DIGITAL FINANCIAL SERVICES IN INDONESIA

An overview of the USAID e-MITRA project & efforts to advance digital financial services in Indonesia
DISCLAIMER

The report is made possible by the generous support of the American people through the United States Agency for International Development (USAID).

The contents are the responsibility of the e-MITRA project and do not necessarily reflect the views of USAID or the United States Government.
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This project would not have been possible without the support and commitment of USAID’s Global Development Lab and the USAID Indonesia. We are particularly grateful to Brian Dusza of USAID Indonesia for his steady and guiding hand as the market for DFS was shaped and influenced over the project cycle.

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ACRONYMS

BI
Bank Indonesia

BAIK
Baytul Ikhtiar, a MFI located in Bogor, West Java

BPR
Bank Perkreditan Rakyat (rural bank)

BSA
Basic Savings Account

BTPN
Bank Tabungan Pensiunan Nasional

DFAT
Australian Department of Foreign Affairs and Trade

DFS
Digital Financial Services that includes the general concept of mobile money and the Indonesia regulated services of e-Money and Laku Pandai

FMCG
Fast-moving consumer goods

G2P
Government-to-Person payments

GDP
Gross Domestic Product

IFC
The International Finance Corporation

IDR
Indonesia Rupiah (the country's currency)

LKD
Layanan Keuangan Digital (digital financial services as defined by Bank Indonesia)

MFI
Microfinance Institution

MNO
Mobile Network Operator

MOU
Memorandum of Understanding

NBFII
Non-bank Financial Institution

OJK
Otoritas Jasa Keuangan (The Financial Services Authority)

P2P
Person-to-Person transfer or payment

PKH
Program Keluarga Harapan, a conditional cash transfer program for poor families in Indonesia

SME
Small-medium enterprise

TNP2K
Tim Nasional Percepatan Penanggulangan Kemiskinan (The National Team for the Acceleration of Poverty Reduction)

USAID
United States Agency for International Development
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This report provides an overview of the state of digital financial services (DFS) in Indonesia and serves as the final report for the USAID funded project e-MITRA – a private sector capacity support program for DFS in Indonesia. USAID's Global Development Lab and the USAID Indonesia Mission provided 3.5 million in funding over the three and half year project cycle to help build capacity in Indonesia for private sector delivery of DFS that could reach the poor and unbanked. At the launch of the project in 2012, the regulatory environment for DFS in Indonesia was restrictive. Active subscriptions to e-Money products of the major mobile network operators (MNOs) were limited and banks' mobile banking products were focused on serving their banked customers and not on extending their services to those not participating in the banking system. USAID, however, saw the potential for this to change and was a vibrant participant in evolution of the regulatory and market landscape for DFS in Indonesia over the three and a half year period.

e-MITRA's work was influenced heavily by DFS service providers’ anticipation of changes to the regulatory and policy environment and the reluctance of providers to pilot and launch products without regulatory approval until 2014. e-MITRA used this time of regulatory uncertainty to conduct and publish research into financial needs and behaviors of specific market segments of the unbanked that now are driving product design and strategies. As regulators moved from conceptual discussions to pilot testing of new regulatory constructs, e-MITRA helped build capacity of service providers new to DFS or struggling to find ways to find success and scale.

In 2014, Indonesia regulators adopted a bi-furcated regulatory framework for DFS. While not perfect, the regulations enabled licensing of banks to provide new DFS services using third party agents, Laku Pandai, and revised payment regulations to expand providers' ability to use agents and authorize merchants to received e-Money payments.

This report is ordered to follow the three phases of work in the e-MITRA project:

1. Providing insights into consumer and medium and small retailers' financial behaviors to drive digital financial services product design.
2. Building internal capacity of DFS providers to expand financial inclusion through DFS to the unbanked and poor.
3. Supporting creation of a regulatory environment of licensing and certainty for DFS providers to launch and scale DFS services through bank-led, MNO or third party models.

The final section of the report takes a look forward for the DFS sector as it continues to gain traction. It suggests several opportunities for providers and regulators that could accelerate scale and the spread of DFS throughout Indonesia. The signs are encouraging, with licensed providers now announcing ambitious goals for their DFS products and investment. With this optimism it is time for the e-MITRA project's end as Indonesia continues on the path to financial inclusion.
One of the key contributing factors to the current development of Indonesia’s DFS landscape is cooperation amongst participants from diverse sectors, including MNOs, financial institutions and payment platform providers. These relationships continue to evolve with banks and MNOs working in collaboration to expand DFS reach.

The Government of Indonesia will continue to play a key role. Its push in 2014 for a cash-lite economy continues to gain momentum.
e-MITRA PROJECT TIMELINE

Industry Status:
Less than 5% of mobile subscribers are active mobile money account users.

e-Money regulation restricts agents providing cash-out, opening accounts and requires specific remittance license for P2P transfers.

Mobile banking products focus on existing account holders & mobile access.

USAID FS Share Series Releases Opportunity
Assessment and Action Plan for Accelerating Mobile Money in Indonesia; Recommends Mobile Money Implementation Unit.

USAID and DFAT provide funding for a mobile money policy advisor seconded to the Vice President’s Office for Poverty Alleviation.

2012
- USAID launches e-MITRA project to support private sector capacity for branchless banking and advance the mobile money sector and policy advisor to TNP2K.
- e-MITRA Building the Business Case for MFS Workshop
- e-MITRA Mobile Money-NGO Workshop: Analyzing current cash payment streams and necessary elements in a mobile money ecosystem for G2P payments, agricultural value chains, salaried workers and NGOs
- e-MITRA’s Agent Network Strategy Best Practices Workshop

2013
- Bank of Indonesia (BI) releases branchless banking guidelines to pilot implementations of branchless banking.
- e-MITRA signs a Memorandum of Understanding (MoU) with the Bank Mandiri to move forward with branchless banking products focused on the unbanked.
- IFC and e-MITRA release traditional retailer research showing 1% use of e-payments by traditional retailers but 39% rate of interest in using digital payments.
- e-MITRA releases research assessing the role of cooperatives in MFS in Indonesia.

2014
- IFC and e-MITRA sign MOU to research the financial and banking behaviors of traditional retailers in 8 provinces.
- Government of Indonesia pilots use of DFS for G2P payments to 1,300 women in PKH social welfare program.
- OJK releases final regulations for branchless banking “Laku Pandai.”
- BI releases new e-money regulations for digital financial services, allowing greater use of agents, unregistered accounts and use for G2P payments. Circular letter released and accompanying FAQ.

2015
- OJK authorizes 6 banks to provide Laku Pandai services.
- OJK releases draft regulations for branchless banking for comment.
- e-MITRA supports testing of digital payments for solar kits in Papua.
- OJK releases final regulations for branchless banking “Laku Pandai.”
- e-MITRA and World Food Program access digital vouches to deliver assistance to up to 80,000 households.
- e-MITRA and World Food Program access digital vouches to deliver assistance to up to 80,000 households.
- Bank BTPN’s announces 100,000 customers and 5,000 agents for its BTPN Wow! Laku Pandai service.

