

# Discovering Branchless Banking Adoption under Inclusive Financial Plan in Indonesia

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**Abstract:** Indonesia has devised a financial inclusion plan that envisage for all society layers to be served by financial instruments which possess good quality, accessibility, and affordability. One of the programs is called LAKU PANDAI that allows customers to use agents as intermediary channel. Societies face financial exclusion because of access, marketing, condition, price, and self-exclusion with regards to financial services and/or institutions. This study explores the fundamental reasons why financial exclusion occurs in Indonesia and how is their willingness to try branchless banking from banked and unbanked perspectives. This study also explores customers who live in urban and rural areas by using qualitative methodology. This study found that financial exclusion occurs to both customers who live in rural and urban areas. Customers were also found to have intention of willingness to try to branchless banking based on convenience, familiarity, and perceived risk towards the service.

**Keyword:** Banking usage, unbanked, banked, branchless banking, willingness to adopt

**Paper type:** Exploratory paper

## 1. Introduction

Indonesia has recently focused on financial inclusion in Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2015-2019 (National Medium-Term Development Plan) as a mission to achieve independent economy under the development and acceleration of financial sector. This new regulation focus was designed to combat against financial exclusion that occurs in Indonesia. Handoko (2016) shows that 70% of 57 million small business units are not served by financial services. Other data also shows that only 21.8% of Indonesia population who have access to formal financial services. Further, The World Bank (2014) shows that Indonesia has only 36.10% banked people out of 240 million total population.

Evidences show that financial exclusion, a condition where many layers of people do not have equal quality of financial services, is still high. In common financial sector, providing financial services to unbanked people who usually come from low-income population have always been difficult and costly (Ivatury and Pickens, 2006). This difficult situation occurred because several reasons, such as access,

condition, marketing, price, and self exclusion (Kempson and Whyley, 1999). Many people in Indonesia live in disadvantaged areas where banks cannot establish a branch or facility in particular area. Hence, products from formal banks are usually not meeting with the need of the poor, who are not able to put money away for long and cannot afford to travel far. Consequently, informal financial services such as doorstep collection has been popular in some countries because it saves time and expense of transport.

Financial exclusion is also often associated with poor people, because they often cannot afford financial services that offered by financial institutions. Banerjee and Duflo (2007) pointed out that there are 14% of households living on less than \$2 a day have a formal savings account, because their incomes are too low and unstable to make an account worthwhile. This implies that other households use informal financial services or not even use any financial services at all. On the other hand, as banking industry consolidation grows, large banks become less connected to local interests. Consolidation in banking industry results to an increasing distance of the banking system from communities who live in rural areas (Alessandrini *et al.*, 2009). Some customers also feel that formal financial services are not suitable for them because they feel unwelcomed as customers or living too far from bank locations. Hence, informal savings may be preferred even they are less secure (Bertrand *et al.*, 2004).

To tackle financial exclusion issue, both regulator and policy maker in Indonesia initiate digital financial service called LAKU PANDAI that is expected to reach whole society layers. LAKU PANDAI that stands for “Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif”. It is branchless banking program that allows customer to access formal financial services with agents instead of reaching bank branches. Branchless banking was found to have several advantages, such as cost, accessibility, and market penetration advantages (Ivatury and Mas, 2008). However, an advantageous program does not necessarily benefit the customers. It is important to know what are the needs and demands of the customers first. Researchers and practitioners need to know the fundamental reasons why customer would want to use financial services. If customers’ need and want has discovered, branchless banking can be adjusted to fit in with customer’s condition appropriately.

This study has two main objectives. First, the study tries to discover the cause of financial exclusion that occurs in both unbanked and banked customers. Understanding the fundamental of financial exclusion is necessary to grasp the problems that banked and unbanked faces. Second, this study tries to discover factors for customers’ willingness to try branchless banking. Branchless banking is argued to have advantages in combating financial exclusion. It is expected to see that customers should have interest towards the benefits that can encourage them to try branchless banking as the alternative of informal or formal financial services. There are several research questions that could be raised to help emphasizing in answering financial exclusion problems. (1) How financial exclusion could occur in Indonesia? (2) Why banked and unbanked customers use financial service products? (3) Why customers want to try branchless banking?

## I. 2. Literature Review

Indonesia is an archipelago country of 17,500 islands, which comprises of five main islands and 60 smaller archipelagos. This geographical challenge makes financial institution facilities inaccessible to many remote areas. Financial exclusion that occurs in Indonesia is mainly because of accessibility and marketing exclusion. Disadvantaged remote areas may not be profitable, especially when the people there have little savings or difficulties in meeting credit analysis qualification. According to The World Bank (2014), Indonesia has only 36.50% banked population from 250 million of total population. It implies that about 160 million of unbanked populations are suffered from financial exclusion. Financial exclusion, that in

contrast with financial inclusion, explains how societies are excluded from financial instruments that are qualified, reliable, and affordable.

