

FOCUS

Insurance at grassroots level in Indonesia

Catastrophic life events in the form of illness, accident, job loss, failed harvest or death may have increased impact for the poor, as they often don't have enough savings to absorb the shock. Each peril turns into a financial disaster that leads them deeper into poverty. Greater risk management systems are needed to support low-income people, to help them avoid increased financial strain. Insurance is one of possible solutions.



Illustration: Ade Pepe

Insurance is a system of channelling risks from an individual to an institution by paying an amount of premium. When it was first introduced in 19th century, insurance was actually a service for poor people, since the wealthy generally had enough savings for times of difficulty. As it developed, insurance companies started to focus more on the wealthy individuals due to accessibility and potential profit.

Insurance for the poor - known as microinsurance - recently was reinvigorated in several countries. Microinsurance has now proven to be a growing and sustainable business.

In Indonesia, the insurance industry also developed as microinsurance in the beginning. In 1912, Dwidjosewojo, Soebroto and Adimidjojo initiated an insurance business for teachers, driven by a deep concern about the lives of national teachers. This happened with the commencement of Asuransi Bumiputera, the first player in national insurance industry.

Insurance then took a turn in becoming the major business for national and multinational companies. Unfortunately, these businesses

tended to neglect low-income people.

In Indonesia, the 10 highest risks where people need protection from bankruptcy are illness (that requires hospital treatment), children's education, failed harvest, death of family members, social obligations, marriage, business loss, accident, working capital insufficiency and inflation. Nevertheless, existing microinsurance products are still designed in a way that cannot protect against most risks.

A product that remains popular to date is credit life insurance, an insurance product sold to borrowers with the amount of policy coverage adjusted to amount of a loan, on a declining balance. The purpose is so that outstanding debt can be paid if a claim is filed. One of the reasons why financial institutions are interested in providing the product is because credit life insurance protects both financial institution and its clients. If the policy holder dies, his family does not have to pay outstanding credit balance and financial institution also receives their loan principal.

There has been an increase lately in the microinsurance business in Indonesia. Both national and international insurance players, initially focusing on conventional services, have now begun entering microinsurance due to potential market size. The financial crisis affecting global markets has acted as a supporting factor to the growth in microinsurance business. Some insurance companies have begun developing health and education insurance; products for which demand is high in the Indonesian microinsurance market.

Examples of insurance companies and associations in Indonesia presently offering micro insurance are Bumiputera, Asuransi Jiwa Nusantara (AJN), Takaful and Bringin Life. Multinational insurance companies like Allianz and Cigna have also entered the Indonesian microfinance market; Allianz started its pilot project in 2006. Induk Koperasi Kredit (Inkopdit) is one of associations that provide collective solidarity fund for clients, with functions resembling an insurance mechanism. Inkopdit is the earliest in Indonesia to provide collective fund resembling insurance (since 1970). Inkopdit's services cover Indonesians, while Takmin focuses on and is the pioneer of

sharia microinsurance. The microinsurance industry in Indonesia is a growing niche that continues to develop.

Sources:

- *Protecting the Poor: A Microinsurance Compendium*. Churchill, C. (Ed), 2006. International Labour Organization.
- *Microinsurance: Demand & Market Prospects - Indonesia*. McCord, Michael J., Gaby Ramm, Elizabeth McGuinness, 2005. The Micro Insurance Center. <http://www.microfinanceopportunities.org/pubsMI.php>
- Asuransi Bumiputera website, <http://www.bumiputera.com/content.php?id=44>

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Micro insurance becomes an alternative for low-income people to help them avoid financial disasters. Micro finance institutions (MFIs) begin implementing automated teller machine (ATM) facility. How does this benefit their low-income clients? Read more in this first edition of *PAC News*.

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FOCUS

Implementing micro insurance through MFIs

There are four models available for implementing microinsurance through MFIs.

- *Partner-agent model.* A partnership between microinsurance provider and an agent (insurance company, microfinance institution, donor, etc.). The provider manages product delivery and marketing, while the agent is responsible for design and development.
- *Full service model.* Microinsurance scheme which caters clients thoroughly, both in product design and product delivery.
- *Provider-driven model.* Provider is responsible for all operations, product delivery, design, and services.
- *Community-based/mutual model.* A scheme in which insurance clients are in charge of the ownership, management and operations of insurance business. Clients work with external provider to offer services.

