



The ROLE of BRANCHLESS BANKING and FINANCIAL INCLUSION on the ECONOMIC GROWTH of COMMUNITIES of MEDAN

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ABSTRACT

Expanding access to financial institutions is one solution to broadening the reach and access of people to financial institutions. Branchless banking as a form of advancement in banking service technology which is part of the banking policy strategy offered by the Financial Services Authority (OJK) to achieve financial inclusion in all levels of society needs to be tested consistently. This study aims to determine the effect of branchless banking and financial inclusion on the success of economic growth in the city of Medan. This research is a quantitative descriptive study. This study took the population of the city of Medan in 21 districts. There were 300 respondents selected as samples based on research needs using stratified random sampling techniques. The data analysis technique used is Multiple Linear Regression. The results show that branchless banking has a significant positive effect on the economic growth, which means that branchless banking is capable of significantly and strongly influencing the economic growth of the people of Medan City. Financial inclusion also has a positive and significant influence on the economic growth, which means that the achievement of financial inclusion in the city of Medan will have a real and strong impact on the success of economic growth in the city of Medan. Financial inclusion is the biggest and strongest factor in the economic growth of the people of Medan City

Keywords: *branchless banking, financial inclusion, economic growth*

BACKGROUND

The World Bank released East Asia Pacific Economic Update on 11 April 2016, which mentions information that economic growth in the last 10 years is only enjoyed by 20% of the population in Indonesia. [1] The expansion of access to financial institution to be one of the solutions to extend the reach and access Community financial institutions against one of them with the use of digital financial services, branchless banking (banking services without an Office or using an agent) for opening a bank account or other financial transactions. Although an expansion of public access against the banking financial services and products not directly assist the inclusive growth but can help the financial system running as well as one of the conditions for economic and social development the community.

Indonesia has a population with diverse cultural and psychological conditions also have an impact on the existence and continuity of banking technology. Not all people want to accept technological advances banking offers banking products and services that will have an impact on the economic growth of the community as well as the economic growth of the city. Branchless banking as one form of advancement of technology banking services that are part of banking policy strategies offered by the financial services authority (OJK) to achieve financial inclusion in all walks of life need to be tested on a consistent basis.



The other obstacle is still the existence of limitations of infrastructure that can support the distribution of banking services for all walks of life, as well as the role of Government is needed in educating society or the provision of facilities and infrastructure a proponent of the distribution of banking products and services in all walks of life so that financial inclusion can be achieved.

The statement is supported by the results of research that States that the barriers against the banking access caused by the bank's own business model, market positioning, the level of competition faced by macro-economic conditions, as well as agreements and regulations the run. Even the existence of conditions which are not ideal, namely the low knowledge society will be the functions of the financial institutions and the banking products offered by who is also considered to be incompatible with the needs of the low-income community. Existence values are irrational and unbalanced between money saved and costs incurred for Administration or to go to the bank so that resulted in the distribution of banking services and supporting infrastructure distribution should get special attention by Government and banking [2] The existence of the impression of the banking services are still too fancy and not affordable for low-income community makes them hesitate to use banking services so that they feel are not worthy as a banking customer. The number of available conventional banking system as long as it is still not reaching all walks of life ranging from the structure of the management issues to other technical issues that impact banking is not capable of accommodating the whole unbanked community [3][4]

The effective mobilization of domestic savings for the purpose of private investment has a key role to achieve economic growth at the same time a decrease in poverty. An efficient financial system and inclusive can empower individuals, facilitating the exchange of goods and services, integrating the community with economic growth as well as help protect the public from economic hardship [5] A country that has a high financial access impact on low income inequality due to the economic development of the country [6]

Branchless banking into the most effective solutions to help increase economic growth, reaching the unbanked population and support the implementation of inclusive finance programs. This service will help the improvement of the economic conditions of low-economic community [4] Education becomes an important factor to make the public want to adopt a branchless banking service, but the shared banking providers means of branchless banking technologies are not able to play a role in educating the public at maximum. Its effect is to make the society is not ready to accept the change and adopt the service to perform financial transactions so that services the bank without the Office to achieve financial inclusion is not successful[7]

