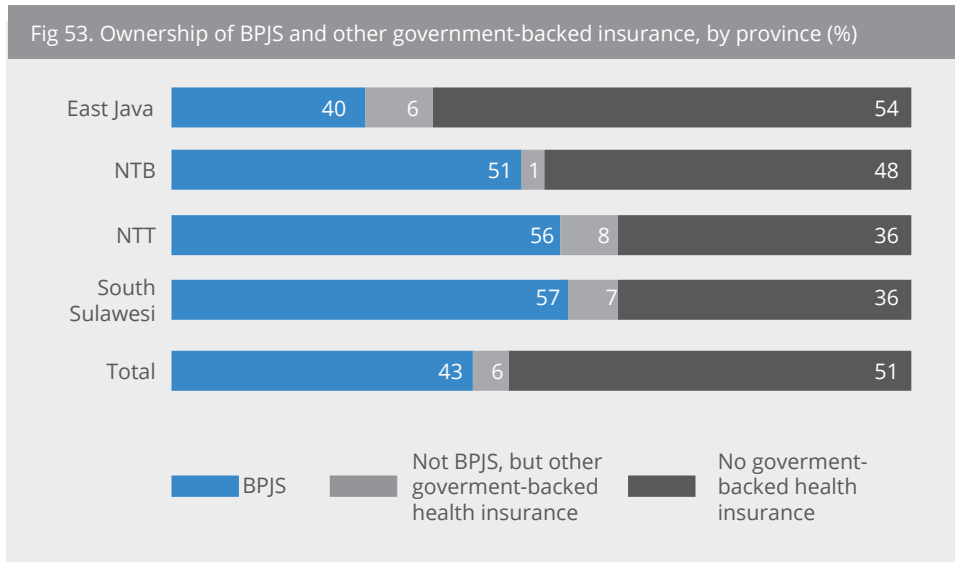


Ownership of insurance is largely driven by the mandatory government-backed insurance called BPJS (Badan Penyelenggara Jaminan Sosial). Close to half (43%) of the adult population have BPJS, and most of those who are insured have only BPJS insurance (i.e. they do not have any other insurance cover).

Fig 52. Adults with only BPJS insurance, by province (%)



Adults in East Java are less likely than those in other provinces to have BPJS cover (40%), whilst those in South Sulawesi and NTT are more likely to have it – with more than half of the adult populations in these provinces reporting to have BPJS. Across the four provinces, an additional 6% of adults say that they have insurance similar to BPJS (i.e. not BPJS, but another government-backed insurance product).



Apart from BPJS and other government-backed health insurance schemes, there are other insurance products available in the market. The Table below sets out the types of insurance policies held by insured adults. Most of those insured have employment cover (43%), followed by private health insurance (26%) and life insurance cover (18%).

Table 5. Percentage of people covered by different insurance policies by province

TYPE OF POLICY	% of insured adults, per type of insurance policy				
	East Java	West Nusa Tenggara	West Nusa Tenggara	South Sulawesi	Total
Employment cover / workman's compensation	51%	18%	9%	24%	43%
Health insurance - others (private)	24%	37%	43%	30%	26%
Life insurance	14%	25%	35%	33%	18%
Education insurance policy	15%	22%	18%	16%	16%
Vehicle/car insurance	5%	9%	3%	11%	6%
Others	3%	4%	7%	3%	4%
Insurance cover provided as part of loan	2%	1%	11%	5%	3%
Life insurance attached to my loan	1%	2%	5%	5%	2%
Disability insurance	1%	0%	6%	0%	1%
Home and contents insurance	1%	1%	2%	2%	1%
Equipment/asset insurance	0%	0%	4%	1%	1%
Funeral insurance	0%	1%	2%	0%	0%

Insured adults do not differ from the general population in terms of gender distribution. They are, however, more likely than adults in the general population to be:



- Urban-based;
- In the 35-54 age group;
- Have achieved an education level of SMA or higher;
- Belong to the 3rd or higher quintiles of the asset-based index;
- Are either in PPI 1 and 2 in terms of those who have BPJS / government insurance, or belong to wealthier segments (i.e. PPI 4 and 5) in terms of those who have other types of insurance; and
- Are not involved in agricultural activities.

