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9B21M009

BTPN: A TRADITIONAL BANK THAT BECAME A DIGITAL INDONESIAN JENIUS

Marleen Dieleman and Ishtiaq P. Mahmood wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In 2020, Ongki W. Dana needed a strategy to scale the innovative digital banking activities of PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) in Indonesia. BTPN started as a small bank that focused on serving military and civil servant pensioners, but it became known for its innovation after a private equity partner bought a stake in 2008. After innovating and scaling successfully in microfinance, BTPN decided to go digital, and in 2015 it created an in-house start-up called Jenius. The traditional bank had leapfrogged to become one of the forerunners in Indonesian digital consumer banking. But the first-mover advantage was fast eroding, and after a merger with Sumitomo Mitsui Banking Corporation (SMBC) Indonesia in 2019, BTPN had entered a new phase. Now that digital financial services were accelerating due to the COVID-19 pandemic, Dana wished to reflect on how to take Jenius forward. Was the in-house start-up model the best choice for digital innovation, or would the large incumbent banks digitalize faster?

Indonesia’s opportunity for digital financial services

With a population of 272 million, Indonesia was often seen as a key market for retail banking in Southeast Asia. The most promising segment for financial services was the middle class, which was expected to reach 23.9 million households by 2030.[[1]](#endnote-1) With its relatively young population, the middle class would primarily be driven by lower-income segments, often made up of millennials.

As of 2014, only 36 per cent of Indonesia’s population had bank accounts, leaving most of the less well-off consumers unbanked.[[2]](#endnote-2) In addition, many of the aspiring middle-class consumers were unbanked or underbanked. Existing banks focused on the most affluent customers, leaving this rapidly growing aspiring middle class with fewer financial services options.

A striking 33 per cent of the unbanked population claimed that distance was the biggest barrier standing between them and having a bank account.[[3]](#endnote-3) However, 62 per cent of the population (approximately 161 million people) had access to mobile phones.[[4]](#endnote-4) Internet penetration was increasing and projected to reach 54 per cent in 2023, while smart phone penetration was poised to increase to 33 per cent by the same year.[[5]](#endnote-5) With consumers flocking online on their devices, Indonesia’s Internet economy grew to US$40 billion[[6]](#endnote-6) in 2019 and was expected to increase to $130 billion by 2025.[[7]](#endnote-7) The global COVID-19 pandemic forced people into lockdowns in 2020, speeding up the arrival of the digital services era everywhere, including in Indonesia.

Indonesia’s banking sector comprised 115 commercial banks and 1,630 rural banks.[[8]](#endnote-8) PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Mandiri Tbk, PT Bank Central Asia Tbk (BCA), and PT Bank Negara Indonesia Tbk were the biggest players, collectively making up more than 50 per cent of the banking sector’s assets.[[9]](#endnote-9) All of the large banks offered a broad suite of consumer banking products and had an extensive network of physical branches stretching from the capital, Jakarta, into Indonesia’s provinces.

As in other countries, banks in Indonesia were slow to catch up with digital banking services. According to a PwC digital banking survey, this was mostly due to a combination of legacy systems, regulatory constraints, and organizational inertia.[[10]](#endnote-10) Across the industry, traditional banks faced the most difficulty in transforming digitally, struggling to compete with new financial technology (fintech) firms that suddenly started popping up with personalized e-wallets, mobile loans, and insurance offerings.[[11]](#endnote-11)

By 2020, it was clear that a massive disruption was imminent. Many new players were vying aggressively for a piece of this lucrative market, enticing millions of Indonesians to make the transition from unbanked (or underbanked) to becoming digitally banked.[[12]](#endnote-12)

BTPN’s do-or-die moment

BTPN was established in 1958 as a small pension bank for military personnel. It acquired a commercial bank licence in 1960 and changed its name to the current Bank Tabungan Pensiunan Nasional (National Pensioners Savings Bank) in 1986 (see Exhibit 1).

