

MicroSave Briefing Note # 119

Understanding Demand for Financial Products among the Youth of Central Java

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March 2012

Background

Indonesia has the world's fourth largest youth population, of over 38 million.^{1, 2} But over 20% of this youth are neither in school nor employed, and over 50% of youth in the labour market are unemployed or underemployed.³

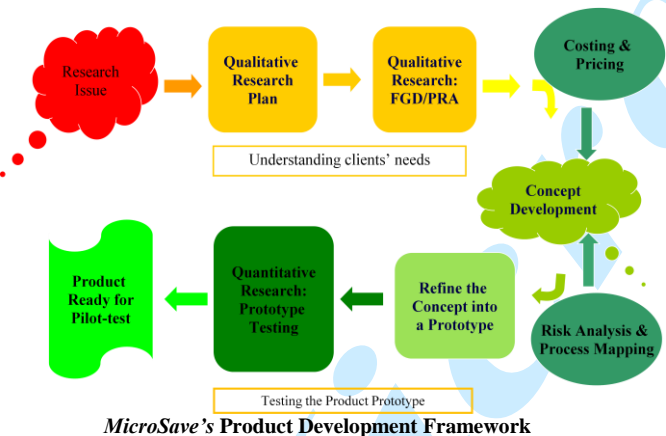
MicroSave was contracted by Plan Indonesia to conduct research to better understand youth and their financial needs.

Research Objective

MicroSave conducted exploratory market research to understand the needs for financial products, and the perceptions of existing financial products, amongst the youth of central Java and to suggest suitable client-responsive product(s).

Framework of Product Development

MicroSave's product development framework was used to prepare a mix of products responding to a range of market segments.



Research Plan

The research was conducted with the sample size of 400, primarily women, across 6 villages of Grobogan district, using PRA Tools (LCA, PAR, RPR)⁴ and individual interviews.⁵

Key Findings

The following lifecycle needs emerged as predominant financial stress points in the life of the youth:

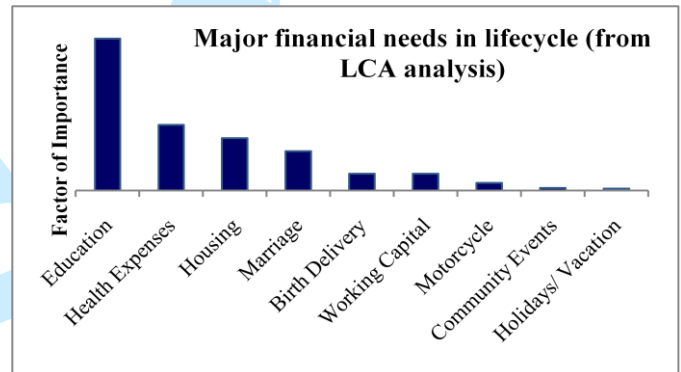
Education: own education for the younger population (substantial amounts are required to enroll in higher

education) and children's education for older population.

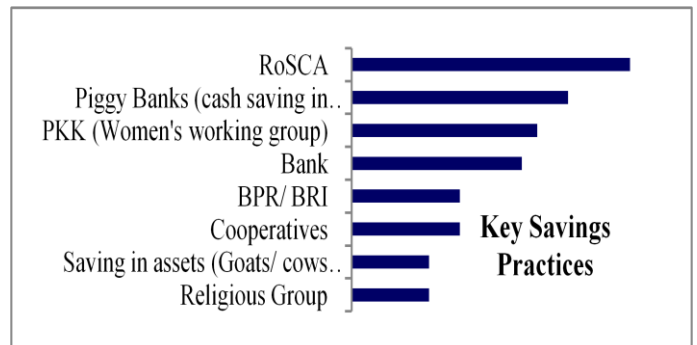
Health Expenses: important due to the uncertainty.

Housing: significant, especially in the 20-25age group.

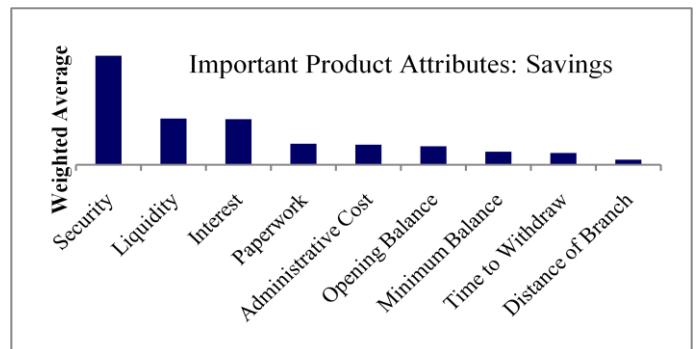
The respondents save both in cash and kind using various mechanisms to meet these needs. However there is an aversion towards formal savings because of account maintenance charges, minimum balance requirements, and the distance of financial institutions from the villages.



