



The future is now
Digital Financial Services in Indonesia



Contents

Executive summary	3
Digital Financial Services in Indonesia	4
Current Digital Financial Services landscape	4
Economic impact at national and provincial levels	6
Learnings from other markets	9
Case study 1: India	10
Case study 2: Brazil	11
Case study 3: Kenya	12
Critical success factors	13
Support from private sector	13
Support from public sector	14
Conclusion	15

Key terms

Term	Definition
Bankable Unbanked customers	Customers without any access to formal financial services who are eligible to open bank accounts, and usually living on less than USD 5 a day.
Banked customers	Customers with access to formal financial services
Digital Financial Services (DFS)	Financial services offered via mobile phones
Digital Financial Services agent	Entity or individual authorised to offer digital financial services
Digital Financial Services provider	Entity which offers financial services via mobile phones
Mobile payments	Product or service through a portable electronic device such as a cell phone, smartphone or PDA
Unbanked customers	Customers without any access to formal financial services, and usually living on less than USD 5 a day
Underbanked customers	Customers with access to formal financial services, who do not use it for a period of more than 3 months

Executive summary

For Indonesia, Digital Financial Services (DFS) may well be the next big thing, combining existing mobile phone usage and the country's increasing appetite for financial services. The prospective entry of millions of unbanked and underbanked consumers into the financial system is the result of the increasing prevalence of mobile devices. DFS not only promises accelerated economic growth in Indonesia, but also will yield significant changes in business practices and replace traditional methods of financing. Most importantly, DFS will likely extend its reach beyond major city centres and into the provincial hinterland, where the bulk of unbanked and underbanked consumers reside.

Globally, approximately 2.5 billion people do not have formal accounts at a financial institution, with 65% and 58% of the population in Latin America and South Asia considered unbanked respectively.¹ While the DFS market is nascent in Indonesia, it is well-developed in other countries with large unbanked populations. A full appreciation of the market opportunity for DFS in Indonesia requires an understanding of successful models in other countries, DFS' national and local impact across Indonesia, and critical success factors for DFS deployment in the country.

To examine what is achievable in Indonesia, this study reviews case studies from comparable markets to evaluate successful models of DFS implementation. In Kenya, Safaricom's M-Pesa arguably represents the most successful DFS model, boasting more than 14 million users and providing services to over 70% of Kenya's adult population.²

In Indonesia, DFS offers opportunities for an estimated 110 million bankable unbanked citizens in the country to access banking services and products.³ With the increase in mobile phone usage, Internet penetration in Indonesia is expected to grow rapidly and reach 100 million users in the next three years.⁴ These developments will present enormous prospects for market participants in the DFS market space. Understanding the DFS' impact on the Indonesian economy, especially at the provincial level, will enable market participants to develop tailored DFS strategies in Indonesia.

Local Indonesian insights and knowledge of DFS paradigms in other markets help establish a better understanding of the key success factors needed to implement DFS in Indonesia. These factors vary for the private and public sectors. Private sector participants such as financial services institutions and telecommunications companies have a direct role to play in driving DFS adoption and promoting financial literacy for the unbanked. Meanwhile, the public sector can help build the infrastructure to make the DFS eco-system possible. The partnership between the private and public sectors is critical to the success of Indonesia's digital revolution in financial services.

1 World Bank; Financial Access Initiative "Half the World is Unbanked"

2 Mercy Corps "New Frontiers: Launching Digital Financial Services in Rural Areas"

3 Deloitte proprietary survey

4 eMarketer "Indonesia Online: A Digital Economy Emerges, Fueled by Cheap Mobile Handsets"

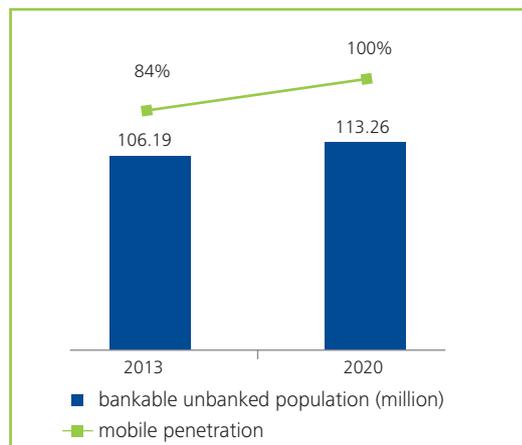
Digital Financial Services in Indonesia

Current Digital Financial Services landscape

As the economy continues to prosper, Indonesia's promising projected growth is anticipated to encourage the development of DFS at an unprecedented rate. The size of the DFS market in the context of this paper is essentially the number of unbanked people, who are eligible to be banked (i.e. above 15 years old) and have a mobile phone.

