

# DFI in Indonesia

An experience how interoperability can boost DFI

Session 5 Digital Financial Inclusion Workshop 4/12/2014

MCIT of Republic Of INDONESIA



# Agenda

- DFI Goals in Indonesia
- National Approaches
- E-money Trend
- E-money interoperability
- DFI Implementation
- Telecom Finance in ITU-T SG-3
- ***DFI Interoperability : National DFS Interoperability proposal***
- Where are we now? And what is our target?
- ***Conclusion***

# Digital Financial Inclusion (Background)

Goals of digital financial services :

1. Various micro credit programs launched within the last two decades appeared to be not optimum, as shown in the latest Indonesia's Financial Inclusion Index, which was still at 20%, a figure considered low in Asia. Need to be optimum!!
2. Expansion of access to financial services for disadvantaged society and micro and small enterprises has become government's concern, as contained in national strategy for inclusive finance.
3. to reduce poverty, to conduct income distribution in order to reach a more qualified and more sustainable economic growth without sacrificing, and even supporting, financial system stability.

# Digital Financial Inclusion (*National Approaches*)

1. More various financial products/services. The coverage is not limited only for micro credit, but also other financial products, including savings, insurance and remittance system. Indonesia is currently preparing saving programs using branchless banking and stimulates micro insurance.

1. New platform. Major opportunities to harness ***digital technology and telecommunication in order to reach inaccessible society.***

2. Emerging new market. The initiative is not only for disadvantaged society, but also for unbanked society in all levels of income.

3. Involving new service providers or parties. The involving parties are not only banks or microfinance institutions, but it can also involve government through pro-disadvantaged society program and telecommunication companies.

4. New challenges for regulator. How the regulator can issue policy and regulations to stimulate financial inclusion with a balance between social and commercial aspects and still without sacrificing prudential aspect.

***DFI as a part of DFS mostly support by cellular service in order to reach inaccessible society. 54% population in rural area can only reach by cellular services***

# Mobile Digital Financial Inclusion *(e-money trend)*

- The growth of electronic money starts to look massively since 2008, which jumped to 160.79%.
- In fact, a year later the number of outstanding electronic money swelled 600.15%. If averaged, in the last four years there is a growth of 251%.
- The growth of electronic money was followed by the rise of e-money transactions, both in terms of volume of transactions and nominal.
- Until November 2012, the volume of e-money transactions recorded 91,175,922 transactions, with a nominal value of Rp1.67 trillion. As well as growth in the number of cards, the average growth over the last four years of transactions was very large, reaching 256.2%. In fact, the average growth in the volume of transactions in the last four years reached 501.1%.
- 17 companies issuing e-money which consists of five commercial banks, the regional development banks, five telecommunications companies, and two electronic-based services company.

