Digital Financial Services in Indonesia – Findings from the Agent Network Accelerator Research

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Research Methodology

- Management teams from five leading providers, including Banks and MNOs, were interviewed in depth.

- A total of 31 agents were interviewed in seven locations Jakarta, West Java (Bogor & Cirebon), Yogyakarta, Central Java (Gombong), and East Java (Surabaya and Pasuruan) between October and November 2014.

- A diverse set of agents ranging from Bank Indonesia pilot agents, G2P pilot agents, OTC bill payment agents, traditional stores to convenience chain stores were interviewed. Interviews took place in both rural and urban areas.
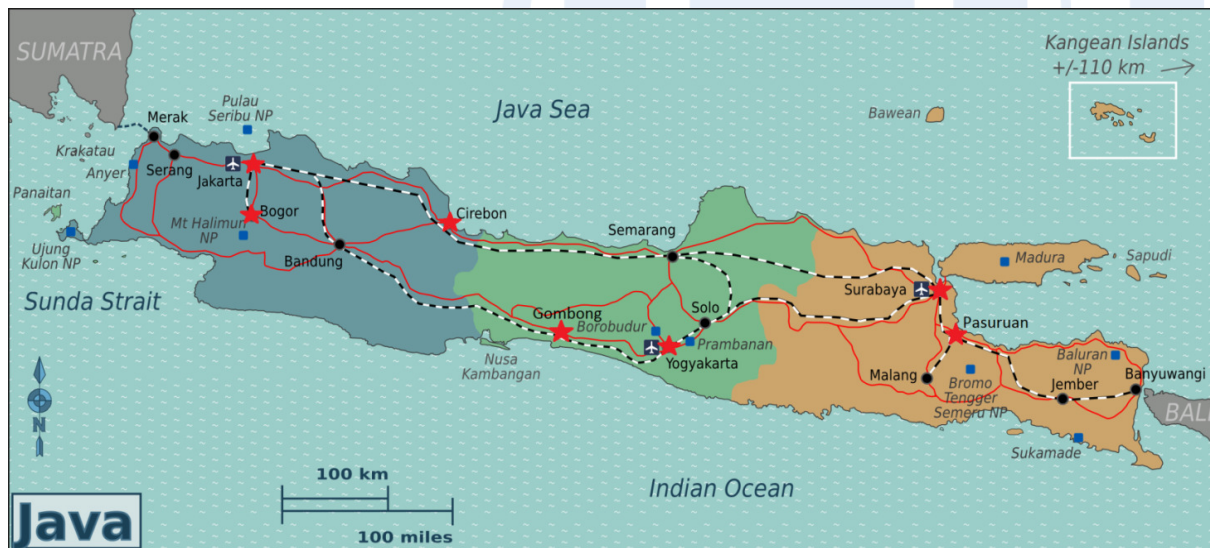
Map Source: http://wikitravel.org/upload/shared/8/82/Java_region_map.png

* Stars on the map represent areas where the research was conducted

Indonesia Overview

Branchless Banking regulations have largely paved the way for growth of the sector in Indonesia. While opportunities exist in the space, providers will have to approach this complex task methodically and strategically.

- **There are regulatory restrictions** on partnerships between DFS providers and agents, especially for smaller banks and mobile network operators (MNOs).

- There are **20 e-money license holders and 6 branchless banking** license holders, however scale is yet to be achieved.

- **Lack of a compelling value proposition** is driving strategic misalignment between product and channel.

- **Bill payment companies and retail chains** have a network of outlets as well as distribution expertise and present an opportunity for scaling DFS.

Indonesia
Jakarta

Evolution of DFS in Indonesia

t·cash

Telkomsel launches T-Cash as pioneer in e-money

BCA launches Flazzcard

dompetku

Dompetku launched by Indosat

Bank Mandiri launches its first prepaid GazCard, Indomaret & e-Toll card

BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

e-Money regulation launched (11/12/PBI/2009)

BRIZZI

BRI launches Brizzi (prepaid card)

XL Tunai

XL TUNAI
Uang Di Hape Mu

mandiri e-money

Bank Mandiri launches e-Money Card

PermataBank launches BBM Money — BBM™ Money

Bank CIMB Niaga launches Rekening Ponsel — Rekening Ponsel

Leading MNOs (Telkomsel, Indosat, XL) launch e-money interoperability for money transfer.

