



Agent Network Accelerator Research: Indonesia Country Report 2015



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MicroSave
Market-led solutions for financial services

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Research Background

Through the financial support of the Bill & Melinda Gates Foundation, *MicroSave* is conducting a four-year research project in the following eight focus countries as part of the **Agent Network Accelerator (ANA)** Project:

Africa

- ▶ Kenya
- ▶ Nigeria
- ▶ Tanzania
- ▶ Uganda

Asia

- ▶ Bangladesh
- ▶ India
- ▶ Indonesia 
- ▶ Pakistan

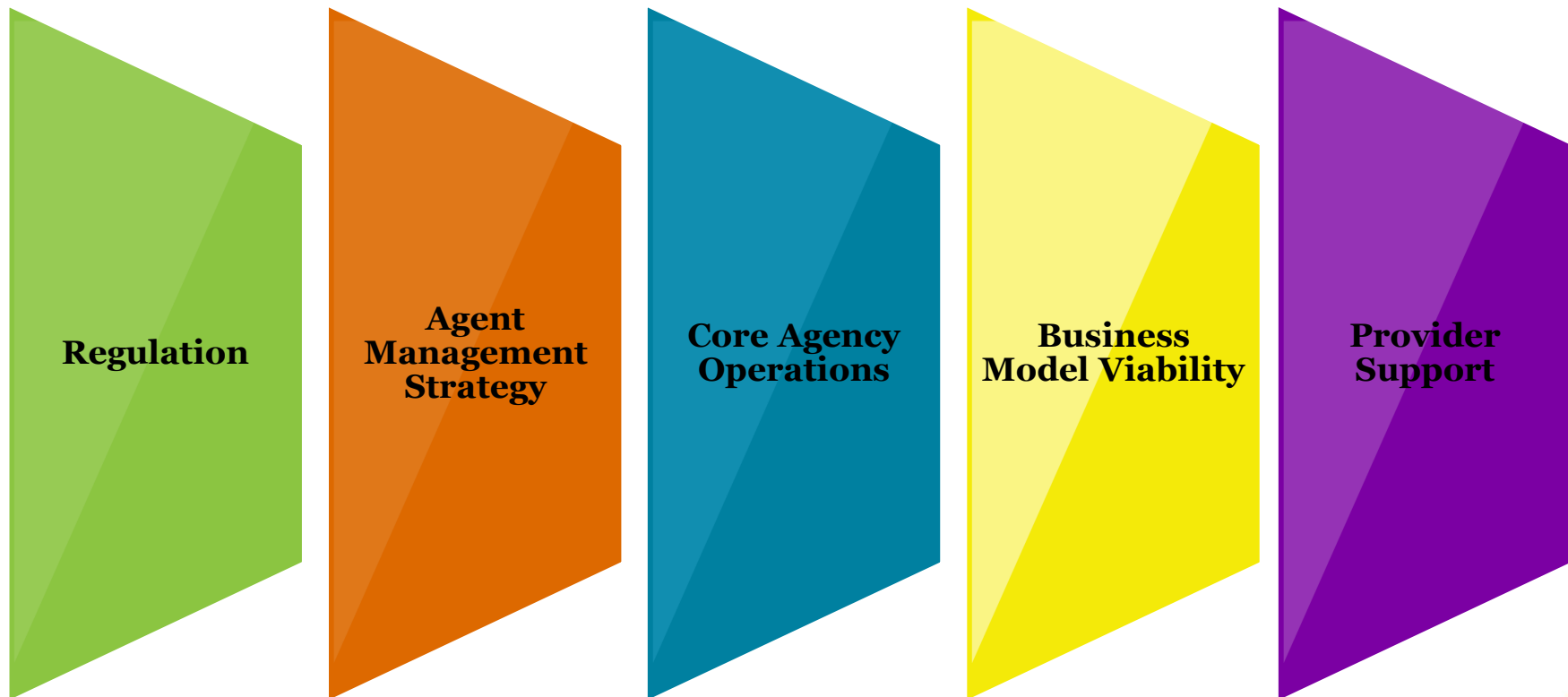
Research findings are disseminated through **The Helix Institute of Digital Finance**. *Helix* is a world-class institution providing operational training for digital finance practitioners.



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Focus Of Research

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



Research Methodology

- ▶ Research was conducted by experienced qualitative researchers from *Microsave*.
- ▶ Management teams from five leading providers, including Banks and MNOs, were interviewed in depth.
- ▶ A total of 31 agents were interviewed in seven locations on Java island, 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

Indonesia Overview

Digital finance services (DFS) was launched several years ago but has not scaled without agent networks. Recent regulation in 2014 begins to pave the way for different players to build their networks, and could be an exciting catalyst for the country, but players must approach this complex task methodically and strategically which does not yet seem to be happening for the most part.

