



Impact of COVID-19 on CICO agents in Indonesia

March 2021

Acknowledgments

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We thank our partner Kantar Indonesia for facilitating the quantitative survey and data collection on cash-in cash-out (CICO) agents.

We also thank all CICO agents who participated in the research and shared their valuable experiences and insights with us.

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Note for the reader

This report is an output of the field survey conducted to assess the impact of COVID-19 on CICO agents in Indonesia. The objective of the study is to provide reliable information and recommendations to support policy development for cash-in cash-out (CICO) agents in Indonesia to aid their recovery.

To fulfill this objective, MSC conducted a quantitative survey of 441 CICO agents between September and October, 2020. We carried out the survey across 10 provinces in Indonesia with the highest incidence of COVID-19. We also had detailed qualitative discussions with 17 CICO agents. Wherever possible, we have complemented primary findings with secondary research.

We have compared the data on agent performance during COVID-19 with pre-COVID data. Pre-COVID refers to the period between January and March, 2020, while during-COVID refers to the period from April onward.

We have divided the report into three sections. In section 1, we list the key insights and offer recommendations. In section 2, we present an overview of the changes in the macro-environment due to COVID-19. We then discuss the impact of the pandemic on the operations, income, and expenses of CICO agents. Lastly, we focus on the changes in agent network management practices and their coping strategies during the pandemic. Section 3 comprises annexes, where we provide global best practices in agent network management during the pandemic. We explain the project objectives, sample, project methodology, approach, and limitations of the study. We also provide additional contextual details on the status of CICO agents in Indonesia.

List of abbreviations

ATM	Automated Teller Machine	LKD	Layanan Keuangan Digital
BB	Branchless banking	MDR	Merchant discount rate
BI	Bank of Indonesia	MOCMSE	Ministry of Cooperatives and SMEs of the Republic of Indonesia
BPJS	Badan Penyelenggara Jaminan Sosial	MSME	Micro, Small, and Medium Enterprises
BPNT	Bantuan Pangan Non Tunai	OJK	Otoritas Jasa Keuangan
BRI	Bank Rakyat Indonesia	OTC	Over-the-counter
BSA	Basic savings account	PDAM	Perusahaan Daerah Air Minum
BTN	Bank Tabungan Negara	PEN	Program Ekonomi Nasional
CICO	Cash-in cash-out	PKH	Program Keluarga Harapan
COVID	Coronavirus disease	PoS	Point of sale
DFS	Digital financial services	PPOB	Payment Point Online Bank
EDC	Electronic data capture	PSBB	Pembatasan Sosial Berskala Besar of PSBB
FSP	Financial service provider	QRIS	Quick Response Code Indonesian Standard
G2P	Government-to-person	TKSK	Tenaga Kesejahteraan Sosial Kecamatan
GoI	Government of Indonesia	TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan
HH	Household	UMI	Pembiayaan Ultra Mikro
IDR	Indonesian Rupiah	USD	US Dollar
KUR	Kredit Usaha Rakyat	WA	WhatsApp
KYC	Know your customer	YOY	Year-on-year

CICO agents¹ in the Indonesian context

In Indonesia, CICO agents can be classified into three distinct categories depending on the regulatory framework and the nature of services delivered. To make the study more representative, we survey all the three major categories of CICO agents in Indonesia, as illustrated below:



Branchless banking agents

- Agent banking services of banks that target financial inclusion
- OJK provided the Laku Pandai license to 31 banks (2019)
- These agents are regulated under (POJK No. 19/POJK.03/2014)
- Indonesia has more than a million (OJK - 2020) branchless banking agents



G2P agents

- Agents (including Laku Pandai agents) that specifically deliver G2P programs (Kartu Sembako and PKH) of the Government of Indonesia implemented by the Ministry of Social Affairs (MoSA)
- Indonesia² has around 74,000 G2P agents











FinTech agents

- Digital payment solutions offered by FinTech players through agent networks. These include agents of entities that with an LKD license from Bank Indonesia and non-LKD FinTech agents³
- LKD agents are regulated under PBI No. 11/12/PBI/2009
- Indonesia⁴ has more than 5 million FinTech agents

1. A recent MSC study shows that a large number (55%-80%) of agents remain inactive
2. Data sourced from interviews with the Ministry of Social Affairs, 2020
3. Non-bank FinTech agents from LinkAja, Tokopedia, Grabkios, Bukalapak, and Fastpay
4. Data sourced from the Economics of cash-in cash-out (CICO) agent networks in Indonesia

A snapshot of the CICO agent sample interviewed in the study

We also interviewed 17 agents for qualitative inputs. For more details on sample distribution, methodology, and study limitations, please see Annex 3.

	 Branchless banking agents (n = 146)	 G2P agents (n = 145)	 FinTech agents (n = 150)
	Male 56% Female 44%	45% 55%	65% 35%
	18-30 years old 30% 31-45 years old 48% Above 45 years 22%	24% 52% 24%	44% 44% 12%
	Dedicated ¹ 3% Non-dedicated 97%	4% 96%	4% 96%
	Exclusive ² 82% Non-exclusive 18%	88% 12%	44% 56%
	Urban 49% Rural 51%	50% 50%	61% 39%

1. Dedicated agents were only involved in CICO business, while non-dedicated agents had CICO as a secondary business

2. Exclusive agents serve only one service provider



1. Recommendations

Recommendation 1: Provide additional revenue streams and financial support for agents

Key insights

New product offerings

- COVID-19 has necessitated demand for new products and services that could support revenue stream of agents.
- Though some agents offer new products like e-Samsat, gold investments, instant loan (pay later), and microinsurance, 94% have not yet started offering any new services since the onset of the pandemic.

Key insights

Financial and non-financial support to agents

- 51% of branchless banking and FinTech agents experienced a decline in revenues.
- The contribution of the agency business to household incomes has declined. DFS now contributes 20% or less to the total income of more than half the agents.
- 92% of agents reported that they do not receive any support or reimbursement of costs for safety precautions, such as masks and hand sanitizers, from their service providers. The cost of additional safety measures is around IDR 97,4001 (USD 6.922) for CICO agents in Indonesia.
- Many agents need working capital loans, not only to support their DFS business but also to support their micro-enterprises in general.

Recommendations

Stakeholders

Financial service providers should develop new products and services in collaboration with third-party service providers for the agent channel. These products may include COVID-specific microinsurance products, payment services for online education subscriptions, and e-commerce and telemedicine services that could be offered by agents over the counter.

Service providers

The government and FSPs can tap agents to support the vaccination program of the government. The agents can help in the registration of people in their community, and receive a small token amount in the process.

Government and service providers

Recommendations

Stakeholders

The government and FSPs can provide cash support to agents for safety and hygiene kits. This support should be given especially to those agents who have been handling high volumes of customers since the onset of the pandemic, such as G2P agents. To reduce operational complexity, stakeholders can offer cash support as a fixed allowance instead of reimbursing purchase receipts. Some banks in India offer similar incentives.

Government and service providers

The government and FSPs can provide tiered incentives to agents based on the level of penetration of financial services, internet connectivity, and state of COVID-19 within the area agents operate in, among others. Such tiered incentives are offered to rural agents in Kenya.

Government and service providers

The government and policymakers should work with service providers to offer KUR or UMi loans to agents. They may also use agents as a delivery channel for these loans to other micro-enterprises.

Government and service providers

Financial service providers can provide temporary health insurance coverage for the agents and their family, especially during the pandemic when agents are at a high risk of contracting COVID-19. Such insurance coverage has been provided by Gojek to their driver partners.

service providers

¹ This was the cost estimate during the pandemic, which refers to the period from April, 2020 onward. The research was conducted in September-October, 2020.

² The converted number assumes an exchange rate of IDR 1 = USD 0.000071

Recommendation 2: Strengthen mechanisms for the capacity building of agents and expand the scope for the delivery of social assistance for non-bank agents

Key insights

Agent training and monitoring

- Agent training and monitoring have been limited during the pandemic. While some training sessions were conducted online, those training sessions in less connected areas are still conducted face-to-face.
- 27% of CICO agents signed up¹ as QRIS merchants. However, their transaction volumes are negligible. The lack of awareness about the service is one of the primary reasons for low usage of the QRIS channel for receiving payments

Key insights

G2P delivery channels

- The agent networks for G2P delivery continue to be restricted to the bank agents, which restricts the access of beneficiaries to services from particular bank agents.
- The Pre-employment card has reached 62.5% out of the targeted 5.6 million beneficiaries who have signed for the e-wallet. This can likely push the demand for digital payments in the future, especially mobile payments.

Recommendations

Service providers need to provide public health guidelines that fit the local context and share them within their agent network. MSC's [comic book for agents](#) might prove valuable.

Stakeholders

Service providers

Gol and FSPs should provide training to agents on using QRIS. This training program could be incorporated under the [digital village program](#) or the [MSMEs Go Online/ Go-Digital](#) program by the Indonesian Ministry of Cooperatives.

Government or service providers

Recommendations

The Gol should consider [alternate distribution networks](#), including other banks and [non-bank or FinTech agent networks](#) to deliver G2P payouts. This may lead to competition and innovation in delivery, and reduce the cost of access for beneficiaries to avail entitlements.

Stakeholders

Government or service providers

FSPs and policymakers should assess the potential demand for digital payments, and introduce appropriate payment delivery channels. They should permit contactless payments for G2P delivery at agent points, such as [contactless payments](#) that can be used to conduct authentication for cash-in and cash-out transactions. Countries like [Bangladesh](#) have experimented with contactless payments during the pandemic.

Government or service providers

¹ Not every agent needs to be a QRIS merchant. However, agents can use this to potentially increase their revenues by charging informal fees to conduct indirect cash-outs for e-wallets.



2. Impact of COVID-19

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“I request all ministers and governors to assist in the distribution of benefits to beneficiaries, to ensure the benefits are distributed quickly, to the right person, without charging any fees or cuts.”

- President Joko Widodo,
Republic of Indonesia, 4th
January, 2021

Impact on the macro environment



CICO agents were critical in the distribution of social assistance during the pandemic

To counter economic pressures from the pandemic, the GoI allocated USD 13.8 billion in the yearly budget for social assistance programs. The government launched new programs and expanded the scope of existing social assistance programs by adding more than 5 million new beneficiaries. CICO agents were essential to the delivery of both in-kind and cash assistance under these programs, especially in remote rural areas.



The regulator incentivized digital payments

Policymakers in Indonesia took multiple measures to support the ailing economy, especially to promote digital transactions, as restrictions in movement hampered business activity. Bank Indonesia waived the charges for digital fund transfers and promoted the adoption of contactless payments by small merchants.

To support the ailing economy, the Gol expanded existing programs and launched new social assistance programs during the pandemic



Program Keluarga Harapan (PKH)

By June, 2020, the Family Hope Program (PKH) had reached **95%** of the total targeted 10 million beneficiaries.¹



Kartu Sembako Program

By October, 2020, the Kartu Sembako Program (Food Subsidy Program) had reached 18 million (**90%**) out of its 20 million targeted beneficiaries.³



Kartu Prakerja Program

By October, 2020, the Pre-Employment card had reached **62.5%** of the targeted 5.6 million beneficiaries.



Bantuan Social Tunai (BST)

The program has reached 9 million beneficiaries as of October 2020. Moreover, from January, 2021 until April, 2021, beneficiaries will receive monthly cash benefits of IDR 300,000 (USD 21.30⁴).

1. Data sourced from [Kontan, 2020](#)

2. Data sourced from [Kontan, 2020](#)

3. Data source from [Tempo](#)

4. The converted number assumes an exchange rate of IDR 1 = USD 0.000071

The number of beneficiaries for the PKH program was increased from 9.2 million to 10 million beneficiaries. The value of entitlement was also increased by ~25%.

The number of beneficiaries for the Kartu Sembako program was increased from 15.2 million to 20 million. The value of entitlement was also increased from USD 9 to USD 12 per month per family.