Medan city as one of the major cities in Indonesia also experience the same imbalance in terms of the spread of wealth for its inhabitants. Data from BPS Medan (Medan city in 2016 figure) shows that the economic growth of the city of Medan has decreased, namely of 5.74% compared to the previous year amounted to 6.05%. The sectors that are most influential in the economic growth of the city of Medan is from attempt field health services sector not from financial sector/banking, while the poor population of the city of Medan from a year 2014-2015 no changes or the decline in numbers that is still moving on the numbers 209.700 people [8] This data shows that the image of the city of Medan is not experiencing significant economic growth and followed the number of poverty that is not reduced. These conditions give an indication that the application of branchless banking in Medan are not very active and not entirely positively impact helps reduce poverty and help the spread of the economic growth that is equitable and fair to the community Medan city at once can be inferred that the achievement of financial inclusion has not been successful in Medan.

Based on the background of the presented research was then conducted to find out how



branchless banking influence towards economic growth in the city of Medan and how the influence of financial inclusion on economy growth in Medan. This study will test the correlation between branchless banking and financial inclusion which try applied in Medan city in theory was declared able to support an increase in the economic growth of communities of Medan.

LITERATURE REVIEW

Branchless Banking

The development of digital technology at a time when banking services now require fast and dynamic that eliminates the boundaries of time and space. Needs of service bank without branches become needs. Bank services without branches called branchless banking, bank the absence is a service of the Office of operations utilizing sophisticated technology as the customer access makes clients more easily get in touch and use products and banking services. Another is the perceived ease of the bank also does not require a big investment to set up branch offices and the provision of human resources as a service to the customer. Pampered clients with banking services quickly Fund man, ranging from process withdrawals, saving, to transfer funds to the account of the desired objectives without a long process so that eliminates the boundaries of time and space. The customer could do it anytime and anywhere without having to go to a bank office.

The head of the Research Department and Banking Arrangements OJK, Mustika Ipdegirl stated the purpose of the technology applied to encourage a more secure financial transactions, and prevent money laundering targets the end i.e. expanding access in financial services. These services became important also caused still lack access to community use of financial products and services of the bank or a formal financial services so that the given technology is easily applied to include people who are unfamiliar with the technology banking [9] This technology is supported by mobile technology and the presence of a bank representative agents cooperate with the bank in the use of technology. branchless banking is a combination of agent banking and mobile banking. Agent banking is the business activities of non-bank, including a travelling agent, or stalls and shops that help banks provide banking services, while the mobile banking is the banking service access via the mobile phone (cell phone).

Branchless banking offers a number of products, namely, micro-savings, micro-insurance and micro-credit. In the early stages of products offered is savings micro and micro insurance. It is aimed so that banking is able to touch the small clients that have not been touched by the bank. For example, the first six months of the product allowed is savings and insurance, the credit may come after that. Then to further solidify the branchless banking program can be run well, OJK will issue rules Without financial services Office in the framework of inclusive finance by the end of 2014[9]

Financial Inclusion

The definition of inclusive finance in the national strategies for inclusive Finance is the right of every orag to gain access and full service of financial institutions in a timely, convenient, affordable, informative and full of tribute to the dignity and his dignity. Financial services will be available to all walks of life and various community groups, with the main focus towards the poor, the poor productive, migrant workers, and residents of remote areas [10]

Inclusive finance is built on 6 pillars [10], i.e:

1. Financial Education, which aims to increase the knowledge and awareness of the public about a range of financial products and services that are in the formal financial market, consumer protection and understanding aspects of risk management

2. Public finance facility, is a strategy which refers to the ability and role of Government in providing financing public finance directly and conditional to foster economic empowerment society.
3. Financial information Mapping, used to increase the capacity of the community in the categories is not feasible or become un bankable by formal financial institutions, especially the poor productive as well as micro enterprises small
4. Policy regulatory support, be policy support by the Government as well as Bank Indonesia to increase access to financial services
5. The intermediary Facilities and distribution channels, which are intended to increase the awareness of financial institutions will be the existence of potential segments in the community and expanding financial services by making use of alternative distribution methods.
6. Consumer protection, aiming to let the public have the guarantee of a sense of security in financial institutions interact with in utilizing the financial services products and services offered.

