The State of Digital Banking in Indonesia

Digital leadership will drive adoption
Indonesia’s financial services industry is ramping up investment in digital channels to keep up with an increasingly connected customer base. Industry interest in branches and automated teller machines (ATMs) is going down and banks are planning to reduce networks for physical channels and expand their presence in the mobile space over the next few years.

Given finite resources, banks need to find the right mix of channel offerings that can minimise cannibalisation across different channels while supporting seamless customer interaction over multiple platforms. The optimal channel strategy will help financial institutions resolve performance and security issues and harness new opportunities from digital platforms.

At a roundtable discussion with senior executives from the industry in Indonesia hosted by Telin and Akamai Technologies, we learned that banks here are still fine-tuning their channel mix to cater to a savvy, connected urban customer base that demands mobility and convenience on the one hand and on the other, a larger, rural customer base that prefers face-to-face interaction.

Given the diversity of the Indonesian consumer banking market, there is a need to understand what works within specific customer segments and then deliver a proposition that matches each segment’s needs.

True digital innovation will need to start by understanding what the customer wants and aligning the bank’s structures and processes to match that.

**Executive Summary**

Channel investment priorities towards digital are changing. One of the key drivers for change is potential cost savings as transactions migrate from physical channels that require heavy investment. However, this line of thinking does not fully leverage online and mobile capabilities. Stronger leadership in digital technology is needed before Indonesian banks can realise its enormous potential.

Channel strategy is becoming more complex with the emergence of new devices and technology. Banks are often tempted to productise the digital banking offering, for example, by offering attractive interest rates with online-only banking. Limiting exercises such as these do not take into account the moveable feast of opportunity available to the creative bank. It is clear that a more voracious appetite is needed from banks.

Although there is a base of customers willing to interact with the bank digitally, the larger segment of customers in Indonesia are still reluctant to move away from transacting at branches for various reasons. ATMs could prove to be the transition platform to digital banking. Banks are looking to incorporate mobile-enabled applications and payment services at the ATM that can be the first step towards a full digital banking experience.

Big data will help banks decide what products to offer the customer, but more than that, banks need to understand what the customer needs, particularly before investing in a new functionality. To improve return on investments, more banks are first identifying the customer segments they want to invest in, before launching their digital banking strategies.

**Key take-aways**

1. Channel investment priorities towards digital are changing. One of the key drivers for change is potential cost savings as transactions migrate from physical channels that require heavy investment. However, this line of thinking does not fully leverage online and mobile capabilities. Stronger leadership in digital technology is needed before Indonesian banks can realise its enormous potential.

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**Readjusting the channel strategy – but how?**

It is crucial for banks to find the right balance across all their touchpoints as the digital component overlaps in many ways with existing channels. Several factors drive the push for a readjustment in channel investments in Indonesia: high operating costs in a geographically dispersed country, scarcity of talent in a growing economy and an increasingly tech-savvy customer base.

**Retail Banking Channel Interactions, 2016 estimate**

*Source: Bank 3.0, Brett King*
Among the roundtable participants – made up of business, technology and distribution heads of banks in Indonesia – there is a definite push towards digital to drive cost savings and engage with the customer better.

However, very few banks could outline their digital strategy and explain how digital channels would sit with the other, more entrenched channels such as branches, call centres and ATMs. A silo mentality is still fairly common, making it a challenge to implement a customer-centered channel strategy and a seamless experience delivery. Banking executives at the roundtable expressed that they constantly deal with the fear that a successful digital strategy may cannibalise existing channels.

One strategy to help the traditional employee base embrace the digitalization of banking is to position the customer migration online as a way to cut costs especially as non-revenue-generating transactions, such as balance inquires, are moved away from the branch counter. However, this only skims the surface of possibilities that the online and mobile channel can offer in the areas of customer engagement, analytics and consequently, revenue.

Digital leadership at the top is needed to instill a digital mindset at every employee level – from senior management to the branch teller. Some banks in Indonesia have taken a two-speed approach by setting up separate divisions that tackle the digital challenge and deal with new competition more nimbly while keeping the legacy system and channel network in place. This approach is just pushing the can down the road and means duplication of resources to possibly serve the same customer eventually. Ten years down the road, there may even be potential conflict with the two parts of the business as the digital channel increasingly takes over customer engagement and revenue generation.

Banks in other markets have taken to hiring from outside the industry, poaching talent from e-commerce and retail companies to break through existing silos and revisit banking with a fresh pair of eyes – before a more nimble competitor does.

Articulating a comprehensive digital strategy that truly takes advantage of what leading technology can offer will remain a challenge until a digital transformation takes place within the bank.

Mobile First in Indonesia

The need for a digitally-minded executive team is even more apparent as some participants shared their experience of poor customer responses after launching a digital or mobile offering.

