

Analysis the Application of an Inclusive Financial Policy of Bank and Financial Technology Companies

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Abstract:

The purpose of this study is to analyze the implementation of the inclusive financial model adopted by the government and how this financial inclusion phenomenon now, for the deepening of the analysis the researcher takes a swot analysis approach. The methodology of this research use a qualitative approach through secondary data. From the results of the analysis it was concluded that, the development of inclusive financial programs from the government not only penetrated the formal banking sector, but financial technology participated in it.

Keywords: inclusive financial, financial, credit

I. INTRODUCTION

Indonesia, with all its geographical forms, causes a gap between financial services in rural and urban areas(Jiang, Tong, Hu, & Wang, 2019). Formal financial services can be accessed more easily in urban than in rural areas(Nguyen & Luu, 2013). Bank Indonesia data shows that, in 2011 only about 20% of the adult population in Indonesia had accounts in formal financial institutions. This figure shows that the adult population in Indonesia still receives very little financial services from formal institutions, such as banks(Bank Indonesia, 2018). These transactions include savings, loans, transfers, investments, foreign exchange transactions, and other transactions. As a result, a lot of funds settle in

people's homes, which if channeled into formal financial institutions can be rotated to maintain inflation and accelerate the economy for MSMEs that require venture capital, which has so far been constrained in accessing capital loans. Speaking of MSMEs, the agribusiness sector is the most vulnerable sector to enter into bankable criteria(Roy, 2017). This is because the agribusiness sector is the most vulnerable sector to experience risks, such as the risk of weather, the risk of crop failure, and the risk of returning loans to formal financial institutions. Because of that, it does not only occur in the agribusiness sector, but it is almost experienced by most MSMEs, those who experience capital loan difficulties, preferring non-formal institutions even with higher interest

rates than banks. This is not the right solution, when MSMEs cannot repay loans, interest will continue to increase and will increase the ability to go bankrupt. Moreover, savings and loans can now be done faster with the advancement of financial technology, where the transaction process can be very fast because it is done online and in real time. The government is aware of the slowing down of financial services, due to the uneven distribution of absorption. So that the government strategy through Bank Indonesia and the Financial Services Authority, is to implement an inclusive financial policy. This policy targets people at the bottom of the pyramid level, where they have various limitations in getting financial access. Therefore, this research will focus on the implementation of inclusive financial policies undertaken by the government in Indonesia, and how this inclusive financial phenomenon is present in the movement of the Indonesian economy through the MSME sector.

II. Literature Review

Inclusive Financial

Micro business growth can be encouraged with financial assistance, in the form of loans (Badrudin, Kusuma, & Wardani, 2018). However, not many of these MSMEs have access to borrow from formal institutions (Najib & Kiminami, 2011). This causes many MSMEs to choose to borrow from non-formal institutions which incidentally have higher interest than formal institutions (Farida, Siregar, Nuryartono, & Intan K. P., 2015). This is due to the bank's policy to treat MSMEs as small versions of large loans,

regardless of the characteristics of MSMEs that should be treated differently. This is understood, because the bank basically has a standard rule by looking at the financial statements or the borrower's rate of return (Rosengard, 2011). The agribusiness sector tends to be asymmetrically limited to credit. This is because the agribusiness sector has uncertainty over yields, due to internal and external factors, except for those who own land, because land is consistently not limited to credit (Ciaian, Falkowski, & Kanacs, 2012). Based on 2014 World Bank survey data, it shows that only 50% of the adult population in the world has access to formal financial institutions, even in Indonesia the absorption is only around 19.6%. This low percentage is partly due to the uneven distribution of formal financial institutions. In general, formal financial institutions are concentrated in urban areas, rather than in rural areas. This is because market projections are lower in rural than in urban areas (Mangani, Syaukat, Arifin, & Tambunan, 2019). In practice, credit received by MSMEs is not only used for production purposes, but also allocated for consumption and investment needs (de Rosari, Sinaga, Kusnadi, & Sawit, 2014; Zhao & J. Barry, 2014). This is of particular concern to the Government of Indonesia, where Indonesia joined the G20 and has a mutual agreement to help the economy of the people at the bottom of the pyramid. Financial policy to help MSMEs in urban and rural areas is inclusive financial policy (Bank Indonesia, 2013), both economically and socially for sustainable growth (Swamy, 2010).

