Low Income Lives

MicroSave

Market-led solutions for financial services

Understanding Demand for Financial Products Among Young Women in Central Java

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Indonesia has the world's third-largest youth population of 15–25-year-olds. Estimated at around 43 million, these youths represent 17% of the national population.[1] Over the past few decades, the country has made phenomenal progress in achieving full literacy.[2] Although this is encouraging, we must also consider the worrisome fact that the unemployment rate for this cohort of the population is 19%,[3] with a slightly higher percentage in the case of women in this age-group. Furthermore, Indonesia is among countries with the lowest average marriage age across the globe, at 19.7 years[4], while the median age for expectant mothers is just 23 years[5]. These factors bring enormous responsibilities at an age where the journey to financial independence has just begun.

Around the world, well-designed and delivered financial services have demonstrated that offering such services to the youth can result in loyal customers for life . The key is to adopt a life-cycle marketing approach, providing customised financial products for different life stages.

Indonesian youth have clearly expressed the need to meet aspirational goals and build financial stability. Uncertainty and expenditure exigencies characterise the 15–25 period, which often eats into any limited savings set aside. The financial activities across this youth segment are split greatly between two clear sub-segments: 15–20 and 21–25 years.

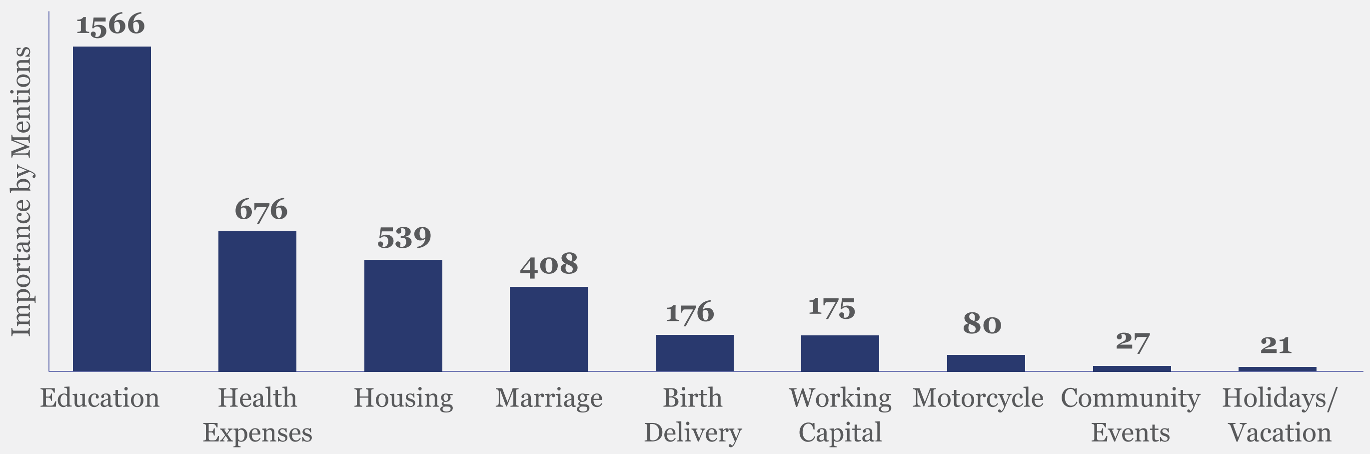
As part of its Low-Income Lives series, *MicroSave* highlights the results from its research on the perceptions around existing financial products and the need for new ones among the youth of rural areas in Central Java. Based on this, we suggest suitable client-responsive products. We conducted the research with a sample size of 400, primarily women, across six villages of Grobogan District. We used MI4ID research tools (LCA, PAR, RPR) and also conducted individual interviews.

LCA: Life Cycle Analysis – designed to assess people's need for, and sources of, financial services to manage their lifecycle events.

PAR: Product Attribute Raking – designed to understand the importance of different attributes (e.g. interest rate, term, etc.) of a financial product in the "use" or "do not use" decision.

RPR: Relative Preference Ranking – designed to assess the preference for products offered by different (formal and informal) providers, by the different attributes of those products.