One participant shared his digital journey of starting with a generic mobile banking platform that saw poor take-up rate. His bank has since focused on specific customer segments such as the business user, and conducted focus groups and pilot-testing before launching the more targeted service offering. During the market research stage, it was observed that customers were more likely to use mobile banking than Internet banking. As a result, the bank has been able to develop a successful business mobile app that addresses the customer’s need and is on its way to launching further functionalities.

“Customers were more likely to use mobile banking than Internet banking”

When going digital, a mobile-first approach has been more effective in geographically-dispersed Indonesia. A 2014 survey of 11,000 Indonesians by Chinese Internet giant Baidu found 59.9% of respondents access the web on their mobile phones compared to 33.5% on desktop computers and 41% on laptops. According to the survey, 90.7% of mobile Internet users surf more than once a day, while over 40% spend three hours or more each day to surf the Internet on mobile devices.

This trend is echoed in Indonesia’s e-commerce market. One of Indonesia’s major online shopping sites is primarily driven by mobile commerce – the number of people purchasing from the company’s website using its mobile app have outnumbered those purchasing using desktop or laptop computers.

### Devices used for Internet surfing in last 6 months vs % of responses

<table>
<thead>
<tr>
<th>Device Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>59.9%</td>
</tr>
<tr>
<td>Laptop</td>
<td>41.4%</td>
</tr>
<tr>
<td>Desktop</td>
<td>33.5%</td>
</tr>
<tr>
<td>Tablet</td>
<td>17.4%</td>
</tr>
<tr>
<td>Netbook</td>
<td>11.0%</td>
</tr>
<tr>
<td>Other</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

### Hours spent surfing on mobile per day

- Over 40% of users spend 3 hours or more each day surfing on mobile
- 26.6% of users spend between 1 and 2 hours surfing on mobile
- 15.4% of users spend between 2 and 3 hours surfing on mobile
- 14.0% of users spend between 3 and 5 hours surfing on mobile
- 22.7% of users spend between 3 and 5 hours surfing on mobile
- 21.3% of users spend over 5 hours surfing on mobile

Source: Explore The Mobile World in Indonesia-2014, Baidu Indonesia
Driving digital adoption with ATMs

A number of the banks have to deal with a large retail customer base that may not be tech-savvy and tend to have cash-based transactions. These customers tend to have doubts over the non-tangible nature of mobile banking and its associated security concerns.

The ATM is then seen as a mid-point transition when migrating customers to online channels. By adding more functionalities at the ATM, banks encourage customers to conduct their transaction there instead of visiting a branch.

One strategy was to keep ATMs for withdrawal transactions while channelling other transactions, such as funds transfer and loan applications, to the mobile device and web browser.

Another bank offers ATM cards and mobile/Internet banking access with every new account opening.

To counter security concerns, the bank has created a two-step registration process that first allows customers to conduct non-financial transactions online and later on have the option to increase the access level to conduct financial transactions.

Other banks offer a digital-only account with a fee for branch visits above a certain threshold. This is an opportunity to attract new customers and lower the cost of business with less interactions through more expensive channels.

With this strategy, one bank found that the newly-acquired customer would start with two or three transactions a month at the ATM and increase his or her average balance from IDR1.5 million a month to IDR4 million. After the customer moves to the mobile app, the transactions will increase to five transactions a month on average, with the average balance at IDR10 million.

As more customers migrate their transactions to mobile and online banking, there is also the opportunity to leverage customer transaction data to drive business decision-making. Banks in Indonesia were keen to explore how big data can help them develop the right product offering to the customer.

One participant shared his bank’s current predicament where 50% of its debt collectors are using the bank’s mobile app to collect money from their microfinance customers. Unfortunately, there is little visibility on the best time to collect and the best product-customer match. As a result, the daily collection success rate is probably less than 10% while customers are being contacted for various products by various marketing divisions at the same time.

On the other hand, leveraging analytics has allowed another participant to better understand the annual turnover of his business customers from their mobile app usage and to start offering loans to the right customer based on the bank’s confidence in the customer’s financial health.

Analytics offers a way to monetise the digital channel so that it ceases to be just a lower-cost channel, turning it into a revenue-generating engagement opportunity. Targeted promotions that allow customers to take advantage of an offer instantly not only increase the bank’s share of customer wallet but also improve the return on investment for each marketing campaign – a very salient point when marketing in the world’s fourth-most populous country.

Conclusion: Closing the loop

The message from bank customers in Indonesia is clear: convenience; anytime, anywhere banking; and personalised services top the list of priorities when interacting with banks.

However, before embarking on the digital journey, banks will need to think about how they plan to engage with the customer throughout his banking experience. It is not enough to roll out a mobile banking app or an online banking product anymore when customers are constantly exposed to new ways of engaging with brands online and with technology-disrupting industries ranging from transportation to hospitality and social communication.

For a bank to succeed in a digitally dense world, it needs to reinvent bank processes and organisational structures to enable the bank to grow and keep up with new technologies. Such a potentially disruptive approach requires digital leadership to steer through existing legacy systems and structures within the bank, and bring the focus of the business back to where it belongs – on the customer.