2016
- e-MITRA supports testing of digital payments for solar kits in Papua.
- Bank BTPN’s announces 100,000 customers and 5,000 agents for its BTPN Wow! Laku Pandai service.
USAID E-MITRA PROJECT OVERVIEW AND IMPACT
ABOUT e-MITRA

e-MITRA is a project of the Global Broadband Innovations Alliance ("GBI"), a cooperative agreement between USAID and NetHope Inc. dedicated to advancing the deployment and use of broadband communications networks, including enhanced mobile networks. GBI works to leverage the extension of such networks for the delivery of network-enabled support across USAID’s development portfolio, including DFS. As part of GBI’s work, NetHope was selected to manage the e-MITRA project in Indonesia.

NetHope brings together the knowledge and power of 43 of the world’s leading international humanitarian organizations so that the best information communication technology and practices can be used to serve people in the developing world. NetHope’s members represent over $33 billion (U.S.) in humanitarian development, emergency response, and conservation programs and serve more than one billion beneficiaries in 180+ countries around the world.

The USAID/NetHope e-MITRA project has provided technical advisory services to core participants in Indonesia’s DFS sector over the past three and a half years.

The e-MITRA project was launched in 2012 to assist in the development of strategies that lead to the growth and scale of DFS platforms in Indonesia; to provide concrete tools to create such strategies; and, ultimately, to help drive momentum for private sector offerings of economically viable DFS products for the poor and unbanked.

FIGURE 1: e-MITRA DFS SECTOR MEDIA

e-MITRA used several mediums to fulfill its role as a resource for the DFS sector in Indonesia:

- Bi-lingual website served as a go-to resource for Indonesia’s DFS sector
- Facebook & twitter accounts served to promote program and industry awareness
  - 1,475 new twitter followers
  - 15,965+ link clicks
  - 904 re-tweets
  - 1.9M+ impressions
  - 1,242 interactions
- Dual language: English & Bahasa Indonesia
  - 33,875+ unique visitors
  - 171,938+ visits from February-November 2015
- Video produced on Mercy Corps Agripay project highlighting use of DFS by rural farmers
  - 17 smallholder farmers & cooperatives featured
e-MITRA IMPACT

e-MITRA’s work in its four primary work streams contributed to the advancement of DFS in Indonesia.

1. **Generating market interest in developing DFS.**
   Building private sector’s awareness and interest in mobile banking, e-MITRA disseminated information on best practices and lessons learned from other countries and provided technical assistance to build additional private sector-led services in Indonesia.

2. **Demonstrating and documenting the business case for DFS.**
   Facilitating and supporting the creation of multi-stakeholder partnerships to test, refine and scale up deployments of mobile banking services. e-MITRA also documented and shared lessons learned about consumer adoption and growth from these deployments to inform and improve future service offerings.

3. **Funding experimentation with different business models.**
   Providing technical assistance incentives and support to promote experimentation and testing of different products and models. The program provided support to banks and MNOs.

4. **Testing and building capacity in distribution channels.**
   Providing support for deployment of a variety of access points for DFS, measuring consumer and traditional retailer usage and interest in the deployments and distribution channels, and evaluating ways to further stimulate growth and ubiquity.

e-MITRA’s activities in each of the above work streams are detailed on the following pages.
USAID has been a leading proponent for the global scale of DFS to bridge the financial inclusion gap. One of e-MITRA’s key project objectives was to share learnings from other markets to help Indonesia adopt best practices. e-MITRA fulfilled this objective through a series of capacity building workshops for the demand and supply side. The project’s inaugural workshop focused on educating NGOs on how their payment needs can be met with mobile money and led to successive workshops for DFS providers on international best practices for agent networks, ecosystem development, and business strategies.

**FIGURE 2: GENERATING MARKET INTEREST IN DEVELOPING DFS**

- **19 NGOs** trained on DFS use cases
- **9 leading banks, 3 largest MNOs** study agent network strategy
- **50 organizations/100 attendees** evaluate business case for DFS
- **11 NGOs/USAID implementing partners** briefed on DFS market updates
The e-MITRA project commissioned six original research studies on the financial behaviors of the key DFS consumer segments and helped develop profiles of agents that could effectively serve these segments. Contributions included research on mobile money interest by cocoa farmers, original research co-commissioned with IFC to identify the financial behaviors and cash patterns of SME retailers in Indonesia. Leveraging additional private sector funding from Visa, e-MITRA commissioned new research to identify the financial products to meet the needs of the nation’s unbanked and under-banked and create a profile of DFS agents ideally suited to serve this market segment. e-MITRA also joined in research efforts with TNP2K to evaluate digital payment options G2P payments in districts with different levels of accessibility in Papua and West Papua.

FIGURE 3: DEMONSTRATING AND DOCUMENTING THE BUSINESS CASE FOR DFS

6 MARKET RESEARCH CONTRIBUTIONS

- Survey of 549 cocoa farmers on mobile money use in South Sulawesi
- Research and analysis of fishing and Islamic school cooperatives’ potential role in DFS
- Survey of financial behaviors of 1,080 poor and unbanked consumers across 9 provinces
- Survey of traditional & SME retailer payment methods
  - 800 retailers, 8 cities, 4 FGDs
- DFS agent/target profile development through survey of 600 potential agents across 9 provinces
- Cost/benefit on G2P payments in Papua (TNP2K working paper)
  - 370 G2P recipients surveyed, 6 districts, 37 FGDs
3. FUNDING EXPERIMENTATION WITH DIFFERENT BUSINESS MODELS

e-MITRA signed Memorandums of Understanding (MOUs) with BTPN and Bank Mandiri, two of the leading banks in Indonesia. Under these MOUs, e-MITRA provided technical assistance in incorporating best practices from other countries and supporting both banks in scaling their product offerings beyond the pilots (which concluded in November 2013). Bank BTPN has set a target to activate 24,000 DFS agents in 2015. Bank Mandiri is on track to reach its 2015 goal of 9,000 DFS agents and continues to expand its e-money merchant partners from 4,000.

“e-MITRA and BTPN have worked together in creating Agent Network Strategy Development for our Laku Pandai product, ‘btpn WOW!’ This collaboration has really helped us in the onboarding of more than 5,000 agents, in the time span of six months after we first launched the product. In addition, the support in developing risk mitigation mechanisms for branchless banking agents will definitely support us in developing a sustainable agent network throughout Indonesia.

- Achmad Nusirwan Sugondo (SVP) and Mohammad Reza Rizal (SVP), btpn WOW!

