

Agent Network Accelerator Research

Indonesia Country Report: December, 2017

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Project Description

With the financial support of the Bill & Melinda Gates Foundation, the United Nations Capital Development Fund (UNCDF) and other regional stakeholders, *MicroSave* is conducting a four-year research project in the following eleven focus countries as part of the [Agent Network Accelerator \(ANA\) Project](#):

Africa



- ▲ Kenya
- ▲ Nigeria
- ▲ Tanzania
- ▲ Uganda
- ▲ Zambia
- ▲ Senegal
- ▲ Benin

Asia



- ▲ Bangladesh
- ▲ India
- ▲ Indonesia
- ▲ Pakistan

The second wave of the ANA study in Indonesia builds on the findings of qualitative assessments completed in 2014. This study is the first large-scale quantitative survey of Indonesian DFS agents and aims to inform relevant DFS stakeholders on progress and challenges of agent network development for digital financial inclusion in Indonesia.

The *Helix* Institute of Digital Finance, which manages the ANA project, provides financial sector stakeholders with capacity building trainings to develop sustainable digital finance programmes and operations, through market analytics, operational training and advisory services.

Research Focus

The research focuses on operational determinants of success in agent network management, specifically:



Agent Network Structure



Agent Viability

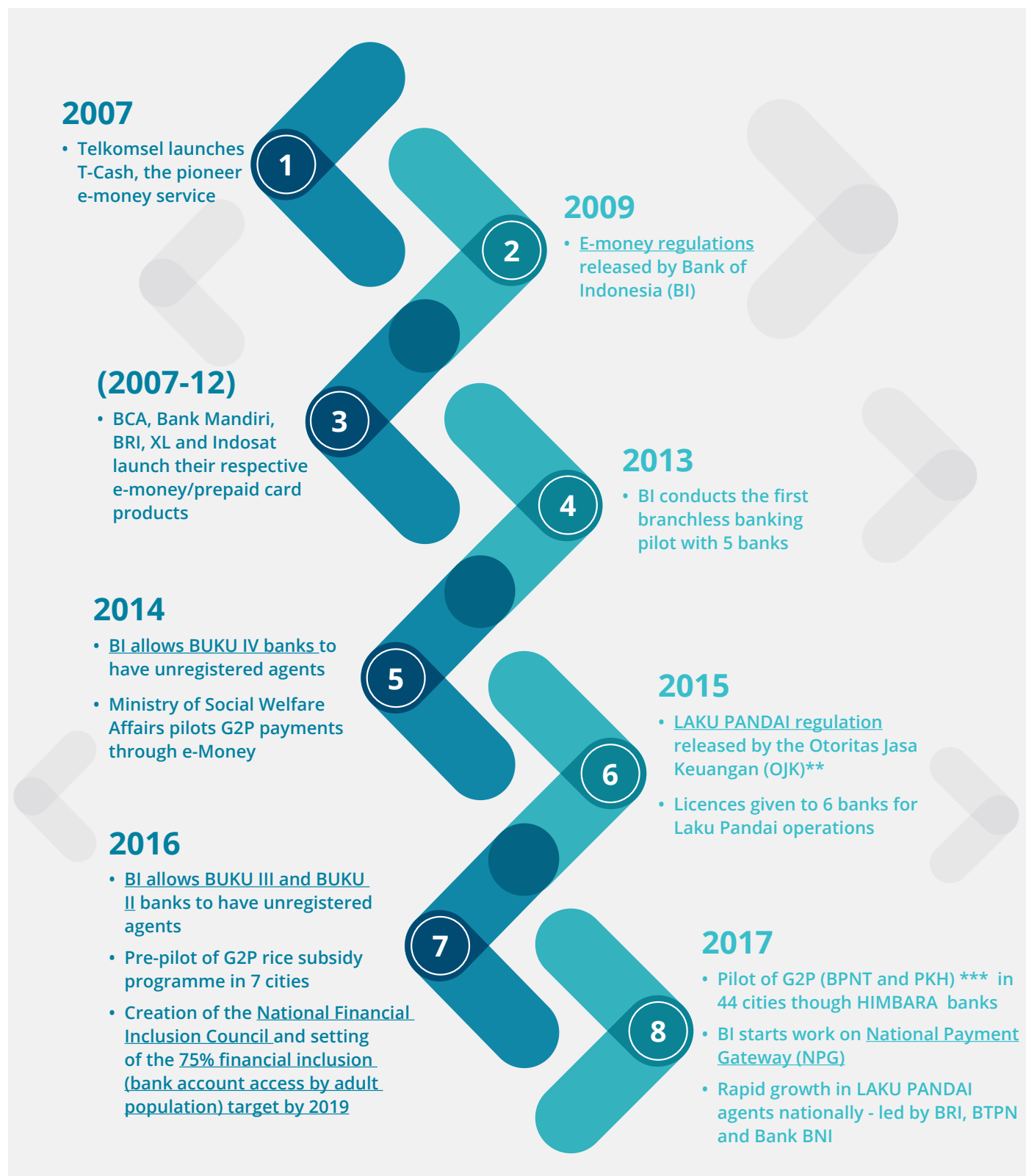


Quality of Provider Support



Provider Compliance & Risk

A Short History* of Digital Financial Services (DFS) in Indonesia



* Sources: Various sources and annual reports of service providers

** Financial Services Authority

*** BPNT (Bantuan Pangan Non Tunai) - Food Subsidy Programme; PKH (Program Keluarga Harapan) - Social Security Programme; both are programmes of Ministry of Social Affairs

Indonesian Agent Network Evolution

- ▶ Though the first digital wallet was launched in Indonesia in 2007, it was not until 2014 that Indonesian regulators authorised banks to deploy “individual” agents, thereby laying a foundation for development of agent networks in the country.
- ▶ Agent networks in Indonesia are divided into two broad categories, depending on the services they offer. The first category is “Laku Pandai”, basic savings accounts which can only be offered by banks. The second category is “Layanan Keuangan Digital (LKD)” which are digital wallet services, offered by both banks and non-banks. Non-banks can only use institutional* agent networks to offer LKD services.
- ▶ Indonesian agent networks are largely bank-owned and operated. Current regulations mandate agent exclusivity and restrict third party agent network managers (for individual agents).
- ▶ Since 2014, the number of agents and DFS wallet accounts have expanded rapidly. Over 350,000 individual agents now operate in Indonesia, servicing more than 10 million DFS wallet/account holders.**
- ▶ Despite impressive growth figures, agent*** and customer account dormancy**** is high, relative to more mature DFS markets in Asia and Africa.

*Franchise outlets of the retail chains such as Indomaret, and Alfamart

**As per the quarterly report published by OJK for Apr-Jun quarter, 2017; The number of LKD agents has been taken from Bank of Indonesia's Financial Stability Report – March 2017. Since there is a significant overlap of LKD and Laku Pandai agents especially for such initiatives undertaken by the banks, it is estimated that the total number of individual LKD and Laku Pandai agents in Indonesia are over 350,000 as of June, 2017

*** The agent dormancy was reported at 30% in the ANA survey in Indonesia. These dormancy rates are underestimated, given the standard methodology adopted under ANA protocols in which mapping of agents is done on the basis of visible signs/banners at agent outlets. Given this methodology, there is a possibility of missing out on dormant agents that have no visible sign or banner on display at their outlets

**** While there is no publicly available data on customer dormancy in DFS, based on internal MicroSave analysis, it is estimated that customer dormancy in DFS ranges anywhere between 30% - 55%



Agent Network Landscape

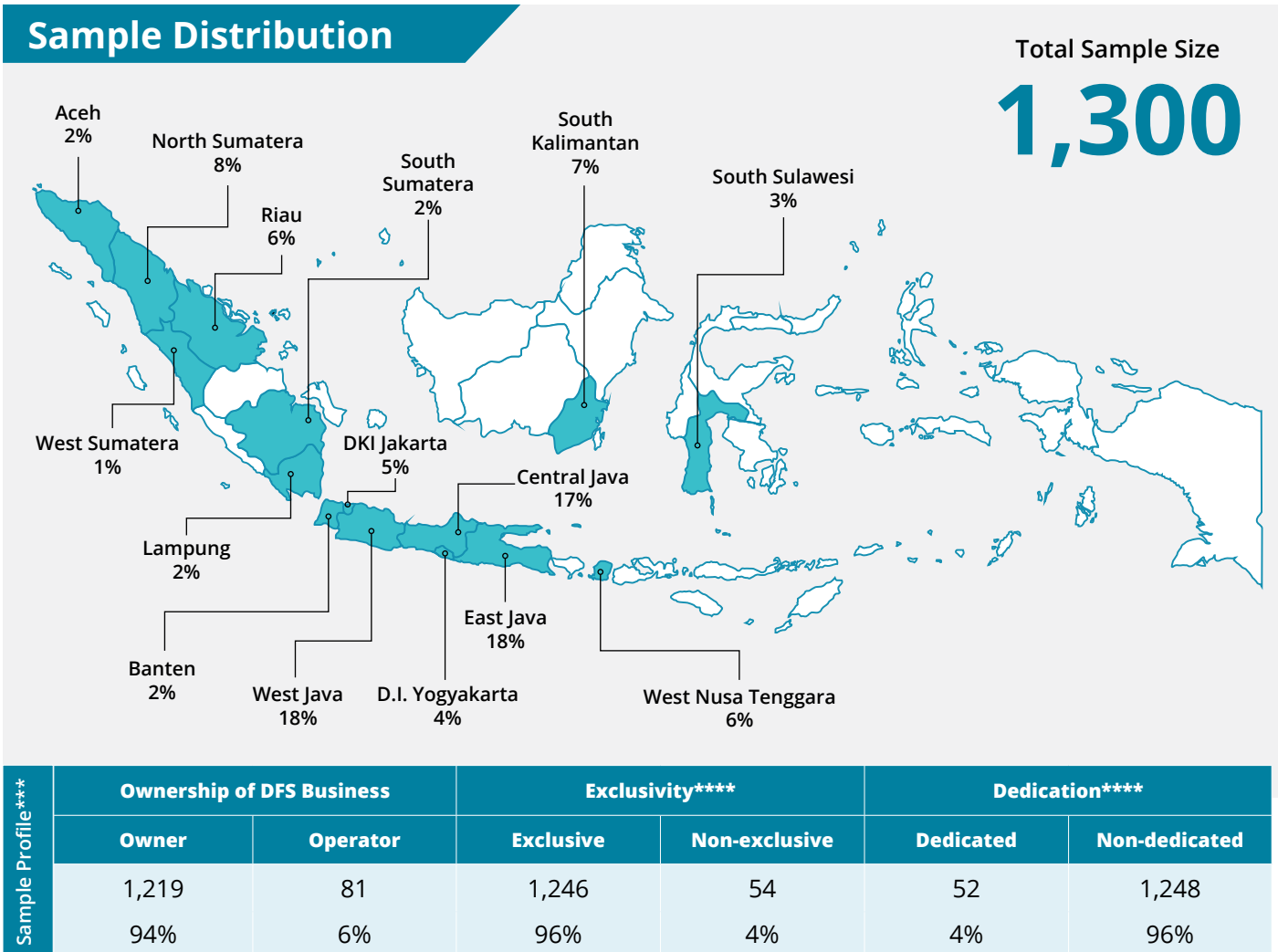


Agent Network Key Findings

- ▶ Big banks dominate the DFS landscape in Indonesia, with the top two players accounting for 80% of the individual agent market presence. Agents are largely exclusive but non-dedicated.
- ▶ Indonesia is the only ANA research country in Asia where female agents outnumber their male counterparts.
- ▶ Similar to other Asian markets such as Pakistan and Bangladesh, Over-The-Counter (OTC) money transfers and bill payments are the anchor DFS products in Indonesia.
- ▶ Despite a recent focus on G2P, customer registration remains low with only 28% of agents offering account opening services.
- ▶ Network expansion unaccompanied by a corresponding increase in usage resulted in more than a quarter (26%) of agents making losses or barely breaking even. Agents cite lack of customer awareness as the primary reason for low transaction volumes.
- ▶ Provider commissions form a small part of total agent revenues. Agents bargain with customers to set arbitrary prices for DFS services, especially money transfer.
- ▶ Agents are reasonably well-trained on products and processes, yet rank low on hygiene compliance factors (such as displaying tariffs and agent IDs) compared to more mature Asian markets.
- ▶ The liquidity management practices are basic with the majority of agents traveling to nearest bank to rebalance. Less than 40% of agents are satisfied with current arrangements for managing liquidity.

