

Emerging Risks and Customer Protection in Digital Financial Services in Indonesia - 2017

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Table Of Contents

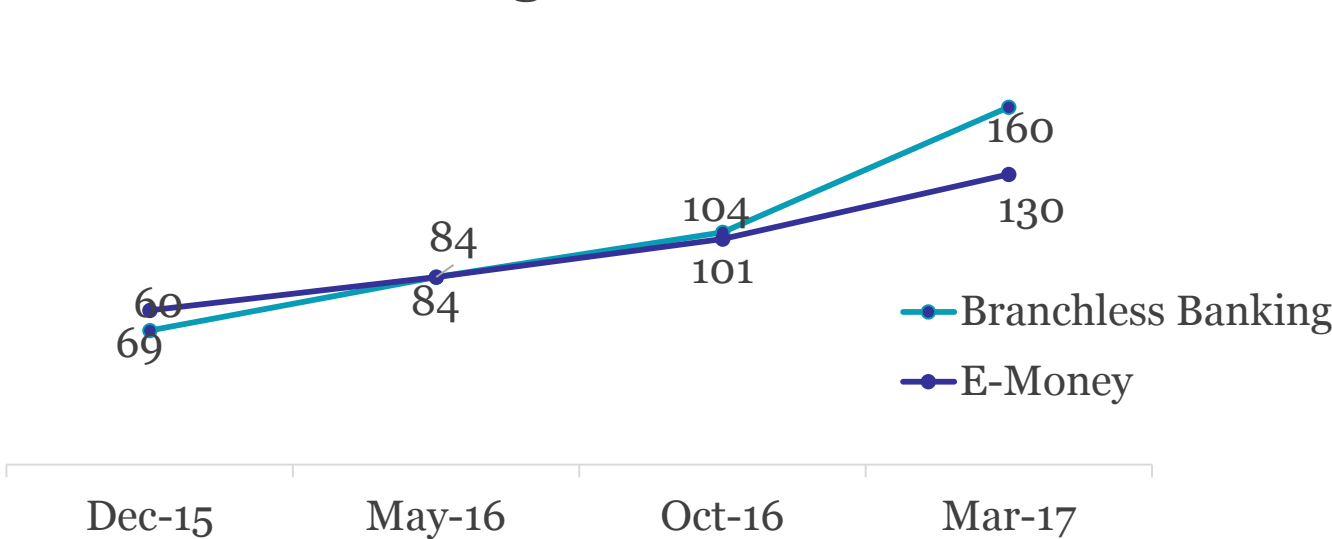
Emerging Risks and Customer Protection in Digital Financial Services in Indonesia

- Research Background and Objectives
- Summary Findings
- Respondent Profiling
- Consumer Awareness
- Quality of Support
- Complaint Handling and Grievance Redressal Mechanisms
- Credibility and Trustworthiness
- Inactive Users
- Recommendations
- Annexures

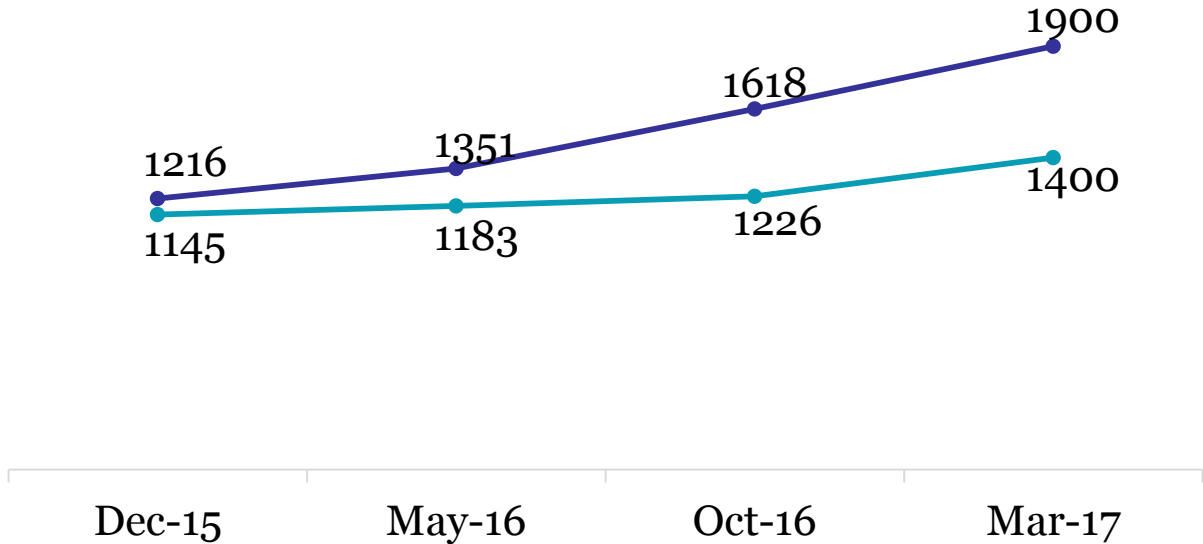
Background and Objectives of the Research

Digital Financial Services* (DFS) Indonesia is still at a nascent stage, but growing very fast.

DFS Agents (in ‘000)



DFS Accounts(in ‘000)



Rapid proliferation of digital financial services especially among unserved and underserved segments makes them vulnerable.

Financial literacy: Only 30% of population are financially literate

DFS Awareness: Only 8% of population are aware about a mobile money provider

Research Objectives



- Identify actual and perceived risks for customers using digital financial services in Indonesia.



- Examine existing policy and operational interventions to mitigate consumer risks.



- Provide recommendations from policy and operational perspectives to mitigate the risks.

Conceptual Framework: When is Customer Susceptible to Risk?

Customer is not aware about: provider and service charge

- Not aware of Laku Pandai/LKD providers
- Not aware of the terms and conditions for availing products/services
 - Direct/indirect charges
 - Contract terms



Poor support and experience

- Not aware of service/support mechanisms
- Not satisfied with support offered by agents
- Mis-selling by the agents
- Poor sign-up and transaction experience

Poor complaint handling and redressal mechanisms

- Not aware of complaint handling and grievance redressal mechanisms
- Find it difficult to access/avail complaint and grievance redressal mechanisms
- Not satisfied with the quality of complaint & grievance redressal mechanisms