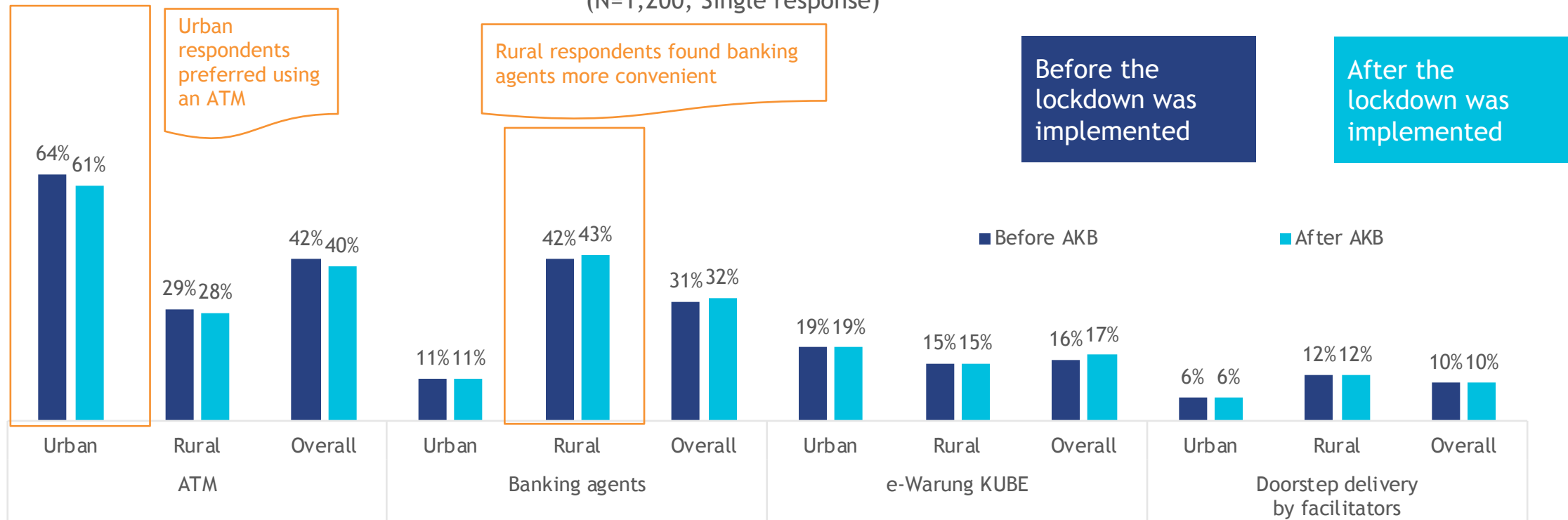
Gol also launched the Kartu Prakerja program to provide cash incentives to informal sector workers, especially ones who lost employment during the pandemic. The program targets 5.6 million beneficiaries.

The BST program was launched to target those who lost their jobs during the pandemic and did not receive any benefits under the G2P programs of the government. As of January, 2021, the program has targeted 10 million beneficiaries.

CICO networks, with their last-mile reach, were instrumental to deliver both cash as well as in-kind assistance

While agents delivered almost all of the in-kind assistance under the Kartu Sembako program, CICO agents were critical to the delivery of cash assistance in remote rural areas, as evident from our forthcoming study on Program Keluarga Harapan

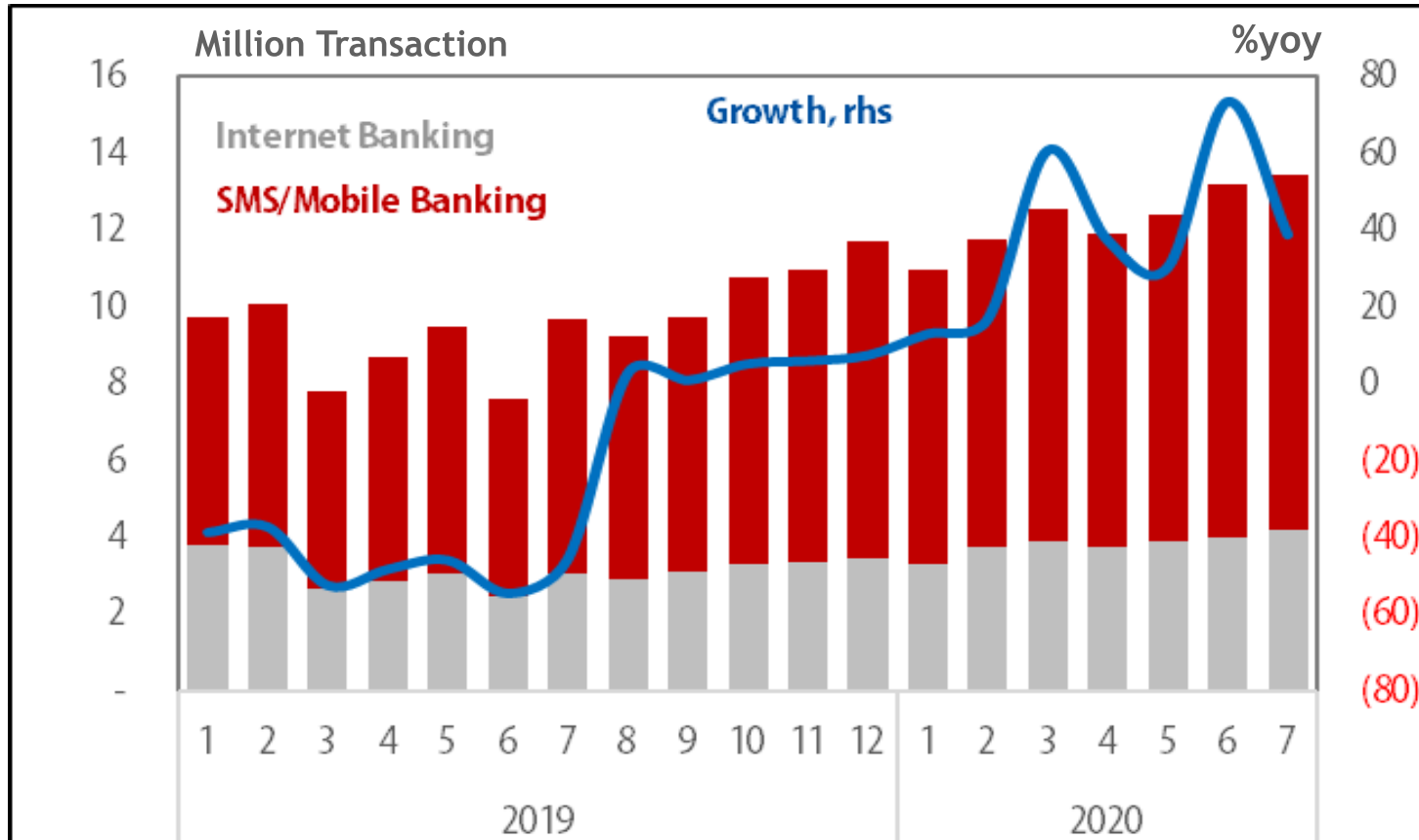
Preferred access point for the withdrawal of PKH funds
(N=1,200; Single response)



(n Urban= 431) (n Rural= 769)

Despite the pandemic, digital payment transactions grew nominally in Indonesia, though e-commerce transactions increased by 30%

Volume of digital banking transactions



Both the number of internet and mobile banking transactions remained fairly constant due to reduced economic activity.

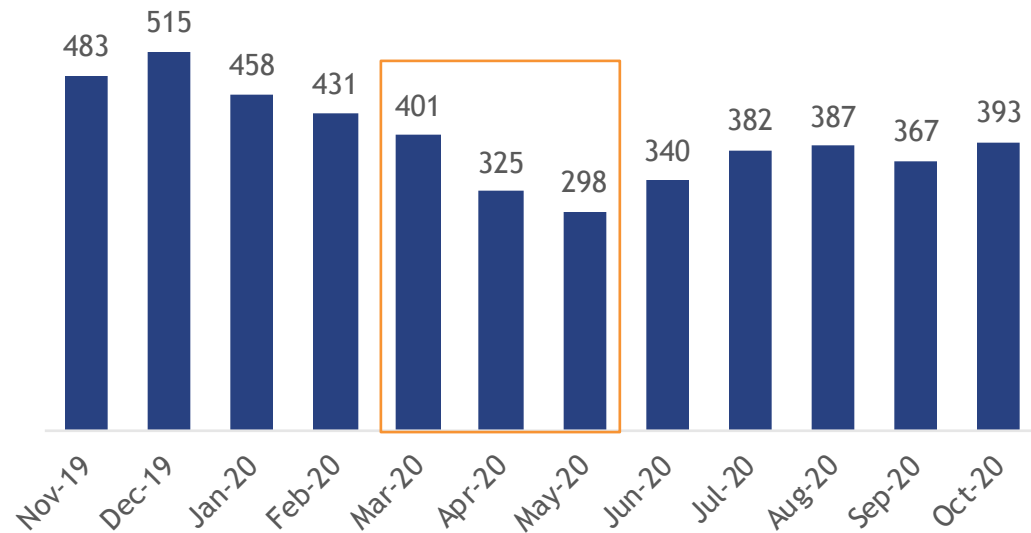
However, at around 105 million per month in March to approximately 140 million per month in July, e-commerce transactions grew significantly since the onset of the pandemic. This was primarily due to the rise in food deliveries in urban centers.

A spike in e-commerce transactions, coupled with stagnant growth in digital banking, indicates a preference toward the mobile e-money channel for e-commerce transactions.

* Bank Indonesia, September 2020, Indonesia: Economic Update and Policy Response

Mobile-based e-money transactions grew significantly and compensated for the steep fall in card-based e-money transactions as toll payments plummeted due to large-scale social restrictions (PSBB)

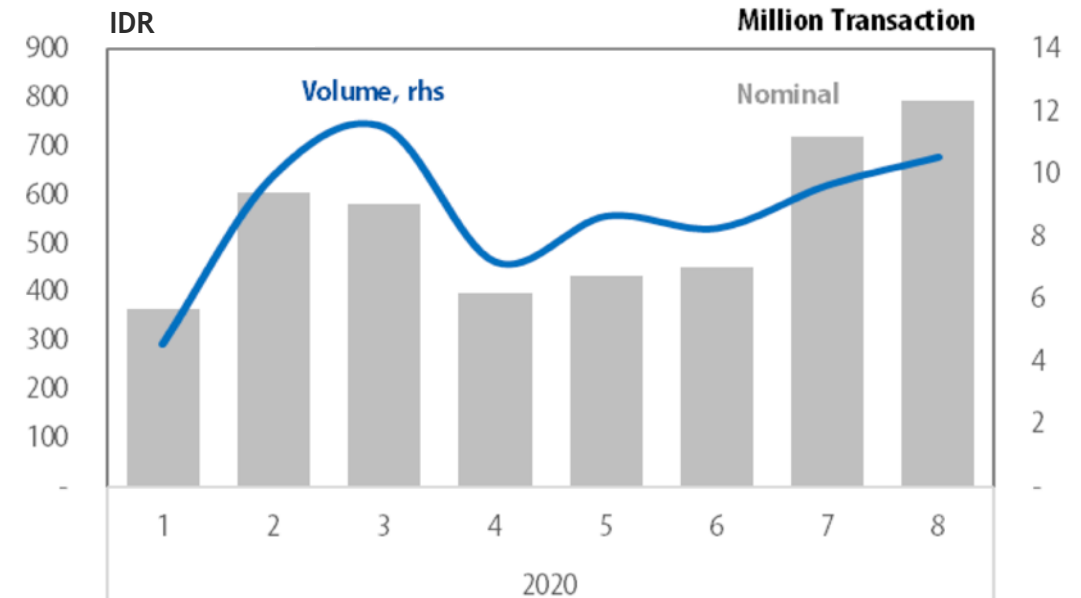
Electronic money transaction volumes (In millions)



Source: Bank Indonesia; daily average

E-money transactions fell after the lockdown. However, the volumes picked up again once the government lifted the lockdown restrictions.

QRIS transactions



As the PSBB² was relaxed, QRIS transactions resumed their pre-pandemic growth. However, they fell sharply during the pandemic.

* Bank Indonesia, September 2020, Indonesia: Economic Update and Policy Response
² Large-scale social restrictions (Indonesian: Pembatasan Sosial Berskala Besar or PSBB)

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“I reduced the operating time for my outlet by three hours as the business is quite slow. My clients are mostly university students but many of them have returned home due to the pandemic.”

- A FinTech agent in an urban area

Impact on CICO operations



Most CICO agents continued their operations during the pandemic

As banking services were classified as essential services, most CICO agents continued to operate during the pandemic. However, some agents had to reduce their operating hours due to low demand for their services and restrictions on movement.



Transaction volumes fell, especially for branchless banking and FinTech agents

Driven by the expansion in social assistance programs, the transaction volumes of most G2P agents increased. However, FinTech agents suffered relatively more due to their reliance on the use-case of bill payments.

Most agents continued regular operations amid the pandemic

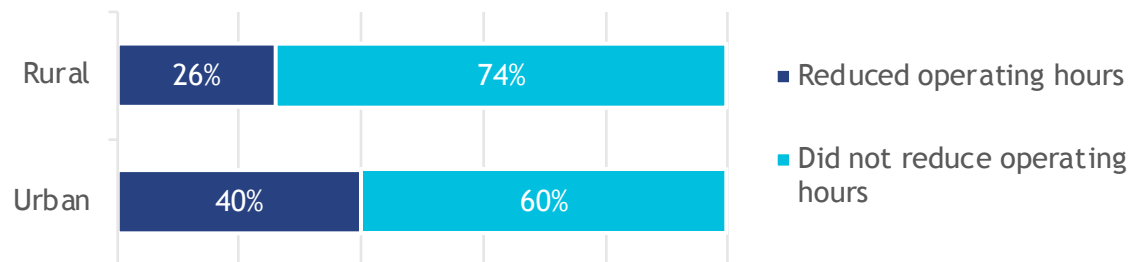
DFS business was classified as essential

- During the lockdown in March, 2020, Gol restricted businesses that were considered “non-essential.” Since banking services were classified as “essential” businesses, most CICO agents continued operations during the pandemic.
- All types of CICO agents could operate during the lockdown. This was because a large majority of them were non-dedicated and had a primary business that qualified as “essential,” according to the Ministry of Health Regulation Number 20 Year 2020.