#### *A. Financial inclusion*

Individuals who are using banking product can be categorized into unbanked, underbanked, or banked customer. Dymski (2005) explained that the unbanked are those who are unable to establish or maintain bank accounts turn to second-tier financial sectors. Gross *et al.* (2012) define underbanked as a consumer who has a checking, savings, or money market account but who also has used at least one alternative financial service in the past 12 months, such as title loan, payday loan, check-cashing service, or payroll card. On the other hand, banked customer is a customer who has bank account and uses it as their main financial service account, such as saving, loan, or other financial services.

Arora (2012) used definition of microfinance from Asian Development Bank which is “a provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to the poor and low income households and their micro enterprises.” Aghion and Morduch (2005) explained that the term of “microfinance” was started from “microcredit” which refers to specifically small loans. “Microfinance” as a broader term explains more financial efforts such as to collect savings, to provide insurance, and also to help distributing the marketing client’s that designed for low-income households. This means that microfinance is able to solve the indebtedness among the poor by providing affordable financial alternatives than formal and informal financial institutions. According to Shirazi and Khan (2009), microfinance could be the solution to reduce poverty and provide positive welfare impact. Through microfinance, the poor can have choices to in using financial services. They can have access to credit they usually cannot afford or received. Though microfinance was showed to have positive effect of microfinance accessibility to multi-dimensional welfare indicator.

Ledgerwood *et al.* (2013) explain that the term “microfinance” is shifted into an even broader term called ‘financial inclusion’ that refers to make integration of ‘financial ecosystem’ so financial market could work for the poor. Ehrbeck *et al.* (2012) explain more that the key challenge in financial market is how to make an ecosystem that is broadly connected between market actors and infrastructure needed for safe and efficient product for the poor. Financial inclusion refers to people and business having access to financial services that are appropriate and affordable that may include bank branches, ATM, microfinance institutions, or agents. Being financially included allows individuals to have more capabilities in overcoming constraints associated with investment, education, or business. Financial inclusion fosters growth and reduces poverty in a country. It permits individuals to save money that reduces uncertainty of income and also contributes to financial stability. However, a larger number of households are becoming or remain unbanked because of barriers in financial inclusion.

According to Kempson and Whyley (1999) financial exclusion has several dimensions that are geographical, access, condition, price, marketing, self, resource, or technological exclusion. Geographical exclusion refers to lowering retail outlets in disadvantaged areas, concentrated bank closures in urban area, and poor transportation. Access exclusion reflects to the restriction of accessibility through the process of risk management. Condition exclusion reflects to conditions where financial products are inappropriate with the needs of some people. Price exclusion refers to condition where financial products are not affordable to some people. Marketing exclusion occur where some people are excluded by company’s marketing and sales. Lastly, self exclusion refers to condition where people may decide that applying for a formal financial product might be pointless because they would be declined. This perception is usually led by past experience from self or someone else.

There is also additional consideration for barriers in financial inclusion such as financial literacy, racism, government policies, and language and cultural factor. Financial literacy is different with self-exclusion where people have psychological barrier towards banking services. It reflects how people do not know

information about product specification or where to buy them. Atkinson and Messy (2013) show multiple factors that stimulate financial exclusion. Racism, language, and cultural factors are considered as barriers to financial inclusion. To some extent, some financial service providers are racist to some minority ethnic groups. Corr (2006) also shows similar report that language and cultural barrier hinder financial inclusion in Ireland. Lastly, government policies may also affect financial exclusion unintentionally. For example, the policies require difficult documents that poor people cannot provide such as passport or diving license (Kempson and Whyley, 1999).

Almossawi (2001) shows that various factors can influence customer choice in commercial banks. Ladeira *et al.*, (2016) show convenience as a major impact towards consumer decision in selecting a bank. Convenience is close related with geographical issue. Gerrard and Cunningham (1997) show that convenience demonstrate delivery channel or geographical convenience to the consumers. Easy accessibility to home or working places is favourable to the customers. Among with accessibility, Rehman and Ahmed (2008) show that it is considered to be one of the most influencing customer choices along with customer services, online banking facilities and overall bank environment. Krisnanto (2011) found four factors of bank selection for Indonesian consumer based on convenience, competence, recommendation, and appropriate charges. It was indicated that consumers bank decision was determined by recommendation, consumer's self decision, advice from family, and mandatory requirement. Furthermore, geographical convenient location such as bank branches and ATMs were considered to be the most important factors in bank selection (Almossawi, 2001; Gerrard and Cunningham, 1997). These previous studies imply that geographical advantages along with convenience could result a better reach for financial inclusion, since consumers most decision is reflected based on both considerations.