Lack of credibility/trustworthiness

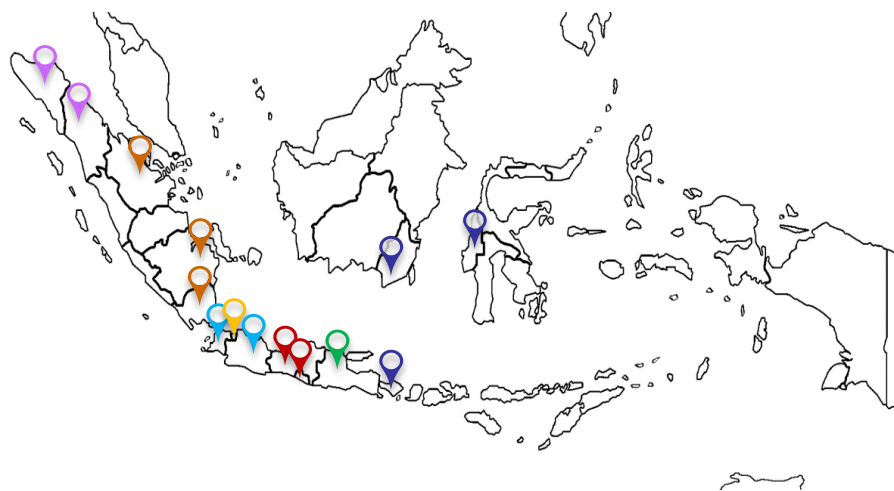
- Do not find the provider and its services to be credible and trustworthy
- Transaction platforms/systems are not reliable
- When customer funds/data is not safe
- When they experience fraud
- When they experience or have heard about risks in Laku Pandai/e-money

Research Methodology and Design

Population and Sample Size



Geographic Coverage



- The research covered top 15 provinces that comprise 90% of DFS users.
- Selected provinces were grouped into seven regions as per the geographic clusters usually adopted by bank/non-bank providers for their main business.
- Multistage sampling method applied to collect primary data from this geographically dispersed population.

Provider Coverage



- A total of nine providers (both Laku Pandai and LKD) were covered as part of the research.
- Research team collected information about agents of major providers and selected respondents through those agents.
- The research was conducted using mobile phone application with the help of a reputed market research firm based in Jakarta.

Summary – Findings & Recommendations (1/3)

Rapid proliferation of digital financial services (DFS) especially among unserved and underserved segments makes them vulnerable to risks. This is especially the case with only 30% of the Indonesians being financially literate and just 8% aware about DFS. With this context, *MicroSave* conducted a nationally representative survey with following objectives:

Key Findings

Respondent Profile:

- Most of the DFS users already have a savings account. For example, 70% of Laku Pandai users already had a savings account of which 90% were with commercial banks.
- Laku Pandai accounts are largely used for cash-in or deposits (28%) while LKD accounts are used for payments (21%) at convenience stores, restaurants, retail merchants etc. At 11%, agent assisted transfers (or over the counter transfers) are more than self initiated transfers (3%) which can be an area of concern going forward as this could lead to Know Your Customer (KYC) related risks.

Consumer Awareness:

- Overall awareness about DFS providers is low. BRI among Laku Pandai providers (40%) and Mandiri among LKD providers (21%) lead respectively in terms of awareness among users. This is also because they have a strong parent brand.
- Awareness about transaction charges remains low at 27% for Laku Pandai and 15% for LKD. This ignorance has enabled agents to rampantly overcharge customers. Agents usually charge “thank you fee” for many transactions and especially for cash-in which is free.
- Agents (79%) are the main source of information for transaction charges, which further exposes customers to the risk of overcharging. Brochures and other collaterals (3%) are evidently ineffective.

Support and Experience:

- Urban users (63%) find it easier to sign up for a new account as compared to rural users (52%). On an average, it takes 1.05 days for a DFS account to be activated. However, time for activation is much higher for Laku Pandai at 1.25 days as compared to LKD at 0.7 days – making the experience poorer for Laku Pandai.
- The main reasons for customer inactivity are - product relevance, quality of service (agent knowledge about products and ability to handle complaints) and experience (network connectivity, activation time, device reliability etc.).

Summary – Findings & Recommendations (2/3)

● **Complaint Handling and Grievance Redressal Mechanism**

- Only 7% of the respondents said that they had queries/complaints. Transaction failures, product and charges related queries are most common.
- At 82%, agent remains the key channel for complaint resolution. Further, agent is also the main source of awareness about complaint resolution channels - providing a convenient opportunity for agents to exploit customers.
- In terms of cost, call centre remains the most expensive channel for complaint resolution with an average cost of IDR 3,667 per complaint. Moreover, 84% of users prefer to incur costs at agents for complaint resolution compared to call center with 57%.

● **Credibility and Trustworthiness**

- At 11%, transaction delay is the biggest risk as faced by the customers. Transaction denials come in close second with the main reasons being – system failure, mobile network issue and agent turning down transaction requests.
- Transaction delays dominate even in terms of perceived risks. Transaction denials happen due to many reasons such as agent unavailability, mobile network/internet issues. The risks highlighted are similar to the ones identified in other countries such as [Philippines, Bangladesh, other East African countries](#) and [India](#).
- At 3% - fraud incidence remains low, mainly because the transaction activity is low. Fake SMSs, requesting the user to send money to unauthorised accounts, are the most common fraud taking place in the field.

Recommendations: Both regulators – OJK and Bank Indonesia – have done a commendable job in terms of incorporating customer protection principles in the regulations. Customer protection also features as one of the main [pillars](#) of Indonesia's financial inclusion strategy. Further, regulators have come up with innovative initiatives such as setting up a [fintech](#) office to enable financial services innovation without compromising safety/security of customer funds. In addition to the ongoing initiatives, the following interventions can be considered.

Recommendations – Policy Makers:

- Regulators need to conduct FL programmes with special focus on digital financial services in coordination with stakeholders such as service providers and community level organisations. Also, it is an opportune time to introduce structured awareness programmes through [digital channels](#).

Summary – Findings & Recommendations (3/3)

- OJK/KEMENKO should advocate the use of e-KTP infrastructure of financial inclusion initiatives. Digital identity provides stronger KYC/due diligence and faster/smooth sign-up experience.
- Regulator should allow third-party agent network managers* in the DFS ecosystem. *MicroSave* analysis suggests that 24 out of 31 major DFS providers across the world use the ANM model to manage and monitor agents effectively.
- Regulator(s) can consider setting up training centres for agents in collaboration with service providers. This is to ensure standardisation and consistency of quality across training programmes. Regulators can also test/evaluate the training methods/curriculum periodically to suggest amendments.
- The regulator(s) should analyse complaints received by providers and suggest corrective measures. They should also publish the complaint data to increase awareness of consumers and other stakeholders such as consumer advocacy organisations, media etc.
- As a [best practice](#), funds under LKD should be parked in trust accounts to protect user funds. Further [deposit insurance](#) facilities can be extended to LKD funds either directly (by bringing them under deposit insurance scheme) or indirectly (through pass through deposit insurance).