Fig 54. Gender distribution of insured adults (%)



Fig 55. Age distribution of insured adults (%)

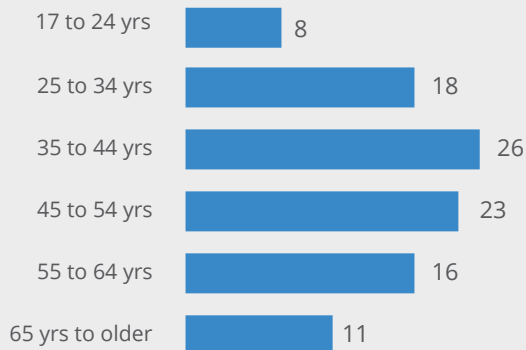


Fig 56. Educational attainment of insured adults (%)

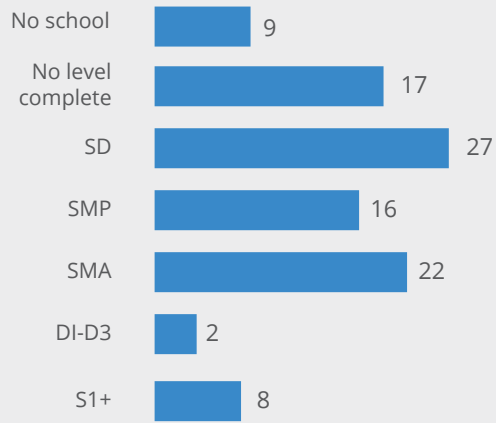
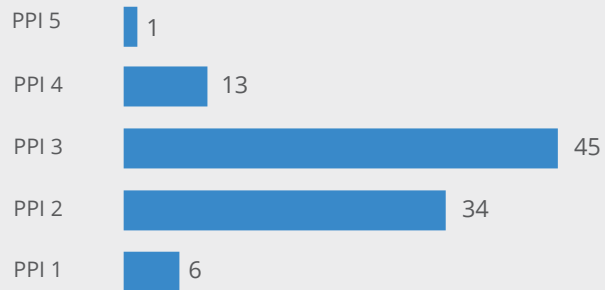
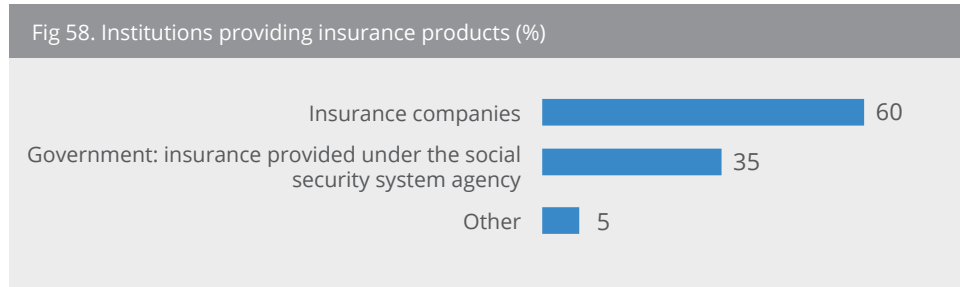


Fig 57. Insured adults, according to PPI groups (%)