Most of the microinsurance business in Indonesia is implemented using partner-agent scheme due to limited capacity to cover the microfinance market. Takaful takes Takmin and BMT (*baitul maal wa tammil*, a type of sharia MFI) as partners to cater to micro clients. Inkopdit provides Daperma insurance through credit unions throughout Indonesia. AJN cooperates with BPRs (community banks), while Allianz is partnering with cooperatives as operators for their insurance products. In this case, MFIs hold a crucial role as they are close to the grass root communities.

In the partner-agent scheme, insurance agents take the role of risk guarantor and manager, product developer, as well as training. MFIs act as point of service for registration, data collection, premium payment transaction and claim delivery. Intermediary party is sometimes needed to facilitate administration and trainings.

There are at least four advantages for MFIs being points of service for insurance products: *Firstly*, the provision of insurance services boosts an MFI's image because the MFI is seen as a reliable institution that can guarantee client's loss in times of misfortunes. *Secondly*, cross-selling benefit in which insurance product can increase number of clients. *Thirdly*, credit life insurance provides protection for MFIs themselves since MFIs are protected from loss due to unpaid outstanding credit balance when client passes away. *Lastly*, the social benefit, providing insurance often becomes a part of social mission implementation, for MFIs interested in providing protection to their vulnerable clients.

Sources:

- *Protecting the Poor: A Microinsurance Compendium.* Churchill, C. (Ed), 2006. International Labour Organization.
- Wikipedia, <http://en.wikipedia.org/wiki/Microinsurance>

TIPS

Tips on microinsurance

After conducting research and interviews, the PAC team extracted some useful tips for MFIs. Those intending to penetrate the microinsurance market should anticipate several challenges and difficulties:

Clients' knowledge level

Minimum awareness of insurance has generated various assumptions among traditional communities. Some assume insurance is merely a 'flimflam' engineered by financial experts just to scoop out as much profit as they can get. Others consider that insurance practice is against Islam, which is the majority religion in Indonesia. Thus, education about microinsurance is important. MFI readiness. MFI readiness is a key factor. Micro insurance business usually yields thin profits; therefore it should be managed efficiently and effectively. To achieve this, most insurance agents do not require too many prerequisites for the MFI. However, it is important to consider all of the factors that support the partnership.

Information technology

Information technology systems help increase efficiency. Takmin, for instance, requires internet access so that data is transferable routinely through email. MFIs do the data input, while Takmin only accepts data without re-inputting. Inkopdit does not require data transfer via PC, but uses facsimile machines. AJN is currently developing an online system to connect with its 12 branch offices. The challenge is that most of MFIs are not equipped with sufficient computers and internet access.

Human resources

The number of MFI officers is usually limited and they are forced to multi-task. Additional tasks generated by insurance service often become particularly burdensome for them. Meanwhile, the service is yet to be able to finance additional employees. Therefore, it is important to conduct employee training for their additional role.

Fraud

Fraud often occurs in the following manner: client pays premium to the MFI, but the MFI does not pay it to the insurance agent. This is highly detrimental to the relationship between client and the MFI. Partnerships, which are based on trust, can be easily ruined. Eventually, it is the client who will suffer the most when fraud is committed.

Product and service

Product must be relevant to the need and condition of the microfinance market. Transparency related to the service is also very important. Clients, who are generally less educated or even illiterate, need to be given clear explanation of insurance product before they decide to join. Whatever costs charged, both client and partner (insurance agent) need to be informed transparently. Insurance service should be taken voluntarily; insurance is not a compulsory product for the client. To make it efficient, the process must be kept simple, from registration, through payment and claims processing.

HIGHLIGHT

ATM facility; Satisfying low-income clients, benefiting MFIs



Illustration: Ade Pepe

Kartika (21) is a low-income housemaid residing in Jakarta. She's been a customer of Bank Mandiri for two years. The Javanese born woman could immediately use her ATM card without significant difficulties as soon as she opened her account.

"I couldn't do it at first, but a bank officer directly taught me. As soon as I completed registration, I was taken to an ATM unit in front of the office," she said when PAC-MICRA team met her in January. Kartika receives benefits from using ATM for cash withdrawal since she doesn't need to stand in a long queue.