***E-money still a major services of DFS in Indonesia.***

***E-money ecosystem is a modality to implement DFI.***

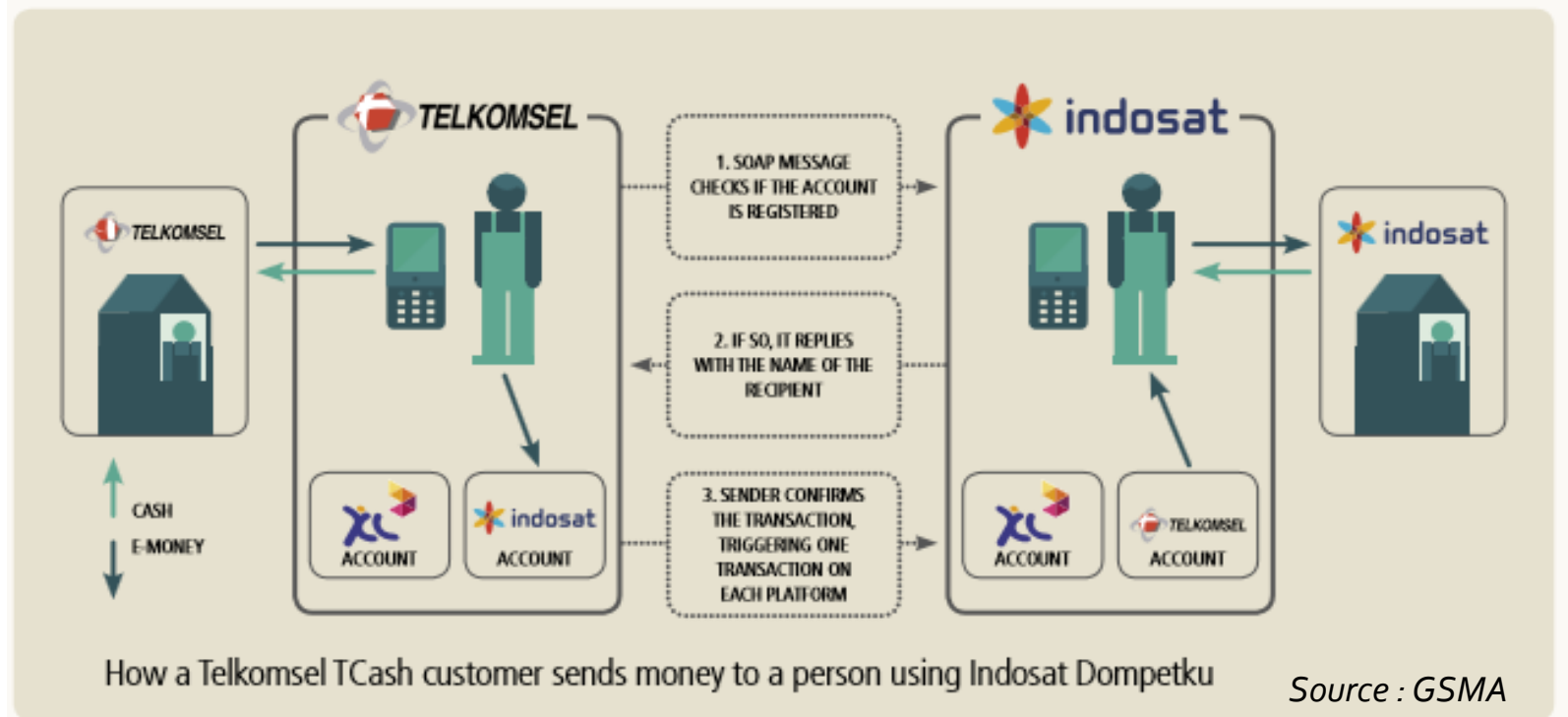
***Mobile payment has been in place by using NFC Technology, the growth still low.***

# Mobile Digital Financial Inclusion (*e-money Interoperability*)

- E-money comes in two formats, namely (1) based cards issued by banks, (2) a server-based e-money issued by non-bank institutions, including telco company (mobile cellular)
- Of the 8 non-bank e-money issuer, 4 of which telco company, Telkom with e-money products Flexy Cash and i-Vase Card, Telkomsel (T-Cash), XL (XL Cash), and Indosat (wallet).
- Agreement cross interoperability of e-money by operators make e-money forward one step in achieving the overarching aim of creating less cash society. Interoperability of e-money make the users can send each other money anytime and anywhere.
- The realization of interoperability of e-money by operators accelerate the financial inclusion program. E-money can reach unbanked people. In 2012 the population of Indonesia who access the new banking around 64 million, equivalent to 40% of the 160 million of productive age, or 20% of the population.
- Interoperability of e-money in the bank is actually highly desirable, even between banks and non-banks

***Interoperability of mobile financial services potentially offers great benefits for the wider ecosystem → Support MDFI.***

# Mobile Digital Financial Inclusion (e-money Interoperability)



- It was initiated by operators and endorsed by *Indonesia Financial Services Authority and Bank Indonesia 2013*.
- Electronic money transfer service provider makes customers across the three operators of around 270 million customers can make money transfer transaction simply by sending short message service (SMS) via mobile phone.
- now there are 25 thousand points of cash points or cash withdrawal point for e-money services from telecommunications companies

***Interoperability of mobile financial services potentially offers great benefits for the wider ecosystem → Support MDFI.***



# Digital Financial Inclusion

*(The Family Welfare Deposit programme)*



*We are moving to full implementation of digital financial inclusion caused interoperability has been there!*

Government uses distribution mechanisms in the form of Digital Financial Services (LKD).