BI conducts DFS pilot (May –Nov) with five banks i.e Bank Mandiri, BRI, BTPN, BSHB, CIMB Niaga.

BI e-Money regulation amendment (16/8/PBI/2014) .Only Book IV banks allowed to partner with unregistered entities.

OJK — Issues licences to 6 banks in the 1st half of 2015

btpn WOW! — Expanding rapidly. 6000 BB agents on-boarded already

Ministry of Social Affairs pilots G2P payments through e-money (Bank Mandiri and BRI participate)

More than one million PSKS payments through Mandiri e-cash in partnership with post office

mandiri e-cash

Bank Mandiri (soft) launches e-Cash (mobile-phone based e-money service)

BRI launches T-Bank (mobile-phone based e-money service)

2007 2008 2009 2010 2011 2012 2013 2014 2015

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REGULATION

Types of Regulation

i. **E-money Regulations**: **(issued in Nov. 2009)** termed as "*Digital Financial Services*" are issued by Bank Indonesia, the Central Bank of Indonesia. This regulation *allows banks, MNOs, and third party providers* to issue, acquire, clear and settle *e-money.*
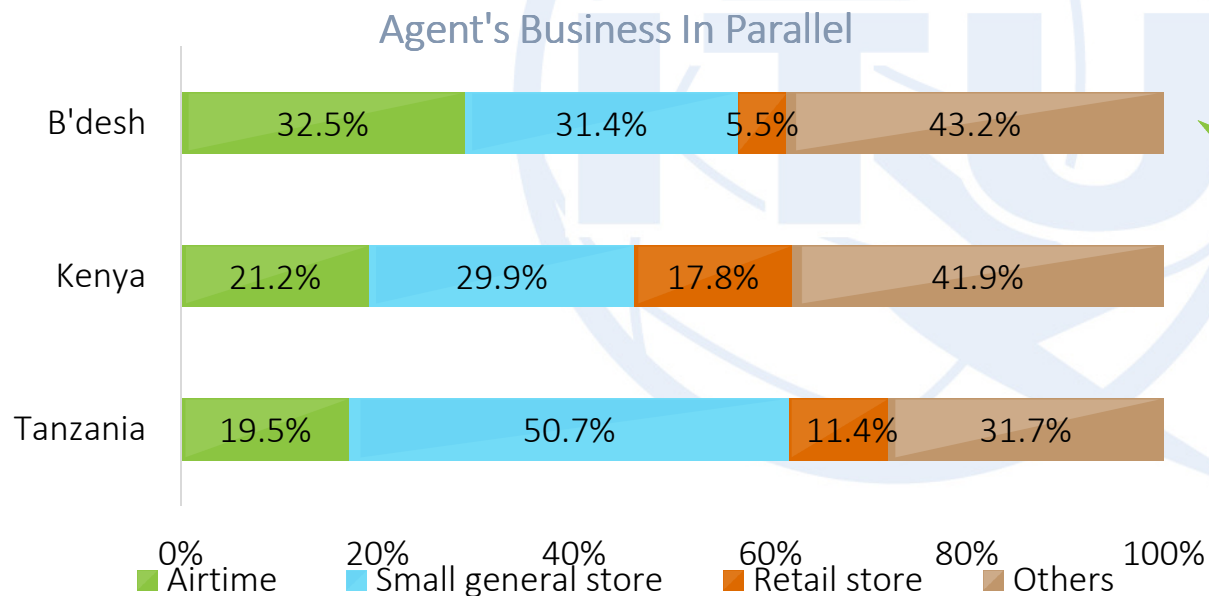
ii. **Branchless Banking Regulations :(released in Nov. 2014)** are issued by Otoritas Jasa Keuangan (OJK), the financial services authority that regulates and supervises banks and non-bank financial services companies. These regulations allow *only banks and financial institutions* to issue basic savings accounts.
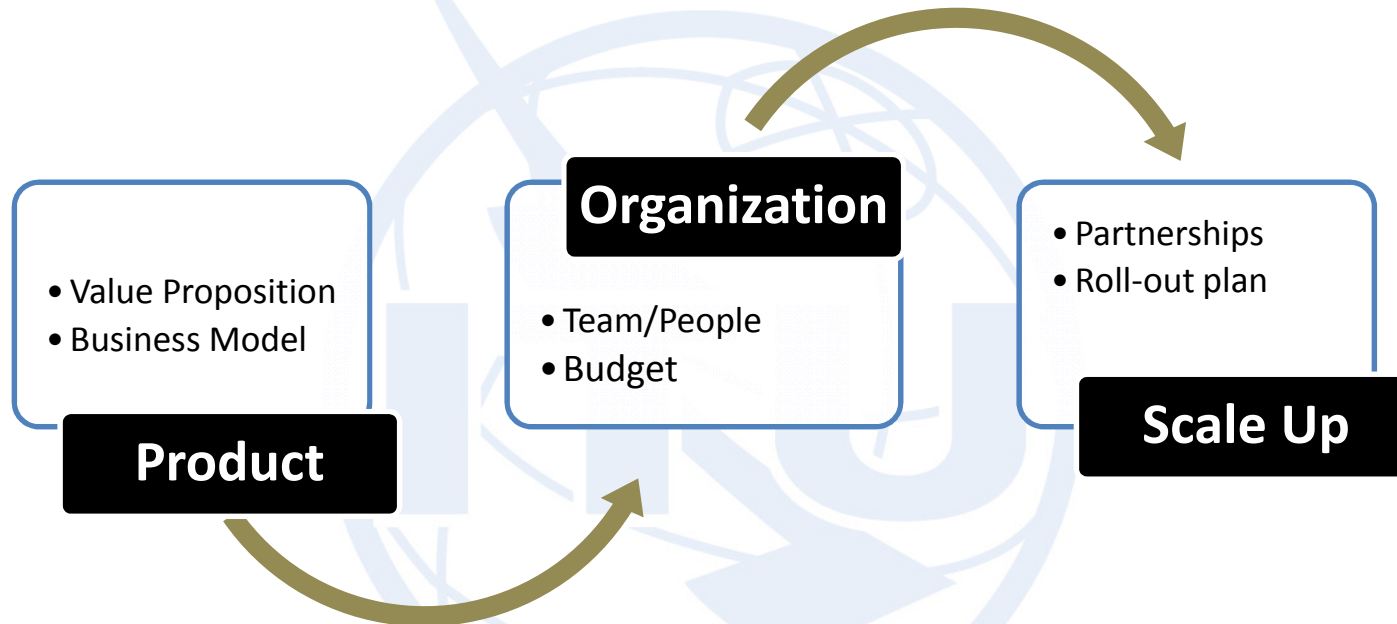
Restricted Partnerships Impeding Growth

- E-money regulations permit only Book IV *banks to partner with unregistered entities* (airtime agents, mom & pop stores etc).

- *Small banks and MNOs can only partner with registered legal entities.* This is *restricting scale up of operations* and sub-optimal usage of platform/capacities, especially MNOs who cannot use their own airtime retailors.