- ▶ Regulatory restrictions on partnerships between DFS providers and agents, especially for smaller banks and mobile network operators (MNOs), is impeding the scale-up of operations and restricting market development.
- ▶ There are now approximately 20 e-money licensed banks, telecoms and 3rd parties, yet none of them have made significant investments or aggressively expanded agent networks yet.
- ▶ While operations are still at a small scale, the lack of clarity on a value proposition is driving strategic misalignment between product and channel.
- ▶ Bill payment companies and retail chains have many outlets coupled with distribution expertise and thus present a unique opportunity for scaling DFS.

Indonesia



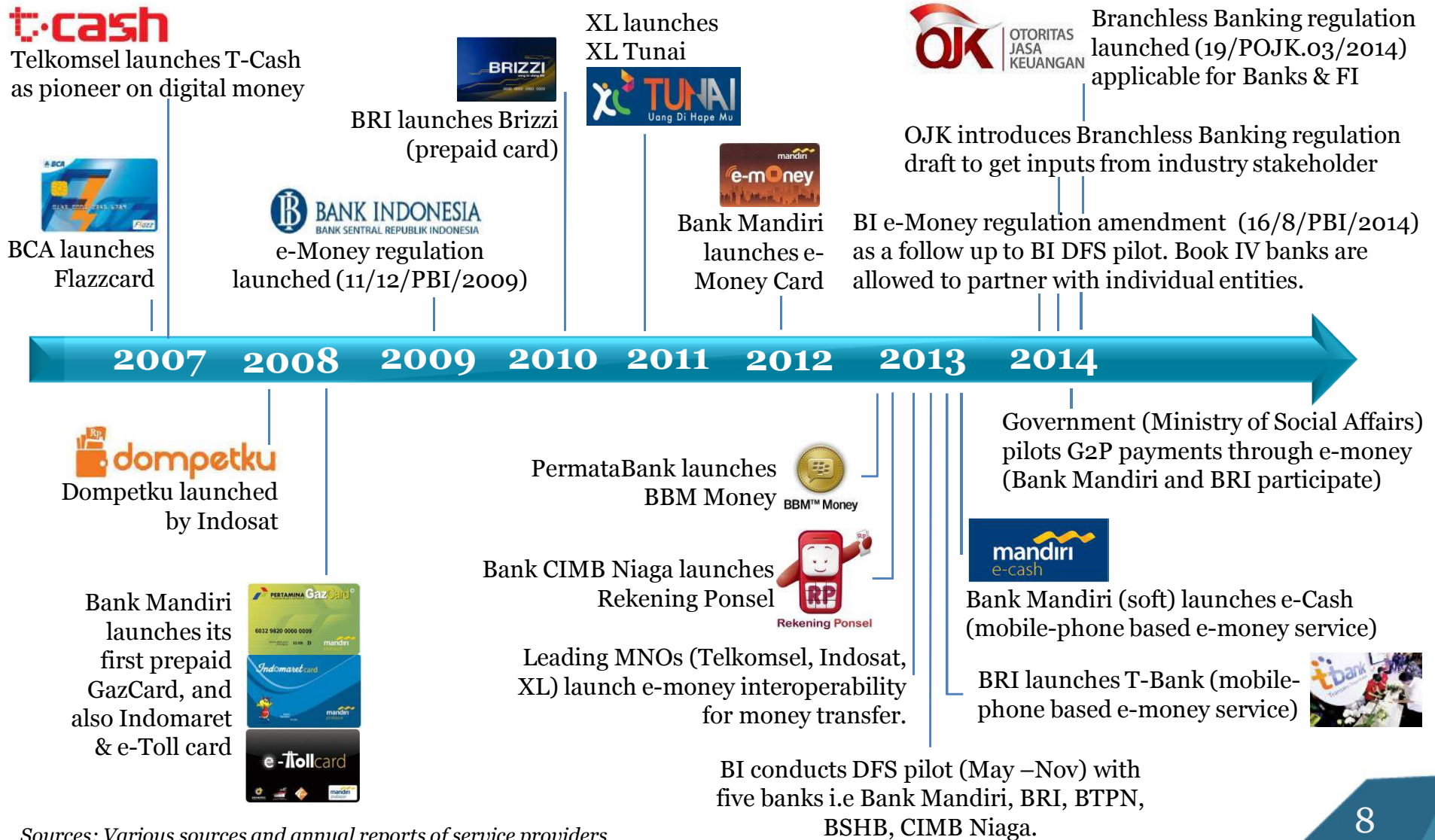
DFS Landscape In Indonesia: Major Players (1/2)