In 2008, TPG, a private equity firm, set its sights on capturing the potential within the unbanked population in Indonesia, purchasing 72 per cent of BTPN through a listing on the local stock exchange.[[13]](#endnote-13) Jerry Ng, recognized as a visionary leader, became the chief executive officer (CEO). With microfinance booming in places such as Bangladesh and India, BTPN’s strategy was to provide small loans for unbanked micro-entrepreneurs.[[14]](#endnote-14)

BTPN also brought fresh innovations to the pension business, which was perceived as a mature or even a sunset business, introducing best practices in multiple aspects, including marketing, sales, operations, and the branch network. Moreover, BTPN introduced innovation beyond financial services, providing programs that empowered the pensioners. These innovations translated into extraordinary business results. Pension loan volume and revenue grew more than twofold from 2008 to 2011.

This move to address the mass market proved to be a highly successful one, as net profit rose from $39 million in 2008 to $160 million in 2011.[[15]](#endnote-15) BTPN’s loans empowered small entrepreneurs in the trading sector, earning BTPN praise for its breakthroughs in financial inclusion. In particular, BTPN’s strategic approach of setting up microlending branches at *pasar* (traditional market)hot spots led to more than 200,000 new customers.[[16]](#endnote-16)

BTPN continued to innovate and grow; for instance, it set up BTPN Syariah (Islamic banking), which was spun off as a separate unit in 2014. BTPN’s growth had come on the back of underserved segments that were neglected by the larger banks. However, with the maturing of its existing business lines, BTPN had to look for a new growth segment.

That same year, SMBC from Japan took a 40 per cent stake in BTPN. With the support of its new shareholder, which aspired to offer full commercial banking operations in Indonesia, BTPN set its sights on the digital banking opportunity in Indonesia. Dana said:

So, we reached a plateau. Even our existing business was facing thinner margins. We came to a stage where we could not grow further if we did not go into commercial banking or retail banking. We saw that other banks were successful doing retail banking through brick and mortar. But we didn’t have brick and mortar. If we didn’t do anything, then at most we would just be a mid-size bank. We all realized the need to grow and to get out of the mid-size bank trap. This is how we saw the digital-retail-banking opportunity. It was basically a do-or-die situation.[[17]](#endnote-17)

As a first step, BTPN launched the BTPN Wow! savings account in March 2015. Essentially, this was a branchless banking solution that provided consumers with basic banking services, such as deposit and withdrawal, without needing to visit the bank. All that was needed was a valid mobile phone number to access the services via agents. BTPN Wow! had limited features and targeted a lower segment: the unbanked mass market. The next step was to launch a more comprehensive and entirely digital banking service for the aspiring middle class.

Jenius: Starting from scratch

Digital transformation could be achieved in two ways—by transforming something that existed or by creating something totally new, which then had the power to transform the existing organization. How could BTPN build a digital banking presence in fast-growing Indonesia if it was far from digitally savvy? The board took a crucial call when it decided to create an internal start-up called Jenius, which operated as part of the bank but was entirely separate from the bank’s normal operations. As Dana said,

We had to have these digital banking capabilities, and it goes without saying that, if you talk about digital banking capabilities, it’s not only technology. If that was the issue, then you could just buy it. But building the organization, building the process, these are important. That’s the rationale why we tried to do it the hard way: Starting from scratch.

The board set up a business incubation project called Project Alibaba, with the project team consisting of several board members with relevant experience, who acted as project sponsors, and steering committee members. The board also engaged McKinsey & Company (McKinsey), a management consultancy.

The bank then hired Peterjan van Nieuwenhuizen, a former McKinsey consultant, to lead this new initiative as the head of digital banking. At that time, BTPN did not have a consumer retail bank, and Van Nieuwenhuizen considered this one of BTPN’s strengths:

I think pretty much every other bank suffers from legacy problems. If you have a lot of customers and a lot of existing branches, it’s typically very hard to break out of the mindset of what you have and do something completely new. BTPN just had never had all these existing systems when I came. We didn’t have Visa or Mastercard accounts, and no one in the bank was serving emerging middle-class consumers yet. So, we didn’t have any of the internal politics and legacy that virtually every other bank in the country faced in going for a digital play.

