

Digital Financial Services *Challenges & Strategies*



Bank Indonesia
October 2015





Agenda

- ① Background
- ② Indonesian Current Condition
- ③ Issues and Challenges for DFS
- ④ Strategies

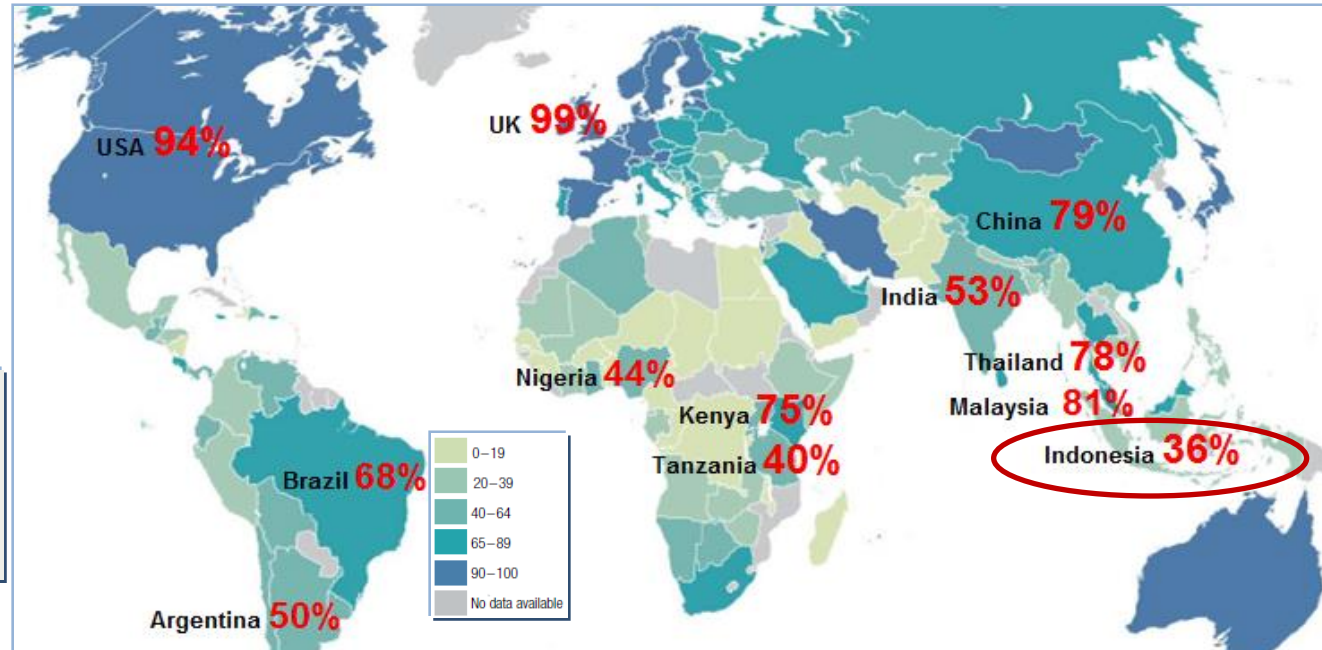
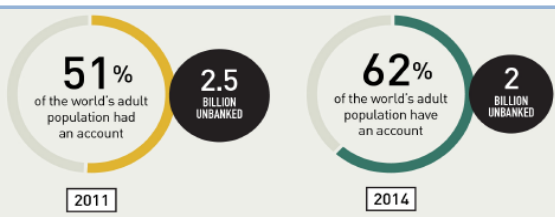