As of 2013, nearly 60% of the entire bankable population in Indonesia did not have a bank account. It is also projected that the total population of bankable unbanked will continue to grow and reach 113 million by 2020. Approximately one-third of the population currently has access to the Internet, and with the rapid growth in Internet penetration rates, this is expected to climb to 40% in the next three years, accounting for over 100 million users.⁵ While Internet usage remains heavily concentrated in the larger cities where users are more likely to afford smartphones, users of basic phones with Internet-enabled feature form the majority (approximately 85%), especially among the unbanked population in rural areas. It is projected that the mobile penetration will reach 100% by 2020. The entire market segment of over 113 million bankable unbanked empowered with mobile phones represents an untapped opportunity for DFS.

Figure 1: Total bankable unbanked population and projected mobile penetration growth from 2013 to 2020



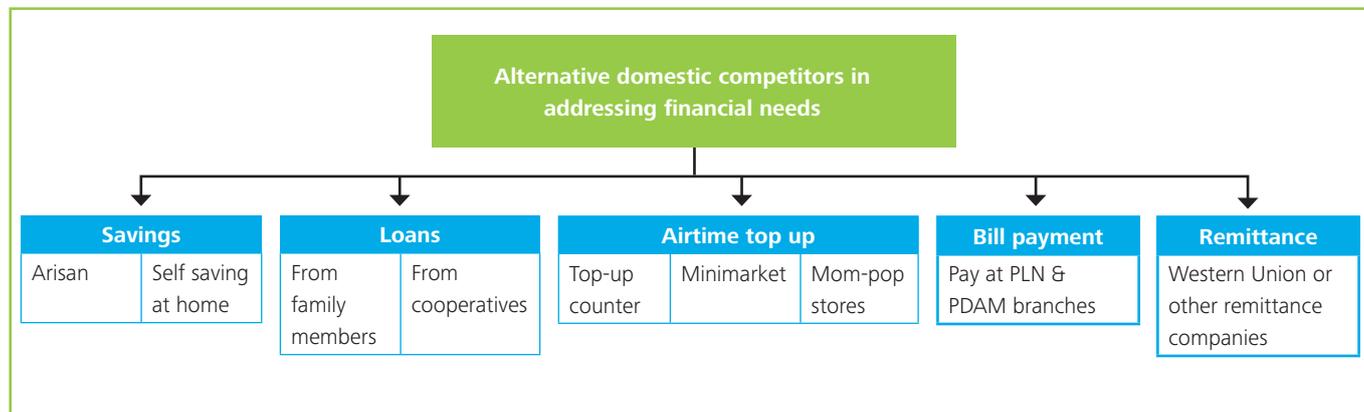
In countries such as Indonesia, geographical fragmentation represents an unavoidable challenge for banks that plan to expand their presences or reach out to the unbanked market segments. Without any access to financial services, the bankable unbanked will have to use the following alternative financial services and products to fulfil their needs:

- **Deposits and loans:** The majority of the bankable unbanked Indonesians fulfil their savings needs via Arisan, an interest-free financing provided during social gatherings, or the traditional way of self-saving at home. Others resort to borrowing from friends and relatives or cooperatives when there is a need for loan. The banks are slowly encroaching into this product segment.
- **Bill payment and remittances:** Indonesians have traditionally preferred to pay their bills at Perusahaan Listrik Negara (PLN) and Perusahaan Daerah Air Minum (PDAM) branches rather than through the networks of financial institutions. Remittances companies such as Western Union have gained a strong foothold in serving the remittances market, especially for transactions across neighbouring countries such as Singapore and Malaysia.
- **Airtime top-up:** With 99% of the 282 million mobile subscriptions in Indonesia being prepaid customers, there is immense potential in capturing the voluminous transactions of airtime top-up via DFS. At the moment, traditional top-up counters, minimarkets and mom-pop grocery stores are amongst the first choices used by the unbanked Indonesians for airtime top-up.

Competitors outside the banking and telecommunications sectors currently dominate the market segment of bankable unbanked, delivering their financial services via traditional brick-and-mortar channels.

⁵ eMarketer "Indonesia Online: A Digital Economy Emerges, Fueled by Cheap Mobile Handsets"

Figure 2: Domestic competitors in the DFS landscape



Even though traditional non-bank players have a greater presence in remote and rural areas with large populations of bankable unbanked, significant distance to the nearest outlet, high fees and lack of trust remain key disadvantages. The rapid ascent of mobile phone usage, especially among the unbanked, is threatening to replace these traditional channels with mobile-centric banking.