Recommendations – Providers:

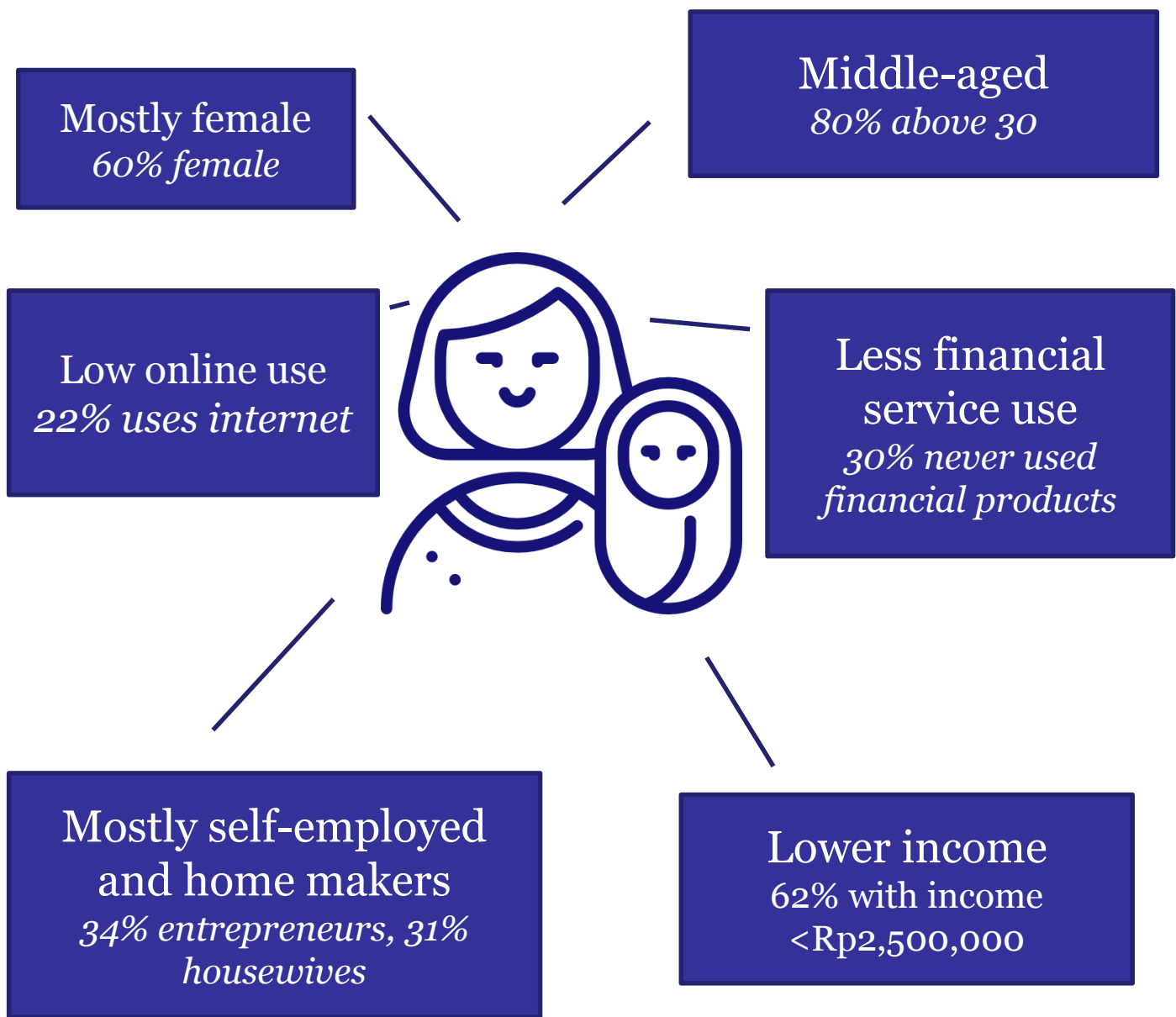
- To reduce dependence on agents for dissemination of information about product/charges, providers need to make effective use of marketing collaterals to spread awareness. Additionally, they should improve their monitoring mechanisms through initiatives such as mystery shopping, to ensure consistency in branding and collaterals.
- Providers should send regular SMS notifications and reminders on – PIN confidentiality/security, notice during service disruptions and during change of charges/terms and conditions.
- Providers should ensure the availability/ facilitation of diverse customer service/complaint resolution channels. More specifically, these channels have to be of low or no cost, with separate hotlines for DFS users and agents.
- Providers need to have a risk management framework for DFS. The framework should identify risks to assess their severity and develop corresponding mitigation mechanisms.

