# Indonesia’s digital retail banking penetration set to hit 60% by 2020: Solidiance

By Yunnie Marzuki | Oct 05, 2017

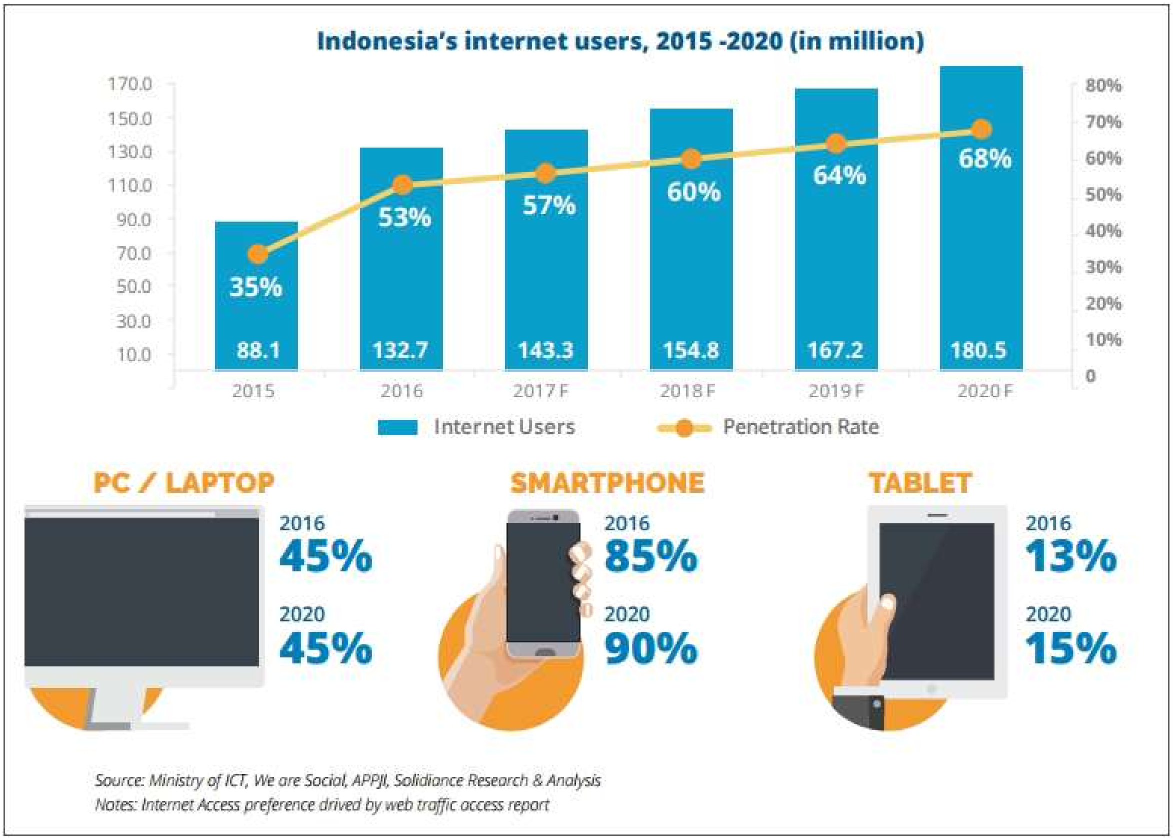
- ***Millennials are core users of e-banking products***
- ***Several local retail banks have started to digitise their business processes***

WITH about 260 million people, Indonesia poses a tremendous opportunity for digitalisation in banking.

Solidiance's latest “Digital Evolution in Indonesia’s Banking Industry” white paper shows that several local retail banks have started to digitise their business processes, but many still remain focused on enabling only basic customer transactions.

According to the report, only 36% of Indonesia’s population is connected to formal financial institutions, leaving an estimated 150 million citizens unbanked and open for financial technology (fintech) solutions.

Solidiance associate partner Gervasius Samosir ***(pic)*** stated that there are four key drivers to Indonesian digitalization, namely, the increasing rate of digital penetration, shift in demography which is dominated by millennials, changes in customer behaviour towards digital usage, and advancement of technology for financial needs through improvised e-banking products.