As Indonesia's OJK (Financial Services Authority) and Central Bank of Indonesia wrestle with new regulations on DFS, larger banks are exploring ways to enter the new market. While telecommunications firms in other emerging markets have accessed the unbanked segment, those in Indonesia are not active in DFS due to regulatory limitations that curtail their participation in financial services. Established banks, in contrast, are leveraging on their existing branch network and micro-banking products. Selected banks are building pilot initiatives to test the market on their demand for mobile banking through Unstructured Supplementary Service Data (USSD) or Short Message Service (SMS). Focusing on the unbanked, these initiatives emphasise micro-banking in modest-sized deposits and loans. Currently, these banks have initiated preliminary steps to enter the Indonesia's DFS market, recognising its vast potential. The banks are utilising their considerable resources to influence a change in the marketplace to one that favours DFS. As customer behaviour evolves to embrace new digital technologies, DFS products and services will migrate from an ancillary part of the banks' product suite to a central driver of bank revenue.

By the end of 2014, OJK is expected to issue new regulations on branchless banking products including basic savings accounts, micro loans, and micro insurance. Key proposals for discussion include the establishment of a branchless banking platform that can store up to IDR 20 million for a basic savings account and requirements for banks to meet a selective minimum risk management level to expand into branchless banking.⁶

Established domestic banks are moving into the DFS segment, although the market remains a "white space" until regulations are further defined.

6 Manuturi, Vanesha. "Branchless Bank Rules By Year's End", Jakarta Globe, Sept. 9, 2014. <http://thejakartaglobe.beritasatu.com/business/branchless-bank-rules-years-end/>

The emergence of DFS provides significant benefits to the national economy, resulting in job growth and additional government revenue.

Economic impact at national and provincial levels

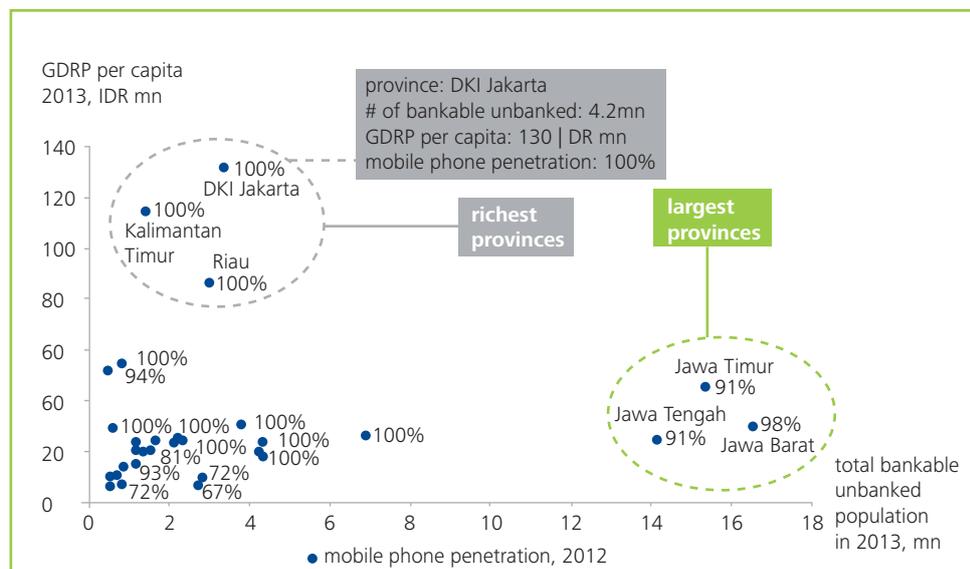
DFS offers an unprecedented growth opportunity to introduce the unbanked and underbanked Indonesians into the formal financial system. A World Bank study found that a 1% increase in financial inclusion facilitates an annual GDP growth per capita of ~0.03%. The strong projected economic growth in Indonesia, alongside the increase in financial inclusion, stands to encourage exponential growth in GDP for the next few years and subsequently a GDP growth rate of 5% by 2020.

Economic growth results in new jobs. With a 20% increase in financial inclusion through adoption of DFS, there would be creation of an additional 1.7 million new jobs. That equates to almost a new job for one out of every five currently unemployed Indonesians. Increased access to finance via adoption of DFS encourages creation of new businesses (MSME) by easing the process of doing business, improving livelihood and bringing positive social impact to the unbanked along the way.

Increasing financial inclusion amongst the bankable unbanked population is anticipated to boost credit growth in the Indonesian financial services market and government revenues. With new bank accounts established in the formal financial system via adoption of DFS, incremental growth in deposits and corresponding credit extended can accelerate plans in shaping the maturity of the financial industry. Benefits of the economic growth stimulated by DFS will increase tax revenue from growing profits of new businesses created, alongside with increased personal income tax paid as a result of employment and job growth. With a tax-to-Gross Domestic Product ratio of 12%⁷, DFS adoption could add up to USD 700 million to the Indonesian government's revenue by 2018.