Survey Sample*

A total of **15 provinces** were covered nationally as part of the study, as shown in the map below. **Interviews** were conducted in August and September 2017. The provinces covered in the research account for more than **90%**** of the Indonesian agent population.



Sample Geographic Distribution



Laku Pandai & LKD



*The scope of the research was limited to individual DFS agents only. Institutional DFS agents, such as Indomaret and Alfamart, were not included in the research sample. Moreover, only agents who conduct at least one transaction per month (active agents) were interviewed as part of the survey (30% of individual agents encountered were dormant).

**As per the publicly available data on service provider (BRI, BTPN, BNI) website, accessed on 19th June, 2017. For Bank Mandiri, the agent data was shared by the bank with MicroSave for the purpose of this study. BRI (<http://bri.co.id/other?id=37>); BTPN (<https://www.btpn.com/id/tentang-kami/segmen-usaha/btpn-wow-/informasi-agen>); BNI (<http://bni.co.id/id-id/locator/agen46locator.aspx>)

***See Appendix 1 for further detail.

****See Appendix 2 for further detail.

*****Jakarta, Bogor, Depok, Tangerang, Bekasi (Cities under Greater Jakarta Area)

*****At the time of preparing the research design in early 2017, only True Money (Pt. Witami Tunai Mandiri) was the e-money provider with some kind of agent presence. Since then one other bill payment service provider (Pt.Bimasakti Multi Sinergi) has been awarded e-money license. In general, PPOB service providers are not included in the sample. LKD sample here includes True Money, T-Bank and e-Cash.



Agents: The Face of DFS in Indonesia



Profile of an Indonesian DFS Agent



Women manage 59% of DFS outlet.
94% of agent outlets are owner-operated.



The median age of an agent is 38 years, with 72% of agents in the 30-50 year age group



More than 3/4 (78%) have attained at least senior high school education



Almost two-thirds (61%) use Electronic Data Capture (EDC) systems to perform transactions



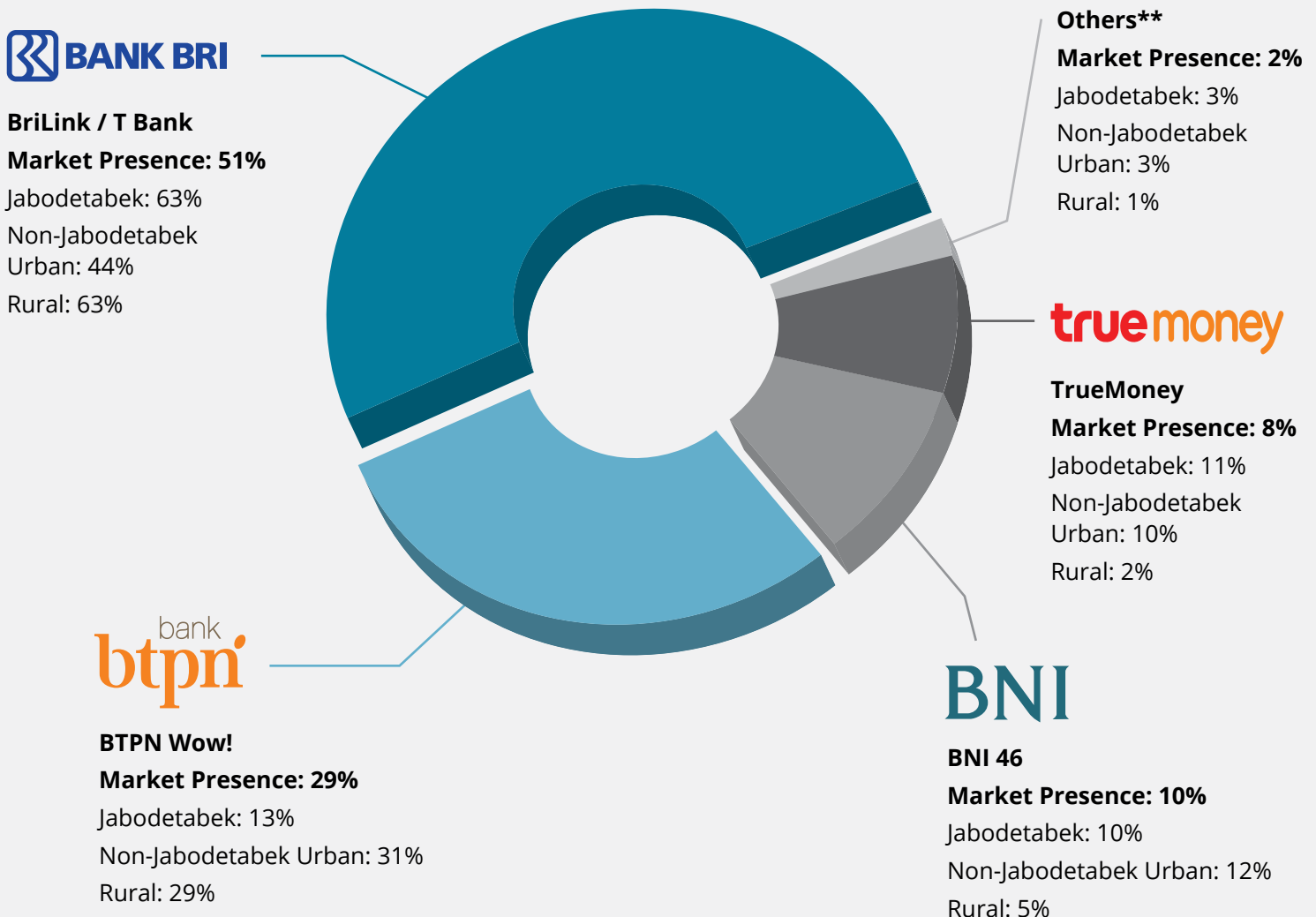
Agent Network Structure



Two Banks Account for 80% of DFS Agent Market Presence

- ▶ **BRI dominates the Indonesian digital financial services landscape**, accounting for half of all DFS agents in Indonesia.
- ▶ The two runners-up are BTPN (29%) and BNI (10%).
- ▶ With a staggering 63% market presence, BRI is more dominant in Jabodetabek, as well as in rural areas. **However, BRI has a lower market presence (44%)** in urban areas outside Jabodetabek.

Market Presence*



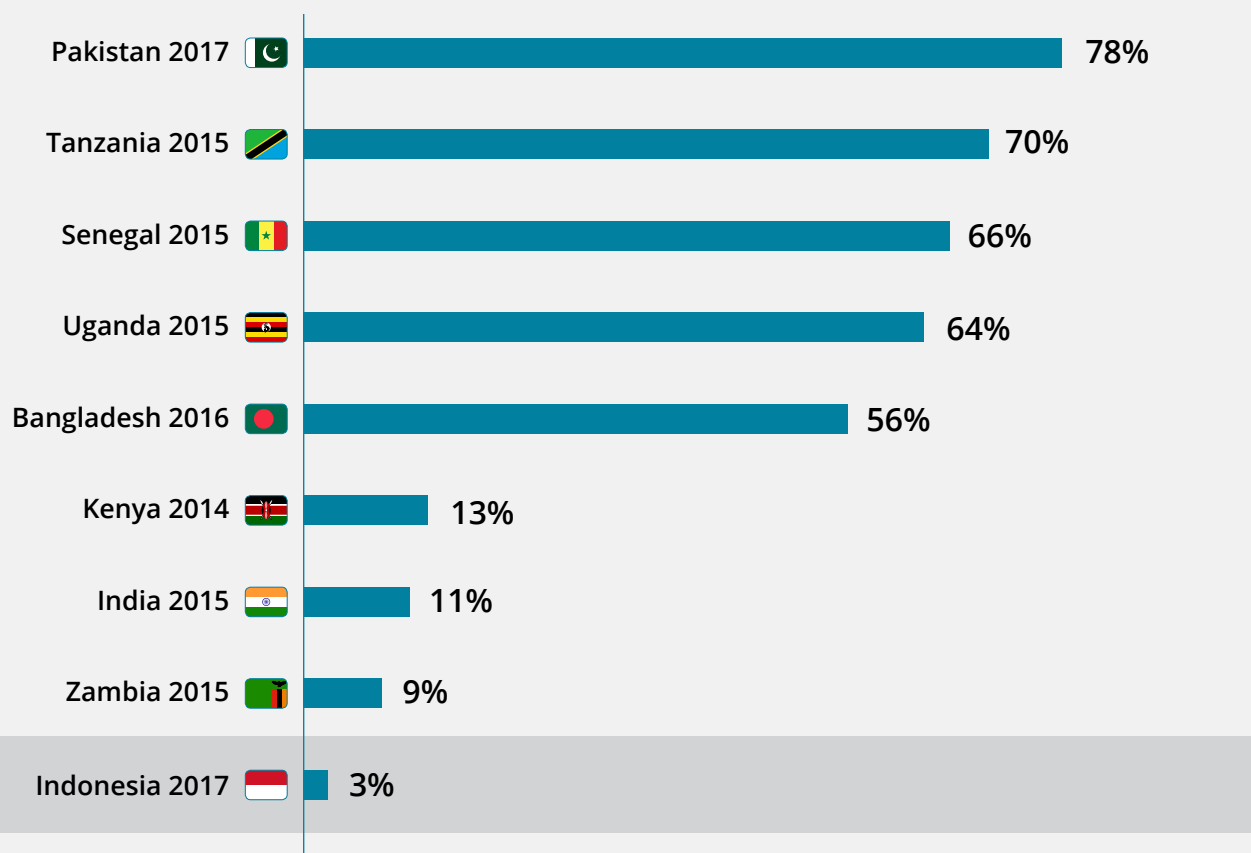
*Agent market presence is defined as the proportion of provider tills, e.g. if an agent serves three providers it is counted three times.

**Others category includes Bank Mandiri, BCA and Bank Sinarmas

In Line with Regulations, the Indonesian Agent Network is Exclusive

- ▶ Indonesia has the **most exclusive agent network** among all ANA research countries.
- ▶ In most countries where exclusivity is mandated, it is designed to give the regulator clarity on who is responsible for agent training and monitoring, customer redress and consumer protection. This appears to be the case in Indonesia.
- ▶ **Over one-third of the agents (33%)** expressed interest in becoming an agent for **additional service providers**.
- ▶ However, the majority of agents are unaware that regulations prohibit serving multiple providers.