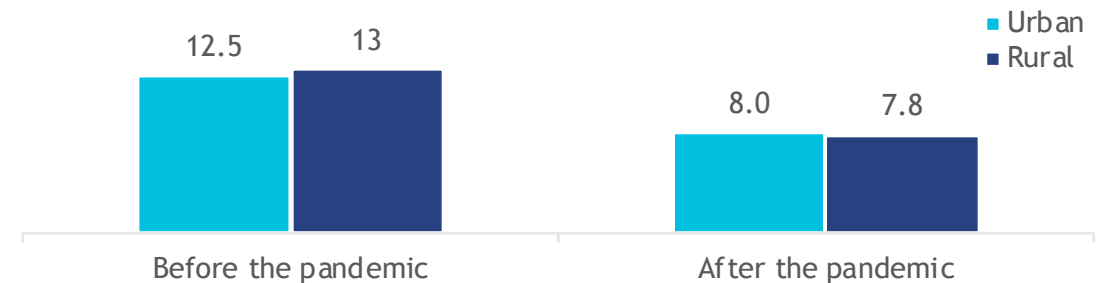
A third of the agents reduced their operating hours during the pandemic

- Only 34% out of 441 CICO agents reduced their operating hours.
- CICO agents in urban areas reduced their operating hours by a mean value of 4.5 hours while those in rural areas reduced their operating hours by a mean value of 5.2 hours.
- Qualitative interviews suggest that agents reduced their operating hours due to lower demand from customers and fear of contracting the virus.

Change in operating hours during the pandemic



Change in operating hours (mean)



Transaction volumes fell by 10-20% for most categories of transactions

Bill payments, cash withdrawals, and money transfers continued to be major transaction categories for all agents

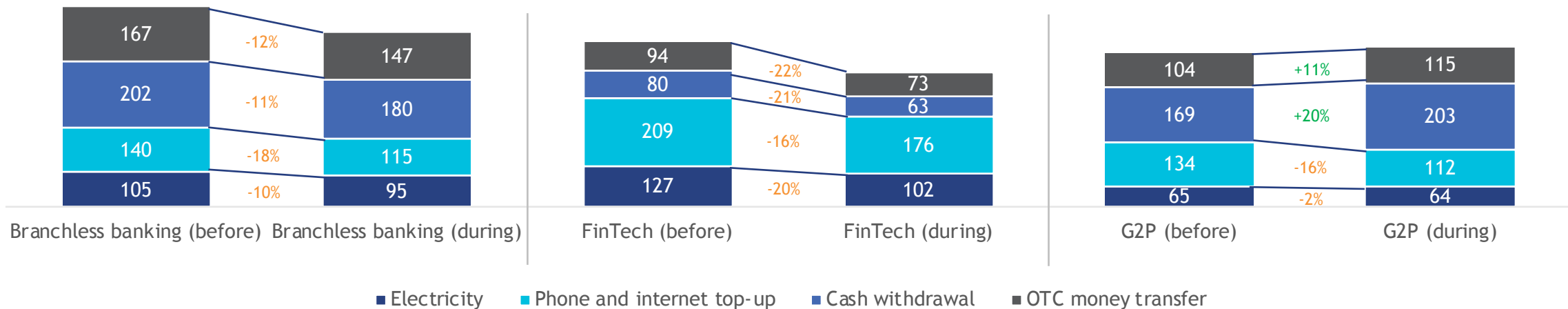
Over-the-counter (OTC) transactions continue to be the most prominent transaction types across all agent categories. Cash withdrawal and money transfers are the most prominent transaction types across all branchless banking and G2P agents, while phone top-ups and electricity bill payments are major transaction categories for FinTech agents.

The overall mean transaction volumes (per day) went down

- From 32 to 28 (-14%) for branchless banking agents
- From 31 to 24 (-22%) for FinTech agents

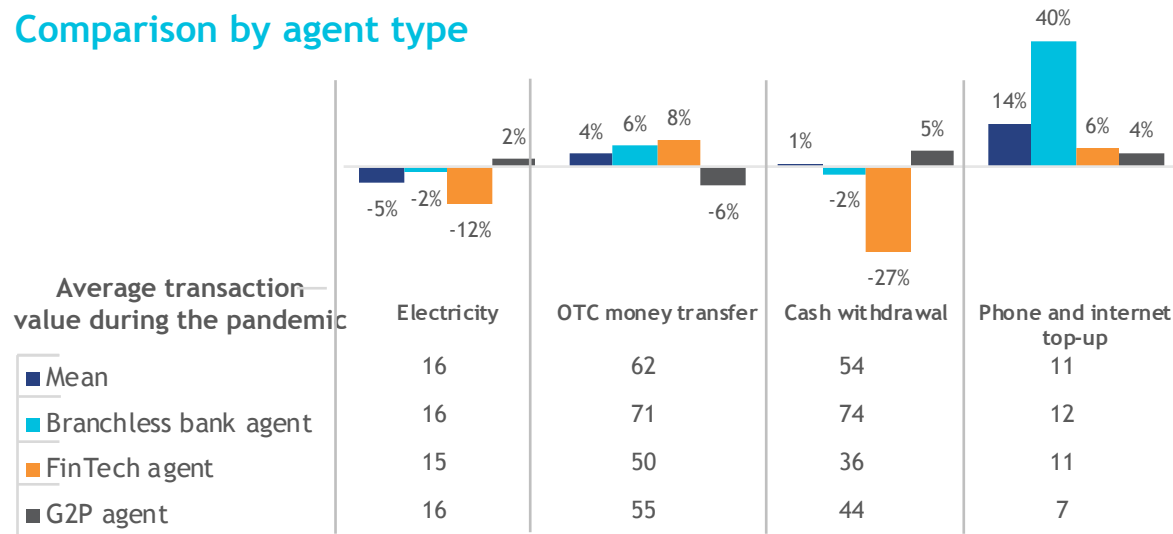
However, due to the government's decision to expand social assistance programs, G2P agents witnessed an increase in mean transaction volumes, from 33 to 38 (+14%).

Top transactions (Average volume of transactions per month)

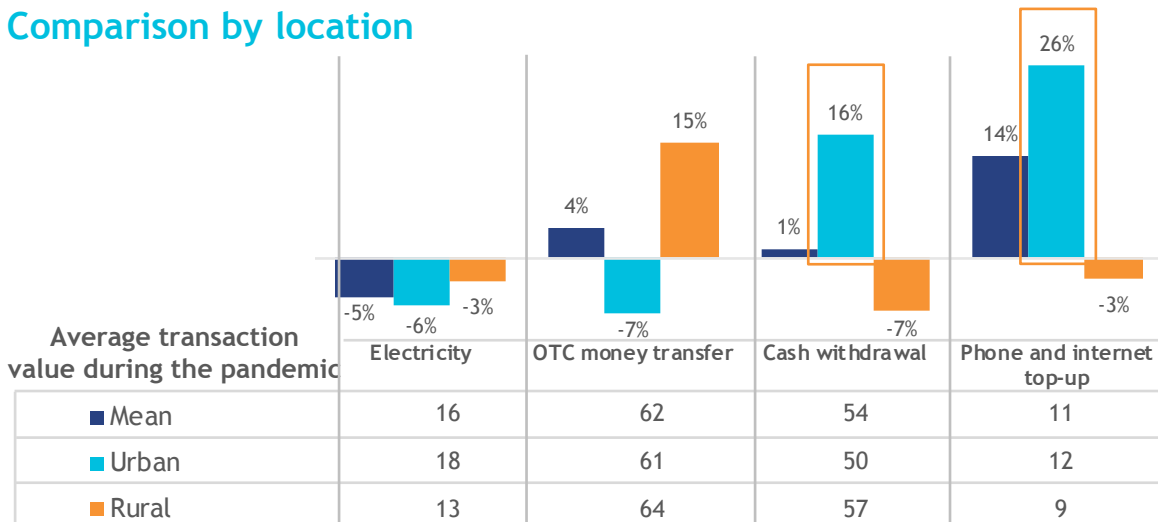


Mean transaction values were comparable across agent categories but higher variations were observed between urban and rural locations

Comparison by agent type



Comparison by location



The transaction value of phone and internet top-ups increased during the pandemic

- Our qualitative research shows an increase in the demand for phone and internet top-ups. This was due to the increase in digital activities of customers during the pandemic, especially for e-commerce and online school learning.

The value of cash withdrawals increased in urban locations

- Restrictions in movement and fear of contracting the virus, especially in urban areas, necessitated greater reliance on nearby CICO agents for cash withdrawals.¹

“Bills payments dropped the most during the pandemic. I think this was due to the subsidy given by the government.” - A male FinTech agent in an urban area

“Cash withdrawals in my shop, including G2P disbursements, have increased from a minimum of IDR 225,000 (USD 15.98²) to a maximum of IDR 1 million (USD 71) per transaction during the pandemic.” - A female G2P agent in an urban area

¹As per regulation, non-bank agents cannot directly conduct cash-outs. Such transactions can be facilitated indirectly if customers make a merchant payment to the agent account and receive cash in return.

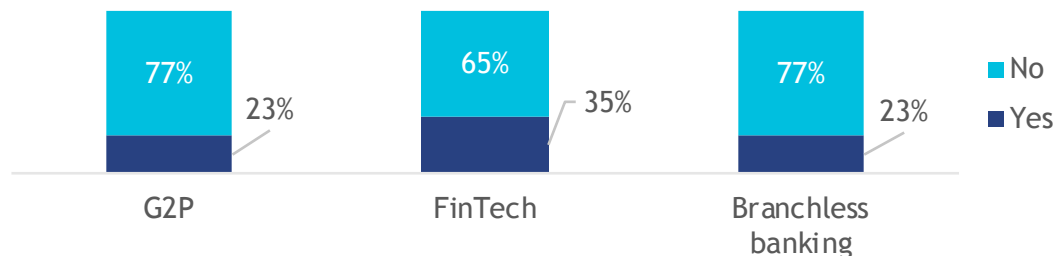
²The converted number assumes an exchange rate of IDR 1 = USD 0.000071

Though around one in four CICO agents double up as QRIS merchants, their transaction volumes remained low, especially during the pandemic

Many CICO agents are still not signed as QRIS merchants¹

- 73% of CICO agents were not signed up as QRIS merchants. However, expectedly, as a higher percentage of FinTech agents double up as QRIS merchants considering the QRIS initiative is a strategic focus for some of the major FinTechs in Indonesia that compete in the digital micro-payments space.
- The lack of awareness and limited provider push are the key reasons for the lower uptake of such solutions.

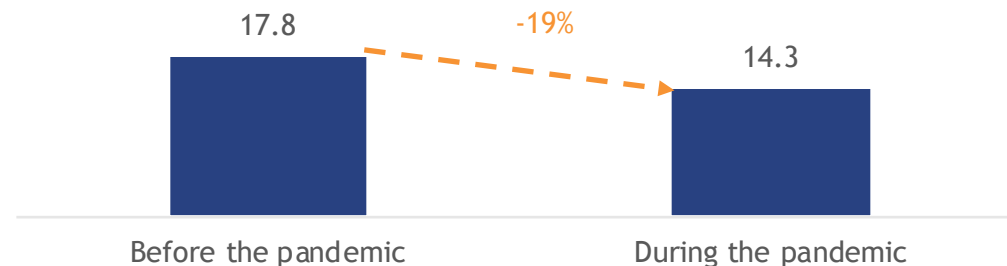
Agents who offer QRIS services



QRIS transactions are still low in volume

- More than 4 million QRIS merchants have been signed up so far and BI targets to increase this number threefold to 12 million merchants by 2021. However, it may still take some time before adoption for QRIS-based payments picks up, especially in non-metro locations and among low-income segments. Qualitative data reveals that some agents had to stop using QRIS due to low demand from customers.

Mean volume of QRIS transactions per month



“ I feel that process for application is too complicated. I might find it difficult to explain it to my customers.

- A female branchless banking agent in an urban area

“ I used to have OVO and Linkaja QRIS, but I do not use them anymore due to the lack of demand from customers.

- A female G2P agent in an urban area

¹ Not every agent needs to be a QRIS merchant. However, agents can use this to potentially increase their revenues by charging informal fees to conduct indirect cash-outs for e-wallets.

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“Before the pandemic, I earned IDR 3-5 million (USD 213-355¹) from the FinTech business. This has now dropped to only IDR 1.5 million (USD 106.5), which has increased the pressure on my household finances.”

- A FinTech agent in Makassar

Impact on income and expenses



Lower transaction volumes also reduced incomes from the CICO business

Around 50% of CICO agents witnessed some degree of fall in their overall income from the CICO business. Urban agents were slightly more affected than their rural counterparts.



