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BRANCHLESS BANKING ACTIVITIES IN RURAL AREAS – IRREGULARITIES IN RELATIONS WITH CLIENTS

*DZIAŁALNOŚĆ BEZODDZIAŁOWA BANKÓW NA OBSZARACH WIEJSKICH –
NIEPRAWIDŁOWOŚCI W RELACJACH Z KLIENTAMI*

Key words: rural areas, Indonesia, bank agent, irregularities in service

Słowa kluczowe: obszary wiejskie, Indonezja, agent banku, nieprawidłowości w obsłudze

JEL codes: A130, M210

Abstract. The aim of the research was to describe the types of irregularities in the branchless activities of banks in rural areas of Indonesia in 2012-2015. In the course of the research it was found that the most common are 7 types of irregularities in the scope of fraud between the local bank representative and generally poor clients in these areas. The article describes these irregularities, which in the end may be facilitation in their reduction or elimination.

Introduction

Branchless banking practices have been conducted in several countries, especially in countries where adult population access to formal financial institutions is still low. Mobile banking such as M-Pesa is more popular in Africa, such as in Kenya and Tanzania as well as in most of Asian countries. However, in South America, like Colombia, Chile, and Brazil, they used POS-Based Agent Networks. The branchless banking system involves three actors, i.e. service providers, service users or consumers, as well as agents. The branchless banking provider is an institution that provides financial transaction services to the people in remote areas. Providers of branchless banking may come from a bank or non-bank institution such as a telecommunications company.

Branchless banking in Indonesia is a new delivery channel. It is one of the programs in the National Strategy of Financial Inclusion launched in 2012. One of the institutions that initiated the branchless banking program is the Financial Services Authority (Indonesian acronym OJK), the program is called the “Layanan Keuangan Tanpa Kantor Lakupandai” [OJK 2016]. The objective of the program is to provide simple, easy-to-understand and appropriate financial products that meet the needs of people who have not been able to reach the current financial services, and with the increasing number of members of various community groups in different parts of Indonesia using financial or banking services, then the economy of society can be more smoothly so it can encourage economic growth and equitable development among regions in Indonesia, especially between villages and cities. The products offered in the program are: (a) Savings with the characteristics of Basic Saving Account (BSA), (b) Credit or Micro Financing, and (c) Other financial products such as Micro Insurance.

In the Quarter III-2016 Report of OJK, it is known that the number of agents of “Lakupandai” reaches 160,489 agents consisting of 159,521 individual agents and 968 outlets of legal entities. The total amount of funds and customers collected amounted to Rp 93.79 billion and 1,948,995 customers, respectively, with coverage of savings-related services with BSA characteristics, including account opening, deposit and cash withdrawal, book-entry, bill payment, funds trans-

fer, and/or account closure. The largest spread of agents is in Java (68.92%), while 16.41% are in Sumatra, 5.54% in Sulawesi, 3.57% in Kalimantan, 2.2% in Maluku and Papua, and the remaining 3.34% are in NTB-NTT-Bali [OJK 2015]. The data shows that agent deployment is still centered on Java. Therefore, to achieve program objectives requires the right approach so that the program can be sustainable.

Some researchers revealed that branchless banking is a cost-effective solution to provide financial services for people living in remote places as compared to opening a conventional branch office [Kumar 2013, Khattab et al. 2012, Ivatury, Mas 2008]. The cost of basic banking services with branchless banking is at least 50 percent lower than the cost incurred to serve them through traditional channels. In Philippines, the transaction costs such as cash deposits or withdrawals made through traditional banks are around \$ 2.50 whereas the same transaction via mobile is only charged \$ 0.50 [Ivatury, Mas 2008]. In addition to the low cost of services, with branchless banking technology consumers benefit from low of time travel and waiting time as well as transportation costs as they are closer to the agents and do not have to queue up as often happens in the bank office [Mas 2009]. Besides the benefits of lower transaction costs and lower access to financial services, the flow of funds through branchless banking is expected to increase production, boost economic growth, reduce poverty, create equity of income, and create financial system stability [BI 2014].