Respondent Profiling

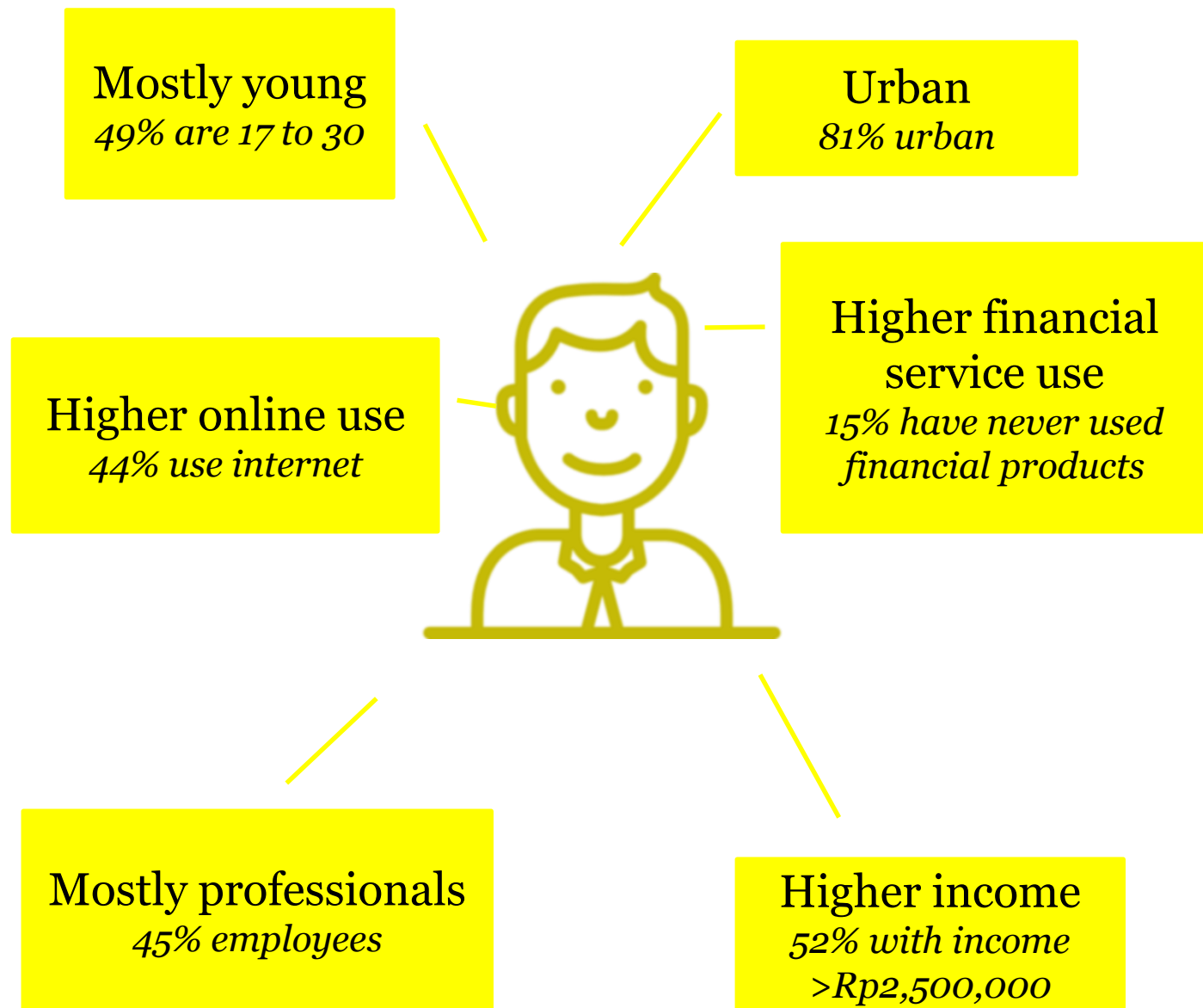


Persona of Laku Pandai and LKD Users

Laku Pandai Users



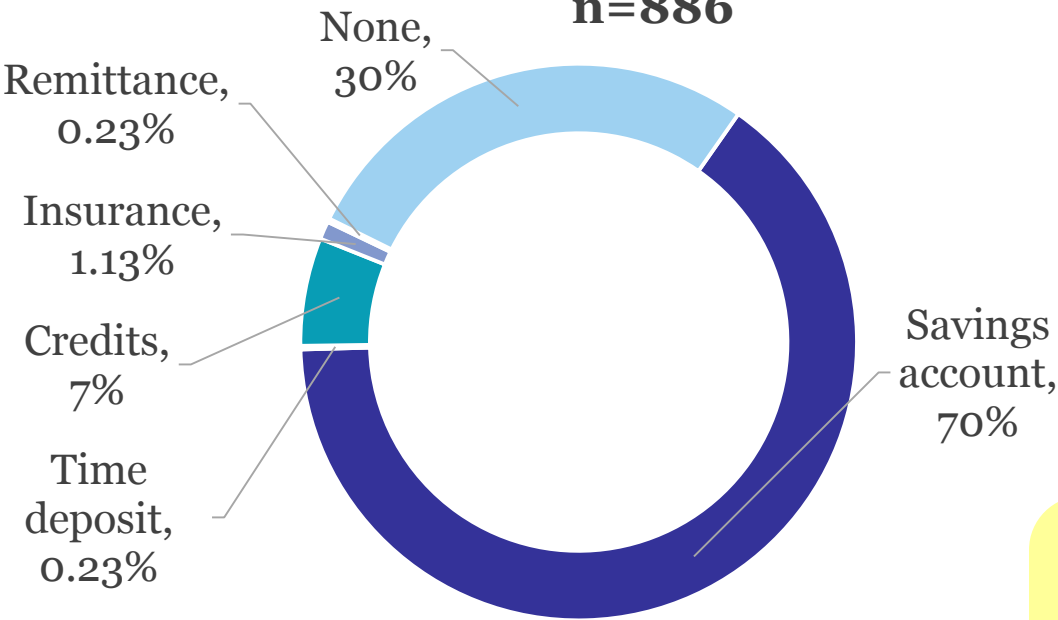
LKD Users



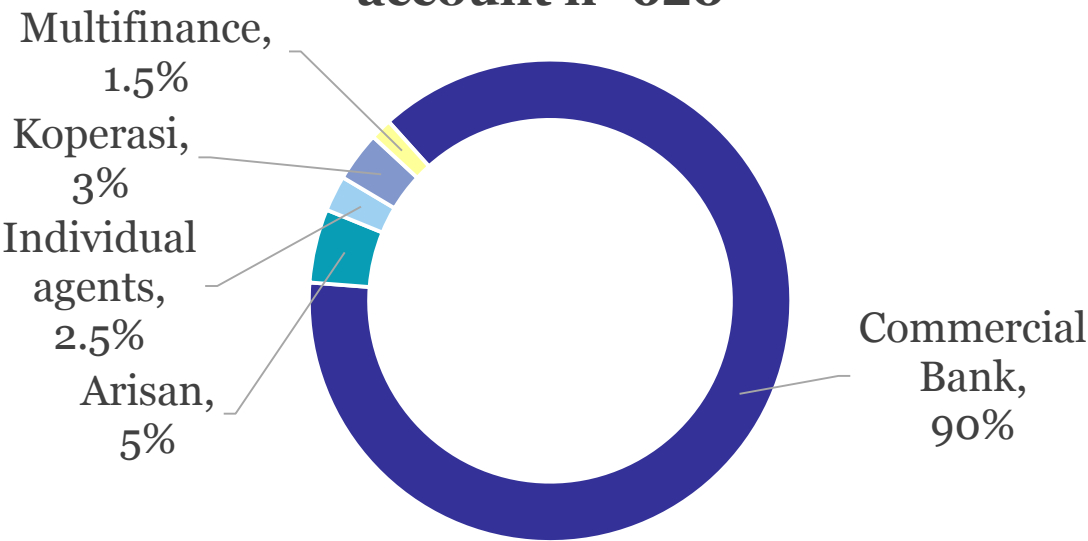
Financial Service Usage – Multiple Accounts Pervasive

Most of the DFS users already have an existing financial services account.

Financial Service Usage – Laku Pandai
n=886



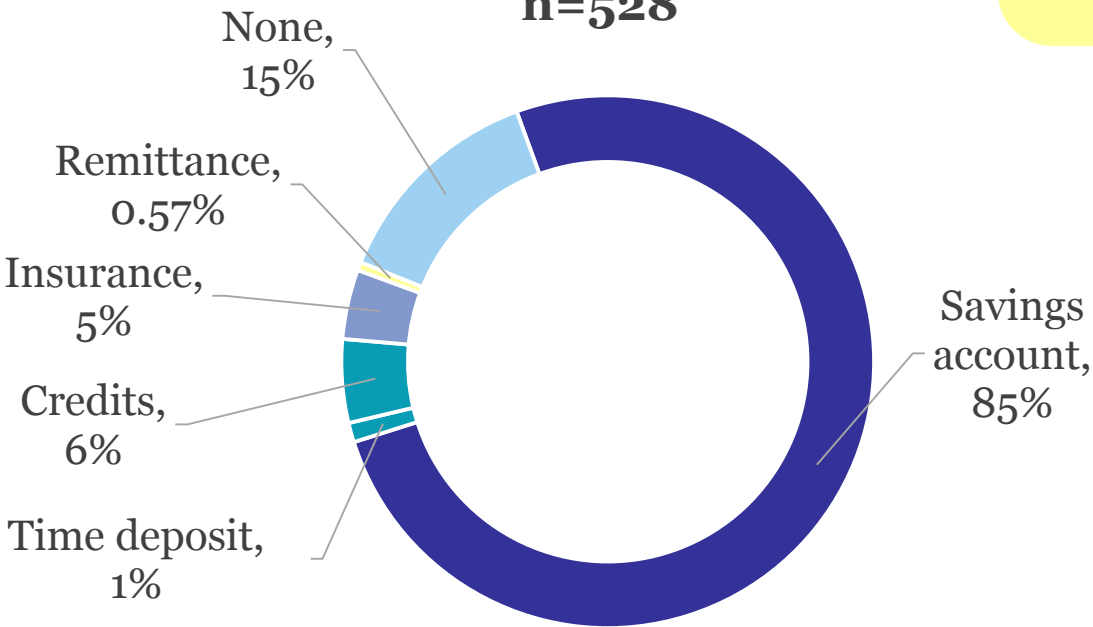
Savings Account Provider – Laku Pandai users who use savings account
n=620