BACKGROUND

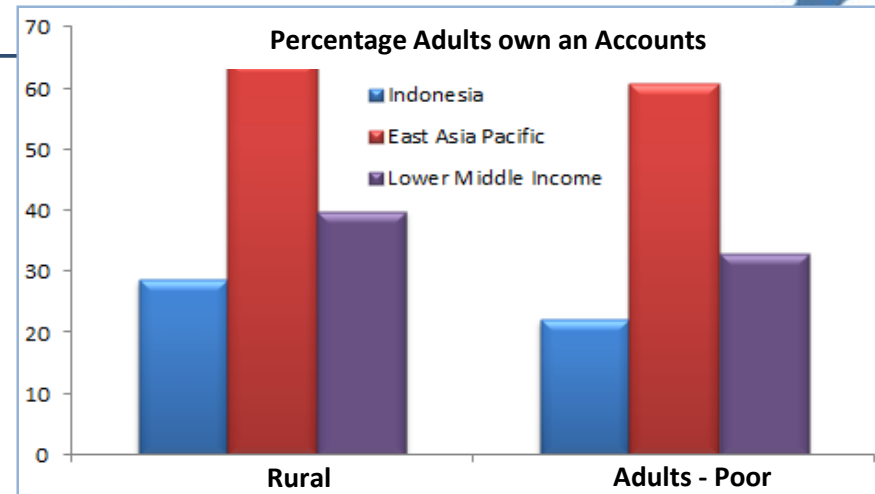
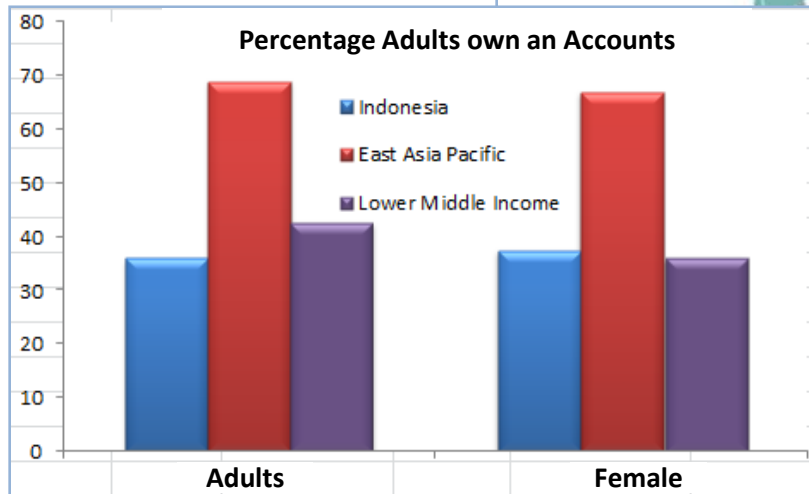
High Number of Unbanked (FINDEX 2014)

Percentage of Adults own an Account at the Formal Financial Sector

Indonesia considered as one of the country with lowest number of adults who have an accounts in the formal financial sector, both by gender and region



