

A black and white photograph of three women in Southeast Asia, likely in a rural area, riding bicycles. Each woman is carrying a large, heavy load on her head. The woman on the right is smiling and talking on a mobile phone. The woman in the middle is looking forward with a neutral expression. The woman on the left is also looking forward. They are riding on a dirt path with lush vegetation in the background. A semi-transparent yellow banner is overlaid across the middle of the image, containing the title and authors.

Microfinance market entry strategy in Southeast Asia

Consultholic: Jeong Hee Koo, Jeong Yeol Kim, Yuying Zhang, Sungeun Baik

Target market: Indonesia

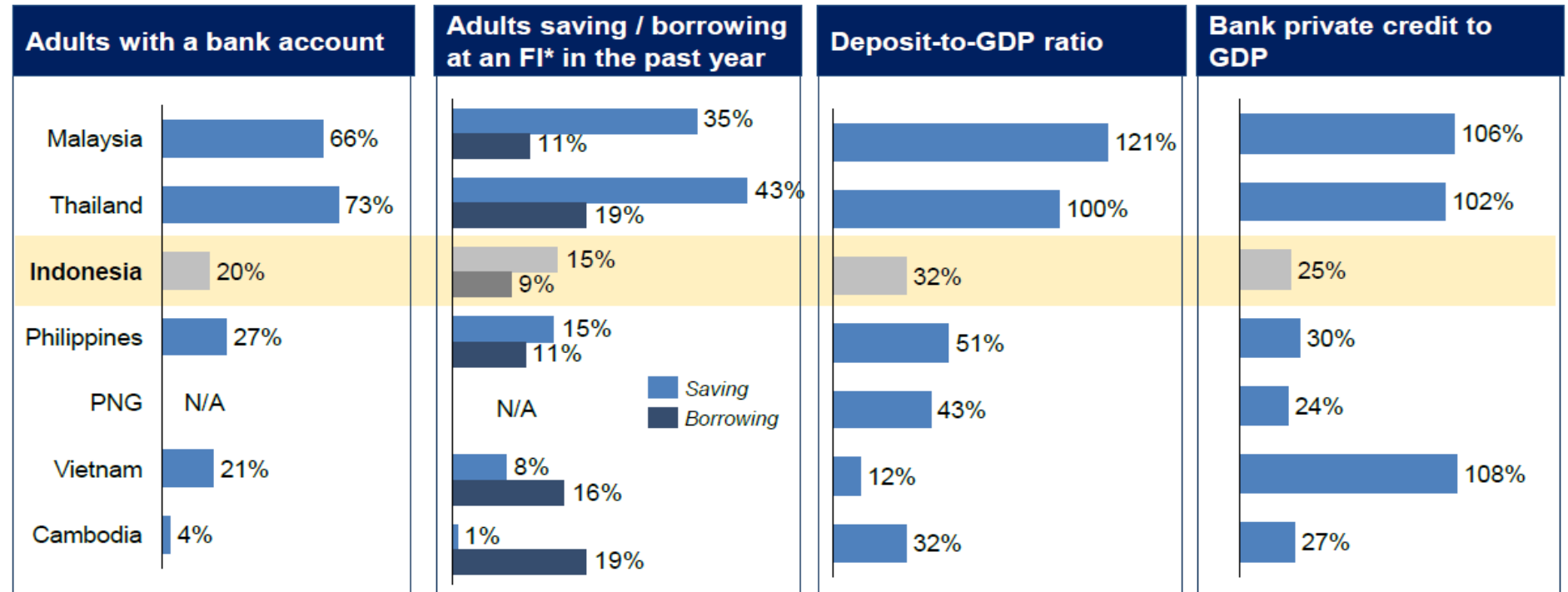


Strategy Bullet-ins:

- acquires local bank to enter the market and get customer database
- penetrates markets mainly in West Java and North Samatra
- targets on 15~24 age group, female, with secondary education or above, migrant worker, urban poor customers and MSME borrowers.
- designs traditional products and innovative products such as public transportation, utility bill payment, shopping merchant, online retail merchant, agriculture insurance
- delivers services through mobile balance and APPs
- cooperates with social media with emphasis on online reviews and celebrity effect
- partners with FinTech companies especially in credit assessment
- starts from Indonesia and later expands to other Southeast Asian countries(next could be Cambodia)

Weak financial inclusion parameters compared to other ASEAN countries.

1 Indonesia has the weakest financial system penetration among ASEAN countries.

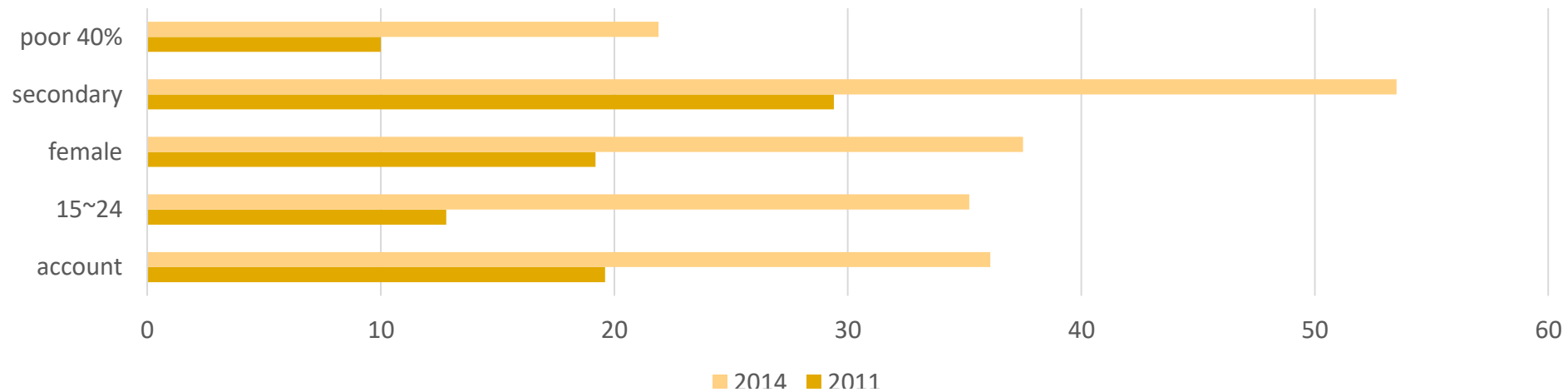


2 Indonesia has a large group of Internet users with yet low Internet penetration, which signifies huge potential in digital finance

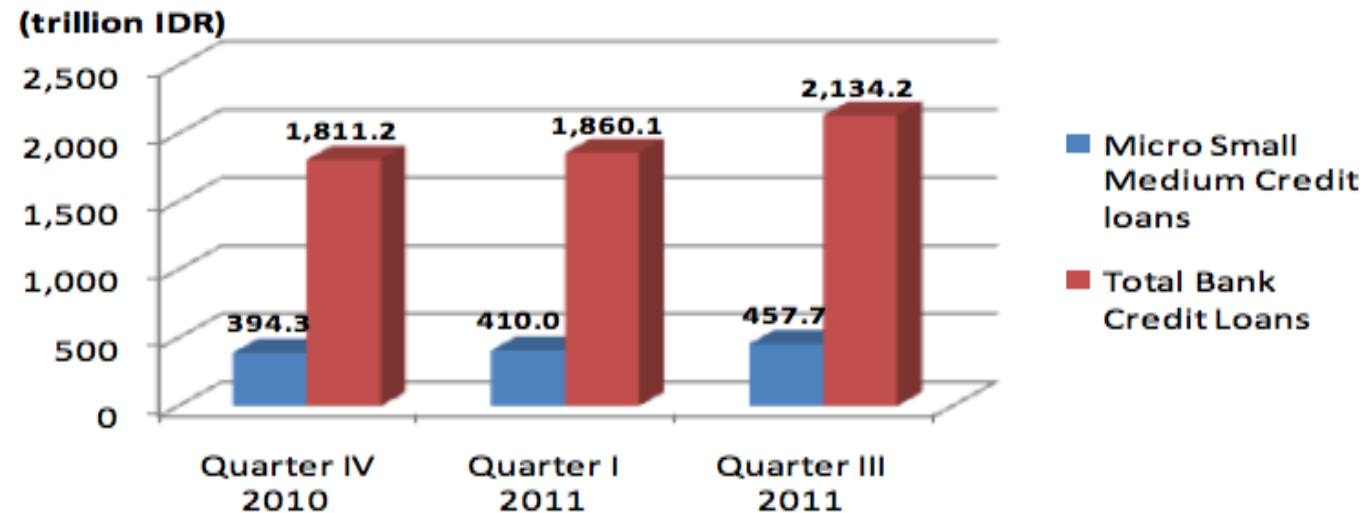
#	Country or Region	Population, 2017 Est.	Internet Users 30 June 2017	Internet Penetration	Growth (*) 2000 - 2017
1	China	1,388,232,693	738,539,792	53.2 %	3,182.4 %
2	India	1,342,512,706	462,124,989	34.4 %	9,142.5 %
3	United States	326,474,013	286,942,362	87.9 %	200.9 %
4	Brazil	211,243,220	139,111,185	65.9 %	2,682.2 %
5	Indonesia	263,510,146	132,700,000	50.4 %	6,535.0 %

Youngster(15~24) with secondary education and MSMEs will lead the growth

1 People with secondary education or more are the most active buyer of Mf, while 15~24 age group exhibits increase the fastest.