DFS Services and Products	<ul style="list-style-type: none"> Products: e-money card & e-cash (mobile-phone based) Services: Cash in/out, bill payment, airtime purchase, transfer, payment (merchant, toll, transportation) Was part of Bank Indonesia (BI) e-money pilot in 2013 Was also part of G2P payments pilot in 2014 	<ul style="list-style-type: none"> Products: Brilink (savings account linked) & T-Bank (e-money). Services: cash in/out, loan payment, insurance (BPJS), bill payment, airtime purchase, transfer, flight ticket Was part of G2P payment pilot in 2014 	<ul style="list-style-type: none"> Product name: BTPN Wow (mobile liked savings a/c) Services: Cash in/out, bill payment, airtime purchase, transfer Was part of Bank Indonesia (BI) e-money pilot in 2013 Currently waiting to get branchless banking license from OJK 	<ul style="list-style-type: none"> Products: Dompetku (e-money wallet) Services: Cash in/out, bill payment, purchase (airtime, merchant), transfer
Number of agents	<ul style="list-style-type: none"> 10 BI pilot agents 9 G2P pilot agents 	<ul style="list-style-type: none"> G2P pilot: 9 agents 	<ul style="list-style-type: none"> 75 agents were used for the BI using a third party provider's network, PT. Ruma 5-10 agents for BTPN 	<ul style="list-style-type: none"> More than 50,000 who are over the counter agents; cannot perform cash out.
DFS Partners	<ul style="list-style-type: none"> Individual entities & convenience chain stores as agents MNOs for SMS/USSD communications Billers Government (Ministry of Social Affairs) for G2P pilot 	<ul style="list-style-type: none"> MNO for SMS/USSD and technology platform (for T-bank) Billers Government (Ministry of Social Affairs) for G2P pilot 	<ul style="list-style-type: none"> PT. Ruma was the agent network manager for the BI pilot MNO for SMS/USSD communication Billers 	<ul style="list-style-type: none"> Convenience chain stores as agents Billers
Provider Type	Book IV	Book IV	Book III	MNO
Year Started	2008	2009	2013	2008

DFS Landscape In Indonesia: Major Players (2/2)

				Bill Payment Companies
DFS Services and Products	<ul style="list-style-type: none"> Product: TCash Services: cash in/out, transfer (P2P), purchasing (airtime top up, merchants, insurance, vouchers, etc.), bill payment 	<ul style="list-style-type: none"> Product : XL Tunai Services: cash in/out, bill payment, purchases (airtime, merchant, airline tickets, etc.), transfer 	<ul style="list-style-type: none"> OTC payments service provider Products: airtime purchase, bill payment, stored value product Is also an agent network manager (previously partnered with BTPN) for the BI pilot in latter half of 2013) 	<ul style="list-style-type: none"> These are independent companies with agent networks that provide online payment for bill payment companies, such as electricity, telephone, water, loan instalment, insurance, airtime top up, tickets, etc.
Number of agents	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> About 4,500 agents offering airtime top-up, bill payment and loan repayment services 	<ul style="list-style-type: none"> > 50,000 (of total bill payment agents not including mobile money/DFS agents)
DFS Partner	<ul style="list-style-type: none"> Airtime resellers and convenience chain stores as agents Billers 	<ul style="list-style-type: none"> Airtime resellers and convenience chain stores as agents Billers 	<ul style="list-style-type: none"> Small businesses as potential agents E-money service providers Billers, MNOs for SMS/USSD communications 	<ul style="list-style-type: none"> Billers Banks for cash management service.
Provider Type	MNO	MNO	MNO	ANM
Year Started	2007	2011	2009	N/A

The Evolution Of DFS In Indonesia



Sources: Various sources and annual reports of service providers

Regulation

Indonesia Administered By Two Regulators

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.



DFS Regulations Affecting Providers Differently

MNOs

- Can only partner with registered (incorporated) entities (i.e. convenience chain stores).
- Cannot partner with their airtime distributors or small outlets that are not incorporated entities.
- Allowed to issue, acquire and settle e-money.
- As MNOs aren't allowed to provide banking services, they either have to acquire a banking license (or have access to one), or focus on bill pay or person to person services (P2P). Bill pay is already offered by thousands of merchants, and P2P requires building a rural network, which requires the ability to use small stores as agents ("unregistered" entities).

Small Banks

- Can only partner with registered (incorporated) entities (i.e. convenience chain stores).
- Allowed to issue, acquire and settle e-money.
- Governed by branchless banking regulation.

Book IV Banks

(Capital > \$2.5 billion)

- Can partner with registered and unregistered entities (i.e. mom and pop stores).
- Allowed to issue, acquire and settle e-money.
- Governed by branchless banking regulation.
- Despite the advantage these Banks have allowing them to partner with individual agents (the majority of small shops around the country), Book IV banks have not invested in putting agents on the ground.

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

DFS Strategy

- Value Proposition
- Business Model

Product

Organization

- Team/People
- Budget

- Partnerships
- Roll-out plan

Scale Up

Providers Do Not Have Anchor Products Aligned To Value Proposition

G2P

(Govt. to Person)

- “ In 2014, **Bank Mandiri and BRI** participated in a G2P payment pilot initiated by the government.
- “ The 2014 pilot was **small scale** (9 agents per provider) with 1,800 beneficiaries; expected to scale to **one million** customers in **two years**.
- “ Some of these providers were then unable to focus on other e-money transactions as they have small teams dedicated to DFS and were concentrated on the G2P pilot.