Adults >15th : 177,7 million peoples

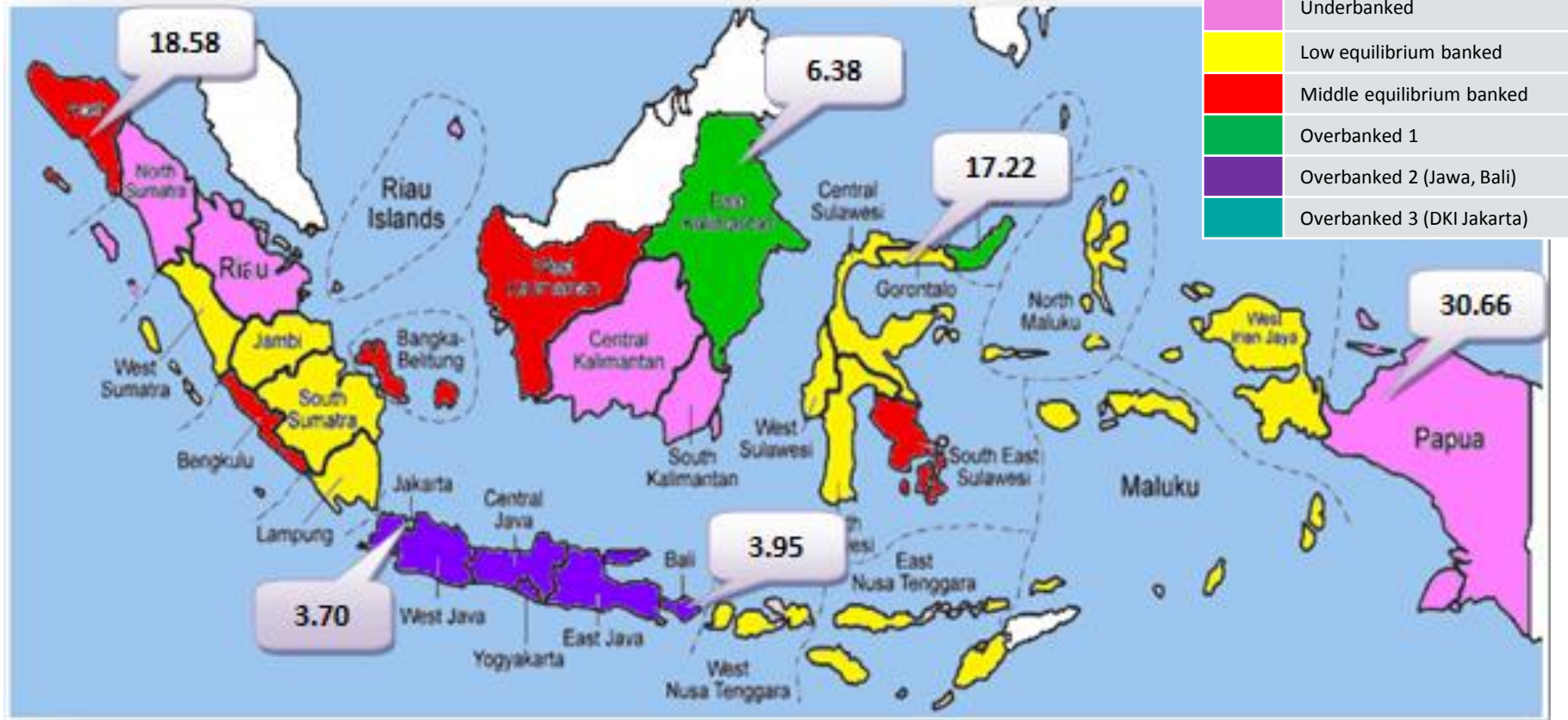




BACKGROUND

Correlation between Bank and Level of Poverty

“Level of Banking Service in Indonesia”



- Generally, area with lack of bank service shows the high level of poverty -

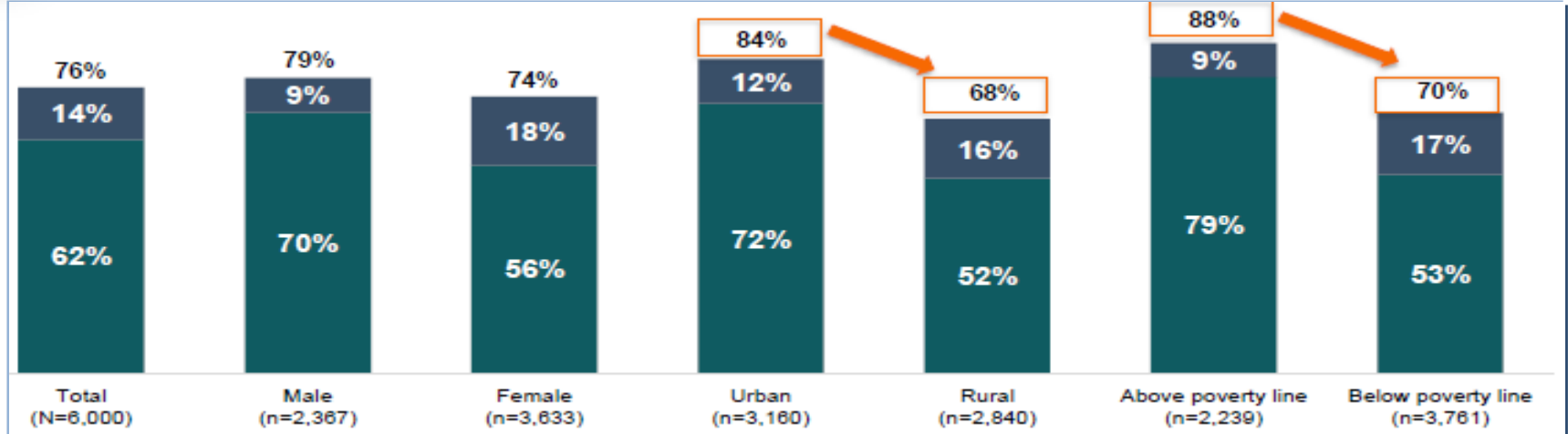
Source: Bank Indonesia, Statistic Bureau of Indonesia, analyze, 2012