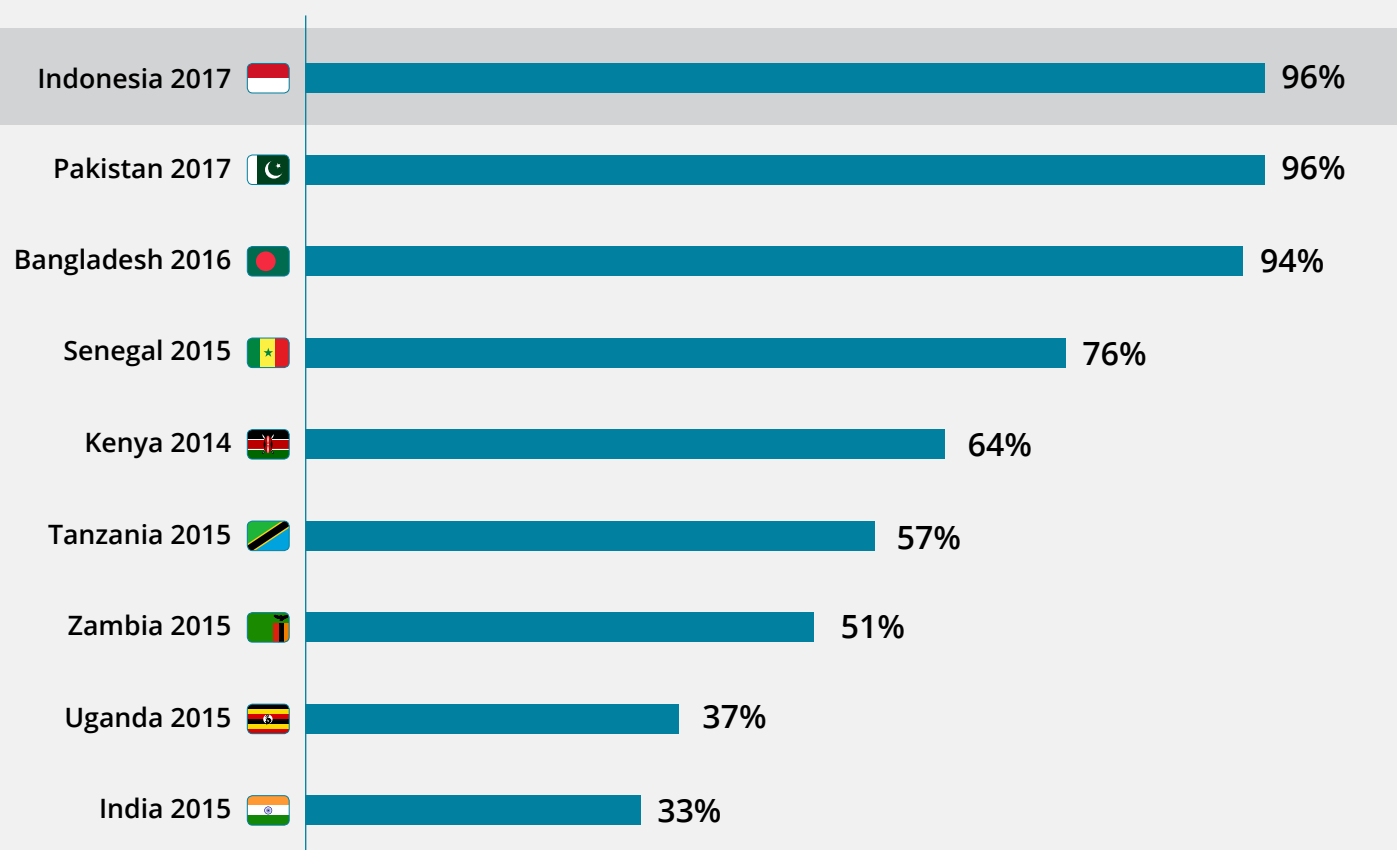
Non-Exclusivity: ANA Research Countries



DFS Business Usually Serves as an Additional Source of Income

- ▶ **More than three-quarters (79%) of the non-dedicated agents** are either running a **general store** or are **airtime distributors/mobile shop**.
- ▶ **More than a third (38%) of dedicated agents** are able to **break even** or make profits from the DFS activity, a lot fewer relative to the **80% of non-dedicated agents** who break even or are profitable.
- ▶ **The non-dedicated agents are significantly more profitable compared to their dedicated counterparts.** The mean profits for non-dedicated agents is IDR 243,202 (US\$ 18) whereas dedicated agents make a mean loss of IDR 243,654 (US\$ 18).*
- ▶ Such phenomenon may be due to **the earnings from DFS business alone being generally insufficient to cover operational expenses.**

Non-Dedication: ANA Research Countries

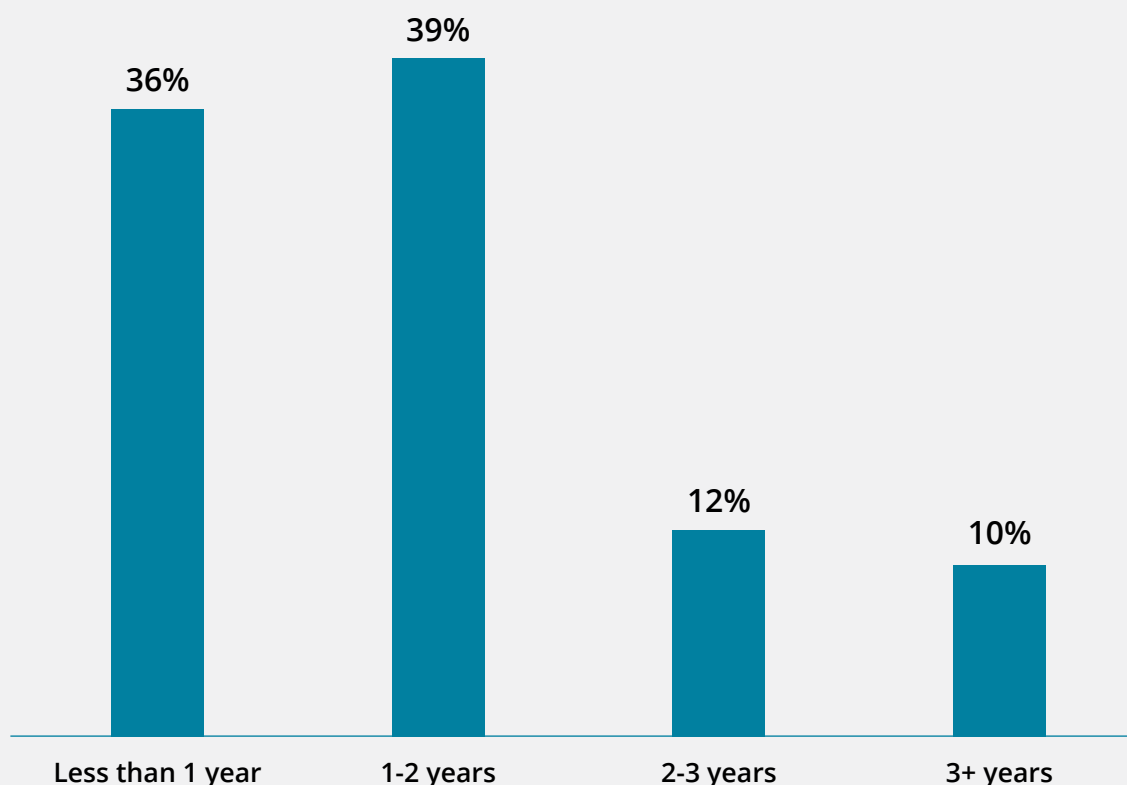


*Difference is statistically significant at the 5% level.

Indonesian Agent Network is Relatively Young but Optimistic

- ▶ With most DFS initiatives launching after 2014, the Indonesian agent network is young: **75% of agents** have been in business for **less than two years**.
- ▶ **The majority (91%) of agents** say that they **will remain in DFS business one year from now**. This trend is uniform across all locations.
- ▶ **Virtually all (94%) DFS outlets** are managed directly by **owners**, a higher proportion than in other Asian markets (79% in Pakistan and 80% in Bangladesh).

Age of Agency





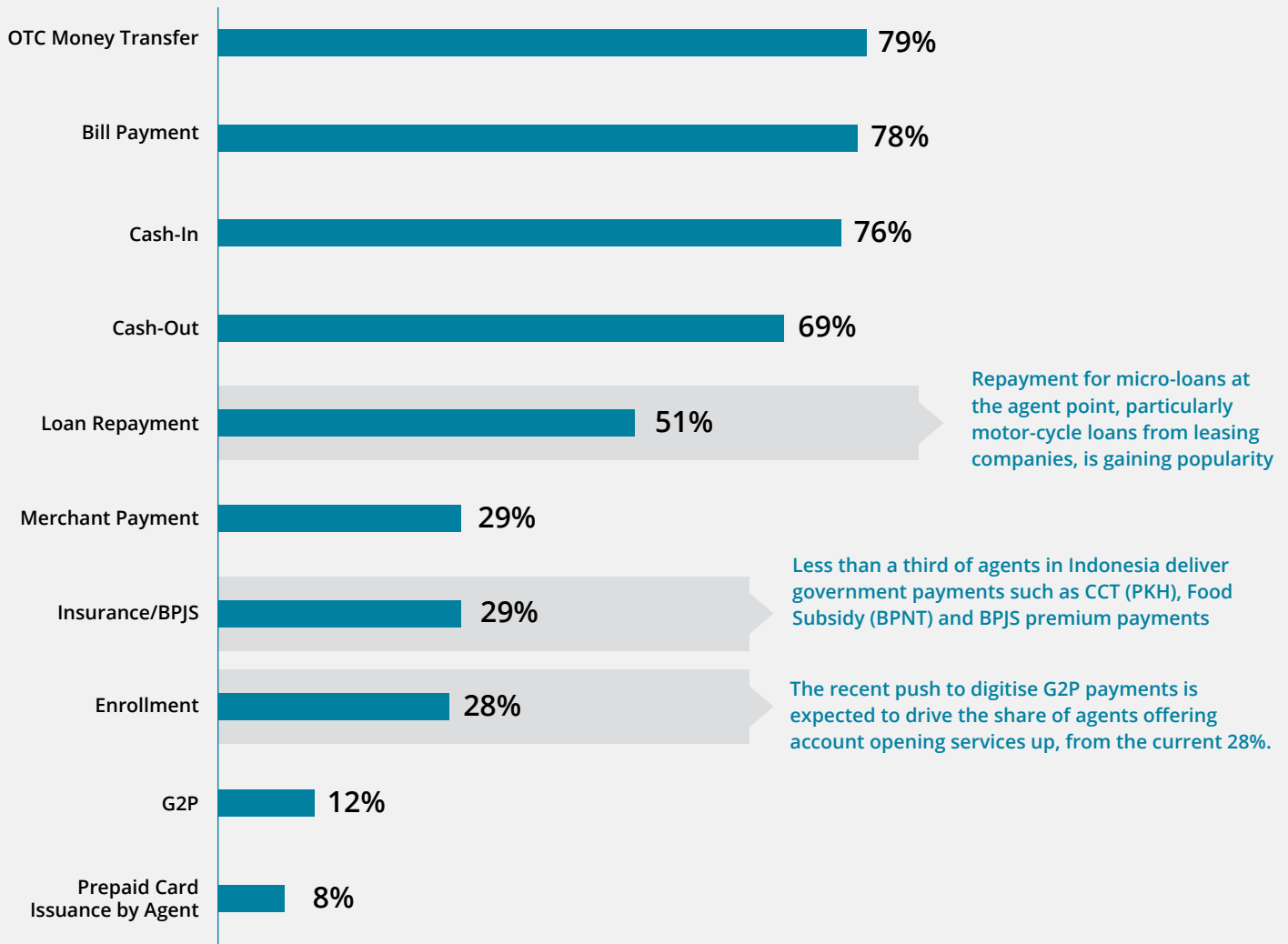
Agent Viability



Diverse Service Offerings with OTC Money Transfers* and Bill Payments Being Popular Services

Indonesian agents can boast a **diverse service offering** compared to other ANA research countries. The availability of **loan repayment, G2P and insurance** products bodes well for the potential of the agent network to deliver on the government’s financial inclusion agenda.

Services Offered by Agents

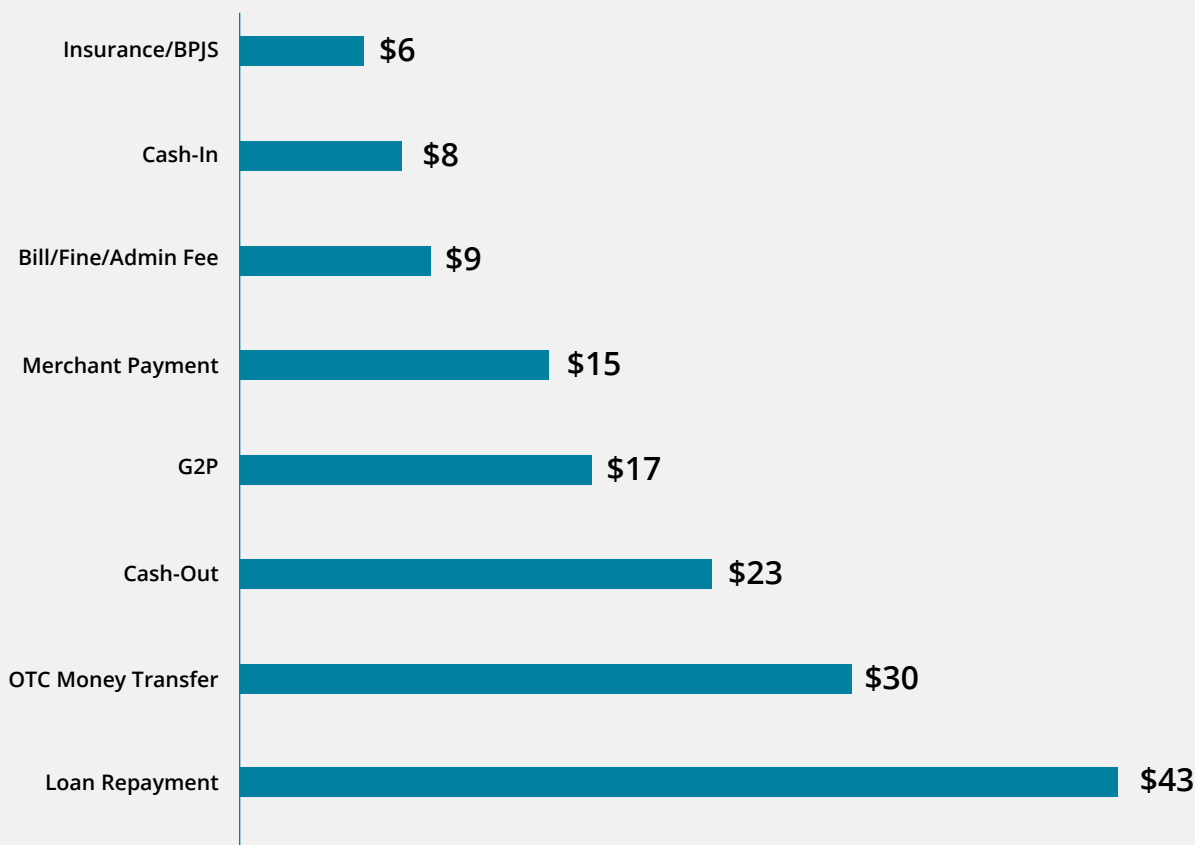


*Please refer to Appendix 4

High Ticket Transactions: Loan Repayments and OTC Money Transfers

- ▶ Average transaction values are a testament to the continued **dominance of OTC methodology**.
- ▶ **Cash-in values are modest** compared to the amounts transacted for loan repayment, transfers, cash-outs and payments.
- ▶ Providers have yet to devise use cases that will compel Indonesians to keep money in their digital wallets (Laku Pandai accounts). As per the findings of demand side survey conducted by Intermedia (FII, 2016)*, **only 0.7% of Indonesian adults have a registered mobile wallet account**.

