Measuring MSEs's Literacy on Banking Products and Digital Financial Services

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Abstract

Financial services is the one among the strategic sectors in an economy. In order to provide provide optimal benefits for the community, the availability of some financial service's infrastructures is important. Banks and non-bank financial institutions are needed to accelarate some productive sectors. The problem is, the availability of banks and non-bank financial institutions is still relatively limited. One of the economic sector that is very potential to be developed as a support for the national economy is the micro and small enterprises (MSEs). Ironically, MSEs is a sector that is actually less touched by financial services, both banks and non-bank financial institutions. Related to those conditions, the Creative Economy Agency encourages micro and small enterprises (MSEs) to adopt digital technology in their business. By digitalization of their business, MSEs are expected to get business financing more easily. Bank Indonesia as monetary authority lounched Digital Financial Services (DFS) as a part of payment systemt. The implementation of DFS by MSEs can be expected to accelerate their growth and improvve social welfare. In order to provide optimal benefits of DFS, the literacy of MSEs on banking products and digital financial services become important. This study aims to explore the literacy of MSEs of DFS. This study aims to explore the literacy of MSEs of banking products and DFS. This research found that MSEs enterpreneur's knowledge of the banking products they have is relatively low. They tend to pay less attention to the atributes of banking products they have. Substantially the knowledge of MSEs regarding digital financial services and e-money tends to be correct, but they don't not mention completely. They often use digital financial services in payment of electricity, water, telephone, internet and cable TV. Media for DFS transactions that tend to be more widely used are mobile phones.

Keywords: digital; financial; services, banking, MESs

I. INTRODUCTION

1.1 Background

Financial services is the one among the strategic sectors in an economy. In order to provide provide optimal benefits for the community, the availability of some financial service's infrastructures is important. The existence of banks and financial institutions are needed to support the economic activities, especially concern with capital matters. Banks and non-bank financial institutions are needed to accelarate some productive sectors. The problem is, the availability of banks and non-bank financial institutions is still relatively limited

One of the economic sector that is very potential to be developed as a support for the national economy is the micro and small enterprises (MSEs). Ironically, MSEs is a sector that is actually less touched by financial services, both banks and non-bank financial institutions. As we have known, MSEs often has difficulty in accessing financial institutions to obtain business financing sources or obtain additional capital to develop their business. In fact, one of the main problems faced by MSEs is limited capital. Related to those conditions, the Creative Economy Agency encourages micro and small enterprises (MSEs) to adopt digital technology in their business. By digitalization of their business, MSEs are expected to get business financing more easily as the rise of online financial services (fintech).

Bank Indonesia as monetary authority develops and organizes Digital Financial Services (DFS) as a part of payment system services development. By using DFS, people who are geographically difficult to access financial services and marginalized groups can be affordable without using a traditional bank branch office. Access to financial services that are appropriate to the needs of the community can be obtained from DFS Agents or mobile phones. The implementation of DFS by MSEs can be expected to accelerate the growth of productive economic sectors in the frame of improving social welfare. In order to provide optimal benefits of DFS, the literacy of MSEs on finanscial services is important. This study aims to explore the literacy of MSEs of banking products and DFS.

1.2 Research Problem

The implementation of DFS by MSEs can be expected to accelerate the growth of productive economic sectors in the frame of improving social welfare. There for, the literacy of MSEs on banking product and DFS is important. This study aims to explore the literacy of MSEs of banking product and DFS that breakdowned into several research problems as followed:

1. What's types of banking product are owned by MSEs?
2. Do MESs have product knowledge about banking products they owned?
3. Do MESs have knowledge about financial technology?
4. What's MSEs know about digital financial services?
5. What's types of digital financial services are used by MSEs?