CURRENT STATE IN INDONESIA

Technology Savvy

Source: Survey of Users and Nonusers of Financial Services 2014, Intermedia



43%
smartphone
users

- PPLS data in 2011, shown that **± 13 million or 52% of poor households do have mobile phone** (TNP2K).
- Based on result of temporary survey about remittance for migrant worker in 2014, almost **100% of the do have mobile phone** (BI).
- Survey result in 408 farmers (rice, corn, potato, chilli), almost **73% Farmers have phone** (Mercy Corps Indonesia).
- Survey result BI, **93% farmers have phone** (BI, 2014)

Have phone Don't have phone but can operate

Mobile phone uses

(Shown: Percentage of adults who own or have access to a mobile, n=4,455)

	Ever do this activity	Can do activity without help
Dial numbers on their phone	96%	78%
Send/respond to text messages (SMS)	90%	76%
Change settings on their phone (i.e., ringtone)	84%	60%

Advanced Functions

Send picture messages (MMS)	35%	23%
Use social networks such as Facebook, Twitter	32%	23%
Watch a video they downloaded onto the phone	31%	12%
Follow an interactive voice menu, voice commands	24%	13%
Follow a text menu such as for buying airtime	22%	18%
Use a chat application such as WhatsApp or BBM	21%	15%
Listen to audio they downloaded onto the phone	20%	13%
Post pictures online, such as via Instagram	19%	11%



