

Responsible Finance: *Is It Matter?*

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Financial Inclusion World Bank Perspective

Financial inclusion: Access to a broad range of financial services delivered in a responsible and sustainable way, including savings and transaction accounts, but also insurance, credit, longer-term savings plans and other financial services to build wealth. Transaction accounts provide an entry point, or gateway, to financial inclusion.

Financial inclusion dimension:

- Access to financial services and products
- Usage of financial services and products
- Quality of financial services and products



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Universal Financial Access (UFA)



Goal: By 2020, adults globally have access to a transaction account or electronic instrument to store money, send and receive payments as the basic building block to manage their financial lives

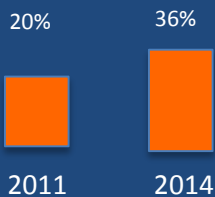
In 2015: still 2 billion adults to reach.

WBG Target: to contribute to 1 billion new accountholders by 2020

Indonesia ...

Flash Data Update

% of adults with financial access:



Opportunity (potential new account holders):

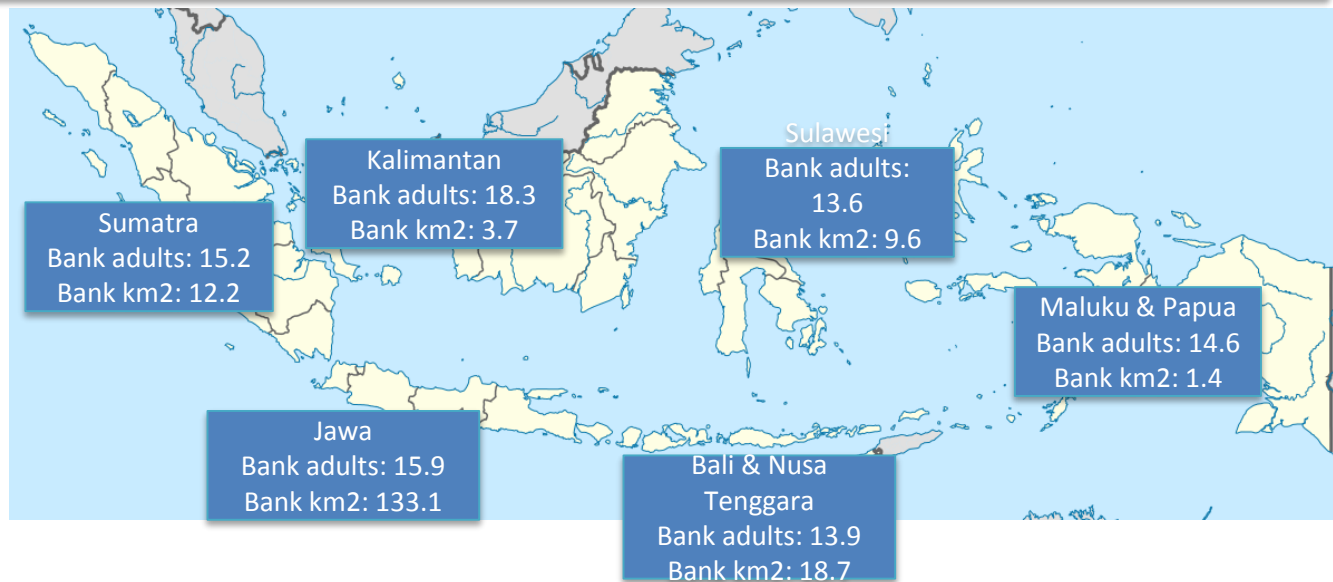
113 million

of Unbanked

2011
138M

2014
116M

Bank Branches: 28,935
 # ATM: 99,286
 # LKD agents: 69,548
 # Laku Pandai agents: 60,802



Bank adults: Bank Branches per 100,000 adults
 Bank km2: Bank Branches per 1000 KM Square

Source: BI (2015) and OJK (2015)

Gradual Loss of Client Focus – Current trend

- Impact of Financial Crisis
 - FIs find themselves in a low interest environment where returns on investments have not returned to pre-crisis levels. This leads FIs to cut costs to maintain profitability and pay less attention to the fair treatment of clients
- Trend in Many Countries, including Indonesia
 - Perception of the pursuit of financial objectives - **profit and volume alone**, losing sight of development objectives -- **Double Bottom Lines?**
 - Lack of transparency, limited efforts to reduce transaction costs; regulatory arbitrage
 - A mono-product mindset with little regard for real customer needs, slow-moving and non-innovative products
 - Rising NPL and clients over-indebtedness

