

# Impact of the COVID-19 pandemic on CICO agents

Indonesia report

June, 2020



# CICO agents during COVID-19

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## Indonesia report



Provides a detailed country-level view of the impact of COVID-19 on CICO agents, their coping strategies, and recommendations for policymakers and financial service providers

The digital financial services agent landscape in Indonesia covers a wide range of service providers, which includes banks and non-banks like FinTechs and e-commerce players. Please refer to annexure 1 for details. For our research, we use the cash in cash out (CICO) terminology to refer to a broad set of digital financial services agents including branchless banking, e-money, and over-the-counter (OTC) payment agents.

01

Recommendations

02

Impact of COVID-19 on CICO agents

03

Coping strategies of CICO agents

Annex



# Indonesia

The report is based on a qualitative survey with CICO agents. The research team also conducted interviews with selected service providers. At the time of data collection (April, 2020), the Government of Indonesia implemented a large-scale social restriction policy called *Pembatasan Sosial Berskala Besar* (PSBB). This policy allows only eight essential services to continue. These services include healthcare, food, energy, communication, distribution, retail trade, and other strategic businesses. CICO agents, who were add-ons to these “approved” businesses, continue to operate under PSBB.

## 01 Recommendations



# Provide liquidity management support and ensure compliance with health protocols

## Measures to provide liquidity support to agents

### Key insights

- Our research indicates that the revenues of MSMEs, including CICO agents, have fallen by 50%. This has forced MSMEs to use their working capital to fund household consumption needs.
- The social mobility restrictions limit the movement of CICO agents and they need dedicated support for liquidity management, supply chain management of food items (for the *Kartu Sembako*<sup>1)</sup> program), and grievance management.

### Recommendations

- 01 FSPs<sup>2)</sup> should provide affordable loans or an overdraft facility with flexible terms and conditions to their agents. FSPs and the government can tap into [KUR](#) and [UMi](#) programs to offer subsidized loans to CICO agents. [FinTech platforms](#)<sup>3)</sup> can also be utilized to deliver such loans digitally.
- 02 FSPs should build liquidity dashboards as centralized monitoring systems to identify the liquidity needs of agents, especially G2P agents. They should provide proactive support including the delivery of cash to agents in the field.

1) *Kartu Sembako*: an in-kind food subsidy program

2) FSPs: Financial Service Providers

3) FinTech platforms: e-money platforms and P2P lenders

## Measures to protect the agents

### Key insights

- Since agents are required to interact with customers, they are concerned about contracting COVID-19 while serving them. The prices of hygiene kits including face masks and hand sanitizers, among others, have increased significantly and the supply is limited in some rural areas.
- Most CICO agents, especially bank agents, use contact-based technology like EDC machines to conduct transactions, which makes them vulnerable to infection.

### Recommendations

- 01 FSPs should provide hygiene kits to agents. They should also consider providing health insurance covers to their agents, like [Gojek](#) and [Grab](#) have done for ride-hailing drivers.
- 02 FSPs should develop a set of preventive safety protocols and share it through their mobile application or WhatsApp. They should make regular monitoring visits to ensure agents comply with these protocols.

# Expand delivery channels and ensure the viability of service providers and agents, especially the ones involved in G2P delivery

## Measures to expand G2P delivery channels

### Key insights

The four state-owned banks are the only service providers allowed to deliver G2P benefits. Banks are already saturated with delivering social assistance programs to over 15 million beneficiaries. As more beneficiaries are added to the existing programs and more programs are rolled out, the Government of Indonesia (GoI) should consider alternate options to deliver G2P benefits.

### Recommendations

01

The GoI should consider alternate distribution networks, including other banks and non-banks or FinTech agent networks to deliver G2P payouts. The existing state-owned banks may also partner with non-banks to extend their reach or improve efficiency in G2P delivery. This will also help policymakers evaluate the suitability of such models for G2P

02

Non-banks could experiment with safer contactless payments for G2P delivery, such as mobiles, QRIS, OTP, NFC, etc.