Some of the key saving mechanisms are given in the graph below:



The important attributes sought by the youth in savings products are tabulated below:



¹ Young women and men between the ages of 15 and 24

² Unlocking the Potential of Youth—Indonesia Youth Employment Action Plan. An initiative of the Indonesia Youth Employment Networks supported by the Ministry of Manpower and Transmigration and ILO, 2005

³ Ibid

⁴ PRA: Participatory Rapid Appraisal; LCA: Life Cycle Analysis; PAR: Product Attribute Ranking. RPR: Relative Preference Ranking

⁵ Refer to *MicroSave*'s [MR4MF toolkit](#) for details

Security is the key attribute. Any institute offering savings must be viewed as trustworthy by clients; this is often tied in with the community focus (level of involvement of the community) of the organisation. Liquidity is expected to take care of regular (quarterly/annual) requirements for religious events and other annual expenses. While saving for long term purposes, clients prefer a lock-in mechanism, otherwise they might withdraw/misuse the money.

Market Segmentation

The following youth segments emerged from the research:

Segment	Key Characteristics
Segment I : Age group 15-20	<ul style="list-style-type: none"> - Mostly students - Unmarried - Dependent on parents - Financial needs linked to aspirations - Need for regular finance: primarily savings - Financial transactions happen around "Youth Clubs"
Segment II : Age group 21-25	<ul style="list-style-type: none"> - Newly married 1-2 child of 1-2 years age - Aspirations to start businesses and/or build houses - Mostly dependent on husbands - Husbands often are migrating labourers - More credit oriented
Segment III : Age group 26-30	<ul style="list-style-type: none"> - Married - Have 2-3 children of 5-6 years of age - High affinity towards community based institutions - Aspirations for child's future - Often are self-dependent - Mostly in shared goat/cow raising activity

Segment Preference Matrix

<ul style="list-style-type: none"> • Low interest • High return • <i>Shariah</i> based return • Opportunity cost • Low instalment 	<ul style="list-style-type: none"> • Opportunity cost • Maturity yielding to asset 	Price
<ul style="list-style-type: none"> • Nearness to home • Secured medium • Community processes • Local administrator 	<ul style="list-style-type: none"> • Security of saving • Doorstep delivery • Fast and easy processing • Capacity building training 	Service
<ul style="list-style-type: none"> • Monthly repayment • Short term loan • Working capital loan 	<ul style="list-style-type: none"> • High Loan amount • Long term loan • Business capital loan 	Quality
25-30 years	20-25 years	15-20 years
Market Segments : across age		

Green: Most important product positioning attribute (amongst price, customer service and product quality)
 Amber: Moderately important product positioning attribute
 Pink: Not so important product positioning attribute

Each of the three segments showed different sensitivities towards quality of product, customer service and price. The Segment Preference Matrix above highlights the preferences of the segments.

Conclusion

The market research highlighted some important characteristics:

- There is a general lack of financial literacy and awareness among the people;
- The youth is more inclined towards savings than credit;
- The community based savings and credit practices are predominant;
- Education and religious/community events are the main reasons for financial pressure for youth; and
- The financial behaviour of youth is further segmented based on their age and marital status.

Based on the findings, the following suggestions related to products were proposed:

Product	<p>Two Concepts</p> <ul style="list-style-type: none"> • Flexible Weekly Savings product with long term maturity yielding a lump sum to buy higher education or assets; and • Short Term Recurring Deposits to create a savings culture and meet regular aspirational and festival expenditure needs. <p>Challenges</p> <ul style="list-style-type: none"> • Ensuring long term trust; • Managing long-term funds; and • Switching savings from RoSCAs.
Price	<ul style="list-style-type: none"> • Savings return explained in terms of maturity amount and <i>Shariah</i> based return would be popular.
Promotion	<ul style="list-style-type: none"> • Ensure visibility of the programme in village; • Creating culture around the programme; and • Village heads to be made integral part of the programme.
Place	<ul style="list-style-type: none"> • Collection of money in villages for accessibility and presence of an office in a hub (of 5-6 villages) to ensure trust.
Positioning	<ul style="list-style-type: none"> • Positioning of the products needs to match the preference of the target segment according to segment preference matrix.
Physical Evidence	<ul style="list-style-type: none"> • Identity card or member card might be issued; • Creative merchandise in the villages; and • Physical record books should be issued.
People	<ul style="list-style-type: none"> • Local persons to be field executives; • Finding competent persons locally and managing potential compliance and fraud risks would, however, be challenging.
Process	<ul style="list-style-type: none"> • Collection of regular cash should be done in the villages. • Group based savings collection system and • Some level of internal rotation of the savings fund can be encouraged.

However, it is also identified that all products cannot be launched immediately and the implementing organisation needs to follow a systematic product development process to yield deep impact in the community.