2 Micro, small and medium business (MSMEs) will be critical small loan consumer.

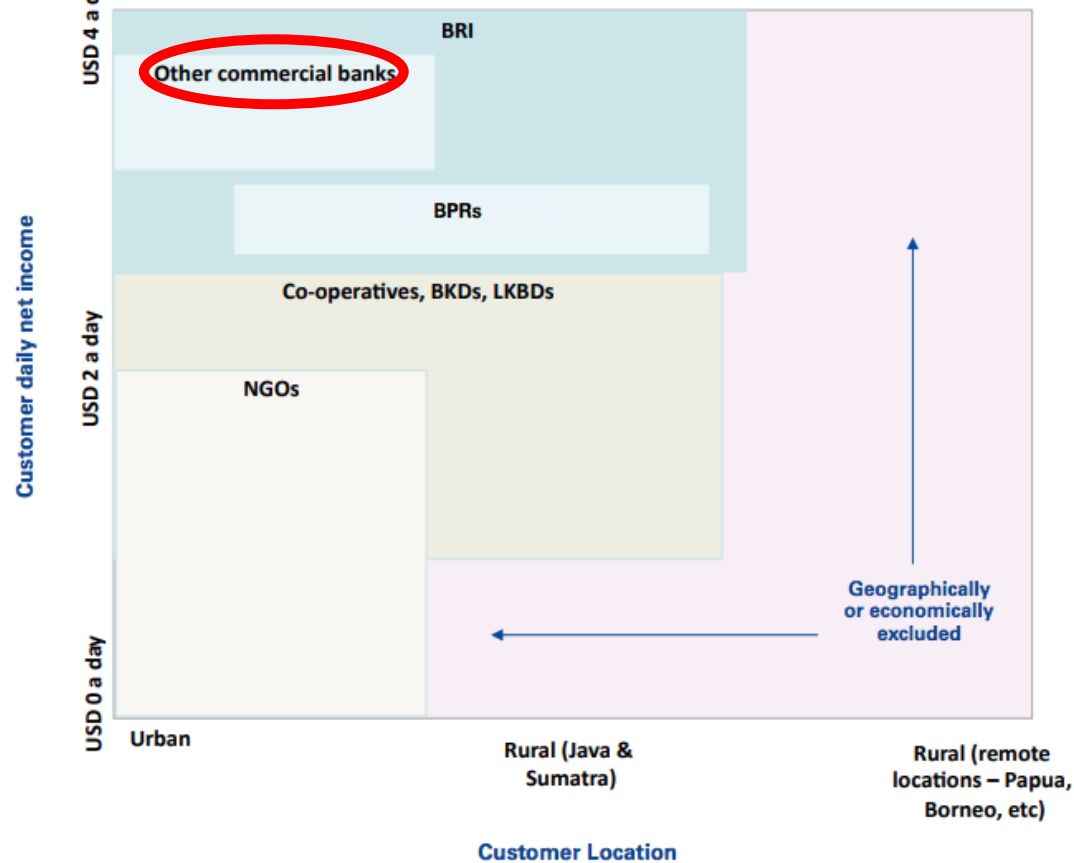


✓99% of firms
✓97% of employment
✓57% of GDP

✓ 439,850 of 53.823 million MSMEs served

KBFG can enjoy highest profit through delivering loan in urban Indonesia

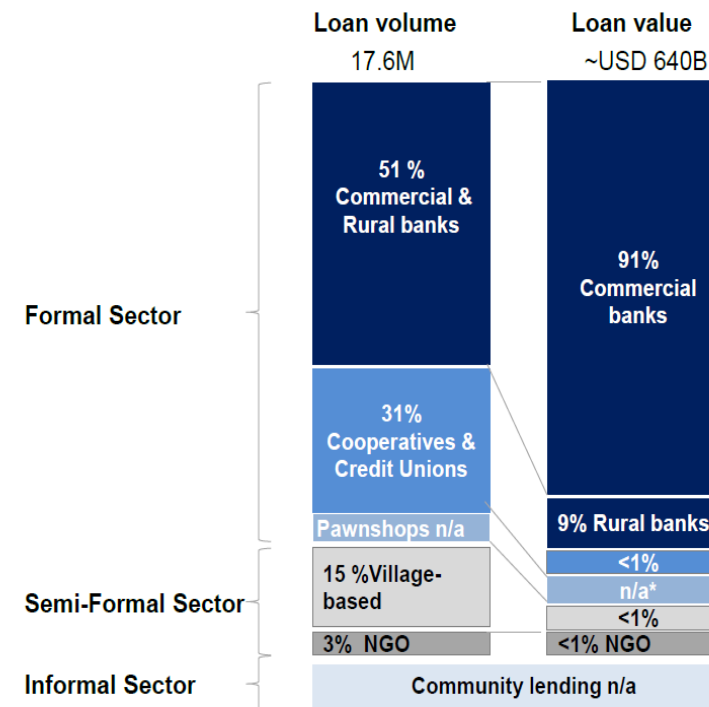
1 KB as foreign commercial bank falls into urban individual service provider.



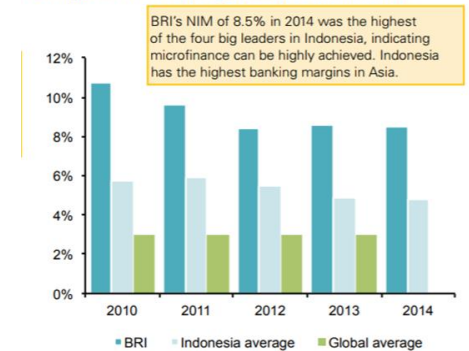
2 If stay within this provider category, KB can enjoy high profit especially through dispatching loans.