P2P

(Person to Person)

- “ Some of the existing 20 providers **do not have a rural** network of agents.
- “ P2P generally requires an agent network with **scale & geographical reach**.
- “ **Registered entities** may not have pervasive rural networks (pharmacies, MFIs, petrol stations), therefore restricting options for MNOs to develop appropriate P2P networks.
- “ Customers **cannot** avail **full** services like cash out unless they are **registered**; outlets offering registration are limited.

Bill Pay

- “ **Competitive market:** More than **50,000** agents across Indonesia—excluding DFS players.
- “ **No specific regulation** for bill payment agencies as it is over the counter.
- “ Main electricity company **outsourced payments** to banks, post offices, and bill payment agencies.
- “ **Convenience stores** already provide this service; **no incentive to partner** with **MNOs**.
- “ **Banks** (small & large) partnering with technology service providers to collaborate with existing bill payment agencies, and providing agencies with cash management services.

Airtime

- “ Unregistered mobile wallet customers face lower limits on the amount they can top-up for airtime compared with registered customers.
- “ One provider offers **more commission** to agents for airtime top up via **cash transactions vs. e-money**.
- “ One provider offers **higher denomination top-ups** (US\$ 2-4) via e-money while clients request for lower denomination (US\$ 0.4-0.8).

Lack Of Team Alignment Is Preventing Building Agent Network

Fragmented Agency Management Structure:

- ▶ Agent management teams generally are not full time, but also have deliverables for other **departments**, meaning lack of manpower is a serious issue.



Limited Inter-Departmental Cooperation:

- “ There is a **lack of communication** and understanding between DFS and other departments, so other departments do not understand the goals of DFS.
- “ Non-DFS staff do **not have key performance indicators** related to the success of DFS and therefore are not motivated to assist in the success of deployments.

Cooperation to Identify Agents:

- “ One Provider’s micro-banking department suggests agents from its existing SME/MSME clients to the DFS team. The unit’s field officers also help in monitoring and supervising agents. This highlights the importance of integrating internal systems and departments so that products, channels, and customers are synced.



Value In Partnering With Payment Agencies And Rural Registered Outlets

DFS providers can use the existing 50,000+ bill payment agents by:

- ▶ Building on existing bill payment agency networks and related infrastructure that have presence in both urban and rural areas.
- ▶ Potentially offering cash-in and cash-out services.

However, bill payment agencies will need an incentive to partner with MNOs or banks.

- ▶ DFS providers can offer additional products/services to bill payment patrons.
- ▶ This could increase customer numbers, profit per customer, and overall profits for bill pay agencies.

Service providers can explore the opportunity to partner with registered entities in rural areas such as cooperatives, petrol stations, MFIs, and courier companies.

“Apart from offering bill payment services, we will be able to offer P2P and cash in/cash out services if we partner with e-money providers.” – Director at Bill Payment Agency

Bill Payment Process



Customers pay cash



Recommendations: DFS Strategy

- ▶ Service providers need to understand customer demand by conducting market research in order to develop an ***anchor product for a specific target segment***.
- ▶ Providers should have ***dedicated agency/channel management team(s)*** focusing on building and managing an agent network (preferably with experience FMCG and/or airtime distribution).
- ▶ It is essential ***to cooperate with other departments*** in the organization as shared resources can be of value in the initial phase of launching a DFS product. Integrating internal systems and departments allows ***products, channels and customers to align***.
- ▶ *With apparent synergies, service providers should consider ***partnering with bill payment companies and researching the few registered entities with rural footprints***.*

Core Agency Operations

Snapshot Of Selected Agent Profiles From The Field



Persuasive community leader

- " Community leader with bill payment business
- " Tech savvy, understands processes and transacts effortlessly
- " Strong sense of service to the community
- " Truly believes in the potential of DFS.
- " Proactive and self-starter

I want to use DFS as channel to serve my community and I believe that a cashless society is the future.



Enthusiastic store owner

- " Owns mom & pop store rural East Java
- " Young, energetic and communicative
- " Profit oriented
- " Comfortable using mobile/laptop/EDC
- " Proud to be associated with service provider.
- " Expects positive impact on existing business due to DFS association (e-money services)

As an agent I get so much attention. Bank representatives visit me and I am respected in [the] community.



Passive G2P agent

- " Village officer and related to village chief
- " Possibility of conflict of interest
- " No prior experience in DFS or small value transactions
- " No financial incentive to conduct transactions
- " Not interested in offering DFS services other than G2P payments

I don't know why they [provider] chose me; I do this as my obligation to my village.



Quiet convenience store cashier

- " Young, educated and tech savvy
- " Single biggest concern is to ensure easy, fast and seamless transactions
- " Does not appreciate the benefits of DFS
- " Not motivated to understand the product
- " No targets/incentive to offer DFS services

If there is a queue, I suggest to the client they pay by cash over e-money because it is quicker.