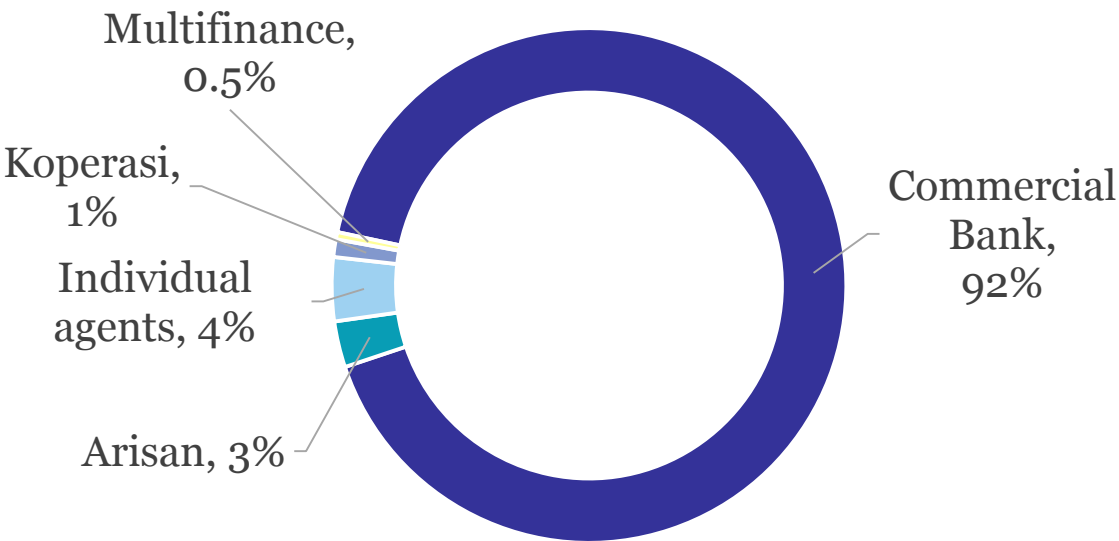
Breakup of savings account providers

Most of the DFS users already have an existing savings account. It is mostly held with banks (~91%).

Financial Service Usage – LKD
n=528



Savings Account Provider – LKD users who use savings account
n=448



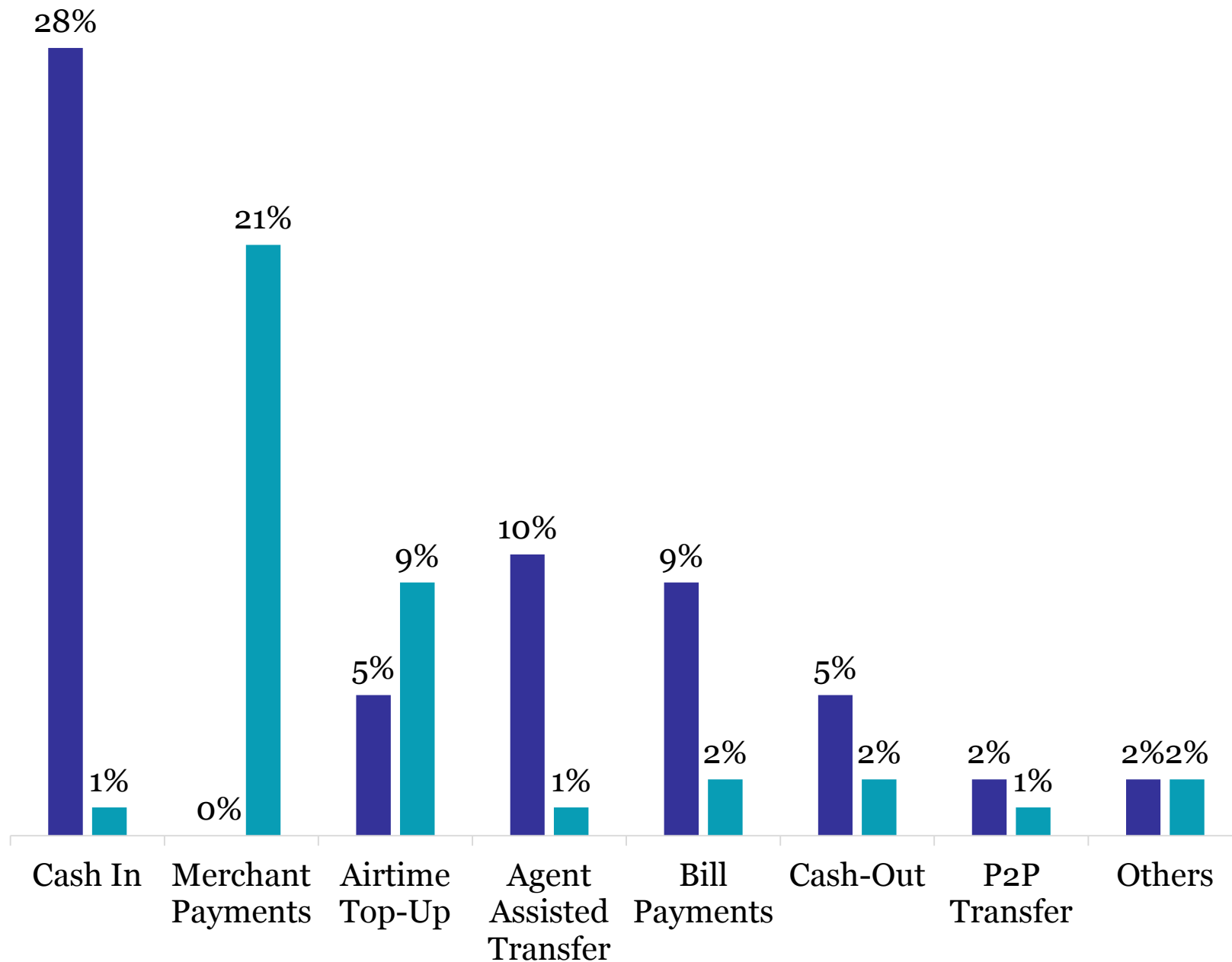
Breakup of savings account providers

Most Frequent Usage of DFS Accounts

Most Frequent Usage of DFS Features

n=1,414

■ Laku Pandai ■ LKD



- **Cash-in** remains the most frequent transaction at a consolidated level. Laku Pandai users cash-in more often (28%) as compared to LKD (1%). Considering limited usage of other services, it appears that Laku Pandai users cash-in to save. LKD users seem to cash-in primarily at convenience stores, restaurants, retail merchants etc.
- **Agent assisted** transfer or over the counter (OTC*) transfers are more than P2P (or self initiated) transfers, which is an area of concern.