Fauzi (25) feels the same advantage as well. The security officer who resides in Jakarta uses his ATM card twice a month. He can also use it to pay electricity bills and to transfer funds. Zaenal (36) in Bogor, West Java, also has a story. The taxi driver has been a customer of Bank Central Asia (BCA) for six years. In addition to using the ATM for cash withdrawal, he can also use it for payment in supermarket using ATM-debit service.

Unfortunately, not all bank customers can use ATM facilities like Kartika, Fauzi and Zaenal, let alone clients of microfinance institutions (MFIs) in remote areas. Nevertheless, implementation of ATM facilities by MFIs can still be facilitated and is not impossible.

To date, MFIs providing ATM facilities are rare. **Only two of 1,897 BPRs (community banks) in Indonesia provide ATMs, BPR Eka Bumi Artha in Lampung and BPR Karyajatnika Sadaya (KS) in Bandung.** This is very different from wide network of ATM facilities available through commercial banks. Quoting Bank Indonesia's data released in 2008, 51 of total 124 commercial banks have issued ATM cards with 76 provider companies.

ATM facilities should be accessible to all customers. ATMs enable them to get cash immediately without queuing or going through excessive red tape. Many transactions are doable at a single time whenever needed, such as transferring, balance checking and various bill payments (electricity, water, installment, etc.). For clients who are illiterate, ATM may come as a much easier solution since they do not have to fill forms manually.

Implementing ATMs in MFIs

The advantage of using an ATM network is its wide coverage that can be used by MFIs, so that their clients can carry out transactions at many ATMs. For instance, MFIs included in the ATM Bersama network are able to provide services through 13,000 ATM units. There are currently five national ATM networks and two international networks operating in Indonesia.

MFIs can have their own ATM facilities or become a part of ATM networks by co-branding with commercial banks. Co-branding is a cooperation of two companies to create marketing synergy for a certain product. Financial institutions work closely through co-branding to provide ATMs that are accessible by clients of both parties.

MFIs intending to install their own ATMs must prepare for networks and unit procurement (costs around US\$20,000 - US\$35,000 per ATM unit). MFIs that are not ready for implementing ATMs directly may choose co-branding.

Benefiting MFIs

ATM facility brings advantages not only to customers, but also to MFIs. ATM networks create efficiency because transactions are executed without bank officers. This will drive down expenses for staff, administrative documents and general services. Each of commercial bank customers carry out an average of five ATM transactions a month. As for MFIs' customers, it is estimated they have only three transactions. Thus for MFIs with 5,000 clients, ATM usage may reach 15,000 transactions per month.

Transaction efficiency has a major impact on a MFIs' performance. MFIs' staff can be more focused on clients through personalized services. Aside from that, the decreasing number of transactions at counters enables a fusion of cashier and customer service. MFIs do not need to open branch offices in each village or district. Planting ATM units or joining national ATM network is sufficient. It also enables MFIs to be more creative in innovating product variants.

ATM service provides many benefits for the poor, especially in business efficiency and convenience. Micro business owners are able to manage their cash flow better because they can withdraw or deposit cash anytime according to their need. Financial transactions can be carried out without taking too much time, therefore micro business owners do not have to lose potential income.

Eventually, cost efficiency improvement and outreach effectiveness will yield customer satisfaction and boost MFIs' competitive position. This is a significant reason for MFIs to consider implementing ATM facilities.

Sources:

Automated Teller Machines. Steve Whelan. CGAP IT Innovation Series. <http://www.intercooperation.ch/finance/download/sk-wks/2005/2005-12/it-atm.pdf>

ATM network providers in Indonesia:

Network	Number of Banks	Number of ATMs	Provider
ALTO	15	3,700	PT. Daya Network Lestari
Bersama	70	13,000	PT. Artajasa Pembayaran Elektronik
Cakra	3	500	Euronet Services Inc & PT Sigma Cipta Carka
Prima	32	9,900	PT. Rintis Sejahtera
Link	3	13,688	PT. Artajasa Pembayaran Elektronik
Cirrus	9 (in Indonesia) - 93 all over the world	1,000,000 (all over the world)	Mastercard International Company
Plus	n/a	n/a	n/a