1) PKH: *Program Keluarga Harapan*, a conditional cash transfer

2) BLT: *Bantuan Langsung Tunai*, a direct cash transfer

3) BST: *Bantuan Sosial Tunai*, a direct cash transfer

## Measures to increase the viability of G2P delivery

### Key insights

- ▶ The current policy prohibits compensation for banks to manage G2P payments.
- ▶ The FSPs need to put in extra effort to ensure the G2P benefits reach the intended beneficiaries during restriction. However, some additional costs will be involved in providing liquidity support and managing safety protocols. It is also necessary to provide incentives to enable non-banks or FinTechs to participate in G2P deliveries.

### Recommendations

01

In light of the current situation, the respective ministries should incentivize service providers for G2P delivery. The incentives could be tiered and based on the accessibility levels of the geographic area. Programs such as Inua Jamii in Kenya have successfully followed such an approach.

02

FSPs should also adapt their commission structures by providing better commissions to agents, especially for cash-outs under G2P programs like PKH<sup>1)</sup>, BLT<sup>2)</sup>, and BST<sup>3)</sup>. This will encourage agents to invest in liquidity and beneficiaries will get a reliable source of cash-outs near their homes.



## 02 Impact of COVID-19 on CICO agents

# Transaction volumes have fallen due to the restrictions on movement and the lack of demand for over-the-counter (OTC) digital payments

## Transaction volumes have decreased significantly

- The restrictions imposed by the government limited people's movement. This has resulted in a massive decrease in transaction volumes for agents. Even in rural areas, people have locked down their communities to prevent outsiders from entering.
- Staff layoffs, coupled with the work-from-home policy, has forced many of their customers to go back to their hometown. This has resulted in a fall in demand for OTC digital payment's by **70-90%**.
- The transaction volumes have fallen by 50% to 90%
- At the same time, the pandemic has led to an increase in household expenses for agents. The costs have shot up from **10% to 20%** because the prices of some essential items have increased.

“

Previously, I conducted **30 transactions per day**. Now, many of my regular customers have gone back to their hometowns. The number of transactions has reduced to only **5-10 transactions per day**. - A female agent in an urban area of Jakarta

”

## Agents have reduced their operating hours or closed their outlets altogether

- Most agents have reduced their operating hours from **14-16 hours to 8-10 hours** a day.
- Some agents stated they **closed their outlets** to comply with the social restriction policy of the government. Moreover, numerous agents are also redirecting customers to the nearest branch office to conduct transactions.
- A majority of agents predict that their CICO activities will **remain disturbed for the next six months**.

“

Due to the rules imposed by the government, I have closed my stationery store located on the side of the main street. Now I sell stationery and work as an agent from my home. - A female agent in the rural area of Yogyakarta

I am a Community Leader and received training on social distancing. So I closed my outlet to avoid crowds. I will reopen after the government allows people to gather and regular activities resume. - An agent in the rural area of Makassar

”

# The ticket sizes of transactions have fallen while the transaction mix has changed

## Loss of income has also affected the ticket sizes of transactions

Most respondents reported that their average transaction value has decreased by more than 50%. This is because customers no longer have a regular income, either in the form of salaries or business revenues.

“

“One of my regular customers usually conducts OTC money transfers worth IDR 3 million (USD 207) per transaction. Since the pandemic, this value has decreased to between IDR 500,000 (USD 35) and IDR 50,000 (USD 3) per transaction. I think his income has dropped because of COVID-19.” - An agent in the rural area of Makassar

”

## Movement restrictions have accelerated the demand for airtime

### Money transfer

Layoffs and falls in income have drastically reduced the number of customers

### Bill payment: Electricity and loan repayment

- The waiver of electricity bills and restructuring of loan repayments has affected some of the key revenue streams of agents
- Provincial enterprises have also waived off water bills for two or three months
- The waiver of electricity bill primarily affects non-bank agents. For these agents, such bill payments are the anchor use case
- The customers are also transitioning to self-initiated transactions through digital payment apps

### Airtime top-up and data plans

Work from home and school from home have increased the demand for airtime top-ups. Telkomsel, Indosat Ooredoo, and XL Axiata have reported 18-30% increases in data traffic and cellular services during COVID-19 pandemic.