A Structured Approach To Agent Selection Is Needed*

Based on findings from the research and observations in other geographies following approach is recommended

Attributes	Explanation
Profile – relationship with Customers	Ideally the agents should be picked to match the location of target clients and product positioning. Mostly, agent network managers (ANMs) target shops where customers visit for low/medium size transactions, since customers visit these more frequently.
Age, education and experience	The agents’ age, experience in the business and education qualification is a proxy to make sound business decisions & expertly sell your product.
Agent location	Agent should be located at strategic points where accessibility and trust is built easily for the target customers.
Appropriate Premise	Agents location should be at safe and secure location and allow customers to handle transactions easily.
Business activity	Current business activity of the agents determines the amount of customers they see per day, the amount of float that will be on hand for trading, the margins of the competing products that DFS will have to compete with, & the time they will have to on-board customer.
Liquidity	Agents should have the capacity to manage sufficient float to fulfill required liquidity for smooth transactions.

*From The *Helix* Institute’s Agent Network Accelerator Training Curriculum

Limited Focus Towards Customer Registration

Agents

- **Limited customer registration points** especially for non-book IV entities (as they cannot appoint unregistered entities).
- **Busy** with main business (especially convenience stores).
- Perceived **hassle** in registering customers (Filling application, KYC details, etc.).

“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

Service Providers

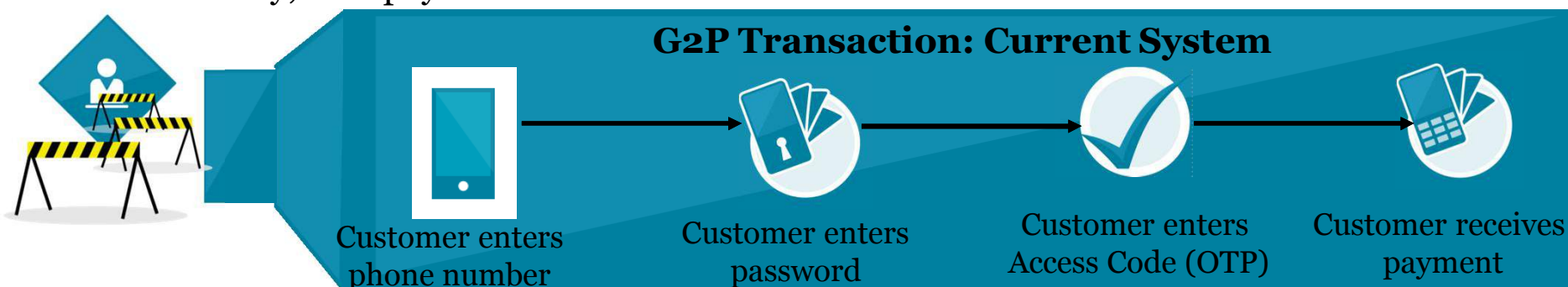
- **Limited strategic focus** on registering the customers such as promotional campaigns.
- **No targets** for registration.
- **No clear incentives** given to agents to register customers (i.e. monetary).
- **Limited training** on the value proposition to customers, and to agents themselves so they can understand the benefits of registration.

“We can register customers only at 300 of our company owned outlets which are mostly in urban areas.” – Interview with MNO staff

- ▶ While unregistered customers can have limited access to mobile wallets (such as cash-in only), registered customers are able to access full suite of products including cash out, thus making registration a **CRUCIAL** activity.
- ▶ Customer registration can also help encourage loyalty, reducing churn rates (% of users MNO loses), which is a major concern for MNOs in Indonesia.