Maintaining safety protocols added to the operational expenses

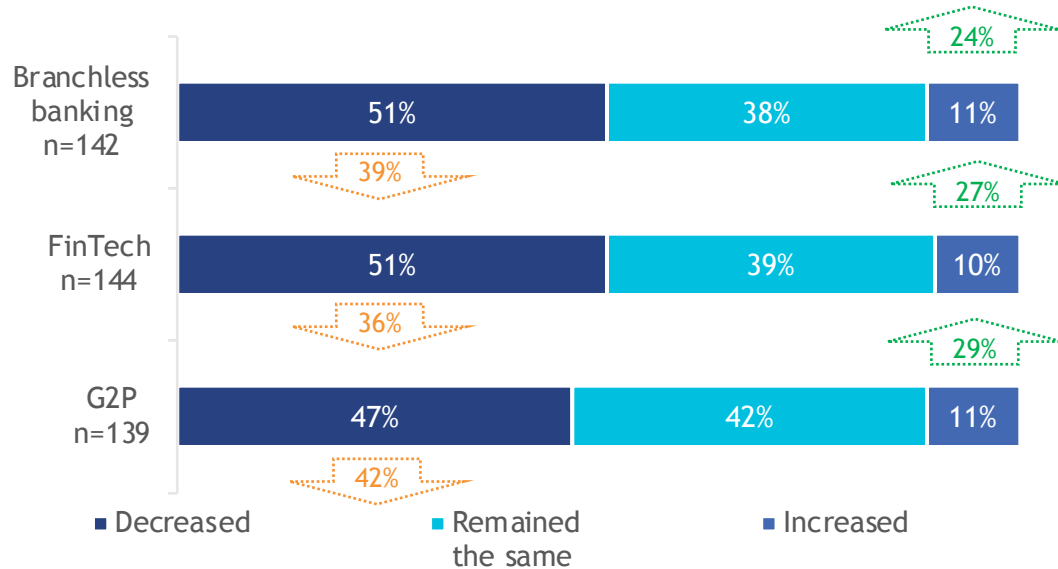
With little support from providers, agents had to invest in hygiene and safety protocols. The income from CICO operations became more critical to the overall financial management of the household.

¹The converted number assumes an exchange rate of IDR 1 = USD 0.000071

Revenue for around half of the CICO agents fell

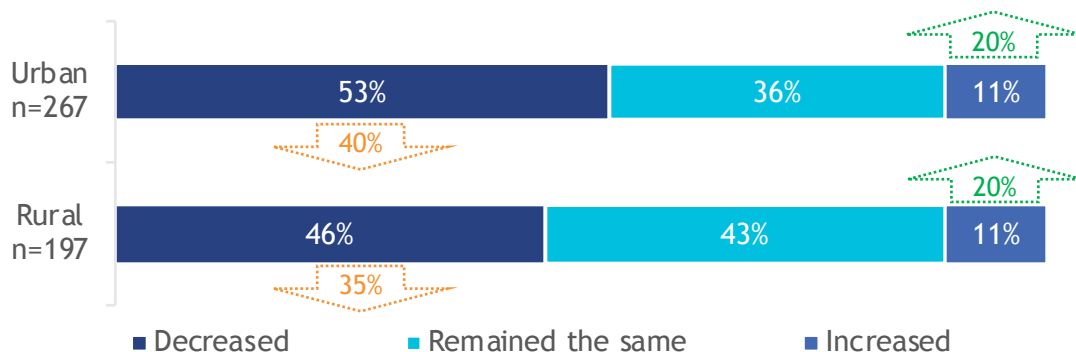
Comparison of revenue changes by agent type

(Values in arrows represent the mean increase in revenues)



Comparison of revenue changes by location

(Values in arrows represent the mean increase in revenues)



Agents in urban areas and the Java region experienced a more significant drop in revenues during the pandemic*

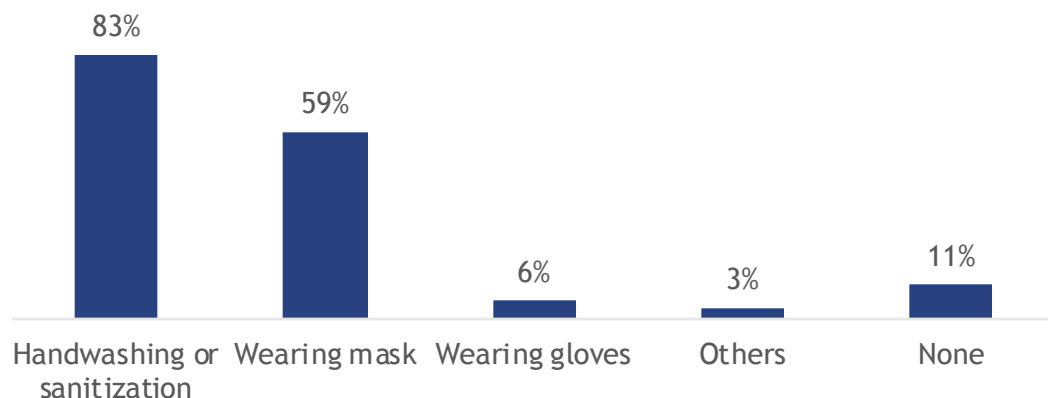
- Stricter social mobility restrictions led to a more significant drop in revenue for agents in urban area. The lockdown was implemented in more metropolitan areas compared to villages. Provincial governments in Java started the lockdown in April, while the restrictions were only enforced around May to June in non-Java regions. As of August, social mobility restrictions were in force only in the Jabodetabek areas.
- Our report on the impact of COVID-19 on MSMEs showed that by around July to August, revenue of MSMES fell by a median of 66%.
- The revenue of G2P agents fell more drastically compared with branchless banking and FinTech agents.
- The growth of personal digital banking or FinTech is lower in rural areas. Customers had to travel farther to reach agents and conduct transactions in person. Further, technology and communication infrastructure is limited in rural areas. As of 2017, only 48% of the rural population had access to the internet.

Agents have been following hygiene and safety precautions despite the additional cost and lack of support from their service providers

Most agents followed some form of safety protocol at their agent outlet

- Agents reported washing or sanitizing hands (83%) and wearing masks (59%) as the top-two safety protocols followed at their outlet.
- However, around 11% of the agents reported not having any safety protocols in place at their outlets.

Safety protocols that agents follow

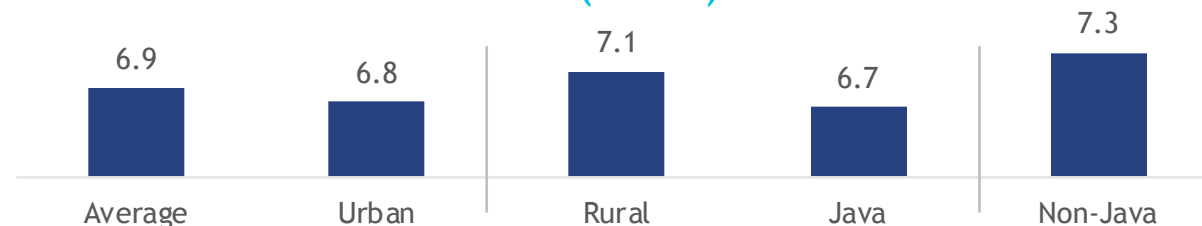


“ I have not received any special training or guidance to manage operation or health protocols during the pandemic. However, I am thankful that my customers followed pandemic safety protocols. - A dedicated G2P agent in Agam

Agents received little support from service providers as far as reimbursing the cost of safety protocols at the outlet was concerned

- 92% of the agents reported that they do not receive any support or reimbursement for hygiene and safety precautions from their service providers.
- Other than what their service providers give, 89% of the agents reported that they incur additional costs of IDR 97,400* (USD 6.92)¹ per month for hygiene and safety measures. This cost was in the range of IDR 91,200-97,400* (USD 6.48-6.92) for all types of agents.
- Area and region-wise, these costs were higher in rural and non-Java regions than their counterparts in urban and Java regions.

Additional amount spent on safety measures (in USD)



“ Now I have to pay for hand sanitizers and masks. It affects my working capital and liquidity. - A non-dedicated G2P agent in Makassar

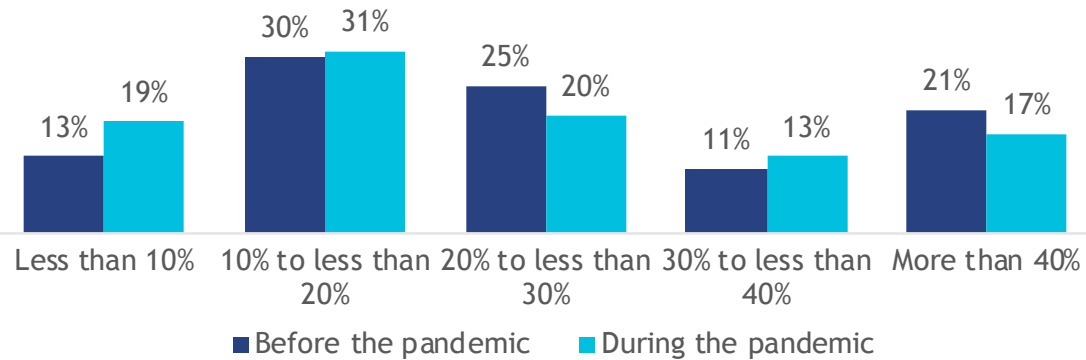
¹The converted number assumes exchange rate of IDR 1 = USD 0.000071

The contribution of agency business to the household income has reduced

The contribution of DFS income to the total income declined to less than 20% for most agents

- ▶ The contribution of agency business declined, especially for those with at least 20% contribution of the agency business to household income.
- ▶ During the pandemic, more than half the agents made 20% or less of their household income from offering DFS.

DFS contribution to the household income before and during the pandemic

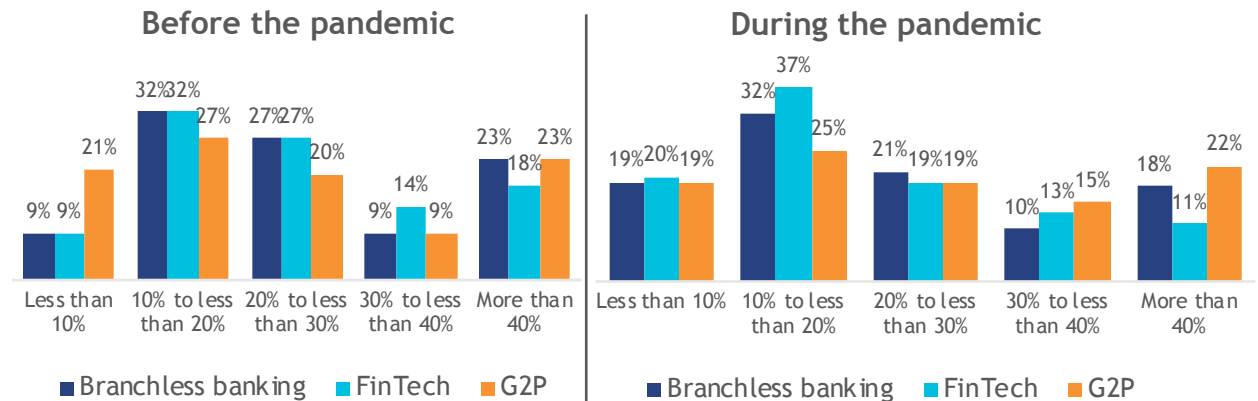


“Before the pandemic, my DFS income was around 40% of my total income. Due to the pandemic, the number of customers who transfer money to their families has reduced. As a result, my DFS income declined to only 30% of my total income.”
- A female G2P agent in an urban area

The DFS income of FinTech agents declined, while it increased for G2P agents

- ▶ The DFS contribution of FinTech agents has reduced significantly during the pandemic. The reduction is more evident where DFS contributes “more than 40%” and “20% to less than 30%” to the total income.
 - Qualitative data suggests that the reduced income from DFS was mainly due to the decrease in transactions for the payment of electricity bills.
- ▶ G2P agents were relatively secure due to the certainty of business around the distribution of monthly social assistance to beneficiaries during the pandemic.

Change in the contribution of DFS to household income per agent type



“

“Before the pandemic, I maintained IDR 10 million (USD 710¹) for the daily liquidity needs of my DFS business. During the pandemic, IDR 5 million (USD 355) was enough due to the lower demand for transactions in the market.”

- A FinTech agent in an urban area

Impact on agent network management practices



Low demand and falling household incomes also affected the working capital for DFS

More than 50% of FinTech agents reduced their working capital for the DFS business. A smaller proportion of branchless banking (36%) and G2P (25%) agents reduced their working capital.



Agents continued to depend on the same channels for liquidity management

Banks and ATMs continued to be the channels used most commonly for liquidity management. However, the frequency of rebalancing has reduced for most agents during the pandemic.