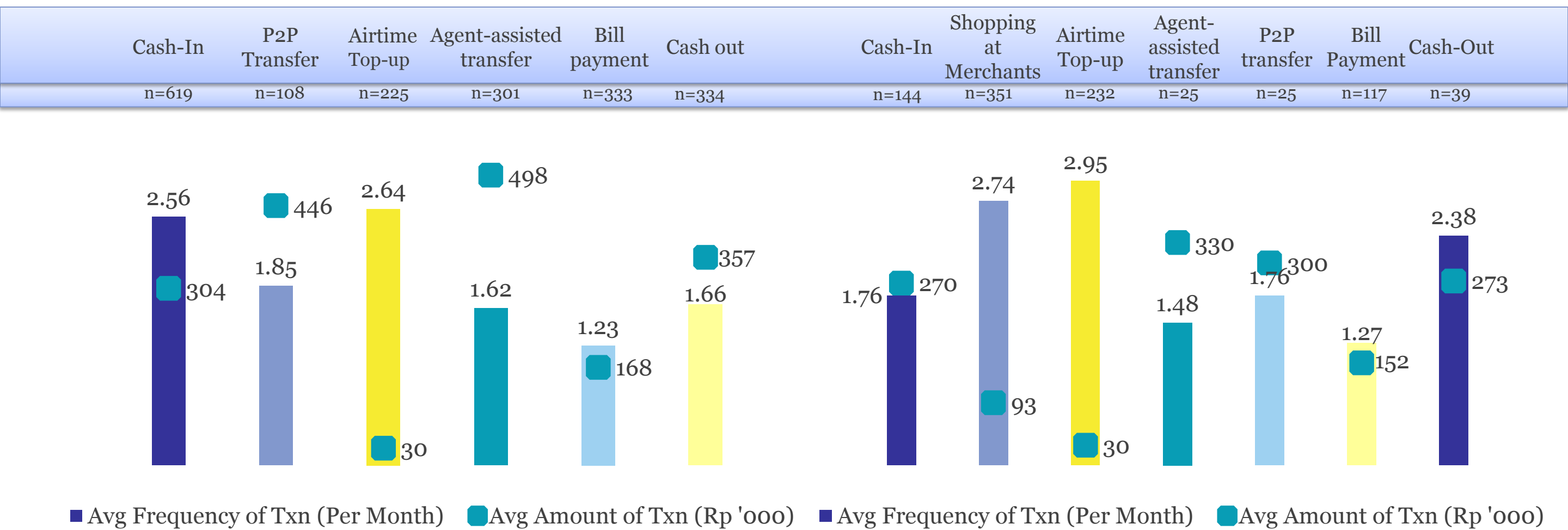
Issues with OTC transactions:

- OTC transactions make it difficult to identify the sender or recipient, thus increasing the **risk of money laundering and terrorism financing**.
- OTC **limits product evolution** as the value proposition remains limited to agent assisted transfers.
- Providers who start with offering OTC transactions have found it difficult to go beyond OTC. This further reduces provider's profitability.

Volume and Value of Transactions

Laku Pandai

LKD



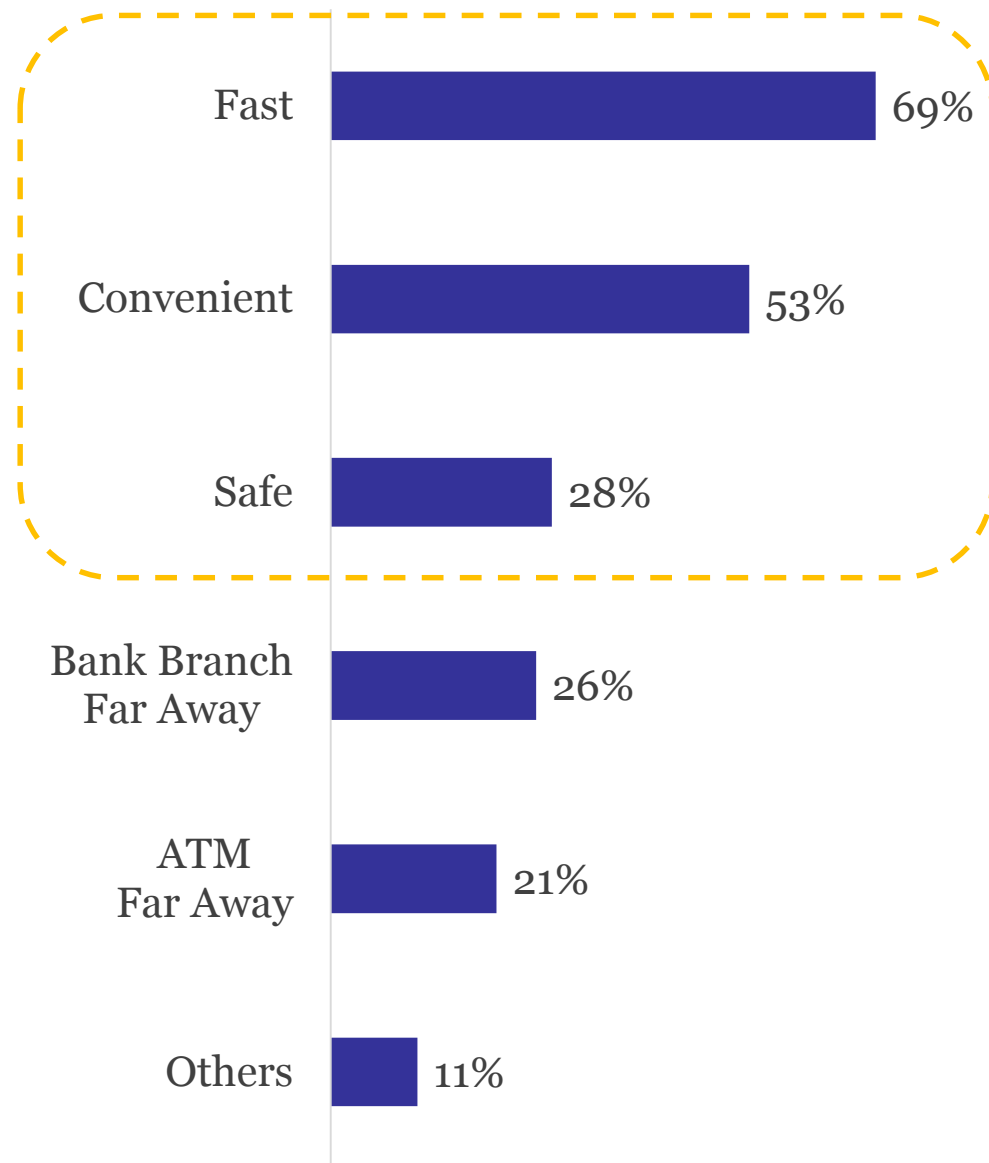
- **Cash-In** fares well in terms of volume. Although average value of transaction is higher at Rp. 304,000, close to 75% of the transactions are less than Rp.200,000.
- Other prominent transactions include airtime top-up, agent assisted transfers and P2P transfers.