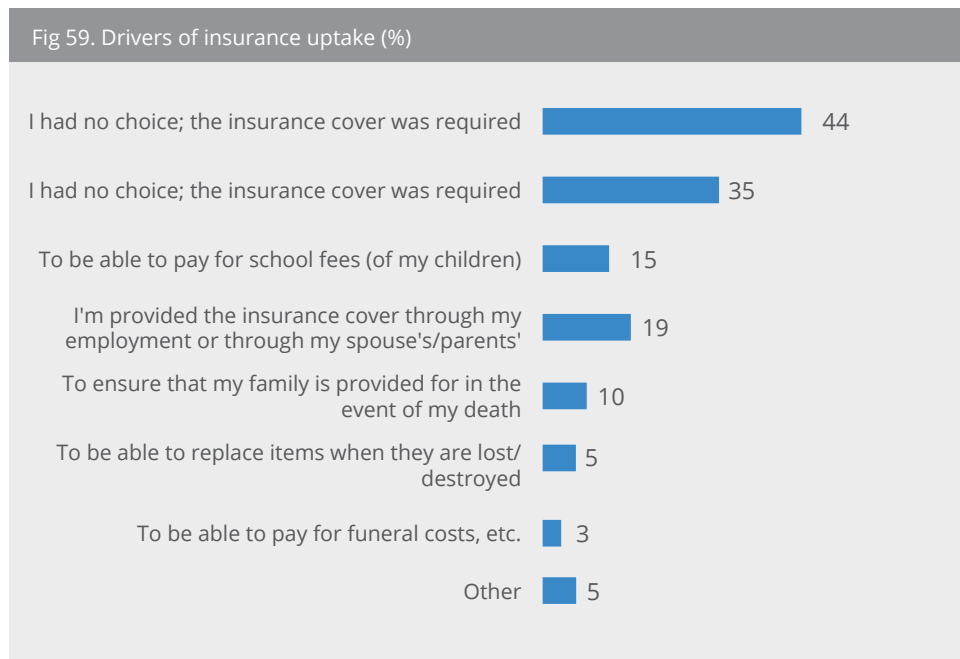


Insurance products are provided by authorised insurance companies in Indonesia. Thus, most of those insured (62%) report that they acquired an insurance policy through one of the insurance companies, as shown in the Figure below.