- *Unregistered entities* play key role in DFS services. *In Tanzania and Kenya 51% and 30% of agents respectively operate small general stores.*

Agent's Business In Parallel

Country	Airtime	Small general store	Retail store	Others
B'desh	32.5%	31.4%	5.5%	43.2%
Kenya	21.2%	29.9%	17.8%	41.9%
Tanzania	19.5%	50.7%	11.4%	31.7%

0%   20%   40%   60%   80%   100%

Legend: ■ Airtime ■ Small general store ■ Retail store ■ Others

"Only Book IV entities can appoint individual agents. This is restricting our growth" – Interview with Manager at MNO

*Findings from *Helix*'s ANA research

DFS STRATEGY

Product
- Value Proposition
- Business Model

Organization
- Team/People
- Budget

Scale Up
- Partnerships
- Roll-out plan

No Anchor Products

G2P (Govt. to Person)	P2P (Person to Person)	Bill Pay	Airtime
• In '14, BI conducted G2P payments pilot with **18 agents & 1800 beneficiaries**. • More than a **million PSKS payments have been made through Mandiri's e-cash** in partnership with post office	• **Unable to target P2P due to: Lack of rural agent networks,** most of the accounts are **unregistered** (and hence cannot cash out)	• **Very competitive market:** More than **50,000** agents across Indonesia including bill payment companies, c**onvenience stores and banks.**	• **More commission** to agents for airtime top up via **cash transactions vs. e-money.** • **Higher denomination top-ups**

Need for Market Research & Understanding Value Proposition

- BTPN spearheaded the initiative to conduct market research in order to understand their client's needs to come up with relevant products and services.
- They interviewed potential customers from various segments to understand their needs and aspirations
- Other players have now started similar initiatives.

bank btpn

Value in Partnering with Distribution Networks

PPOB

- **DFS providers can use the existing 50,000+ bill payment agents**

  - Leverage bill payment network with urban and rural presence.
  - Potential to offer cash-in and cash-out services.

Modern Outlets

- Modern retail outlets such as Indomaret, Alfamaret, 7Eleven etc have a cumulative of **more than 20,000 outlets across Indonesia**
- In-store payments and cash-in/out services can be of value to them

Other Retail Networks

- **JNE/TIKI (Courier)**: JNE (4500) & TIKI (2000)
- **Cooperatives**: More than 200,000 cooperatives across Indonesia
- Pagadian: Government owned pawn shops with a foot print of **4500**
- Petrol Stations: Pertamina has 5030 outlets
- Other networks such as insurance, MLM, multi-finance etc

Bill Payment Process

Customers pay cash

"Apart from offering bill payment services, we will be able to offer P2P and cash in/cash out services if we partner with DFS providers." – Director at Bill Payment Agency

CORE AGENCY OPERATIONS

Limited Focus Towards Customer Registration

Agents

- **Limited customer registration points.**
- **Busy** with main business.
- Perceived **hassle** in registering customers.

Service Providers

- **Limited strategic focus** on registering customers.
- **No targets and/or incentives**.
- **Limited training** on the value proposition to customers and to agents.

- There is a cost to customer registration;
- Can we offer pull products on the channel?
- Word of mouth – bringing opinion leaders onto the channel.

"I have to enter customer details which takes 20-30 minutes if [the] system works well. It is difficult to spare so much time."
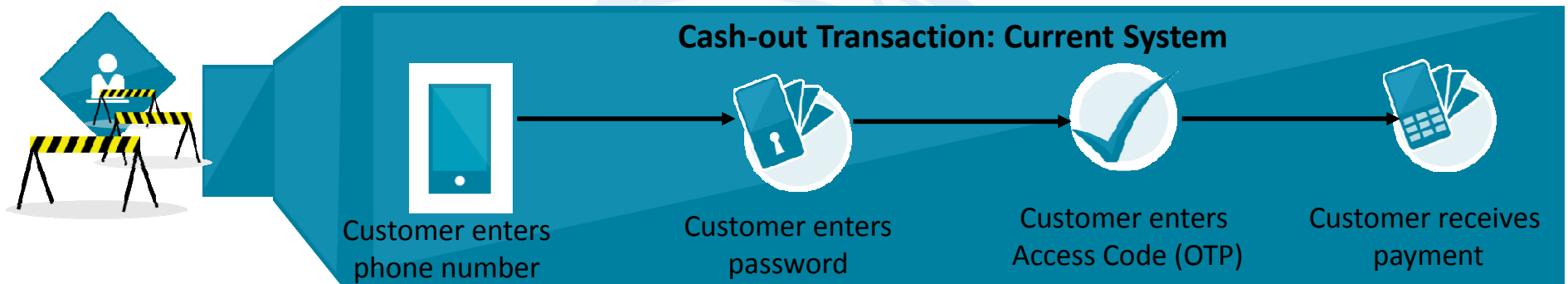Convenience Store Agent