### *B. Branchless banking*

Branchless banking is a new banking distribution channels that allow customers to do banking activities without having to go to bank branches (Lyman *et al.*, 2006). Banks or other financial institutions can offer financial services through partnership with agents and the utilization of information communication technologies. Agents have a role as a third-party mediator between consumer and financial services provider. Financial services through branchless banking are expected to penetrate people who live in disadvantaged areas economically or accessibility through the utilization of mobile phone infrastructure, Electronic Data Capture, and agents. Agents, who could be individuals or non-related financial business like kiosk or local stores, are recruited directly by financial institutions to deliver financial products to unbanked or banked market.

Geographical issue has physical problem that cannot be simply solved, especially when customer needs to go to bank branch to do banking activity. This geographical issue may be solved through banking without branches that allows customers to make banking activity without having reaching bank branches. Ledgerwood *et al.*, (2013) explain that banking without branches requires an alternative access points for client transactions, such as ATMs, staff based transaction, internet, or third party agents. Almossawi (2001) also explained that convenient location is a major factor for banking selection. Ta and Har (2000) also show that a strategic location is significant in making consumers adoption on banking services. Honka *et al.* (2017) show empirical evidence from Mintel that half of consumers stated that they chose their bank because there was a branch near their home. Branchless banking product offerings range from individual money transfer, deposits, withdrawal, government cash transfer, or if relevant, loan. One of the interesting concepts in banking without branches is branchless banking through agents. An agent is any third party acting behalf of a bank or other financial service providers to deal customer's banking activity. Agents perform two functions, "cash-in" (the exchange of cash for electronic value) and "cash-out" (the exchange of electronic value for cash) services. Agents can facilitate transactions via several devices, such as POS device, mobile phone, tablet, or a personal computer.

Bank Indonesia (BI) first initiated branchless banking in Indonesia in 2012 based on National Strategy of Financial Inclusion (SNKI) plan. BI started a limited pilot study to test out branchless banking program in Indonesia. The plan was simulated to introduce formal regulations in May 2013 to agent operations. After the first initiation, OJK took the corresponding program by establishing branchless banking regulation No. 19/POJK.03/204. The first pilot test that was conducted found that bank-led type of branchless banking was found to be more suitable than non-bank led type. Afterwards, OJK continued to develop branchless banking regulation to address UU 21/2011 that constitute OJK as a primary regulator in Indonesia banking industry. After some time, branchless banking was formally formed under the name of LAKU PANDAI in March 2015. The program was first adopted by four major banks in Indonesia, and then gradually followed by other banks that also want to participate in.

Ivatury and Mas (2008) stated that there are several characteristics of branchless banking models. First, use of technology to identify customers and record transaction electronically. Second, use of third-party outlets such as post or small kiosk that act as agents for financial services providers and enable customers to perform functions that require physical presence, such as cash handling and account opening. Third, it has basic services such as cash deposit and withdrawal in addition to transactional or payment services. Fourth, banks are usually formally licensed and recognized by the government. Fifth, all of the elements are structured so that customers can use financial services on a regular basis without needing to go to bank branches at all.

Branchless banking has great potential to reach vast numbers of low-income, unbanked people at affordable price and various products to meet extensive financial needs. It has advantages compared to conventional banking in cost advantage market penetration, and market coverage (Ivatury and Mas 2008). First, branchless banking can be cheaper because banks can lower its cost of delivery, including costs of building and delivery channel maintenance for customers accessing the service. It can be estimated that branchless banking basic banking services can be at least 50% cheaper than conventional channel. Second, branchless banking could reach unbanked and outreached people in rural areas. It can reach disadvantaged areas because agents can be small business, microbusiness, or even individual who is legitimately hold agent's partnership with particular bank. A study shows that mandated rural branchless banking in India has resulting rise in deposits and credits that leads to positive effect on addressing rural poverty (Burgess and Pande, 2004). Third, branchless banking could have high penetration rate through utilization of agents and Information Communication Technology (ICT). Evidence shows that Brazil developed 32,000 new bank service outlets in five years through partnerships with the postal franchise, lottery shops, and other agents (Kumar et al, 2006).

### 3. Research Design

This exploratory study used a qualitative approach in data collection and analysis. Primary and secondary data were both used to make the analysis of the study. Data were primarily collected through semi-structured interview in both rural and urban individuals who is banked and unbanked. There are 10 urban-banked customers and 6 rural banked customers. At the unbanked segments, this study interviewed 12 rural unbanked, and 5 urban unbanked. Two of the unbanked respondents are anonymous by their personal request. This study used snowball-sampling technique to help researchers get in touch with the customers, especially for the unbanked that lives in rural and urban. In particular, the response rate of the unbanked was low. There were only 12 out of 27 rural unbanked were willing to be interviewed.

II. This study is a basic qualitative study that triangulated pattern within the data collection and literature. Maxwell (2008) explains that qualitative method is suitable to be used as an exploratory and pilot research study. Qualitative study can be used as foundation of constructing future conceptual framework with regards to particular research questions. Data were stop collected when the responses have reached saturation. This research design was expected to fit with the objective of this study, which is to find the

phenomenon of financial inclusion in Indonesia. The idea of analysis is taking a hint of pattern technique that processing between collected data and theory. The objective of this technique is to see if there is new finding from empirical observation that is described in the theory.