FIGURE 4: FUNDING EXPERIMENTATION WITH DIFFERENT BUSINESS MODELS

Helped Bank Mandiri and Bank BTPN with **scale and expansion of Laku Pandai**

Provided support for **branchless banking strategy for Bank Mandiri e-cash pilot** in West Java, South Sumatra

Provided support with **agent network strategy and implementation for btpn WOW! pilot in East Java, Bali**
4. TESTING AND BUILDING CAPACITY IN DISTRIBUTION CHANNELS

As DFS product development gathered steam in 2015, e-MITRA worked with a diverse set of organizations to test application of DFS. With the United Nations World Food Programme, e-MITRA conducted an assessment of financial service providers in Kupang (East Nusa Tenggara, Indonesia) best suited to facilitate the migration from delivery of food to nutrition e-vouchers. To understand the application of DFS in micro-finance, e-MITRA provided technical assistance to develop a MFS ecosystem borrowers of the MFI BAIK. The pilot, located in Pamijahan, Bogor, West Java, included 20 MFI field coordinators and more than 250 women borrowers. In the FMCG sector, e-MITRA's project team provided technical support to HSBC Bank and Indosat to explore converting payment transactions to DFS within the FMCG value chain with five FMCG distributors in a wet market in East Jakarta. Following interesting using DFS for green energy, e-MITRA provided technical assistance to integrate the solar power providers in Papua into an e-payment system facilitated by Bank Mandiri that enables their service to be expanded in bulk order for agents. This project targeted 20 agents and 500 customers.

FIGURE 5: TESTING AND BUILDING CAPACITY IN DISTRIBUTION CHANNELS

Assessment for WFP on digital delivery of nutritional assistance for 80,000 potential household e-voucher recipients

Digital payments for solar kits in Papua, targeting 100 new households and 20 active agents
PHASE I: DELIVERING INSIGHTS INTO THE DEMAND FOR DFS
Key to successful product design and adoption of DFS is an understanding of the unique demands and products needs of the country's population. The country's economic characteristics support a competitive and sophisticated banking and telecommunications sector. Use of mobile telecommunications throughout Indonesia and across economic classes far exceeds use of financial services provided by the banking sector. In the first phase of its work, the e-MITRA project commissioned market research that provided key insights into the financial behaviors of consumers, small-medium enterprises (SMEs) and the unbanked. This work was completed at a critical time while DFS service providers awaited regulatory approval and clarity to offer provide expanded DFS through Laku Pandai services and improved e-Money regulation.

Indonesia is an archipelago consisting of 17,508 islands. Around 6,000 of these islands are inhabited, with Java being the most populated island. Indonesia is also the world's fourth most populous nation.

Indonesia is strategically located along major sea lanes, from the Indian Ocean to the Pacific Ocean. The gross national income per capita in Indonesia has risen steadily in the past 15 years. Gross national income in the year 2000 was $2,200 while in 2014 it increased to $3,524.
CONSUMER BEHAVIOR

Studies have shown that the awareness of DFS in Indonesia is especially low. Consumer information on DFS is mostly driven by brand awareness. In the FII Tracker Survey only 3% of Indonesian respondents recognized the concept of e-Money. Meanwhile, 6% of respondents recognized at least one provider.

The FII Tracker Survey also noted that financial access in Indonesia is mostly driven by traditional banks, NBFIs, and use of other informal financial institutions such as arisans. Significantly the survey found that the payment pattern of arisan members in Indonesia resembles the payment pattern of traditional bank customers.

FINANCIAL ACTIVITIES OF THE UNBANKED

As part of its core project activities, e-MITRA commissioned market research on the critical aspects of DFS for customers and potential agents as well as the financial activities of the unbanked and under-banked in Indonesia. The surveyed respondents were: (1) unbanked or under-banked; (2) placed in the C, D, and E social economic classes; (3) mobile phone owners; and (4) engaged in routine financial transactions.

The respondents identified the features they expect in DFS products. The product features sought mirrored their most common financial activities. They would like to buy airtime top-up with DFS using their own mobile phones, but they need a wide variety of choice in quantity of airtime top-up (most of them buy IDR 20,000 top-up vouchers).

Most of the surveyed consumers conduct bill payments in cash, even though they may have to wait in long queues and the location is far from their house. Most of the respondents are willing to pay up to IDR 10,000 to use DFS for their bill payments.

e-MITRA’s research found that while the Indonesians who are unbanked and under-banked respondents have their own savings, 46% of them save money through arisans, 45% keep money in their own houses, and only 6% save their money in cooperatives. The surveyed consumers indicated they would save using DFS if they are allowed to save in small amounts - only 42% of the respondents indicated they save IDR 200,000 per month, while the rest indicated they save less than that amount.

Most of the unbanked and under-banked in Indonesia get their loans informally from family members (40%) or cooperatives (34%). For loans given via DFS, the respondents would prefer an annual rate of 2.5% to 5%. They would also prefer a monthly loan payment cycle.
The respondents most frequently cited reasons for not having a bank account were administrative cost and inconvenient access as shown in Figure 10. The surveyed respondents included some consumers who had tried but discontinued use of DFS. When asked for the rationale for discontinuing their use of DFS, respondents cited the following:

- technically challenging
- cost/fees
- challenging registration

**FIGURE 10: WHY INDONESIANS DO NOT WANT TO HAVE A BANK ACCOUNT**

1. expensive monthly administration fee
2. no time to go to the bank
3. difficulty in finding bank branch / ATM
4. low interest for banking
5. high minimum balance
6. no money
7. there are a lot of other needs
8. rarely deposit money
9. ATM money-withdrawal fee
10. money is allocated for other needs
The traditional retail sector in Indonesia plays a crucial role in Indonesia and can serve as significant source of demand for DFS, but there is a digital divide in the distribution chain payment process.

In collaboration with IFC, e-MITRA commissioned research on traditional retailers in Indonesia. The research collected original data on the financial and management habits of traditional small-medium enterprises (SME) in Indonesia. The research revealed that even though the retail sector in Indonesia is quite large, it is poorly served by financial services.

**FIGURE 11: TRADITIONAL RETAILER SECTOR**


Traditional retailers make almost all their payment to suppliers in cash. Retailers typically buy their stock from wholesale agents (usually located in traditional or sales distributors). Once they receive the products, they pay in cash. These retailers keep the money themselves and do not have a bank account.

Thirty-five percent of the traditional retailers interviewed in this research do not want a bank account, 31% have de-activitated their bank account and of those without a bank account 65% see no need for a bank account. However, if there is a demand to use a bank account from suppliers, retailers or customers they expressed a willingness to open an account.
Digital Financial Services in Indonesia

**Figure 12: Traditional Retailers' Interest and Use of DFS**

- 1% use DFS to pay suppliers
- 8% have access to formal credit services
- 39% are interested in using DFS
- 40% are interested in getting a bank loan

**Figure 13: Traditional Retailers' Reasons for Low Bank Account Use**

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<thead>
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<th>Reason</th>
<th>Percentage</th>
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<tr>
<td>31% have deactivated their bank account</td>
<td>31%</td>
</tr>
<tr>
<td>69% never had a bank account</td>
<td>69%</td>
</tr>
<tr>
<td>No money left for savings</td>
<td>37%</td>
</tr>
<tr>
<td>High administration fee</td>
<td>23%</td>
</tr>
<tr>
<td>Don't like to queue at the bank</td>
<td>20%</td>
</tr>
<tr>
<td>Most of transactions still use cash</td>
<td>31%</td>
</tr>
<tr>
<td>The bank is too far</td>
<td>21%</td>
</tr>
<tr>
<td>Easier to take money anytime if it is kept at the store</td>
<td>11%</td>
</tr>
<tr>
<td>Don't need it</td>
<td>65%</td>
</tr>
<tr>
<td>No money left for savings</td>
<td>31%</td>
</tr>
<tr>
<td>Afraid to use the banking service</td>
<td>16%</td>
</tr>
<tr>
<td>It's difficult to open an account</td>
<td>10%</td>
</tr>
<tr>
<td>It is not for people like me</td>
<td>18%</td>
</tr>
<tr>
<td>The bank is too far</td>
<td>13%</td>
</tr>
</tbody>
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14
PHASE II: EXPANDING CAPACITY AND PROMOTING SECTOR DEVELOPMENT FOR DFS
Indonesia is a member of the G-20, the world's fourth most populous nation and home to the world's 10th largest economy. World Bank reports reveal that Indonesia's economy continues to grow even though it has slowed in recent years. From 2000 to 2014, the country's gross national income per capita steadily rose from $2,200 to $3,524.