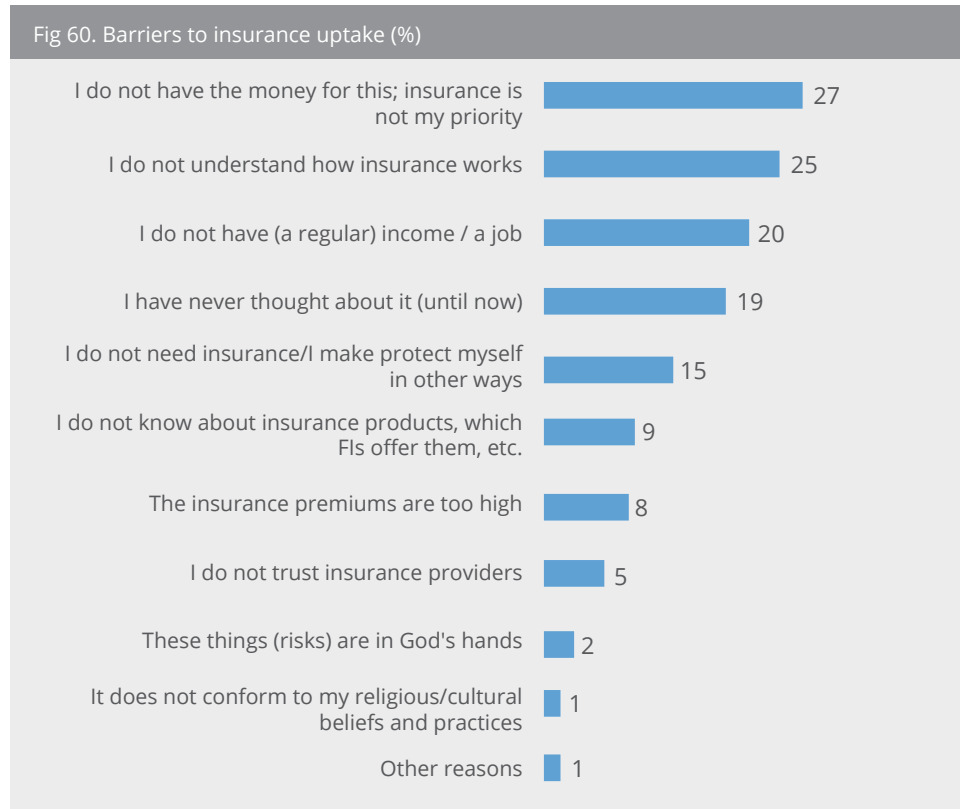


Drivers of and barriers to uptake of insurance products

Respondents were asked to give their reasons for choosing to acquire insurance and the results are presented below. These results reveal that, 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. In some provinces, such as in NTT, being able to pay for unexpected health-related expenses is the most significant driver of insurance uptake among those who are insured.



On the other hand, a significant proportion of adults in these four provinces are still without any insurance cover. When asked why they have not taken up any insurance product, most (of the uninsured) indicated that they do not have the money to pay for insurance, and that it is not a priority for them. (See Figure below.) This attitude is especially prominent amongst the uninsured in NTB. People who do not have insurance cover have also cited “not having a (regular) income or a job” among the top reasons.



It is important to point out though that 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 cited by respondents of this survey 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. While there are segments of the population who may not have enough disposable funds to finance insurance products, the roll out of such schemes as BPJS aims to provide universal coverage and facilitates enrolment even among those who are very poor. The perception among those who are still without any insurance that “they cannot pay for insurance” may be driven by the limited level of awareness and understanding that people generally have of the insurance market and the products available.



Key findings and opportunities

The importance of an evidence-based understanding of different consumers of financial services

SOFIA has filled a gap and provides a valuable opportunity to understand and target customer segments that fall outside the 'traditional clientele' of financial institutions.

SOFIA is founded on the importance of a data-driven understanding of consumers of financial services and market segments. Most of the information which has been available so far on people's use of and access to financial services do not capture information on the unbanked or segments of the market that are not currently served. SOFIA has filled a gap and provides a valuable opportunity to understand and target customer segments that fall outside the 'traditional clientele' of financial institutions.

There is consensus among stakeholders on the need and priority for financial inclusion; but different stakeholders tend to hold multiple and at times, different views about what the opportunities and effective approaches to promoting financial inclusion are, and the role that different actors play in realizing such opportunities. Moreover, stakeholders in the financial sector – in both the public and private sector – may hold certain expectations about promising opportunities for financial inclusion (e.g. through the introduction of new and innovative products) – which could be challenging to meet, without really understanding the preferences and perceptions held by different types of consumers.

The data captured under SOFIA is broad and comprehensive, and offers stakeholders the opportunity to consider different ways of looking at the market – whether geographically or by demographics, types of financial activity, etc. – depending on the specific research needs and interests of various stakeholders. This allows

different stakeholders to take an evidence-based approach to formulating policy and developing financial products that meets the needs of different types of consumers in Indonesia.

Drivers of financial inclusion and access

... the 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.

People use financial services to meet a range of needs. The results of SOFIA illustrate that most adults in the provinces surveyed save and borrow money to cover basic needs and pay for education (i.e. to manage liquidity and smooth consumption, both personally and within their households).

- A high proportion of the population in these provinces (41%) use banking services, but less than half (almost 47%) of them own a bank account: a significant proportion of people who are using banking services, do so by using bank accounts that belong to other people (they know).
- The high proportion of adults who are using formal, non-bank services is driven by the surprisingly high proportion of those who own insurance, the vast majority of whom have BPJS insurance. If BPJS insurance did not exist, the proportion of those falling under the formal, non-bank strand would be reduced and there would be an even higher proportion of individuals relying on informal financial services only.
- Semi-formal financial services, which include those provided by savings and credit cooperatives and government credit schemes that are not delivered through the banking system, have limited penetration overall and contribute minimally to the level of financial inclusion. Those served by semi-formal services are also not necessarily among the poor (nor indeed the poorest), and the clientele captured by semi-formal financial service providers include those who are already banked.
- The use of informal financial services (which include those provided by Arisan, buyers/traders and other informal moneylenders) is significant. Informal financial and social networks are an important source of finance for low-income individuals and those in agriculture – but the 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.