Figure 12 Loan volume, value and # financial outlets by segment

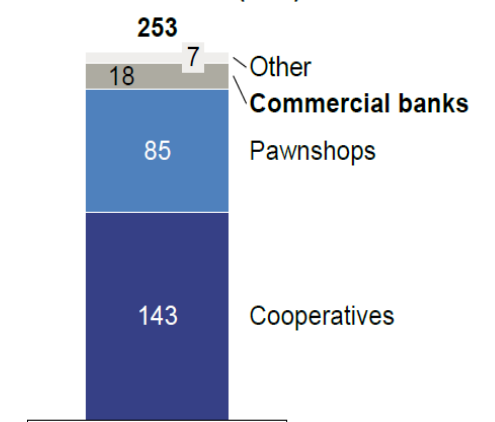
Sources: Bank Indonesia, web search



Average Net Interest Margin (NIM) - Formal lenders



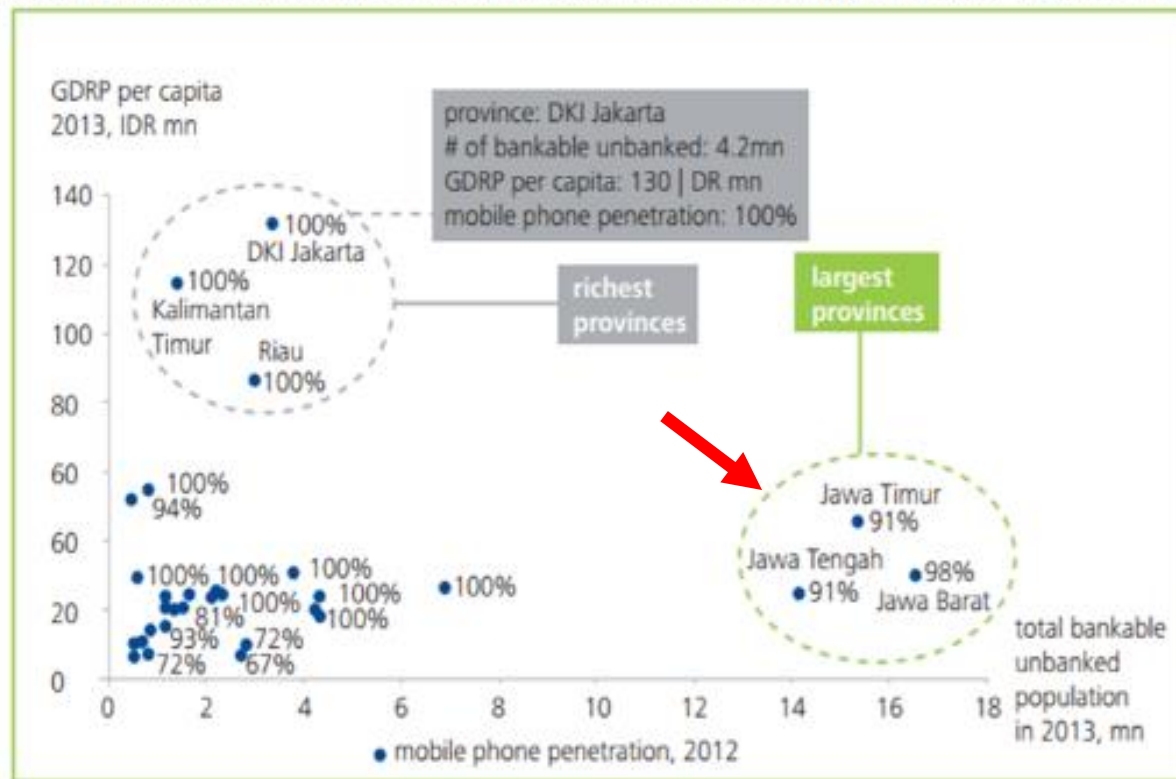
Financial outlets ('000)



West Java will be the largest volume market due to population and infrastructure

1 Jawa has high mobile penetration and big unbanked population

Figure 3: Key macro indicators of Digital Financial Services potential in 33 provinces in Indonesia



2 high-return loan product has its largest market in West Java

Table 2-2 Values of Deposits and Loans of Banks and BPRs in Research Locations, 2002 (Billion Rupiah)

Province/Regency/City	Bank Deposits	Bank Loans	Small Loans	BPR Deposits	BPR Loans ²
West Java	80,182	71,645	11,988	1,048	895
Bandung	1,900	5,807	107	N/A	N/A
Purwakarta	614	5,530	388	N/A	N/A
East Java	78,827	34,022	10,398	836	990
Malang	7,296	3,025	1,555	N/A	N/A
Madiun	1,395	435	193	N/A	N/A
West Kalimantan	6,357	2,822	793	38	34
Pontianak	4,390	1,280	433	N/A	N/A
Sanggau	196	374	92	N/A	N/A
East Kalimantan	11,825	5,094	1,004	11	14
Samarinda	4,870	1,647	368	N/A	N/A
Kutai Kutainagara	N/A	627	N/A	N/A	N/A
North Sulawesi	3,642	2,641	1,411	26	42
Manado	2,590	1,146	N/A	N/A	N/A
Minahasa	N/A	502	N/A	N/A	N/A
Papua	4,455	657	434	N/A	N/A
Jayapura	N/A	196	164	N/A	N/A
Manokwari	N/A	73	43	N/A	N/A
Total Regencies	23,251	20,642	3,343	N/A	N/A

North Sumatra will be the fastest growing market due to development and policy

1 Sumatra has highest need of banking because of low financial inclusion and high economic development

Figure 4 Banking services distribution

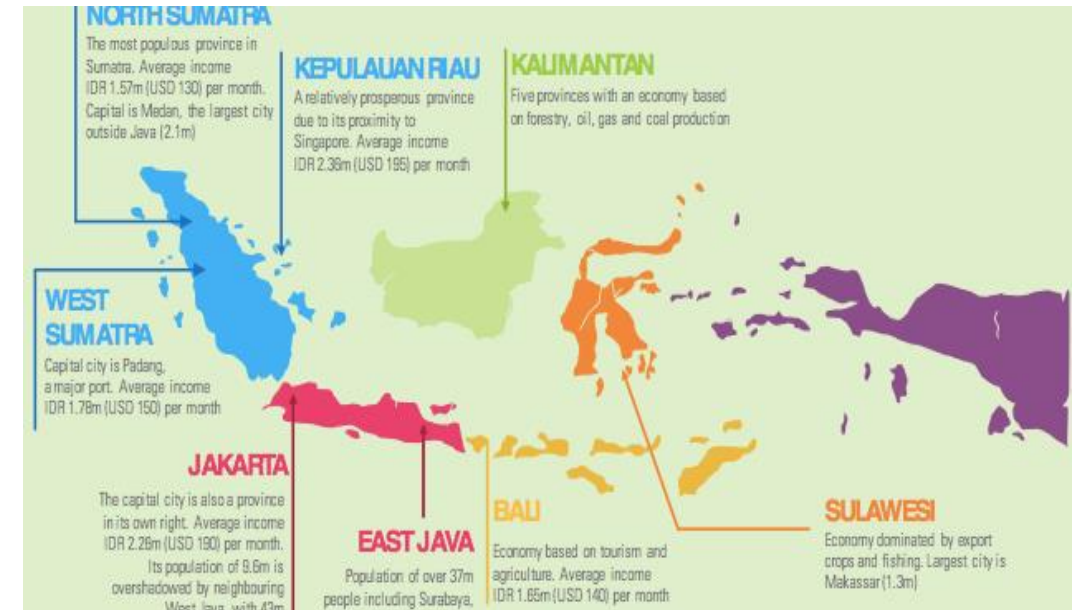
Source: "Financial Inclusion Development Policy in Indonesia" Bank Indonesia 2013 Data: SEKDA BI and Statistic Indonesia 2011.



	Economic growth	Banking Financial Services (Loan and Saving)	Criteria
	High	High	Underbanked
	High	Low	Low equilibrium banked
	Low	Low	Middle equilibrium banked
	Low	High	Overbanked 1
	Low	High	Overbanked 2 (Java, Bali)
	Low	Very High	Overbanked 3 (DKI Jakarta)

2 North Sumatra has largest amount of branchless finance service user.

- ✓large population
- ✓low average income
- ✓one of the branchless banking pilots of Bank Indonesia
- ✓ five available lenders: BRI, Bank Mandiri, CIMB Niaga, BTPN and Bank Sinar Harapan Bali
- ✓three largest mobile network operators: Telkomsel, Indosat and XL Axiata



Suggestion

Strategy Bullet-ins:

- penetrates markets mainly in West Java and North Sumatra
- targets on 15~24 age group, with secondary education or above and MSME borrowers.
 - Also pay attention to female customer, migrant worker, and urban poor customers
 - Mainly deliver loans for individual needs and business needs
 - Meet needs either short-term(commodity payment) or long-term(education, retirement deposit)

Biggest banks in Indonesia

1. The Bank of Tokyo-Mitsubishi UFJ MUFG

- Financial Services
- Biggest foreign bank in Indonesia by assets
- Total assets: US\$ 2,589.76 billion (2016)
- Total equity: US\$ 6.857 trillion

2. The Hongkong and Shanghai Banking Corporation HSBC 滙豐

- Financial Services
- Total assets HK\$ 7,548.952 billion (2016)
- Total equity HK\$769,136 million (2016)

** However, most foreign banks remain uncompetitive in microfinance sector compared to domestics banks and institutions because either microfinance remain a small portion of their services or its market size is significantly small in the market.*