"We can register customers only at 300 of our company owned outlets which are mostly in urban areas."
–Interview with MNO staff

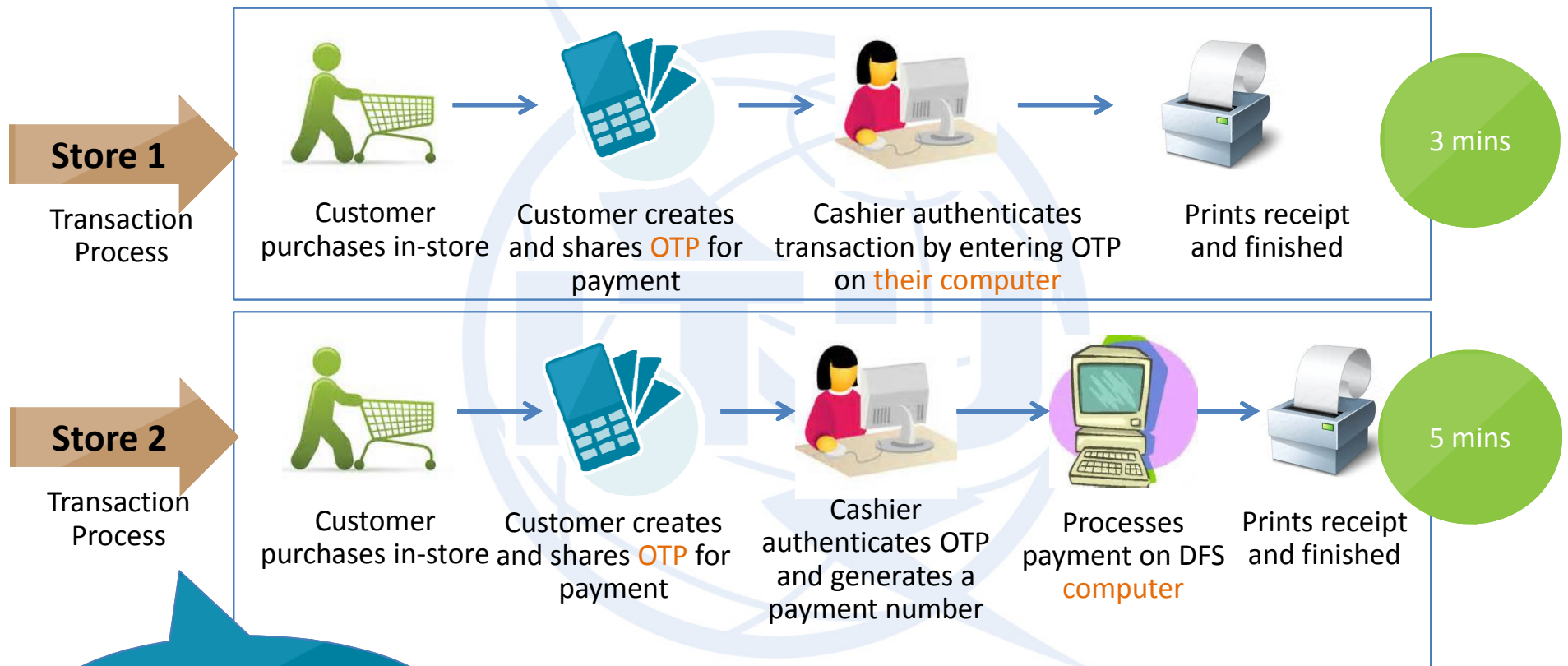# Multiple Authentication Spoiling Customer Experience

- **Authentication mechanisms have to be a balance between security and convenience.**

Cash-out Transaction: Current System

Customer enters phone number → Customer enters password → Customer enters Access Code (OTP) → Customer receives payment

- Multiple Authentication found to:
  - *Increase transaction processing time and failure rates*:
  - *Spoil agent and customer experience:* onus is on customer's memory.
  - *Increases the cost of transaction* for service provider.