Provinces that will be most impacted by DFS can be identified by assessing their demand level. An approximate analysis of demand reveals that the benefits of DFS will be disproportionately felt throughout the country. While the nation as a whole benefits from DFS, the wealthiest and most populous provinces will be the immediate beneficiaries.⁸

Figure 3: Key macro indicators of Digital Financial Services potential in 33 provinces in Indonesia



7 OECD Economic Survey of Indonesia, 2012

8 Deloitte analysis assessing demand based on weighted average of key macro variables including size of the unbanked population, mobile penetration and Gross Domestic Regional Product (GDRP) per capita; Bureau of Statistics of Indonesia

Top 3 provinces with highest GDRP per capita

DKI Jakarta, East Kalimantan, and Riau are the wealthiest provinces in terms of Gross Domestic Regional Product (GDRP) per capita and retain significant unbanked populations.

Figure 4: Comparison of top three provinces with highest GDRP per capita in 2013

	DKI Jakarta	Kalimantan Timur (East Kalimantan)	Riau
GDRP per capita	IDR 130 million	IDR 115 million	IDR 85 million
Population	10 million	4.2 million	6.5mn
Bankable Unbanked	4.4 million	1.8 million	2.8 million
% Mobile penetration	100%	100%	100%

DKI Jakarta

Representing over 10% of Indonesia's GDP, the DKI Jakarta province is not only the wealthiest province, but also the political and cultural capital of the country. The capital region provides a diversified base of economic activity in varied sectors such as financial services, manufacturing, and trade. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4% in the capital region. Assuming a 20% incremental change in financial inclusion in DKI Jakarta in the next 5 years, DFS alone could accelerate GDP growth rate in the province by 5%, leading to 66,000 new jobs. Despite DKI Jakarta's relatively slow growth, its strong infrastructure, high mobile penetration, role as a financial centre, and trendsetter status for consumer behaviour in Indonesia mark the province as a strong candidate for DFS growth.

Kalimantan Timur (East Kalimantan)

Kalimantan Timur produces 37% of Indonesia's natural gas and nearly 70% of its coal, but it is projected that these natural resources will run out in the next 15-20 years. Therefore, regional government has identified three major focal points for industrial development: oleo chemical and agricultural processing; oil and gas; industrial estates. Planned developments will drive significant capital flows, wealth of the citizens and extensive workforce inbound, building a great space for DFS expansion. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Kalimantan Timur in the next 5 years, DFS alone could accelerate GDP growth rate in the province by 4%, leading to 22,500 new jobs. As income level in Kalimantan Timur becomes more fragmented and income disproportion rises, DFS value proposition should reflect the deepening market segmentation and differentiate its services.

Riau

Compared to other provinces in Java and Sumatra, Riau's population is small but the wealth generated from its resource extraction industries position its population as prospective consumers of DFS products and services. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Riau in the next 5 years, DFS alone could accelerate GDP growth rate in the province by 3%, leading to 35,000 new jobs. The appeal of DFS to Riau's citizens may diverge from residents in other provinces. Rather than focusing on large-scale, low-income DFS products and services, DFS products and services catering to slightly higher-income consumer segments may offer a better return per transaction than a product catering to the larger provinces in Java. Consumer differentiation may prove to be a successful model for DFS products and services in this part of Indonesia.

Top 3 provinces with greatest populations of Bankable Unbanked

West Java, East Java, and Central Java are the most populous provinces in Indonesia, which outnumber all other peers by a significant margin and host a vast pool of unbanked and underbanked customers.

Figure 5: Comparison of top three provinces with greatest population of bankable unbanked in 2013

	Jawa Barat (West Java)	Jawa Timur (East Java)	Jawa Tengah (Central Java)
GDRP per capita	IDR 26 million	IDR 30 million	IDR 19 million
Population	40 million	37.3 million	32.6 million
Bankable Unbanked	17.4 million	16.3 million	14.2 million
% Mobile penetration	98%	91%	91%

Jawa Barat (West Java)

Jawa Barat (West Java) is the most populous province in Indonesia that focuses on agricultural and rice-production. The bankable unbanked population is consequentially the largest in Jawa Barat amongst all of Indonesia's provinces, and therefore represents an enormous market for DFS providers. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Jawa Barat in the next 5 years, DFS alone could accelerate GDP growth rate in the province by 5%, leading to 258,000 new jobs. As the capital of Jawa Barat, Bandung is known locally as the factory outlet centre for consumers with over 50 secondary educational institutions catering to students from the entire Indonesian archipelago. Aside from Jakarta, Bandung is also in the seat of significant technology start-up activity, potentially positioning Jawa Barat as a hub of digital activity.

Jawa Timur (East Java)

As the capital of Jawa Timur, Surabaya is also the second largest city in Indonesia, with significant manufacturing activity to serve eastern Java and parts beyond. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Jawa Timur in the next 5 years, DFS alone could accelerate GDP growth rate in the province by 5%, leading to 270,000 new jobs. The economic profile of Jawa Timur balances the manufacturing and trading hub of Surabaya with the broader agricultural profile in the rural hinterland. Buttressed by these economic opportunities and economic advancement in relation to its peers small to medium-sized businesses and residents in Jawa Timur can expect to benefit from the proliferation of DFS products and services.