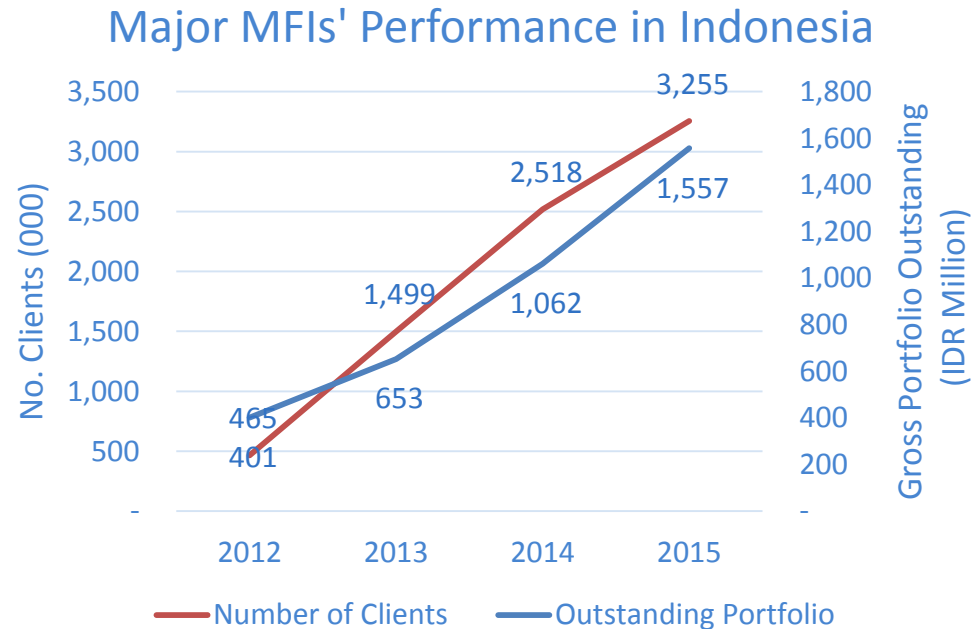
Gradual Loss of Client Focus – Over-indebtedness Study

Microfinance* Market – Growing Rapidly

- Microfinance providers have been **growing rapidly over the past few years** in Indonesia.

Average growth for last 4 years (y-o-y):
Gross loan portfolio: 59.10%
Number of clients: 48.60%

5 major MFIs have 6.1 MFI branches per 100,000 poor population in West Java which is almost 3 times the number of branches in Central Java & Yogyakarta Provinces and 2 times when compared to East Java



**Data From: MBK, BAV, Komida, BTPN Syariah and DMS

Source: Microsave

Gradual Loss of Client Focus – Over-indebtedness Study

The findings imply...

There are emerging signs of stress due to high concentration of MFIs!

MFI	Customers' Behavior
<ul style="list-style-type: none">• Giving multiple loans in spite of prior knowledge,• Aggressive growth targets• Indulging in unhealthy competition	<ul style="list-style-type: none">• Taking multiple loans due to easy availability of loans• Growing dislike for the joint liability system,• Utilising loans for non-productive purposes