The agency theory or principal-agent theory analyzes the contractual relationship between two or more individuals, groups, or organizations. A principal makes a contract and delegates its duties and powers to the other party (agent) in the hope that the agent will act or do the work as the principal wishes. Fabrizio Gilardi [2001] suggest that principal-agent relationships occur when a person's actions have an impact on others or when a person is heavily dependent on the actions of others. This influence or dependence is manifested in agreements in institutional structures at various levels, such as behavioural norms and contract concepts. In delegating tasks there can occur an asymmetric information condition, where the Agent assigned and authorized by the principal knows more about the conditions in the field than the principal. Such asymmetric information conditions can lead to negative agent behaviour. Murray Petrie [2002] defines that it refers to the tendency of an agent, after the contract is entered into, to shirk or otherwise not fully seek to promote the principal's interests.

Methods and materials

The selection of research sites was preceded by the selection of banking institutions as providers of branchless banking programs with the highest number of agents, namely bank bri-based on performance report in 2015. West java province was selected as a province with a number of agents that pretty much 5,514 agents out of 50,259 agents BB in all of Indonesia. Hereinafter area of Bogor regency is selected which have active agent in relatively large amount. The data used are primary data obtained by using survey method, with interview technique. Data were collected using a prepared questionnaire. The respondents of agent BB were selected purposively, i.e. From 11 selected sub districts, then selected a fairly active agent located in the operational area of the bank unit. Then, as supporting data the respondent of business actors involved in transactions in agent bb are selected. A of April 2016, the number of agents BB from bank were 62,036 agents spread throughout Indonesia. While the number of BB agents in west java as of September 2016 amounted to 5707 agents, and 360 agents of which are spread in Bogor regency and 86 agents in the city of Bogor. The study was conducted on 32 BB agents in 27 villages from 11 district in Bogor regency. Additional sources of information were obtained from 97 business actors who transacted the agency.

The characteristics of Agents BB include average age, formal education level, and sex, as well as the types of business activities undertaken by agents, as presented in table 3 and table 4. The average age of agents BB is the productive age category (39.84 years), and the average level of formal education is equivalent to a senior high school graduate (12 years). Most (68.8%) of the BB

agents in the study area were male or head of household. This condition illustrates that the main business undertaken by BB agent is a small business in their home. Field observations illustrate that although those who are registered as agents are husbands, wives generally also act as agents, and vice versa. All agent respondents have production business, so it can support its activity as agent BB. Agents generally have one type of production business that is stall. However, some agents have two or more types of businesses at once. The types of business of agent BB were as following: Stalls, sells household staple goods; Distributors of SIM Cards and top-up voucher; Agent of Water Refill; Photocopy and stationery; Motorcycle workshop; Electronic Equipment Store; Financial Transaction Services; Goods and Money Credit Services; House Rent Business; Beauty salon services; Motorcycle Showroom; Craft Curtains; School services; Building materials.

Results

In activities as an Agent, banks equip agents with EDC (Electronic Data Capture) devices or are called Mini ATMs and Transaction Fee List. Agents BB get a commission from the bank in the form of 50% return from the administrative costs of transactions charged by the bank, as well as incentives in the form of tariffs charged to customers. Accordingly, for any transaction performed using an Agent ATM and through an EDC machine, the Agent will earn an income equal to the tariff rate specified by the bank to the customer plus 50% of the administrative fee of the bank returned to the agent. The tariff rate on Agent BB is presented in table 1. Some behavior that occurs in financial transactions in the BB program in the field in this study is described as follows.

Irregularity, type 1. Of the 32 respondents of the BB Agent who became respondents, there was no agent who placed a list of tariffs where it could be seen by consumers. From the interviews it is known that the agents charge rates that vary and are higher than the tariffs specified in the official rate list set by the bank. The results of in-depth interviews are known that, for customers who know the official tariff list, the agent argue that the official rate list issued by the bank does not include the bank's administrative fees imposed on the agent because it uses an Agent ATM card. In the transaction, plus the agent's costs such as Electricity costs to operate EDC machines, as well as other costs due to transactions using the funds of the agent.

Irregularity, type 2. The type of transfer transaction is a transaction using a customer ATM card, where the customer diverts funds from his or her savings account to another designated savings account using an agent EDC machine. The behaviour of Agent BB may prevent consumers from making transactions using their ATM cards. The data shows that all (69.07%) of business actors who transact at BB agents use cash, and 31.25% of respondents use their ATM cards to transact (tab. 1). The results of interviews with business actors who transact at BB agents, about the reason for not using their ATM cards to transact in the Agent is because they have to check the balance account both before and after the transaction to ensure the correctness of the transaction. According to them, although the balance check rate is free for customers who make transactions, but consumers feel 'uncomfortable' when the balance of their savings is known by others, i.e. Agent BB.