Median Transaction Value (US\$)

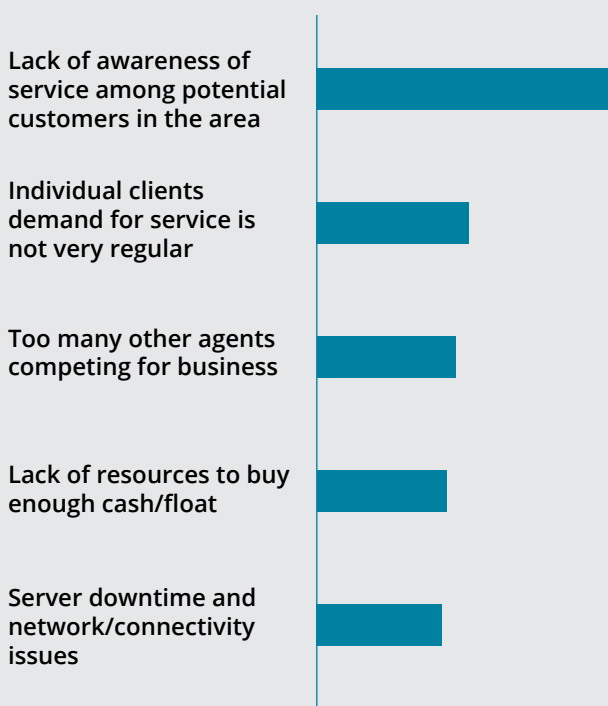


*Financial Inclusion Insights (FII), Indonesia 2016.

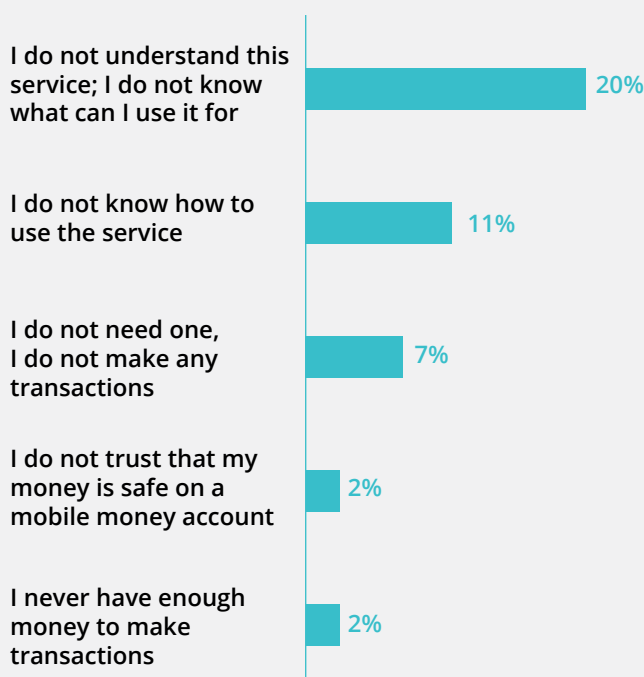
Lack of Customer Awareness may Hamper Service Uptake

- Agents rank lack of customer awareness as the key barrier to the growth of their DFS business. Irregular demand and competition are some other barriers that affect agents business.
- As the providers’ brand ambassadors, **agents should be marketing DFS services** to their clients and explaining how to use them. However, **only about half of the agents reported doing so.**
- The barriers stated by the agents **corroborate the findings of the FII (2016) survey***.

ANA Supply Side: Reasons for low transaction activity**



FII Demand Side: Reasons for low uptake of digital financial services



* Financial Inclusion Insights (FII), Indonesia 2016.

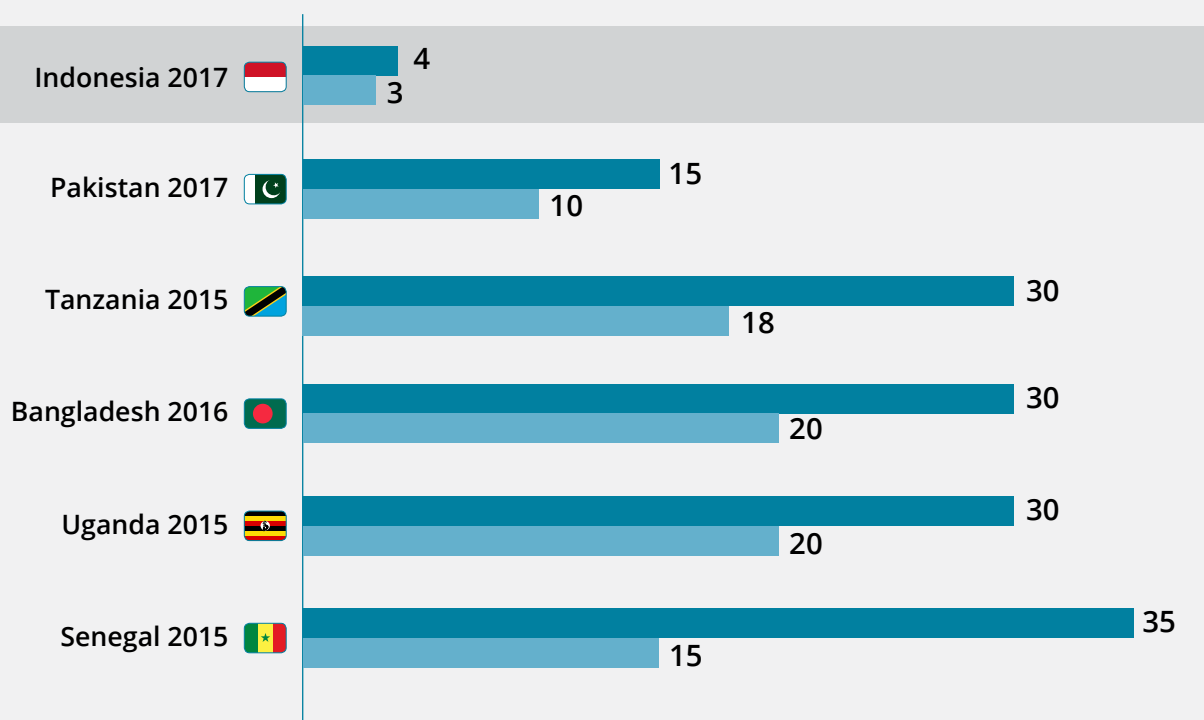
** The taller bars imply a higher relative ranking, which is a weighted average of the barriers ranked by agents.

Exclusivity Further Responsible for Agents' Modest Transaction Volumes

Median daily transactions in Indonesia **are the lowest amongst all the ANA research countries**, partly due to regulations on **exclusivity** and the low uptake of DFS alluded to earlier.

Median Daily Transactions*

■ Outlet level
■ Provider level



Median Outlet Level Daily Transaction, by Location

10
Jabodetabek

5
Rural

3
Non-Jabodetabek Urban

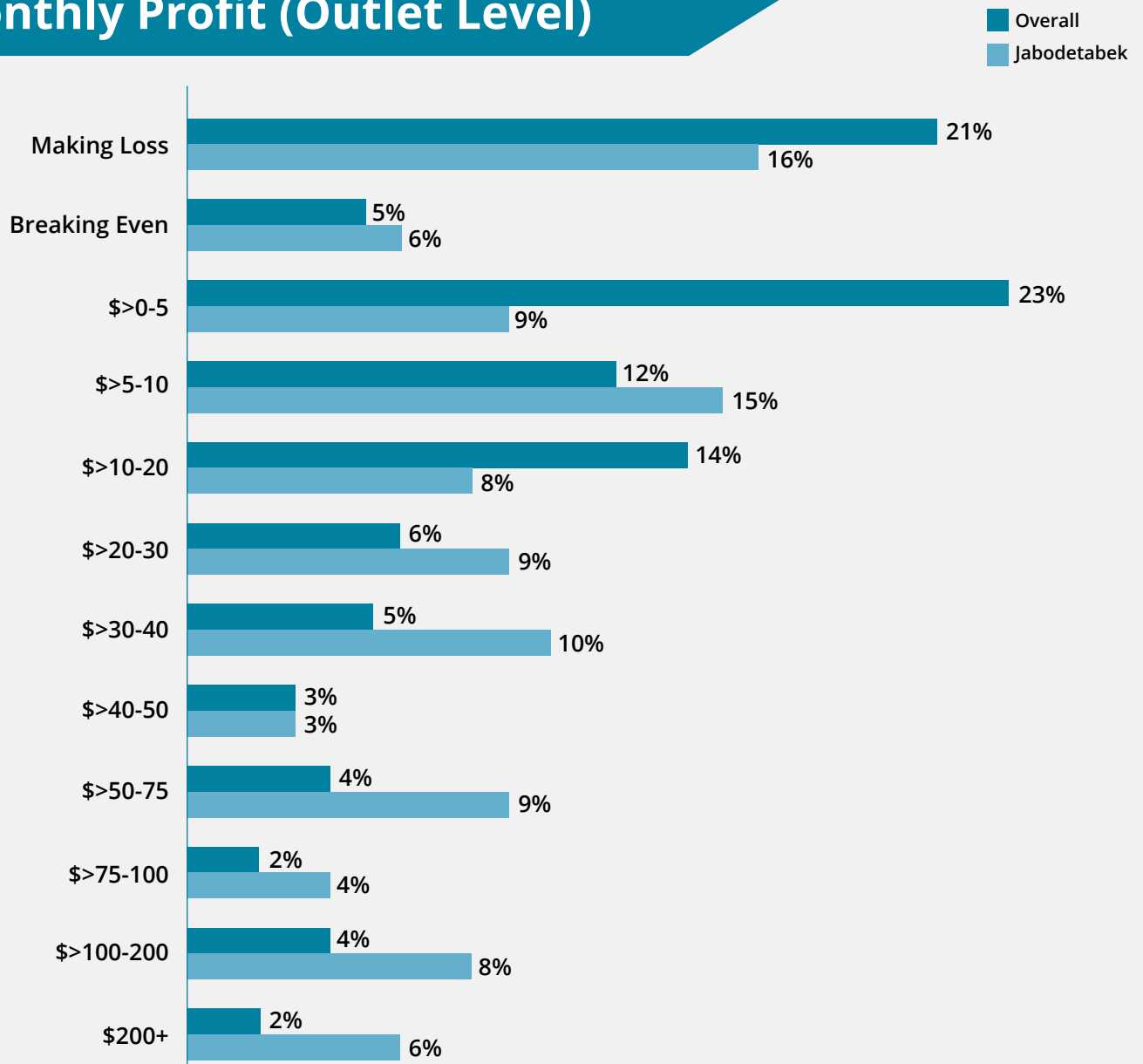
Agents in the **Jabodetabek** area are the **busiest**, conducting a median of 10 daily transactions. This pattern is hardly surprising: early adopters of DFS usually live in large cities. If DFS is to become an engine of financial inclusion, **providers must focus on driving uptake and usage outside Jabodetabek**

*Methodology for calculating outlet level and provider level transactions is explained in Appendix 2.