- Session time outs for OTP was 15 minutes and later enhanced to one hour. However this could further be increased.

Complicated Transactions: Reasons of Limited Uptake?

A convenience store outlet (Store 2 in diagram below) has a separate terminal for e-money transactions. In turn, the cashier has to leave their counter for the e-money terminal (within the outlet) to process the transaction, making it cumbersome.

Store 1

Transaction Process

| Customer purchases in-store | Customer creates and shares OTP for payment | Cashier authenticates transaction by entering OTP on their computer | Prints receipt and finished | 3 mins |

Store 2

Transaction Process

| Customer purchases in-store | Customer creates and shares OTP for payment | Cashier authenticates OTP and generates a payment number | Processes payment on DFS computer | Prints receipt and finished | 5 mins |

"I prefer cash because it's faster." **Staff at Convenience Store**

Digital Payments at merchants are slow and cumbersome and need to be streamlined.

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QUALITY OF PROVIDER SUPPORT

Monitoring & Support Needs Immediate Attention

- Agents felt the need to have field staff to respond to operational/technical issues.

  - In Kenya, **86%** of agents report **being visited** and a third of those are visited **at least weekly**.

    > "There is only 1 field staff [to] cover everything and it's not enough."

- Lack of toll-free call centres hindered agents

  - In Kenya, agents call **a median of 4 times a month** and rated it **5 out of 7** in terms of ability to resolve issues.

    > "I have called the call centre thee times and spent IDR 10.000 (US$ 0.80)[on] each call. [I would like the call centre to] help me faster [with my queries]."

- While field monitoring takes place, it is irregular and unstructured. MIS monitoring was also found to be inadequate with at least one service provider.

Lack of Monitoring systems: One service provider did not have systems to monitor transactions on real time basis. Instead they generate daily transaction reports and have to look for suspicious transactions manually. As transactions increase over time, this will pose a risk to the deployment.

Innovative Liquidity Management Practices

Despite being at a nascent stage in DFS, in most cases liquidity management is **oriented** towards the **convenience of the agent:**

- Some bill payment providers have a '**cash pick-up service**' through cash runners, which agents found very helpful.

- Other service providers offered **loans/start-up capital** to agents to invest in liquidity.

- One ANM offers a variety of products to agents and allows the agent to maintain a **single liquidity account** to conduct all transactions.

Artificial Transaction Limits Hurt Customer Value Proposition:
To manage in-store cash, convenience chains have customised transaction features by setting certain denominations for cash-in and cash-out services.

Though this suits the needs of convenience stores, it does not meet customer needs; cash-out related limitations can deter customers from adoption.

Rebalancing Techniques Still Needed

Agent A stocks US$3000 in cash, which has to be paid over a three day period. Instead the agent can be trained to stock US$1000 and rebalance the amount daily using ATMs or bank branches over the next three days. With this approach, his investment reduces by one-third.

What is Working Well?

- **Government and regulators are supportive** and committed to scale digital G2P payments in the coming years.

- **Branchless Banking is picking up pace**. With ambitious targets, these numbers are expected to go up significantly

- Symbiotic **partnerships (telco-bank, bank-cooperative/local financial-nonfinancial institutions)** between different stakeholders will prove to be positive for the sectors

What Needs Attention?

- Some **regulatory clauses need amendments**
  - Doing away with agent partnership restrictions for MNOs and small banks
  - Doing away with exclusivity restrictions

- Imminent **need to understand customer/channel needs** through market research/customer centric approaches to develop products and positive user experience

- **Client protection and fraud** needs to be factored upfront into the deployments

Thank You

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