Chart 1: Major Lifecycle Financial Needs



A Quick Dive into the Lives of Indonesian Youth

Ms. Isti, an 18-year-old single woman, has been working for the past year as an assistant in a shoe shop. She finished junior high school and then decided to go to work instead of continuing further studies in senior high school. Her mother runs a small grocery shop and her father is a farmer. She decided to work as a shop assistant to gain more experience.

Isti works every day and may get one day off each month. She receives a monthly salary and a bonus of 10% of the salary when the shop has sales revenue over the set target. She receives her salary in cash. She wants to run her own shoe shop but lacks the access to capital to do so. She is not confident that she can get a bank loan for this business.

Despite this, she saves her money in a bank, which she believes is both safe and would discourage her from impulsive purchases. Isti does not recommend her bank to anyone although, she says, "everyone has their own preferences". She has taken a loan for a motorcycle to commute to work. She purchased the vehicle from a showroom with a down payment and has to pay monthly instalments for three years.

Isti's priority is to pay off the motorcycle loan and it is her big-ticket expenditure every month. She still lives with her parents. Her parents are responsible for financing her daily and medical needs.

Mrs. Warsiti is a 24-year-old married woman, and has a two-year-old child. She and her husband live with her parents. They do not have a plan to construct a new house or move to a new one in the immediate future. Her husband works on a contract for a junior high school as a school janitor. Mrs. Warsiti sells hats, socks, gloves, and belts in a business that she inherited from her father. The peak season for sales is, of course, during Ramadan.

There are several events for which Mrs. Warsiti needs immediate lump sum cash. These include instances when her child is sick or when she attends weddings or other social ceremonies. She saves her money in a bank, typically for business capital, which she needs especially before and during Ramadan. She joined a women's savings group to maintain good relationships with others in her community.

The savings in the group are meant to help families manage the spike in expenses at Eid al-Fitr and Eid al-Adha. Each member of the group deposits savings of IDR 10,000 (USD 2.39, adjusted for PPP)[7] each week. The group then lends out from the pool of savings at an interest rate of 10% per month to group members who need to borrow for social events or emergencies. The corpus (plus interest) is distributed to all the members at each Eid celebration.

1. https://www.indexmundi.com/indonesia/demographics_profile.html
2. https://data.worldbank.org/indicator/SE.ADT.1524.LT.ZS?end=2016&locations=ID-IN&start=2004
3. https://data.worldbank.org/indicator/SL.UEM.1524.ZS?end=2017&locations=ID&start=2016
4. http://www.thejakartapost.com/news/2015/02/10/govt-raise-age-marriage.html
5. https://www.indexmundi.com/indonesia/demographics_profile.html
6. http://www.forteconsultancy.com/Ourideas/515/The_Under_Tapped_Banking_Consumer_Segments_of_the World_%E2%80%93_The_Youth.aspx
7. All conversion from IDR to USD are using Indonesia PPP rate (2017): IDR 4,186.361 per 1 USD, from OECD data.

Described below is the broad financial situation of Ms Isti's younger age cohort compared to Mrs Warsiti's older one..

Segment	Key Characteristics
Segment I: Age group 15–20	• Mostly students who support the family in livelihood generation during their spare time • Unmarried • Dependent on parents for housing and major financial needs like higher education and marriage. They source money from elder siblings when in need of small amounts of money • Financial needs linked to aspirations – those not pursuing higher education start earning, which meets their daily expenses, and frees them up from depending on the family income • Need for regular finance: 1. Savings with quick and easy withdrawal options, and 2. Short-term credit product with easy repayment options. • Want financial transactions to happen around "Youth Clubs" • Migrate to the city for work, where they live alongside a relative. The relative thus becomes the financial advisor for the young adult. The relative takes decisions on behalf of the youth, with full trust of the family back home.
Segment II : Age group 21–25	• Newly married with one or two very young children • Aspirations either to start small businesses or build houses or both • Husbands are often migrant workers in cities. They send their incomes home through informal channels rather than through agent networks • More credit-oriented – prefer loans to be dedicated to the type of business, since each business has a unique expense and income cycle. For instance, agriculture loan has to be disbursed in the planting season and repaid after harvest • Save in informal groups near their homes. The reasons for saving are usually for child's education and for expedient purposes like health and social ceremonies

Both segments require customised financial solutions based on their specific situations. The age group 15–20 years seek money for recreation, conspicuous consumption, and higher education needs. The age group 21–25 shows increasing maturity levels as family responsibilities start. They tend to spend money for health emergencies, house purchase, and children's education.