3. Bank Mandiri



- Financial Services, Banking
- (State-owned)
- Biggest bank in Indonesia by assets
- Total assets: IDR 1038 trillion (2016)
- Total equity: IDR 1038 trillion (2016)
- Amount disbursed: IDR 4,590,094 (Sept. 2016)

4. Bank Rakyat Indonesia



- Financial Services, (specialized) Microfinance
- (State-owned)
- “Among top 5 best microfinance banks/institutions in the world”
- Total assets: IDR 1003.6 trillion (2016)
- Total equity: IDR 146.813 trillion (2016)
- Specializes in small-scale microfinance
- Amount disbursed: IDR 50,493,499 (Sept. 2016)

The Bank of Tokyo-Mitsubishi (BTMU) -Business Model



- Bank of Tokyo-Mitsubishi UFJ aims to buy roughly 40% of Indonesia's Bank Danamon with an eye toward a future majority stake, extending its Southeast Asian deal making push into region's most populous country. BTMU seeks to turn Danamon into an equity-method affiliate as early as mid-2018, entitling it to a cut of the Indonesian lender's earnings. The initial investment is seen at around 200 billion yen (\$1.76 billion).
- BTMU has pursued Southeast Asian deals in recent years, starting with a 2012 agreement to purchase about 20% of the Vietnam Joint Stock Commercial Bank for Industry and Trade, better known as Vietinbank. The Japanese bank spent 170.6 billion baht (\$5.15 billion) in 2013 to acquire 72% of Thai lender Bank of Ayudhya (Krungsri), and it took a 20% stake in the Philippines' Security Bank last year.
- BTMU's gross profit in the Asia-Oceania region totaled just \$8.9 billion in 2014, compared with \$22.9 billion for HSBC, according to Nomura Securities.

BTMU - Jakarta Branch - Business Partners

1. The Investment Coordinating Board (BKPM)
2. PT. Bank Permata, Tbk
3. PT. Perseroan Listrik Negara (PLN)
4. PT. Telekomunikasi Indonesia (TELKOM)
5. PT. Bank Central Asia, Tbk (BCA)
6. Prima Network
7. PT. Bank Network
8. PT. Bank CIMB Niaga, Tbk
9. Indonesia Eximbank

Examples of MUFG's Foreign Acquisition

- Thailand

- Bank of Ayudhya Public Company Limited (Krungsri) – 76.88% share



- Myanmar (business alliance-microfinance)

- Co-operative Bank Limited (CB Bank)
 - Myanmar Microfinance Bank (MMB)



- Vietnam

- Vietnam Joint Stock Commercial Bank for Industry and Trade – 20% share



- Philippines

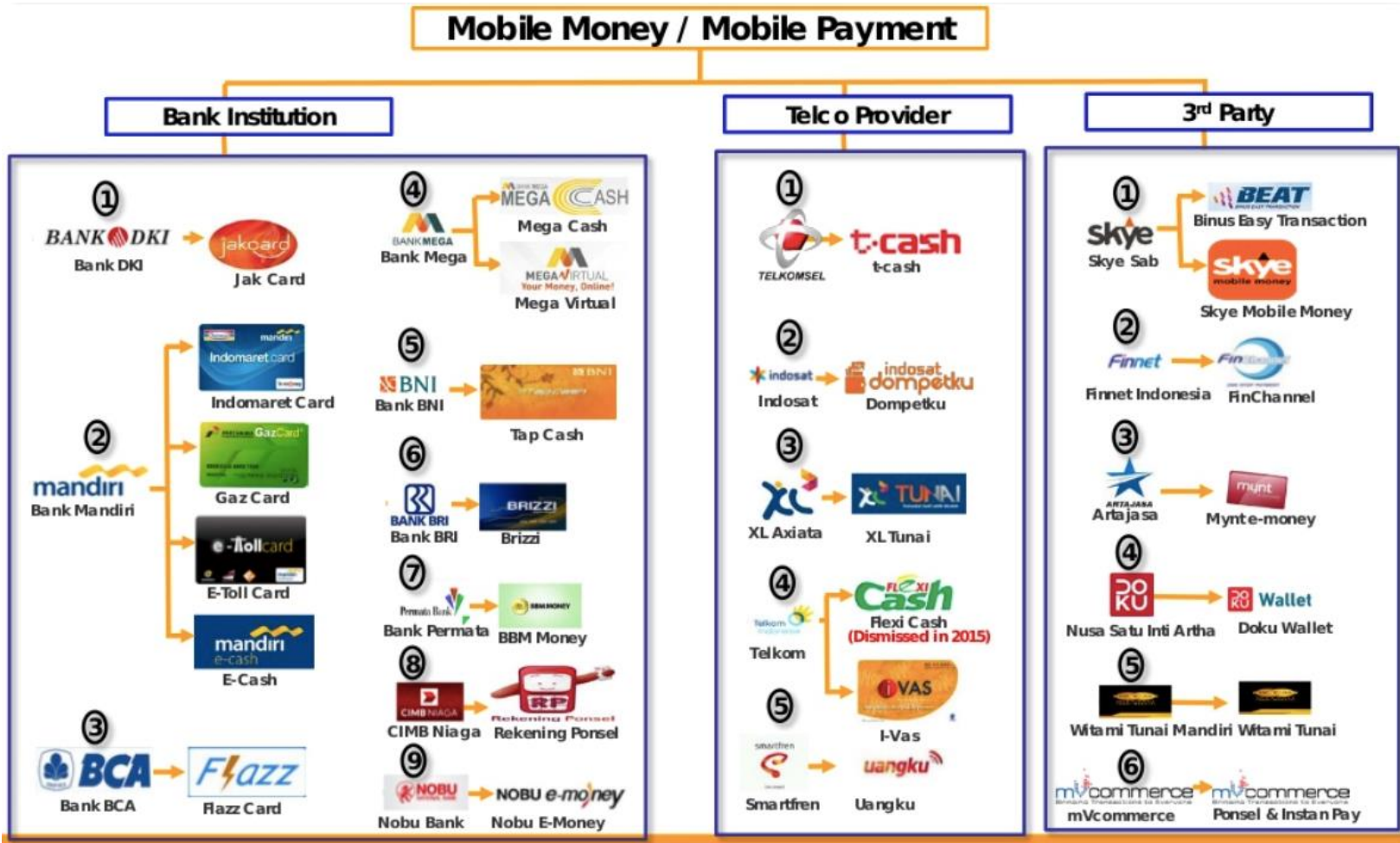
- Security Bank – 20% share



Suggestion

1. Acquisition above 40% of Indonesian banks is possible under certain conditions:
 - I. Have the required investment grade that shows their financial capability
 - Composite rating of one or two, meeting certain capital adequacy ratios, a minimum Tier-1 capital of 8%
 - II. Show commitment in assisting in the development of Indonesian economy
 - III. Have a letter of recommendation from their home country's financial regulator
2. Fully utilize the database of acquired bank for help build client database in Indonesian market. Once established, expansion to other Southeast Asian countries are also suggestible.

Mobile Money



- ✓ Basic Service v. Full Service
- ✓ Maximum Balance (\$80 v. \$800)
- ✓ Maximum Transaction (\$150/Mn)
- ✓ Cash-in Balance
- ✓ Merchant Payment
- ✓ Top up Airtime
- ✓ Purchase Online
- ✓ Pay on mobile
- ✓ Share Money (Y/N)
- ✓ Cash-out Money (Y/N)

All can top-up or withdraw mobile balance through outlet and use the balance for online shopping, bill payment and payment

Benchmark Business Model



- Small loans
- Mobile Network Operators serves as credit rating agency
- Cooperate with bank



- Company: Telkomsel (largest mobile network operator in Indonesia)
- Technology: TAP Pay (similar Apple pay)
- Key success factor: biggest agent network, ease of verification (bring ID to nearest agent), phone number based transaction



- Company: DOKU (oldest payment startup)
- Technology: PIN code token
- Key success factor: APP based verification, ease of top-up and withdrawal from and to bank account, APP based transaction



- Company: Go-Jek (largest Fintech start-up, originally start as a Uber like App)
- Technology: air charge
- Key success factor: driver serve as top-up agent, account balance available as 3rd party payment channel