Indonesia is in the second half of its a 20-year economic plan spanning from 2005 to 2025. In the period from 2015 to 2020 the plan focuses on infrastructure development and improvement of social assistance programs in education and health-care. Reform of long-standing energy subsidies have resulted in shifts in public spending and greater investments in social programs that directly impact the poor and near poor.

The World Bank’s analysis indicates the country still faces considerable challenges. Since 1999, Indonesia has cut its poverty rate in half to 11.3%. Despite reductions in the poverty rate, more than 28 of 252 million Indonesians currently live below the poverty line and nearly half of all households remain clustered around the national poverty line at IDR 292,951 ($24.40 USD) per month. Employment growth has been slower than population growth, and public services remain inadequate by middle-income standards.

**Figure 14: Financial Environment Overview**

- **Gross National Income**
  - 2011: $2,200
  - 2014: $3,524

- The world's 10th largest economy
- 28 million Indonesians live below the poverty line
- Half of all households clustered around the national poverty line at $24.40/month
- Employment growth slower than population growth
- 2015-2020 infrastructure development
- Improving social assistance programs

The state of financial services in Indonesia varies depending on location. In the dense and highly populated area of Bali and Java, for instance, most of the population is already overbanked, while those living in South Kalimantan and Papua are still under-banked and adequate infrastructure remains a challenge.

**BANKS**

Based on the Indonesian banking law, banking institutions are classified into two groups: commercial banks (bank umum) and rural banks (Bank Perkreditan Rakyat, or BPRs). In terms of operational definitions, commercial banks in Indonesia are classified into non-syariah and syariah-commercial banks. Rural banks are not directly involved in the payment system and have restricted operational areas.

Based on OJK's data, there are 120 commercial banks and 1,837 rural banks in Indonesia. Banks are also categories based on core capital that may limit banks ability to use certain agents or to provide branchless banking products. In terms of core capital, there are four major bank categories:

- **Book 1**: Banks with core capital of less than IDR 1 trillion
- **Book 2**: Banks with core capital ranging from IDR 1 trillion to IDR 5 trillion
- **Book 3**: Banks with core capital ranging from IDR 5 trillion to IDR 30 trillion
- **Book 4**: Banks with core capital above IDR 30 trillion

The following four banks are among the leading Indonesia banks at the forefront of the DFS sector.
<table>
<thead>
<tr>
<th>BANK MANDIRI</th>
<th>BANK BRI</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Indonesia's largest lender (on a consolidated basis)</td>
<td>✓ 14,000 ATMs</td>
</tr>
<tr>
<td>✓ 10,000 ATMs, 2,000 branch offices</td>
<td>✓ Focused on serving SMEs</td>
</tr>
<tr>
<td>✓ A state-owned and a book 4 bank focusing on corporate, commercial, micro, retail and consumer finance segment</td>
<td>✓ A book 4 bank and one of the biggest state-owned banks in Indonesia - in 2014, BRI's assets reached IDR 778.02 trillion</td>
</tr>
<tr>
<td>✓ Indonesia's largest depository with IDR 422.3 trillion in IDR party funds</td>
<td>✓ Teras BRI Kapal, a floating bank that provides banking access to people on remote islands</td>
</tr>
<tr>
<td>✓ e-Money licensee &amp; authorized to provide Laku Pandai</td>
<td>✓ Added 594 branch offices between 2013-2014</td>
</tr>
<tr>
<td>✓ e-Money licensee and authorized to provide Laku Pandai</td>
<td>✓ e-Money licensee and authorized to provide Laku Pandai</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BANK BCA</th>
<th>BANK BTPN</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Valued at $9.9 billion</td>
<td>✓ A book 3 bank and the 16th largest bank in Indonesia in terms of assets</td>
</tr>
<tr>
<td>✓ A book 4 bank that recently appear on Milward Brown's list of “Indonesia’s Most Valuable Brands”</td>
<td>✓ Operates a network of 1,140 outlets, which includes: 433 Purna Bakti branches (for government pensioners); 34 payment points; 603 Mitra Usaha Rakyat branches (for mass market segment); 5 BTPN Syariah banking branches; 36 BTPN Sinaya branches (for high-end market segment)</td>
</tr>
<tr>
<td>✓ 1,000 branch offices</td>
<td>✓ Supported by 40 funding centers and 28,297 community centers across Indonesia</td>
</tr>
<tr>
<td>✓ 13,000 ATMs</td>
<td>✓ Authorized to provide Laku Pandai</td>
</tr>
<tr>
<td>✓ e-Money licensee and authorized to provide Laku Pandai</td>
<td></td>
</tr>
</tbody>
</table>
MOBILE NETWORK OPERATORS

There are six MNOs in Indonesia, licensed and regulated by Badan Regulasi Telekomunikasi Indonesia (Indonesian Telecommunication Regulatory Authority). Four of these MNOs have e-Money products: Indosat, Telkomsel, XL Axiata and Smartfren.

<table>
<thead>
<tr>
<th>Mobile Network Operator</th>
<th>Indosat</th>
<th>Telkomsel</th>
<th>XL Axiata</th>
<th>Smartfren</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriber base</td>
<td>&gt;60 million</td>
<td>&gt;160 million</td>
<td>45 million</td>
<td>&gt;11.9 million</td>
</tr>
<tr>
<td># of Merchant Retailers &amp; Agents</td>
<td>20 online merchant partners &amp; 20,000 offline</td>
<td>~500,000 merchant retailers &amp; agents</td>
<td>&gt;12,000 merchants</td>
<td>&gt;20 merchants</td>
</tr>
<tr>
<td>Volume of Transactions</td>
<td>IDR 500 billion (May 2015)</td>
<td>Not available</td>
<td>IDR 112 billion</td>
<td>Not available</td>
</tr>
</tbody>
</table>

MICROFINANCE INSTITUTIONS

Indonesia has a rich and largely successful history of microfinance. The country’s first microfinance program, Badan Kredit Desa, was established in 1898. Today, Indonesia has a highly diverse microfinance sector of 50,000 MFIs, large networks like BRI’s Unit Desa network and very small, village-owned microfinance institutions.

