

# Commercial Opportunities to Expand Financial Services: **Women**

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This report is sponsored by:

# SAFIRA

Strengthening Agricultural  
Finance in Rural Areas

Strengthening Agricultural Finance in Rural Areas (SAFIRA) is a multi-year program under AIPRural aimed at developing and formalizing value chain financing with selected partners in eastern Indonesia to benefit smallholder farmers. Value chain financing is one way to scale-up cost effective, appropriate and sustainable lending to smallholder farmers without increasing transaction costs. SAFIRA partners with financial institutions, financial consultants, agri-businesses and farmer's groups to increase the incomes of up to 6,000 farmers. SAFIRA works in East Java, West Nusa Tenggara, East Nusa Tenggara and Papua. SAFIRA is part of PRISMA and is supported by the Australian Government and Bappenas. Implemented by Palladium with technical assistance of Swisscontact.

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**Australian Government**

## Commercial Opportunities to Expand Financial Services: Women

# Introduction & Context

Strengthening Agricultural Rural Finance in Rural Areas (SAFIRA) is an agricultural value chain finance (VCF) program intended to increase on-farm productivity and reduce poverty by facilitating female and male farmer access to finance. SAFIRA works across three main workstreams; supporting financial institutions (FIs) and agribusinesses to develop commercially competitive VCF products (institutional strengthening); facilitating the development of and linkages to VCF consulting (strengthening the capacity of consultants to support commercially competitive VCF in FIs and agribusinesses); facilitating knowledge sharing of practices in VCF among stakeholders. To facilitate the development and uptake of more gender sensitive VCF products and practices by FIs and agribusiness, SAFIRA hired a consultant to conduct desktop research and summarise existing evidence on characteristics (e.g. higher repayment rates, lower risk profiles, etc.) of female (micro) finance borrowers and where possible draw correlations to the Indonesian market. This paper summarises the consultant findings.

**SAFIRA is a three-year project that is part of the Government of Indonesia strategy to accelerate poverty reduction through inclusive economic development. SAFIRA works in East Java, West Nusa Tenggara (NTB), and East Nusa Tenggara (NTT) and is supported by BAPPENAS and the Australian Government's Department of Foreign Affairs (DFAT) under the Australian-Indonesian Partnership for Rural Economic Development (AIP-Rural).**



# Global Insights

The research revealed near unanimous consensus regarding a strong business case for FIs to invest in increasing the number of female clients. Further, those that are proactively trying to engage women as clients are benefitting across several dimensions. The Global Banking Alliance (GBA) for Women surveyed 23 banks (with women banking initiatives) in 18 countries with 22 million female customers found that female customers outpaced the overall market in terms of year on year (YOY) customer growth and credit as well as deposit growth.

Women customers grew by 10% compared to 8% for men. Women also outperformed men in terms of credit volume, 15% for women compared to 10% for men, and savings deposit volume growth, 17% for women compared to 14% for men.

With regards to borrowing, the survey found that women present a lower credit risk; women's share of non-performing loans (NPL) was lower across most segments observed including small (4.8% for women compared to 6.1% for men) and micro loans (3.8% for women compared to 5.8% for men). Women also outperformed men in loan to deposit ratios in all geographic regions averaging 66% for women compared to 115% for men.

Lastly, the survey found that women are profitable and loyal customers with an average profitability of \$3,169 for small loans and \$439 for micro loans and a use of 2.1 financial products<sup>1</sup>.

The rigorous Women and Repayment in Microfinance Working Paper, which surveyed 350 MFIs in 70 countries had similarly encouraging findings regarding women and credit risk;

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<sup>1</sup> Global Banking Alliance for Women. (2016). In brief: the economics of banking on women.

<sup>2</sup> D'Espallier, B., Guerin, I., Mersland, R. (2009). Women and Repayment in Microfinance. [www.microfinancegateway.org/sites/default/files/mfg-en-paper-women-and-repayment-in-microfinance-mar-2009\\_0.pdf](http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-women-and-repayment-in-microfinance-mar-2009_0.pdf)

<sup>3</sup> Kantar. (2017). White paper, winning over women: a commercial imperative for financial services. <http://www.gbaforwomen.org/download/winning-women-commercial-imperative-financial-services/>; Demirgüç-Kunt, A., Beck, T. and Honohan, P. (2008) Finance for All?: Policies and Pitfalls in Expanding Access. World Bank; [http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA\\_book.pdf](http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf)