Key Findings: Credit

Education-related finance is perhaps the most pressing need for this segment of the population. In fact, the needs vary across the two sub-segments. The age-group 15-20 considers financial mechanism as useful for funding higher education; for the age group 21-25, the priorities have clearly shifted in favour of ensuring a good primary education to their young children, including their admission fees, stationery, uniform, tuition fees, etc.

Many in the 15–20 age group prefer to take up a side job along with their higher education to meet their daily needs. For the 21–25 age group, financing their children's education typically involves borrowing to finance admission fees and using savings to manage regular recurring expenses.

Health-related issues comprise a huge burden on the 21–25 years age group, as they have to take care of their vulnerable infants who are prone to diseases and illnesses. In these cases, this segment sometimes requires large lump sums of cash for urgent treatment. This sub-segment typically meets this need for cash by borrowing.

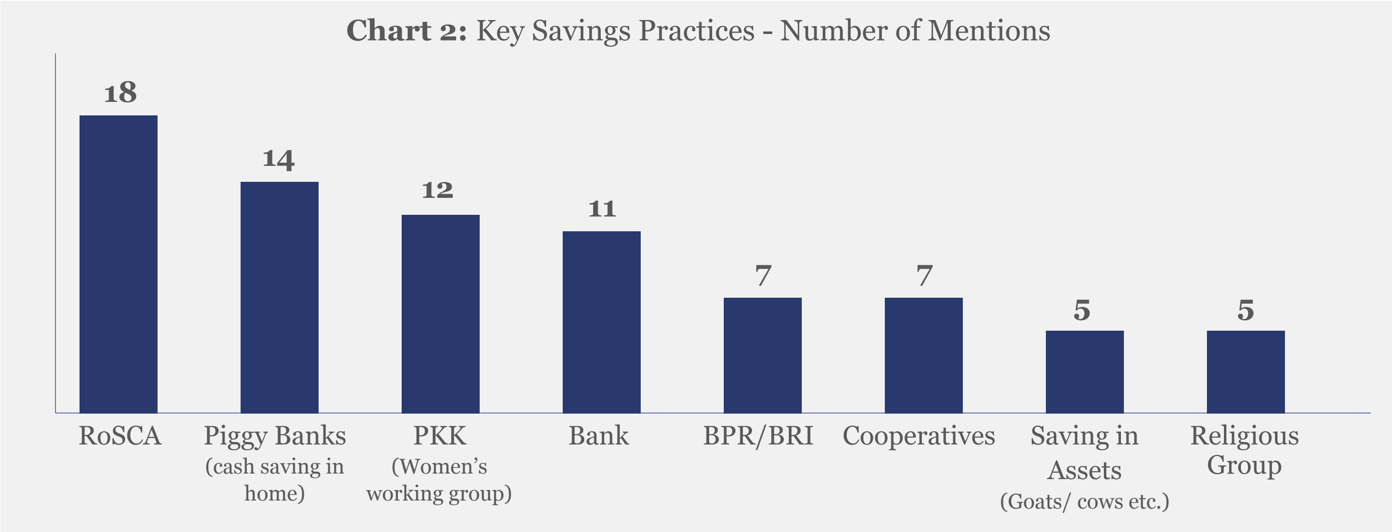
After gaining some experience in the job market, some of the 21–25 year age group want to transition to set up their own businesses. For this, they prefer to borrow from community-based financial institutions that can also provide them hand-holding support, such as sales skills, bookkeeping, and help in establishing shop facilities, in addition to the loan. They want an easier repayment structure with low interest rates so that they can support their fledgeling enterprises initially.