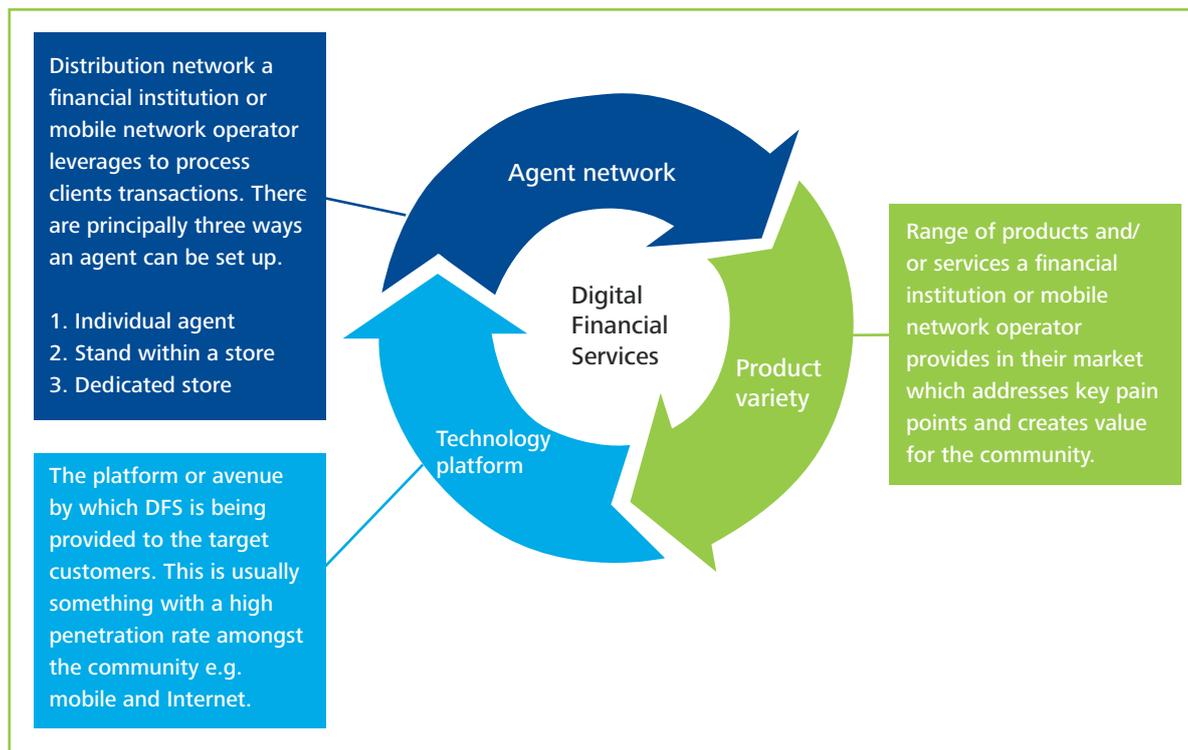
Jawa Tengah (Central Java)

As the third largest province in Indonesia, Central Java focuses on labour-intensive and mid-heavy industries such as agriculture furniture, consumer electronics, mineral processing, steel industry and general manufacturing. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Jawa Tengah in the next 5 years, it is forecasted that DFS alone could accelerate GDP growth rate in the province by 5%, leading to 225,000 new jobs. Large population of bankable unbanked, coupled with low population density and large territories create a great opportunity for development of DFS proposition as it provides a more efficient and comfortable access to the financial services compared to the existing channels.

Learnings from other markets

Alternative DFS models from other large comparable emerging markets illustrate how to reach out to unbanked customers and establish possible models for Indonesia's adoption. The implementation of these models in India, Brazil and Kenya has resulted in a significant expansion of the DFS sector and GDP output of these emerging market economies. In understanding the various best practices, three key elements are observed to be vital pillars of DFS: agent network, product variety, and technology platform (refer to Figure 6).

Figure 6: Best practice analysis for successful DFS



Case Study 1: India

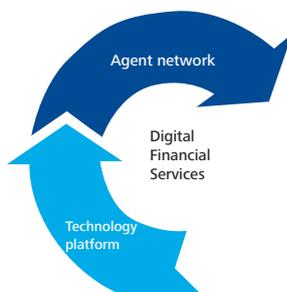
The Indian telecommunications industry has shown high growth in the mobile business, not just in urban areas, but also in rural India where mobile penetration rate is at 40%.⁹ The Indian financial services sector has recognised this opportunity to achieve higher financial inclusion and provide services without the need of in-person service delivery.

