DIGITAL FINANCIAL INCLUSION IN INDONESIA

Financial Inclusion and Electronification Task Force
BANK INDONESIA TRANSFORMATION OFFICE
Digital Financial Inclusion in Indonesia

AGENDA

1. Indonesia at Glance
2. Digital Financial Inclusion
3. BI’s Strategy
4. CHALLENGE AND GOING FORWARD
BACKGROUND

Indonesia at Glance
Indonesia at Glance

Unbanked people (Financial Inclusion Index)

Source: WorldBank, Global Financial Inclusion Index, 2014
## Indonesia at Glance

### Cash Economy

### Percentage Transaction using Non-cash (check & payment)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>61</td>
</tr>
<tr>
<td>Netherlands</td>
<td>60</td>
</tr>
<tr>
<td>France</td>
<td>59</td>
</tr>
<tr>
<td>Sweden</td>
<td>59</td>
</tr>
<tr>
<td>Canada</td>
<td>57</td>
</tr>
<tr>
<td>Belgium</td>
<td>56</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>52</td>
</tr>
<tr>
<td>USA</td>
<td>45</td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
</tr>
<tr>
<td>Germany</td>
<td>33</td>
</tr>
<tr>
<td>Korea</td>
<td>29</td>
</tr>
<tr>
<td>Spain</td>
<td>15</td>
</tr>
<tr>
<td>Brazil</td>
<td>15</td>
</tr>
<tr>
<td>Japan</td>
<td>14</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: MasterCard Advisors Analysis, 2013

### Behaviour: Domination of Cash Transaction

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Share of Number</th>
<th>Share of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>95.5</td>
<td>84.1</td>
</tr>
<tr>
<td>Debit Card</td>
<td>2.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Credit Card</td>
<td>1.6</td>
<td>9.9</td>
</tr>
<tr>
<td>E-Money</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Voucher</td>
<td>0.1</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, 2013

### Channel Used using by farmers to receive the sales proceeds (rural area)

Source: Gallup, 2013
# Indonesia at Glance

## Behavior: Mobile Phone & Internet User

- **High mobile phone penetration and almost 50% of Indonesia population is internet user.**

  - **> 310 Millions** mobile phone subscribers in Indonesia

  - **± 13 Millions** poor household in Indonesia have mobile phone

    Source: Preliminary Meeting of PKH Pilot Project, Bappenas, September 2013

  - **2.3%** total of internet user is in Indonesia

  Source: Indonesia the Untold Stories, Ministry of Communication and Informatics, 2014

  - **40%** of internet users in Indonesia spend > 3 hours to go online

  Source: Indonesia Internet Provider Association

## Internet User in Indonesia

<table>
<thead>
<tr>
<th>Year</th>
<th>Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>139 million users</td>
</tr>
<tr>
<td>2014</td>
<td>107 million users</td>
</tr>
<tr>
<td>2013</td>
<td>82 million users</td>
</tr>
<tr>
<td>2012</td>
<td>63 million users</td>
</tr>
</tbody>
</table>

Source: Indonesia Internet Provider Association

## Survey of Mobile Penetration:

- **51%** of household of PKH recipient
- **100%** of migrant workers
- **73%** of farmers (Mercy Corps)
Indonesia at Glance
Low Savings Capability

![Financial Needs Chart]

Top 5 Financial Transactions Done by Unbanked

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
<th>Urban</th>
<th>Rural</th>
<th>&gt;GK</th>
<th>&lt;GK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Goods</td>
<td>88%</td>
<td>65%</td>
<td>55%</td>
<td>68%</td>
<td>51%</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>Utilities Payment</td>
<td>83%</td>
<td>60%</td>
<td>55%</td>
<td>68%</td>
<td>51%</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>Airtime Payment</td>
<td></td>
<td>60%</td>
<td>55%</td>
<td>68%</td>
<td>51%</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>P2P Transfer</td>
<td>58%</td>
<td>40%</td>
<td>75%</td>
<td>55%</td>
<td>55%</td>
<td>61%</td>
<td>56%</td>
</tr>
<tr>
<td>Receiving Salary</td>
<td>55%</td>
<td>72%</td>
<td>39%</td>
<td>53%</td>
<td>57%</td>
<td>54%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: NETHOPE/E—MITRA/BTPN/VISA, Juli 2014

Source: Intermedia, 2014
Digital Financial Inclusion
A process for better quality life to the last mile

Financial Inclusion: Generalized Result Chains

1. INPUT
   Financial Inclusion

2. OUTPUT 1
   Use of financial Products
   - Credit
   - Saving
   - Insurance
   - Faster remittances

3. OUTPUT 2
   Payment/Transfer
   - Keeping temporarily

4. Outcome 1
   Poverty Reduction
   - Increase investment
   - Increase saving
   - Income smoothed through shocks

5. Outcomes 2
   Wellbeing
   - Increase income
   - Other specific measures

Indicator
- % adults with formal account
- % adults using account daily
- Income level and Resilience
- Subjective Wellbeing

Source: Adjusted, Porteous, 2014
Digital financial inclusion: “digital access to and use of formal financial services by excluded and underserved populations”.