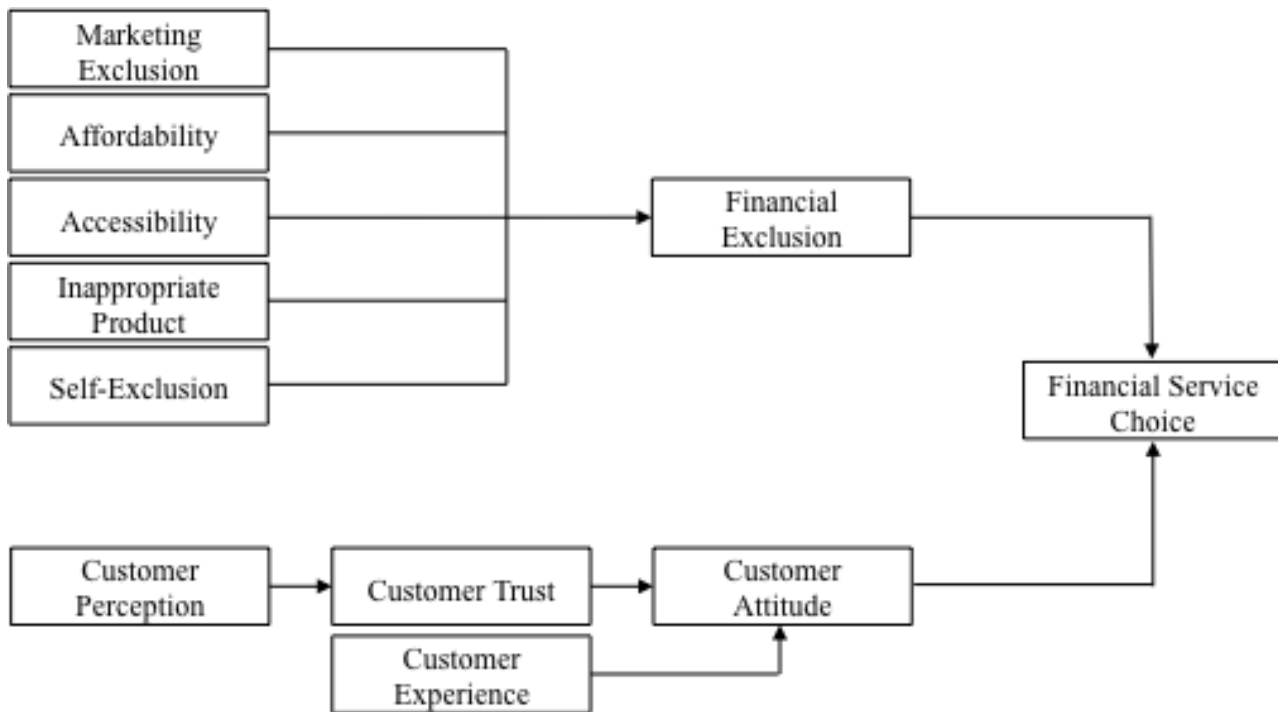
III. This study has limitation and potential bias. First, even though the results from the interview have reached saturation, generalization is still bias to be inferred. One of the reasons is because there are more various customer characteristics such as behavior in using financial services, customer psychographic, or customer social class. Therefore, a further quantitative approach should be taken to get further investigation in both rural and urban to triangulate the findings from this study. Second, customer awareness in branchless banking is relatively still low. Almost all respondents have not heard about branchless banking in Indonesia, so their perception could be bias in hearing the explanation about branchless banking from interviewer. To alleviate this bias, interviewer does not lead to particular favorability in exposing branchless banking.

#### 4. Results

This study explores how is the financial exclusion could occur in Indonesia for both unbanked and banked customers. This study found that five factors that presumed to affect financial exclusion were particularly occurred in Indonesia. Figure 4.1 shows factors that affect financial service choice, which are marketing, condition or product, access, price, and self-exclusion. The study found that all financial exclusions are occurred in both banked and unbanked customers. However, financial exclusion occurred differently for both banked and unbanked customers.

This study found that geographical location for bank location and customers' residence has strong correlation towards financial exclusion. For example, accessibility is more difficult to customers who live in rural areas because their residence is distant from bank facilities. Difficult access makes customers to be reluctant approaching bank, because it was too costly or not beneficial for them. This study also found how customer attitude is reflected by customer trust, experience, and perception. Customers who have good perception towards bank usually have positive trust and attitude towards bank. For example, consumers who say that they trust bank is because they perceived that bank have a good reputation or performance that encourage trust perception. However, positive attitude does not necessarily stimulate consumers to choose banks over informal financial institutions. Attributes in financial exclusion affect consumer final decision to choose financial services. For example, consumers trust big banks would not fail them as a client, but they are simply too distant from customers' home.