India has a population of 1.2 billion, of which 52% of them are unbanked. This corresponds to a huge untapped market of 620 million people without access to formal financial services. According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in India in the next 5 years, DFS alone could accelerate GDP growth rate in the country by 7%, leading to creation of 6.8 million new jobs. This provides job opportunities for 1 out of every 7 currently unemployed Indians.

India has largest unbanked market in the world, with a relatively high mobile penetration rate in the rural areas positioning the country for significant DFS expansion in the future.

Indian providers like Eko have emphasised a combination of basic deposit and payment services backed by a comprehensive agent network to facilitate banking transactions. Figure 7 provides an overview of Eko and analysis of their best practices.

Figure 7: Overview of Eko, India (2012)

GDP	USD 1.8 trillion		
Population	1.2 billion		
% Unbanked	52		
Background	Launched in 2007, Eko was the first company dedicated to a mobile phone-based basic savings account and payment service for the unbanked in India. Eko's mobile payment (Simplibank) is a partnership between financial services start-up company Eko and the State Bank of India (SBI). SBI is the largest bank in India with over 250 million accounts. This mobile money service, which initially begun as a pilot project in major cities, has since expanded throughout India.		
	Strong agent network	Limited product variety	Robust technology platform
	Instead of having to visit a bank branch, customers can visit any of the designated agent outlets set up by Eko.	Limited product selection in deposits and payments. Ease of transaction as customers only need to provide the account number and mobile phone number to conduct transactions.	Eko's service ties into the core banking system of SBI on a real-time basis, which allows the customers to send and receive transactions instantly.

⁹ Deloitte "Can You Carry Your Money in Your Mobile?"

Case Study 2: Brazil¹⁰

While seen as a global leader in branchless banking initiatives, Brazil has been lagging behind other regions in its development of mobile financial services for the unbanked population. Partly impeded by tax regulations on mobile banking in previous years, banks in Latin America, including Brazil, were more focused on improving mobile strategy for existing banked customers and serving the rural, highly geographically dispersed communities using non-bank correspondent agents network.

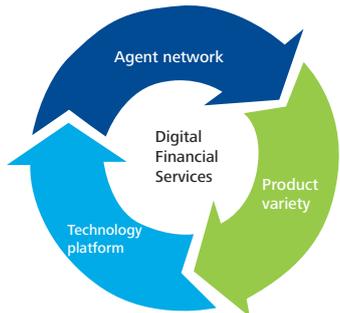
With a mobile penetration rate of 137%, mobile culture is deeply rooted in the country and region. The number of users accessing their banking accounts via mobile devices almost doubled in 2012 from the previous year. The potential of tapping into the unbanked population is enormous, where 57% of its 200 million strong population remain unbanked.

According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Brazil in the next 5 years, DFS alone could accelerate GDP growth rate in the country by 9%, leading to 1.5 million new jobs. This is equivalent to new jobs for 1 out of every 4 currently unemployed Brazilians.

Brazilian providers like Zuum have focused on joint venture efforts between telecommunications operators and financial services institutions to drive DFS adoption in an environment of regulatory change. Figure 8 provides an overview of Zuum in Brazil and analysis of their best practices.

Brazil is positioning for growth in the unbanked market after focusing initial efforts in branchless banking on existing bank customers.

Figure 8: Overview of Zuum, Brazil (2013)

GDP	USD 2.2 trillion		
Population	201 million		
% Unbanked	57		
Background	Vivo, the largest telecommunications operator in Brazil, has recently formed a joint venture with MasterCard Worldwide to launch Zuum, Brazil's first mobile payment service. By establishing the concept of secure payments through mobile payments, Zuum aims to promote financial inclusion among the unbanked via a cheaper alternative.		
	Strong agent network	Limited product variety	Robust technology platform
	Zuum relies on an extensive network of affiliated establishments and designated Automated Teller Machines (ATMs) to increase accessibility of their products and services.	Zuum provides a number of products and services which are in huge demand amongst the target market e.g. P2P transfer and remittances. This addresses a huge need and pain point of the target market.	Zuum services are accessible to a huge proportion of their target market by relying on existing Vivo mobile phone users and Brazil's high mobile penetration rate.

10 Deloitte Consulting. "Future of Mobile Banking in Latin America"; CGAP "Mobile Payments in Brazil: Ready, Set, Go?", World Bank Statistics

Case Study 3: Kenya

At the end of 2013, Kenya had more mobile money accounts than bank accounts. Launched in 2007 by Safaricom, the country's largest mobile-network operator, it is now used by over 17 million people, which is equivalent to more than two-thirds of the adult population and 54% of all bankable unbanked population. In terms of the total amount of transactions, around 25% of the country's GDP flows through M-Pesa.