A Small Group of Agents Earn Most of the Profits

- ▶ **Only about one-fifth (19%) of Indonesian agents earn a monthly profit of over US\$ 30.** In the **Jabodetabek** area, **almost two-fifths (39%)** earn more than US\$ 30 monthly.
- ▶ **A quarter (26%) of agents are making losses or just breaking even,** much higher than 15% in Pakistan and 5% in Bangladesh. The proportion is even higher in **rural areas, where over one-third (35%) of agents fail to make a profit.**

Monthly Profit (Outlet Level)

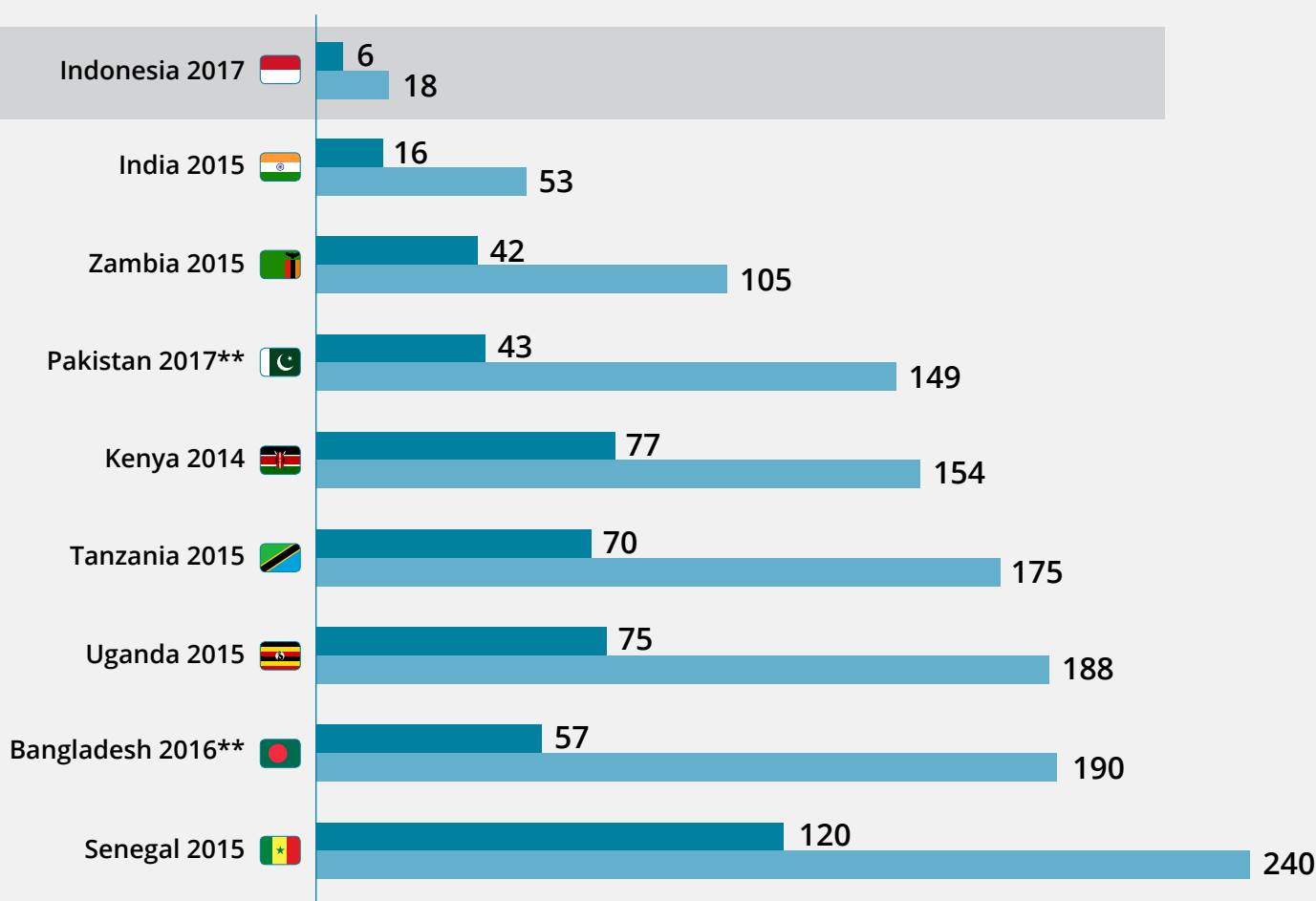


Indonesian Agents Lag Behind Counterparts in Profitability

- ▶ Being a relatively new market for DFS, **Indonesian agents** are the **least profitable** compared to all other ANA research countries. Their **revenues** and **expenses** are also the **lowest**.
- ▶ **Agents in Jabodetabek** are **significantly more profitable (US\$ 15)** than their rural and other urban counterparts (\$4-5). **Mature outlets also perform better**, with those in operation for more than 3 years making a profit of \$11, compared to \$5 among those operating for 1-2 years.
- ▶ Despite low profitability, **half (50%)** of the **agents** are **somewhat satisfied** with their **profits**.

Median Monthly Profitability Comparison at outlet level* (in US\$)

■ Current prices
■ PPP adjusted



*Profitability as shown in the graph is calculated as total earnings minus operating expenses for all countries (though exact question wording has changed: see Appendix 2 for further details). In the case of India, the fixed monthly component given to agents has also been considered in this calculation. This is different from other ANA research countries where commissions earned make up the total earnings of the agent. For all countries, profits are reported for the agent business as a whole (overall).

** 2015 figures are used for Pakistan and Bangladesh PPP adjustments. 2016 figures used for Indonesia PPP adjustment

Case Study

A High Performing Jabodetabek Agent

- ▶ This agent with the support of his nephew, runs a small kiosk in a busy urban neighbourhood in Jabodetabek, where he sells pulsa (phone credit) and mobile accessories. He has been a DFS agent for the last two years.
- ▶ He does between 80-100 transactions per day. The majority (80%) of these transactions are OTC money transfers and bill payments.
- ▶ His kiosk is just 5 minutes walk from the service provider bank branch, but customers still prefer to transact with him as bank branches are often crowded, meaning customers have to stand in a queue.
- ▶ He charges IDR 5,000 (US\$ 0.4) for an OTC Money Transfer into a service provider bank account and IDR 7,500 (US\$ 0.6) for an interbank transfer.
- ▶ He estimates that his total revenues from DFS activities is IDR 5 million per month (US\$ 400). He cannot recall the official commissions structure from the service provider because he gets most of his earnings from arbitrarily determined service charges he levies on customers to perform their money transfers.

"We can go to the cash deposit machine or bank branch up to 3 times a day if there are many customers. Weekends are more crowded, sometimes we have 10 to 15 people queueing here in our shop just to do transfer transactions."

Case Study

A Low Performing Rural Agent

- ▲ He has been a DFS agent for the last 2 years. He manages a general store with his wife and his primary business is fertilisers.
- ▲ Has a base of 40-50 customers for whom he opened bank accounts. His customers are mainly village youth, depositing small amounts for savings and top-up transactions.
- ▲ He processes 3-4 transactions per day, of IDR 20,000-50,000 (US\$ 1.5 – US\$ 3.7) on average per transaction.
- ▲ He gets a commission of IDR 50,000 (US\$ 3.7) from transactions which gets credited to his account and an additional IDR 200,000 (US\$ 15) as fixed monthly commissions. Besides this, he gets certain reward points** based on the transactions done by his customers.
- ▲ He does not have a clear understanding of the commission structure and reward points. One thing is certain: without the fixed commission, his DFS business would not be sustainable.

“The transactions level is low because my service provider has a very limited customer base in this area. I don’t have customers who do higher value money transfer transactions and that impacts my revenues”



Quality of Provider Support



Agents Significantly Extend Banking Hours

Median Weekly Working Hours*



The median time between agent location and nearest bank branch is 10 minutes and 85% of agents report being within 15 minute travel time from a bank.

**Working hours for bank branch have been assumed at 7 hours daily (8 AM – 3 PM) for five days in a week.*

Anecdotal evidence suggests that agency transactions over the weekend are higher than on weekdays

“Weekends are usually much busier due to more customer walk-ins. People like to do transactions outside their regular working hours and hence they get time on weekends”

- Laku Pandai Agent in Kuningan, West Java

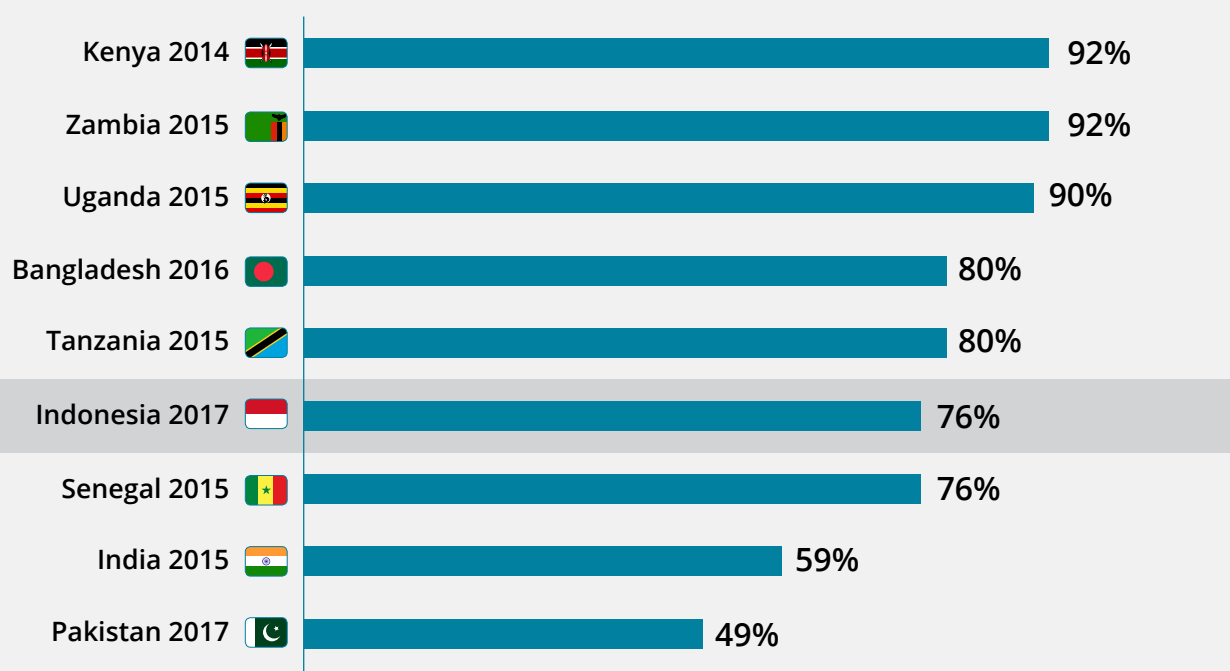
Induction Training is Hands-On and Mostly Focused on Operational Processes

- ▶ **Three-quarters of agents report being trained within the first three months** and virtually **all** are trained by the service provider.
- ▶ **Agents in the Jabodetabek area are provided with less training support** compared to their rural and non-Jabodetabek urban counterparts. Only 56% of agents in the Jabodetabek area received induction training.
- ▶ **Refresher trainings are mostly organised through periodic social events.**
- ▶ Only 51% receive **refresher trainings** on a regular basis. Interestingly, **agents who get refresher trainings conduct on average 2 more* transactions per day** than agents who do not receive refresher trainings.

"In the past year, there have been four agent gatherings. One gathering was after Ramadan for all agents to socialise. In other gatherings, we are usually updated on product and policies"

- Laku Pandai Agent in Surabaya, East Java

Agent Training** (received during first three months) in ANA research countries



* Difference is statistically significant at the 5% level.

** In Kenya and Zambia, agents were asked if they received any training; in Tanzania, Uganda, Senegal, Bangladesh, India and Pakistan, agents were asked if they received any training within the first 3 months of becoming an agent.