“

Typically, I get 20 customers a day for money transfers. The number has decreased to 10-15 a day because their business is affected by COVID-19. On the other hand, the number of customers who buy airtime and data packages has increased by around 20%. - An agent in the urban area of Jakarta

”



# Inconsistent access to bank branches is a key challenge for agents

## Inconsistent access to bank branches

- Agents are unable to access the nearest bank branches to manage liquidity as banks are “optimizing” their branch network as well as their operating hours.
- MSC’s ANA research highlights that most agent outlets are located within 15 minutes of the nearest bank branch and it costs the rural agent around USD 1-2 for a rebalancing trip. However, this cost will likely increase as agents have to look for other branches.

“

The nearest bank branch is closed. I have to go to another branch which will take around 30 minutes to make a cash deposit.- A rural agent in Yogyakarta

”

## Specific guidelines to serve the modified G2P program

- G2P agents reported a decrease in their income from other transactions whereas the incomes from G2P disbursement remain the same.
- The GoI has endeavored to publicize the modified G2P program as well as the disbursement process. Unfortunately, the information has not reached all agents. The agents have failed to receive timely formal notifications from the government or the banks. Most of them find out about it through the beneficiaries.
- The state-owned banks provide G2P information on their websites, which is useful for both agents and beneficiaries. BNI and Mandiri, two state-owned banks that distribute G2P benefits, have instructed their employees and agents to implement appropriate and safe protocols when providing G2P cash-out services.  
The banks maintain and monitor the health of each employee involved in G2P disbursement. They also remind beneficiaries to follow appropriate safety measures during the withdrawal of cash benefits. These measures include the use of masks and hand sanitizers, maintaining safe distances, etc.

# The case of PPOB, a non-bank service provider managing more than 175,000 agents

Business impact	Pre COVID-19	Post COVID-19
Transaction volumes	A total of 13 million transactions per month	Transactions decreased by 25% in April. The service provider expects it to further decrease by up to 50% in May (approximately 7 million)
Transaction mix	Top three transactions included the payment of electricity bills (50%) and water bills, and purchase of airtime vouchers (30%)	<ul style="list-style-type: none"> <li>Steep fall in payment of electricity bill (85%) and BPJS<sup>1</sup>) due to the decision of the government to waive off electricity bills and BPJS premiums</li> <li>Increase in airtime transactions, which constituted 50% of the total transactions</li> </ul>
Active agents	Approximately 89,000 active agents	Reduced by 25% in April because many agents ran out of liquidity as they were forced to use the working capital for their household consumption. A few agents have also closed their outlets due to social restrictions announced by the government.
App downloads	<ul style="list-style-type: none"> <li>The service provider also has a consumer app besides the agent network: 300-400 downloads per day</li> <li>New users include 70% men and 30% women</li> </ul>	<ul style="list-style-type: none"> <li>An upward trend in app downloads with up to 1,000-2,000 downloads per day. This can be attributed to the study-at-home situation and the increased consumption of internet data packs</li> <li>Interestingly, the percentage is changing into 60% women and 40% men</li> </ul>
Staff	Approximately 450 people in the headquarter	Laid off around 80 staff in the headquarter but maintained the field agents. The business can sustain only until the end of the year if the current situation continues.



## 03 Coping strategies of CICO agents

# Agents strive to adhere to the safety protocols while serving their customers

## Measures to maintain a safe physical distance at the outlets

- Starting from March, 2020, the Coronavirus Disease Mitigation Acceleration Task Force has issued [guidelines for rapid medical response and public health aspects of COVID-19](#) in Indonesia. The three most significant preventive measures recommended are staying at home, frequently washing hands, and physical distancing.
- Agents are wary of the situation. They are diligently trying to follow these recommendations by using masks and providing facilities to wash hands as well as sanitizers near the outlets for their customers.