1.3 Research Aim

The ultimate goal of this study is measuring the literacy of MSEs related to financial services. As the research problems that breakdowned into five questions, the aims of this research are:

1. Knowing the types of banking product are owned by MSEs
2. Knowing MSEs's product knowledge abaout banking products they owned
3. Knowing MSEs's knowledge about financial technology?
4. Knowing MSEs's knowledge about digital financial services?
5. Knowing the of types of digital financial services are used by MSEs

II. LITERATURE REVIEW

2.1. Micro and Small Enterprises (MESs)

Based on Law Number 20 of 2008 concerning with Micro, Small and Medium Enterprises, (MSMEs), what is meant by MSMEs is as follows:

1. Micro Enterprises are productive businesses owned by individuals and / or individual business entities with the following criteria:
   a. have a net worth of a maximum of Rp. 50,000,000 (fifty million rupiahs) not including land and building of business premises; or
   b. have annual sales results of a maximum of Rp. 300,000,000.00 (three hundred million rupiahs).
2. Small Business is a productive economic business that is independent, carried out by individuals or business entities that are not subsidiaries or not branches of companies owned, controlled, or become part of either directly or indirectly from Medium Enterprises or Large Enterprises that fulfill criteria:
   a. Have a net worth of more than Rp 50,000,000 (fifty million rupiahs) up to a maximum of Rp 500,000,000.00 (five hundred million rupiahs) not including land and buildings for business; or
   b. Having annual sales results of more than Rp. 300,000,000.00 (three hundred million rupiahs) up to a maximum of Rp. 2,500,000,000.00 (two billion five hundred million rupiahs).

There is no doubt that Micro, Small and Medium Enterprises (MSMEs) have enormous potential and as one of the engines of the economy. As an economic driver, MSMEs have a role to play in the production of goods and services, employment and export. Historically experience also shows that MSMEs is an economic sector that is able to survive due to its flexibility during an economic crisis. In the economic recovery from the crisis of 1997-1998, the very large number of MSME units (around 41.36 business units) has become a solution for employment meanwhile many large companies are streamlining which causes termination of employment. Every investment in the MSMEs sector can create greater employment opportunities than large companies. This is because investment in large companies tends to be capital intensive. This condition proves that the ability of MSMEs to absorb employment plays a major role in reducing unemployment (more than 90 percent of the workforce in Indonesia is in the MSME sector. MSEMs also become a source of substantial local revenue (PAD); and having a type of business that tends to be based on local resources and very little depends on imported raw materials.

Based on data from the Indonesian Statistics, the role of MSMEs in Gross Domestic Product (GDP) also tends to increase. In 2007, the contribution of MSMEs to national GDP according to current prices was 56.23 percent and 56.6 percent in 2014. In terms of employment in 2008 to 2014, MSMEs were able to absorb 90,896,270 workers or 97.04 percent of the total absorption of existing workforce (State Ministry of Cooperatives and SMEs of the Republic of Indonesia, 2014). Like the role of MSMEs in the national economy, MSMEs in Central Java Province play a very important role, both in terms of output and employment. The number of MSMEs in Central Java at the end of 2014 was 99,881 units. The number of MSMEs experienced higher growth. During the last 5 years (2010 - 2014), the number of workers absorbed in the MSME sector increased by 610,000 people. A very significant increase occurred in 2012 to 2013, which increased by 39.03 percent. This very significant increase can be attributed to the global financial crisis in 2008.

2.2. Financial Services and Information Technology

Financial institutions are financial service providers (managing finance) for their customers. This institution has a financial intermediary function, which brings together parties who need funds with those who are over-funded / fund owners. Financial institutions play a role in transferring assets, liquidity, revenue allocation and transactions. There are two forms of financial institutions, namely bank financial institutions and non-bank financial institutions. Referring to the Law of the Republic of Indonesia Number 10 of 1998 dated November 10, 1998 concerning banking, banks are business entities that collect funds from the public in the form of deposits and channel them to the public in the form of credit and / or other forms in order to improve the standard of living of the people. That is, banks have business activities to collect funds from and channel back to the community. As stated in the law, in Indonesia there are several types of banks that make up the banking system. The banking system in Indonesia based on Law Number 3 of 2004 concerning the Central Bank and Law Number 10 of 1998 concerning banking consists of commercial banks and Rural Banks. Commercial Banks and Rural Banks have a relatively similar main activity, namely collecting funds from the public in the form of deposits in the form of time deposits, savings and / or other similar forms, providing credit, providing funding and placement of funds and several other activities. The difference between commercial banks and Rural Banks is that in terms of operational activities, the Rural Banks cannot create demand deposits, and has limited operational scope and activities. In its business system, there are two types of banks, namely banks that carry out conventional business activities and those based on sharia principles. Commercial banks are also differentiated into foreign exchange banks and non-foreign exchange banks.

