Investment in Indonesian tech start-ups reaches $3bn year-to-date

Indonesia | ICT   Economic News
28 Nov 2017
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Indonesia's tech start-ups have been catching the eye of investors, having raised close to $3bn in funding in the year to September 13, a substantial increase on the $631m received in 2016.

Chinese firms are prominent among the foreign investors in Indonesia's start-up boom, according to research firm CB Insights: Alibaba committed $1.1bn to online marketplace Tokopedia in August, and in May JD.com and Tencent Holdings invested $1.2bn in ride hailing motorbike service Go-Jek, which utilises mobile payment services.

The latter investment appears to already be paying dividends; Go-Jek announced in early October that it was looking to expand its operations into three or four South-east Asian countries, seeking to replicate its domestic success.

Alternative financing posts 1462% growth

Rising digital technology penetration and increasing demand for new financial solutions should drive a rapid expansion of Indonesia's financial technology (fintech) segment over the next few years, bolstered by significant growth in alternative financing.

Last year Indonesia posted one of the highest growth rates in the Asia-Pacific region in alternative finance activity. The segment's total market size expanded by 1462% to $35.4m, according to a report by the University of Cambridge, Monash University and Tsinghua University published at the end of September.

The study found that peer-to-peer (P2P) business lending had come to dominate Indonesia's alternative finance market, accounting for just over 60% of the 2016 total, with P2P consumer lending representing 18% of the figure, or $6.5m.

Donation-, equity- and reward-based crowdfunding combined for $6.6m, with other categories, such as P2P marketplace real estate lending and debentures, contributing the remainder.

"Given this influx of market activity in 2016 and into 2017, we expect to see a substantial market development of activity in Indonesia for 2017 building on the rapid growth of 2016," the report stated.

One factor that has helped foster continued P2P lending is the establishment of a regulatory framework for the platform at the end of 2016.

Issued by the Financial Services Authority (OJK), the regulations set a minimum capital requirement of $260,000 for lenders and a ceiling on single loans of $150,000. In addition, foreign ownership of a fintech lender is capped at 85%, meaning overseas operators need a domestic partner.

Fostering collaboration and growing market opportunities

Indonesian tech start-ups attracted the second-highest amount of investment in South-east Asia between 2012 and September 13, at $4.6bn, behind Singaporean companies, which raised $7.3bn over the same period.

However, for the country to build on this strong position, the market needs a closer working relationship between parties in order to offer stronger support to local start-ups and overcome shortfalls in Indonesia's infrastructure, according to Armand Widjaja, managing director of Central Capital Ventura, an early-stage corporate venture capital firm.

"While Indonesian regulations are still protecting the interests of the country's banks, the start-up ecosystem and the market as a whole would gain from the development of a stronger collaborative approach between the banks and the corporate venture capital firms," Widjaja told OBG.

"Indonesia does have a significant fintech infrastructure gap," he said. "But this could present another opportunity to the market, with the potential for the sector to take a leap forward by adopting the very latest technology. Artificial intelligence for banking is just one example."

At least part of the gap identified by Widjaja is already closing, as digital banking penetration is expected to rise on the back of increasing connectivity.

Enhanced infrastructure links, combined with the expectation of further smartphone and internet uptake, and an expanding young and affluent customer base, will drive digital retail banking penetration to 60% by 2020, according to an August report by corporate consultancy Solidiance.

With technology advancing rapidly and an increasing proportion of Indonesia's population utilising mobile devices, the banking sector will have to embrace innovation or risk being disengaged from their market, the report concluded.

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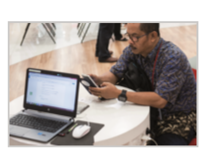

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