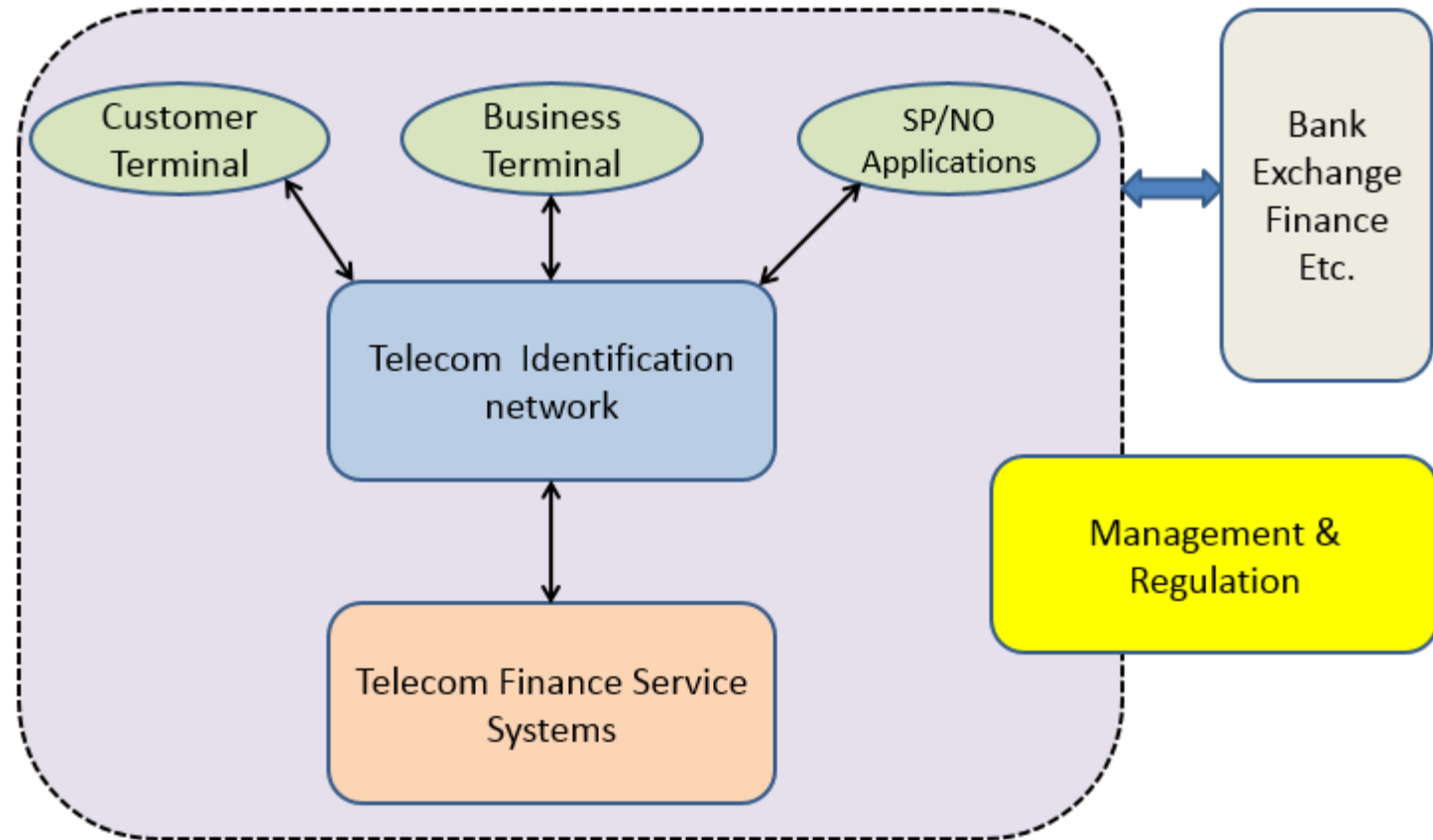
Reasons for using LKD:

- LKD uses non-cash deposits and financial transactions for which a person's cell phone number are also their deposit account.
- With LKD, people are not limited to the existence of a physical bank or ATM. Money can be sent through mobile phones and withdrawn as cash through designated agents.
- LKD agents can be shops, sellers of cell phone credit or even individuals in a community. As such, communities in areas far from bank branches do not have to travel long distances to access financial services.
- Encourages asset accumulation and facilitates financial management: assistance in the form of deposits encouraging the poor to not spend their full amount of assistance immediately.
- Convenience: It is easier to open an LKD account than a conventional savings account.
- **Part of the national strategy for financial inclusion:** LKD can act as a "gateway" to receive a wide range of other financial services, such as savings, money transfers (including the remittances of migrant workers), credit and insurance
- Provides security and comfort: In future, recipients will not need to queue, they can choose when they will withdraw their money and do not have to carry cash around after receiving assistance.
- Improves accountability: Assistance sent directly to private accounts will minimise the potential for corruption.
- Integrates various social assistance programmes is better: Allows for various types of assistance, according to recipients' needs, such as assistance for fertilizers and fuel, help to fishermen, etc.
- Uses technology to reach a wider number of targeted beneficiaries across Indonesia.
- Encourages integration among individuals. Promotes further innovation if increasing numbers use LKD.
- Smaller distribution costs (in the long term), if assistance is channelled through savings. However, significant investment costs occur in the early stages.