Non-bank financial institutions are all agencies that carry out activities in the financial sector, which directly or indirectly raise funds mainly by issuing valuable paper and channeling it into the community, especially to finance company investment. Non-bank financial institutions include cooperatives, credit unions, venture capital, insurance, pensions, and pawnshops.

Information technology has changed the order of life including the economic order. Nowadays, the economy has shifted from an old economic system that is analogous and based on natural resources towards a new economic system based on science and technology or often referred to as digital economy. The development of technology, especially information technology, has changed the patterns of economic activity both in production, consumption and distribution, both in the manufacturing and service industries. Financial institutions as financial service providers which in their main activities raise funds from and channel them back to the community cannot be separated from technological developments. The development of information technology changed the pattern of financial services, especially related to how financial institutions deliver services to their customers. The application of information technology and electronic transactions has several advantages over traditional services. Some of the advantages offered include ease, speed, savings and flexibility. Some examples of the application of information technology to financial institutions (especially banks) include e-banking which includes services using ATMs, i-banking and m-banking. With the application of information technology consumers can access bank services for 24 hours a day through automated teller machines (ATMs), internet and mobile phones. By utilizing this service, customers can avoid long queues, road congestion, and service deadlines at the cash office.

E-banking is often referred to as electronic fund transfer (EFT), which is a type of service that uses electronic technology to replace paper transactions. Electronic fund transfers (EFT) can be done with tools such as cards or passwords that allow consumers or those who have the right to access their own accounts. Services can be obtained using an ATM or debit card and Personal Identification Numbers (PIN), scanning cards or even simply signing a signature. There are various types of e-banking:

1. Automated Teller Machines (ATMs) or 24-hour tellers. ATM allows individuals to transact at any time, both for withdrawals, savings, book transfers, and payments. Transactions are done simply by entering an ATM card and entering a PIN.
2. Phone banking. Phone banking is a type of service that allows customers to make transactions, namely simply by making payment orders or transferring books by telephone to the bank.
3. Internet banking. Internet banking is a service using the internet. Bank services can be accessed whenever and wherever there is a connection with the internet.
4. Mobile banking. Mobile banking, namely account transactions / access can be done through mobile phones (cellular phones)

2.3. Digital Financial Services (DFS) and Electronic Money (E-money)

Digital Financial Services (DFS) are financial services based on information technology. Digital Financial Services (DFS) is the development of Payment System Services and Limited Banking through the Financial Services Intermediary Unit or branchless banking. The implementation of DFS is expected to improve public access, especially for those who are currently unable to be served by banks in various banking services. Increasing access to banking services through the implementation of DFS is expected to be able to encourage an increase in the household economy, regional economy and national economy.

DFS is one of the inclusion financial instruments. As stated in Bank Indonesia’s circular letter number 16/12 /DPAU dated July 22, 2014 concerning Digital Financial Services in the context of inclusive finance through individual financial service agents, the DFS is a payment system services and/or limited financial services that’s carried out not through physical offices, but by using technology facilities such as mobile phone, web based and third party services (agents), with unbanked and underbanked service targets. Digital Financial Services provides convenience in services, affordable, low prices, security and trustworthy and comfortable

There are two types of DFS mechanisms, namely through digital financial service agents and financial transactions via mobile phones. Therefore, the presence or availability of mobile phones is an important factor in the implementation of DFS. Mobile phones are used to overcome the limited availability of traditional bank branches. Therefore, if the use of mobile phones in an area is high then the opportunity for the implementation of DFS is increasingly open. Along with efforts to improve the implementation of digital financial services (DFS), the term electronic money is increasingly popular. In general, electronic money can be defined as stored-value or prepaid products, ie there are a number of monetary values stored in electronic equipment. According to Bank Indonesia, Electronic Money (E-Money) is a payment instrument that meets the following elements:

1. issued on the basis of the value of money paid in advance to the publisher;
2. the value of money is stored electronically in a medium such as a server or chip;
3. used as a means of payment to traders who are not issuers of electronic money; and
4. The value of electronic money managed by the issuer is not a deposit as referred to in the law governing banking
5. The nominal money saved can vary.
6. Nominating electronic money is done by exchanging a certain amount of money or by debiting a bank account which is then stored in electronic equipmen

III. METHODOLOGY

The object of this research is MSEs's in Semarang district. The population of this study is MSEs's in Semarang that is potential for implementation of DFS. The unit sample of the research is business unit included in the category of MSEs. The most of sample units that become respondents in this study were MSEs in the trade and service sector such as grocery/mart owners, restaurants, delivery services, tailors, printing/offset and vehicles services. The sampling method used in the study is convenience sampling. The total number of respondents is 80.

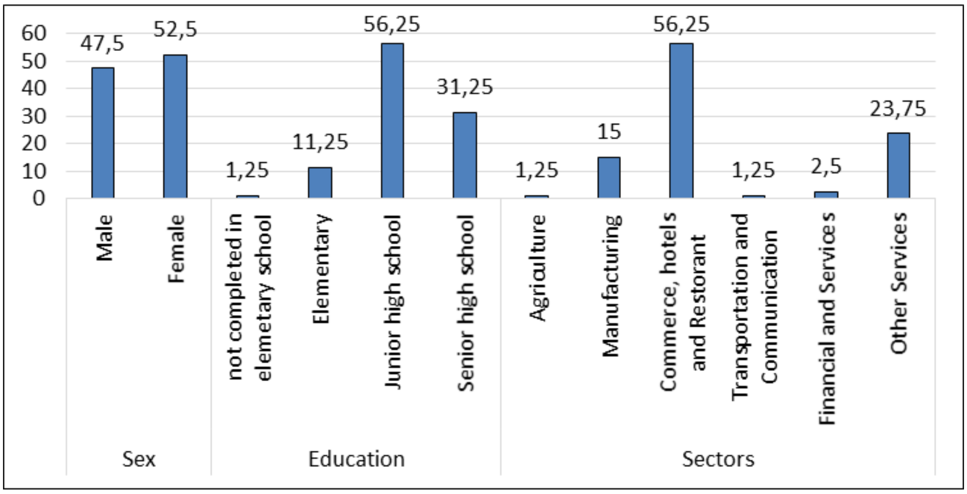
The main input of this study is primary data. However, this study also uses secondary data to deepen or confirm phenomena obtained from primary data. The primary data used this study are the ownership, purpose and product knowledge of account/banking product they owned; the knowledge of digital financial service and the types of digital financial services that thay already used, and their experience in using digital finacial services. Primary data were obtained by questionnaire method. Secondary data are obtained from various sources, especially statistics Indonesia.

This study uses descriptive analysis approach. The data will be presented in table and graph. Secondary data that relevant are processed and analyzed to find the role of MSEs to the economy. The primary data obtained is processed and analyzed to capture how far MSEs know about financial servics and digital financial services and also their experience about digital financial services that they alreday used.

IV. RESULT AND DISCUSSION

4.1. The Profile of Respondents

As mentioned previously, one of the economic agent that is very potential to be developed is the micro and small enterprise (MSE). Ironically, MSEs is still less touched by financial services, both banks and non-bank financial institutions. Whereas, the MSEs often have difficulty in accessing business financing sources or obtain additional capital to develop their business. This study aim to find how far MSEs as the economic agent know abaout the financial services. The study was conducted in Semarang and used 80 business units included in the MSE category as respondents. Figure 1 shows the profile of respondents that classified by sex, education and sector. By sex, there are 47.5 percent respondents are male and 52.5 percent respondents are female. Based on education that they have pursued, the most (56.25 percent) of the respondents have had a minimum of junior high school grade, and 31.25 percent of them are senior high school. There are 56.25 percent of respondents are MSEs in the commerce sector, 15 percent respondents are MSEs in the manufacturing.