Inefficient Transaction Process Due To Multiple Authentication

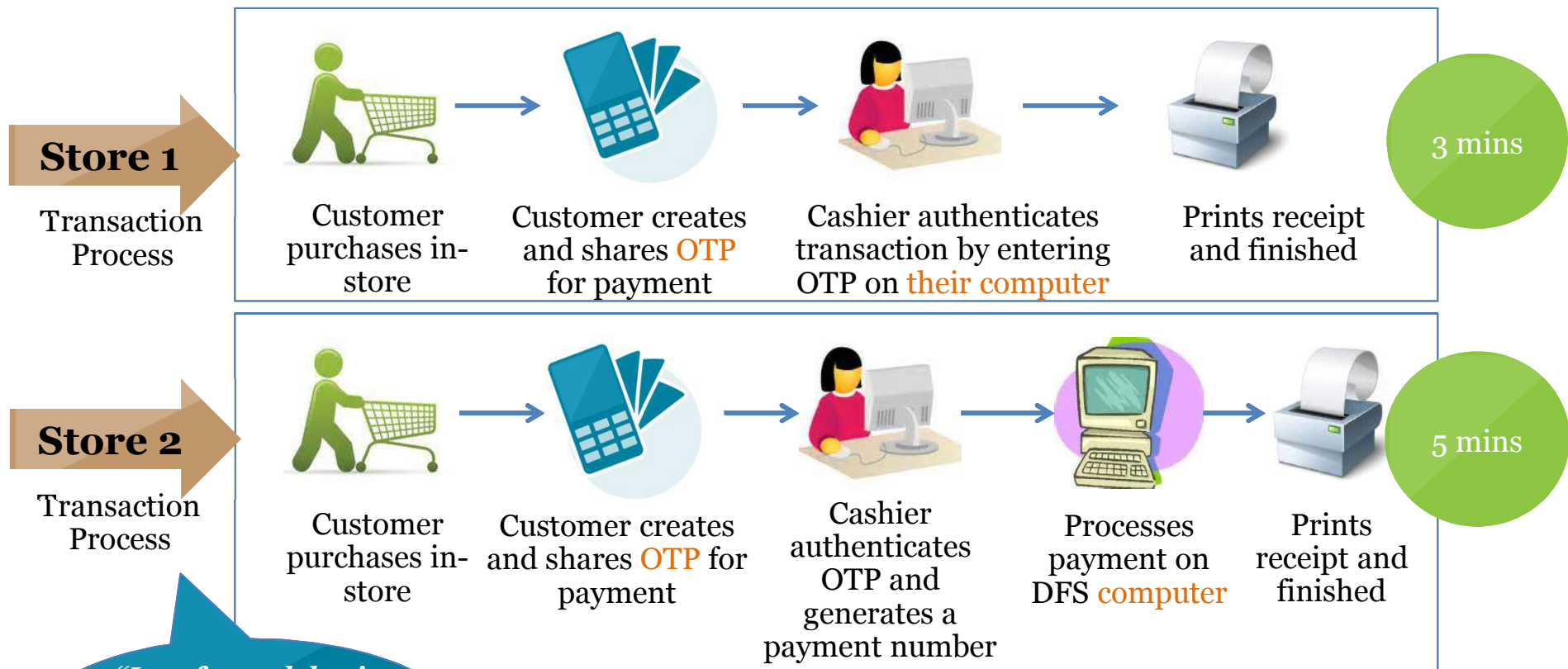
- Authentication mechanisms have to be a balance between security and convenience. Service providers should **limit authentication to two factors: a) in-person presence of the customer and b) password or a one time password (OTP)**—but not both. Currently, G2P payments have **three level of authentication.**



- Two levels of authentication are still in line with branchless banking regulations.
- Multiple Authentication found to:
 - Increase transaction processing time and failure rates:***
 - Customers can forget multiple passwords which can lead to delays and sessions closing/expiring.
 - Customers may have to request OTPs—in cases they forget—which can take a long time.
 - Spoil agent and customer experience:*** onus is on customer's memory.
 - Increases the cost of transaction*** for service provider.

Case Study: Lack Of Integrated System Makes Transactions Complicated

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.



"I prefer cash basis because it's faster."
Staff at Convenience Store

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

Recommendations: Core Agency Operations

- ▶ Plan a ***structured approach to agent selection*** that is aligned to the value proposition.
- ▶ Develop a ***focus on customer registration*** by building targets and incentives for agents.
- ▶ Build ***simple authentication mechanisms*** that have a balance between security and convenience. ***Limit authentication to two factors*** (in conjunction with branchless banking regulations).

Business Model Viability

In The Nascent Market, Profitability Varies

- ▶ G2P and bill payment agents find the business profitable. G2P agents serve 1800 beneficiaries and number of beneficiaries is expected to grow. These agents seem to be satisfied with the commissions they receive.
- ▶ Since transactions are still low for cash-in/cash-out agents and there is not a focus on registering customers to avail full services, it is difficult to assess their profitability and their satisfaction with revenue generated.
- ▶ Nevertheless, most agents saw viability and a positive future because they believe that DFS related transactions will increase in the future, and thus their revenues will increase.
- ▶ Some agents see a positive effect on their main business because of the customers generated from their DFS business and/or the respect the agents have gained from being a DFS agent.

“People will come to my store, they will buy airtime, mothers will buy daily stuff, their child will buy snacks, others maybe will buy gas, etc.”—Agent

“Commissions are pretty good. I am happy that the provider can offer me that much!”—Bill Payment Agent

Quality of Provider Support

Training And Marketing Initiatives Are Not Anchored To Products

Trainings Need to be Customised to the Various Kinds of Agents

- ▶ Trainings are mostly focused on the DFS product and process without providing the “big picture” and value proposition to agents.

With no training, it was quite difficult for me to answer technical and financial related questions from potential customers.

I [did] not [feel] comfortable to process the transactions because I do not know much about the product.

- ▶ Trainings do not seem to be customized to the needs and skills of trainees.
 - For example, different agents require different skill sets. Convenience store agents are adept at technology and soft skills while individual agents (i.e. mom and pop stores) can lack technical skills.