Korean Competitors in Indonesia

Market Leader	M&A with
Hana Bank	PT Bank Bintang Manunggal
Woori Bank	PT Bank Himpunan Saudara 1906
Shinhan Bank	Bank Metro Express / CNB

Follower	Planning to M&A with
Industrial Bank of Korea	In progress
Kookmin Bank	Sinarmas Bank

PT. Bank KEB Hana Indonesia

Foundation : In 1989 (The first entry bank)

of branches : 55

of customers : 150,000

Acquisition : PT Bank Bintang Manunggal (Bank Bima) in 2007 by Hana Financial Group

Recent Issue:

- Extended the scale in 2014 by establishing microfinance incorporation with Hana Financial Group and local partners
(Hana Capital – 55%, PT. Bank KEB – 30%, Sinarmas Group – 15%)
- Field : Automotive installment finance, enterprise equipment leasing, factoring finance

Welcome to
PT Bank KEB Hana Indonesia



Woori Bank Saudara (BWS)

Foundation : In 2007 (Woori bank entered in 1992)

of branches : 123

M&A : PT Bank Himpunan Saudara 1906 (the oldest private bank in Indonesia) in 2015

Recent Issue:

- 80 percent stake in the merged bank
- Woori Bank CEO Lee also signed an agreement with Bank Central Asia (BCA), the largest commercial bank in Indonesia, to join the interbank payment network of debit cards (Prima).
- Joining the Prima, which accounts for 50 percent of the Indonesian ATM market with 51 local bank members, the customers banking with Bank Woori Saudara can now also use nearly 15,000 ATMs of the BCA.



Shinhan Bank Indonesia (BSI)

Foundation : In 2015

of branches : 60

M&A : Acquired 40% of shares of Bank Metro Express in 2015

Merged with CNB in 2016

Recent Issue:

- BSI is currently simplifying Indonesia's complicated commission of installment; therefore, it is evaluated as a finance market reformer.



Top 5 Commercial Bank in Indonesia

Unit : \$100,000

Rank	Name	Assets	Loan	Net Income
1	Bank Mandiri	855,040	533,854	19,872
2	Bank Rakyat Indonesia(BRI)	801,955	521,293	24,242
3	Bank Central Asia(BCA)	537,210	346,300	16,089
4	Bank Negara Indonesia(BNI)	214,574	280,484	10,783
5	CIMB Niaga	233,162	178,407	2,342

Source : Bank Indonesia(2014)

BRI's business model

- **Bank Rakyat Indonesia** (*People's Bank of Indonesia*, commonly known as **BRI**) is one of the largest banks in Indonesia
- Established in 1895, became a national bank in 2003 and leading stable savings & loans bank for lower- middle classes
- It specializes in small scale and microfinance style borrowing from and lending to its approximately 30 million retail clients through its over 4,000 branches, units and rural service post
- However, the savings of upper-class are small

Traditional approach	Technical approach
Van branch	World's first satellite communications model (June 2016) to connect 10,650 BRI branches across the archipelago digitally
“floating branch” service that sends loan officers and security guards to remote islands by boat	Investing heavily on branchless bank

Suggestion

1. Aggressive marketing strategy

- By using 2 different nationality but reliable celebrities: Song Joong-ki & Raisya Andriana

2. Utilize and KB's Application

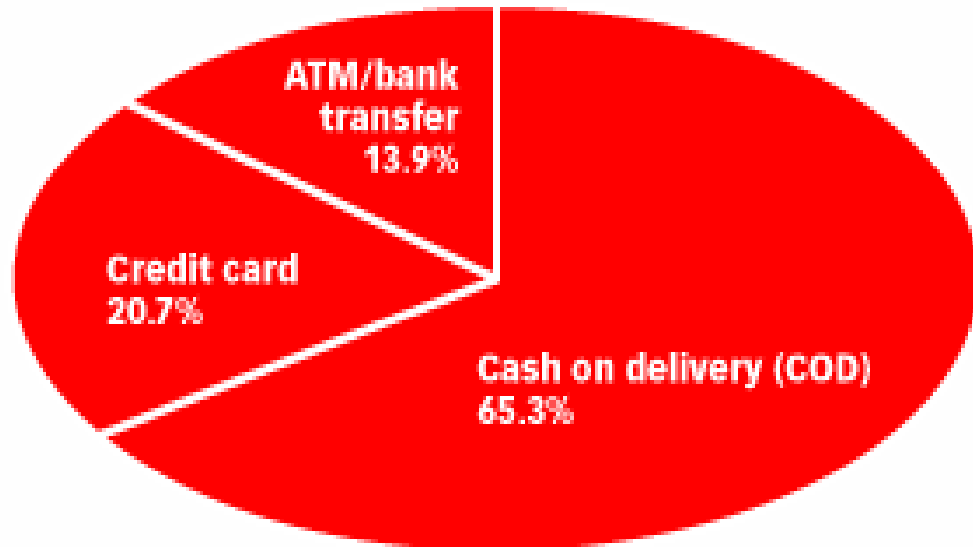
- Live
- Star Banking
- SimobiPlus Mobile Banking



Cash On Delivery(COD)

Digital Purchase Share in Indonesia, by Payment Method, Feb 2017

% of total tracked by aCommerce



Note: represents activity on aCommerce's platform, broader industry metrics may vary; 0% of digital purchases were completed by digital buyers using a debit card or credit card on delivery (CCOD); numbers may not add up to 100% due to rounding

Source: aCommerce as cited by ecommerceIQ, March 29, 2017

225598

www.eMarketer.com



1. Cooperation with Social Media

- Active Social Media Users: 79.0 million
- Active Mobile Social Users: 66.0 million
- Growth in the number of active Social Media Users: +10% (since 2015)
- Cooperation or sponsorship with one of famous Social Medias in Indonesia



2. Collaboration with Online Shopping

- A small loan of cash on apparel shopping (preference on cash to credit cards)
- Repayment
 - First month: Principal without interest
-> to increase Brand Loyalty
 - 2nd ~3rd month: Charge a small amount of interest
- Collaborate with Korean Cosmetic Brands
- Largest Archipelago -> Less interest rate for rural areas.



List of Famous Fashion Online shops in Indonesia

1. Zalora
2. Bobobobo
3. Reebonz
4. Ree Indonesia
5. Belowcepek.com
6. Berrybenka
7. Localbrand.co.id
8. Shopee
9. Pomelo
10. Love, Bonito