1,600 of these MFIs are small rural government-run banks or BPRs, 150,000 are cooperatives, and other institutions like credit unions.

FIGURE 16: MICROFINANCE INSTITUTIONS


Digital Financial Services in Indonesia 19
The e-MITRA project worked to introduce Indosat’s e-Money product, Dompetku to women barriers of Baytul Ikhtiar (BAIK), an MFI based in Bogor, West Java, Indonesia. BAIK has 183 staff – 90 of which are full-time field coordinators. These field coordinators collect payments from more than 34,000 microborrowers in seven branches and 14 sub-branches across the Bogor district. The payment process today is done manually through the use of field coordinators (or collector) who visits at least six borrowers each weekday save for Friday, which is reserved for administrative work. The collectors turn in the repayments to BAIK offices each day and BAIK deposits the collection to the nearest bank branch the next day. These collections are normally deposited in partner banks such as Sinarmas Syariah, BNI Syariah or Syariah Mandiri.

BAIK provides motorbikes to all field collectors, which costs the MFI a total of IDR48,000 per day per collector. These costs include food allowances and petrol subsidies. It costs BAIK approximately IDR4.3 million per day for all collectors, which translates to IDR95 million per month.

BAIK does not provide insurance for its field coordinators. Instead, BAIK schedules different daily routes for each collector in order to avoid detectable patterns and keep collectors safe from robbery. In their branch office, BAIK provides a security vault for all daily collections. They also have security personnel and CCTV facilities to keep watch over offices.

Most borrowers are women averaging from 25-30 years old and come from rural communities. BAIK disburses 150 loans per week in one sub-district (Pamijahan), with a total of ~IDR175 million per week. It has total borrowings of IDR33 billion with an average borrowing of IDR1.5 million per borrower.

BAIK piloted with Indosat using its Dompetku agents to collect repayments from their borrowers instead of BAIK’s field collectors. They used Indosat’s Dompetku mobile money service as a means for field collectors to provide loans disbursements and collect repayments; however, BAIK field coordinators faced transaction and wallet limits when they used electronic money for the collection of repayments, as regulations only allow up to IDR5 million at any given point in time.

**FIGURE 17: OVERVIEW OF BAIK PILOT WITH INDOSAT**

- 7 branches
- 14 sub-branches
- 90 full-time field coordinators
- 34,000 micro-borrowers
- Total cost for food allowance & petrol subsidies IDR 4.3m/ day
- Field coordinators visit the micro-borrowers and turn in the repayments to BAIK sub-branches each day
NON-BANK FINANCIAL INSTITUTIONS

NBFIs are another category of legal distinction in Indonesia. The classification includes insurance firms, pension funds, mutual funds, leasing and venture capital companies, and capital markets (including equity and bond markets).

The NBFI sector is still small, capturing less than 15% of the GDP with assets combined. BI included NBFI’s in the institutions eligible to issue e-Money in its 2014 regulations.

OTHER CASH ACCESS POINTS

Another crucial part of the financial ecosystem in Indonesia is ATM switch providers and a nationwide chain of minimart stores, which provide cash access points. Indonesia has three major ATM switch providers:

<table>
<thead>
<tr>
<th>ALFAMART</th>
<th>ALTO</th>
<th>INDOMARET</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Est. 1989</td>
<td>✓ Est. 1993</td>
<td>✓ Est. 1988</td>
</tr>
<tr>
<td>✓ &gt;7,000 stores across Indonesia</td>
<td>✓ One of three major ATM switch providers</td>
<td>✓ &gt;9,000 stores across Indonesia</td>
</tr>
<tr>
<td>✓ &gt;30 million transactions per month</td>
<td>✓ &gt;10 million cards issued</td>
<td>✓ &gt;40 million transactions per month</td>
</tr>
<tr>
<td>✓ Partnering with major banks for its POS terminals &amp; EDC devices</td>
<td>✓ 50,000 ATMs interconnected to ATM Bersama &amp; ATM Prima</td>
<td>✓ Partnering with major banks for its POS terminals &amp; EDC devices</td>
</tr>
<tr>
<td>✓ Offers cash access service to its customers (min. IDR 25,000 purchase required)</td>
<td>✓ iDebit processes card-present &amp; card-not present transactions, merchant acquiring management and debit management</td>
<td>✓ Offers cash access service to its customers (min. IDR 20,000 purchase required)</td>
</tr>
<tr>
<td>✓ Most deposits are made at BCA due to the location of its branches</td>
<td>✓ Provides internet &amp; mobile banking (for iPhone, Android, Blackberry) and SMS banking for corporate &amp; retail clients</td>
<td>✓ BCA account holders use cash-out service most frequently, though frequency and amount of transactions is still very low for these services</td>
</tr>
<tr>
<td>✓ 60% of daily sales made in cash; 30% made with debit cards; 10% made with credit cards</td>
<td>✓ Acquiring service enables bill payment for large outlet and billers like electric utility (PLN) &amp; MNOs</td>
<td>✓ 60% of daily sales made in cash; 35% made with debit cards; 5% made with credit cards</td>
</tr>
<tr>
<td></td>
<td>✓ Soon to release AmPOS, a mobile POS service</td>
<td></td>
</tr>
</tbody>
</table>
E-MONEY LICENSEES AND AUTHORIZED LAKU PANDAI PROVIDERS

As of 2015, regulatory framework recognizes two types of DFS that include the use of agents. The first is e-Money, which is regulated by BI as a payment service. The second is branchless banking, or "Laku Pandai," an agency banking service regulated by OJK. Section 3 of this Report provides an overview of the regulatory frameworks for both e-Money and Laku Pandai.

E-Money is a payments mechanism that can be issued by banks and non-banks institutions, while Laku Pandai can only be issued by banks.

As of September 2015, six banks are authorized to provide Laku Pandai services by OJK (BRI, Bank Mandiri, BTPN, BCA, BNI and BTN). The number of permitted banks is expected to increase to 17 or more. It’s projected that within the next three years Laku Pandai banking agents will cover all regions in Indonesia.8

OJK Chairman Muliaman D.Hadad publicly announced that he expects more than 128,000 agents this year and that this number would reach 350,000 if the banks looking to join the program are approved by OJK.9 e-MITRA provided technical assistance to Bank Mandiri and BTPN as they launched their agent banking strategies.