Figure 4.1 Influencing factors of financial services choice



#### A. Unbanked segments

Unbanked can be distinguished into ex-user or non-user. Unbanked who are ex-users had bank account because it has a practical utility. The bank account was found to be beneficial, because it had a purpose to save money, receive salary, or help them making transaction. However, ex-users usually stop using banking products because their cash flow is obstructed. For instance, ex-users were laid off from their job or fail at their microbusiness. This study did not find ex-user who stops using bank account because they are not satisfied. Usually, unbanked who stopped using banking products feel that their saving is not worth to be kept in banks because there is only small amount of money.

There are several reasons why they close their bank account. Firstly, they feel that maintaining bank account will be difficult if their cash flow rotation is too fast and marginal. They need all of their saving to satisfy their daily need such as food or accommodation. They do not want to go to bank every day to take small amount of money to survive, for instance one to two dollars. It is preferable for them to have all of their cash in home, and manage their daily cash flow directly. Secondly, ex-users do not think that maintaining bank account is beneficial for them. They feel that they need to pay administration fee every month, but never use it. They feel that one dollar per month is too high for them for a product that they do not use.

Non-users unbanked do not have bank account because they also feel that having bank account is not beneficial. However, they have different reasons with the ex-users. There are non-users who were not using bank account because they feel it redundant, since they have joined bank account with their spouse or family; or they do not use bank account because they feel they do not have enough money to save. Interestingly, both segments think that saving money is important. However, all unbanked explain that cash flow rotation is a major problem that they do not think it is worth it. As an alternative, they prefer to save money in different approaches instead of saving in bank ranging from individuals, community, registered institutions, or regulated institutions. For example, unbanked prefer to save money in their own private stash, *arisan* (type of Rotating Savings and Credit Association), child school, office cooperative, or gold

investment. In terms of transaction, unbanked does not think bank to be useful as a payment intermediary. Instead, unbanked goes to respective outlet respectively. So, unbanked goes to pays electricity, housing, food, or other transaction to the respective outlet that serves them in cash. Or as a substitute of banking transaction, unbanked goes to minimart that provide this payment services as well. Unbanked agrees that this method is easy and straightforward. They also feel safe and sure that the payment has already completed.

Unbanked has a perception that bank is honest and professional, especially big banks. They have a good attitude toward bank services, but do not want to use it because they feel it to be costly and not an appropriate product for them. Unbanked trust bank, because they are perceived to be professional. Ex-user also feel that bank never failed them, because they had good experience with bank services. They think that they trust bank, unless bank cannot deliver the service.

Unbanked is often related with financial exclusion, because they live in disadvantaged communities in concerning economic or geographical issues. In accessibility, this study found two points of views. Firstly, unbanked who lives in rural areas have geographical disadvantages to get with bank. They have restricted choices of financial service because their location does not have many bank facilities. This geographical challenge also makes them to rely on families or relatives to get information about banking product. Secondly, unbanked sees that access challenges work both ways for unbanked and bank institution. Unbanked sees that they cannot pass consumer credit assessment because bank does not have access to evaluate their request. In consequence, they usually use moneylender service that goes door-to-door. Moneylender becomes the only solution for unbanked if they cannot borrow money from their relatives. Even though the interest is high, about 10-20%, that also has short payment due, it is preferable for unbanked because they can borrow it quickly. As a consequence, unbanked get acquainted with informal financial institutions instead of bank.

Marketing exclusion was found to occur in both rural and urban areas. Unbanked explains that formal financial institutions such as bank do not reach them as much as the informal one. Unbanked have difficulties in receiving product information from bank. As a result, they need to ask their friends or relatives to know more. They also do not have the technology such as smart phone to access banking information. Though they have smartphone, it is confusing for them to read bank information by themselves. As a consequence, unbanked often borrow small amount of money from informal moneylender to fulfill their urgent need. Since moneylender serves unbanked directly in front of their home, unbanked become acquainted more with them instead of bank.

Table 1 Financial exclusion indicators of unbanked customers

Accessibility	Marketing	Affordability	Inappropriate Product	Self Exclusion
<ul style="list-style-type: none"> <li>• Financial service choices</li> <li>• Money lender</li> <li>• Credit</li> <li>• Assessment</li> <li>• Family</li> <li>• Relatives</li> </ul>	<ul style="list-style-type: none"> <li>• Product information</li> <li>• Technological access</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly fee</li> <li>• Minimum amount of loan</li> <li>• Collateral</li> </ul>	<ul style="list-style-type: none"> <li>• Small short-term loan</li> <li>• Minimum deposit</li> <li>• Document</li> </ul>	<ul style="list-style-type: none"> <li>• Feeling rejected</li> <li>• Lack of confidence</li> <li>• Financial literacy</li> </ul>

Unbanked feels transaction cost in bank burdening. First, monthly fee is not affordable for them, because \$1 per month is a valuable amount of money to pay. Also, they cannot afford bank services because their cash flow rotation is marginal and too fast. They feel that minimum amount of money to borrow from bank is too high. That is, they are afraid that they cannot afford to pay back the amount of money, so they prefer



to borrow from moneylender, because they offer small and short-term loan without collateral. Bank does not provide an appropriate product for unbanked; who are usually groups of poor people lives in disadvantaged areas. Besides of minimum loan that is set too high, unbanked cannot borrow money they cannot provide such as salary slip, collateral, or identity document. Differently, moneylender asks no collateral, minimum document, and grants loan immediately.