The Distributian of Respondents (%)
Figure 1

4.2. The MSEs's Literation of Banking Product They Owned.

The micro and small enterpreneurs have banking products. This condition reflect that micro and small enterpreneiur have a good access to financial services. Banking products owned by almost all MSEs entrepreneurs are savings products, as many as 97.5 percent of respondents have savings accounts. Meanwhile, respondents who have a deposit account are not many, only 28.75 percent. Likewise regarding loan accounts. Respondents who have loan accounts are not more than

50 percent. Among the several types of loan products offered by banks, credit cards are the most widely owned by respondents, however there are only 37.5 percent of respondents have credit cards. The mortgages are only owned by 3.75 percent of respondents, the credit for motor vehicle ownership are owned by 17.5 respondents, and other credits owned by 2.50 percent of respondents. This study also shos the tendency that MSEs entrepreneurs who have loan accounts, they have more than one loan products. These conditions indicate that the funds channeled to the MSEs are relatively small. This phenomenon is consitent with the problems are usually faced by MSEs, the difficulty to acces the formal financial institution especially banks. The simple explanation for this phenomenon are the inability of MSEs to meet credit requirements such as good financial management, business plans, capacity, condition and collateral.

Most of MSEs enterpreneours have banking products, especially savings account. According to them, opening a bank account is easy. It does not require various requirements to have bank account. To open an account, potential customers simply write or provide personality data (usually demographic data) and submit an initial deposit in accordance with the condition (respondents tend to pay less attention to the size of the initial deposit). The question is, do they have produc knowledge os the product they owned?. As we have known, there are some requirements in opening and keeping account, such as initial deposit, retained/settled deposit, keeping the account remain active, and so on.

Table 1 The Conditions of Deposit

Conditions	*BCA*	*BRI*		*BNI Taplus*	
		Simpedes	Britama	Jabodetabek	Non Jabodetabek
Minimum Initial deposit	500.000	100.000	250.000	500.000	250.000
Minimum Deposit	50.000	50.000	50.000	50.000	50.000
Retained/settled deposit	50.000	50.000	50.000	50.000	50.000
minimum monthly balance	100.000	100.000	100.000	100.000	100.000
Administration fee	15.000	15.000	15.000	15.000	15.000
	20.000	20.000	20.000	20.000	20.000

There is also a condition to keep accaount remain active, Customers must make transactions at least once every 6 months. If there are no transactions in 6 months, the account will be categorized as a passive account (dormant account). Although the most (77.50 percent) of respondents open their own savings, there are only half of the respondents knew the minimum initial deposit that's required and minimum deposit for the next. The most of respondent do not know, or even often ignore the amount of balance that must be held to maintain the account. They also do not know that if there ere no transactions within 6 month, the account will be automatically categorized into passive or dormant accounts and in order to be used again, the customer must activate, for example by making a deposit in through the teller.

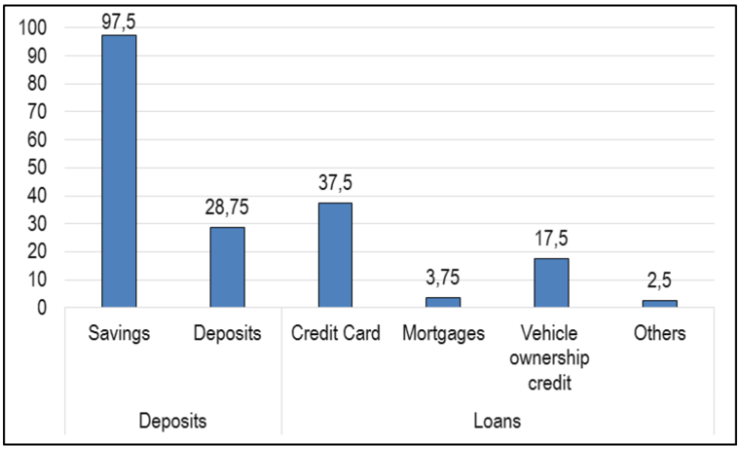


Figure 2 Banking Product Owned by MSEs

4.3.The MSEs's Literation of Digital Financial Services (DFS)

