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

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Focus Of Research

The Indonesia research focuses on policy, strategy & operational determinants of success in agent network management, specifically:

- Regulation
- Agent Management Strategy
- Core Agency Operations
- Business Model Viability
- Provider Support
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.

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

Map Source: [http://wikitravel.org/upload/shared/8/82/Java_region_map.png](http://wikitravel.org/upload/shared/8/82/Java_region_map.png)
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.
Evolution of DFS in Indonesia

- **2007**: Telkomsel launches T-Cash, as pioneer in e-money
- **2009**: BCA launches Flazzcard, BRI launches Brizzi (prepaid card)
- **2010**: Bank Mandiri launches e-Money Card
- **2011**: Ministry of Social Affairs pilots G2P payments through e-money (Bank Mandiri and BRI participate)
- **2012**: Bank CIMB Niaga launches Rekening Ponsel
- **2013**: Leading MNOs (Telkomsel, Indosat, XL) launch e-money interoperability for money transfer.
- **2014**: BI conducts DFS pilot (May – Nov) with five banks i.e Bank Mandiri, BRI, BTPN, BSHB, CIMB Niaga.
- **2015**: More than one million PSKS payments through Mandiri e-cash in partnership with post office

- **BTPN**: Expanding rapidly. 6000 BB agents on-boarded already

- **2010**: PermataBank launches BBM Money
- **2014**: Bank Mandiri (soft) launches e-Cash (mobile-phone based e-money service)

- **MicroSave**: Market-led solutions for financial services
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 retailers.
- **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

<table>
<thead>
<tr>
<th>Country</th>
<th>Airtime</th>
<th>Small general store</th>
<th>Retail store</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>B'desh</td>
<td>32.5%</td>
<td>31.4%</td>
<td>5.5%</td>
<td>43.2%</td>
</tr>
<tr>
<td>Kenya</td>
<td>21.2%</td>
<td>29.9%</td>
<td>17.8%</td>
<td>41.9%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>19.5%</td>
<td>50.7%</td>
<td>11.4%</td>
<td>31.7%</td>
</tr>
</tbody>
</table>

*Findings from Helix's ANA research*

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

Product
- Value Proposition
- Business Model

Organization
- Team/People
- Budget

Scale Up
- Partnerships
- Roll-out plan
| 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, convenience 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.
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/TKI (Courier):** JNE (4500) & TIKI (2000)
- **Cooperatives:** More than 200,000 cooperatives across Indonesia
- **Pagadian:** Government owned pawn shops with a footprint of 4500
- **Petrol Stations:** Pertamina has 5030 outlets
- Other networks such as insurance, MLM, multi-finance etc

**Bill Payment Process**

"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.

• 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.

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

“I prefer cash because it’s faster.” Staff at Convenience Store
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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