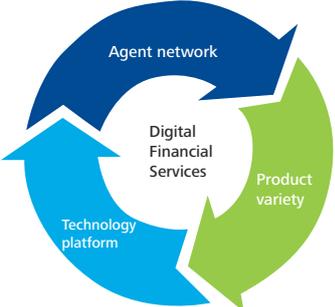
Kenya illustrates the transformational impact of DFS on overall financial services, with mobile money driving a significant part of the financial services activity in the country.

According to a World Bank study, it is anticipated that a 20% increase in financial inclusion could lead to employment growth of 1.4%. Assuming a 20% incremental change in financial inclusion in Kenya in the next 5 years, DFS alone could accelerate GDP growth rate in the country by 7%.

There are three main reasons why mobile money has grown rapidly in Kenya, while facing challenges in other countries. Firstly, Kenya's regulators enabled this service to be launched quickly. The Central Bank especially played a key role in facilitation of mobile money development. Furthermore, the regulator introduced restrictions on potential agents entering this business, as they were not providing banking services. Secondly, Safaricom has a strong position and national presence, which helped them achieve great scale and dominate the market. Lastly, while many other DFS providers focus on the technology aspect of the services, Safaricom focused on the management of the agent network.

Kenya offers the most successful example in DFS in the developing world. Figure 9 provides an overview of M-Pesa in Kenya and an analysis of their best practices.

Figure 9: Overview of M-Pesa, Kenya (2013)

GDP	USD 44.8 billion		
Population	44 million		
% Unbanked	71.6%		
Background	In March 2007, the leading cell phone company in Kenya, Safaricom, launched M-Pesa, a SMS-based money transfer system that allowed users to deposit, transfer and withdraw funds using their cell phones. M-Pesa has grown rapidly, and currently serves over 17 million users in Kenya via over 65,000 agents.		
	Strong agent network	Limited product variety	Robust technology platform
	Safaricom effectively leveraged its extensive network of airtime sellers to build a reliable and consistent store network that serves customers' needs.	Safaricom leveraged its strong service brand for M-Pesa to drive a sense of trust and affinity in the products and services provided by M-Pesa.	Being the leading mobile operator, Safaricom capitalised on its existing customer base to highlight the value of M-Pesa. Mobile penetration in Kenya is over 80%, signifying a strong space for growth.

Critical success factors

Support from private sector

The private sector will need to play a leading role in driving the dissemination of DFS across Indonesia. As other markets have demonstrated, improved coordination between stakeholders from different industries through the leverage of complementary strengths is critical to drive DFS. For instance, telecommunications firms have the technology and platforms, while financial institutions possess the product know-how to support large-scale DFS adoption. Both institutions can work together to refine DFS products and take advantage of their scale to invest capital, leverage existing sales agent networks, and benefit from a combined customer base. Improved coordination between telecommunications and financial institutions will build new synergies that are critical for success in DFS adoption.

Secondly, the private sector will need to support Corporate Social Responsibility (CSR) initiatives to improve financial literacy amongst unbanked and underbanked customers. Select Indonesian banks are currently pursuing financial literacy initiatives including inventory and re-investment planning for Small and Medium Enterprises (SMEs) and microfinance training to support start-ups and business expansion. In Kenya and other emerging markets, respective governments have embarked on efforts to support financial literacy. Since the Indonesia's banks have already commenced CSR initiatives in financial literacy, Indonesia's private sector is already well-positioned to deepen financial education across the country. In order to maximise potential of the unbanked segment, financial services institutions need to pursue financial literacy to help consumers understand the benefits of DFS and encourage trial.

Finally, prospective DFS providers will need to customise their customer strategy to focus on selected product offerings for the unbanked population, with support from the skilled bank workforce. In Indonesia alone, approximately 60% of the population remain unbanked.¹¹ In the past, reaching out to this demographic was not economically attractive because traditional channels (e.g. branches) were comparatively expensive to manage relative to the estimated profits. Fortunately, mobile phones have presented an alternative channel to reach many of these unbanked consumers.

Private sector promotion of financial literacy enables a more targeted and sustained focus on unbanked customers.



¹¹ Financial Access Initiative "Half the World is Unbanked"

Support from public sector

The public sector can support the growth of DFS across Indonesia's provinces through a mix of national and provincial government efforts. To increase the awareness of DFS, the central government in Jakarta can establish pilot programmes for selected national government employees who are unbanked. Programmes that focus on the payment of these employees through DFS can help facilitate awareness of DFS products and services, while establishing the building blocks of an eco-system in the provinces. The central government can further extend into the vendor payments space and establish agreements with providers to facilitate payments to vendors. The central government's efforts can also inspire DFS adoption at the provincial government level, as well as local jurisdictions led by bupati, or local leaders, who seek to model their payments approach after the provincial and central governments.

New public welfare programs at the provincial level provides opportunities to deploy DFS and improve the quality of delivery of public services.