**“More women clients is significantly associated with lower portfolio at-risk and lower portfolio write-offs. The gender-effects, which are not only statistically significant, but are also economically relevant, indicate that women in general are a better credit risk for the MFI. Additionally, MFIs with more women clients carry less loan loss provisions ceteris paribus, providing additional evidence that focus on women significantly reduces the MFI’s perceived credit-risk.”<sup>2</sup>**

This can also be expanded to non-MFI FIs as the GBA and others<sup>3</sup> attribute these female client attributes to women’s tendency towards risk aversion in general and more prudent or conservative investments specifically. A 2018 Economist article *Investment by women, and in them, is growing* noted ‘women are more risk-aware and less deluded about their financial competence.’ Though the research did not yield any definitive evidence on why women make good FI clients, leading global FIs are increasingly trying to better understand this important customer segment which is estimated by Boston Consulting Group to have grown from 2010 to 2015 from \$34trn to \$51trn and expected to reach 32% of total wealth or \$72trn by 2020<sup>4</sup>. This recent increased attention to women in finance is encouraging, but there is still more work ahead particularly for women-owned SMEs in developing countries. The IFC estimates that as many as 70% of women-owned SMEs in the formal sector in developing countries are unserved or underserved by financial institutions – an estimated financing gap of \$285 billion<sup>5</sup>.

<sup>4</sup> Economist Magazine. (March 8, 2018). Investment by women and in them is growing.

<https://www.economist.com/news/finance-and-economics/21738388-much-wealth-transferred-coming-decades-will-end-up-female>

<sup>5</sup> Global Markets Institute. (2014). Giving credit where it is due: how closing the credit gap for women owned SMEs can drive global growth.

<http://www.goldmansachs.com/our-thinking/investing-in-women/gmi-report-pdf.pdf>



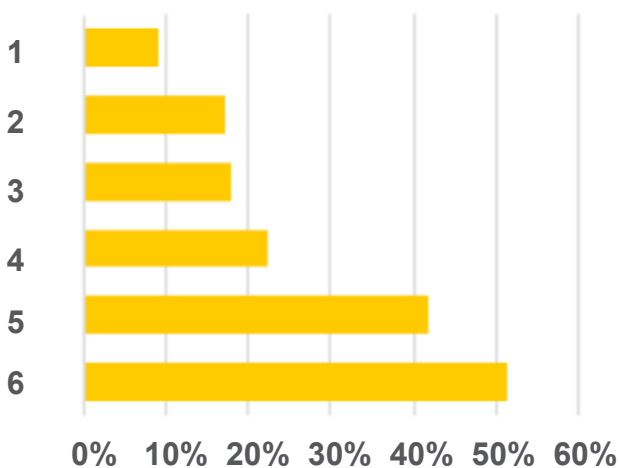
# Local Insights

Research on Indonesian women and women-owned SMEs confirms the positive global findings. An IFC study surveying female SME owners in Surabaya found similar behavioural characteristics citing that (Indonesian business women) are cautious borrowers, taking minimum amounts of capital necessary in order to avoid default<sup>6</sup>. Another study found that ‘MFIs reported that female customers are considered superior to male customers. They are said to be better in promptness of repayment of loan installments, easier to collect from, and more honest<sup>7</sup>.’ Digging into female financial behaviours further, a survey of 20,000 households in Eastern Indonesia found that

Indonesian women are financially active, savvy, autonomous and influential and yet still underbanked (formal banking sector) compared to their male counterparts (as shown in Table 1 below); 42% of women held a formal FI bank account compared to 45% of men. The survey found that 62% of women borrowed money within the past 12 months and 68% of women reporting savings. Though financially active, less than 20% reportedly used formal financial institutions for their financial activities (only 9% accessed loans through a bank and 18% saved in a bank)<sup>9</sup>.

**Table 1**

## Female Financial Activities, 2017



1. Borrowed from a financial institution – Eastern Indonesia
2. Borrowed from a financial institution or used a credit card
3. Saved at a financial institution – Eastern Indonesia
4. Saved at a financial institution – Indonesia
5. Account, Formal FI – Eastern Indonesia
6. Account, Formal FI – Indonesia

<sup>7</sup> The Asia Foundation. (2003). Microfinance Services in Indonesia: A Survey of 6 Provinces; <https://asiafoundation.org/publication/microfinance-services-in-indonesia-a-survey-of-institutions-in-six-provinces/>

The 2017 World Bank Financial Inclusion study, which surveys a more diverse socio-economic and geographic segment of the population, revealed similar findings between the level of female financial activity and use of formal financial services (also summarized in Table 1).