- **Shopping at merchants, airtime top up and Cash Out** are the main value propositions for LKD users.

Fast, Convenient and Safe! Reasons to Use Digital Financial Services

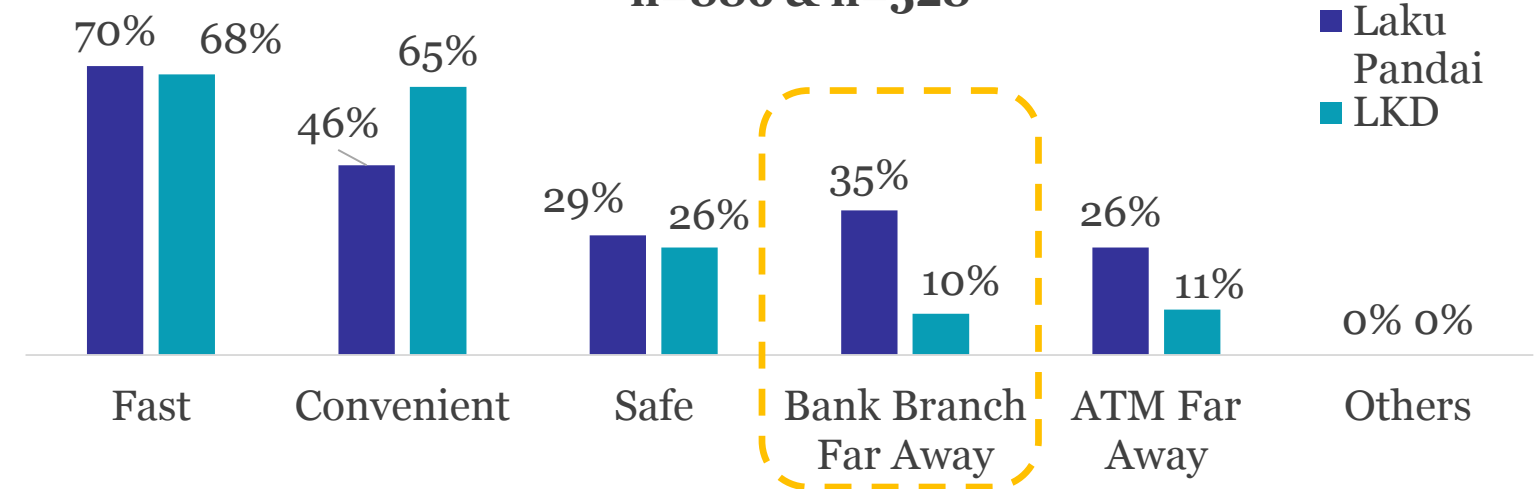
Consolidated Reasons

N=1,414



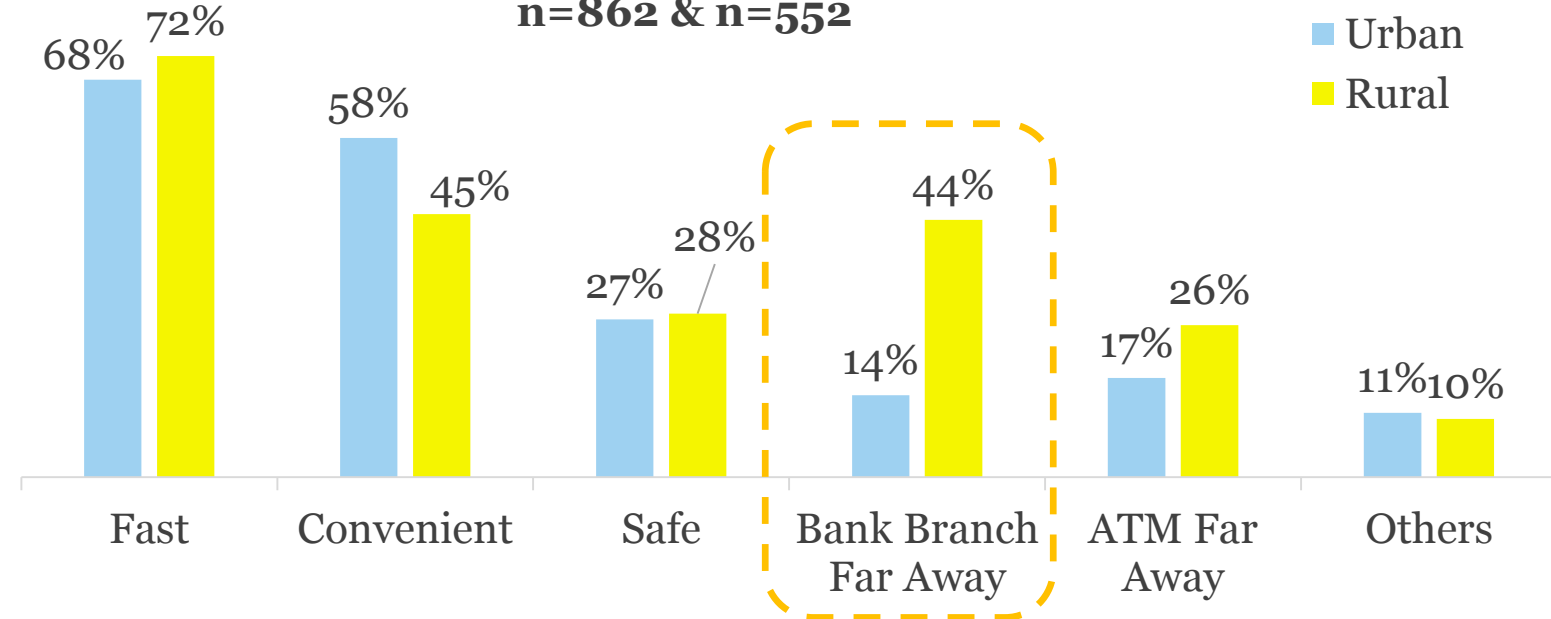
Laku Pandai & LKD

n=886 & n=528



Urban & Rural

n=862 & n=552



- “Fast, convenient and safe” remain the key reasons for using digital financial services. Interestingly, safety is not the primary reason.
- Agent is closer as compared to bank branch and ATM – hence driving usage of digital channels, especially for rural and Laku Pandai users.