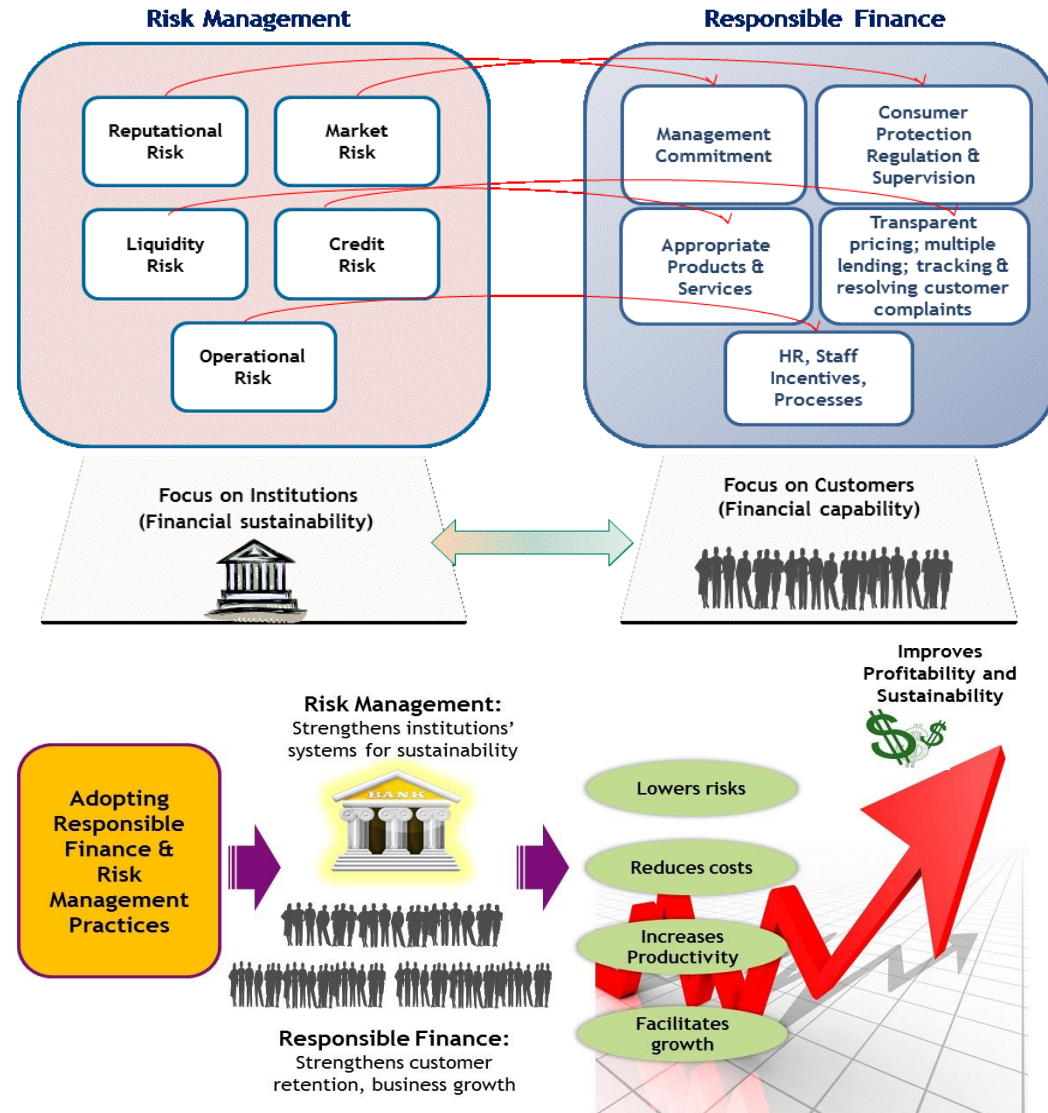
Source: Microsave

IFC/WBG Perspective

Key Drivers of Crisis

- Low appreciation of risks by investors and lenders
- Rapid expansion of credit in concentrated markets + breakdown of credit discipline
- Growth vs internal controls
- Credit only approach

Source: CGAP



Responsible Finance Principle

- ❑ A broadest meaning as finance with guiding principles for how financial services should be delivered to live up to the challenge of promoting sustainable development.
- ❑ It should incorporate social, developmental, and environmental dimensions.
- ❑ The critical dimension of financial sector responsibility is fair treatment of and education for clients and acting in ways that protect clients' social and economic welfare.

The aim to facilitate sustainable and responsible Microfinance (MF) growth in Indonesia through supporting the adoption of good practices in Responsible Finance (RF) by Indonesia microfinance providers.

IFC/WBG's Role in Responsible Finance

Three Pillars

Consumer Protection Regulation

Customer protection regulation, client data privacy, financial education and awareness programs

Financial Institutions Self-regulation

Embedding RF practices in, customer acquisition and relationship management, product design and delivery, risk management, and operation.

Financial Education

Building capacity of end clients through financial awareness and financial education programs

IFC/WBG's Global and Country Convening Role

IFC co-founded the sector-wide **Responsible Finance Forum (RFF)**. IFC's plays a global convening role and coordinates participants from the financial sector, bilateral and multilateral donors and broader international community for Financial Inclusion.

Indonesia – IFC/WBG in partnership with SECO develops Indonesia Responsible Access to Finance Platform and supports adoption of RF Principles by wider MF sector

Responsible Finance Diagnostic

IFC's Responsible Finance diagnostic tool supports institutions in operationalizing responsible finance interventions within their business. The tool provides analysis and recommendations for institutions seeking to adopt responsible finance practices.

IFC/WBG Priority and Agenda

IFC PRIORITY AREAS	SECTORAL INTERVENTIONS	INSTITUTIONAL INTERVENTIONS	INDIVIDUAL LEVEL INTERVENTIONS
<p>Adoption of good practices in RF</p> <ul style="list-style-type: none"> • Started RF initiatives in 2015 • Design the RF program inline with Financial Inclusion 	<ul style="list-style-type: none"> • Convening stakeholders: RF Platform • Common Code of Conducts for the MF sector • Designing Monitoring systems for CoC/RF charter implementation by SROs • Capacity Building 	<ul style="list-style-type: none"> • Assisting MFIs to adopt best practices (SMART Campaign) 	
<p>Address Over Indebtedness</p> <ul style="list-style-type: none"> • Study on over-indebtedness • Collaboration with private Credit Bureaus 	<ul style="list-style-type: none"> • Initiate and support collaboration MF sector with credit bureaus to include client data reporting 	<ul style="list-style-type: none"> • Readiness analysis, to identify gaps in processes, systems and data fields of MFIs 	<ul style="list-style-type: none"> • Implementation support to client awareness program on over-indebtedness and credit bureau to borrowers
<p>Build capacity of borrowers for customer protection</p>	<ul style="list-style-type: none"> • Design module and pilot training for financial education and awareness raising 	<ul style="list-style-type: none"> • Build capacity of management and staff of MFIs deliver financial education module 	<ul style="list-style-type: none"> • Implementation support to client awareness program