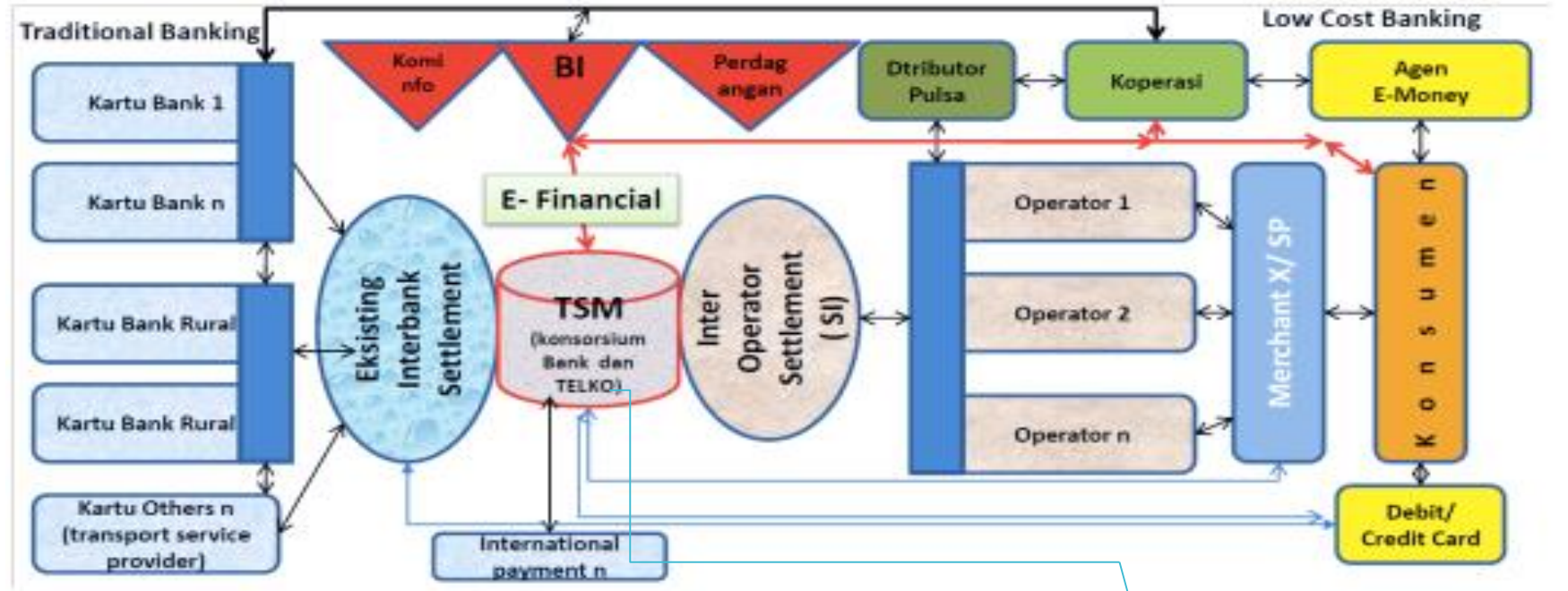
# Digital Financial Inclusion (Telecom finance by ITU-T SG-3)

## Telecom Finance implementation

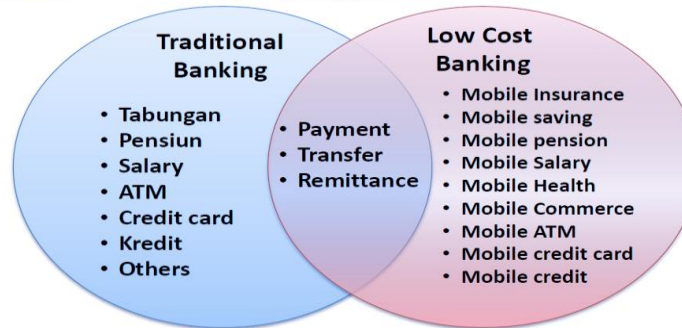


*Interoperability need to be standardize and extend to beetween telco and banks*

## MDFI as a part of national DFI ecosystem :



# Mobile Digital Financial Inclusion (National DFS Interoperability proposal)



History : Kartu=card  
 Kominfo = MCIT  
 Pulsa = voucher  
 Koperasi = micro financial institution  
 Tabungan = saving  
 Pensiun = pension  
 Konsumen = consumer  
 Perdagangan = Trade Authority

TSM (Trusted Secure Manager) as the hub of all entities that exist in the configuration of the banking system

TSM is a system that can bridge a banking transaction settlement system that runs on banks and on mobile, so that electronic transactions can be run in an accountable and transparent.