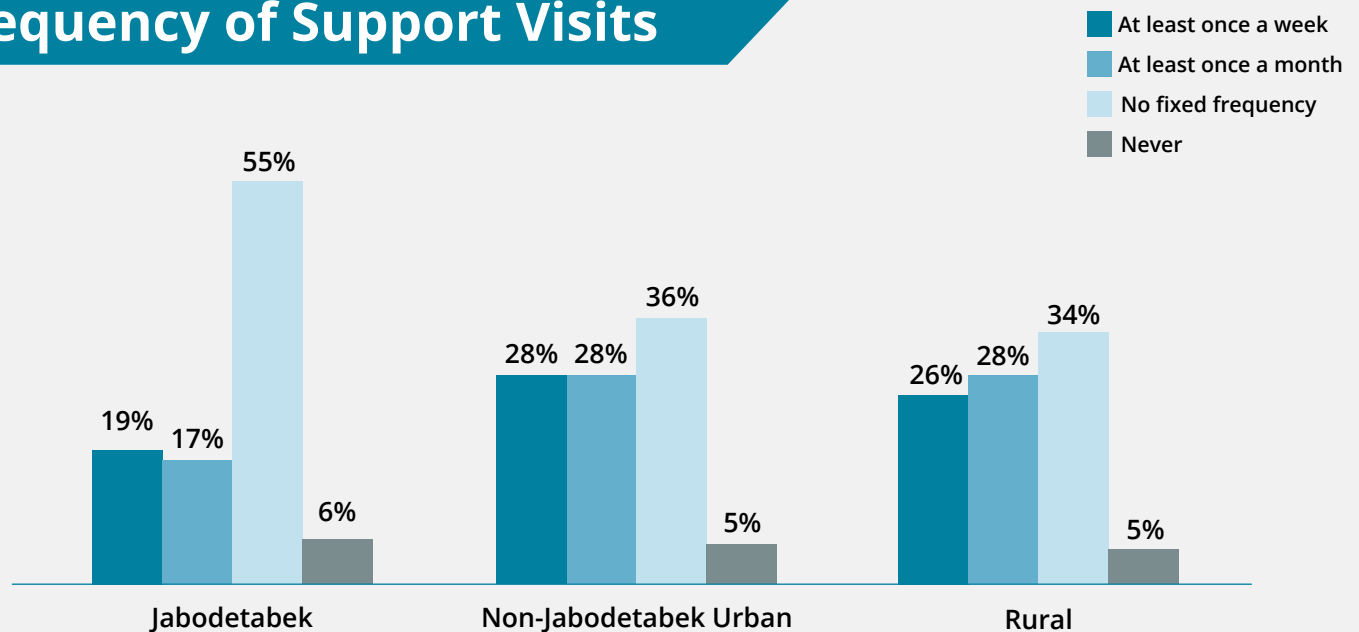
Support Visits are Infrequent and on an Ad-Hoc Basis

- ▲ Nearly **half of agents (43%) do not receive regular support visits** from service provider staff.
- ▲ **Agents in rural and non-Jabodetabek urban areas tend to receive more regular monitoring visits** than agents in Jabodetabek areas. This may be because agents in the Jabodetabek area are relatively more connected to service provider branches, and hence are able to resolve their issues by going directly to the bank branches.
- ▲ **Providers prioritise monitoring low performing agents.** Agents who receive at least a monthly monitoring visit earn on average US\$ 8 less than agents who do not receive regular visits.*

"I was initially trained at the time of on-boarding, primarily on operating EDC. After that, the service provider staff visited me 2-3 times (during the first 2-3 months) every week to troubleshoot problems. After the first few months, now he only visits me 1-2 times in a month. The staff informs me on any system updates on EDC over a phone call"

- Laku Pandai Agent in Medan, North Sumatra

Frequency of Support Visits



* Difference is statistically significant at the 5% level.

Transparent Agent Hiring Protocols for Healthy Competition

“Earlier, I used to work with a daily float of IDR 15-20 million, which has now come down to IDR 5-10 million. There is a lot of competition in my area. I understand that banks also have targets of setting up more and more agents. However, in the interest of everyone, it would be good if the bank can come up with some sort of policy which clearly defines the parameters based on which new agents would be set up in an area. It can be in terms of minimum distance between two agents or even a particular number of agents in a given area”

- Laku Pandai Agent in Pinrang, South Sulawesi

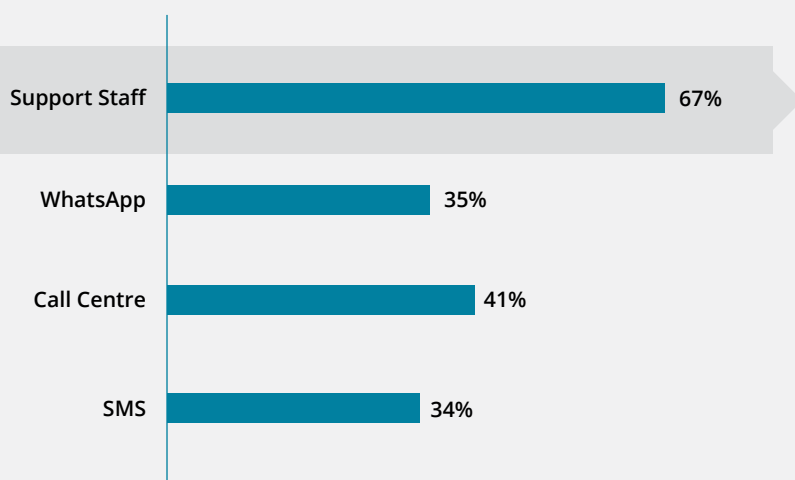
Support Staff are the Primary Source of Grievance Redressal for Agents

- ▶ **Almost 50% of the agents experienced some sort of disruption in services.** 43% experienced system downtime, while 50% experienced network downtime. 53% of agents in Bangladesh and 33% of agents in Pakistan experience service downtime.
- ▶ Agents experienced a median of **two instances of downtime** (system and network) **per month.**
- ▶ Agents did not consider system or network downtime a big issue **although some feared having their funds locked up as a result of failed transactions.**

“Although I don’t encounter a lot of cases of downtime, when it does happen the transaction gets terminated and funds from my account get debited. The process of reconciliation is cumbersome and it is difficult for me to navigate through that process”

- Laku Pandai Agent in Kuningan, West Java

Support channels used by agents (% of agents)



The **majority of agents (67%) depend on support staff** for their grievance redressal. WhatsApp and Call Centres are accessed by around one-third of agents. Most agents find support systems **somewhat, though not “very” helpful.**

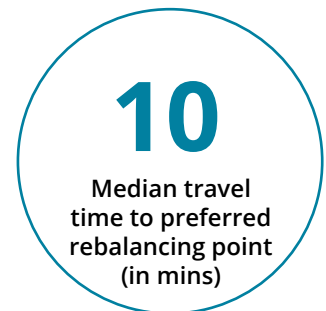
Agents Want Dedicated Support Channels

"I want the service providers to have a dedicated call centre for agents, otherwise it takes a lot of time for me to follow up and explain my issue to the customer call centre. Also during peak hours, there is a lot of waiting before my call goes through. My service provider should provide me some sort of priority card so that I can quickly do transactions at branches instead of waiting in a line"

- Laku Pandai Agent (with his family) for two service providers, Kuningan, West Java

The Majority of Indonesian Agents Travel to the Nearest Bank Branch to Rebalance

- ▶ Agents who travel to rebalance **mostly (83%) use the nearest bank branch.**
- ▶ For the agents who have liquidity delivered, 52% get the liquidity via regular support staff visits while 41% avail of the on-demand facility provided by their service provider.
- ▶ **The majority of agents (51%) generally require more e-float** while 23% generally need cash. High e-float requirements are associated with higher numbers of money transfer, deposit and bill payment transactions.
- ▶ The **average Indonesian agent does not deny any transaction** due to lack of liquidity.



Liquidity Management Attributes

Agents who travel to rebalance

63%

Agents who have liquidity delivered

41%

Median frequency of rebalancing e-float by the agents (per month)

3

Median frequency of rebalancing cash by agents (per month)

2

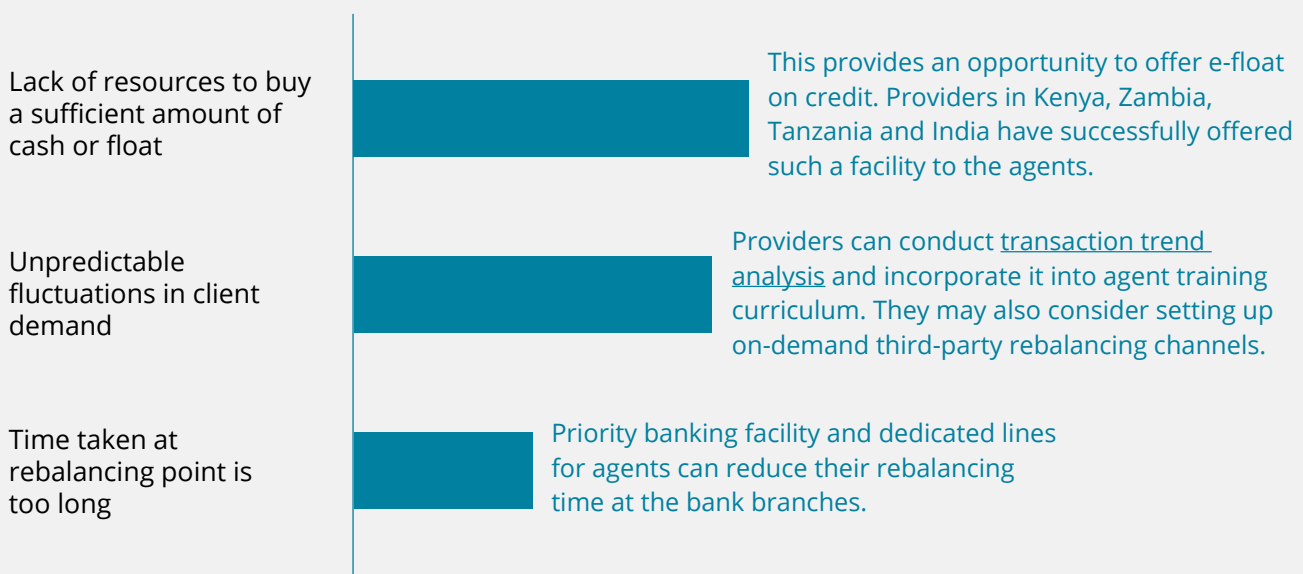
The **majority** of Indonesian agents (63%) have to travel outside their shops to rebalance **unlike in Bangladesh and Pakistan where over 95% have liquidity delivered** to them by a service provider, distributor or third party.

Given the relatively low transaction volumes, **Indonesian agents rebalance less frequently than in Pakistan and Bangladesh**, where a median agent rebalances 15 times a month for e-float and 10 times for cash.

Agent Satisfaction with Liquidity Management Systems

Close to **two-thirds** of agents (63%) stated that they **face barriers in managing liquidity**.

Relative ranking* of barriers agents encounter in managing liquidity



*Agents were asked to select the top three barriers they face from a list of 13 options, including the option to pick 'Other'. The taller bars imply a higher relative ranking, which is a weighted average of the barriers ranked by agents.

Financial Support for Liquidity Management

"I want my service provider to support me with liquidity management. I need IDR 6-8 million in float to smoothly run the DFS business but I am not able to maintain it. I have limited capital and most of it is already invested in my business. It is difficult for me to optimise the e-float with limited capital as demand is uncertain. It would be very helpful if the service provider offered me DFS business loans at affordable rates"

- Laku Pandai Agent in Pinrang, South Sulawesi

Agent Inactivity is Fuelled More by Service Level and Communication Issues than Viability Concerns

"I have been inactive for the past 5 months. I encountered many transaction failures due to system issues. The staff repaired my EDC but still the problem persisted and therefore I resigned."

- Laku Pandai Agent in Lombok, West Nusa Tenggara

"A sales person from the bank came and offered me the opportunity to become an agent. They gave me an EDC machine and banners but never trained me. I am afraid of operating the EDC machine since I don't know the process."

-Laku Pandai Agent in Bandung, West Java

"Bank staff promised to give me a new mobile phone if I get 25 customers, but afterwards they increased my target to 50 customers. I was disappointed and decided to discontinue my service."

- Laku Pandai Agent in Semarang, Central Java

"No support staff has visited me in the last two months. I have many issues pending and I can't do transactions without their support."