Inclusive financial policies are implemented with the principles of 9 pillars; leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality, and framework (Bank Indonesia, 2010). Bank Indonesia's policy in implementing inclusive finance is carried out through the payment system aspects. Bank Indonesia implements savings campaigns in banks with the assistance of implementing banks. A money storage system in the form of electronic money accounts by phone number, with education on managing simple finances (Bank Indonesia, 2014). The financial inclusion program is a global program driven by each country, with the aim of improving the lives of people as a whole in terms of affordable financial services and products (Yuwono, Suharjo, Nuralina, & Sani, 2016). The gap that occurs, in terms of financial services in rural and urban areas, especially for MSMEs makes a lot of potential that can be developed. Lack of access to formal financial institutions, one of which is caused by the asymmetry of information. Therefore, it causes fear of losses that arise, from the unknown (Domeher, Musah, & Poku, 2017; Peon, Calvo, & Antelo, 2015). This is realized by Bank Indonesia, where many implementing banks have opened bank services in non-bank locations, such as in store outlets or houses owned by residents who collaborate with implementing banks, which are policies of financial services without offices or LAKU PANDAI (Layanan Keuangan Tanpa Kantor)(BTPN, 2019). Inclusive finance, collecting public funds that are still in the

house to be collected at the bank with a telephone number system or using mobile phones. They can do bank transactions at the nearest outlets that work with banks. Rapid growth in technology sectors such as the internet, making internet communication, has been adopted for easy access to information, including in the financial sector(Dwi, 2013). The advance of technology, making the phenomenon of financial technology or fin-tech increasingly support the financial system inclusive. Because, now it is easier to transact on a non-cash basis. But based on research, fintech is increasingly used for consumption transactions, such as food payment transactions, which are now increasingly promoting (de Rosari et al., 2014). Compared to financial technology companies, banks have a high degree of prudence, and are now even healthier than before. In short, they are in the oligopoly market, which is healthy but inefficient, narrow, and homogeneous. The gap is taken by fin-tech companies (Hamilton-Hart, 2018). In terms of loan services, to help the MSME economy, the government makes a People's Business Credit policy. Low interest is intended for those who need financial encouragement in accordance with the conditions of MSMEs (Farida et al., 2015).

III. Methodology

The methodology of this research is to use a qualitative approach through secondary data. Qualitative research was chosen because the researcher wanted to analyze it

thoroughly(Creswell, 2007). The secondary data was taken from various international and national journal articles, government reports through the website of the relevant agencies, and from various electronic news related to this research. The purpose of this study is to analyze the implementation of the inclusive financial model adopted by the government and how this financial inclusion phenomenon is now, for the deepening of the analysis the researcher takes a swot-tows analysis.

IV. Analysis and Discussion

Based on the results of research conducted on inclusive financial policies in Indonesia, the researcher analyzes that there are now many inclusive financial programs that can be easily found. Where has been explained previously, that the government implements a financial service program without offices, so that anyone can now become a bank agent, as a distributor of customer needs that are not affordable by banks. Thus, this financial service can be accessed in stores both large and small to reach rural areas. The system

that was implemented was very easy, with a mobile number, the agent could carry out various transactions such as at a bank. This is done to collect funds that settle at home to be channeled to the bank with an attractive method in accordance with the target customer. One of them is with *my savings* or tabunganku program, where through this program the number of customers has increased promising every year. Since it was launched in 2010 to April 2014, there were 12 million registered accounts. The highest increase was achieved between December 2012 and December 2013, where the increase was almost 7 million customers. This means that the policy that is getting closer to the people has gained a lot of interest from the adult population to save, with a very affordable initial deposit. In addition to being able to conduct bank transactions in general, with this inclusive financial program, active adults and MSMEs in rural areas can also make other electronic payment transactions, such as credit payments, credit payments, electricity bill payments, and other payments.

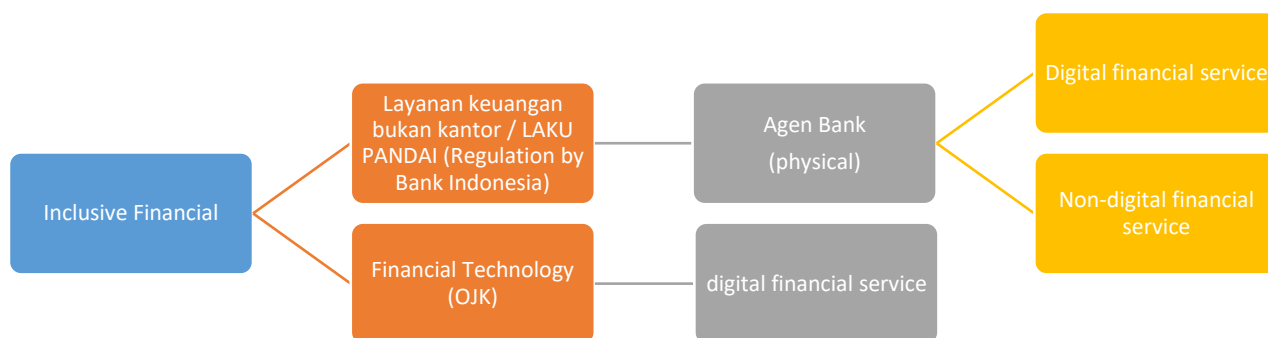


Fig. 1. Application of financial inclusion

From the results of the literature analysis, there are broadly two types of application of financial inclusion in Indonesia namely, through Bank agents and through financial technology. Both

