

# Indonesia Investments

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## **'Digital Banking in Indonesia'**

- Financial Services Authority (OJK) Prepares Regulation for the Establishment of/Conversion to Digital Banks in Indonesia
- Great Potential for Digital Banks in Indonesia due to Rapidly Rising Internet & Smartphone Penetration, While Many Remain Unbanked
- Several Business Stakeholders Have Already Invested in Small Banks to Anticipate on the 'Digital Banking Revolution' in Indonesia
- Indonesia's Banking Industry to Strengthen on the back of Digital Banking

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**Van Der Schaar Investments B.V.**  
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Update – 27 March 2021

**‘Digital Banking Industry Indonesia’**



# Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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# Digital Banks Regarded to Have Great Potential in Indonesia; Bridging Physical Distance with Branchless Banking

Over the past couple of weeks the topic of digital bank has had quite some attention in Indonesian media, especially those that focus on the economy and business.

It were the following developments that led to the media attention. First, Indonesia's Financial Services Authority (*Otoritas Jasa Keuangan*, OJK), the government agency that regulates and supervises the country's financial services sector, announced that it is currently revising OJK Regulation No. 19/POJK.03/2014 on Branchless Financial Services in the Context of Inclusive Finance. Heru Kristiyana, OJK Chief Executive of Banking Supervision, confirmed that the revision will allow the establishment of full (branchless and cashless) digital banks across Indonesia. However, it will still take a few months before this new regulation is designed and released (possibly in late Q2-2021 or Q3-2021 we can expect the regulation to be released).

Secondly, we have seen a couple of interesting corporate moves over the past couple of months in which strong digital players, such as super-app Gojek or e-commerce platform Shopee, invested in relatively small local banks. This is a clear sign that the big tech companies are strengthening their ecosystems by (further) expanding into the financial services sector. Having a digital bank would certainly strengthen their ecosystem significantly (for example, fees involved in the topping up of electronic

wallets, or e-wallets, would not go to a third-party anymore, and it would also open up opportunities to lend credit to the numerous micro, small or medium businesses that are active on platforms such as GoFood or Shopee).

Moreover, Indonesia seems to have the perfect environment for the development of the digital banking industry. The nation comes in the shape of a massive Archipelago with vast remote regions where transportation by land is rough (partly due to weak infrastructure development). For banks, this makes it complex (and loss-making) to open physical branches in the remote regions. Considering these regions are rather sparsely populated and characterized by high (relative) poverty rates, a physical branch may have a limited number of clients only.

And, in this context, it is also important to note that – based on World Bank research – only some 49 percent of the Indonesian population holds a bank account. So, there is a huge number of Indonesians (roughly 135 million individuals) who may need to open a bank account in the years, or decades, ahead.

[...]

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