Unbanked do not have psychological issues with bank services. Usually, unbanked who had experience in using banking services only used Basic Saving Account or requesting for a loan. Unbanked usually ask information from family or relative before they apply bank services. When unbanked wants to ask a loan, they feel that they will be turned down because they cannot reach bank's requirement. However, some of unbanked do not blame bank that the requirement is too hard. They feel that demanding requirements from banks are necessary, in particular because banks are known to have expertise in that area. Unbanked does not feel embarrassed, fear, or shame to go to bank, because they have perception that bank employees will be professional and nice to help them. Unbanked who does not have experience with bank also think that bank is professional and nice. They do not want to use bank because they are not confident or afraid with bank, but because they do not know what kind of products that bank serves. Financial literacy was found to give a positive correlation on financial exclusion. It is a coherent to see that product knowledge stimulate customer's needs. Both of the group segments agree that reputable banks can be trusted, except small banks. Small banks are perceived to be risky because they are vulnerable to bankruptcy. Further, they also think that big banks are different because they can provide solution when there is a service error.

### *B. Banked segments*

Banked customer has more various demographic or behavioral segmentation than unbanked customer. They can be divided by income, geographic, job, and products or services they use. Customers may have one or more than one bank accounts. Each of respective account is used differently, such as for saving, withdrawal, payment, credit card, or other banking services. Usually, these multiple accounts can be distinguished as a main, family, business, or office account. There are also customers who live in rural and urban areas. Banked customers also have various ways to save. They save their money in informal and formal financial institutions. Informally, banked customer saves their money in private stash, gold investment, currency investment, child school, or *arisan*. Formally, they save money in bank account, apply bank deposit, and pension plan. In saving, many customers do not bring cash and store it via bank branches. Instead, they usually separate some disposable income from salary or other income, and then transfer it to their main account. Besides various ways of saving, they also have different ways to use banking services. There are groups of people who prefer to use mobile banking, ATM, or directly go to bank.

Customers feel that having bank account is more convenient for them, because it allows them to have money safety, access to ranging financial products, and easier transaction. It is more convenient to save all money in particular bank account without worrying to carry it every day. If they want to make transaction, they can use debit card or withdraw some cash from ATM. Some customers also feel that bank offers a good investment product such as bank deposit or currency. They also perceived that using banking product is easy whether it is from mobile bank, ATM, or directly go to bank. Differently with unbanked, banked customer has trust issues with bank. There are customers who trust bank wholeheartedly, but there are also customers who only trust bank to some extent. They see bank as institution that is not fully transparent, professional, or care with customer. It results a self-exclusion in trusting bank because they have or heard bad experience with bank.

Banked customer suffered from financial exclusion as well. Though they do not have difficulties in accessing bank or its facilities in urban areas. It is difficult to find bank facilities if they live in or travel to rural areas. They cannot easily go to ATM or bank branches regularly to fulfill their need. For example, a

customer may drive 10 kilometers to withdraw money from ATM. On top of that, ATM may out of cash because it is the only ATM in the area. Furthermore, since bank branch is also rare in rural areas, many banked customers are troubled in queuing. They hate to drive so far and also need to queue for three hours just to store their cash.

Table 2 Financial exclusion indicators of banked customers

Accessibility	Marketing	Affordability	Inappropriate Product	Self Exclusion
<ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Queuing</li> <li>• Physical facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Product information</li> </ul>	<ul style="list-style-type: none"> <li>• Mortgage interest</li> </ul>	<ul style="list-style-type: none"> <li>• Islamic teaching</li> <li>• Transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Distrust bank</li> <li>• Financial literacy</li> </ul>

Customers do not have difficulties in opening bank account. They agree that it is easy and fast to open bank account at the first time. In terms of asking some loan, customers who can provide all document requirements think that borrowing money from bank is time consuming, but not difficult. However, customers may also face difficulties to ask a loan, because they are difficult to access and assess. Customers whose loan applications are turned down happened because they do not have consistent revenue history. For example, a farmer can only show his income annually, because he cannot harvest monthly. The assessment can also become more difficult because bank did not have access to assess him directly. Instead, bank asked around his neighborhood to evaluate his business and character discreetly. There are also customers who got declined for applying a mortgage because his salary slip is too small, even though his accumulative take home pay is high in average. As a consequence, customers manipulate his income or looking out an upward appeal so bank would grant the loan.