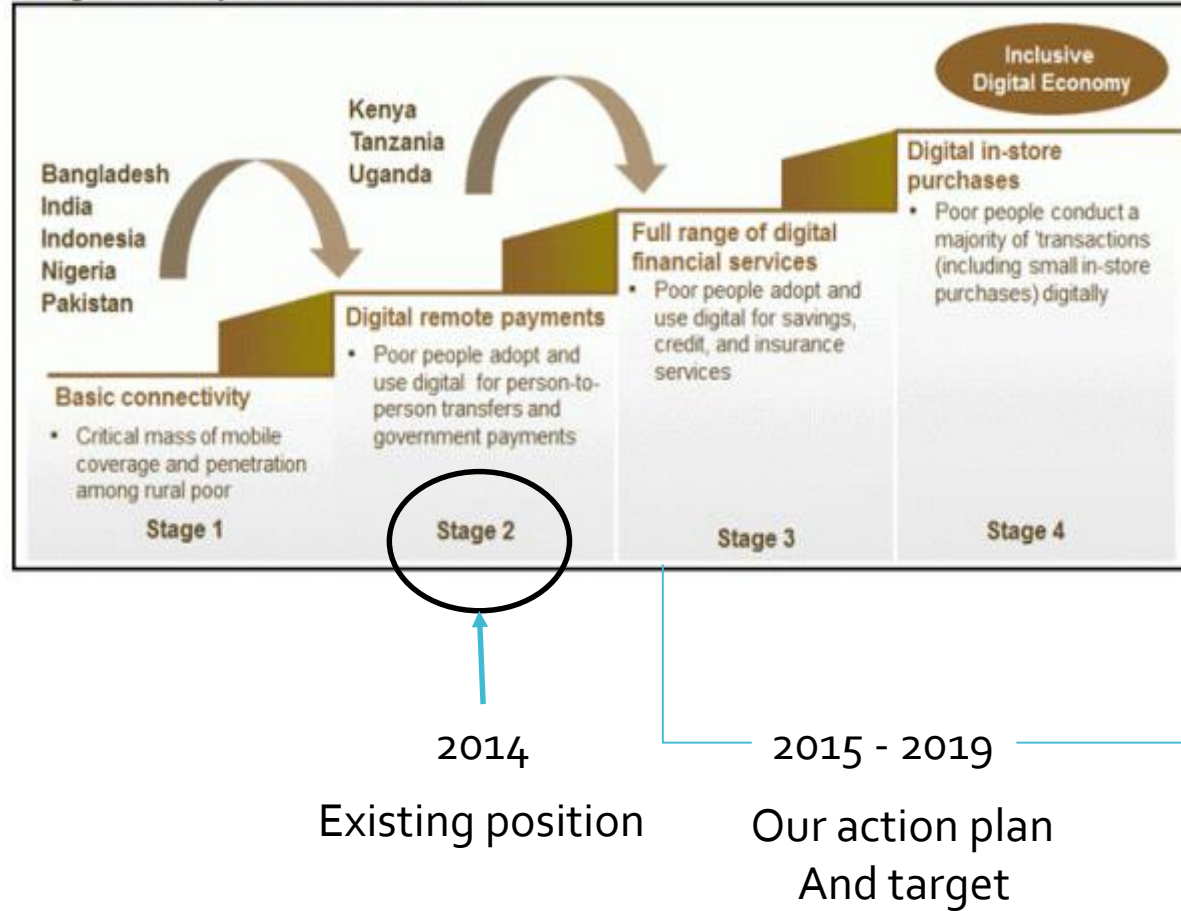
TSM is a party that can be formed independently and can be developed by BI and also MCIT simultaneously, can also involve banks and telecommunications providers.

TSM is operated with high security qualifications to ensure the security of electronic banking financial transactions, the location of all customer data mapping, TSM can be regarded as a system which is very crucial and important in the implementation of e-money by the organizers of banking and using cellular systems

# Mobile Digital Financial Inclusion

*(Where are we now? What is our target)*

A Digital Pathway to Financial Inclusion



# Conclusion

- Development of National Architecture for DFI is very important to promote the interconnection and interoperability of DFI services between banks with mobile operators.
- Development of TSM regulation is needed in order DFI services by mobile can optimally provide the entire financial services.
- Telecommunications regulator should establish regulatory standards for platform, security and quality of the service in providing DFI services.
- Public education of DFI services will promote economic efficiency and effectiveness.



Thank You!