3. Partnership with Fintech

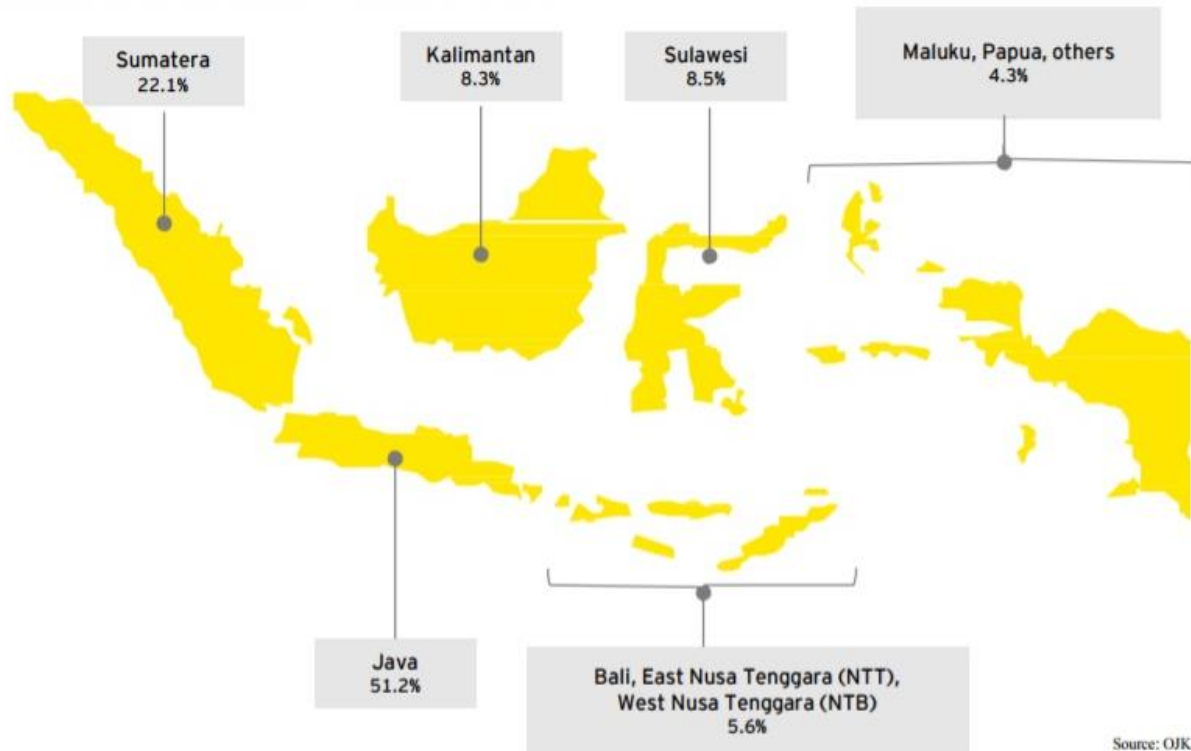


- ↳ According to IDG, out of the fintech services that are being used in Indonesia, over 81% are owned or run by banks and financial institutions.
- ↳ Only 10% of users are using non-bank related fintech products with Doku being by far the most popular one in Indonesia.

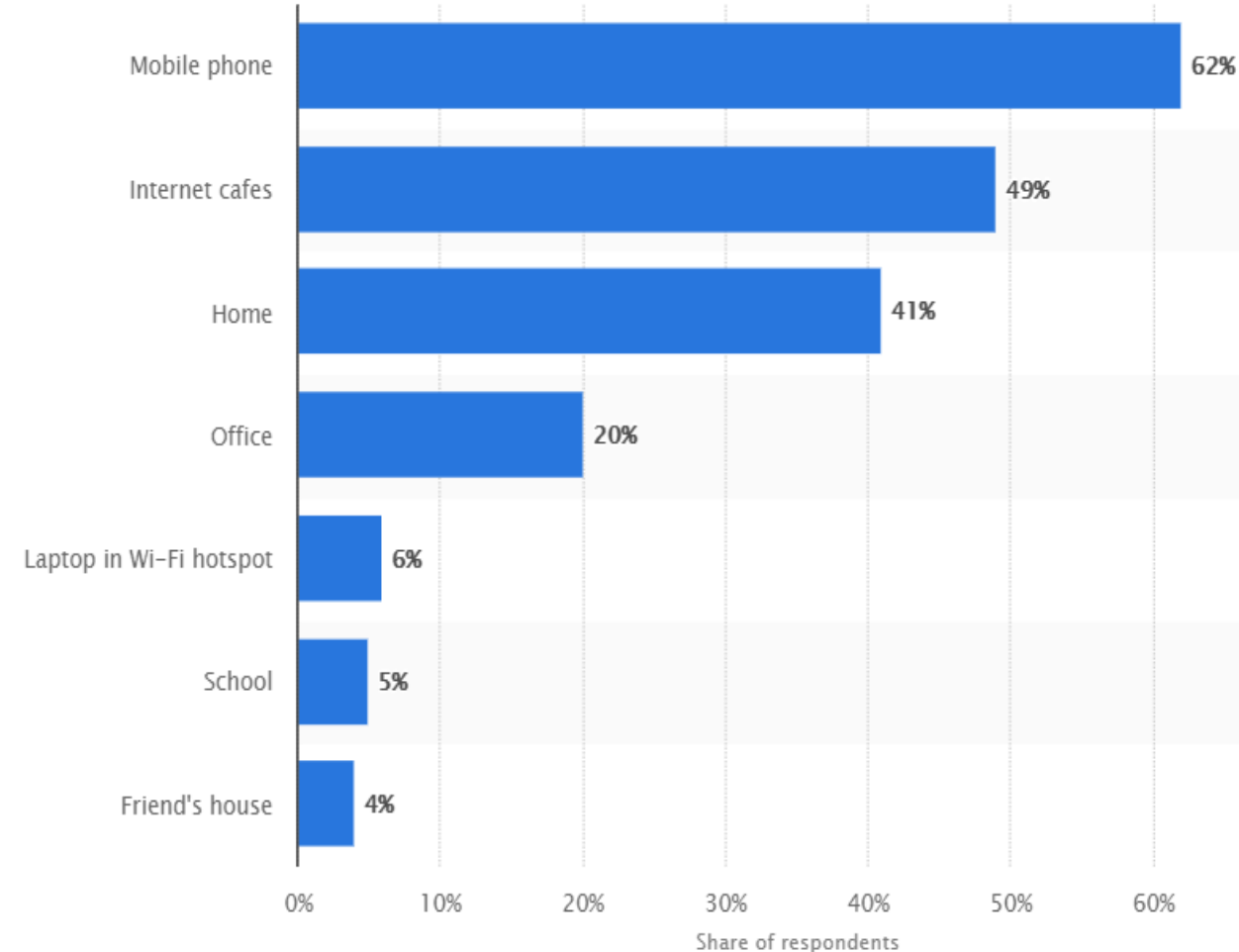
3.1 Unbanked Population in Indonesia

“The recent Household Balance Sheet Survey revealed that **52.4%** of Indonesians do not have any savings or savings accounts with banks or nonbank financial institutions.”
(Bank Indonesia, 2014a)