“

I created a visible line in my outlet to maintain a safe physical distance with the customers. And I also displayed the safety instruction for them. - An agent in the urban area of Jakarta



”

“

During the disbursement schedule, I asked the beneficiaries to wash their hands, sprayed them with disinfectant, and asked them to stay in two queues. I also requested them to maintain an appropriate distance of around one meter among themselves and only allowed a maximum of three beneficiaries to enter my shop at once. - A G2P agent in the rural area of Makassar

”

# The agents have adopted different coping strategies to mitigate the economic impact of the crisis on their business

1

Diversify the products from selling services to selling things

The revenues from my clothing store and agency business went down by 70-80%. My wife and I have started to make local snacks at home, which I promote and sell on an e-commerce website. I have considered making this my next business. I can do this from home, especially if large-scale restriction becomes effective in my area. - An agent in the rural area of Kediri



2

Utilize personal electronic wallets to provide airtime top-ups and data packages

I have an e-wallet from my bike ride-hailer job. I use that to sell airtime top-ups and data packages to people who need it in my community. - An agent in Jakarta



3

Minimize physical touch with POS machine

I only use POS machines to disburse G2P payments. For daily transactions, I choose the mobile app instead of POS devices. - An agent in Makassar



4

Use social media to acquire new customers

To revive my business, I promote it on Instagram and Facebook. I can attract one to three new customers per day. - A female agent in urban Jakarta



5

Prefer to serve small amounts of transactions

The more customers I serve, the more commissions I earn. That means I have to carefully manage my liquidity and choose transactions to increase my commissions. - An agent in Jakarta





Annex



# Agents in Indonesia fall under three different categories



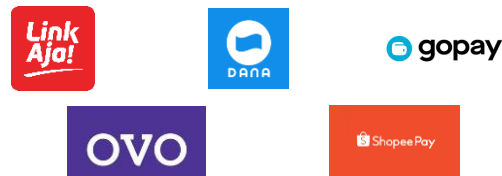
## Laku Pandai

- Agent banking services of banks geared towards financial inclusion
- 31 banks (2019)<sup>1)</sup> that has been given *Laku Pandai* license
- Regulated under [POJK No. 19/POJK.03/2014](#)



## LKD (Layanan Keuangan Digital)

- e-money services that can be offered by both banks and non-banks
- 42 e-money licenses<sup>2)</sup> have been issued until now, which includes 12 banks and 30 non-banks
- Regulated under ([PBI No. 11/12/PBI/2009](#))



## FinTech and e-Commerce agents

- Digital payment solutions offered by FinTech and e-commerce players through agent networks
- No defined regulatory framework



The non-bank LKD agents and FinTech and e-Commerce agents have been commonly referred to as non-bank agents, while *Laku Pandai* agents are referred to as bank agents.

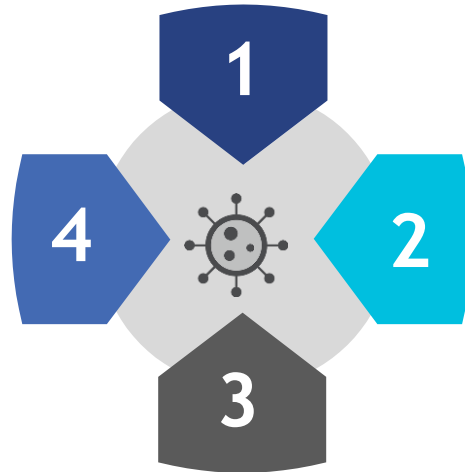
1) OJK Presentation (Nov, 2019) - Launch event of CICO Economics Study (BCG/MSC)

2) Data source: Bank Indonesia - Website accessed on 28<sup>th</sup> Feb, 2020.