BANKS AUTHORIZED TO PROVIDE E-MONEY AND/OR BRANCHLESS BANKING

<table>
<thead>
<tr>
<th>Operator</th>
<th>Product</th>
<th>Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Bank Central Asia Tbk/BCA</td>
<td>e-Money (Flazz BCA)</td>
<td>Growth in transactions from 2013 to 2014: 606 billion IDR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 Merchant partners: 23,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscribers: 5,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active users: 1,500,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(source: BisnisCom)</td>
</tr>
<tr>
<td></td>
<td>Laku Pandai (LAKU)</td>
<td>Number of agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: 3,000</td>
</tr>
<tr>
<td>PT. Bank CIMB Niaga</td>
<td>e-Money (RekeningPonsel)</td>
<td>Growth of active users from 2013 to 2014: 146%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 Merchant partners: 1,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscribers: 800,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active users: 600,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(source: AntaraJatim &amp; Sindonews)</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Operator</th>
<th>Product</th>
<th>Adoption</th>
</tr>
</thead>
</table>
| PT. Bank DKI | e-Money (JakCard) | 2014  
Active users: 187,000  
Number of transactions: 2.2 million  
Amount of transactions: 7 billion IDR  
(source: Bank DKI) |
| PT. Bank Mandiri (Persero) Tbk | e-Money (Mandiri e-Money) | 2013  
Number of transactions: 113.4 million  
Amount of transactions: 1.51 trillion IDR  
2014  
Merchant partners: 4,000  
Subscribers: 4,720,000  
Active users: 141,600,000  
(source: Techinasia) |
| Laku Pandai (TabunganMu) | | Number of agents  
Target: 9,000  
Currently: 1,900  
(source: IndoTelko) |
| PT. Bank Mega Tbk | e-Money (Mega Cash) | 2014  
Subscribers: 2,800,000  
Active users: 2,800,000  
(source: BeritaSatu) |
| PT. Bank Negara Indonesia (Persero) Tbk/BNI | e-Money (Tap Cash) | 2014  
Active users: 185,000  
Number of transactions: 250,000/mo.  
(source: BeritaSatu) |
| Laku Pandai (BNI Pandai) | | Number of agents  
Target: 3,000  
(source: BNI) |
| PT. Bank Nationalnobu TBK/NOBU Bank | e-Money (Nobu) | e-Money is only available in Tangerang |
| PT. Bank Permata | e-Money (BBM Money) | Growth of active users from 2013 to 2014: 57%  
2014  
Subscribers: 128,000  
Active users: 12,800  
(source: Selular & Kontan) |
| PT. Bank Rakyat Indonesia (Persero) Tbk/BRI | e-Money (Brizzi) | 2014  
Subscribers: 2,700,000  
Active users: 810,000  
Number of transactions: 2.3 million  
Amount of transactions: 172,662 billion IDR  
(source: Sindonews) |
**Banks Authorized to Provide E-Money and/or Branchless Banking (Cont.)**

<table>
<thead>
<tr>
<th>Operator</th>
<th>Product</th>
<th>Adoption</th>
</tr>
</thead>
</table>
| PT. Bank Rakyat Indonesia (Persero) Tbk/BRI | Laku Pandai (BRILink) | Number of agents  
Target: 50,000  
Currently: 24,713  
Number of transactions  
Target: 64 million  
Currently: 21 million  
Volume of transactions  
Target: 22.4 trillion IDR  
Currently: 7.8 trillion IDR  
(source: IndoTelko) |
| PT. Bank Tabungan Pensiunan Nasional Tbk/BTPN | Laku Pandai (btpn WOW!) | Number of agents  
Target: 24,000  
Currently: 2,000  
Number of transactions  
Currently: 16,000  
Volume of transactions  
Currently: 2 billion IDR  
(source: BisnisCom) |
| PT. Bank Tabungan Negara (Persero) Tbk/BTN | Laku Pandai (BTN Cermat) | Number of agents  
Target: 15,000  
Volume of transactions  
Target: 6 trillion IDR  
(source: BTN) |

“e-MITRA has been partnered with Bank Mandiri for the past 2 years in supporting our Digital Financial Services initiative. Their extensive network, knowledge and experience has been tremendously useful in helping us come up with a sustainable branchless banking ecosystem for the unbanked.”

- Rico Usthavia Frans, Senior Executive Vice President of Transaction Banking, Bank Mandiri
In addition to the bank providing e-Money services, MNOs continue to hold e-Money licenses and seek to find their strategic alignment as providers of their own products and strategic partnerships with banks and other DFS providers.

<table>
<thead>
<tr>
<th>MNO</th>
<th>Date of e-Money License/Product</th>
<th>Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT. Indosat, Tbk (Indosat)</td>
<td>July 3, 2009 e-Money (DompetKu)</td>
<td>Merchant partners: 400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscribers: 1.5 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active users: 150,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Avg. transaction/month per user: IDR 50,000</td>
</tr>
<tr>
<td>PT. Telekomunikasi Seluler</td>
<td>July 3, 2009 e-Money (T-Cash)</td>
<td>Merchant partners: 500</td>
</tr>
<tr>
<td>(Telkomsel)</td>
<td></td>
<td>Subscribers: 15 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active users: 1 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total value transaction: classified</td>
</tr>
<tr>
<td>PT. XL Axiata, Tbk (XL)</td>
<td>October 6, 2010 e-Money (XL-Tunai)</td>
<td>Merchant partners: 100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscribers: 1.2 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Active users: 200,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Avg. transaction/month per user: IDR 50,000-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IDR 70,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total volume of transaction: 2.2 million</td>
</tr>
<tr>
<td>Smartfren</td>
<td>May 26, 2014 e-Money (Uangku)</td>
<td>Not available</td>
</tr>
</tbody>
</table>
PHASE III: EVOLUTION OF THE REGULATORY ENVIRONMENT
The government of Indonesia views financial access as an important prerequisite for community involvement in the country's economic system and has made financial inclusion an important focus area.

This government articulates its vision of financial inclusion and stability in the following objectives:

» Make financial inclusion part of the grand strategy of economic development, poverty reduction, equal income distribution and financial system stability.
» Provide financial services and products tailored to the needs of the community.
» Improve people’s knowledge on financial services.
» Improve people’s access to financial services.
» Strengthen the synergy between banks, microfinance institutions, and non-bank financial institutions.

The President of the Republic of Indonesia Joko Widodo, following his election in 2014, confirmed the country’s commitment to a National Strategy for Financial Inclusion, previously announced at the 2011 ASEAN Summit.

The National Strategy for Financial Inclusion is designed under a six-pillar framework that cuts across different target groups and includes cross-sector coordination.

The strategy is community-based and targets groups facing various barriers to access financial services. Target groups have the biggest financial need and fall into three key categories: the low-income poor, the working poor (or productive poor) and the near poor.

Low-income poor includes those with very limited or no access to financial services. This group includes extremely poor people who may receive social assistance or support from community-
empowerment assistance programs.

The working poor, or productive poor, includes those who have their own job, such as small and marginal farmers, fishermen, artists and craftsmen, small traders, and micro businesspeople in the informal sector in urban and rural areas. Their lack of resources limits their ability to expand production and improve productivity and income.

Near poor includes those who have some ability to save and have access to the formal banking system. They also have access to some formal or informal credit sources and have the ability to pay bills.

The government has adopted four key indicators to measure financial inclusion, shown in Figure 19.