Marketing usually get in touch with banked customer. They consistently offer products such as saving, insurance, credit card, or other banking products to banked customer via phone or cross selling at bank branches. However, being included in marketing list is not always a favorable for customer, because they feel it is disruptive. Although, banked customers mostly know basic banking products (e.g. basic saving, remittance, or credit card), they feel to have little information about other banking products (e.g. investment, specific saving account, mutual funds, or loan). They feel that banks actively sell certain products only to certain customer. For example, some customers receive a call to be offered a working loan, but some customers are not. Typically, banked customer who have regular income do not feel monthly fee or transaction fee in banking services costly. However, some customers who ask mortgage from bank think it is too expensive. The mortgage interest could eventually cost him half of the house's price. This situation makes him feel trapped and robbed with bank scheme. Many customers do not feel bank offer appropriate credit card, because it does not show a transparency and possible to charge unexpected cost. They feel that banking prices are considerably fair if it is transparent. Some customers feel that bank do not provide a clear disclosure about unexpected cost in credit card. Banked customer who uses credit card feel deceived because bank charges unexpected cost such as stamp duty or credit interest. Nevertheless, it does not make them to stop using credit card because it is convenient for them. Another finding shows that banked customer feels bank do not fit in with Islamic teaching. They think that if bank is following with Islamic teaching, bank can be more transparent and permissible to be used.

Many customers do not trust bank wholeheartedly because they have bad experiences. All customers who do not have bad experience with bank are usually trust bank sincerely, but their answer is reflected because 'I haven't encountered any problem yet'. When customers have bad experience, they do not necessarily stop using banking products. Customers stop using or asking banking products if they have spent

considerable amount of time. For example, farmer who got rejected because bank did not assess him directly makes him to stop asking for loan. Instead, he prefers informal cooperative that is more transparent and fairer in the assessment. If customers encountered problems that can be solved almost immediately through nearest bank branches or phone customer service, they will keep using banking products. Most customers feel that bank is not trustworthy, but they need it because it is convenient to have bank services. Many believes that the relationship between bank and customer is not because customers believe them, but because of transactional value.

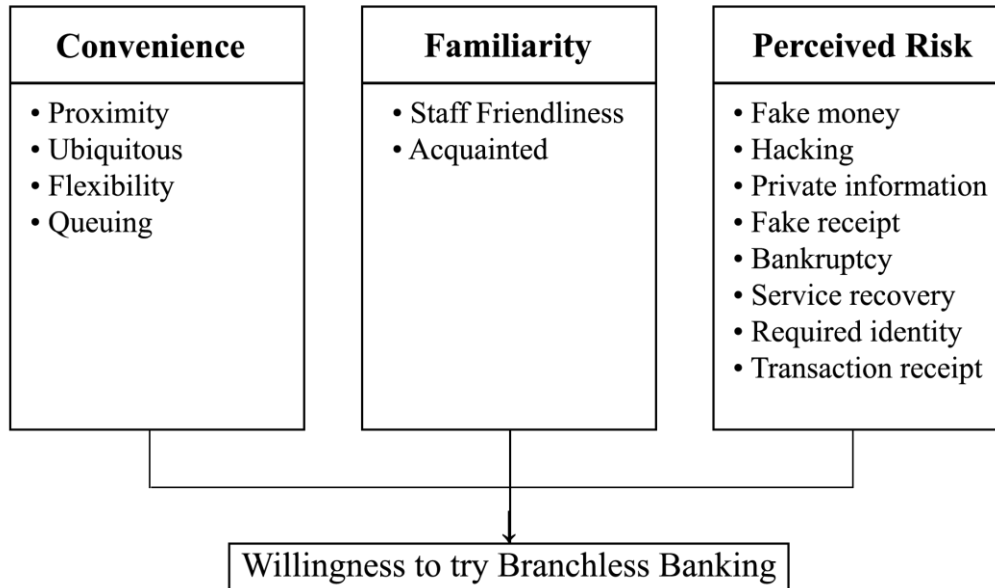
### *C. Willingness to try of banked and unbanked*

After series of questions about banking financial services that banked and unbanked use, they are asked about their opinion and willingness to try branchless banking. Almost all respondents have not heard about LAKU PANDAI, which is the branchless program name in Indonesia. Even though the program has been executed for one year, brand awareness is still low for both banked and unbanked in urban or rural areas. However, there are several customers who have actually tried branchless banking in rural areas, but not remembered as LAKU PANDAI. They only recognize the brand the respective bank they use, for example BRILink that is offered by BRI.