-Laku Pandai Agent in Metro Pusat, Lampung



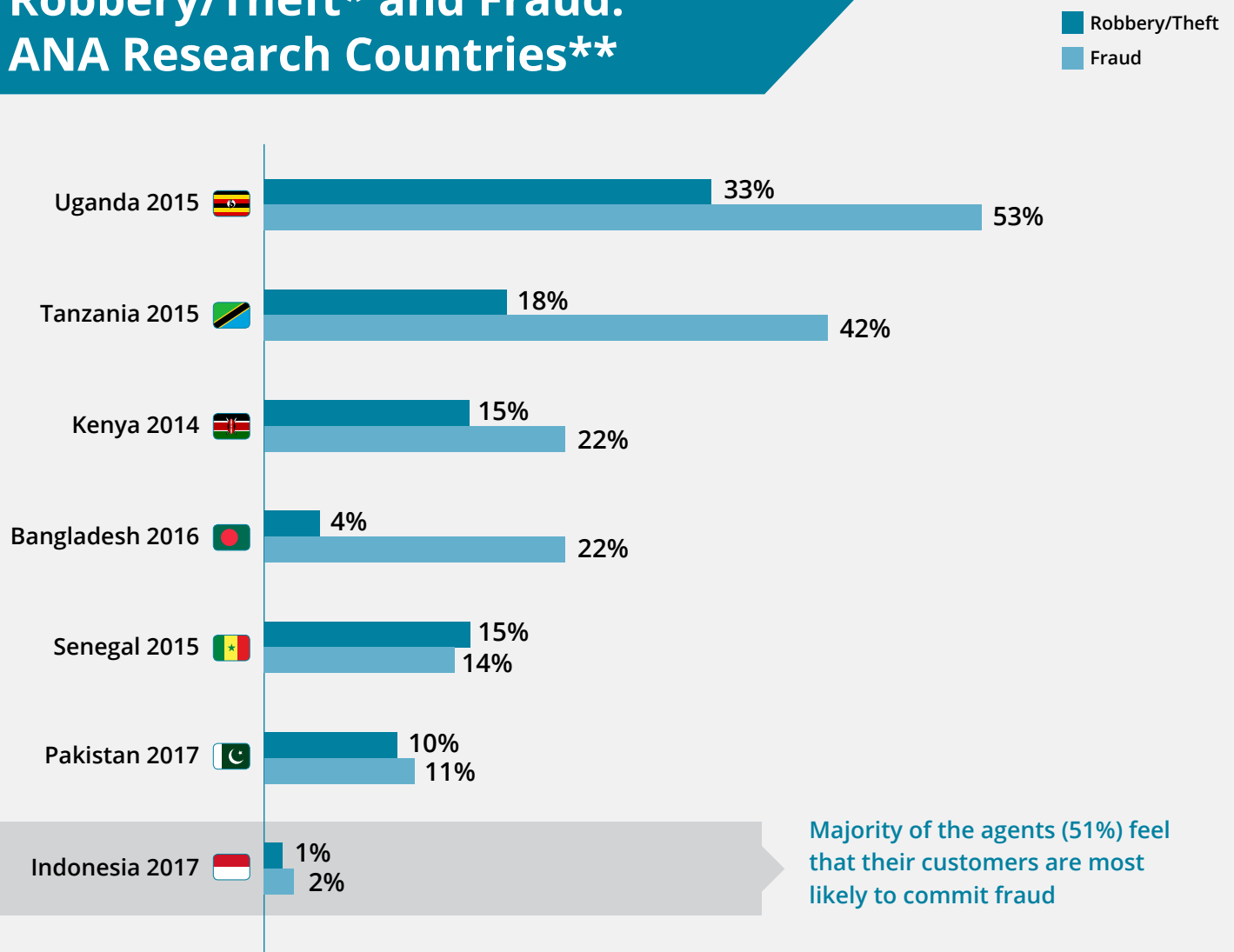
Provider Compliance & Risk



Indonesian Agents Report the Lowest Incidence of Robbery/Theft and Fraud

The most common types of fraud reported were **fake currency (56%)** and **impersonation (28%)**.

Robbery/Theft* and Fraud: ANA Research Countries**



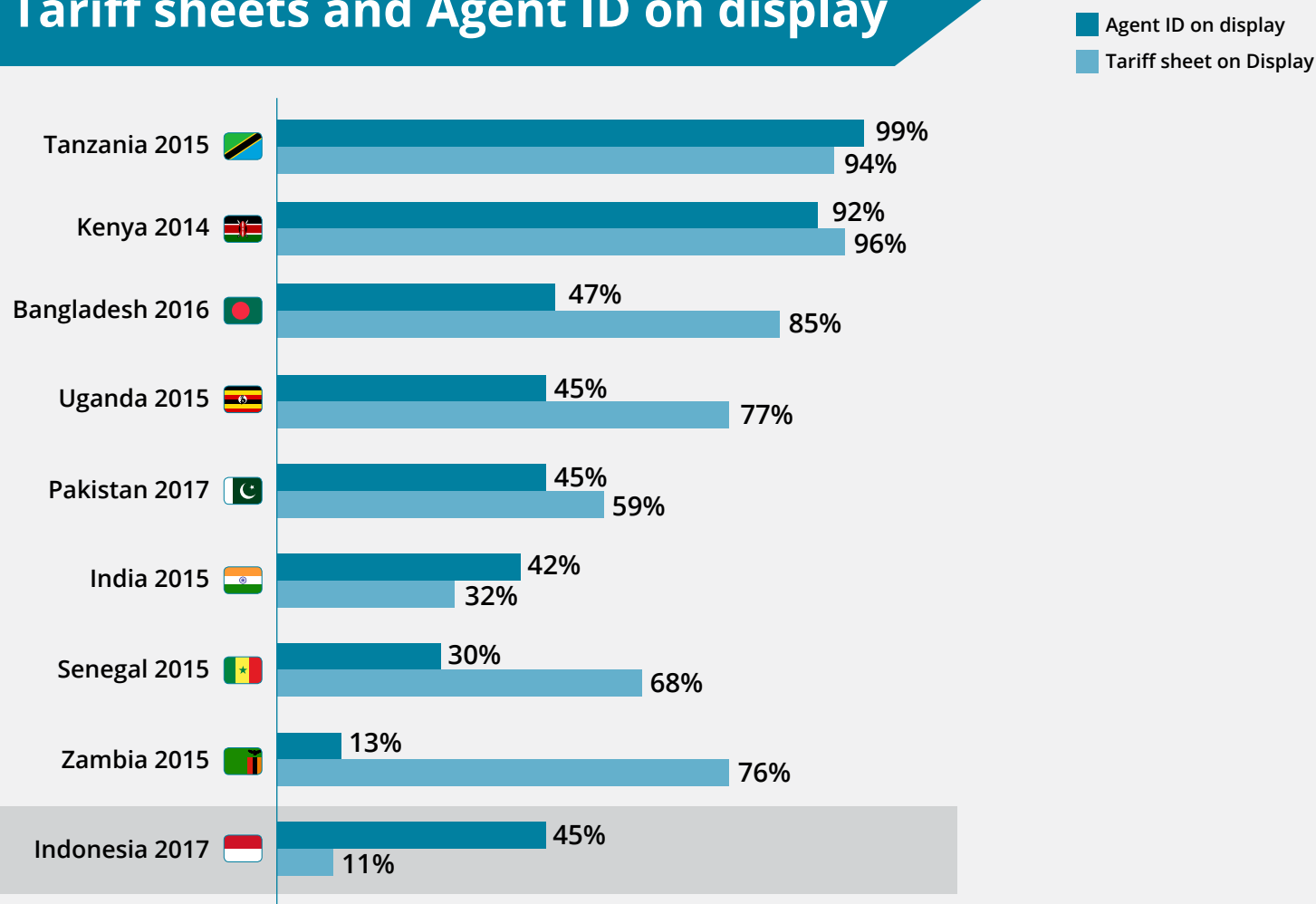
*Robbery/theft can include theft by people external to the agency business (armed robbery) and internal theft by staff.

**In Kenya, agents reported whether they or one of their employees had ever experienced robbery or fraud; in all other countries agents were asked whether they or their employees had experienced such incidents within the last year. Thus, data is not fully comparable.

Few Agents Display Official Tariff Sheets

- ▶ **Only 11% of Indonesian agents display tariff sheets**, the lowest among all ANA research countries. Most of the providers don't provide official tariff sheets for display and transaction charges are left to agent and customer to negotiate.
- ▶ **Agents who display their tariff sheet perform on average two more daily transactions** than those who do not.* **Outlets that displayed their agent ID earn on average US\$ 9 more per month** than outlets that do not.* This demonstrates the importance of transparency in customer interactions.
- ▶ **Only about half (47%) of agents had call centre numbers displayed** at their outlet while 88% had provider banners displayed.

Tariff sheets and Agent ID on display



*Difference statistically significant at the 5% and 1% levels.



Conclusions



Outstanding Attributes of Agent Network Management

- 1** Despite the challenges of a spread out island geography, in just three years, Indonesian service providers have done a tremendous job of setting up an extensive network of agency outlets in major regions of the country.
- 2** Although profitability is low, given the low transaction volumes, the majority of Indonesian agents are optimistic and hope to remain in the business in the immediate future.
- 3** Agent networks in Indonesia are the most gender balanced which augurs well for bridging the digital gender divide that is a challenge in many other countries.
- 4** Agents are reasonably well-trained. The incidence of fraud and robbery is the lowest among all ANA research countries.
- 5** Given high levels of smartphone ownership and digital literacy coupled with already diverse product offering and the recent push for digitising G2P payments, Indonesia's agent networks are well-positioned to play a pivotal role in driving the country's digital financial inclusion.

Recommendations for Regulators (1/2)

1 Enable hassle-free customer registrations at agent outlets

Only 28% of agents currently offer customer registrations. **DFS initiatives in Indonesia thus remain largely targeted at existing customers.** Our research shows that opening an account at agent outlets in Indonesia currently takes on average 1-2 working days.

To achieve financial inclusion targets and catalyse G2P initiatives, regulators should **pilot hassle-free instant registrations at agent outlets** and consider incentivising customer for account opening with higher order financial products

Regulators in India and [Pakistan](#) successfully completed large account opening drives by allowing e-KYC linked to national ID systems, which [reduced cost](#) and time required for account registration.

Regulators in India also [incentivised account opening](#) for target segment by providing nominally priced life and accident insurance and overdraft facilities.

2 Promote competition by allowing non-banks leverage individual agent networks

Although the agent numbers are high, **the market is dominated by a few players. Also, the geographical reach of the agent networks is limited to areas around bank branches.**

Regulators should consider allowing non-banks to recruit individual agents so that non-banks (with significant distribution networks) can support financial inclusion efforts and innovate on their digital financial services initiatives.

Markets such as Kenya, Pakistan, [India](#) and Bangladesh have a mix of service providers including banks, non-banks and third party service providers which has led to healthy competition, more innovations and subsequently, an increase in uptake/usage of DFS

3 Consider allowing service providers to use services of agent network managers

As agent network further evolve and grow, **the problems related to recruitment, monitoring, training and liquidity management** will further intensify. For scaling up agent networks more effectively, regulator should allow providers to engage third party agent network managers.

[Providers in Bangladesh, Pakistan, Uganda, Mexico and India](#) have formulated innovative business partnerships with third party agent network managers that have helped them to efficiently scale up

Recommendations for Regulators (2/2)

4 Reconsider agent exclusivity mandate

Due to low demand and inability to serve multiple providers, Indonesian agents make the lowest profits among ANA research countries. Permitting non-exclusivity of agents will result in **ensuring greater sustainability** for individual agents and promote network consolidation

Regulators in successful DFS markets such as [Kenya and Uganda](#), have banned agent exclusivity. Other markets such as Pakistan, Bangladesh and Tanzania have also thrived on non-exclusive agent networks. Serving multiple providers is made possible by signing separate service level agreements. Third-party shared networks, like [KasNet \(Peru\)](#), are also emerging.

5 Encourage greater transparency at agent outlets

Our findings show that the majority of agents neither display official tariff sheets or agent IDs. As the markets matures, **regulators should insist on customer protection and transparent service**, requiring disclosure of transaction fees, product related information and customer grievance redressal mechanisms.

Regulators in Bangladesh, Tanzania and Kenya prohibit DFS agents from charging additional fees. [Mandatory disclosures](#) of product pricing and customer grievance related processes have worked well in digital financial inclusion initiatives worldwide.

6 Run customer awareness campaigns through mass media

OJK and BI have already been conducting promotional campaigns for Laku Pandai and LKD. Such efforts need to **continue and be tailored to needs of target customer segments**.

Given that G2P is an important use case for DFS in the near future, DFS awareness campaigns can be anchored on social assistance programmes.

The Indian government has experienced success through their targeted awareness programmes, some of which were in partnership with the private sector.

In India, [digital financial literacy programmes delivered over digital platforms have been developed](#). Indian regulators also mandate digital financial literacy for banks.

Recommendations for Service Providers (1/2)

1 Enhance agent support services

While most agents are trained, few service providers visit agents regularly and compliance of outlets is low. **Most agents are only partially satisfied with provider support services.** Better agent support can boost agent loyalty. Statistical evidence suggests that better compliance and transparency leads to greater number of transactions at agent outlets.

Dedicated agent helpline numbers, priority branch banking services for agents, and WhatsApp groups/blast SMS for recurrent issues are some of the methods that have worked well for DFS providers globally.

2 Better marketing of DFS accounts and products, coupled with incentives for agents to drive active DFS use

Service providers need to invest in marketing DFS products to un(der)banked people. **Efforts can be completed with agent incentives to promote returning customers (through staggered commissions).**

Service providers in other countries have invested significantly in [BTL marketing campaigns](#) to drive awareness and use of their service. BTL activities can include market storms, experiential campaigns, caravans & road shows, neighborhood ambassadors, market competitions, door-to-door marketing, field registration drives, targeting youth to serve as catalysts for family/friends.