¹The converted number assumes an exchange rate of IDR 1 = USD 0.000071

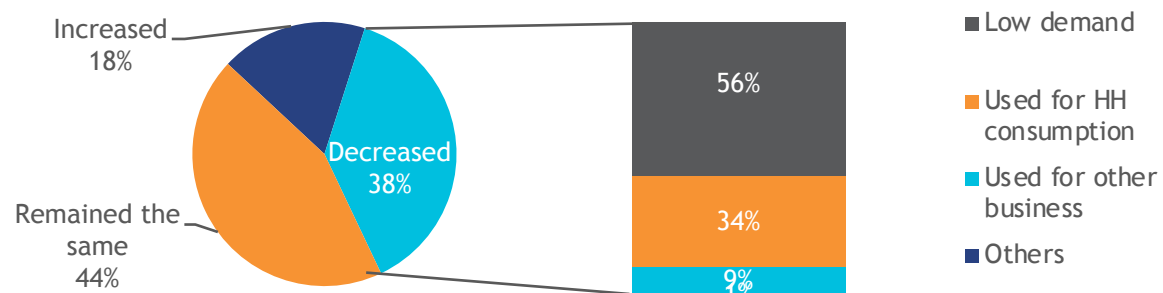
FinTech agents, in particular, witnessed a significant fall in working capital for the DFS business

The capital of agents remained the same or depleted due to low demand and increasing pressure of household expenses

Half of the FinTech agents interviewed reported that their working capital for the DFS business has reduced since the pandemic. On the other hand, almost half of branchless banking and G2P agents reported no change in working capital before and during the pandemic.

Change in the working capital of agents

Reason for reduced capital



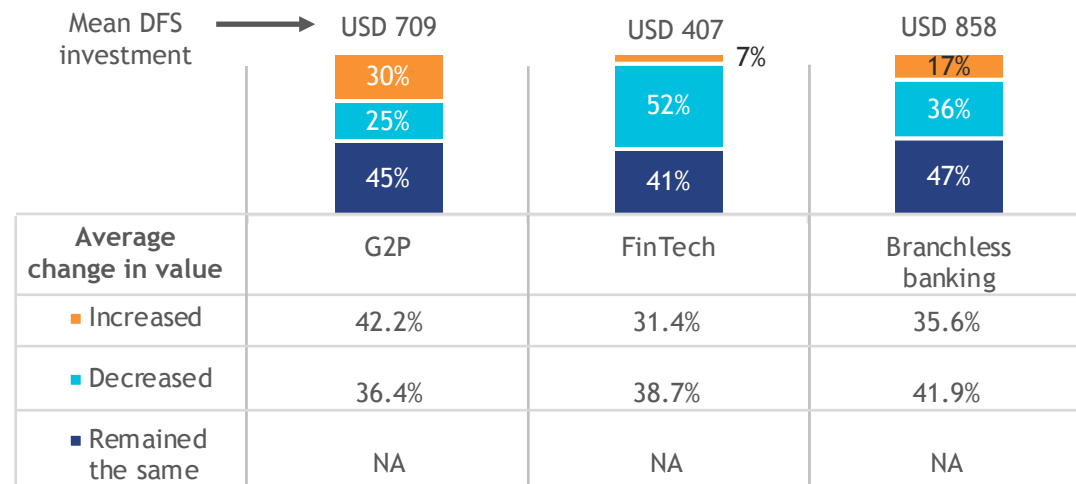
“ The working capital for my DFS business has decreased due to lower demand for bill payments. - A male FinTech agent in an urban area

¹The converted number assumes an exchange rate of IDR 1 = USD 0.000071

The increase in customer demand required an increase in working capital

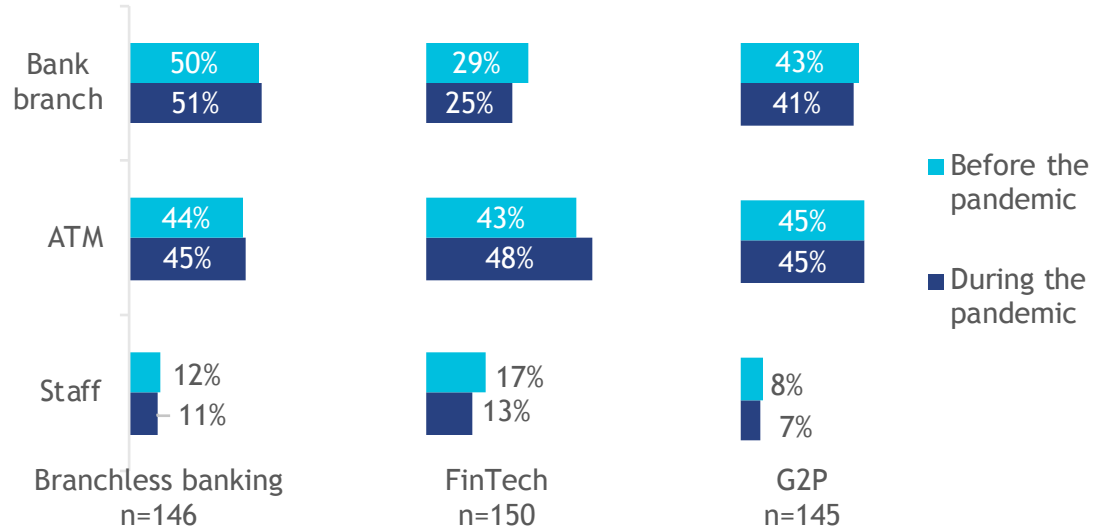
- ▶ The working capitals of 30% of G2P agents increased from a mean value of 10 million IDR (710 USD¹) to 14.2 million IDR (1,008.2 USD) during the pandemic.
- ▶ Expansion of G2P programs by the government was the primary reason for the increase in investments as agents had to handle an additional 10-20% of new beneficiaries.
- ▶ FinTech agents depend on bill payments to generate revenue. Since the demand for such transactions fell during the pandemic, agents reduced investments in their DFS businesses.

Change in working capital



Though agents still rely on particular channels for liquidity management, their frequency of rebalancing has reduced during the pandemic

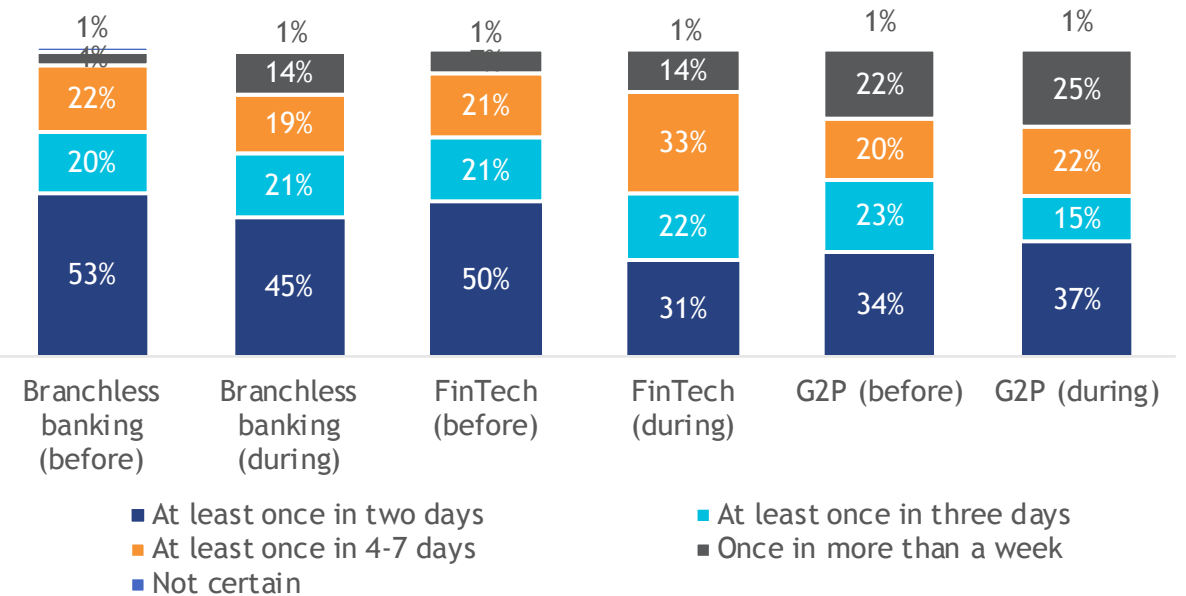
Preferred methods to manage liquidity



The liquidity management practices of agents have not changed much since the onset of the pandemic. Most of them still visit a nearby ATM (48%) or a bank branch (37%) to rebalance cash.

“Not much has changed. I have always invested around 25-50 million IDR (1,775-3,550 USD¹) a week into my DFS business. The ATM is also not that far from where I live.”
- A male branchless banking agent in an urban area

Change in the frequency of rebalancing



Since the onset of the pandemic, the frequency of rebalancing has generally reduced, especially for FinTech agents.

“I used to go to the bank branch to rebalance at least once a week. Now, I only visit the bank once every two weeks due to the low demand for bill payments from my customers.” - A male FinTech agent in an urban area

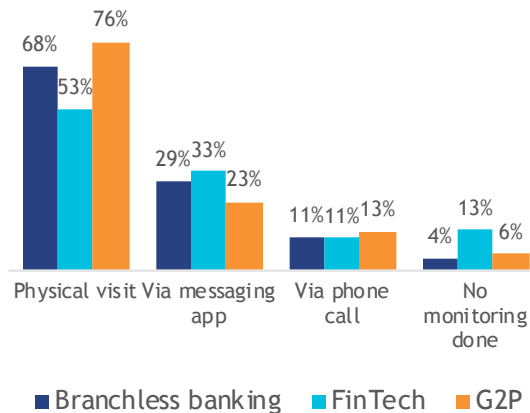
¹The converted number assumes an exchange rate of IDR 1 = USD 0.000071

Agent training and monitoring have been limited during the pandemic

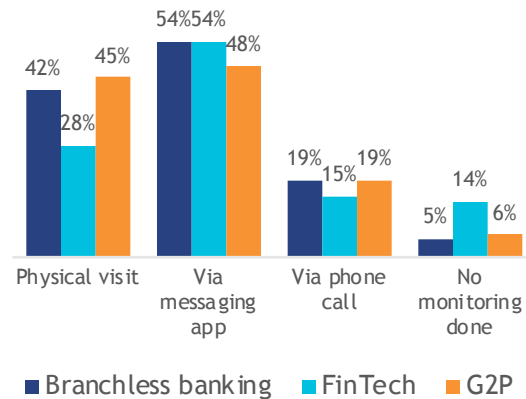
Physical visits have shifted to online meetings in the Java region

Most agents reported a shift from physical visits to online monitoring through messaging applications, such as WhatsApp, Line, Telegram, Facebook, among others. However, physical visits continued for many agents (45%) in non-Java regions.

Monitoring before the pandemic



Monitoring during the pandemic

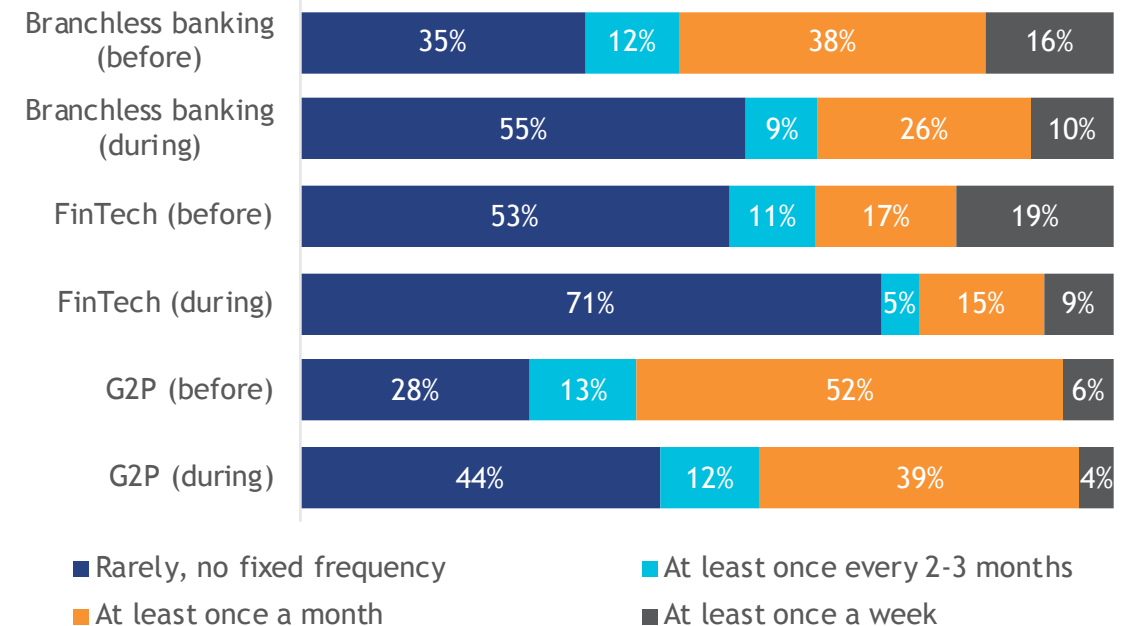


“ Physical visits (monitoring) from service providers have changed to online monitoring through WhatsApp or Line during the pandemic. The frequency of monitoring has also reduced. Earlier, monitoring was conducted at least once every 2-3 months. Now, the visits have no fixed frequency. - A male FinTech agent in urban area

The frequency of visits have reduced significantly during the pandemic

- Decreased physical visits have become more pronounced for FinTech agents.
- Despite the expansion in social assistance programs, G2P agents also witnessed a fall in the overall frequency of monitoring by service providers during the pandemic.