CURRENT STATE IN INDONESIA

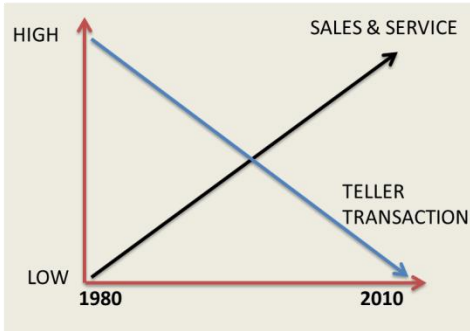
Customer and Bank Interaction

COST

Face to face Interaction

High

Low



*Bank
Branches*



ATM



*Call
Center*



*Internet
Banking*



*Mobile
Banking*



VALUE

Low

*Interconnectability &
Convenience*

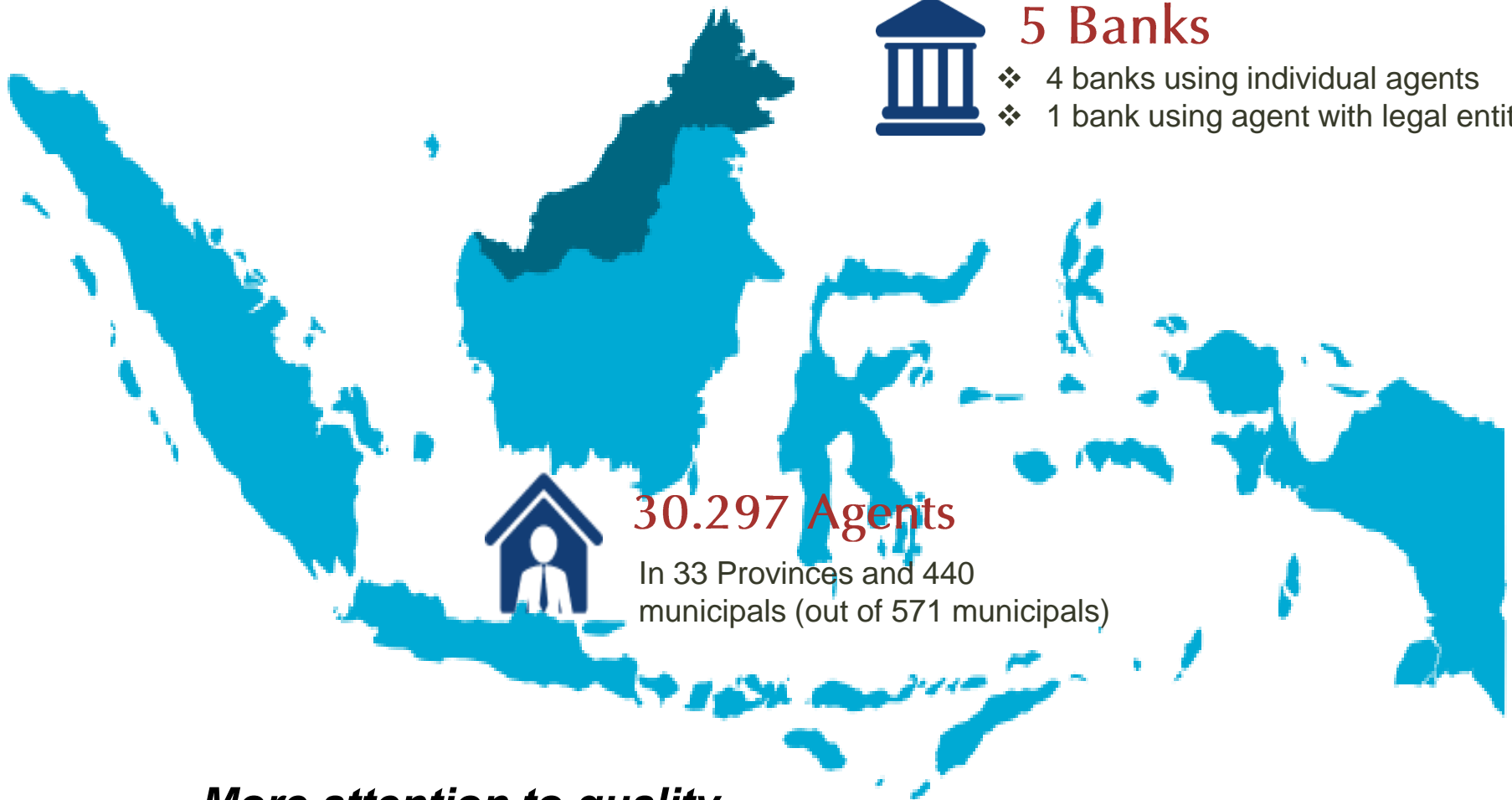
High

Sumber : Six converging technology trends, KPMG, 2014



CURRENT STATE IN INDONESIA

Digital Financial Services



More attention to quality.....



ISSUES AND CHALLENGES



Need to strengthen the synergy between bank and telco

Ineffective synergy between bank and telco, currently impacted into:

- ❖ High transaction charge of mobile financial transaction (around 10% to 15% higher than telecommunication charge of general airtime consumed by public)
- ❖ The strength of telecommunication network needs to be enhanced



Need to build ecosystem and infrastructure that reliable, secure, and support interconnected

- ❖ Limited telecommunication network in rural area and blind spot contribute into low service quality of LKD in several area as well as constrained the development of agent.
- ❖ Improve liquidity adequacy in agent to support the demand



Fast growing agent acquisition yet low customer adoption

- ❖ Limited campaign and education resulted in low adoption level of LKD and low awareness of e-money.
- ❖ To change mindset and cash society behavior need time and expensive.