The study found that 51% of women aged 15 and older had an account at a formal FI yet only a fraction of them regularly used the formal banking services offered such as credit (17.5%) or savings (22.3%). Instead, family (31.5%) and savings clubs (17.4%) like arisans were the main sources of credit<sup>10</sup>.

The study on Eastern Indonesia also found that ‘even as women (generally) may not have achieved the same education levels as men, they appear to perform better along a number of dimensions in terms of ‘financial capability’” including tracking income and expenses. For example, 70% of women reported performing this sound financial practice. Other important findings revealed by the study is the degree to which women are autonomous in financial decision-making; 59% of women reported that they made decisions on how they spent their personal income independently compared to 30% for men claiming to make the same decision independently. While Indonesian women feel comfortable making financial decisions (up to a point), the survey showed that this financial confidence also influences their spouse<sup>11</sup>.

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<sup>8</sup> The SOFIA report found that many women claimed to be using formal financial services when in fact they were using a friend's account.

Suggesting an even greater market for formal financial services.

<sup>9</sup> SOFIA: Focus Note on Gender. (2017). AIP-Rural

<sup>10</sup> World Bank Financial Inclusion Study (2017).

<sup>11</sup> Ibid.



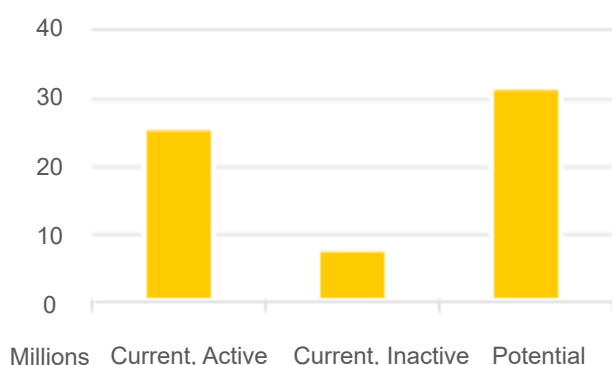
# Business Case

In Indonesia, women are a large and economically active yet underserved market segment. There are an estimated 65 million women eligible for financial services, however, according to the World Bank Financial Inclusion Database it is estimated that less than 26 million Indonesian Women actually used formal FI services (22.3% savings or 17.3% credit) in the past year<sup>12</sup>. Instead, an estimated 31.6 million (49%) either relied on informal and non-bank services such as family, friends or savings clubs or none at all. Interestingly an estimated 7.6 million (12%) Indonesian women have formal FI accounts but did not make a deposit or take a loan within the last 12 months (see Table 2).

Looking closer at female demand for savings and loan products, the World Bank Financial Inclusion Database, revealed that an estimated 34.5 million (52.8%) borrowed money in 2017. An estimated 20.8 million (32%) borrowed from a family, friend and 11.1 million (17%) a savings club compared to 11.2 million (17.5%) who borrowed from a formal financial institution<sup>13</sup>. Similarly for savings, an estimated 40.3 million (62%) saved money in 2017. 14.5 million (22.3%) women used formal FI for saving deposits while 24 million (37%) used savings clubs, or people outside of the family (see Table 3)<sup>14</sup>. The large numbers of women using non-formal banking services, despite often higher risks and costs particularly for loans, demonstrates that there is a high demand from women for financial products that can meet their needs.

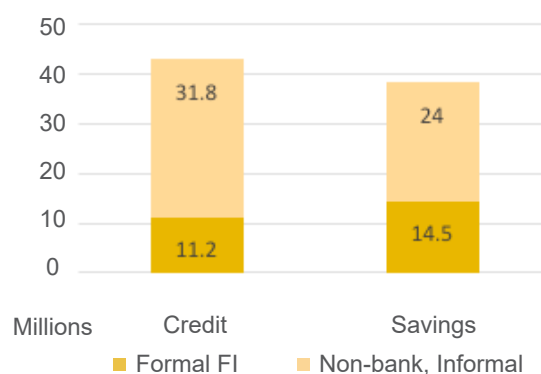
**Table 2**

**Current and potential female customers for formal FIs, 2017**



**Table 3**

**Female demand for financial services, 2017**



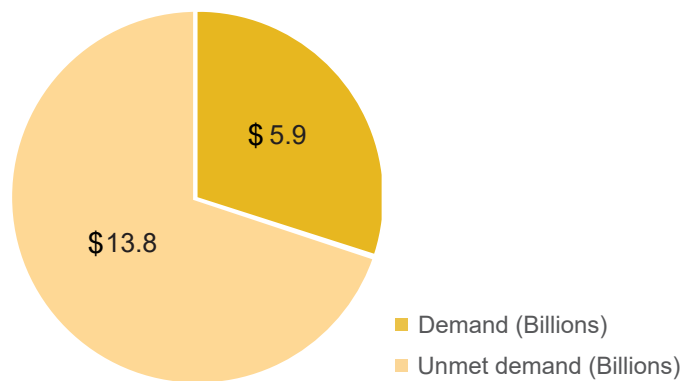
<sup>12</sup> Calculation using World Bank Financial Inclusion Database (2017) and demographic information; Calculation using SOFIA results is 17.5 million; note that there is potential for overlap in savings and credit customers.