have the same function of providing financial services that touch all levels of society, especially those who are still at the bottom pyramid level. The difference is at the level of interest rates and

transaction security guarantees. Even though financial technology is very easy to access with simple conditions, it has a high risk in terms of security and interest rates in the event of late payment. In 2019, Otoritas Jasa Keuangan (OJK) or Financial Services Authority has closed 133 illegal financial technologies (CNBC Indonesia, 2019). This can affect the credibility of the customer. In addition, financial technology offers more promotions, such as discounts and cashback, compared to bank agents who are more adhering to the established standards. Both become an interesting combination, where now people are getting used to doing non-cash transactions (Azali, 2016), and it's easier to find financial services both physically and online. This indicates that, society is now more open to all the changes that exist.

LAKU PANDAI

The Laku Pandai Program as of March 2019, the total number of providers reached 26 Conventional Commercial Banks and 4 Sharia Commercial Banks. Since 2015 until 2019, now the number of bank agents from the Laku Pandai program is more than 1 million agents with a number of customers of more than 23 million customers spread throughout Indonesia. Of these 23 million customers, the bank generated an extraordinary amount of savings, which reached IDR 2.5 trillion. The distribution area of Laku Pandai is still lying in Java, reaching 64.94%. Agent classifications are based on 7 classifications based on the types of products that bank agents provide, namely where the classification of Agent

A only provides 1 service product and Agent G provides almost all Laku Pandai service products. The service products consist of savings, microcredit, microinsurance, and other financial products (example: e-money). In 2019, based on data from the FSA, 38.06% of Agents are in the classification of Agent G, or bank agents that provide quite complete service products. Data from the FSA is also quite interesting, where the highest average savings is actually in the Maluku and Papua regions which reached IDR 554,000, whereas the total absorption of the Laku Pandai program on these two islands only reached 1.35%, in contrast to Java, although absorbing the biggest Laku Pandai program in Indonesia, but the average amount saved is only IDR 60,000. This is due to the accessibility in Java to financial services that are more accessible than in Papua and Maluku. One of them is by increasing competition from financial technology in Java (OJK, 2019a). The Laku Pandai system can be called microfinance, which refers to the provision of products and services aimed at low income individuals, who work in the informal economy, are limited by knowledge, and have limited power and influence (Chiu, 2017).

Financial Technology

Financial technology in Indonesia has been regulated in OJK Regulation No. 77 of 2016. In total there are 127 financial technology companies in Indonesia, of which 114 fin-techs have been registered with OJK, and 13 fin-techs that already have licenses in OJK. Permits from the OJK itself

must meet the requirements of the OJK, with a minimum capital of IDR 2 billion. Of the 127 fin-tech companies, 119 are conventional and 8 are Sharia. Loan disbursement reached more than IDR 60 T with outstanding loans reaching more than IDR 10 T. Until September 2019, the number of borrowers through the financial technology company reached more than 14 million accounts, of which 70.65% of them were aged 19-34 years. The increase every year is almost more than double from the previous year, indicating that the business rhythm in financial technology is very fast (Hendriyani, Sekretari, Taruna, Sam'un, & Raharja, 2019; OJK, 2019b). Therefore, as

mentioned earlier, many illegal fin-tech businesses are growing in Indonesia (CNBC Indonesia, 2019). Therefore, the government began to tighten and pay attention to regulations for this type of business. Interestingly from 127 existing financial technologies, there are only 13 fin-techs that have OJK permits. This means that protection from the government for fin-tech customers is still not optimal in terms of legal regulations. Therefore, there are many MSMEs or customers who have high debt due to high interest from illegal fin-tech loans.

The following is an analysis of swot-tows for banks and financial technology.