The recent appeal of DKI Jakarta Governor and Indonesia President-Elect Jokowi Widodo is partly driven by his success in building a province-wide programme to help lower-income citizens pay for health care and tuition. His implementation of the Jakarta Health Card (Kartu Jakarta Sehat) and Jakarta Smart Card (Kartu Jakarta Pintar) is a new model of public service delivery whereby government-subsidised basic services are delivered to citizens without significant administrative paperwork. Additional opportunities for expansion can include adopting DFS to broaden the government's ability to pay for services at higher-end hospitals and private health facilities focusing on specialised care. The incorporation of DFS can facilitate the expansion of similar public service delivery schemes to a greater number of facilities and help strengthen the quality of care.

In addition to its role as a DFS consumer, the public sector can also act as a direct advocate of DFS through existing initiatives. For instance, provincial governments can extend assistance to the private sector in targeted ways through public-private partnerships. Such partnerships could work with Micro-Finance Institutions (MFIs) and require MFI funding for local SME entrepreneurships to be channelled through DFS mechanisms. This would be a low-cost modification of existing programmes to support the SME private sector, especially in provinces and localities where these DFS services are increasingly available. By linking DFS to private sector development, provincial governments advance their goal of local economic growth by broadening the horizons and tools available to local entrepreneurs.



Conclusion

Indonesia's digital economy will require prospective DFS providers to anticipate. It will not be sufficient to develop DFS solutions to address today's problems; DFS providers will need to respond to tomorrow's challenges and anticipate solutions for tomorrow's DFS economy. In order to develop a winning strategy, prospective DFS providers will need to embrace a strategy of flexibility. As an emerging market, Indonesia will continue to undergo significant technological disruption, which will potentially re-set the technological climate every few years.

To be flexible and win, participants in Indonesia's DFS economy will need to ask fundamental questions around "where to play?" and "how to win?"

First, what are the growth opportunities? Prospective DFS providers will need to decide on a specific product mix, geographies and markets to enter, and drivers/barriers to address. In Indonesia, market participants need to be cognisant of technological changes that accelerate DFS adoption. Anticipating new technology developments is not sufficient. DFS providers will need to prepare for possible changes in technological platforms, and adapt to these changes without being caught in technological obsolescence.

Second, which customer segments should they focus on? New services and products emerging from Indonesia's DFS economy will require an in-depth understanding of the customer segments and the respective distribution channels that connect with these segments. Sustained and concentrated focus on tailoring solutions for these segments is critical to defining "where to play?".

Third, on "how to win?", what is the ideal market positioning relative to the competition? Articulating a brand and value proposition can distinguish market participants and provide a pathway to effective messaging with DFS consumers. For instance, market positioning may require robust partnerships for DFS solutions. Like in India, Brazil, and Kenya, DFS providers in Indonesia will need to decide on the level of engagement with other private-sector and public-sector entities.

Fourth, what is the offering and go-to-market approach? Determining the entry-level product mix for Indonesia's unbanked customers is key because first impressions matter with Indonesian consumers. To be successful, offerings will need to suit Indonesian's needs and wants, complemented with a go-to-market approach that synchronises product, pricing, service, and packaging.

And lastly, what is the best approach to execute? Efficiently allocated marketing spending can drive cost-effective execution to win market share. But even with strong expense management and effective strategy, unexpected market challenges may arise for DFS providers. That is why a robust measurement and assessment monitoring of product performance can help mitigate execution risk. Prospective DFS providers must be able to adapt to changing circumstances during execution. Rigorous self-assessment provides data points that enable informed adaptation.

Effectively addressing these five fundamental questions around "where to play?" and "how to win?" will enable DFS market players to be positioned ahead of the competition.

Contacts

Chairil Tarunajaya

Indonesia FSI Leader
Executive Director, Consulting
+62 21 2992 3100
ctarunajaya@deloitte.com

Mohit Mehrotra

Executive Director, Consulting
+65 6535 0220
momehrotra@deloitte.com

Yacin Mahieddine

SEA FSI Consulting Leader
Executive Director, Consulting
+65 6535 0220
ymahieddine@deloitte.com

Contributors

Mohit Mehrotra

Executive Director, Consulting

Ashley Tan

Manager, Consulting

Muhammad Hutasuhut

Manager, Consulting

How Ee Poon

Business Analyst, Consulting

Aina Demirova

Consultant, Consulting

Lee Berakah Hyunbin

Consultant, Consulting

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/id/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 210,000 professionals are committed to becoming the standard of excellence.

About Deloitte Southeast Asia

Deloitte Southeast Asia Ltd – a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

Comprising over 270 partners and 6,300 professionals in 24 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Indonesia

In Indonesia, services are provided by Osman Bing Satrio & Eny, Deloitte Tax Solutions and PT Deloitte Konsultan Indonesia.