Van Nieuwenhuizen was tasked with setting up a separate project team to offer banking services to a more digitally savvy type of emerging middle-class customer. This target group was typically shunned by existing banks, which were targeting older customers with more wealth and greater needs for financial services.

Operating separately from the legacy systems of the bank, the in-house venture had to figure out what value proposition to offer this target group, how to design it, and how to get it approved.

The first step was the customer value proposition. The new team spent the first half of 2015 conducting customer research, using a blank sheet of paper as a starting point; the focus was on the emerging middle class that used smart phones. BTPN’s strategy was not to adapt traditional banking products for digitally savvy middle-class users but rather to create new services that focused on the unmet needs of these customers. These customers wanted to pay for their life dreams and goals, such as buying a house, having health insurance, or undertaking the hajj pilgrimage,[[18]](#endnote-18) which often necessitated access to financial services; however, these customers did not necessarily see a bank’s traditional products as part of the realization of their dreams.

We basically started from a premise that you have people who have all kinds of things in their lives, and they need to pay, save, and borrow for them. How can we build a digital tool that supports that financial side of their lives?

Although, in many ways, Jenius appeared somewhat similar to what other banks may have offered, its starting point could not have been more different. The fundamental insight that the team gained was that this was not going to be a bank that used a new channel in the form of a digital application (app) on a mobile phone; instead, Jenius was actually going to be the product. Customers did not perceive Jenius as a channel into a bank. As Van Nieuwenhuizen said,

Virtually everyone else, at least coming from the incumbent banks, approached digital banking much more as “I have a bank, I have banking products and services, and I want to make these available through a digital channel.” We at BTPN always realized it [digital banking] really must be about life. Finance is merely a tool.

The Jenius team worked on the new value proposition during the second half of 2015; in 2016, BTPN started the second challenge—building the technology. This required recruiting a new information technology (IT) team, as they could not rely on BTPN’s in-house IT department, which had no customer-facing experience. What the team needed was technology (tech) talent that could build modern smart phone apps. Yet many potential millennial candidates had the misconception that being part of the Jenius team meant joining the banking industry, a sector that they perceived as having a strict corporate structure and dress code.

Eventually the Jenius team convinced the newcomers that the project team was really a tech start-up with a unique, innovative culture that just happened to sit within the bank. The tech team customized off-the-shelf software to meet BTPN’s requirements. By mid-2016, the app was working, and the Jenius team issued an unbranded soft launch in May of that year.

The next challenge was to get Jenius approved by the regulator. As Jenius was established as a start-up within the bank, it operated under BTPN’s banking licence and had to comply with all banking regulations. Jenius had to be approved by the Otoritas Jasa Keuangan (Financial Services Authority) in Indonesia, which proved to be no easy feat, since digital banking was then something new, and BTPN was at the forefront of digital banking. However, the regulators were not the key stumbling block in Van Nieuwenhuizen’s mind:

We hear a lot of traditional players, especially a few years ago, saying, “Oh, you can’t do this, you can’t do that.” They always put the blame on the regulators. I can honestly say that we didn’t break any regulation whatsoever. So, you were actually able to launch something pretty innovative within the existing regulation.

However, to get Jenius approved, the team did face regulatory hurdles that took time to resolve. The team had started by focusing on customer needs and building an app that addressed those needs. However, the new app did not neatly fit into the categories mentioned in the banking regulation; as such, the team decided to rephrase the whole new customer experience into conventional banking products, so as to resemble those used in the regulation, positioning Jenius as a conventional offering through a digital channel. As Van Nieuwenhuizen said,

The biggest pain point in the end was the remote KYC [Know Your Customer]. Ideally, in a fully digital play like Jenius, you do not want to force people to come and see you in person. Ever. However, the regulation had stated that KYC must be done face to face. We were not able to overcome this. That really stopped us from making Jenius available as widely across Indonesia as we wanted.