Irregularity, type 3. In addition to being awarded to BB agents, banks also provide EDC loan facilities to facilitate mini/super market transactions. To that end, the owner of the mini/super market provides a security deposit of Rp. 3,000,000. The administrative fee of the bank is levied on the consumers who transact using the machine. In other words, mini/super market owners are not subject to transaction fees on the use of EDC machines, and banks get all the bank administrative fees imposed on consumers. In branchless banking program, the bank does not impose a security deposit on an EDC machine lent to the BB agent. In addition, the bank only receives 50% of the administrative costs of each transaction made through the agent because a portion (50%) of the bank administrative fee charged to the use of the ATM card is returned to Agent BB. It shows that banks incur higher costs to Agent BB for the same transaction performed by other bank partners. However, according to agent BB, the 50% incentive of administrative fees returned by banks to agents is still considered too small, as transactions use agent's funds.

Table 1. Official, unofficial tariff and incentives to agent [Rupia]
Tabela 1. Oficjalne i nieoficjalne opłaty dla agenta [Rupia]

| Type of transaction/Rodzaje transakcji | Official tariff/ Oficjalne opłaty | Bank administration fee charged to agent/Oplata administracyjna pobierana od agenta | Bank administration fee returned to agent/Oplata administracyjna zwracana Agentowi | Incentives to agents with official tariff/ Korzyści dla agenta wg oficjalnych stawek | Unofficial tariff/Stawki nieoficjalne | Incentives to agent with unofficial tariff/ Korzyści dla agenta ze stawkami nieoficjalnymi |
|---|--------------------------------------|---|--|---|---------------------------------------|---|
| 1. Balance info from BRI Bank/Informacje o saldzie z BRI Bank | 0 | 0 | 0 | 0 | 2 000 | 2 000 |
| 2. Balance info from other Bank/Informacje o saldzie z innego banku | 1 000 | N/A | 0 | 1 000 | N/A | N/A |
| 3. Electricity payment/Płatność za energię elektryczną: | | | | | | |
| – postpaid/płatność z dołu | 3 500 | 2 500 | 1 250 | 2 250 | 3 500-5 000* | 2 250-3 750* |
| – prepaid/płatność z góry) | 3 500 | 2 500 | 1 250 | 2 250 | 3 500-5 000 | 2 250-3 750 |
| 4. Transfers/Przelewy: | | | | | | |
| – bet. BRI Bank accounts/zakładanie konta Banku BRI | 2 000 | 0 | 0 | 2 000 | 5 000-15 000 | 5 000-15 000 |
| – non-BRI Bank accounts/konta poza Bankiem BRI | 2 500 | 0 | 0 | 2 500 | 7 500-15 000 | 7 500-15 000 |
| 5. Cash deposit/Depozyt gotówki | 3 500 | 1 000 | 500 | 3 000 | 5 000-15 000 | 4 500-14 500 |
| 6. Cash withdrawal/Wyciągnięcie gotówki | 3 500 | 0 | 0 | 3 500 | 5 000-15 000 | 5 000-15 000 |
| 7. Cash Transfer/Przekaz gotówki: | | | | | | |
| – bet. BRI accounts/zakładanie konta Banku BRI | 3 500 | 1 000 | 500 | 3 000 | 5 000-15 000 | 4 500-20 000 |
| – non-BRI Bank accounts/konta poza Bankiem BRI | N/A | 6 500 | 3 250 | 3 250 | 7 500-15 000 | 4 250-11 750 |

* or more/lub więcej, N/A – no answer/brak odpowiedzi

Source: own research

Źródło: opracowanie własne

Table 2. Distance of Agent BB to the nearest bank office
Tabela 2. Odległość agenta do najbliższej placówki banku

| Distance/ Odległość [km] | Structure of distance/ Struktura odległości [%] |
|--------------------------------|--|
| < 0.5 | 12.50 |
| ± 1 | 18.75 |
| 2-5 | 47.00 |
| 6-10 | 18.75 |
| ±15 | 3.00 |

Source: own research

Źródło: opracowanie własne

If the customer makes many payments or transfers or deposits in cash, then the funds in the agent's account will turn into cash.