Benefits of co-branded ATM for MFIs and Banks

Benefits	MFIs	Banks
Coverage	MFIs can reach customers in remote areas. That's why some MFIs have co-branding with other MFIs. Compared to commercial banks, MFIs' coverage is wider and reaches remote areas.	Commercial banks can penetrate microfinance market, which was unreachable do to limited retail capacity.
Cost	MFIs do not need to make investments into ATM units. They can use ATM facilities of commercial banks, thereby minimizing the costs.	
Brand image and awareness	If co-branding is done with popular commercial banks, this strategy will improve MFIs' brand image. Customers will relate the image of commercial banks with MFIs.	Outreach to wider market will certainly improve brand awareness of commercial banks.
Social responsibility mission	MFIs put fewer resources but they can be more focused on reaching more clients in remote areas.	Co-branded ATM partnership with MFIs enables commercial banks to implement social mission in providing service to low-income people.

HIGHLIGHT

Co-Branding Bank Syariah Mandiri & MFI

Simple and easy

Since 2008, Bank Syariah Mandiri (BSM) has been providing an ATM facility for MFIs through co-branding system, named virtual co-branding. This partnership is BSM's strategy to serve customers without directly working with the MFI's market.

Virtual co-branding is an easy product to implement. MFI's customers are not obligated to become BSM's clients as in other co-branding products. Also, the MFI does not have to pay high expenses for ATM units and maintenance. These are the main selling points to MFIs planning to provide ATM facility but hampered by limited capital.

However, in partnership for co-branding, MFI is required to provide BSM with a cash reserve for ATM withdrawals by clients. MFIs need to have solid liquidity management in order to fulfill this requirement.

Another attractiveness is BSM's wide network. BSM is a part of ATM Bersama and ATM Prima networks, and both are major network providers in Indonesia. Customers of MFIs partnering with BSM through virtual co-branding gain access to around 23,000 ATM units. To add more, BSM has established cooperation with MAPS, a prominent ATM network in Malaysia, thus making the costs for transfer transactions between the two countries lower. This is advantageous for those who have partners or families in Malaysia.

BSM's co-branded ATM enables clients to transact not only at the ATM units but also at all centers providing debit-payment service from Bank Mandiri and Bank Central Asia, including gas stations. The card is designed uniquely. With MFI's logo imprinted on the front side and BSM's logo appearing on the back side, it makes the product attractive to clients and increases brand image of MFI. However, officers at the centers are not

always aware of the MFI-branded payment facility offered via ATM card. The logo of BSM at the back side of the card helps convince them to resume processing the payment that clients are about to make.

Co-branding requirements are not complicated. MFIs only need to have a clear legal form and open an account with BSM, on behalf of the client. MFIs are required to have a minimum of 100 clients included in co-branded ATM partnership. During preliminary phase, the number is negotiable down to 50 clients.

Another advantage is that MFIs are not required to have sophisticated information technology systems. BSM provides software support. Additionally, trouble shooting services can also be provided based on mutual agreement. MFIs with semi-automatic systems, or even manual systems, can join with BSM without having to deal with information system matters.

INNOVATION

Prodem FFP's fingerprint recognition ATM



Pic: http://news.bbc.co.uk/olmedia/1385000/images/_1386310_bolivia_atm300.jpg

PRODEM Private Financial Fund (PRODEM FFP) is a non-profit microfinance organization founded in Bolivia in 1999. Through its 65 branches, the organization serves around 43,000 clients in rural and semi-urban areas.

PRODEM FFP has installed 20 units of Smart ATM with investment reaching US\$ 20,000 per unit and the quantity increases every year. What's unique about Smart ATM is its effective technology. Realizing that existing ATM technology was costly and unworkable in its market, PRODEM FFP built its own low-cost technology that caters to customers' needs. Rather than shaping customers to adjust themselves with existing product and technology, PRODEM FFP created modern innovation that matches with customers' needs without alienating local culture character.

The result was the Smart ATM that harnesses fingerprint technology as a substitute for personal identification number (PIN). The smart machine operates with voice instructions in three local languages (Spanish, Quechua and Aymara) to help illiterate or semi-illiterate users. ATM is equipped with touch screen display and color-coded technology to help them recognize important buttons (blue for withdrawals, yellow for account inquiry), and also to make sure that verbal instructions can be followed easily.