BTPN obtained the approvals, and Jenius was launched in August 2016, making BTPN a first mover in digital retail banking in Indonesia. BTPN could proudly announce in its annual report that its digital banking platforms were “at the cutting edge of what is available in Indonesia and even across the region.”[[19]](#endnote-19)

Building the “bottom of the iceberg”

Being a nimble in-house fintech start-up that had become a first mover in the digital banking scene gave Jenius a good head start in the digital banking revolution. Consumers now perceived BTPN as highly innovative and customer centric. Yet, the Jenius team knew that this was only the beginning. After the launch in 2016, the team found that while some value propositions and app designs worked out well, other features needed tweaking. Without making these improvements, it was not possible to scale Jenius’s usage.

The in-house start-up started to face constraints that were similar to those faced by other start-ups that had experienced the painful journey of moving from being a small agile outfit, with few systems and processes, to being a larger outfit, with actual businesses to run. Jenius could no longer function as just a project team; it had to run a live business, with customers to look after and constant improvements to make. This meant more structure, more mature procedures, and further talent recruitment as preconditions for fully scaling.

While customizing off-the-shelf software had allowed Jenius to speed up, ultimately, it was not a sustainable strategy. Since the app was the product, BTPN needed to fully own this app, including the technology and software behind it. In the words of Van Nieuwenhuizen, the “software technology was not a supporting tool for banking—it was the product.” In 2017, a pivot was made toward a new in-house system, which also required a comprehensive and modern technology delivery team. That entire year was focused on scaling and implementing the changes.

The in-house start-up was growing into something that was more mature and harder to copy. CEO Dana said:

In digital banking, Jenius is just like the top of an iceberg in the ocean; you only see the part above. You can analyze everything you see. But the more difficult part—the digital banking capabilities—that is the part of the iceberg under the water. You need to build that. This is the reason why we said we have to build digital banking capabilities [on] our own.

While Jenius was trying to grow, the banking landscape was shifting. In 2017, new banking regulations were issued in response to digital banking trends. This essentially allowed incumbent competitors to catch up quickly without having to invest time in discussions with the regulator and without having to undergo the painful process of creating a separate in-house start-up. Jenius, which had been launched under the traditional banking regulations, risked being left behind by the shifting regulatory goalposts in the form of new digital banking regulations.

Eventually, remote KYC was approved by the regulators in 2018,[[20]](#endnote-20) setting the scene for all players to scale their digital offerings. By July 2018, Jenius had 700,000 customers,[[21]](#endnote-21) and by mid-2019, just after switching to online e-KYC, the count stood at 1.6 million customers.[[22]](#endnote-22) Other than basic savings and transactions features, Jenius enhanced its suite of services to include bill payments, peer-to-peer transfers, and foreign currency balances. The latter turned out to be a popular feature among millennials as a great option for travelling or studying abroad. These customers even marketed it for free on their social media and sold it to their parents. Dana said:

In Indonesia, if you have a debit card from BCA, you can do everything. But if you have this Jenius card, you can do everything all around the world! So that’s including paying your toilet fee in Germany if you don’t have small change and you have to go to the toilet.

And you see, these millennials are helping us in the marketing. They always tell everything to their friends, right? So social media helps. Of course, if you screw up, everybody will also know immediately.

Transferring digital capabilities from the periphery to the core

While the in-house start-up model had the great advantage of getting a business up and running without disturbing the bank’s regular operations, eventually the digital skills had to be translated to the rest of the bank’s operations, and that was where the real challenge was.

BTPN ended up having to spend substantial time on difficult change management, including closing branches. BTPN’s do-or-die stance toward digital banking and its smaller size meant that it encountered less entrenched resistance than did large traditional banks with many branches. Going digital meant greater efficiency with fewer staff. As Dana recalled,

In our case, we said that we are not going to digitize our branch first. We need to go to the digital innovation first. But inevitably, in the end, the existing branches have to also go through the digital transformation. This is the hardest part. Doing something new is fun, but changing the existing business, that is the hardest one.

The BTPN leadership had to spend a year on managing the change management process, convincing employees to either transform themselves with new digital skills or find opportunities elsewhere. It turned out that although the “start-up first” model was great for building digital banking skills fast, it did not offer a real shortcut to transforming the entire organization for a digital era. Managing transformation still took time—though perhaps less time than what a traditional bank would have needed. According to Dana, “When we say translating vision to conviction, I think that there is no other way than communicating and doing it step by step, starting from the top-level people first. And then the second layer, third layer. Change management is a long collaborative process. It takes some time, but I guess that’s the only way.”