3 Differentiate clearly between value proposition of various DFS offerings

Our findings also show that **banks are not able to clearly differentiate between their LKD and Laku Pandai services.** Providers should define and communicate value proposition of their DFS offerings more clearly to avoid product/service cannibalization

Providers in other countries have successfully managed to clearly differentiate between their e-wallet and bank account solutions through well targeted marketing campaigns coupled with clearly defined use cases

Recommendations for Service Providers (2/2)

4 Diversify product offerings and agent revenue streams to boost DFS business viability

The market is currently **dominated** by OTC solutions for money transfer. Service providers should promote more **diversified** service offerings at agent level. **Potential services could include credit, diversified bill payment service such as water bills etc.** and customised solutions for value chains with intensive cash flows.

Providers in [Kenya](#), [Tanzania](#), [Uganda](#) and [India](#) are offering credit products and sourcing credit applications via digital channels. In addition, these providers have set up bill pay functions with a wide range of service providers and merchants to encourage selfinitiated transactions. Also, service providers are piloting customised DFS solutions for FMCG and agricultural value chains.

5 Streamline liquidity management practices

Two-thirds of Indonesian agents face challenges when managing liquidity. **Intensification of DFS use coupled with large G2P initiatives will further exacerbate liquidity issues.** Providers will need to invest in analytical tools to predict liquidity requirements and ways of quickly getting cash to agents.

Providers in Bangladesh and Pakistan have dedicated channels for providing agents with on-demand liquidity rebalancing facility. Providers in Kenya, Tanzania and Uganda use master agent services for liquidity management support. Some Indian providers use real time agent monitoring dashboards to monitor activities, such as liquidity positions.



Appendices



Appendix 1: Methodology

- ▶ The study is based on a sample of **1,300 DFS agents** representative of 90% of DFS agent population in Indonesia.
- ▶ Since a country-wide census of DFS agents was not available at the time of the agent network assessment, **the sample frame is based on lists obtained from publicly available geographically disaggregated data from DFS provider websites** and from agent data shared by several service providers with *MicroSave*.
- ▶ The sampling strategy was **stratified clustered random sampling of Kelurahan as primary administrative units**. Units were **stratified into high, medium and low agent density areas**. Kelurahans were randomly drawn from within each strata using Probability Proportional to Size (PPS) sampling. Within each Kelurahan, all agents were mapped and classified as active or dormant. The sample was then drawn randomly from the list of active agents.
- ▶ **Data collection was performed using an Android device using rigorously tested and controlled processes**. The use of an Android device allowed for an additional level of randomisation and ensures the survey is representative at the provider level. An agent is interviewed for a provider that is randomly selected by the application from the list of all providers, for which the **agent is active (i.e. has conducted at least one transaction within the last 30 days)**.
- ▶ Survey locations were subsequently classified into:
 - Jabodetabek:** Kelurahan in the Jabodetabek region
 - Non-Jabodetabek Urban:** Kelurahan classified as “urban” in accordance with BPS (Badan Pusat Statistik or Central Bureau of Statistics)*, except the ones in Jabodetabek region
 - Rural:** Kelurahan classified as “rural” in accordance with BPS

*Responsible for doing census surveys for Indonesian government

Appendix 2: Definitions

Exclusivity	Exclusive Agent	Agent who serves only one DFS provider.
	Non-Exclusive Agent	Agent who serves more than one DFS provider.
Dedication	Dedicated Agent	Agent who conducts solely DFS business.
	Non-Dedicated Agent	Agent who conducts other business from the shop, in addition to DFS business.
Laku Pandai	DFS initiatives of the banks aimed at providing basic financial services, such as opening of bank account, deposits, withdrawals, money transfer etc. through agents.	
Layanan Keuangan Digital (LKD)	Digital wallet solutions that can be offered by both banks and non-banks and serviced via agents.	
Age of Agency	Agents were asked to report the date they started serving each provider. Age of agency is calculated from the date the agent started serving the first provider.	
Transaction Levels (Outlet)	Agents were asked: "on average, how many DFS transactions do you conduct per day, for all of the DFS providers you serve combined?"	
Transaction Levels (Provider)	Transactions were calculated as the sum of reported average OTC money transfers, cash-in, cash-out, merchant payments, bank deposits, registrations, bill/fine/admin fee payments, loan repayments, G2P disbursements, insurance payments, prepaid card issuances, and 'other' transactions the agent conducts for the particular provider. Values of zero were excluded from analysis.	
Monthly Earnings (Agency)	Agents were asked "On average, how much do you earn per month from all the providers you serve, combined?" Only owners reported on commissions.	
Monthly Operating Expenses (Agency)	Monthly operating expenses were calculated as the sum of reported rent, utilities, loan interest, staff salaries, business travel and other expenses. Non-dedicated agents were asked to estimate the amount of total expenses that went toward mobile money. Non-exclusive agents were also asked to estimate the amount of total mobile money expenses that went to serving the selected provider. Only owners reported on expenses.	
Profit (Agency)	Profit is calculated as the difference between monthly agency earnings and monthly agency operating expenses. Only owners who provided details about both revenues and expenses were included in this calculation.	
Exchange Rate	1 US\$ = 13,245 IDR	
Category of Banks	BUKU I : Banks with core capital of less than IDR 1 trillion (~US\$ 75 million)	
	BUKU II : Banks with core capital ranging from IDR 1 trillion (~US\$ 75 million) to IDR 5 trillion (~US\$ 375 million)	
	BUKU III : Banks with core capital ranging from IDR 5 trillion (~US\$ 375 million) to IDR 30 trillion (~US\$ 2.2 billion)	
	BUKU IV : Banks with core capital more than IDR 30 trillion (~US\$ 2.2 billion)	

Appendix 3: Details of Major G2P Programmes Being Delivered Through Agent Networks

Scheme name	Program Keluarga Harapan (PKH) * Family Welfare Programme	Bantuan Pangan Non Tunai (BPNT)* Food Subsidy
Benefit type	Conditional Cash Transfer (CCT)	In-Kind
Eligible beneficiaries	CCT for BPL households – breastfeeding/pregnant women, family members with severe disability, households with children attending elementary and junior high school	In-kind subsidy for below poverty line households - Purchase of food items such as rice, sugar, cooking oil, eggs, flour
Supervising Govt. Ministry	Ministry of Social Affairs	Ministry of Social Affairs
Number of beneficiaries	6 million households (will increase to 10 million households in 2018)	~15 million households
Annual budget (2017)	~IDR 10 trillion (US\$ 750 million)	~IDR 21 trillion (US\$ 1.6 billion) is the total food subsidy budget
Frequency of payout	Quarterly	Monthly
Amount per payment	IDR 500,000 - 3,600,000 (~ US\$ 38 - 272) per family per year	IDR 110,000 (~ US\$ 8) per family per month

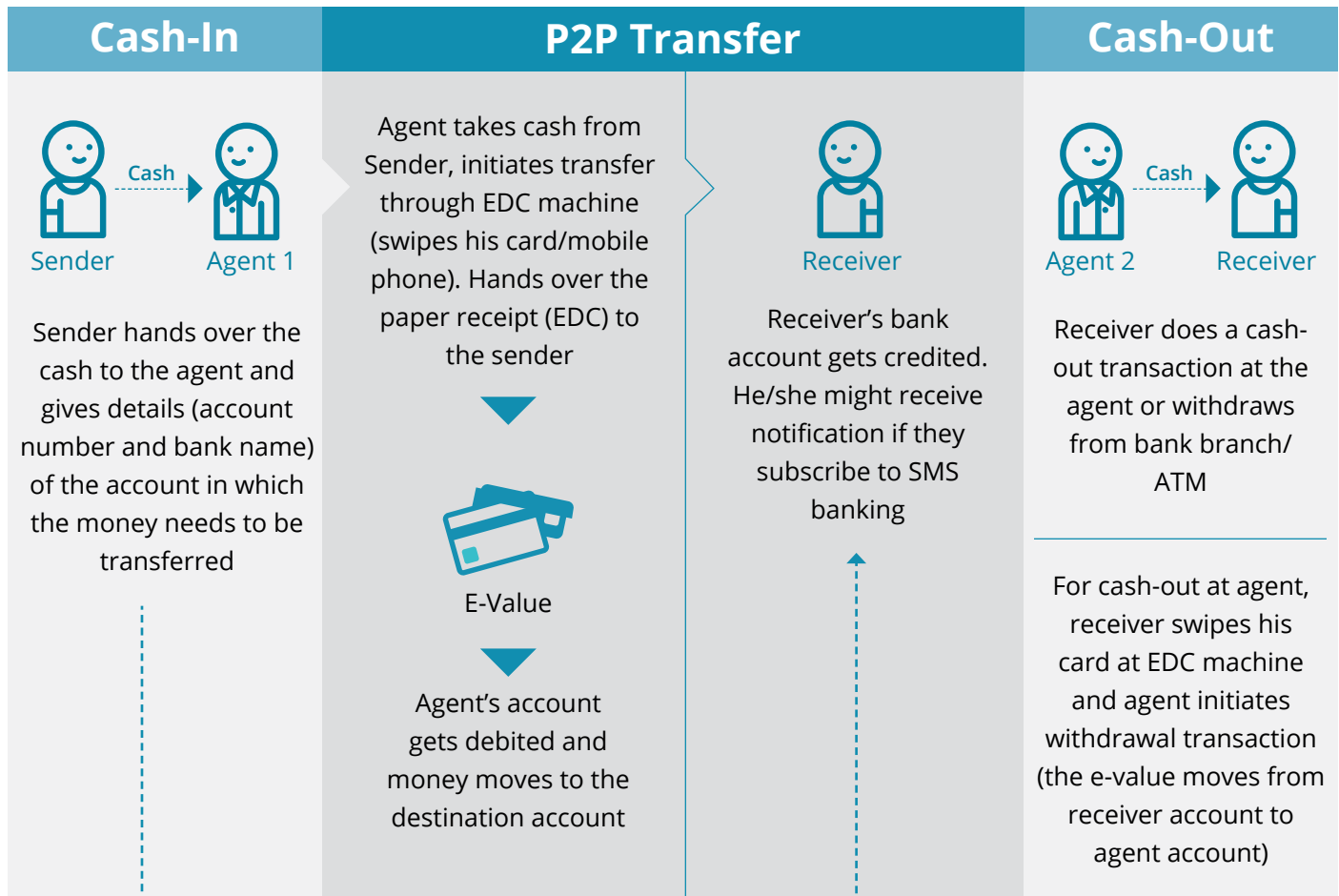
In 2017, Indonesia has digitised G2P transfers using a Combo Card called *Kartu Keluarga Sejahtera* (Prosperous Family Card), which has basic saving account and e-wallet features. The card is issued by 4 government commercial banks (Bank Mandiri, BNI, BRI and BTN). The Combo Card programme has been piloted in 44 cities, and is expected to expand to 98 cities and 118 regions in 2018 to serve 10 million PKH households and all 15 million BPNT households. PKH funds can be withdrawn in e-Warung** and ATM, while BPNT in-kind subsidy can be redeemed in *e-Warung*, *Rumah Pangan Kita/ RPK**** or any Himbara agent who runs a grocery shop business.”

*www.kemsos.go.id; www.tnp2k.go.id

** Agents of banks, merchants and/or other parties who have cooperated with the banks, and are appointed by the banks as a point of social assistance disbursement (withdrawal/purchase) for the beneficiaries.

*** Retail network of BULOG (government institution involved in food distribution and price controls).

Appendix 4: The OTC Money Transfer Model



Technically, a sender can also initiate a direct account to account transfer by swiping his/her card at EDC machine at agent outlet, however, majority prefer handing over cash to the agent and routing the money transfer via agent account. Many customers, especially in remote areas, either do not have enough money in their bank account for direct transfer or are not comfortable using ATM cards.

Appendix 5: Abbreviations

Abbreviation	Details
ANA	Agent Network Accelerator
ATM	Automated Teller Machine
BCA	Bank Central Asia
BI	Bank of Indonesia
BPL	Below Poverty Line
BPNT	Bantuan Pangan Non Tunai
BRI	Bank Rakyat Indonesia
BTL	Below The Line
BUKU	Bank Umum Kegiatan Usaha
DFS	Digital Financial Services
EDC	Electronic Data Capture
G2P	Government to Person
IDR	Indonesian Rupiah
Jabodetabek	Jakarta, Bogor, Depok, Tangerang, Bekasi (Cities under Greater Jakarta)
KYC	Know Your Customer
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
OTC	Over The Counter
PKH	Program Keluarga Harapan



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