# A snapshot of some government programs to ease the burden of small businesses and low-income households

## COVID-19 relief measures launched by the government, including cash transfers, bill waivers, and digital payments

**5 million** more beneficiaries added under *Kartu Sembako*. Increase in payouts by 33%; for **IDR 200,000 (USD 14)** per beneficiary per month



**800,000** more beneficiaries added under PKH. Increase in payouts by 25% - **IDR 75,000-250,000 (USD 5-17)** per beneficiary per month

Promotion of **digital payments** with 0% of merchant discount rate (MDR) for QRIS in micro-business merchants until September

**31 million** low-income households are eligible for full (with a 450VA connection) or partial waiver (with a 900VA connection) of electricity bills for six months, until September, 2020

## Additional social assistance, including from the provincial government

Low-income households that are not included in PKH and *Kartu Sembako* program are eligible to receive the following benefits:

- **BLT<sup>1)</sup> from the Village Fund** worth IDR 600,000 (USD 41) per month from April to June and IDR 300,000 (USD 21) per month from July to September. The program targets 11 million households and the benefits are disbursed through state-owned bank accounts or provided as cash.
- The provincial government of Greater Jakarta is distributing **food aid** worth IDR 150,000 (USD 10) in phase one and IDR 275,000 (USD 19) in phase two, to more than 2 million households.
- **BST<sup>2)</sup> of IDR 600,000** (USD 41) per month will be provided in three phases to 9.1 million households beyond the greater area of Jakarta. The benefits will be disbursed through state-owned bank accounts and post offices.




1) BLT: *Bantuan Langsung Tunai*, a direct cash transfer

2) BST: *Bantuan Sosial Tunai*, a direct cash transfer

Note: This is not an exhaustive list on measures taken to provide relief against COVID 19; Details are based on information available till 28th May 2020



# Case study: A network manager primarily engaged in customer acquisition for banks

Business impact	Pre COVID-19	Post COVID-19
<p><b>Business model</b></p> 	<p>Provided services such as opening of bank accounts, credit card delivery, loan contract signatures, and cash-on-delivery (COD) service.</p>	<ul style="list-style-type: none"> <li>➤ Addition of alternate business streams, such as e-commerce deliveries and loan recoveries, to optimize the use of field teams as the business from other streams dries out. Revenues from the customer acquisition business fell by approximately 20%.</li> <li>➤ Received requests from FinTech lenders to support physical checking and verification of the borrower’s status, especially the ones who did not pay their instalments.</li> </ul>
<p><b>Staff</b></p> 	<p>50 staff in the headquarter and 500 field agents.</p>	<ul style="list-style-type: none"> <li>➤ Did not initiate any layoffs but restricted the salaries of staff. Cut down fixed salaries by 20%-50% for field teams and compensated it with a variable pay.</li> </ul>
<p><b>Rebuilding strategy</b></p> 	<p>-</p>	<ul style="list-style-type: none"> <li>➤ Build strategic partnership to scale up their business and agent outreach</li> <li>➤ Conduct capacity building of the field teams to handle other business streams</li> <li>➤ Pitching to investors to raise funds</li> </ul>

# Assessing the economic impact of COVID-19 on CICO agents

## The objective of the research



- Understand and quantify the impact of COVID-19 on CICO agents
- Inform policy and support subsequent efforts to rebuild the CICO agents
- Assess the impact of COVID-19 on revenues and costs, supply chains, business activities and product ranges, and liquidity management
- Explore options to minimize threats and maximize business opportunities
- Assess gender implications
- Understand the use of communication channels and opportunities to be utilized
- Assess private and public sector support services

## Research coverage



- Research country: Indonesia
- Locations: Rural, semi-urban, and urban areas
- Qualitative sample size: 15 respondents
- Provider interviews: 2








## Approach



- A qualitative research with a mix of bank and non-bank agents

## Respondents' profile

### Qualitative Research - sample profile of 15 CICO agents

Location of business	 9	 1	 5
	Rural	Semi-urban	Urban
	Gender of ownership	 9	 6
Men		Women	
Experience	1	12	2
	< 1 year	1-5 years	> 5 years
	Age profile	 12	 3
18-45		45+	