The journey of transforming everyone in the bank by unlearning and relearning—and, in some cases, saying goodbye to staff who were unwilling to change—took BTPN an entire year. All throughout the BTPN change process, Jenius was growing in popularity among the digitally savvy emerging middle-class customers, most of whom were millennials.

The race was on

Since 2017, the traditional banks had also woken up. BTPN’s Jenius was a success, but its number of customers still paled in comparison to the retail consumers of the largest banks in the country. BCA, one of the top three banks in Indonesia, announced in February 2019 that it had allocated $374.9 million for IT improvement and $72.1 million[[23]](#endnote-23) for digital banking,[[24]](#endnote-24) allowing its 50 million customers to open new bank accounts online.

Moreover, a wave of new fintech companies was eating away at the margins of BTPN’s financial services offerings. As consumers became more attuned to digital banking, the market for digital financial services became more competitive. Unicorns with super apps,[[25]](#endnote-25) such as Gojek and Grab, launched new services including e-wallets, payments, and even loans, sometimes partnering with other players. At the moment, however, these competitors did not pose a particularly strong threat. As Dana said,

In Indonesia the regulators are quite strict. Fintechs are basically doing payments, but they are not allowed to give savings accounts or deposits or debit cards. So, for example, customers may only put less than $100 in there [an e-wallet] to do the payment, just to have the cash discount. But when it comes to savings, financial planning, they put it with us.

Other dedicated fintechs were also emerging. Examples included Tunaiku, which provided small consumer loans online and was part of another innovative small bank; Cermati, a financial services aggregator and intermediary for the unbanked; and OVO, an e-wallet linked to one of Indonesia’s large conglomerates. Chinese companies such as the Ant Group Co. Ltd. (linked to Alibaba Group) also joined the fray.

Although all these new players did not exactly offer a full digital-retail-banking experience, it was clear that the sector was being disrupted at an ever-faster pace. According to Irwan Habsjah, a member of BTPN’s board of commissioners,[[26]](#endnote-26) “You need an agile mindset and to continuously look into what the competition is doing and improve. You need to become more efficient, have more diversity in the products. The competition is very fast.”

From the outset, The Jenius team had recognized that banking was really about life; customers’ dreams came with financial implications, which led to a need for financial services. But nobody woke up in the morning dreaming of getting a credit card or of downloading a banking app. In order to scale without a large base of existing banking customers, Jenius had to be visible when and where the customers were making their financial choices. The question was how.

A new phase for BTPN

A big year for Jenius, 2019 also marked significant strategic changes for BTPN as a whole. In February 2019, BTPN merged its activities with PT Bank Sumitomo Mitsui Indonesia, the Indonesian subsidiary of SMBC, BTPN’s largest shareholder, and became a universal bank in Indonesia. Dana took over the role of CEO in February 2019. In 2020, the COVID-19 health pandemic led to widespread restrictions on movement and further accelerated the use of digital financial services by the middle class.

Dana saw many opportunities in being part of a large financial company such as Sumitomo Mitsui Financial Group (SMFG), including expansion overseas. Outside Japan, SMBC had hitherto only been a corporate bank, with no retail footprint. There was a clear growth story in digital retail banking in Southeast Asia.

But there were also downsides of being part of a large so-called systemic bank that was considered crucial for the economy. The regulation that came with this status was daunting; anti-money laundering, anti-terrorism, regulatory compliance, and cybercrime risk mitigation all needed to be stepped up. Moreover, Japanese banks were known to be conservative and slow in their decision-making, which posed a challenge in the fast-paced digital banking space.

However, the president and group CEO of SMFG, Jun Ohta, had a different idea. His motto to all employees was “Break the mould”—a motto that was repeated by Dana and that hung, framed, in his office. Jenius succeeded because it broke the mould with its unique innovative start-up culture. Starting from scratch without any legacy had propelled Jenius forward, but there were challenges with this first-mover strategy that involved building a ship while sailing. Competition was increasing, and the larger banks were now moving faster, with a larger customer base. Moreover, several super apps with fintech partners had the advantage of having an interface with the customer when financial decisions were being made.