There are three key components:

1. suited to customers’ needs, and
2. delivered responsibly, at a cost both affordable:
   a. to customers and
   b. sustainable for providers.

Digital transactional platform

Digital financial services

Omni channel Retail agents

Device used by customers and agents

Mobile money
Agent banking
Branchless banking
Correspondent banking
Digital Financial Inclusion

Digital financial services model

Source: World Bank, 2014
Digital Financial Inclusion

Digital financial services

- Focus on *unbanked*
- >219 live implementations in 84 countries
- Media: emoney / basic savings account

Source: GSMA, 2014
BANK INDONESIA’S STRATEGY
Digital Financial Inclusion

Guideline Principles

1. Customer Activation
   What if:
   We could turn a one day sign up process into less than 5 minute?

2. Distribution
   What if:
   Every one is a bank channel?

3. Front-End
   What if:
   Anyone with a phone could send or receive money?

4. Back-End
   What if:
   Financial transaction processing was digital and the cost close to zero cost?

5. Interconnection
   What if:
   You could send money to any person in the world or to other bank?

6. Products
   What if:
   Every mobile phone came with a savings account and insurance?
Digital Financial Inclusion

Framework

Inclusion (go branchless)

Stability

Protection

Integrity (AML/TF)

Digital Financial Services (DFS)

culture

Interoperability

Point of services

Opportunity

Source: Porteous, 2014

- RISK

Money Laundering Risk

Liquidity & Solvency Risk of providers to Financial System Stability

Risk of Losing Consumer Money

+ ACCESS

Provide easy facility for account opening

Leverage from the existing retailer infrastructure

Benefit for macroeconomy

BALANCING REGULATION

MONITORING & SUPERVISION

Financial Inclusion

Financial Stability
Empowerment Account Based Cash Based E-money Savings Financing Other financial products

Keeping | Payment | Transfer

Financial Management Capability

Digital Financial Service

Unbanked People

...is to provide access to a transaction account....
Strategy
Dual Strategy: Infrastructure & Ecosystem

FINANCIAL INCLUSION

64% unbanked

Debit Card
Credit Card
E-Money
DFS
Agent
Bank Branch
ATM
e-Banking

ELECTRONIFICATION

36% banked

Bank, Insurance, etc

Cash-Lite

ACCOUNT BASED

Keeping/Transfer
Savings
Loan
Other Financial Products

EDUCATION

unbanked

banked

CASH BASED

LAKU PANDAI
Strategy 1
INFRASTRUCTURE: DFS

Bank & Non Bank

Agent:
1. Local people/legal entity business
2. Have business activity in permanent place
3. Pass the fit and proper test
4. Pass training program
5. Deposited fund

Agent Services:
1. Facilitating Open E-Money account
2. Keeping/Saving
3. Withdrawing fund
4. Bill Payment
5. G2P Cash out

Electronic Money (server Based)

is payment and financial services that are provided by electronic money issuer (Bank/Non Bank) with the collaboration with third parties (agents) and using technologies.
<table>
<thead>
<tr>
<th></th>
<th>Government</th>
<th>Private Sector / Business</th>
<th>Individual / Person</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government</strong></td>
<td>G2G Budget allocation Funding programs</td>
<td>G2B Grants, payment for goods and services</td>
<td>G2P Salaries, pensions Social protection</td>
</tr>
<tr>
<td>Development Organization</td>
<td>D2G Taxes</td>
<td>D2B Payment of goods and services</td>
<td>D2P Salaries, benefits Cash transfers</td>
</tr>
<tr>
<td>Individual / Person</td>
<td>P2G Taxes</td>
<td>P2B Purchases</td>
<td>P2P Remittances, gifts</td>
</tr>
</tbody>
</table>
CHALLENGE AND GOING FORWARD
CHALLENGES

LESS 20% ARE SUCCESS

Source: GSMA, 2014
1. Inability to transact due to network down time
2. High charge of SMS/USSD
3. User interfaces is confusing and complex
4. Poor customer recourse
5. Insufficient agent liquidity
6. Nontransparent fees and other terms
7. Fraud
8. Inadequate data privacy and protection
## PREREQUISITE

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td><strong>Sustainable Business Model.</strong> Need sustainable business model that combine the advantages characteristics of each involved parties.</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td><strong>Conducive Ecosystem.</strong> Need to build conducive ecosystem for sustainable DFS</td>
</tr>
</tbody>
</table>
| **3** | **Supportive and Proportional Regulation.**  
- The regulation should be proportional between goal & benefits for financial inclusion, risk, and positive development of the industries  
- Regulation should accommodate the innovation. |
| **4** | **Sufficient Infrastructure.** Infrastructure, such as telecommunication network that evenly distributed across the region |
| **5** | **Strong Coordination.** Need coordination amongst stakeholders (BI, OJK, Ministries, industries, etc) |
| **6** | **Education & National Campaign.**  
- Need continue education to change the habit of cash based transaction  
- National campaign campaign for building awareness of people |
Thank You