<sup>13</sup> Note that there is potential for overlap (e.g. a woman takes more than one loan from different sources) in these numbers and this is the reason why the total exceeds the number of borrowers.



Women-owned formal sector SMEs, estimated at over 315,000 in Indonesia make up another large and underfinanced market segment. A 2016 IFC/USAID study estimates women-owned SME credit demand to be \$5.9 billion and growing<sup>15</sup>. Considering another IFC statistic which finds that women-owned SMEs only receive 30% of their financing needs, the women-owned formal SME sector represents a potential additional \$13.8 billion credit market opportunity for formal FIs<sup>16</sup>.

**Table 4**  
**Current and potential women-owned SME credit demand, 2016**



The positive characteristics associated with female borrowers including lower NPL and loan to deposit ratios as well as the data which shows Indonesian women are financially active yet significantly under-banked by the formal FI sector, demonstrates that there is a credible business case for Indonesian FIs to invest in increasing the number of female clients at all segments and improving the uptake of financial services for existing female clients.

<sup>14</sup> Saving at home, an indicator not tracked by the database, may account for the difference between total number of women who saved and those who saved at a formal FI and those that saved in non-formal banks like savings clubs

<sup>15</sup> IFC, USAID. (2016). Women-owned SMEs in Indonesia: a golden opportunity for local financial institutions, market research study. [https://www.ifc.org/wps/wcm/connect/677906e9-398d-45c1-8f87-84e503292f50/SME+Indonesia+Final\\_Eng.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/677906e9-398d-45c1-8f87-84e503292f50/SME+Indonesia+Final_Eng.pdf?MOD=AJPERES)

<sup>16</sup> Global Markets Institute. (2014). Giving credit where it is due: how closing the credit gap for women owned SMEs can drive global growth. <http://www.goldmansachs.com/our-thinking/investing-in-women/gmi-report-pdf.pdf>



# Ways to Increase Engagement

The research shows that to effectively and sustainably serve and grow the female market segment (both micro and SME), FIs need to embrace product, socialization and organizational changes. According to Women's World Banking (WWB), a valuable first step in this gender mainstreaming process is investing in understanding the profiles of different female client segments<sup>17</sup>. A nuanced understanding of the different female client segments will allow FIs to better adapt financial products to the opportunities and constraints facing these distinct female market segments, improve effectiveness of socialization activities and target sub-sectors with higher levels of female entrepreneurship and participation.

**‘Women don’t want pink products. They want information, education and networking opportunities.’** - Larke Riemer, Westpac Australia

## Financial Products

According to the International Labor Organization, financial products should be adjusted to better address women's needs (and constraints). For example, product specifications, such as loan amounts, repayment schedules and collateral requirements should accommodate diverse client needs. In addition to the core loan product, FIs should consider complementary savings and or microinsurance products, in addition to financial literacy training, as part of an overall client vulnerability and risk reduction strategy<sup>18</sup>.


<sup>17</sup> Women's World Banking. (2017). Customer Centricity: gather women-centric insights to drive innovative design. <https://www.womensworldbanking.org/>

<sup>18</sup> ILO. (2009). Small change, Big changes: Women and Microfinance. [http://www.ilo.org/wcmsp5/groups/public/@dgreports/@gender/documents/meetingdocument/wcms\\_091581.pdf](http://www.ilo.org/wcmsp5/groups/public/@dgreports/@gender/documents/meetingdocument/wcms_091581.pdf)

## Socialization


A case study from WWB highlights the importance of adapted branding or socialization techniques. They found the four keys to success are:

- 1



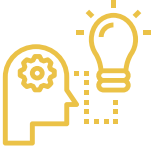
Communicate about products and services in a way that relates to women clients and is appropriate to their education levels

**Communicate**
- 2




Be accessible to women clients by helping them to overcome traditional barriers to accessing financial services

**Access**
- 3



Train staff and establish protocols that are tailored to serve women clients and that reflect the values of the institution and