By combining smart card systems, fingerprint and voice-driven instructions, PRODEM FFP provides easy and secure ATM access in remote areas in Bolivia. Smart cards keep customer's information from name, digital fingerprint, to five most recent transactions. When customers approach a PRODEM FFP Smart ATM, they receive audio instructions in three alternative languages. After selecting one, they are instructed to insert their smart card and place finger on fingerprint recognition device. The system reads the smart card and matches each customer's fingerprint with the image stored on the card. This way, the risk of fraud on customer's information is minimized because all account information is stored in ATM card.

Smart ATM's distinctive design gives benefits to customers as well as PRODEM FFP. The

system does not require real time connection, therefore PRODEM FFP is able to save US\$ 800,000 a year. Smart ATM is also highly effective because investment cost per unit was only a half of investment required for traditional ATM with limited functions. Furthermore, Smart ATM has successfully helped PRODEM FFP expanding its market from rural to urban areas.

Despite the fact that the percentage of illiterate population in Indonesia is high, there has been no ATM service tailored to serve this market segment. In Indonesia, ATM service is seen as being too sophisticated for the poor. They are often afraid of using ATMs. Knowledge and awareness are still the main gaps in access to finance among the poor, and any increase in ATM usage will likely only be realized by an increase in financial literacy.

Sources:

-Automated Teller Machines. Steve Whelan. CGAP IT Innovation Series. <http://www.innocoperation.ch/finance/download/sk-wks/2005/2005-12/it-atm.pdf>

-What Works: PRODEM FFP's Multilingual Smart ATMs for Microfinance http://www.digitaldividend.org/case/case_prodem.htm

MFI PROFILE

BMT Ibadurrahman Progressing with co-branded ATM

Beyond the BPR level, ATM facilities have also been applied in cooperatives. BMT (*baitul maal wat tamwīl*, a type of sharia MFI) Ibadurrahman in Ciawi, Bogor, West Java, is one of the cooperatives that has realized the importance of ATMs.

Constituted in 1995, BMT Ibadurrahman currently has around 15,000 clients. The majority of them are workers, traders and college students. The cooperative now utilizes ATMs to improve its services to customers. It is implemented through co-branding partnership with Bank Syariah Mandiri (BSM) of Bogor branch. The cooperation enables BMT Ibadurrahman's customers to access 13,000 ATM units included in ATM Bersama network.

BSM is not the only commercial bank that offered co-branded ATM partnership to BMT Ibadurrahman. The choice was made more because of a practical reason: location of BSM's office is near to BMT Ibadurrahman's. The cooperation requirements were simple. BSM did not need to conduct formal market survey and BMT Ibadurrahman was only required to open an account at BSM. Funds saved in the account are managed according to the number of clients registered as co-branded ATM users.

BMT Ibadurrahman Principal Ridha Nugraha explained that the BMT maintains Rp 50 million in its BSM account; there are currently 50 of the cooperative's members registered as ATM users. Each of them puts aside Rp 1 million to be saved in BMT's account in BSM. The remaining amount of ATM users' savings balance is saved in BMT Ibadurrahman directly.

For ATM issuance, clients are charged Rp 25,000. The maximum limit for cash withdrawals through ATMs are Rp 1

million per day. BSM gives operational support for system and software.

The ATM implementation is still in the pilot test phase, which was started in November 2008. Current services are still limited for specific customers. Successful trial phase will determine BMT Ibadurrahman's next step in the near future - official launching of ATM facilities for all clients.



BMT Ibadurrahman stated that there has been no demand so far for educating customers on how to use ATM because most of them have already used ATM facilities at other financial institutions. Still, BMT Ibadurrahman plans to disburse information and educate clients through informal meetings at their residences.

The BMT does not consider any disadvantages from the co-branded ATM partnership. BSM immediately addresses current technical problems. The fee for ATM usage is also minimum as BSM does not charge customers for anything; the only cost needed is for ATM network provider.