Marketing efforts should target specific segments aligned to value proposition

- ▶ Whilst agents had marketing collateral including banners, neon boxes, brochures, leaflets and stickers, they were not targeted towards different segments of the population (i.e. rural, illiterate, etc.).

“Customers trust me when they see providers’ banner on my kiosk”

- ▶ Promotion/awareness drives were limited to non-G2P deployments.

“I have a plan for marketing, but I can’t do it since I’m busy with my main business”

- ▶ Findings suggest that there is a need for segment and activity specific BTL campaigns, especially in rural areas.

Monitoring And Support Mechanisms Need Immediate Attention

- ▶ Most agents strongly felt the need to have field staff to respond to operational/technical issues swiftly.
 - ▶ 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 also hindered agents to reach out to providers. Agents felt it’s costly to call existing, high-cost call centre.
 - ▶ In Kenya, agents call their call centre **a median of 4 times a month** and rated it **5 out of 7** in terms of its 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 found to be lackadaisical 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.

Some Providers Have 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 as they do not have to close and/or leave their shops.
- ▶ 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 the transactions. This saves them time from juggling between accounts and reduces liquidity investment. The ANM segregates liquidity proceeds and settles funds regularly.

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.

Recommendations: Quality Of Provider Support

- ▶ **Training should be given prior to the start of operations** and preferably at the **agent location**.
- ▶ Trainings should also include **tangible/intangible benefits from DFS, soft skills, and simple troubleshooting**.
- ▶ **Real time support models** that can be extended to agents are: **dedicated field staff, toll-free call centres, and SMS-based systems** to report problems.
- ▶ **Regular and well-structured monitoring and supervision**, including real-time monitoring dashboards, should be done to cover transactions & issues, compliances & audit, and service quality.

- ▶ Marketing efforts should target specific **segments aligned to value proposition**.
 - ” Rural Segment initiatives: **Campaigns** to educate customers and drive enrolments. **Token gifts** such as t-shirt, pen, sticker or even small amount of e-money in the account can be of value.
 - ” Urban initiatives: **Dedicated staff** at outlets to explain benefits and drive enrolments. **Payment or in-store purchase** related incentives can drive usage especially among youth and tech-savvy.







Outstanding Attributes Of Agent Network Management

- ▶ Generally, agents seem to **predict a successful future** for DFS and are satisfied for now.
- ▶ There are a lot of **providers interested**, including some of the biggest in the country.
- ▶ For now, everyone seems to be doing small scale **pilots, exploring partnerships, and developing strategies**, which is essential before scaling.
- ▶ Service providers are implementing **innovative liquidity management** methods despite being at a nascent stage.
- ▶ The **government seems supportive** and has committed to scaling the G2P payments it makes digitally over the next two years.



Opportunities For Improvement



- 
Regulation prohibits small banks and MNOs from appointing individual entities as agents. This can limit the growth of agency networks and can result in sub-optimal usage of platform/resources.
- 
 Providers need to conduct market research in order to **anchor their products** to the findings of the research and therefore sync their products and channels.
- 
Limited focus towards customer registration is restricting customer from availing diverse product suite and hence adoption.
- 
 A well defined **agent selection strategy** needs to be developed and **aligned with value proposition**.
- 
Lack of interconnected systems mean redundant hardware, and customer experience is **impacted by tedious authentication processes**.
- 
Monitoring and support systems need attention with agents reporting that they need more support from providers.



Thank You

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Appendix

Acronyms

Acronym	Abbreviation
ANM	Agent Network Manager.
CICO	Cash In (The exchange of cash for electronic value/e-money) & Cash Out (The exchange of electronic value/e-money for cash).
MNO	Mobile Network Operator. (A company that has a government-issued license to provide telecommunications services through mobile devices).
PPOB	Payment Point Online Bank. An online bill payment service points business of tripartite partnership between bank/financial institution, switching company and the related company (i.e. service provider e.g. electricity company/PLN, water company/PDAM, leasing company, etc.) who provide the members' data.
G2P	Government to Person. A transfer fund program from Government to Person usually in form of social fund support for poor people for many purposes such as education, healthcare, basic daily stuffs, baby food and milk, etc.
DFS	Digital Financial Services
OTP	One Time Password. A dynamic password that is generated every time for transaction authentication.