Economic Growth

Economic growth is the development of activities in the economy that have an impact on increasing the amount of goods and services produced within the community so that an increase in the prosperity of the community.

Economic growth showed the extent to which the activity of the economy was able to provide additional income in a given period [11] The goal to be achieved is to lower the level of poverty that is the inability to meet the minimum standard of basic needs be it needs to eat or not to eat [8] Achievement of high economic growth and a decline in unemployment and poverty have always been related to the financial management area is good, so considered if financial inclusion is achieved then all walks of life can feel products and services banking services without limits again. The public will be able to improve his life be better if access to banking products and services can be obtained without a hitch because it can increase economic activity to increase people's income.

Conceptual Framework

Based on an examination of the literature presented a conceptual framework in this research are as follows:

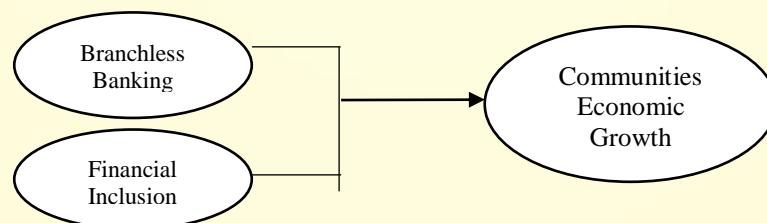


Fig. 1 Conceptual Framework

Hypotheses

This research proposes several hypotheses, i.e:



- a. Branchless banking is significantly able to influence the economic growth of the people of Medan City.
- b. Financial inclusion is significantly able to influence the economic growth of the people of Medan City.

METHOD

This research is quantitative descriptive. The study used the population of the city of Medan in 21 districts, with the selection of samples using stratified random sampling techniques. The sample used was 300 respondents based on the criteria adjusted for the purpose of this study. The data analysis technique used is Multiple Linear Regression with SPSS software. Data was collected using questionnaire and documentation methods.

RESULT AND DISCUSSION

Characteristics of Respondents

This study was dominated by men (73.33%) and women (26.67%), meaning that men as head of the household did work to earn income to meet their family's needs so that men were more involved in family economic activities. Respondents were dominated by productive age of 25-65 years (78%) so that they were still able to fulfill their daily needs. Other data shows that 56% are people who work as day laborers and entrepreneurs and the rest are traders, civil servants / Indonesian Armed Forces / Police, and private employees. The most appropriate choice for the object of this research are day laborers and self-employed because they still manage their finances traditionally and banking services are still considered too expensive and luxurious to reach so they are not too touchy and do not know the technological developments that accompany the development of banking services and they feel they are not convenient to use it.

Results

The test results of the significance of the relationship between variables can be seen in the following ANOVA table, i.e.:

Table.2 Significance of Inter-Variable Relationship Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	23,107	1,175		19,652	,000	20,804	25,430		
Branchless banking	,110	,047	,121	2,393	,016	,216	,020	,956	1,046
Financial inclusion	,270	,050	,238	4,523	,000	,387	,152	,956	1,046



a. **Dependent Variable: economic growth**
Source: Data Processing Results (2017)

The data in Table 2 explains that the relationship between branchless banking and financial inclusion in Medan City is able to influence the economic growth of the people of Medan City. The regression equation of the relationship between branchless banking and financial inclusion on economic growth is as follows:

The results of the analysis show that Branchless banking has a significance value of $p(0.016) < 0.05$, the hypothesis H_0 is rejected and accepts H_1 , it means that branchless banking has a significant and positive effect on the economic growth of Medan City communities. Financial inclusion in Medan City has a significance value below the value of 0.05, i.e $p(0,000) < 0.05$, it means that the hypothesis H_0 is rejected and accepts H_1 , financial inclusion in Medan City has a positive and significant effect on economic growth of Medan City community.