Change in monitoring frequency

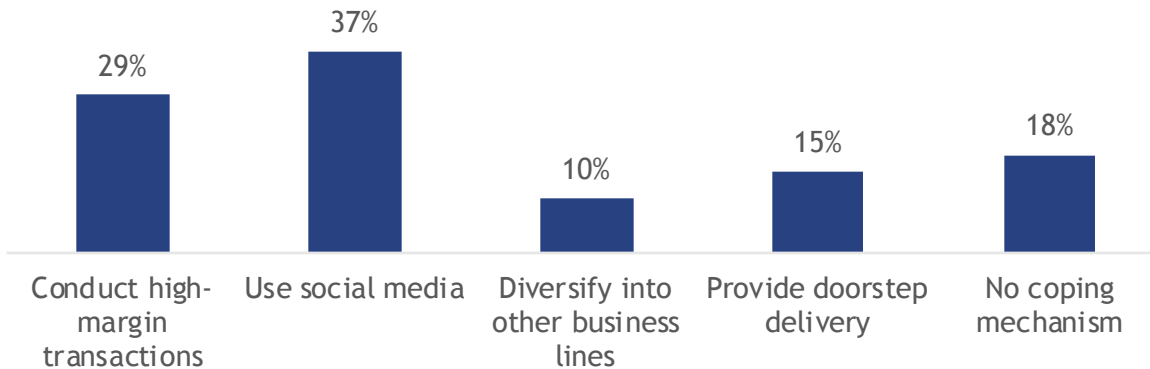


Most agents managed to stay afloat even without offering new services

Agents have adopted various coping strategies

A third of agents have used social media to communicate with their customers and conducted high-margin transactions to cope with effects of the pandemic. These coping strategies are consistent across all types of agents.

Coping strategies adopted

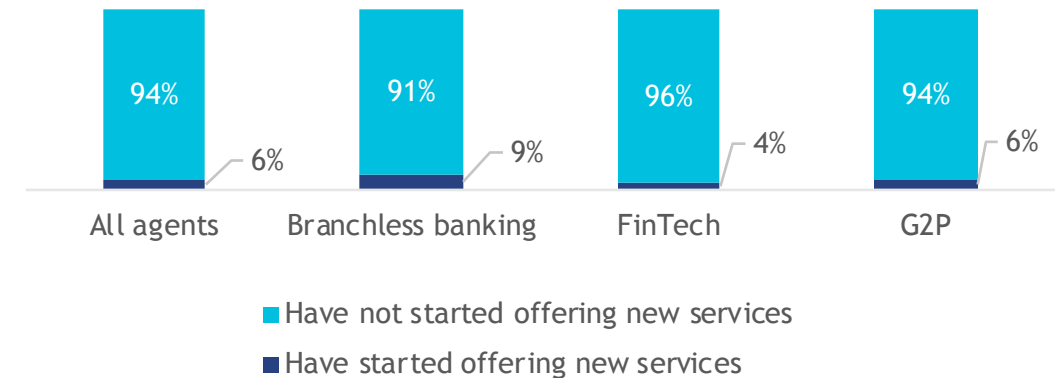


“ I used social media to communicate with my customers during the pandemic. I promoted my DFS business through WhatsApp Stories, which my contacts viewed. Around 10 customers have contacted me so far for bank transfers and mobile top-ups.” - A female branchless banking agent in an urban area

Most agents have did not offer new services

- 94% of agents have not started offering new services since the onset of the pandemic.
- The remaining 6% were mostly offer services, such as insurance, instant loan (pay later), e-Samsat, and gold investments.

New services offered during the pandemic (by agent type)



Service reliability and provider support have not changed during the pandemic

Agents experienced transaction failures even before the pandemic

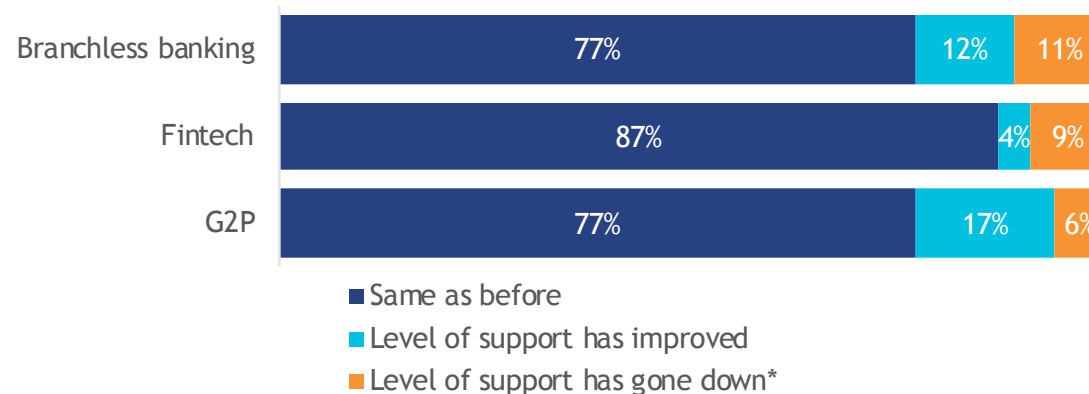
A qualitative analysis reveals the lack of significant change in either system or network issues during the pandemic.

“ Sometimes, transactions fail when the machine freezes up due to poor signal. When that happens, I suggest customers to either transact with another agent, or leave their ATM cards so I can do the transaction for them once the signal returns. - A woman G2P agent in a rural area

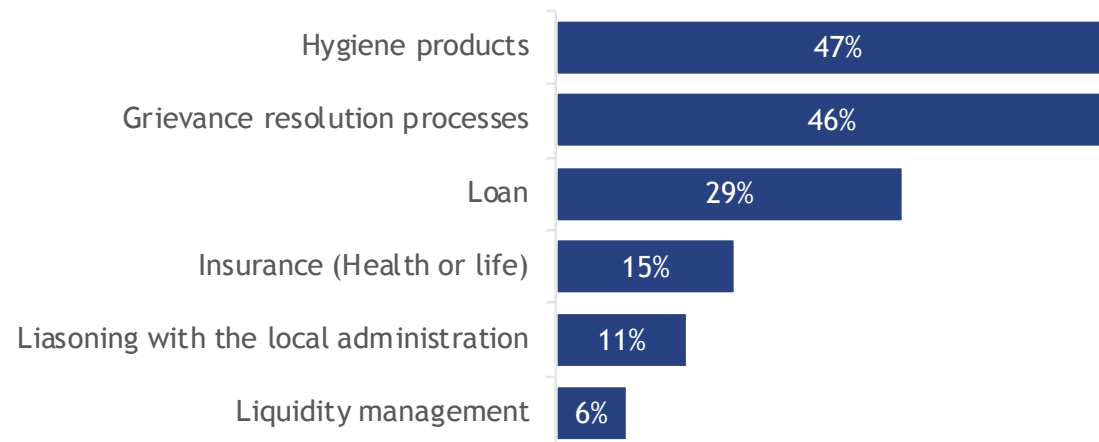
Agents receive the same support from their service providers

81% of agents reported that the support that they receive from their providers, such as the resolution of queries and grievances, remains unchanged.

Satisfaction levels with provider support



Support needed by agents



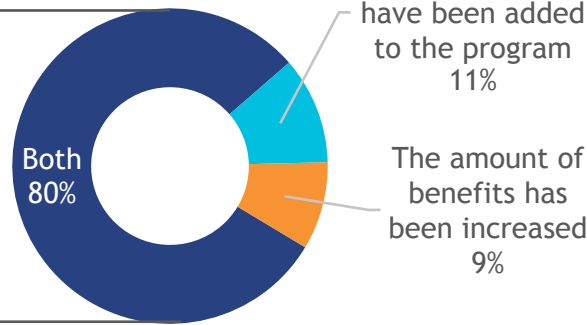
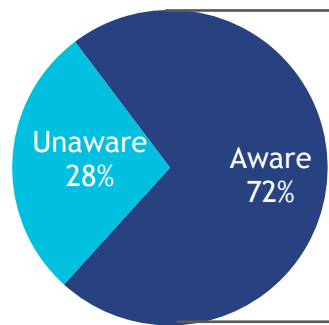
* It means that the quality of support from providers has changed as compared to before the pandemic. A reduction in the level of support includes a reduced frequency of visits to agent locations, more time taken to resolve complaints, and the unavailability of the service provider helpdesk to resolve queries.

While G2P agents are aware of the changes made in Gol's COVID-19 response programs, the beneficiaries, especially in rural areas and Java, are less aware of such changes

G2P agents are aware of the changes in Gol's COVID-19 response program

- 72% of G2P agents reported that they are aware of the changes in the Kartu Sembako program.
 - 80% of these G2P agents reported that they know of both these changes: 1) new beneficiaries have been added to the program; and 2) the amount of benefits has been increased.
 - The agents obtained such information from PKH facilitators as well as from the local government.

Awareness of changes (G2P agent, n=145)

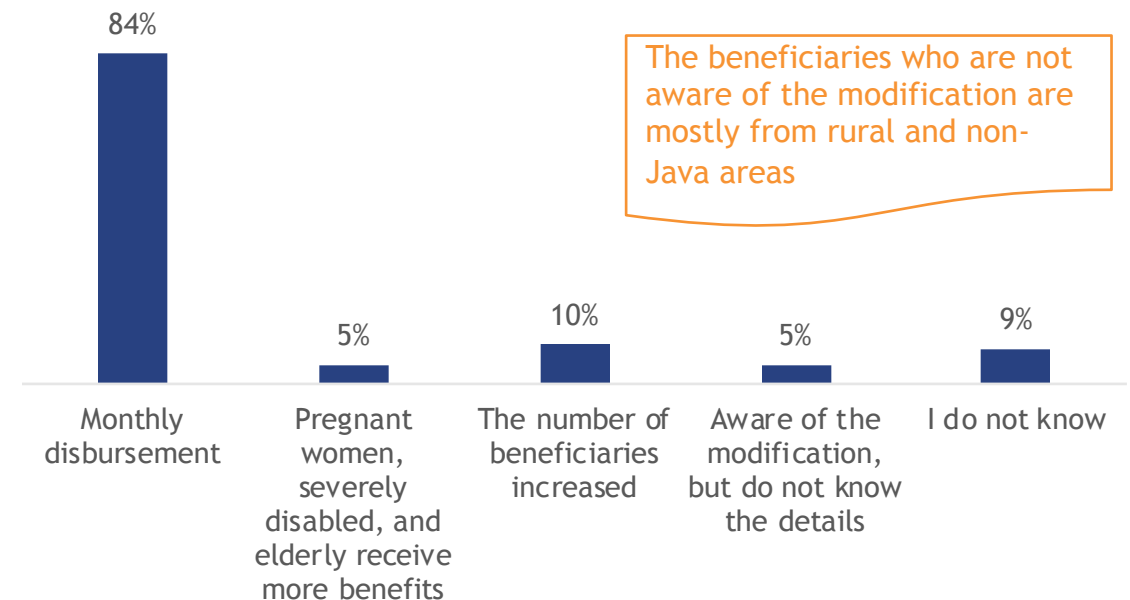


The awareness levels of beneficiaries is low

The data from our forthcoming study on the impact of COVID-19 on PKH beneficiaries revealed that most beneficiaries were not aware of changes in PKH, including the increase in their entitlements.

Awareness on the modification of PKH scheme

(N=1,200; multiple responses)



The beneficiaries who are not aware of the modification are mostly from rural and non-Java areas

“

“Most of my transactions are based on G2P. 75% of my customers are women who visit my shop according to the disbursement schedule.”

- A G2P agent in urban area

Specific findings on female CICO agents and female DFS clients



Female beneficiaries continued to conduct transactions at the agent locations during the pandemic

Despite restrictions on movement that limited access to nearby agents, female beneficiaries continued to conduct DFS transactions by themselves at the agent location.