Indonesian commercial banking branch distribution

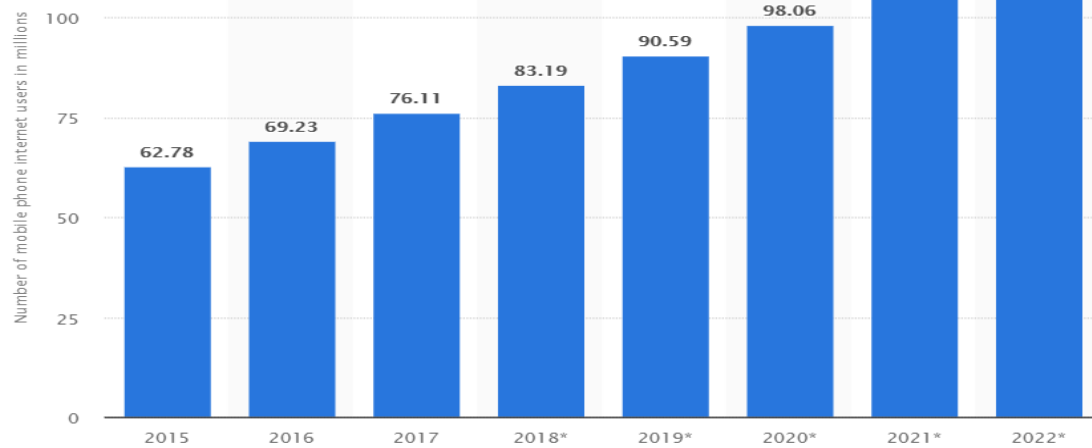


Internet usage in urban Indonesia in 2012, by access location

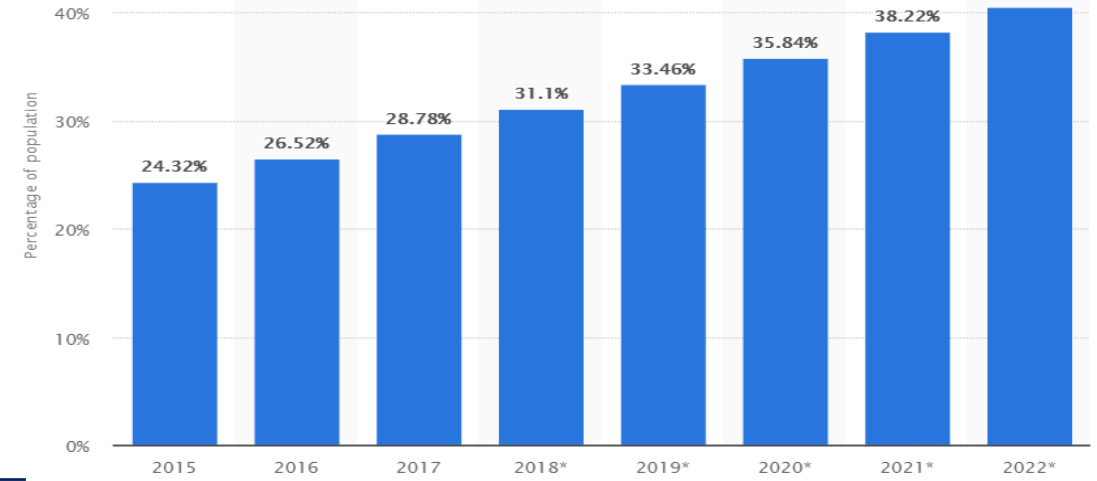


3.2 Online user penetration

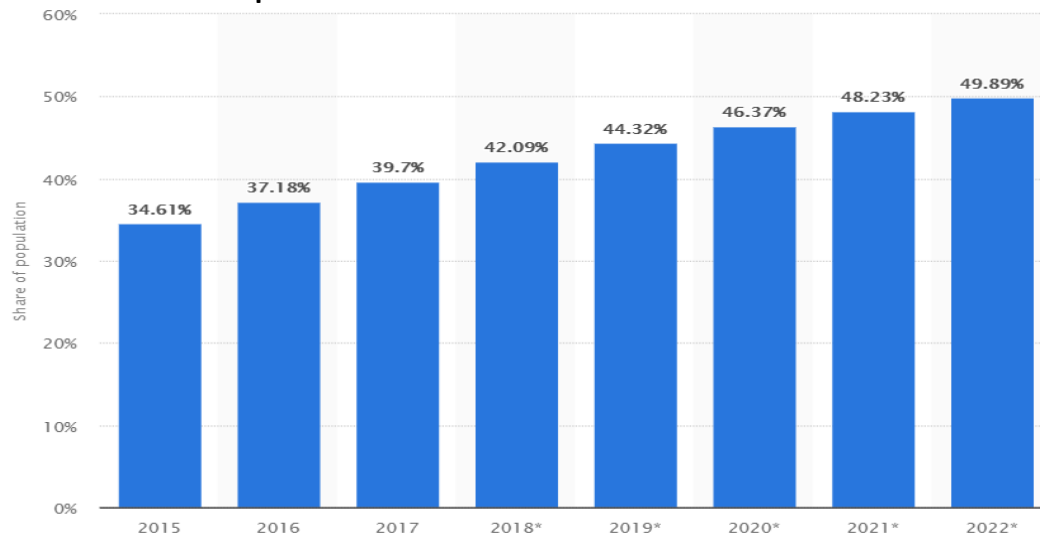
Number of mobile phone internet users in Indonesia from 2015 to 2022 (in millions)



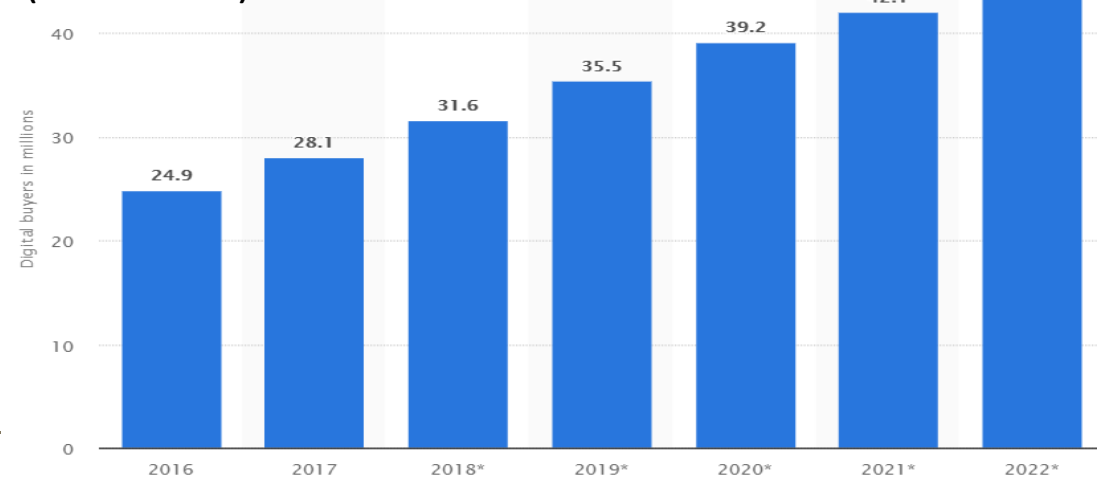
Mobile phone internet user penetration in Indonesia from 2015 to 2022



Internet user penetration in Indonesia from 2015 to 2022



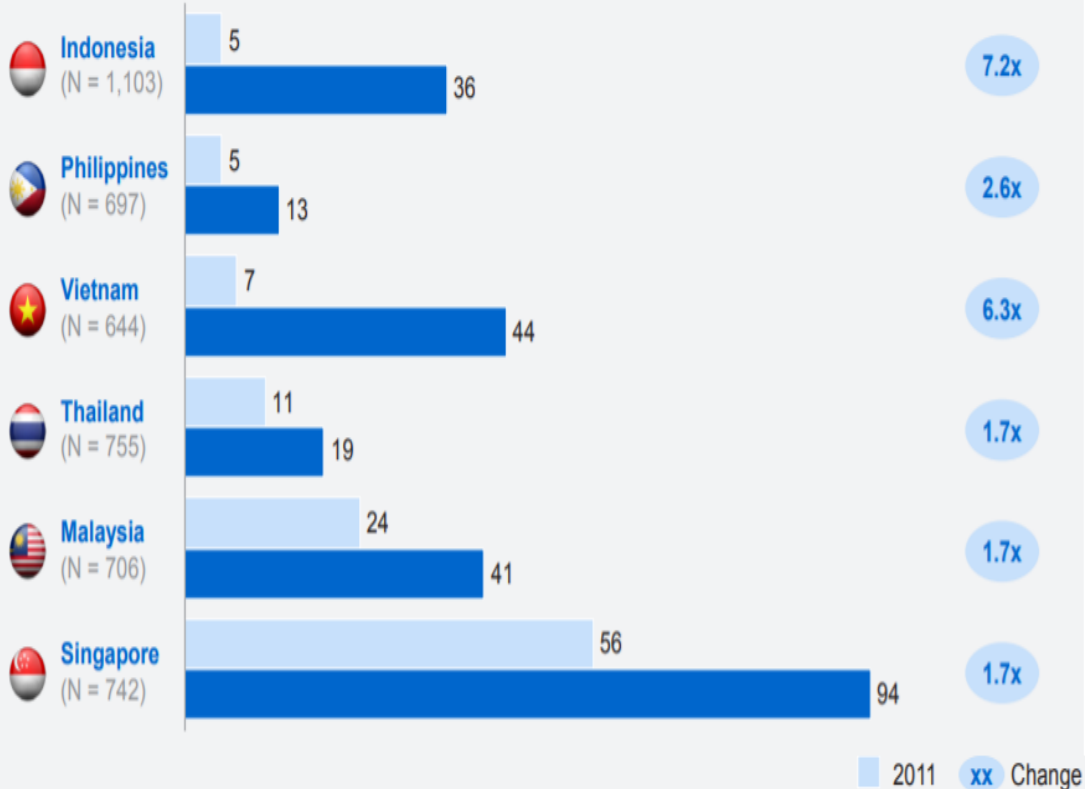
Number of digital buyers in Indonesia from 2016 to 2022 (in millions)