The mutual partnership between BSM and BMT Ibadurrahman has been going on for a long time, not solely in co-branded ATM partnership. Customers needing larger loans, above BMT Ibadurrahman's capacity are referred to BSM. On the client's side, co-branded ATM facility has enhanced their satisfaction. On BMT Ibadurrahman's side, besides generating large impacts in terms of collecting third party funds, the cooperative has also improved its brand image.



Pics: BMT Ibadurrahman

In the future, BMT Ibadurrahman will soon launch Electronic Data Capture (EDC) for payment and loan installments. This new service is to be implemented after the cooperative fully launches ATM facility. Tight competition encourages MFIs to continually improve and give satisfactory services to their clientele.

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MFI PROFILE

Dian Mandiri

Protecting the poor with Payung Keluarga insurance



Pic: 123RF

Dian Mandiri is one of the MFIs providing microinsurance for its clients. Partnering with German Technical Cooperation (GTZ) and PT. Asuransi Allianz Life Indonesia, the cooperative launched Payung Keluarga microinsurance in September 2006.

Dian Mandiri cooperative was established in November 1998 and currently owns 10 branch offices. It covers Banten, Jakarta and West Java provinces. Focusing on micro enterprise development to empower the poor, Dian Mandiri is targeting low income women, including widows and those with little social supports. According to last year's data released on its official website (www.dianmandiri.com), loans given to women were 89.16% of total credit portfolio. Dian Mandiri's primary target market also encompasses unemployed and poorly educated people, including street vendors.

In this partnership, Allianz and Dian Mandiri implement profit sharing scheme with an annual premium of Rp 80 million. According to Jefri V. Garingging, Operational Manager of Dian Mandiri interviewed by PAC-MICRA team in early March, other major insurance companies have offered similar cooperation with profit sharing of 50/50, but Dian Mandiri rejected it. With this partnership with Allianz, all Dian Mandiri's clients automatically become insurance policy holders.

Payung Keluarga is a credit life insurance with two main benefits. If loan taker dies, the insurance will carry the risk of outstanding credit balance, therefore his family does not have to repay it. The beneficiary will also receive two times the principal loan amount. These benefits help low income families to overcome the impact of death. Documents required for claim processing are only death certificate issued by local authority, credit files and a form for claiming insurance. Payung Keluarga insurance does not provide other kind of benefits that cover spouse or

appointed family members. According to Ms. Novy, Allianz supervising program officer in Dian Mandiri, there were so far 15 successful claims last year amounting to around Rp 129 million.

Payung Keluarga insurance does not require medical check-ups. Clients are only asked to fill standard credit form, which will be used by MFI for loan analysis. Clients within the age range of 15 to 60 are entitled to receive loans, while credit given to those older than 60 years old is decided on a case by case basis. Allianz only covers loans up to Rp 10 million.



Pic: Dian Mandiri

High poverty rate creates potential opportunities for microinsurance providers in Indonesia. Within the first five months of the test project, Payung Keluarga has insured more than 8,700 low income households. The number of current credit life insurance holders in Dian Mandiri is approximately 12,000 to 14,000. This amount is expected to rise considering that Dian Mandiri's number of clients continues to increase each year. By December 2006, Dian Mandiri has served 18,882 active clients. In second quarter of 2008 (April-June), the number reached 26,635. With such growth, it's not impossible for Dian Mandiri to accomplish its target of covering clients in Java, Sumatra and Kalimantan islands within a short time.

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CLIENT PROFILE

Suwarjinah's loyalty



Pics: PAC Team

Another significant factor that has kept Mrs. Suwarjinah loyal as a cooperative member is the high family spirit. How could it not? Her neighbors, her two children and even her five grandchildren are all members of the same cooperative.

Gains benefit from micro insurance

The competitive interest rates compared to what commercial banks offer, and no administrative fees and taxes are all added values of cooperative to Mrs. Suwarjinah. Furthermore, there is a benefit paid from Dana Perlindungan Bersama (Daperma), which was very important for her. Daperma is a type of microinsurance managed nationally by Induk Koperasi Kredit (Inkopdit) since 1977. The product is offered in all secondary lines of Inkopdit in districts (Pusat Koperasi Kredit/Badan Koordinasi Koperasi Kredit Daerah). Members of cooperatives listed in Daperma service are automatically protected in terms of their savings and loans.