Taking action to tap potential opportunities for financial inclusion

The SOFIA data suggest many opportunities in terms of both product development and delivery. The recommendations listed below are, by no means, an exhaustive list of these opportunities. As more 'data-slicing' and analysis is conducted with the use of the SOFIA dataset, other opportunities are expected to be unravelled.

Key recommendations for policymakers

The findings from SOFIA point to the following recommendations for financial sector policymakers:



... the use of SOFIA measurements... would allow for a more comprehensive understanding of financial inclusion, long term performance tracking, and cross-country comparisons...

Explore ways to measure financial inclusion more comprehensively – SOFIA takes a comprehensive look at financial inclusion, where usage (rather than ownership) of financial products is considered as a measure of inclusion. Moreover, the use of a range of financial products that matter to different types of consumers – i.e. savings, loans, payments/transfer services, as well as insurance – has been incorporated in the measurement of financial inclusion (embodied in the Financial Access Strand). There are various arguments to support this more comprehensive measurement of financial inclusion (as opposed to using the standard indicator used by the Government of Indonesia: i.e. the proportion of the population with bank accounts). From the standpoint of the government, which may be interested to track its performance in terms of financial inclusion relative to other countries, the use of SOFIA measurements (as opposed to only tracking the proportion of the population with bank accounts) would allow for a more comprehensive understanding of financial inclusion, long term performance tracking, and cross-country comparisons, especially as more and more countries in the region implement financial access surveys patterned after the FinScope methodology. For a more complete picture of Indonesia's financial access landscape, SOFIA should be followed by a nation-wide survey.



Review financial products and services developed by the government – As the results show, some financial products on offer that have been designed or developed by the government of Indonesia and rolled out by banks – such as the KUR loan and TabunganKu accounts – have not been significantly taken up by users of financial services (in the four provinces surveyed). In some cases, there is evidence of financial institutions that offer products with similar features, alongside these products developed by the government. While the low uptake of these services may be driven by the lack of information or awareness about these products and services, it will be meaningful for both the government and the financial services industry (and in particular, banks that offer these products) to 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. The outright promotion of these products (given that poor uptake is partly driven by low levels of product awareness) would not serve the purposes of the government (in terms of promoting financial inclusion) nor of banks entrusted to deliver these services to the public (alongside other products that they also offer to consumers) if these products do not match the needs of those segments targeted.



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

The results of this survey suggest a need for greater understanding about the importance of provisioning and saving among different consumers. While a significant proportion of people in these provinces surveyed already adopt positive behaviours – such as tracking incomes and expenditures – there are still areas that would benefit from guidance issued in the context of financial education programmes. For example, the majority of the population admit that they have not thought about ‘provisioning’ as part of their planning. Secondly, in terms of target groups, the recent push by the Government of Indonesia to distribute social assistance to cash transfer beneficiaries via bank accounts and other electronic means requires an assessment of how well this segment understands the use of these accounts and the gaps that might exist in terms of knowledge and information that this particular segment might benefit from having, so that they are able to take full advantage of their access to these services.

Opportunities for financial service providers

The findings from SOFIA might help financial service providers to:



Design savings products that 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. These savings products can be patterned after ‘commitment-driven savings schemes’ that are already being implemented (albeit at small scale) in the context of informal saving groups in some parts of the country.



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

– As discussed in this report, financial exclusion is skewed towards the youth (17-24 years), which is an opportunity missed given the high proportion of young people in the population and their role as economic actors. Likewise, those older than 54 years also tend to be financially excluded, and particularly unbanked. The range of opportunities in this market segment include reaching those who receive pensions, a significant proportion of whom still continue to receive transfers in cash and not through bank accounts.