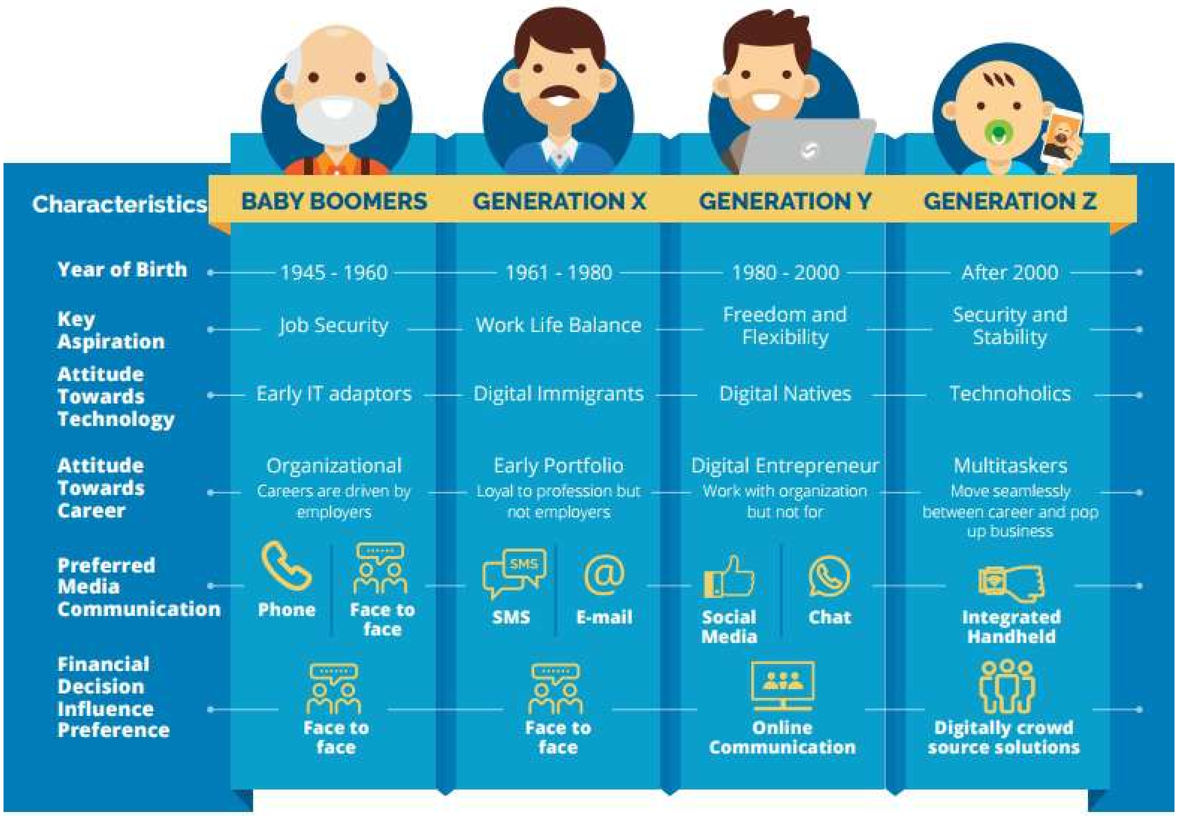



Driven by the availability of affordable smartphones and accessibility to mobile internet, Indonesia's internet penetration is expected to boom at a CAGR of 8% from 2015 – 2020 according to the report.

The availability of connectivity infrastructure, combined with the increasing number of smartphones, higher internet penetration as well as a growing young affluent customer segment are factors that enable this digitisation process. Solidiance's report shows that digital retail banking penetration will hit 60% by 2020.

Indonesia's digital savvy customers are projected to reach 168 million (CAGR +3%) with an increased millennial productive-age population.

"With the compound annual growth rate in the number of tech-savvy customers projected to rise by 3% to 168 million between 2015 and 2020, millennials will remain the core customers for digital banking," he explains.




