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Financial Inclusion and Financial Literation for 'Laku Pandai' Customers

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Abstract

The purpose of this study is to determine the level of financial literacy and the impact of financial literacy on decisions on access and use of financial services for 'Laku Pandai' customers. The primary data used is from 'Laku Pandai' customers in Semarang City, Central Java Province. Data analysis using logit regression, with the scale of interval data on financial literacy is the interval. Whereas, the scale of the data on financial inclusion is nominal. The results of the study indicate that financial literacy will increase the probability of 1 time in using banking access and services. This is because banking information has been conveyed to 'Laku Pandai' customers. Thus, supply side or financial inclusion is not solely caused by financial literacy, but rather by information provided by banks to 'Laku Pandai' customers.

Keywords: financial inclusion, financial literation, Laku Pandai customers.

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1. Introduction

Financial inclusion can be defined as access and use of banking services. Increasing financial literacy can improve financial inclusion. The better financial literacy that is owned, the more it will increase financial inclusion, which in turn will increase micro and macro economic growth.

There are differences in the results of research in developing and developed countries. In developing countries [1] conducted research in 32 provinces in India and found that the average inclusion index value was 0.221 on a scale of 1. Jukan and Softic (2016) found that in developing countries Asia, Africa, the Balkans and Latin America, still have low financial inclusion [2].

In contrast, in developed countries, where financial inclusion is unlimited and the existence of equality of access, at the macro-economic level, will spur economic growth, reduce income inequality and poverty levels [3-4] and at the level micro-economics, it increases the level of income and household consumption [5].

To achieve macro and micro economic growth is not enough to do with financial inclusion, from the supply side. However, it is also necessary to develop financial literacy formation awareness, from the demand side. Karakurum-Ozdemir et al. conducted research in Mexico, Lebanon, Uruguay, Colombia and Turkey and explained the low level of financial literacy and inclusion, so that per capita income did not experience significant growth [6].

Indonesia as a developing country has implemented a strategy to increase financial literacy and inclusion. This is done in the hope that there will be a positive impact on the macro and micro economy. From the supply side, the Financial Services Authority (OJK) issued the Laku Pandai program (Officeless Financial Services in the Framework of Inclusive Finance) [7]. This program aims to provide banking services or other financial services through cooperation with other parties (bank agents), and is supported by the use of information technology facilities in its services. From the demand side, OJK has also carried out financial literacy since primary, secondary and high education, both through the distribution of pocket books and training for teachers.

Retail customers are the main target in the Laku Pandai program from OJK because of the limited access to banking and low financial literacy. The results of preliminary research on 10 retail customers are known, that (a) are reluctant to use banking services and prefer bank services that are more practical. (b) knowledge about business risk profiles, assets and liabilities that are still lacking in daily life.

Therefore, in this study the aim is (a) to know financial literacy and inclusion of Laku Pandai customers (b) to know the impact of financial literacy on financial inclusion of Laku Pandai Customers.

2. Theoretical Review

2.1. Financial behavior

Individual financial behavior is important but difficult to understand, determined and measured. Behavior is a demonstration of activity, which is possible to watch and be observed by others as well, so it is easy to measure. Tyson (2010) argues that getting financial information and knowing the right financial activities is not enough to bring about financial changes, there is a need to change bad financial habits to be good [8].

Financial behavior is about how people deal with money, or in other words, financial behavior is part of the application of financial literacy that is believed to contribute positively to people's financial well-being. Gradually, conscious behavior shows in decision making, comparing opportunity costs, looking for alternatives to waste minimization. Financial behavior can be divided into two; consumption and financing. The first is

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related to how money is used in consumption expenditure and the second is related to how money is used as investment and savings.

2.2. Financial literacy

Financial literacy in Indonesia starts from education in school until someone has not used money in daily life. Research on the importance of school literacy such as Jhonson and Margaret describes financial education as having a very important role for students to have the ability to understand, assess, and act in their financial interests [9]. Strengthened by the research of Lutfi and Iramani [10] and Ariadi et al. [11] which states that financial management education significantly influences financial literacy. Moreover, financial education is also important because students' financial decisions play an important role in their financial condition during their studies and even affect their lives after graduating [12]. Financial difficulties, for example due to debt, can make students change their career plans, because when pressed for financial needs, they will override idealism to get a job quickly and for higher pay. In addition, workers who do not have adequate financial literacy tend to spend more of their productive work hours to deal with their personal financial problems [13]. However, with armed financial literacy, they can better organize their lives in the future; and can prosper themselves, their families and the environment around them.

Financial literacy is related to one's competence to manage finances. Financial literacy is defined as the knowledge and understanding of the concepts of finance, ability, motivation and trust in applying some knowledge and orderly understanding in making effective decisions within the scope of financial contexts to improve the financial well-being of individuals and individuals and enable them to participate in economic life.

2.3. Financial inclusion

Inclusive financial policy from Bank Indonesia and OJK is a form of financial service deepening aimed at people who are socio-economically limited by access. So that the community can use formal financial products and services such as keeping money, saving, loans and insurance.

The goal of the financial inclusion program is the availability of financial services for all segments of society, with special attention to the poor, productive poor people, migrant workers, and residents in remote areas.

Sharma [14] and Grohmann and Menkhoff [15] measure financial inclusion through two indicators namely (a) access to financial services and (b) the use of financial services. For indicators of access to financial services, are (a) measuring access to bank accounts, the proportion of the population that has bank accounts, including savings accounts and cellular banking accounts (b) measuring debit card access, that is the proportion of the population that has debit cards and uses for services finance.

While the indicators for the use of financial access are (a) the use of bank accounts, namely the proportion of the population that has used savings accounts in the past year and (b) the use of credit cards, namely the proportion of the population using their debit cards last year.