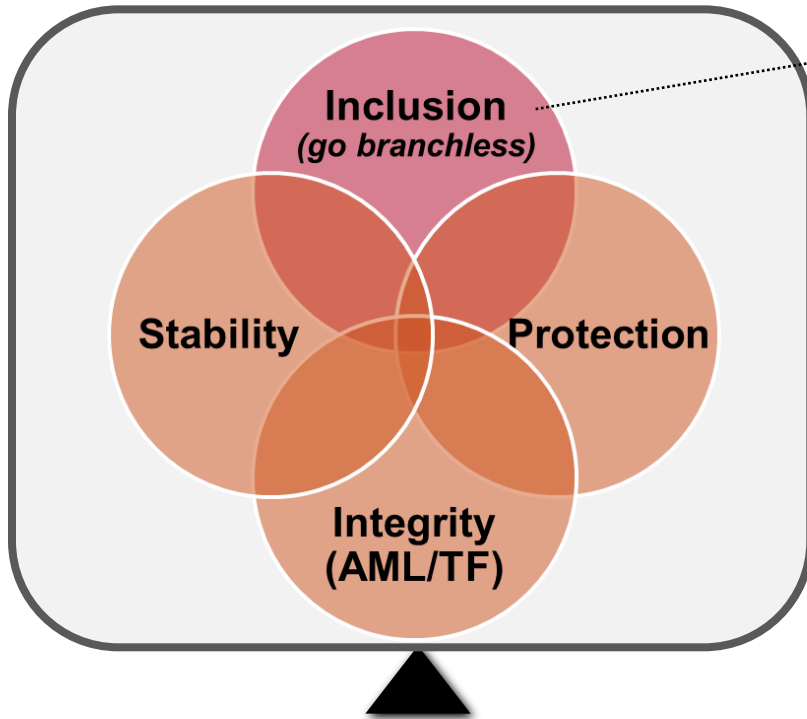
Supporting regulation amongst related stakeholders

Urgent need for proportional regulations between central bank, financial and telecommunication regulator, and other government agency that are supporting each others.

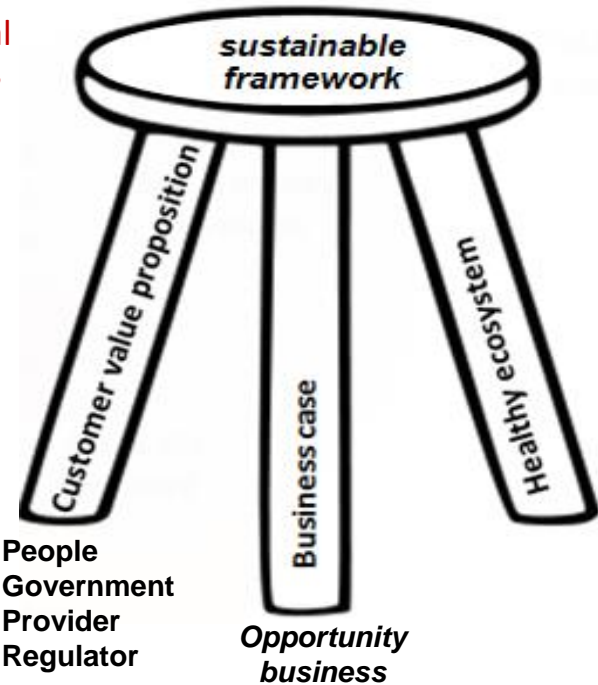


STRATEGY

Need A Sustainable Framework



Digital
Financial
Services
(DFS)