**FIGURE 19: NATIONAL STRATEGY FOR FINANCIAL INCLUSION: KEY INDICATORS**

<table>
<thead>
<tr>
<th>AVAILABILITY &amp; ACCESS</th>
<th>QUALITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>in terms of physical access and affordability</td>
<td>a measure of whether the products and services meet consumer needs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USE</th>
<th>WELFARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>the ability to use financial products and services in terms of regularity, frequency and duration</td>
<td>a measure of the impact of financial services on users’ lives</td>
</tr>
</tbody>
</table>
Indonesia’s regulatory framework for DFS is bifurcated and facilitates both digital payments and account-based branchless banking through agents. Banks may hold an e-Money license and also be authorized to provide Laku Pandai services.

**e-MITRA’s SUPPORT OF REGULATORY REFORM**

e-MITRA has supported regulatory reform by serving as a resource for regulators, donors, and the digital finance sector as it trialed and tested new regulatory constructs in Indonesia.

In August 2014, OJK issued draft regulations on branchless banking and e-MITRA was asked to participate in a review of the regulations. The team filed comments with OJK suggesting revisions to align the regulations with global best practices. e-MITRA’s CoP Joey Mendoza participated in a roundtable hosted by OJK on the draft regulations. In the same month, BI announced its intention to move to a cashless economy. Key elements of the regulations are summarized in the table below.

---

**REGULATORY OVERVIEW**

“e-MITRA’s contribution and action have helped a lot in shaping the development of regulation framework and also encouraged the banks to implement it correctly. e-MITRA is able to be a good partner in filling the knowledge / experience gap and in highlighting the critical points to be explored.”

- Ricky Satria, Deputy Director, Financial Access Development Group, Bank Indonesia

<table>
<thead>
<tr>
<th>Laku Pandai (Branchless Banking)(^{11})</th>
<th>e-Money and DFS(^{12})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevant Regulation</strong></td>
<td>Regulation Of Bank Indonesia No. 11/12/PBI/2009 On Electronic Money</td>
</tr>
<tr>
<td><strong>Defined Services</strong></td>
<td>A payment instrument that:</td>
</tr>
<tr>
<td>Banking services and/or other financial services performed not through the branch network, but through cooperation with another party and supported by information technology.</td>
<td>• stores nominal value of money electronically</td>
</tr>
<tr>
<td></td>
<td>• serves as a payment instrument for merchants that are not Issuers of e-Money</td>
</tr>
</tbody>
</table>

11 Regulated by OJK
12 Regulated by BI
### Laku Pandai (Branchless Banking)

| Service Providers | 1. Banks  
|                   | 2. Insurance Companies  
|                   | 3. Other financial service institutions (pension funds, financing firms) |
| Products / Services | 1. Basic Savings Account (BSA)  
|                   | • no minimum deposit  
|                   | • maximum balance 20M IDR  
|                   | • max debit transactions per month = 5M IDR  
|                   | 2. Loan or financing for micro-customers  
|                   | 3. Micro insurance for low-income population  
|                   | 4. Other approved services |

### e-Money and DFS

- Banks and Non-Banks that are engaged in the business of:
  - finance  
  - telecommunications  
  - systems and network providers  
  - public transportation

### Existing e-Money licensees

- Registered Accounts:
  - e-Money top up (cash in)  
  - merchant payments  
  - bill payments  
  - money transfers  
  - cash withdrawals  
  - G2P payments

- Unregistered accounts:
  - e-Money top up  
  - merchant payments  
  - bill payments

- e-Money Value Limits:
  - Registered: 5 Million IDR  
  - Unregistered: 1 Million IDR

- Transaction value monthly limit:  
  - 20 Million IDR

### Agent Entity Types

- 1. Individuals  
- 2. Legal-entities  
- 3. 7 classification of agents that can provide different levels of services

### Rural-Urban Agent Service Ratio

- Agents contracted in 2017 in Jakarta, capitals of provinces, districts or municipalities are to be followed by contracts with agents outside these areas in a certain number specified in a circular by OJK

### Interoperability

- Application system used must “lead to realization of interoperability”

### Simplified Customer Due Diligence for BSA

- For BSA accounts (simplified CDD):
  1. full name  
  2. residential address with domicile document if available  
  3. place and date of birth  
  4. occupation  
  5. identity documents or substitution documents that “provide confidence” on customer profile and signature specimen

- If account migrates to non-BSA account, fuller CDD required

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As of September 2015, six banks are authorized to provide Laku Pandai services by OJK. The 20 e-Money licensees include banks, non-financial institutions and the four largest MNOs.
LOOKING AHEAD TO OPPORTUNITIES FOR DFS SCALE AND SUCCESS
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SCALE AND SUCCESS

Despite the current momentum and push for DFS in Indonesia, there are still issues and challenges which need to be addressed on the supply side, demand side and in the regulatory framework. The following recommendations are suggested areas of continued engagement to support the DFS sector's evolution and the broader goal of spreading financial inclusion across Indonesia.
OPPORTUNITIES TO SCALE

BUILDING SUPPLY BY ACCELERATING AGENT REACH ACROSS THE ARCHIPELAGO

The success of e-Money and Laku Pandai in delivering financial inclusion to the people of Indonesia will depend on the ability to scale and sustain an agent network with reach into rural areas as well as urban centers. Indonesian regulators, and OJK in particular, has set a regulatory framework that seeks to prioritize delivery of branchless banking services outside the urban centers and with reach into the eastern regions of Indonesia. DFS providers have announced agent targets for 2015 that if achieved would be a good first jump start. These commitments alone are not enough and agent ecosystem development could be best supported by adoption of two key opportunities for collaboration that can be supported by regulatory leadership and DFS provider collaboration:

1. Create a white label agent network
2. Establish and agent training network

WHITE LABEL AGENT NETWORK

The investment required to build an agent network in a country with over 17,000 islands and the 10th largest population in the world will be expensive. In many worldwide implementations of digital payments, the investment on creating and maintaining an effective agent network can be around 30%-40% of total investment. Sustaining agent networks can also prove challenging through sufficient training and commission based incentives. Thus, it is imperative to create a white label agent network that can provide all types of applications and transactions supporting different providers of DFS.

A white label agent network will address the following barriers of entry:

- **Cost.** It can spread out the cost of agent on-boarding such as training and education; it will lower the cost of providing basic marketing collateral that will give background information to consumers on the use of the digital payment service; it will lower the cost of agent acquisition and recruitment since these agents will be readily available in selected target markets of these providers.

- **Commissions and incentives.** The more diverse the commissions and incentives that will be provided to agents, the less the agent attrition and churn will happen. Agents live on daily commissions and incentives. If there are more providers of homogeneous digital services, there will be more opportunities for agents to earn more via up-selling of other consumer services including insurance packages, micro-savings, micro-loans, micro-credit, etc.

- **Marketing initiatives and dissemination of product features.** It will be easier to deploy digital payments services to agents who are already familiar with this type of service; thus, consumer adoption and understanding will be quicker and more effective.
AGENT TRAINING INSTITUTE

A national agent training institute would benefit both DFS providers as well as agents. While the regulatory landscape is now established for e-Money and Laku Pandai, it is complex and building capacity for compliance and implementation can be time consuming for DFS providers and slow agent acquisition and activation. Based on e-MITRA's work across the sector with leading providers as well as analysis of delivery point, Indonesia would benefit from creation of a nationwide agent training institute which could build a pool of qualified and compliant e-Money and Laku Pandai agents.