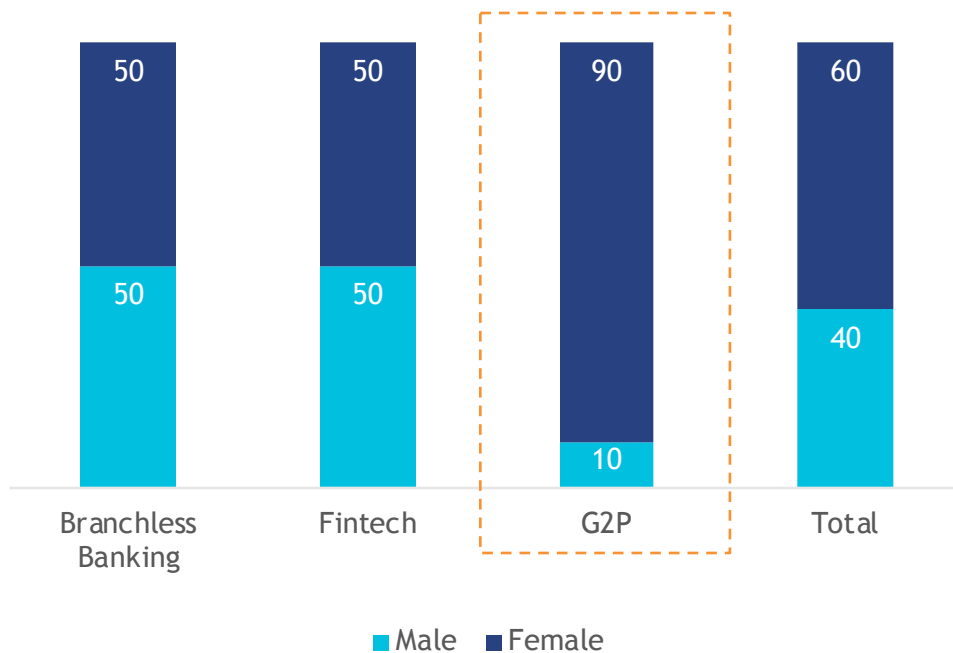


The transaction volumes of cash withdrawals increased, especially with female agents

Due to the high influx of female G2P program beneficiaries during disbursements, the volumes of cash withdrawal transactions increased for most female agents.

The proportion of female and male customers remained the same during the pandemic, while G2P agents served a significant number of female customers

Gender split (%) of customers at agent outlets during the pandemic



Female customers still come out and transact by themselves

The proportion of female and male customers has generally remained the same during the pandemic. The COVID-19 crisis did not keep female customers from conducting DFS transactions themselves.

“ Female customers did not hesitate to conduct DFS or G2P transactions at my outlet. They consider the benefits a part of their income, needed to meet their household expenses. - A female G2P agent in Agam

G2P agents have a significant base of female customers compared to other agent categories

Since the onset of COVID-19, the Government of Indonesia has expanded the number of G2P beneficiaries, including PKH and Kartu Sembako* and also increased their benefits. However, restrictions on movement have created the need for beneficiaries to implement hygiene protocols and access their entitlements through the nearest agent. Despite the situation, female beneficiaries visit agent locations by themselves to collect government support payments.

“ 95% of beneficiaries who visit my outlet to collect their benefits are women. This number has remained the same during the pandemic. - A male G2P agent in Makasar

*PKH and Kartu Sembako are the two largest account-based G2P programs that target female beneficiaries who can then access their benefits at the nearest agents of Bank Himbara.

The transaction volumes of female customers for OTC money transfers and cash withdrawals were generally high, especially with female agents

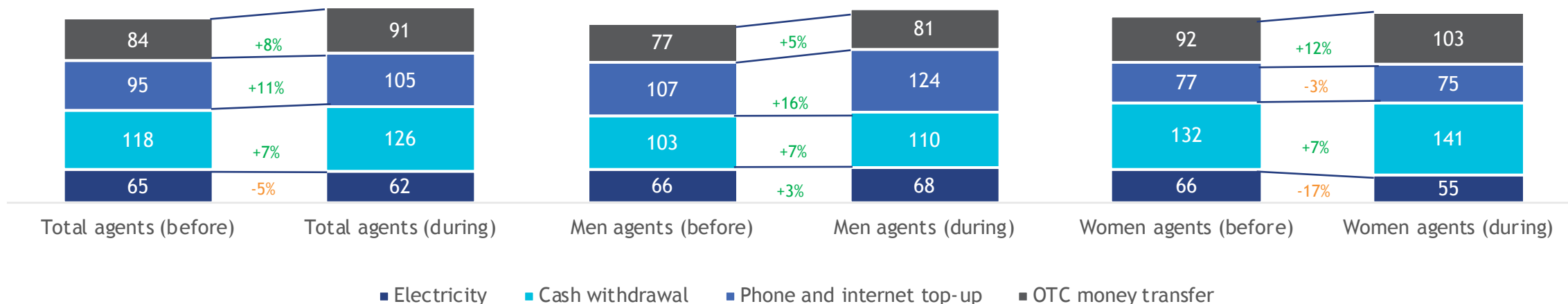
The top DFS transactions demanded by female customers have remained the same across male and female agents

The top four services that female customers demanded before and during the pandemic were electricity bill payments, phone and internet top-ups, cash withdrawals, and OTC money transfers. Cash withdrawal is the most prominent transaction for all agents, while phone and internet top-ups is the major transaction category for male agents.

Cash withdrawals were more prominent with female agents

Cash withdrawal is the most demanded service from female agents by their female customers. The high number of female G2P beneficiaries led to the large volume of cash withdrawals.

Top transactions demanded by female customers (average volume of transactions per month)



The transaction volumes of female customers have generally increased at G2P agents and rural agent locations

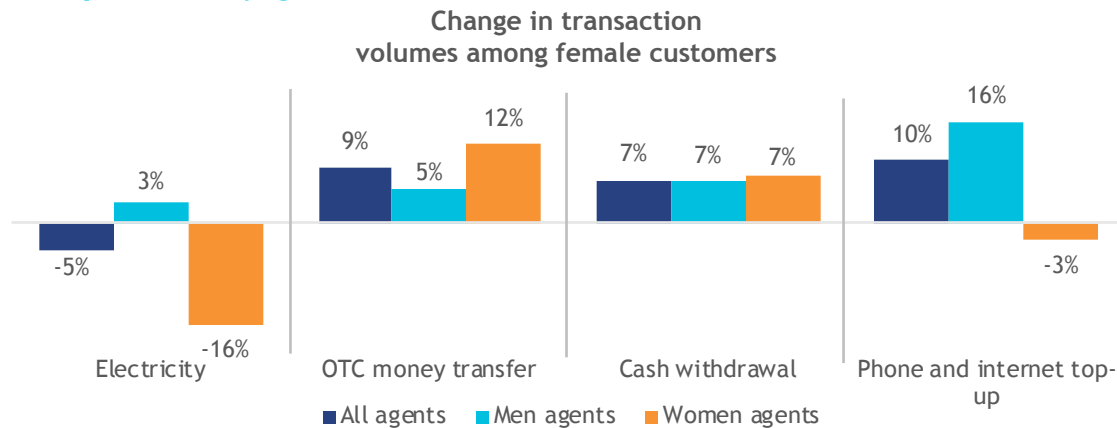
Female customers have generally increased their volume of transactions, except on electricity payments

The transaction volumes of female customers for phone and internet top-ups have significantly increased at G2P, male agent, and rural agent locations. The need to facilitate their children's online education during the lockdown drove this increase in the volume of transactions.

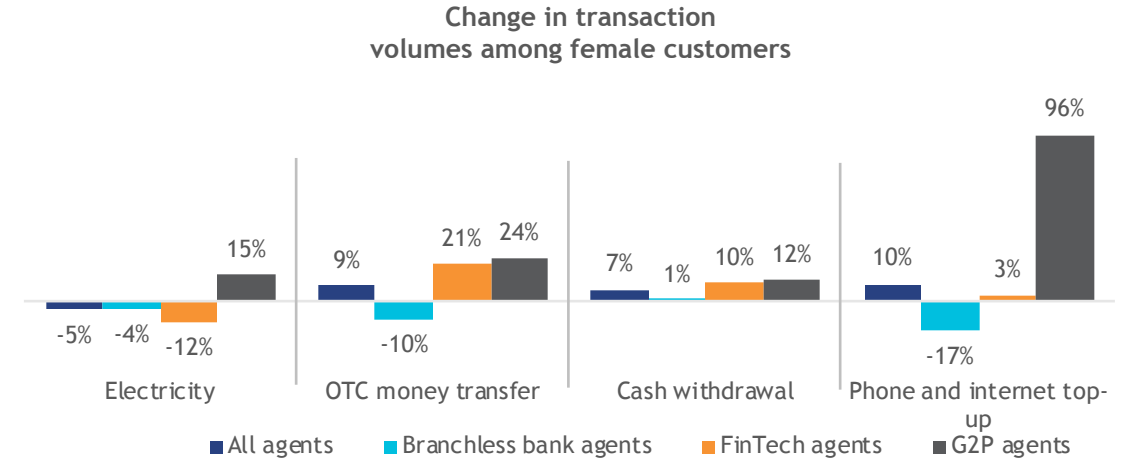
The transaction volumes for OTC money transfer and cash withdrawals from female customers also increased across different categories of agents.

However, the volume of transactions for the payment of electricity bills from female customers decreased for most agents due to the electricity relief programs announced by the Gol.

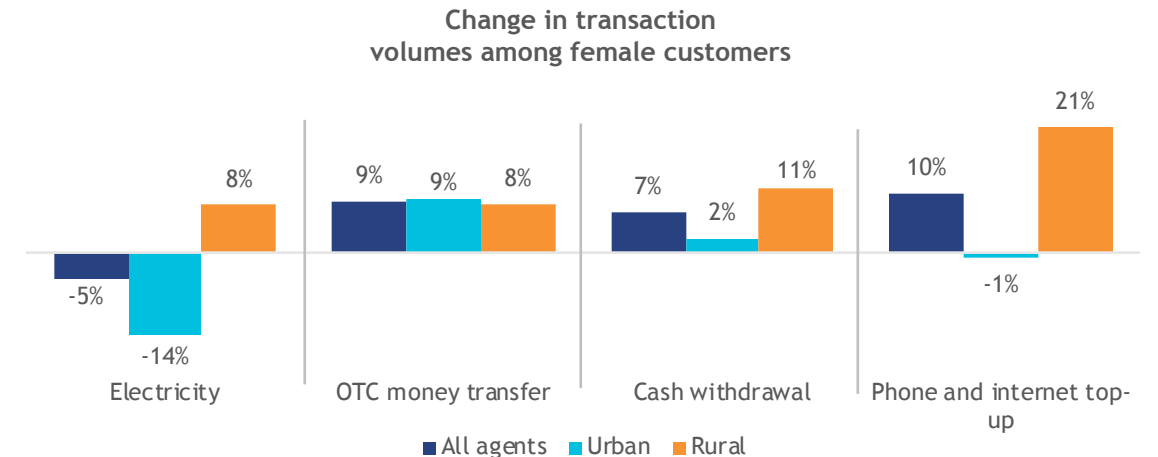
Comparison by gender



Comparison by the type of agents



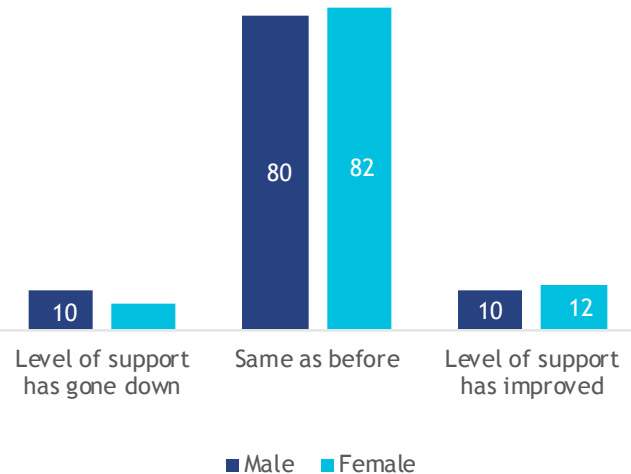
Comparison by location



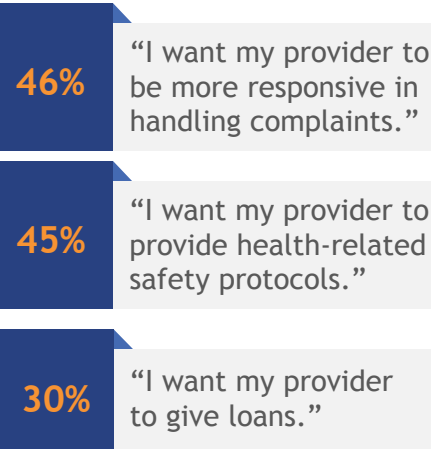
Female agents continue to rely on support where they had good experience

Female agents are generally satisfied with the support they receive

Male and female agents rate the support they got from providers, in percentage (N=441)



What female agents need during the pandemic



- No significant difference was visible in how male and female agents rated the support they got from providers.
- Female agents consider the responsiveness of providers in handling complaints as the most important support.

“BRI’s support keeps me motivated to run my DFS business.”
- A woman branchless banking agent in Bandung

Female agents rely mostly on customer service their providers offer or agent association WhatsApp groups

Most female respondents claim that whenever female agents need support from providers to understand DFS products and services or handle technical issues and customer complaints, they prefer to contact providers through the WhatsApp platform. Through WhatsApp, they can communicate directly with the dedicated staff of providers in charge of agent monitoring activities.