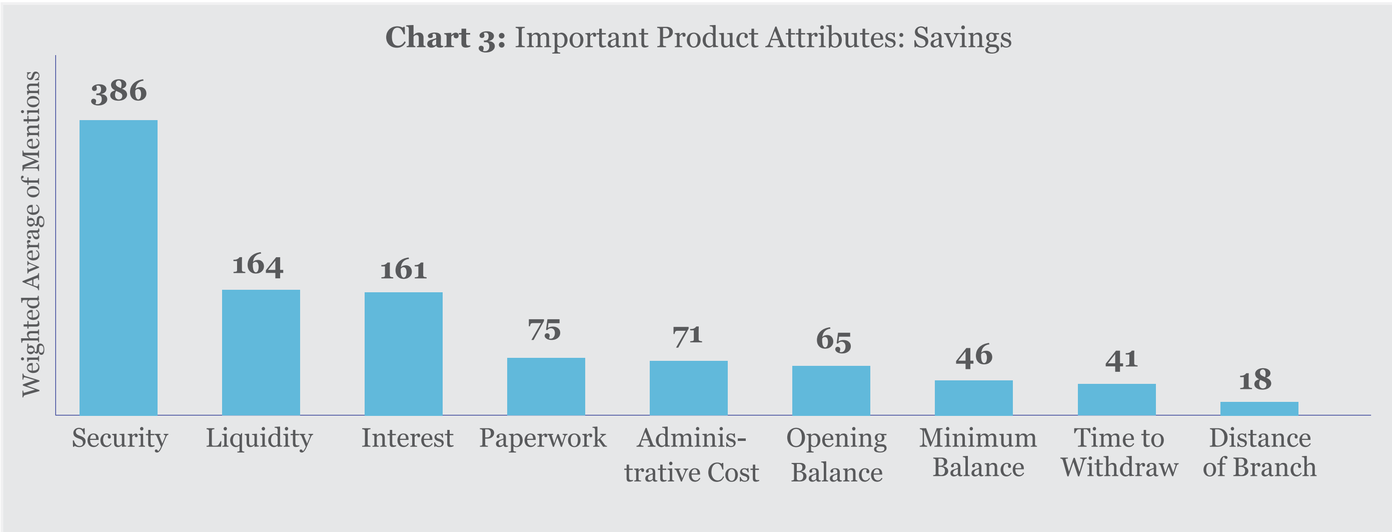
They seek one year in the case of working capital loans and two years in the case of business capital loans. They also want flexibility in any working capital loan to align with seasonal variations including Ramadan. Yet at the same time, there is, across the board, a general aversion to taking credit from formal financial institutions. This is primarily because of excessive paperwork, which increases hassles and leads to a poor customer experience.

Key Findings: Savings

The respondents save both in cash and kind using various mechanisms to meet these needs. For some, livestock constitutes a major monetary asset too, as its sale can fetch a significant lump sum in times of dire need. The respondents do not prefer saving in formal financial institutions because of account maintenance charges, minimum balance requirements, and distance from the villages.

Chart 2 shows some of the key saving mechanisms. Chart 3 shows the important attributes that the youth seek in savings products.





Security is the key attribute required from a savings product. Clients are likely to trust an organisation that offers savings. In the case of Indonesia, we found that trust is often associated with the organisation's level of involvement with the community. Such involvement increases the "availability" of the organisation and creates a favourable impression. People need liquidity to take care of both short-term shocks (typically arising from sick children) as well as regular requirements for education or religious events.

When they save for long-term purposes, clients prefer a lock-in mechanism, otherwise they fear they might withdraw and misuse the money – a classic case of Peter Shipton's "Illiquidity Preference". However, once the client has made a request to withdraw funds, this should take a minimal amount of time.

Respondents also wanted to know the location of the nearest branch of the financial institution that offered the services. They also wish to ideally have conducted some transactions in the branch itself – in order to build trust and assure themselves about the security of their savings. The market research also revealed that the segment seeks a balanced range of services that combine savings and credit – although the younger segment is more inclined towards savings than credit.