Along with the development of the economy, the financial services sector is developing and expanding. Besides because of an impact of needs, the development of financial services sector is also driven by the changes of information technology. The rapid development of the financial sector is an indication that financial services are an integral part of life, both at the level of individuals and organizations. That is, financial services are also an important part in efforts to improve community welfare or alleviate poverty. Therefore, it is important to pay attention to the distribution of financial services. The fact shows that there are groups that still have not been able to access financial services, there are unbanked and underbanked people. Various reasons cause the community to become unbanked, such as price barrier, information barrier, products barrier and channel barrier (Bank Indonesia, 2014). In order to ring financial services can be accesed by all of society, Bank Indonesia as the monetary authority, Financial Services Authority (OJK) as financial services authority and supported by the Ministry of Finance as fiscal autonomy, OJK launches an Officeless Financial Services program in the frame of financial inclusion or known as "Laku Pandai" by issued regulation number 19/ POJK.03/2014, Bank Indonesia also issued regulation number18/17/PBI/2016 which aims to increase the ease of Digital Financial Services (DFS).

The launch of DFS is also expected to be able to encourage the development of MSEs. The following description presents the literacy of MSEs regarding DFS. Regarding the term digital financial services, there are only 56.96 percent of respondents stated they had heard. They associate DFS with ATMs, payment services via mobile phones, facilitate transactions, electronic payment instruments, easy-fast-technology, mobile accounts, internet services, m-banking, and no need for cash. Oficially, DFS is a payment system and/or limited financial service service activity that is carried out not through a physical office, but by using technology facilities such as mobile based and web based and third party services (agents), with unbanked and underbanked community service targets. Nearly half of respondents already use digital financial services. Types of transactions that utilize digital financial services include payment of electricity, water, telephone, internet and cable TV (subscription television). Media for DFS transactions that tend to be more widely used are mobile phones.

Likewise with the term electronic money (e-money), there are only 54.39 percent of respondents stated they had heard about e-money. Respondents difine e-money as product of financial intruments. According to them, e-money is ATMs, bitcoin, flazz, indomaret card, debit card,credit card, balance, savings, m-banking, money used in online transactions, transactions via the internet such as DFS, digital money, money transfer process and e-toll. The types of e-money they know are e-toll, mandiri's e-money, BCA's flazz, brizzi, pulse, indomaret card, t-cash, debit card and credit card. Meanwhile, according to Bank Indonesia, electronic money is defined as a payment instrument in electronic form where the value of money is stored in certain electronic media. Users must deposit the money first with the publisher and keep it in electronic media before using it for transactions. When used, the value of electronic money stored in electronic media will be reduced by the transaction value and after that can be top-up. Electronic media to store electronic money values can be either chips or servers. The use of electronic money as an innovative and practical payment tool is expected to help smooth payment of mass, fast and micro economic activities, so that its development can help smooth transactions on toll roads, in the fields of transportation such as trains and other public transport or transactions at minimarkets , food court, or parking. Thus, what is known by the public about e-money is relatively the same as the definition of e-money by Bank Indonesia, even though there are no respondents who mention the reduced of the balance after the transaction.

V. CONCLUSION

This study aims to explore the literacy of MSEs of financial services that breakdowned into several research problems such as types of banking product are owned by MSEs, MESs's product knowledge about banking products they owned, the MESs's knowledge about digital financial services, the MSEs's knowledge about electronic money and the types of digital financial services are used by MSEs.

Related to this, it is known that

1. The most widely owned banking products are savings accounts. Almost all respondents have savings accounts. Only a small of respondents have loan accounts.

2. Respondents's knowledge about the details of the banking products they have is relatively low. In fact, they tend to pay less attention to the condition or the atributes of banking products they have.
3. Substantially the knowledge of MSEs regarding digital financial services and e-money tends to be correct even though it does not mention completely.
4. Types of transactions that often use digital financial services: payment of electricity, water, telephone, internet and cable TV (subscription television). Media for DFS transactions that tend to be more widely used are mobile phones.

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