It was in September 2006 that Mrs. Suwarjinah's beloved husband died at the age of 71 due to heart attack. Her son immediately arranged claim to Daperma easily. The claim only required death certificate from local authority. The fund could be claimed quickly; within only a week.

In addition to receiving Daperma, Mrs. Suwarjinah further said that after the claim process was completed, her husband's obligatory and voluntary savings amounting to Rp 17 million was given back to her. The benefit fund was used to finance her husband's funeral in his hometown, Yogyakarta.

The benefit from Daperma has helped Mrs. Suwarjinah a lot. She, who was in grief, did not have to be burdened further regarding major cost for funeral. Not to mention that her husband was to be buried in Yogyakarta, which could have meant a huge transportation cost for the family. To her, the benefit from Daperma microinsurance was simple. "What matters most is that I didn't have debts," she said, relieved.

If there were an award for the most loyal cooperative member, most likely Mrs. Suwarjinah (70) would be one of the best candidates. The retired teacher has been a member of KSP Permata Sumba cooperative for a quarter of century, since 1984. She is not interested in joining another cooperative or being a client of commercial banks.

Interviewed in mid April 2009 at KSP Permata Sumba's office in Sumur Batu, Cempaka Mas, Central Jakarta, Mrs. Suwarjinah shared her story to PAC-MICRA team about her loyalty as cooperative member and the benefit of microinsurance she once experienced.

Mrs. Suwarjinah was among 29 people who founded KSP Permata Sumba. "My membership number is 10," she said. Mrs. Suwarjinah maintains sharp memory despite her age. KSP Permata Sumba was previously in an *arisan* group, she elaborated. *Arisan* is periodic collection of money or items of the same value among several people; each person will receive their turn to collect the money or items by lot. The *arisan* group then initiated establishment of a savings and loan cooperative named KSP Permata Sumba. The part 'Sumba' was taken after the name of the area in which most of the group's members reside; Sumur Batu. When it first started, each of the founding members, including Mrs. Suwarjinah, contributed initial saving of Rp 20,000, monthly obligatory savings of Rp 20,000 and unlimited voluntary savings.

Mrs. Suwarjinah shared that she does more saving than asking for loan in the cooperative. She comes every month to the cooperative's

office to save her teaching income. She recalled it was only once that she ever asked for a loan, it was on behalf of her late husband who was also the founder of KSP Permata Sumba. "It was in 1990," Mrs. Suwarjinah confirmed. The amount of loan was not much and was used to renovate their house.



Pics: PAC Team

Practical and simple loyalty

Mrs. Suwarjinah's loyalty is simple: she gains more benefits by being KSP Permata Sumba member than by saving in a commercial bank. According to her, savings interest rates in commercial bank are small, not to mention taxes and other administrative fees. Besides, the nearest commercial bank is located far from her house, therefore Mrs. Suwarjinah must bother herself taking public transportation to go there and spend more money for the purpose. KSP Permata Sumba's office on Jl. Howitser Raya is very near to her house on Jl. Nilam. She can walk the 50 meters required to get there whenever she needs. These practical advantages have driven her to be a loyal cooperative member. Mrs. Suwarjinah said that being a cooperative member means supporting the prosperity of the cooperative itself. Today, KSP Permata Sumba has almost 800 members.

NEWS

PAC launching, A new hope in poverty alleviation in Indonesia



Pics: PAC Team

MICRA Indonesia Foundation launched the Poverty Action Center (PAC) on February 12th, 2009, in Le Meridien Hotel, Jakarta. Forty eight institutions participated in the event, comprising of microfinance institutions (MFIs), donors, government, associations, national banks and media.

PAC has a strong will to do its part in eradicating poverty in Indonesia. Through an array of strategies and varied activities, PAC hopes to give positive contribution through empowerment of pro-poor MFIs.

PAC launching did not only signify the birth of a new institution concerned with poverty in Indonesia, but was also a place for discussion. Leesa Shrader from Mercy Corps in her welcoming speech introduced Mercy Corps, MICRA (*Microfinance Innovation Center for Resources and Alternatives*), PAC, and the role of those three institutions in the microfinance industry and poverty eradication efforts.