Glossary of Terms

Term	Explanation
Agent	Third party (individual or registered entity) that is engaged with a mobile money issuer (Service Provider) to provide specific mobile money services to end users on behalf of service providers.
Biller	Company/Institution who authorises a third party to receive payments from its customers/users
e-Float	The digital value an agent trades with customers for physical cash.
Individual Agent/Entity	Usually a person or unincorporated business entity such as mom and pop store, airtime seller, etc.
Modern Outlet	is a modern retail chain that provide everything in one roof, with different type of format from such as large/hyper store, supermarket, and minimarket.
Unregistered Account	No KYC (Know Your Customer) required to open e-money account. Account limit is IDR 1,000,000 (one million rupiah) and cash-outs and money transfer are not allowed.
Registered Account	KYC process is mandatory. Customer has to fill an application form and submit KYC details. Service provider has to verify the details and register the e-money account. Higher account limit of IDR 5,000,000 (five million) , money transfer allowed and cash-outs are permitted at designated agent outlets.
Registered Entity	Legal entity, anything other than a person or unincorporated business entity, that need to be registered with the relevant authorities in which the articles of association shall be legalized by the ministry of law and human rights. The subject of law is the organization itself and there is clear separation of company's and senior management 's wealth/property. Some type of them are LLC, Corporation, Cooperative. For instance Modern Outlet, Cooperative, Post Office, etc.
Service Providers	Banks or other non-Bank Institutions (non-Bank business entity that holds Indonesia formal legal permits) issuing the mobile money (or electronic money) products and services.

Specific Support Requirement For G2P Agents

As the recently elected government is focusing more on financial inclusion, electronic payments service providers have a very good opportunity to drive DFS uptake. Based on research findings and our analysis, following are the five most compelling issues that providers need to work on in order to be prepared to exploit the opportunity.

1. **Simplify front end processes** by doing away with multiple authentication mechanism.
2. Undertake **agent training with utmost priority**: Standardise training material to include – FAQs, Trouble shooting for frequently recurring errors, cash management and communication with the beneficiaries.
3. **Compensate agents adequately** – Past research conducted by *MicroSave* in Indonesia demonstrated that commission is key motivation for agents. They also invest time and resources in G2P payments. So they need to be compensated adequately.
4. **Conduct beneficiary education** and financial literacy campaigns with key messages;
 - “ Benefits of new method of G2P Payment
 - “ Usage of the account apart from just receiving payments
 - “ Awareness campaigns appropriate to the segment – pictorial representation, plays etc
5. Provide **operational and technical support** in terms of regular on-field supervision and helpline for agents and customers (preferably toll free).



Case Study: DFS Profitability and Viability**

Agent (US\$)	Bill Payment	G2P
Set-up Costs (One time)		
Laptop	403	-
Upfront capital	806	2419
Revenue (Monthly)	177*	65#
Expenses (Monthly)		
Employees salary	110	26
Internet	4	5
Depreciation ⁺	11	-
Cost of maintaining float ^{&}	4	12
Operational Expenses	129	43
Income Tax (@10%)	5	2
Total Expenses	134	45
Profit	43	20

* 2000 txns at 0.08\$ per txn

202 txns at 0.32\$ per txn

+ Average life of electronic asset is assumed as 3 years

& A market interest rate of 6% on savings account is assumed as opportunity cost



Bill Payment Agent

- “ Agent runs a clothing store, but the bill payment business overtook her main business;
- “ Agent largely offers electricity bill payment services;
- “ Conducts 2000 bill payment transactions per month and gets US\$0.08 per transaction;
- “ There are no competitors in the area ;
- “ Is provided daily cash rebalancing by the provider – hence saves costs on rebalancing;
- “ She is very optimistic about the future as she expects to offer more services through her outlet.



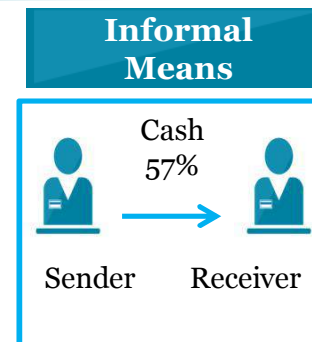
G2P Agent

- “ Agent runs a grocery business;
- “ She has just started as G2P agent;
- “ Served 202 transactions for first tranche of payments, with commission of US\$0.32 per transaction;
- “ Apart from profits, she took up this business as a service to members of her community
- “ Even though her profits are nominal she has gained lot of respect and recognition;
- “ She intends to offer e-money services but felt that it can be done only if the provider helps her in registering customers.

** Please note that this is not representative of a typical agent

Money Transfers For Payments And Remittances Are Pervasive

- **83%** of Indonesian respondents in a 2013 Gallup survey reported **sending or receiving a remittance or payment transaction** in last one year.
- The median amount sent domestically was **\$ 87.40 (ID)***.
- Senders typically send money about **1.6 times in a month**.
- **84 million** out of these approximately **148 million people (57%)** use **informal mechanisms** such as friends, family or informal money couriers instead of formal mechanisms such as electronic transfers.
- **63%** said the money that was sent was **very important** to their household's financial situation.



3% aware of mobile money.

.1% used mobile money.

51% not used financial services.

*Intermedia, Indonesia FII Tracker Survey, 2014

Source : *Remittances, Payments, and Money Transfers Behaviors of South Asians and Indonesians*, Gallup 2013. Respondents were asked whether they made a transaction in the 12 months before the survey. *The Gallup report uses International Dollars (ID) to compare payment and remittance amounts across the countries studied.