Establish links between the formal financial services sector and informal providers of credit

– In a perfect financial services market, the products offered would reflect the distinct needs of a diverse clientele. For example, agricultural producers would be able to access a loan with flexible repayment schedules that match their revenue streams; micro-insurance products would be available for the same producers to secure cash flows against shocks; affordable savings products designed for mothers would allow women to set aside small amounts to meet different financial goals, such as paying for school expenses or to finance basic

household infrastructure. However, product diversification often falls short of the wide range of financial needs and preferences. This does not necessarily mean that financial service providers, such as banks, should offer a wide range of services to meet the needs of all types of consumers and market segments. **The results of SOFIA show that opportunities for the formal financial sector could lie in being able to build relationships with other types of providers in a way that allows consumers to take full advantage of those financial services that meet their particular needs.**

As discussed in this report, the use of informal financial services is significant; Arisan and buyers/traders are important sources of informal credit – especially among those engaged in agricultural activities. There are lessons that the formal sector can draw from these informal options that the population turn to; but the goal is not to completely shift informal usage into formal access. There will be situations and specific market contexts where the informal sector will be better placed to meet the financial service needs of consumers. There is scope, however, for the formal sector to establish linkages with informal mechanisms – for both saving and borrowing, and even insuring against risks that low-income consumers face. These linkages offer the potential for both formal and informal financial service providers to capitalise on their specific strengths and advantages 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 – The emphasis, thus far, since the introduction of branchless banking regulations and the roll out of various e-payment products in the market, has been on promoting uptake of these products in the retail market – in other words, among individual consumers. However, the uptake of these products has been slow relative to the expectations of stakeholders in both the public and private sector. This slow uptake is also evident when we look at the data on the four provinces surveyed. Many people continue to carry out their financial transactions in cash, and often outside the financial system. This does not only affect those in the low-income market segment, but also those who are well off and already served by banks. It is important to recognise that these results, in terms of the uptake of electronic means of making payments and financial transactions, is driven by characteristics of the payment eco-system in these locations. Unlike in the larger urban centres of Indonesia (such as Jakarta and Surabaya), the locations surveyed are largely areas where merchants and other key economic actors, with whom people carry out their financial transactions, still continue to operate in (and often prefer the use of) cash. The change in behaviour among individual consumers in terms of using electronic financial services will be driven by how easily they can use these services in their day-to-day transactions and the value that they are able to derive from shifting to cashless transactions. Influencing this behaviour requires not

only informing consumers about these new products, but also making sure that the economic environment within which they operate allow (and indeed promote) the use of these services. As such, it would be important to more actively target the roll out of these services to merchants and other economic actors that are central to the transactions undertaken by different groups of consumers.



Engaging with women in the delivery of financial services – The SOFIA results underscore the importance of understanding women, especially in terms of the role they play in the financial management of households and as micro-entrepreneurs. Women are more likely than not to own assets such as land and property, as well as bank accounts - compared to men. In many cases, ownership of assets is a role ‘assigned’ to men. However, the results also indicate that women play a critical role as ‘hidden financial managers’ in the household, especially in terms of making decisions on finances – not only in terms of family expenditures and budgeting, but also on where and how to save, financing projects such as home renovations, etc. There is a case to indeed develop financial products that cater to the particular needs of women as direct consumers. These findings also highlight, however, that women are critical actors to engage with if financial institutions want to understand how money is used and spent in households and micro-enterprises.



Seize geographically-driven opportunities – This report highlights differences between the four provinces surveyed. But a key finding of this survey is the opportunity to reach a significant proportion of the population with financial services in East Java. The expectation (or hypothesis) that this province is already a ‘saturated market’, especially 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 their 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.



Annexes

The following are available as separate documents:

Annex A : Profile of the population

Annex B : Description of the methodology

Annex C : The SOFIA Questionnaire (in English and Bahasa)

Annex D : Data tables (used in the analysis)



About this report

This document sets out the results and key findings from SOFIA. These headline results have been presented to a wider stakeholder group comprising key government of Indonesia (GoI) agencies, development partners, and the private sector.





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