*Source: Solidiance Research & Analysis*

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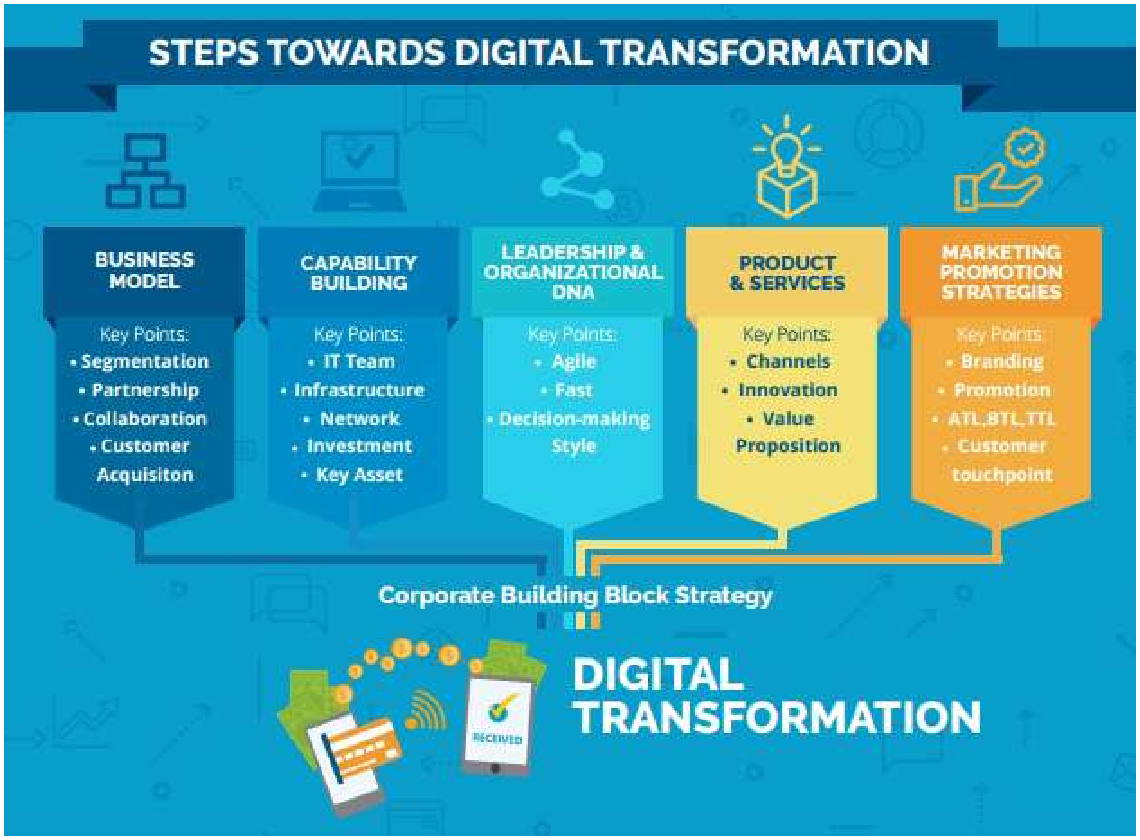
Along with customer behavior rapidly shifting across generations, the customer banking journey as well as preferences shift as well.

Gervasius tells Digital News Asia (DNA) via email that there Gen X and baby boomers have the potential to become digital banking customers, especially those from the middle class and above.

“They are potential customers. However, they are less likely to be categorised as early adopters. Furthermore, they tend to have the highest switching cost. What we have learned is that, most incumbent banks have now gradually introduced digitisation to these segments.”




Gervasius also explains that in order for banks to transform, five core competencies need to be aligned with their corporate vision and mission, These are their business model, capability model, leadership and organisational DNA, products, and marketing.

“Creative and fresh ideas or initiatives in every pillar become the key success factors in building successful corporate digital transformation strategies,” he adds.

There are challenges for Indonesian corporates seeking to align themselves to the five core competencies, especially for incumbent and challenger banks. Gervasius says, “If you are the incumbent, the key challenges come from the sustainability of banks in transforming their organisational culture.”

Internal management may resist the changes needed in order to become more agile and respond swiftly to the ever-changing digital consumer needs as organisational restructuring may impact employment status. “Most of them are afraid to lose their current jobs due to innovation.”

For the challenger, achieving customer trust would be the key challenge. Based on the Solidiance report, trust in terms of on online transactions is one of the top three constraints hampering the growth of e-commerce in Indonesia.

“Specifically, if we are talking about the challenger, they did not have a proven track record in dealing with banking operations, and the customer has no previous experience in using such products and services.”

**The banking system and fintechs**

Gervasius also discussed how the Indonesian banking system is responding to the growing presence of fintech players and whether they are seen as competition or a pipeline to reach a bigger market.

“Having a fintech proposition will give technology startups greater flexibility when it comes to refining their products and services for digital consumers.

“However, banking is not like online retail transactions. It requires a lot of customer engagement which eventually will nurture trust in the fintech solution,” he says.

He says there is evidence of strong collaboration between fintechs and banks through at least four methods that have been highlighted by big players.

Stage one involves exploration, where banks ar actively monitor new trends and innovations by startups.

Stage two sees involvement, especially in startups programmes such as incubators, to fund companies, and strategic acquisitions. Many top banks, have kick-started their collaborative efforts through a strong involvement in startup incubation.

Stage three involves new product development, where banks initiate open discussions with startups to obtain their perspective on bringing in innovation in place of traditional methods. Startups are occasionally brought in during the scrum or innovation meeting and assigned to work on specific innovation initiatives by specific banks.

Stage four involves strategic partnerships, which generally take place through a series of acquisitions. Banks have created investment vehicles through their venture capital arms to acquire for fintech startups. They may also partner with startups to build pilot solutions to test in the market.

According to Gervasius, the unbanked population are those who are out of reach of such services and those unable to cope with the paperwork and other requirements.

“Through technology and innovation, there is a great deal of opportunity to address these issues. Digital banking via smartphones will definitely help bring facilities closer while a better online credit rating system will help more people use banking services.”