3.2 Digital-banking Penetration & Fintech

Digital-banking Penetration across Southeast Asia

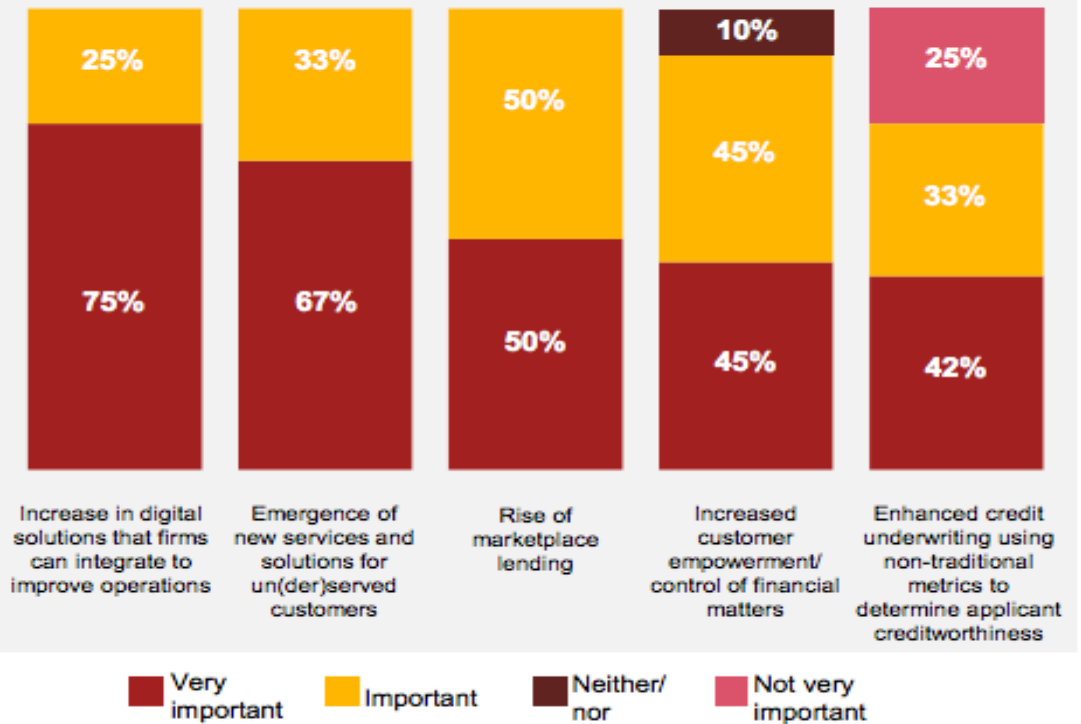
Digital banking penetration¹ for transactions and services
% of respondents using internet banking via PC or smartphone



Digital banking penetration refers to respondents who say yes to either using Internet banking via PC or via smartphone.

Figure 25: FinTech trends expected to have a significant impact to the Indonesia banking industry over next 5 years

Q: To what degree will these FinTech trends be important for the banking industry over the next 5 years?



Source: PwC Global FinTech survey 2017 Base: 31 respondents from Indonesia banking, fintech and technology sectors.

3.3 Examples of Indonesian Bank + Fintech

1. Investree

– Bank Danamon

P2P lending platform
+
Bank Danamon

- Partnership
- Bank Danamon: handling cash management for lending activities facilitated by the Investree platform -> connects lenders to SMEs.
- process faster, safer, and more accessible to the public



2. Dimo – Sinarmas Bank

Mobile payment startup
+
Sinarmas Bank

- MOU
- the partnership can help with the startup's user acquisition strategy, particularly in consumer education process
- educating the market and securing more partnerships
- Target: Merchants, banks, and the customers



3. Bank Mandiri

Mandiri Capital
Indonesia



Fintech Startup
Incubator

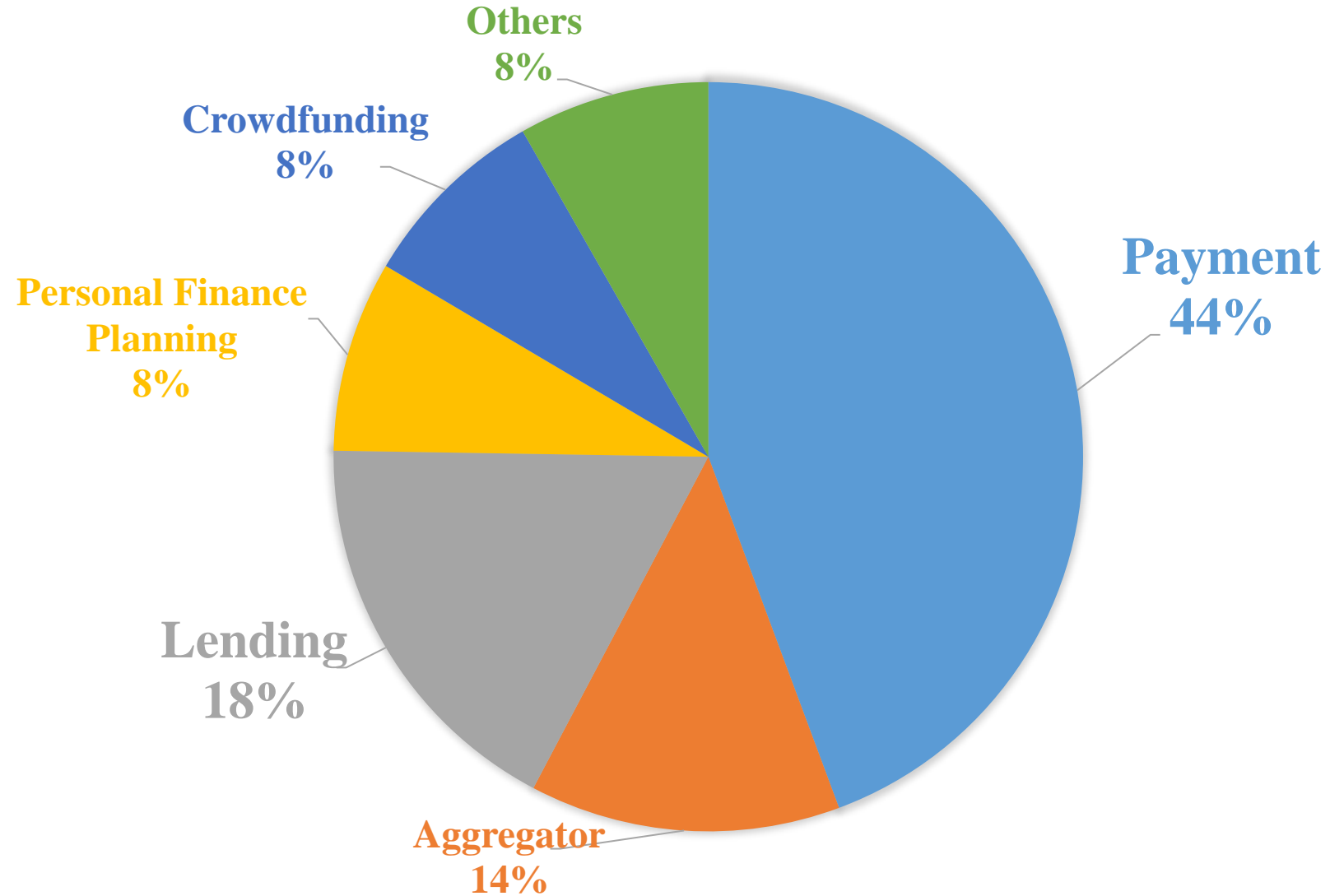
- Investment: US\$15 million into fintech startup
- Launched its venture capital business unit in January: Central Capital Ventura (CCV)



3.4 Products of Fintech

FINTECH SERVICES

- Payment
- Aggregator
- Lending
- Personal Finance Planning
- Crowdfunding
- Others



4. Agriculture Insurance

INDONESIA GDP FROM AGRICULTURE



- agricultural industry contributed around 14.7% to the country GDP
-> Majority of Indonesian involved:45%
- Why agriculture insurance: vulnerability
 - a. natural disasters: extreme drought, flood
 - b. plant pests attacks;
 - c. outbreaks of infectious animal diseases;
 - d. impacts of climate change: changing rainfall, global warming;
 - e. other types of risks set by regulation
- Indonesian Government Insurance
 - Covers 5 targets: rice, maize, soybean, sugar, and meat
- Challenges & Opportunities

Wrap up



Strategy Bullet-ins:

- acquires local bank to enter the market and get customer database
- penetrates markets mainly in West Java and North Sumatra
- targets on 15~24 age group, female, with secondary education or above, migrant worker, urban poor customers and MSME borrowers.
- designs traditional products and innovative products such as public transportation, utility bill payment, shopping merchant, online retail merchant, agriculture insurance
- delivers services through mobile balance and APPs
- cooperates with social media with emphasis on online reviews and celebrity effect
- partners with FinTech companies especially in credit assessment
- starts from Indonesia and later expands to other Southeast Asian countries(next could be Cambodia)



Thank you

Consultholic: Jeong Hee Koo, Jeong Yeol Kim, Yuying Zhang, Sungeun Baik