This nationwide agent institute could build readily available agents capacity and supporting the following areas:

» **Regulatory compliance** - training on existing regulations such as KYC (know-your-customer) process, wallet limits, types of allowable transactions, security provisions, compliance requirements, etc.

» **Agent management** - developing organizational structure to manage a network of third party agents, agent selection process, agent recruitment process, selection of target segment in terms of business activity, agent and customer demographics, etc.

» **Operational and logistics support** - liquidity management tools, customer service in terms of first level of support, documentation requirements for KYC, electronic tools for payment collection, etc.

» **Business modeling** - establishing and understanding commission structures, incentives for performance, timing of payment of commissions and incentives, cost structure of agents, type of transactions that will result in high commissions and incentives, etc.

» **Customer support** - customer support delivery, complaint-handling techniques, customer handling process, etc.
ACHIEVING THE REALIZATION OF INTEROPERABILITY AND EFFICIENCY

There are very strong forces that shape the payment ecosystem in Indonesia including competition between different types of providers, lack of nationwide interoperability and a complicated and large and dispersed e-payment customer base. The e-payments landscape in Indonesia is fragmented but is trending towards outward signs for coordination and interoperability. A common fixture in Indonesia retailers is multiple POS devices at checkout to process payments by card issued by competing banks. The MNOs providing e-Money services voluntarily agreed to e-Money interoperability in 2013. The e-Money and Lanku Pandai regulations call for achieving the realization of interoperability between providers and an industrial agreement on common standards through the Indonesia Payments Systems Association. Despite these efforts there is very little market coordination, especially in common ecosystem development. For economies of scale and digital payments to benefit consumers with low transaction pricing it will be important for all of the above stakeholders and distinct groups to work together to come up with a unified and seamless payment platform that will address the following:

- Interoperability of all existing payment platforms from the banks, non-banks, microfinance institutions, MNO, and third party providers such as cash points. There is a need for all these platforms to operate seamlessly so users of different ecosystem can transact from any point at the most efficient manner and at the most cost-effective method.
- Ease of use and standardized user interface to enable different users from different ecosystems to transact conveniently and with minimal steps.
- Minimum transaction costs to users where all players can partake on revenue-sharing mechanism in order to achieve a win-win situation, not only for consumers but for all participants and stakeholders in the ecosystem.
- Standardized marketing communication in order to educate users to perform financial transactions via digital means in the most efficient manner. Standardized communication will minimize confusion for users since they need to perform various transactions from different providers regularly, with ease and convenience.
- Transparent and consistent disclosure of rates for all digital payments transactions that are simple to understand with minimum cost to users and allow consumers to compare service offerings.
OPPORTUNITIES TO SPUR DEMAND FOR SERVICES

NATIONAL CAMPAIGN ON THE USE OF DIGITAL PAYMENTS

The low utilization rate of existing infrastructure for e-payment transactions is attributable in part to financial literacy being quite low among the potential users of e-payment instruments and channels, and the resulting lack of trust in such payments. In Indonesia, cultural habits and attitudes influence how consumers attachment to cash and perceived lack of need for digital payments. OJK’s launch of its Laku Pandai consumer campaign is a good start but must be sustained and promoted by service providers as well as OJK and government agencies. Through e-MITRA’s work we have identified 2 key issues that need to be addressed consistently by regulators and service providers:

1. Trust - which needs to be earned by attending to the security aspects of the payment system (oversight, instruments, payment channels and settlement methods);
2. Education on Value of DFS - which can be inculcated in the public through time by a systematic and sustained program to teach the general public about the advantages and how-to’s of using the secure systems for making electronic payments. Improving access points alone will not usher in financial inclusion in Indonesia, articulation and understanding of the value of DFS over living a cash-based life will take intentional effort and time. OJK’s Laku Pandai video and collateral are shining examples of such an approach that can be amplified by service providers and stakeholders interested in financial inclusion.

GOVERNMENT TO PERSON (G2P)/PERSON TO GOVERNMENT (P2G) PAYMENTS

One of the most difficult areas of implementing digital payments is payment of individuals to government for services rendered as well as government subsidies and allowances that are disbursed to beneficiaries. In 2014, Indonesia began testing the use of G2P payments with e-Money through pilots managed by TNP2K for social welfare programs such as PKH. These
When pilots while promising also demonstrate the long term commitment needed for Indonesia to digitalize its payment streams. Areas for government support and reform include:

- Reforming the procurement process to allow cross agency procurement of payments to allow use of single account for payment of multiple G2P payments, such as sector specific subsidies, conditional cash assistance and educational support programs.
- Exploring solutions that will enable digital payments in remote and rural areas with low-connectivity or reliable electricity (i.e. offline capability).
- Trialing the use of digital payments for P2G payments such as license fees, parking tickets and taxes. This could include payments via the use of stored value cards, debit cards or prepaid cards, payments via online websites, payments via payment kiosks or terminals, payments with e-Money using the mobile phone.

FOCUS ON PAYMENTS FOR FAST-MOVING CONSUMER GOODS (FMCG) COMPANIES AND SME RETAILERS

Adoption of digital payment in the FMCG market could drive scale in DFS adoption. Based on IFC study in 2015, the FMCG market in Indonesia involves more than US$230B estimated worth of transactions per year. The lack of interoperability and standardization around payments for SME retailers and high volume of cash transactions make the current payment processes cumbersome, risky, expensive, as well as inefficient. They also deprive SME retailers of access to credit as they remain in the informal economy. Significantly, research by IFC and e-MITRA revealed a willingness by SME retailers to adopt digital payments if required by their distributors and if incentives were provided. This creates a ripe opportunity to service this market but common approaches and standardization to enable cross-platform transaction processing will be key but incentives for collaboration and a third party driving the process seem to be required to move competitive providers to agreement around a common approach. The Indonesia Payments System Association or BI could assume a leadership position to drive industry agreement.
Almost always, the regulatory environment will play a significant role in the future success or failure of DFS in Indonesia. The bifurcated regulatory system of e-Money and Laku Pandai is challenging to navigate. The labeling of a product under either regulatory regime may drive product design and agent use in a way that is counterproductive to the goals of financial inclusion and wide scale use of DFS. In addition, some of the regulatory provisions should be revisited through service provider and consumer experience to evolve with the markets needs and knowledge of DFS.

Suggestions for regulatory changes include to:

- Consolidate the regulatory frameworks for e-Money and Laku Pandai into a single regulatory framework.
- Broaden permitted use of individuals as e-Money agent use by more than Book 4 Banks.
- Relax the 2 year business experience requirement for business entities to be e-Money agents.
- Streamline and consolidate the 7 levels of Laku Pandai agents.
- Eliminate the sole savings account requirement for Laku Pandai to allow consumers to have multiple savings account.
- Re-evaluate maximum account limits and value for both Laku Pandai accounts and e-Money.
- Publicly release statistics on Laku Pandai and e-Money transactions on a quarterly basis including transaction volumes and value, growth in registered users, agent network size and geography and consumer complaints.