Irregularity, type 4. To encourage BB agents to perform their role as an extension of the bank in remote areas, in addition to providing incentives in the form of a 50% return on bank administration fees, banks also provide various forms of prizes. As many as 25% of respondents said that one of the incentives given by banks to agents is a 100% bank administrative refund if the agent can reach the target of 200 transactions or more per month. Results of interviews with resource person from bank, it is said that the number of transactions 200 per month is the number of break-even transactions of the cost incurred by the bank for each agent. To achieve these targets, the BB agent must be able to meet the target of at least 6 to 7 transactions per day. The irregularity is that to meet the target number of transactions, BB agents po-

tentially perform additionally "pseudo" transactions that perform internal transactions between families and/or between agents who knew each other.

Irregularity, type 5. The Bank in this study authorizes each bank unit office in each sub-district to recruit a BB Agent without specifying the location of the agent's residence. The regulation allows the location of Agent BB adjacent to each other. A total of 32% of the respondents had a distance of between 50 and 100 meters, and 10% of agents had a distance of 100 to 200 meters, and the rest (58%) were more than 1 km between agents. Conditions of proximity of locations between agents can be a positive factor for the people around who do financial transactions through Agent BB. The behavior will get worse if both agents pursue the target number of transactions through the behavior of "pseudo" transactions.

Irregularity, type 6. The results of interviews with business actors respondents, obtained information that as many as 3% of respondents BB agents have business as lenders to the surrounding community. Although this does not affect the number of transactions that occur in the Agent BB, but those type of business can hinder the purpose of banks in channeling credit through Agent BB.

Irregularity, type 7. Some of the respondent of Agent BB (31.25%) have less than 1 km distance from the nearest bank office (terrace or bank office or bank unit), and 12.5% of them are less than 500 m. Table 2 gives an overview of the distance of the agent with the nearest bank office.

An active BB agency respondent stated that proximity to the bank office had a positive impact. Long waiting times and parking fees to be borne by customers when going to transactions in the bank office encourage them to perform the simple financial transactions at the agent BB, even though they have to bore the higher cost. Such a condition could have a negative impact for bank, as the bank's customer will turns to the agent, so that the income from the administrative costs of the bank shifts by the number of transactions that move from the bank office to the agent BB.

Conclusions

1. Field data shows that the average number of business actors who transact on Agent BB as many as three business actors per agent. In addition, the types of financial transactions conducted by business actors in BB Agents are more related to consumption activities, especially non-food consumption, such as paying electricity or buying vouchers, few financial transactions related to production business such as saving and withdrawing savings. Such conditions need to be an important note for the bank as program organizer.
2. Development of a branchless banking program is not enough to be measured by the number of transactions taking place in the Agent BB. The low number of business actors to transact in BB Agents indicates the reluctance of business actors to conduct BB Agent transactions, as potential targets for program development.

3. Negative behavior of Agents BB in running the business as an extension of the bank to reach people in remote areas, can hamper the community and business actors to conduct financial transactions in the Agent BB. For businesses in remote areas not only require facilities to conduct financial transactions, but the confidentiality of their information and prices should be considered.
4. There are various reasons why business actors who transact on BB Agents are more transacting for consumptive activities. Such conditions may be explained in relation to the transaction costs occur in the branchless banking program. The results show that there are at least seven types of moral hazard behavior that can hinder the development of the program, namely: (1) Additional fees charged by the agent, (2) Barriers to using a consumer ATM card at an agent, (3) Agents who are passive and use the facility for their own business interests, (4) The existence of incentives to conduct financial transactions activities that are 'pseudo', (5) The proximity of the location between agents triggers behavior that harms the bank, (6) The type of business of agent or his/her spouse as informal credit lender is hampering the program, and (7) The closeness of the agent's location to the nearest bank office harms the bank.

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Streszczenie

Celem badań było ustalenie rodzajów nieprawidłowości w działalności bezoddziałowej banków na obszarach wiejskich Indonezji w latach 2012-2015. W toku badań ustalono, że najczęściej występuje 7 rodzajów nieprawidłowości w zakresie nadużyć między lokalnym przedstawicielem banku a na ogół biednymi klientami na tych obszarach. Opisano te nieprawidłowości, co w rezultacie może być ułatwieniem w ich ograniczaniu lub eliminacji.

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