Conclusion

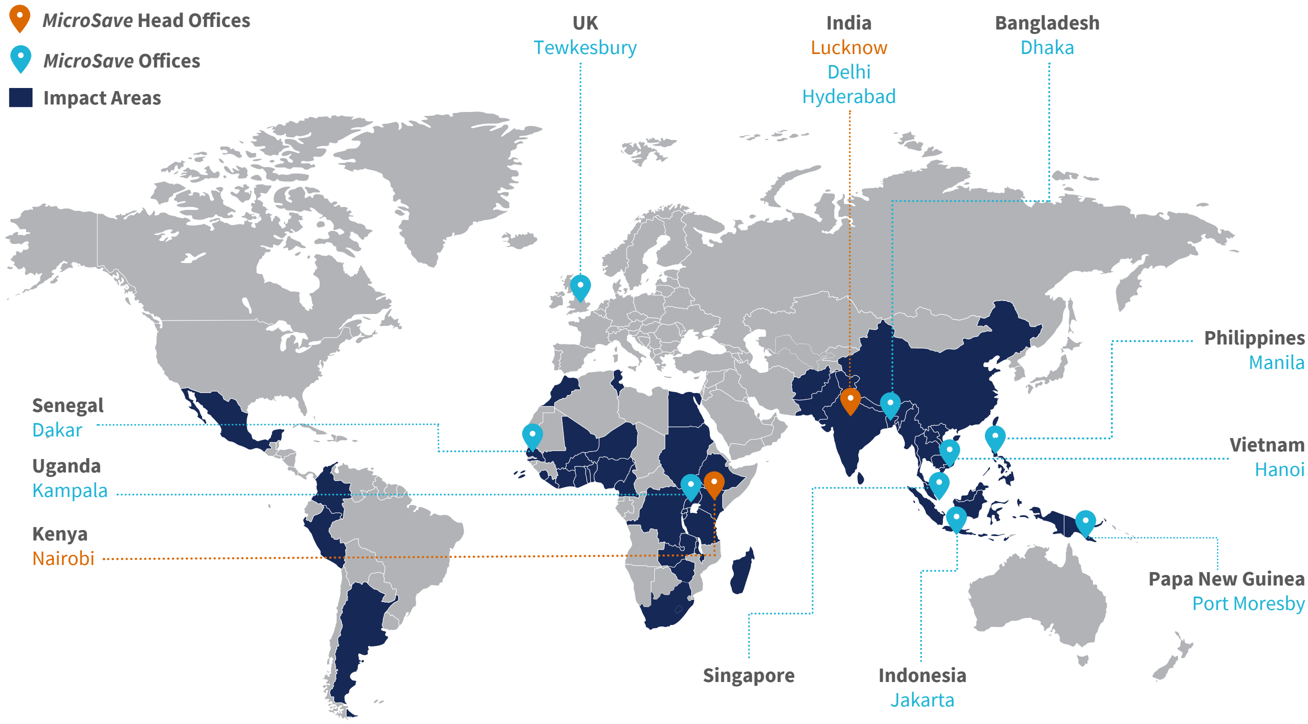
Thus 15– 20-year-olds, often still studying, seek regular or recurring savings, comprising small, flexible instalments (IDR 5,000–10,000 or USD 1.19–2.39, adjusted for PPP). They would put aside these savings for a variety of nominated and specific purposes thus creating meaning, engagement, and commitment for them. These purposes may include higher education, Eid-related expenses, such as new apparels, or acquiring a new asset like a motorcycle.

However, by the time that they are 21–25 years old, they are often newly married or have small children and their priorities shift accordingly. While savings remain important, this segment often looks for loans to start a business or initiate the construction of a house. Despite this, they still want to save, if access to both deposit and withdrawal facilities is easy and the institution is secure. This is something that in Indonesia is often associated with organisations that work both with and within the community. The need for engagement from organisations reflects the segment's time—and movement—constraints as a result of marriage and motherhood, and (perhaps) their reduced willingness to accept risk.

These findings are important for financial service providers that wish to offer financial services to young women like Ms. Isti and Ms. Warsiti in Indonesia. The insights gathered highlight the need to conduct a detailed examination of youth segment elsewhere too, in order to develop and effectively market customised financial services that meet the different lifecycle stages of young women of 15–25 years.

About *MicroSave*

MicroSave is an international financial inclusion consulting firm with nearly 20 years of experience, operating in eleven offices across Asia and Africa. Our mission is to strengthen the capacity of institutions to deliver market-led, scalable financial services for all. We guide policy, provide customised strategic advice and on the ground implementation support.



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