There are three factors that were found to affect both banked and unbanked willingness to try in branchless banking. These factors are benefits in accessibility, self-exclusion, and perceived risk. First, branchless banking is perceived to have better geographical convenience, because it is perceived to have closer proximity than going to bank branches. Both urban and rural customers think that going to kiosk may be closer than going to bank, since micro-kiosk is perceived to be available in the neighborhood. Particularly for rural customers, they feel enthusiast to find closer alternatives rather than driving more than figuratively 10 kilometers to find bank branches. Customer also feels upsetting when they have to queue in bank, because they need to spend another one to three hours to stay in bank. Instead, they think that going to kiosks or agents can be a good alternative rather than going to find bank facilities. They feel that kiosk can have closer proximity with customer's residence. Further, agents and kiosks are also perceived to be more ubiquitous because it is practically present in more locations than bank facilities.

Branchless banking is also perceived to provide a better familiarity for some customers, because they feel that agents can have more connection than bank employees. They think that agents can be friendlier, because customers and agents are likely to be acquainted. Besides, some customers also feel that agents can help solving problem when there is error better than customer service in bank. They think that because agents are acquainted with customers, agents cannot run away because they practically know each other. Some customers also think that they do not have to bring cash to buy items in kiosk, because they can charge it on customer's account and may have verbal negotiation between customers and agents.

Figure 4.2 Branchless banking willingness to try indicators



However, branchless banking is also perceived to be disadvantageous to the customers. There are two major reasons of this perspective. First, agents are difficult to have a positive perceive trust from customers. Segments dislike branchless banking because they feel agents are hard to be trusted, since they are not bank employees. Even though agents are legitimate bank's partners, some customers feel that agents are not part of bank stakeholders. Secondly, they think that it will be difficult to complaint if there is a fraud or service error in the service. Customers think that agents can make fraud such as faking receipt, giving fake money, selling private information, or hacking customer's account. Customers also afraid that even though agents are honest, service error may occur if they do transaction with agents. Customers believe that they have to complaint to bank directly if there is an error, because agents cannot solve the problems. To make agents become trusted, customers think that they need to see identification attributes that show the legality of agents' business and also receipt as transaction documentation.

Either customers who support or not support branchless banking do not necessarily make them willing to try branchless banking. For example, there are customers who think branchless banking is beneficial, but do not want to try because it is frantic to use both bank and agents. They prefer to go to bank instead, because it is more straightforward. On the other hand, there are customers who think branchless banking is harmful, but want try using it because it looks to be more convenient than going to bank. This implies that consumer adoption of branchless banking has various segments that depends on the situation that consumer experiences. For example, customer who lives in rural says that agents are hard to be trusted, but they want to try it because it is closer. Meanwhile, customer who lives in urban says agents can be trusted if they have visual attributes, but do not want to try because it is closer to go the bank.

## 5. Conclusion

This study could draw several inferences. First, both unbanked and banked customers suffer from financial exclusions differently. Unbanked groups are likely to suffer from financial exclusion, because they live in disadvantaged areas with limited income. Unbanked can also be categorized into non-user and ex-user. Between these two groups, there are differences as well, because ex-user had experience in using banking products. Unbanked have good attitude towards banking services, they think that bank services have purpose and are handled professional. On the other hand, banked customer also suffers from financial

exclusion. This study found that accessibility is usually a problem shared by both unbanked and banked customer. There are differences that show how urban and rural groups have perceived in banking services.

In rural areas, accessibility is shown to be more difficult than urban areas. Customers need to travel afar to reach banking facilities, and they need to queue because bank facility is rare. Interestingly, self-exclusion between unbanked and banked customer is different. Unbanked do not fear or afraid with bank. Instead, they feel bank is professional and honest. They do not adopt banking services because they think they do not have money, so they know it will not be affordable for them. Meanwhile, some banked customers feel that bank can only be trusted to some extent. Banks are not transparent and may have hidden agenda that trap the customers. Banked customers are divided into customer who trust banked wholeheartedly, and customers who only trust bank in transactional value. One of the reasons of these differences could be because of the experience that customers have encountered or heard in bank.

This study also found the suggested indicators of customer willingness to try branchless banking. It was found that customers are willing to try branchless banking because of advantages in accessibility and familiarity with the agents. However, customers also feel reluctant to try branchless banking because of the perceived risks. Both unbanked and banked feel that branchless banking could help accessibility problem, especially for groups who live in rural areas. They do not have to travel quite afar to have financial services, but instead they can go to kiosk nearby. Branchless banking could also encounter self-exclusion that makes customer feel intimidated with bank services. Interestingly, this finding was shown in both unbanked and banked customers who think that agents might be friendlier than bank employees. They think that agents can be an acquaintance in the neighborhood, so they are known one and another. There are also some customers who think that agents do not possess risk, because they know where the agents live, and can ask for a solution directly when there is a service error. However, in terms of risk, both unbanked and banked feel that agents may do a swindling activity such as providing fake money, hacking, selling private information, or fake receipt. They are also thought to be vulnerable to bankruptcy than bank, which they perceive to endanger their saving account. In order to tackle this risk, both of the groups agree that agents need to have legitimate visual attribute and valid receipt for the transaction.

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