“I never experienced failures with BNI. I rely on the WhatsApp group communication channel. - A woman G2P agent in Semarang

When I handle a case of duplicate transfer, I report it directly to my agent association WhatsApp group. The group also has bank staff who help track and provide updates on the case. Usually, the bank blocks the recipient account to prevent double transfers and the bank staff informs me afterward.” - A woman branchless banking agent in Bandung



3. Annexes



Annex 1: Global best practices to support CICO networks during the pandemic

Global best practices and policies (1/3)

Country	Policy category	Policy description
Bangladesh	Digital database	The government created 5 million QR cards in 45 days using the National Identity Database (NID) to disburse G2P benefits to 5 million households. The government has been using the services of agents of the Union Digital Center (UDC) to update the databases of the unorganized sector at the ward level. These details are then fed into government databases. MFS providers Nagad, bKash, and Rocket are allocated designated beneficiaries and areas to disburse relief to the unorganized sector after NID verification.
Pakistan	Emergency cash disbursements through agent points	Pakistan uses Limited Mandate Accounts (LMAs) for <u>emergency cash disbursements</u> , which allows the government to make cash transfers even if beneficiaries do not own a phone. During this time of crisis, LMAs allow users to make cash withdrawals through thousands of Cash-In-Cash-Out (CICO) merchants across the nation and use it directly for transactions.
Uganda	Promoting digital transactions on agent points	Commercial banks in Uganda <u>waived charges</u> on digital and online transactions for 30 days, effective from 25 th March, 2020. This helped agents get more customers through agent banking services.
Kenya	Fee structure of agents	The Inua Jamii Social Safety Net program in Kenya designed a <u>tiered fee structure</u> that offers higher incentives to rural agents. This offers lessons for policymaking to ensure that agents across all categories, especially in rural areas, are recognized as frontline essential workers and are appropriately incentivized.
The Philippines	Cash transfers	Various countries have been adapting cash transfers in response to COVID-19. The Philippines has made some administrative adaptations by <u>waiving conditionality</u> in cash transfers. Some of <u>the program's conditions</u> state that pregnant women must get prenatal care starting from the first trimester, parents should attend family planning sessions, and children aged 0-5 years must get vaccinated and attend pre-school, among others.

Global best practices and policies (2/3)

Country	Policy category	Key practices
Bangladesh	Contactless biometrics	<u>UNHCR Bangladesh</u> has shifted to contactless biometric iris scanners for financial transactions. This was also piloted in Ethiopia, Zambia, and Malawi. Besides registration, biometrics are being used for authentication during cash and in-kind assistance in many operations.
India	Incentives to agents	<u>Banks in India</u> have been offering agents a one-time payment to cover the costs of protective gear, such as sanitizers and masks. For instance, the Maharashtra Gramin Bank provided USD 26.73 ¹ to allow agents to purchase masks, sanitizers, and gloves. Some other banks have also announced additional payments as incentives. For example, the Bank of Baroda pays USD 1.34 (INR 100) each day the agent is active to help cover the cost of transport for rebalancing. Similarly, some banks provide insurance cover to agents. For example, the Bank of Baroda provides a health cover of USD 801.84 (INR 60,000) and unconditional payment of USD 13,364.04 (INR 10,00,000) in case of loss of life to each BC agent.
Indonesia	Diversification of business	Agent network managers <u>have added additional business streams</u> , such as e-commerce deliveries and loan recoveries to optimize the use of field teams as the business from other sources dried up during the pandemic. The strategic partnerships helped scale up their businesses and expand agent outreach, and build the capacities of field teams to handle other business streams.
Somalia	Prepayment of cash	In Somalia, UNHCR initiated <u>pre-payments</u> of the monthly subsistence allowance for three months (April to June) to refugees to reduce overcrowding in distribution centers and allow households to stock essential items during the crisis and subsequent restrictions.
Uganda	Promoting digital transactions through agents	MTN and Airtel Uganda <u>enhanced their mobile money offerings</u> to allow Ugandans to send any amount of mobile money at no cost during COVID-19. This move intends to minimize the physical exchange of paper money. It will allow more digital transactions and may drive more traffic to agent points.

¹ The converted number assumes an exchange rate of IDR 1 = USD 0.000071

Global best practices and policies (3/3)

Country	Policy category	Key practices
Malaysia	Digitizing basic bank accounts and additional use-cases	<p><u>The Guidelines on Basic Banking Accounts</u> allow the use of basic bank accounts through the internet or mobile phones, permit the opening of basic accounts via agents, and require banks to be able to validate customer information in real-time. Bank Negara Malaysia also provides <u>Measures to Assist Businesses and Households Affected by the COVID-19 Outbreak</u> to facilitate additional use-cases.</p>
Pakistan	Safe, secure, and resilient digital payments	<p><u>The State Bank of Pakistan announced various measures to minimize risks amid COVID-19.</u> The measures include <u>educating and mandating branchless banking agents to wear masks and place liquid soap or sanitizers at all biometric touch points, waiving fund transfer (inter and intra-bank) charges, mandating two-factor authentication on all fund transfers, conducting agent's KYC and verification including an online identity verification service, enhancing cyber resilience, providing a helpline for customers against fraudsters,</u> among other COVID-19 measures.</p>
Kenya	Coordination among stakeholders	<p>Kenya's largest telco, Safaricom <u>waived the fees on its mobile-money product, M-Pesa</u> to reduce the physical exchange of currency in response to the COVID-19 outbreak. The waiver applies to all person-to-person (P2P) transactions under KES 1,000 (USD 10) for 90 days since last April. Further, Safaricom will also allow SMEs to increase their daily M-Pesa transaction limits from KES 70,000 to 150,000 (USD 700 to USD 1,500). M-Pesa has 20.5 million customers across a network of 176,000 agents.</p>



Annex 2: About the study

Research objectives, methodology, and approach

The objectives of the research



- Understand the impact of COVID-19 on the business of agents and its effect on customer demand for digital transactions (transaction mix: cash-in cash-out, G2P payments, and digital payments)
- Understand training, liquidity management, and communication practices adopted by agents and providers during the pandemic
- Understand the challenges and opportunities for CICO and FinTech agents, and the coping strategies they adopted
- Assess the efficacy of government and provider support to CICO agents and their customers during the pandemic
- Provide policy recommendations to support the rebuild process, facilitate the expansion of the digital ecosystem, and enable CICO and FinTech agents to function effectively and play a role in the pandemic
- Understand the gender-related nuances in the practices of agents, as well as the supply-side perspective on serving female customers during the pandemic

Data collection



A mixed-method research was done, covering 10 provinces in Indonesia with high incidence of COVID-19 infection and presence of CICO agents. The data collection included a quantitative survey together with qualitative research, as follows:

- Quantitative survey: 20-30 minute in-person and telephonic survey with branchless banking agents and the FinTech agent network
- Qualitative panel research: In-depth, in-person, and telephonic qualitative interviews with 17 CICO agents to complement the quantitative research

Approach



We adopted a mixed-method research approach under which:

- The partner research firm administered the quantitative survey
- MSC staff conducted a qualitative interview of 17 CICO agents

Sampling details

Sampling methods adopted

The qualitative research follows a purposive sampling approach of 17 CICO agents that was equally divided among branchless banking agents, G2P agents, and non-bank agents in urban and rural areas of Indonesia.

The quantitative research follows a multi-stage sampling approach for DFS agents in 10 provinces with the highest incidence of COVID-19 and density of agents. The sample of urban or rural, men or women, dedicated or non-dedicated, and exclusive or non-exclusive agents were taken to represent diversified respondents. The agents covered in this study were active agents based on the following key criteria¹ for eligibility: 1) The agent has conducted transactions in the past six months (January to June, 2020); 2) The agent has conducted at least three transactions (excluding balance inquiry) in the past month (June, 2020).

Provinces covered as part of the sample



CICO agents interviewed



Quota specification: Phase 1

Agent type	Branchless banking agents = 146 FinTech agents = 150 G2P agents = 145
Provinces	Banten=14, Jakarta= 11, West Java=94, Central Java=74, East Java=85, West Sumatera=33, South Sumatera=42, South Sulawesi=45, South Kalimantan=18, West Nusa Tenggara= 25
Area status	Urban= 236; Rural = 205

¹ The transaction volumes can be on a higher side following these criteria.

Limitations of the study

01

The research was conducted exclusively with active agents

Hence, our numbers may be overestimated. However, in a research setting, identifying inactive or dormant agents is not possible.

02

Interviews were based on self-reporting and recall

These apply to both quantitative and qualitative interviews as data collectors do not verify the reported information from any transaction reports that come out of the system.

03

Quotas were assigned in the sample

The sample was deliberately assigned quotas according to the types, gender, and geography of agents. This was done to get a representative picture of the complex nature of the CICO ecosystem in Indonesia. Such sampling may not be representative at the overall level of CICO agents. However, it may present a fair picture for individual agent categories.

04

Selection of provinces

The selection of province is based on the proportion of active COVID-19 cases in the respective geography, and has limitations in terms of the number of provinces or respondents that could be covered based on the availability of resources. The team also faced logistical constraints during the pandemic as all quantitative interviews were conducted in person.

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550+
clients

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publications

Assisted development of digital G2P services used by **875 million+** people

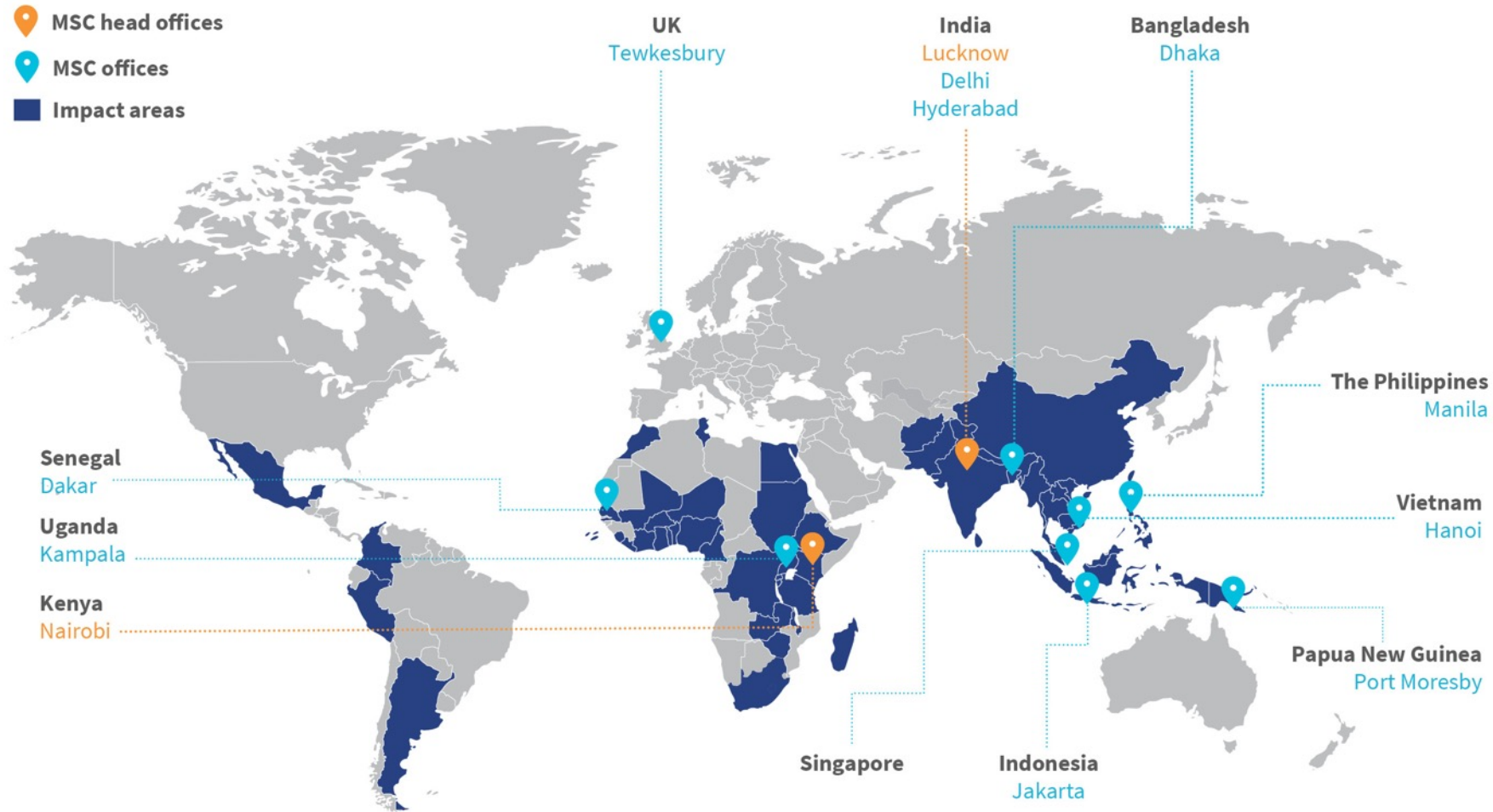
Implemented **>850 DFS projects**

Developed **275+ FI products** and channels now used by **55 million+** people

Trained 9,000+ leading FI specialists globally

Some of our partners and clients





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