- People
- Government
- Provider
- Regulator

*Opportunity
business*

EMPOWERMENT, REGULATION & MONITORING

Source : Porteous, 2014

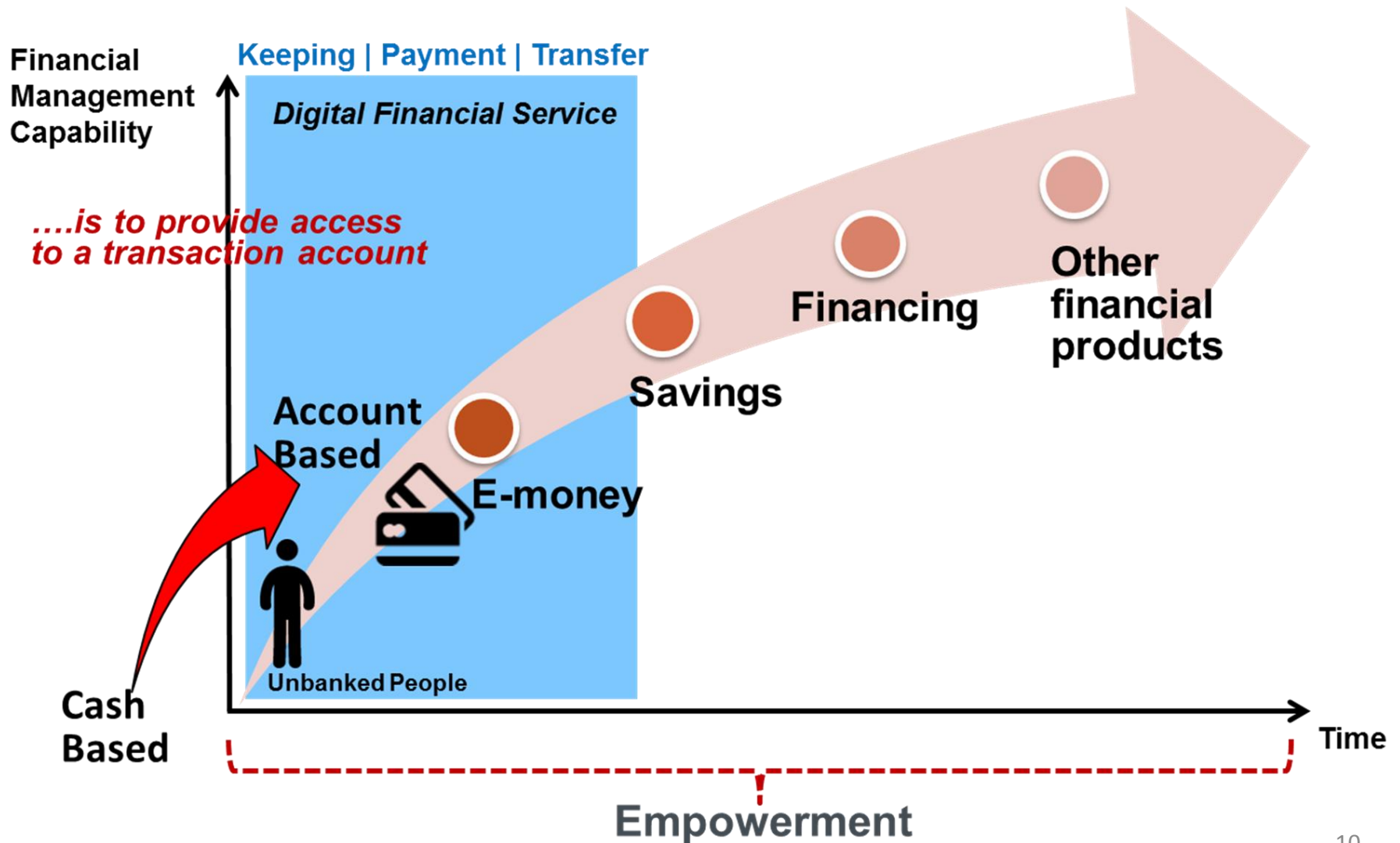
**Principles for
Innovative Financial
Inclusion (G20)**

1. Leadership.
2. Diversity.
3. **Innovation**.
4. Protection.
5. **Empowerment**
6. **Cooperation**.
7. Knowledge.
8. Proportionality.
9. Framework.



STRATEGY

Journey





RECOMMENDATION

Minimize risk, safe and efficient

Unbanked/underbanked

Banked (millennial, gen "z")



1. The Digital Financial Service (DFS) development based on customer needs research



Test and learn by Pilot Project



Ecosystem development by:

- Expand the network of Merchant and agent
- Coverage communication network



Facilitating the synergy between player, especially business commitment

Example:

- Interconnection P to P telco
- Interoperability DFS (still continuing)



Coordination between institutions and ministries for new services like G to P



Broader acceptances for new market

Example : pilot project in Islamic communities

THANK YOU