**Protocol**
- 4



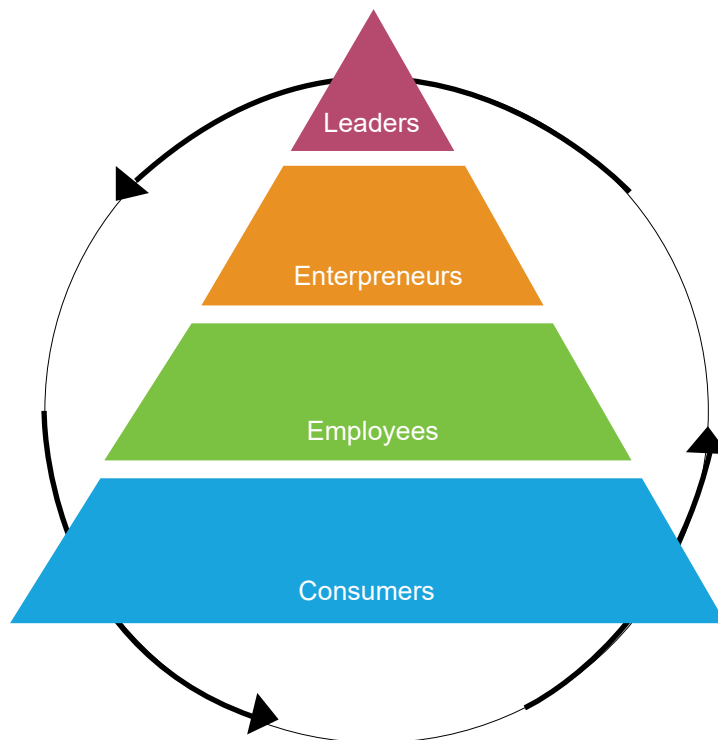
Engage women clients at every interaction to reinforce marketing and consumer education messaging, and to establish a relationship<sup>19</sup>. The WWB's socialization findings, particularly success factor three, showcase the importance of organizational change as part of a holistic approach to lending to women.

**Interaction**

<sup>19</sup> Women's World Banking. (2017). Branding and Marketing: design branding, marketing and consumer education to drive outreach and engagement

## Organizational Change

Research on women banking initiatives confirmed the importance of mainstreaming gender throughout the entire FI. The findings revealed the importance of top-to-bottom organizational change with emphasis on senior leadership buy-in and role-modelling, training and sensitization and data-driven (and sex-disaggregated) systems of reinforcement such as Key Performance Indicators. An IFC study showcased Lebanese BLC Bank's 'Holistic Framework to Empower Women' as an effective way to approach gender mainstreaming across the FI. According to the study, 'the BLC Bank Holistic Framework helped the bank move beyond just empowering female SME owners to developing a comprehensive approach to empower women across all its operations; consumers, employees, entrepreneurs and leadership'<sup>20</sup>.



**BLC Bank Holistic Framework to Empower Women, IFC 2016**

<sup>20</sup> IFC.(2016). Leading on banking on women – a study: Learning study on impact of banking on women programs in Europe, Central Asia, Middle East and North Africa. [https://www.ifc.org/wps/wcm/connect/f24d9b5f-855e-4502-a771-8f2f1c95c21b/Case+Study+BLC+Bank+Lebanon\\_31082016.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/f24d9b5f-855e-4502-a771-8f2f1c95c21b/Case+Study+BLC+Bank+Lebanon_31082016.pdf?MOD=AJPERES)

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## Conclusion

Evidence from around the world confirms that there is a clear commercial case for increasing the engagement of women. Women are increasingly financially active, controlling \$51 trillion in assets, and women borrowers (micro and small) are associated with lower NPL and lower NPL write-offs, better loan-deposit ratios, higher savings deposits. Loans to women are profitable and when well served women are loyal customers.

Despite this extremely favourable backdrop and the Indonesian financial sector's considerable progress in increasing the number of formal accounts held by women from 19.2% in 2011 to 51.3% in 2017<sup>21</sup>, Indonesian women remain underbanked both in terms of number of women with formal FI bank accounts and regular use of financial services from formal FIs. The research strongly suggests that improving outreach to and engagement of current and potential female clients will have positive commercial (and social) benefits. Modifications to financial products and socialization techniques which take into consideration the preferences and constraints of women are important components to a women's banking strategy. However, to achieve lasting change, FIs must adopt a holistic approach to mainstreaming gender across its organization.

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The research strongly suggests that improving outreach to and engagement of current and potential female clients will have positive commercial (and social) benefits.

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<sup>21</sup> World Bank Financial Inclusion Database (2017)

# Resources

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