Discussion

Branchless banking is one of the strategies for achieving financial inclusiveness because it is able to influence significantly and strongly on the economic growth of the people of Medan City. The branchless banking program as a support for the successful distribution of banking services is getting closer to low-income people, especially those who have limited access or no access at all. The traditional paradigm that banking products and services are only for good and sufficient economic groups must be changed to help achieve financial inclusion in the city of Medan. The low economic community will be able to use banking financial services and products without physical or psychological barriers that will help drive the economy of the community. The optimal role of banking in the economy, banks need to work effectively and efficiently in providing a financial system that can be touched by all layers and categories of Medan City society regardless of their particular economic conditions. The efficient financial sector will be able to encourage the effectiveness of the allocation of financial resources and reduce the misallocation of productive resources. Efficient banking will also support sustainable economic growth and public welfare [12] The branchless banking program is the most appropriate program and is a bank representative to approach the community directly through agents who are trained and fully committed to banks using technology facilities and working with several telecommunications providers who can support financial services.

Access to financial services is the right of all human beings so there is no limit for anyone to obtain banking services even though the economic level is low. Banking is a strategy in providing full access to financial services as a goal of financial inclusion so that the community is able to improve the family economy. In accordance with the opinion that development and policies that are oriented and in favor of the interests of the people can increase high economic growth. Growth can be sustainable in the long run if the main source comes from the people, both in the form of people's productivity and funds collected through people's savings. Growing and developing development based on the power of the people, the stronger the independence of a nation [12]

The government together with OJK and Bank Indonesia must pay attention to the needs of the community so that branchless banking and financial inclusion can succeed, namely adjusting to the needs, behavior and culture of the community so that the program will provide financial services and products that support and meet community needs and support the community to improve the family economy. The choice of financial service distribution is determined by consumers who are tailored to their needs, financial products



and organizational characteristics with interactions between distribution channels and products, between consumers and distribution channels becoming more important. The aim is for the branchless banking program to be in line with the target and accelerate the economic growth of the people of Medan City.[13]

Communities with good financial knowledge are able to use financial services effectively to avoid fictitious financial products and services. This condition illustrates that the community needs good financial literacy, so branchless banking needs consistent education from the bank to help people carry out their daily financial activities, believe in dealing with bank representative agents even though they do not have to come directly to the bank, meaning financial inclusion has been reached and contribute to the economic growth of the community [14]

Achieving financial inclusion brings economic growth, so it requires effort and attention from the banking sector as well as guidance on financial management, debt, storage and good credit. Strategies carried out through education and branchless banking programs can expand the reach of financial services and promote efforts to achieve financial inclusion.[15] Branchless banking must educate customers to be able to use agency services or banking services without offices but the problem is that the telecommunications and banking companies have little role in educating their customers, causing a slowdown in the success of achieving financial inclusion in Medan.

CONCLUSSION

The economic growth of the Medan city community is strongly supported by the role of branchless banking and financial inclusion programs that are sought in the city of Medan. The influence of branchless banking is very strong and has a positive impact on the success of the economic growth of the Medan City community. The success of the branchless banking program has a positive impact on the success of achieving financial inclusion in the city of Medan. Achieving financial inclusion in Medan City, means that low-income people who are able to access banking services will help the community to intensify its financial activities and move the family economy and even the economy of Medan City as a whole. But the obstacle faced is the difficulty of changing the habits and mindset of the people who still consider that banking financial services are expensive and luxurious for low-income people. Therefore, it is necessary to commit to educating the public, not only from the banking sector but also supporting service operators and agents who are bank representatives so that the community believes in and supports branchless banking programs and supports the achievement of financial inclusion in Medan City. Education helps improve public financial literacy in financial transactions properly and correctly so that it can improve the family economy which indirectly will improve the economy of Medan and reduce poverty in the city of Medan.

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