Widening women's access to financial services

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THE 2016 Financial Inclusion Survey, carried out by the Financial Service Authority (OJK), was characterized by some sobering results. It found that both in terms of financial literacy and financial inclusion, Indonesia had a long way to go. Both the Indonesia-oriented OJK survey and comprehensive global data from the Financial Inclusion Insights (FII) initiative show a steady improvement in both metrics in recent years, but the gap with the rest of the world, even within the developing economy cohort, is considerable.

The FII survey shows that only about a quarter of Indonesia's population could be considered possessing access to formal financial services. Compared to developing country peers such as Bangladesh (35 percent), India (over 60 percent), Kenya (69 percent), and Tanzania (54 percent), Indonesia is lagging considerably.

When starting from a very low base, people tend to focus on day-to-day needs and subsistence, a setting which renders the understanding of basic finance or accessing financial services somewhat irrelevant. But the vast majority of Indonesians escaped such poverty long ago. With a per capita GDP of US$3,570 (in purchasing power parity (ppp) terms, the figure is $11,400), Indonesians sit slightly below the mid-point of world income spectrum. With strong fundamentals and favorable demographics, we can say with a high degree of confidence that greater wealth creation lies ahead.

But how will Indonesians deal with their improved economic prospects if they don't understand money matters and don't have access to basic financial services like loans and deposits? It will perpetuate poor or no financial planning, leaving people with hardly any tools to smooth income, save, borrow, invest, or manage their wealth.

Plenty of research efforts have taken place in recent years to establish what drives improved financial inclusion. The results make sense intuitively — countries that see advancement of the legal framework, scope and reach of financial institutions, infrastructure (that improve accessibility to financial services), and continued prosperity tend to see higher degrees of financial inclusion.

But the challenges don't end there. Studies show strong evidence of gender bias with respect to financial inclusion. Legal hurdles and cultural norms have kept women in the dark on money matters for far too long. Lack of women's participation in the labor force, and lack of financial services even when they are working leaves substantial amount of GDP on the table, reduces the economy's potential, leaves household balance sheets weak, and perpetuates an unfortunate cycle of inequality and gender-based discrimination.

Targeting women ought to be a no-brainer for the financial sector providers. There is huge untapped demand for financial services for women; a study done by the IFC shows that 80 percent of women-owned small and medium enterprises (SMEs) with credit needs are either unserved or underserved, leaving billions of dollars in funding gap. Also, women are living longer and getting more education than men (as per the United Nations and World Health Organization), making them attractive candidates for financial services.

Digital financial services are a driving force behind financial inclusion of the unbanked. However, only 74 percent of women in low- and middle-income countries own mobile phones, compared to 84 percent of men (Findex 2017). Closing the ownership and usage gender gap of mobile phones is critical to women's financial inclusion.

Offering women a holistic value proposition that goes beyond just access to finance to include access to information, education, networking, and recognition has proved a winning strategy. Global Banking Alliance for Women member banks report a 30 to 35 percent internal rate of return (IRR) on

JP/Arya Dipa

Picking ripe: *Farmers pick Arabica coffee cherries on a coffee plantation in Palalangon village, Cimaung, Bandung, West Java. Indonesia produces about 750,000 tons of coffee beans a year, the fourth-largest after Colombia, Vietnam and Brazil.*

their women's market programs, which follow this blueprint.

In 2014, Turkish Economy Bank (TEB) leveraged its strong SME capabilities to target women-owned SMEs using a customer value proposition based on four pillars: access to finance, access to information, access to markets and access to mentors and coaches. This approach — featuring a strong emphasis on business development and educational offerings — was successful. While women across MSME segments had had a banking relationship with TEB for less time than men (2.3 years shorter, on average), once in the bank they had higher products-per-customer and higher Net Promoter Scores across all segments.

Tailoring insurance to the women's market also creates huge value. In recent years, there have been several initiatives in Latin America with women-tailored insurance products. Turns out that, women, once they see the security offered by insurance products aimed at their needs, tend to be much more likely to engage in a wider array of financial services.

This makes intuitive sense; women may not be the primary earner in many cases, but they are almost always the primary care provider and the executor of a wide array of financial decisions in the household. As they become more aware of basic concepts of finance, they tend to take more informed decisions, which is in the interest of financial service providers in any case.

Companies that do well in the women's market also do well for investors. Women's World Banking's Capital Partners' price earning (PE) fund outperforms the Emerging Market impact investment benchmark (Net IRR 5.9 percent vs. the average IRR of 1.6 percent for Emerging Market Funds). Again, this finding should not be surprising. Offering a wider group of people services can help pool risk and provide information synergies for the lenders, as they may already be engaged with the male members of the household.

Women-run businesses have provided ample rewards to their investors. Women entrepreneurs at the Spain-based BBVA Microfinance Foundation have loans disbursements 37 percent lower than men, their assets 26 percent lower and their sales 19 percent lower. However, their businesses are able to grow at a faster pace than men with returns increasing at 21 percent compared to 14 percent; sales at 18 percent compared to 14 percent for men.

After two years with BBVA, 33 percent of women overcame poverty. We also know they are better risk managers: their non-performing loans (NPLs) rate is 25 percent lower when compared to men's (BBVA Microfinance Foundation).

There is mounting and clear evidence that financial institutions stand to gain considerably by coming up with thoughtful strategies to engage women. This makes business sense, and of course it makes sense for the betterment of society.

Antara/Sigid Kurniawan

Final stage: *The construction of the Antasari interchange, part of the Depok-Antasari (Desari) toll road linking South Jakarta and West Depok, is currently in its final stage. Building toll roads is part of the government's infrastructure development program.*