Was the recently merged BTPN strong enough to scale Jenius on its own, or would it need to seek new partners? Was this phase really about a race to scale fast, or was it about creating unique products with the bottom-of-the-iceberg digital capabilities that competitors could not match? Should Dana capitalize on the digital capabilities to enter other business segments, such as small and medium-sized enterprises? Should he perhaps buy up fintech competitors and integrate them with Jenius, or should he spin off Jenius as a separate entity, as he had done with the Islamic banking unit? Were there other options that he could consider? What strategy should Dana propose to SMBC?

The authors gratefully acknowledge funding from the Singapore Ministry of Education Social Science Research Thematic Grant (MOE2017-SSRTG-022). Any opinions, findings, conclusions, or recommendations expressed in this material are those of the author(s) and do not reflect the views of the Singapore Ministry of Education or the government of Singapore.

EXHIBIT 1: Financial Performance of PT Bank Tabungan Pensiunan Nasional

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2015** | **2016** | **2017** | **2018** | **2019** |
| **Consolidated Condensed Balance Sheet** | | | | | |
| Loans, Net | 3,906 | 4,138 | 4,218 | 4,329 | 9,443 |
| Securities and Placements | 1,136 | 1,310 | 1,452 | 1,751 | 2,101 |
| Cash and Current Account | 493 | 775 | 843 | 891 | 1,014 |
| Other Assets | 230 | 276 | 279 | 279 | 361 |
| Total Assets | 5,764 | 6,499 | 6,792 | 7,250 | 12,919 |
| Third-Party Funds | 4,667 | 5,213 | 5,441 | 5,734 | 9,945 |
| Other Liabilities | 107 | 126 | 128 | 138 | 736 |
| Total Liabilities | 4,774 | 5,339 | 5,569 | 5,872 | 10,681 |
| Total Equity | 990 | 1,160 | 1,223 | 1,377 | 2,239 |
| **Condensed Statement of Comprehensive Income** | | | | | |
| Interest Income | 925 | 974 | 999 | 1,005 | 1,357 |
| Interest Expenses | 378 | 344 | 322 | 322 | 572 |
| Gross Profit | 547 | 630 | 677 | 683 | 786 |
| Other Operational Income | 54 | 53 | 46 | 57 | 69 |
| Other Operational Expense | 427 | 497 | 582 | 519 | 610 |
| Operational Profit/Loss | −372 | −444 | −536 | −462 | −541 |
| Profit/Loss before Tax | 135 | 185 | 100 | 178 | 286 |
| Profit/Loss after Tax | 135 | 185 | 100 | 178 | 213 |
| **Key Ratios** | | | | | |
| Loan-to-Deposit Ratio (%) | 97.20 | 95.42 | 96.22 | 96.18 | 163.10 |
| Capital Adequacy Ratio (%) | 23.79 | 25.03 | 24.64 | 25.26 | 24.20 |
| Operating Expenses to Operating Income (%) | 82.14 | 81.93 | 86.49 | 79.18 | 79.40 |
| Non-performing Loans-Gross (%) | 0.70 | 0.79 | 0.90 | 1.24 | 0.80 |

Note: In US$ million, except where indicated; US$1 = Rp14,058.80 on July 10, 2020; Rp = IDR = Indonesian rupiah.

Source: Compiled by the authors from the company’s annual reports for 2015–2019; “Investor Relations,” PT Bank Tabungan Pensiunan Nasional Tbk, accessed March 4, 2020, www.btpn.com/en/hubungan-investor/laporan-tahunan-dan-keberlanjutan/laporan-tahunan.

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17. Unless otherwise attributed, all quotations stem from interviews conducted by the authors. [↑](#endnote-ref-17)
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25. Super apps offered various services under one umbrella. [↑](#endnote-ref-25)
26. Indonesia had a two-tier board system, with a board of directors overseen by a board of commissioners. [↑](#endnote-ref-26)