3. Research Methods

The approach of this research is quantitative with the type of descriptive research to answer the first research objective and explanatory research objectives to answer the second research objective.

The data used are primary data, namely 46 Laku Pandai customers in the city of Semarang. A total of 37 customers (80.43%) earn income from work as traders and use income for the productive sector only at 19.5% (9 people). Most customers (37 people or 80.43%) use for consumption needs. The average income of respondents a month is Rp.5,560,000 and 11 customers (23.91%) who have income above the average. The average monthly expenditure of respondents is Rp.4,333,000 and Laku Pandai customers who have expenditure above the average are 28.91%.

Data analysis using logit regression where the dependent variable are access and use of financial services and the independent variable is financial literacy. The scale of the data on the dependent variable is nominal and the independent variable is the ratio (value of financial literacy).

4. Result and Discussion

4.1. Result

4.1.1. Financial literacy

Based on the table 1 above, average value of financial literacy is 67.39 with a deviation standard of 19.93. This means that variations in data are very large or heterogeneous

TABLE 1: Financial Literacy Data.

Mean	67.39
Median	70
Modus	80
Deviation Standard	19.93
Source: Processed primary data (2018)	

data. There are quite high disparities of financial literacy of "Laku Pandai" customers. Most of the customers are good at having financial literacy of amounting to 80 (18 people or 39.13%), amounting to 100 (5 people or 10.87%), amounting to 60 (13 people or 28.26%) and 10 people (21.74%) having less financial literacy from 60.

The Median has a value that is relatively the same as the mean, which means there is no extreme frequency value from the data.

4.1.2. Financial Inclusion

TABLE 2: Financial Literacy Data.

Financial Access	Total	Percentage
Savings ownership	46	100.00%
ATM card ownership	39	84.78%
Use of financial services	40	86.96%
Saving of the previous period	34	73.91%
Source: processed Primary data (2018)		

Based on financial inclusion data in the table 2, it can be seen that more than 70% of Laku Pandai customers have access to the financial sector and utilize financial services from banks and other financial institutions.

4.1.3. Hypothesis testing

Based on the table above, if the Estimated Parameters model is known as Y = B_1+ B_2X_1, the logit regression equation from the test results is

$$\ln \frac{P\ (X_i)}{1 - P\ (X_i)} = 0.8522 + 0.00074X_1 \tag{1}$$

1-P (xi) is the opportunity or probability of accessing financial services while the opposite of P (xi) as an opportunity not to access financial services. Therefore, In [P (xi) / 1-P (xi)] is simply a log of the comparison between opportunities to access financial

Table 3: Hypothesis Testing.

Variable	Coefficient	Std. Error	z-Statistic	Prob.
X1	0.00074	0.078451	0.486870	0.0264
C	0.8522	8.465330	-2.347876	0.0189
McFadden R-squared	0.049062	Mean dependent var	0.840000	
Obs with Dep=0	1	Total obs		46
Obs with Dep=1	45			
Method: ML-Binary Logit (Quadratic hill climbing)				
Source: Processed Data (2018)				

services with the opportunity not to access financial services. To interpret the logit regression model, the odds ratio (ψ = e^{β}) is used where e is the number 2.71828 and β is the coefficient of each variable. For example, the odds ratio for variables X_1 = e $^{0.00074}$ so that Laku Pandai customers who have financial literacy are 1.0 times the chance to access financial services. But the results are not significant and the R square value is 4.9%.

4.1.4. Financial literacy and use of financial services

Table 4: Financial Literacy and Use of Financial Services.

Variable	Coefficient	Std. Error	z-Statistic	Prob.
X1	0.000777	0.078451	0.486870	0.6264
C	0.7301	8.465330	-2.347876	0.0189
McFadden R-squared	0.037062	Mean dependent var	0.760000	
Obs with Dep=0	5	Total obs		46
Obs with Dep=1	41			
Method: ML-Binary Logit (Quadratic hill climbing)				
Source: Processed Data (2018)				

Based on the table above, so the equation is:

$$\ln \frac{P\left(X_i\right)}{1-P\left(X_i\right)} = 0.7301 + 0.000777 X_1 \tag{2}$$

To interpret the logit regression model, the odds ratio (ψ = e^{β}) is used where e is the number 2.71828 and β is the coefficient of each variable. For example, the odds ratio for variable X1 = e $^{0.000777}$ so that Laku Pandai customers who have financial literacy are 1.0 times the chance to access financial services. But the results are not significant and the R square value is 3.7%.

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4.2. Discussion

This paper finds quite interesting results, financial literacy does not increase the probability of accessing and using “Laku Pandai” financial services. The use of access and financial services can be increased without relying on financial literacy.

This phenomenon can be interpreted that customers who are good at accessing or using financial services are not only motivated because of financial literacy. Customers who have good or bad financial literacy still access and use financial services.

This shows that from the supply side it has shown success. Various banking services have now entered into all community activities, including “Laku Pandai” customers.

Banking has an important position to improve access and financial services. The information provided (supply side) regarding access and service greatly influences the “Laku Pandai” customer’s decision. Supply side has a large contribution because there are unlimited resources to build or increase the number of customers.

5. Conclusion

We found a number of research results, namely, first, most “Laku Pandai” customers have used banking institutions, and started leaving non-formal financial institutions. Our respondents are the majority of business actors who were previously targets of non-formal financial institutions to switch to utilizing formal financial institutions. Second, the use of access and financial services is apparently not influenced by financial literacy. This shows that the demand side (literacy) can be formed by itself if the supply side has succeeded. Third, the low access to credit for “Laku Pandai” customers from formal banking due to limited collateral and bankable documentation.

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