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Implemented **>850 DFS projects**

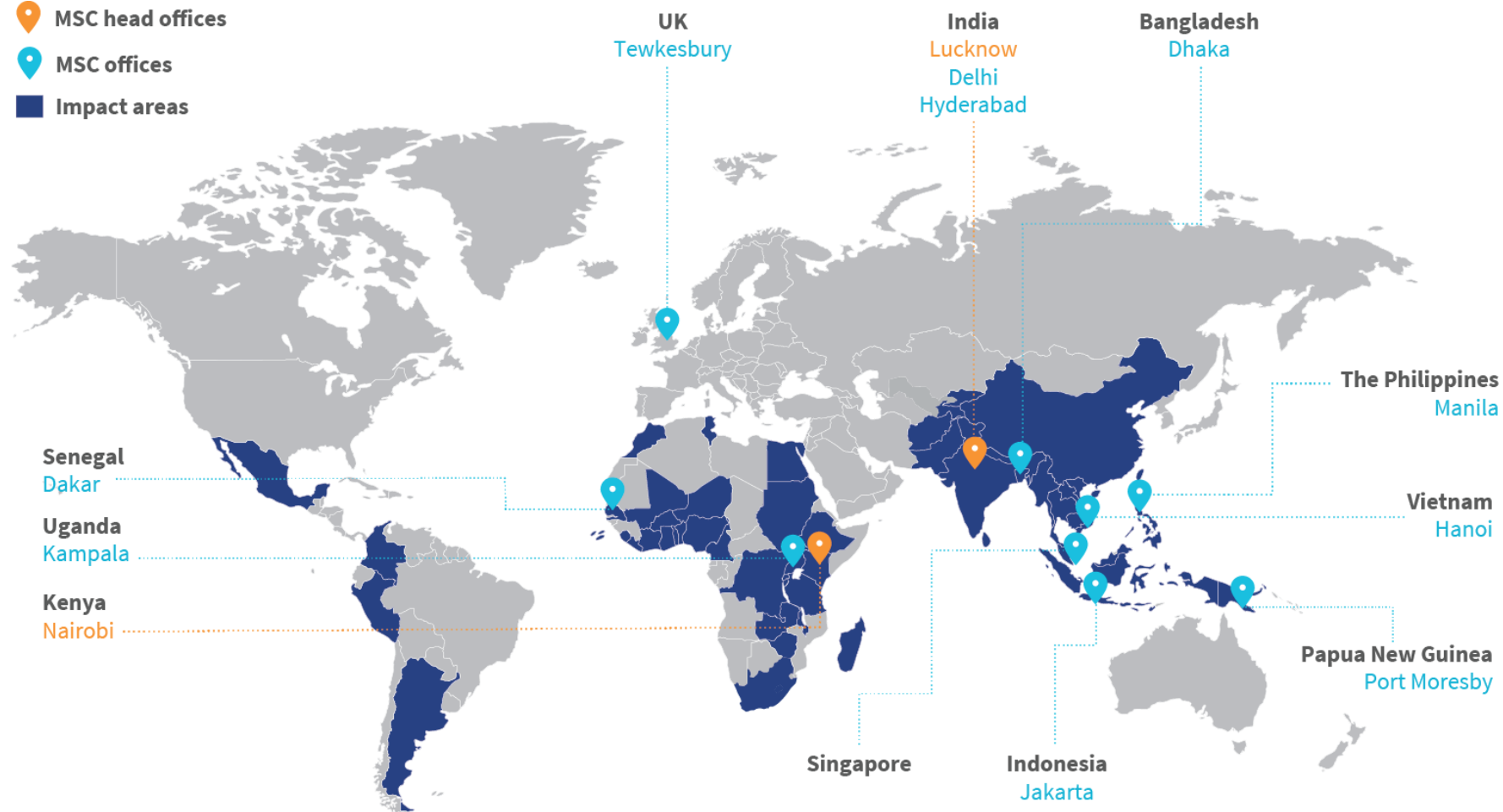
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