Table 1
SWOT ANALISIS

	Bank	Financial Technology
S	<ol style="list-style-type: none"> 1. High loan amount 2. Interest rate: low-medium 3. Credibility 4. Protected by the government 5. Social Value 6. Use mobile number 7. Security 	<ol style="list-style-type: none"> a. Virtual simple transaction b. Low cost transaction c. No collateral d. High promotion
W	<ol style="list-style-type: none"> 1. Strict regulation 2. High-cost transaction 3. Long process (offline via Bank or bank n agent) 	<ol style="list-style-type: none"> a. Loose regulation b. Low loan amount c. Little bring up the social value d. Must use compatible device
O	<ol style="list-style-type: none"> 1. Large target customers 2. Wide area coverage 3. Technological development 4. High level of interest in consumption 5. Business acceleration 	<ol style="list-style-type: none"> a. Large target customers b. Wide area coverage c. Technological development d. High level of interest in consumption e. Business acceleration
T	<ol style="list-style-type: none"> 1. Competitor with Fin-tech 	<ol style="list-style-type: none"> a. High Risk business b. Interest Rate: Medium-high c. Fraud possibility d. Personal data leakage

Table 2. TOWS Analysis

Strength-Opportunity	Weakness-Opportunity
<p>S1, Sc, S7, O2: Improved signal-friendly financial services in the un-bankable area</p> <p>S1, Sa, Sc, O1: Easy financial access and attract creative and productive millennial generation</p> <p>S7, Sd, O3, O4: Increased promotion or collaboration programs with local MSMEs</p>	<p>W1, Wa, O5: Adjustments to applicable regulations for both types of financial services businesses</p> <p>W2, O1, O2: There are features in fin-tech where transactions can be faster and real-time</p> <p>Wc, Wa, O1: Education of financial services as business acceleration and community development</p>
Strength-Threat	Weakness Threat
<p>S3, S5, Sd, T1: Adapt Fin-tech technology at LAKU PANDAI</p> <p>S7, Tb, Tc: Increased interest rate regulation</p> <p>S3, Td: Enhancement of personal data security</p>	<p>Wa, Tb: Increased regulation of financial technology in Indonesia</p>

V. Strategy Tows Analysis

Strength-Opportunity

Researchers combine the Strengths and Opportunities of Banks and Financial Technologies, the result is, there are 3 strategies that can be done to improve inclusive financial policies in the midst of this increasing competition in financial services, namely

a. Improvement of signal-friendly financial services in the un-bankable area

Not all regions of Indonesia have access to adequate signal access, such as in rural areas. Therefore, the strategy that can be done is to improve mobile-friendly financial services in a signal that is un-bankable area. That way, every level of society can easily access financial services.

b. Easy financial access and attractive creative and productive millennial generation

The most important thing in millennial generation and 4.0 as it is today is by increasing access to financial services that are branchless, or cashless, attractive. The Indonesian government has also launched a cashless application called LINK AJA, which is to facilitate payment transactions. Improved this feature can attract millennial generation who are now starting to glance at the cashless era.

c. Improvement of promo or collaboration programs with local MSMEs

Collaboration between MSMEs and this inclusive program can be implemented, such as cashback promos, discount promos, and other promotions. This will encourage a non-cash movement, as the Indonesian government is campaigning. This can simultaneously educate unbanked people related to cashless management.

Weakness-Opportunity

a. Adjustments to applicable regulations for both types of financial services businesses

Strict regulation for banks, and weak regulation for fin-tech needs to be established win-win regulation for each of these types of financial services businesses. This is so that each company and customer can be protected.

b. There are features in fin-tech where transactions can be faster and real-time

Banks through their mobile banking features can implement features in fin-tech to improve services to customers, such as fast lending at competitive interest rates

c. Financial education education as business acceleration and community development

Financial services education at all levels needs to be improved, including the un-banked community, whose education includes the use of features in the financial services program.

Strength-Threat

a. Adapt Fin-tech technology at LAKU PANDAI

One strategy that can be applied is to adapt the technology and features of Fin-tech in inclusive financial programs, such as mobile banking, LAKU PANDAI, LINK AJA.

b. Increased interest rate regulation

Interest rate regulation needs to be regulated to avoid multilevel interest rates by parties looking for loopholes in existing regulations

c. Improved personal data security

Database security guarantees must be improved, especially for the financial technology sector.

Weakness-Threat

a. Improvement of financial technology regulations in Indonesia

The competition regarding financial services is currently inevitable, therefore the government must continue to conduct studies and improve regimes regarding financial technology.

VI. CONCLUSION

From the results of the analysis it was concluded that, the development of inclusive financial programs from the government not only penetrated the formal banking sector, but financial technology participated in it. Each type of inclusive financial program provider has almost the same function, the difference is in the type of promotion and interest rates. Therefore, from the results of the SWOT-TOWS analysis conducted, it needs to be considered from the aspect of threats, where many financial technologies that are outside the government's guarantee aka financial technology are fake or attempting to commit criminal crimes. Therefore, recommendations that can be applied are (I) Improved supervision and security for financial technology, (ii) Increased education about inclusive finance in rural area, (iii) increasing the innovation on financial services.

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