Three-session discussion were held during PAC launching with Asep Suryahadi (Smeru Research Institute), Meynar Sihombing (MICRA), Andi Ikhwan (Mercy Corps), Yoko Doi (World Bank), Don Johnston (Mercy Corps) as panelists. Along with attending participants, they discussed microfinance and poverty eradication, access to finance in Indonesia, financial services for the urban poor in Jakarta, and also the implementation of group lending in rural banks in Indonesia. Erin Connor (Grameen Foundation) started the second session with discussion about progress out of poverty index (PPI), while Shafiq Dhanani (Mitra Bisnis Keluarga Ventura) closed the session with a presentation regarding MBK Ventura's experiences in targeting poor clients.

PAC was officially launched in the early afternoon by Leesa Shrader and PAC Director Erlyn Shukmadewi. After PAC Advisory Forum was formed, the event was officially closed. With the successful PAC launching, it is hoped that the effort of poverty alleviation in Indonesia will continue to move forward.

What is PAC?

The Indonesian microfinance sector is one of the largest in the world, encompassing over 50,000 institutions, including community banks, rural banks, cooperatives and credit unions. Despite the scale, more than 40 million people still lack access to financial services, mainly in rural areas and urban slums.

The PAC program was initiated by MICRA foundation in order to build MFI outreach to the poor. PAC strongly believes that everyone, including those with low or no income, deserve access to financial services. At present, many of those people are not served by commercial banks and only few microfinance institutions reach out to this market segment. A recent MICRA study revealed that only a third of 450 MFIs surveyed provide significant services to the poor.

In Indonesia, poverty remains a driving factor. The following figures illustrate this:

- Over 110 millions of people are living with income between US\$1 and US\$2 per day; another 17 millions live on less than US\$1 per day.
- Nearly 30 million of elementary school children are suffering from moderate to severe anemia.
- There are 30 million unemployed people and 37% of population was unemployed in 2006.
- As many as 38.5 million Indonesians are self-employed, comprising over 40% of those employed.
- Of more than 43 million of micro and small enterprises in Indonesia, only less than 13% have access to commercial sources of finance.

Now, with a looming financial crisis impacting the world, MFIs can and should do more to help families climb out of poverty.

As a program, PAC focuses on identifying, promoting and linking pro-poor MFIs to resources. The program is integrated and serves as a center for learning. It also acts as center of activities for pro-poor MFIs to develop their outreach and effectiveness. PAC enables MFIs to receive access to various resources so that they can grow and share experiences. PAC also promotes pro-poor models to other MFIs interested in working on the microfinance market. Best practices and tools will be documented and disseminated through newsletter, website and conferences.

Managed by a team within MICRA, PAC fuses its resources with internal support from Mercy Corps to provide direct services to up to 500 pro-poor MFIs in the next five years. It will build market awareness among all MFIs about viable pro-poor products and approaches to increase overall service to underserved market segment. Eventually, effective and sustainable MFI financial services are hoped to lift millions of Indonesians living in poverty.

PAC conducts in depth research to identify pro-poor MFIs throughout Indonesia. The research was started in February 2009. The list of identified pro-poor MFIs is regularly published in each edition of PAC newsletter. Please send email to pac@micra-indo.org to take part or to receive additional information. We would love to hear from you!

List of Pro-Poor MFIs

No	Name of MFIs	Legal Form	Location	Area
1	Bina Swadaya	Yayasan	DKI Jakarta	Jabodetabek
2	LKMS Gemi	Kopseyah	Yogyakarta	DI Yogyakarta
3	Insan Kamil	BMT	Surakarta	Jawa Tengah
4	Berkah Madani	Kopseyah	Depok	Jabodetabek
5	Dana Mandiri	Koperasi	Tangerang	Jabodetabek
6	Baitul Maal Sejahtera	Koperasi	DKI Jakarta	Jabodetabek
7	Daarut Tauhid	Koperasi	Bandung	Jawa Barat
8	APMI ICMI	Koperasi	DKI Jakarta	Jabodetabek
9	Sibetan	LPD	Bali	Bali
10	Widhi Prima Asih	BPR	Gianyar	Bali
11	Widyadhana/Maharani	Koperasi	Sukoharjo	Jawa Tengah
12	Bunda	BMT	DKI Jakarta	Jabodetabek
13	Bali Srisedana Mandiri	BPR	Gianyar	Bali