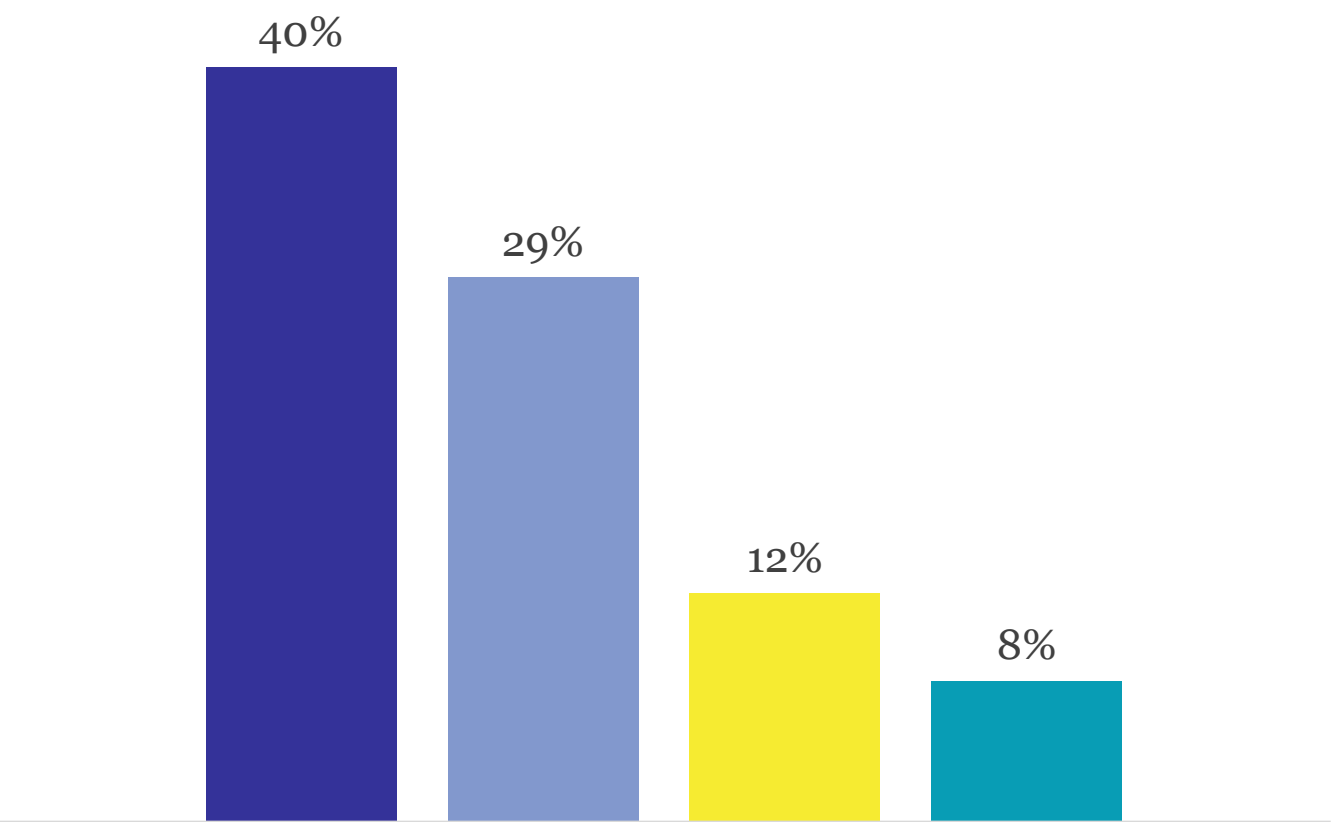
Consumer Awareness



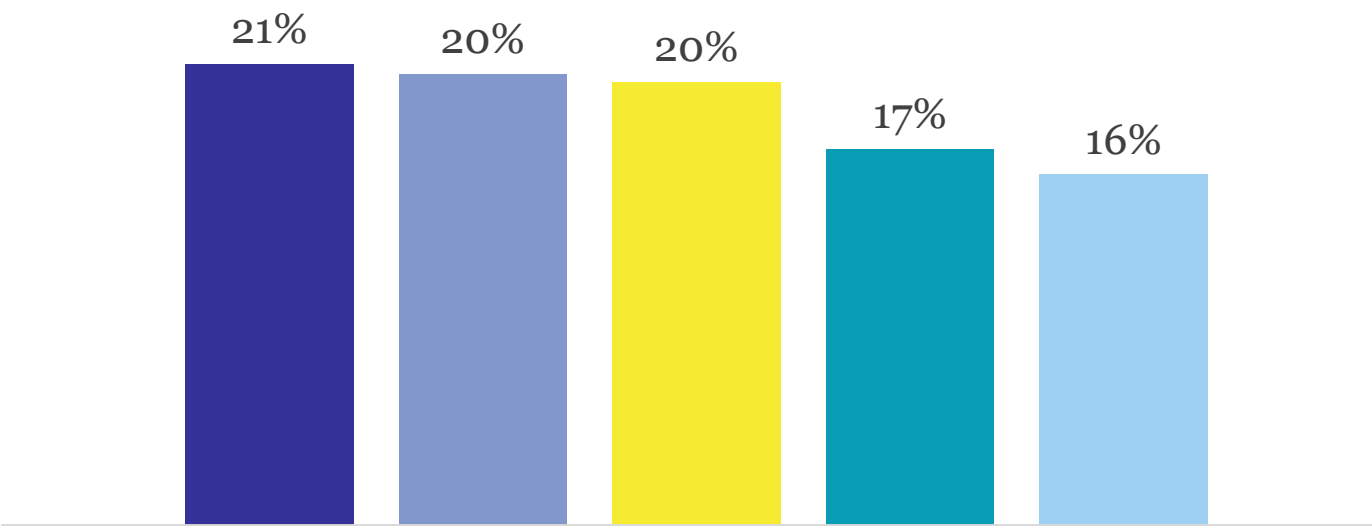
Awareness About Digital Financial Service Providers is Low

Large banks such as Bank BRI and Bank Mandiri stand out because of their strong parent brand

Awareness of Laku Pandai Providers



Awareness of LKD Providers



■ BRI (BRI LINK) ■ BTPN (BTPN WOW) ■ BNI (AGEN 46) ■ BCA ■ Mandiri E-Cash ■ Telkomsel ■ BRI Brizzi ■ BCA Flazz ■ Truemoney

- Bank BRI among Laku Pandai providers and Bank Mandiri among LKD providers lead in terms of awareness* among users. This can be ascribed – to a large extent- to the fact that they have a strong parent brand.
- Brand is a key enabler of [awareness building](#) through agents, family and friends - brands facilitate instant recognition!

*Awareness is calculated by summing up all mentions of each providers in spontaneous and aided awareness questions.

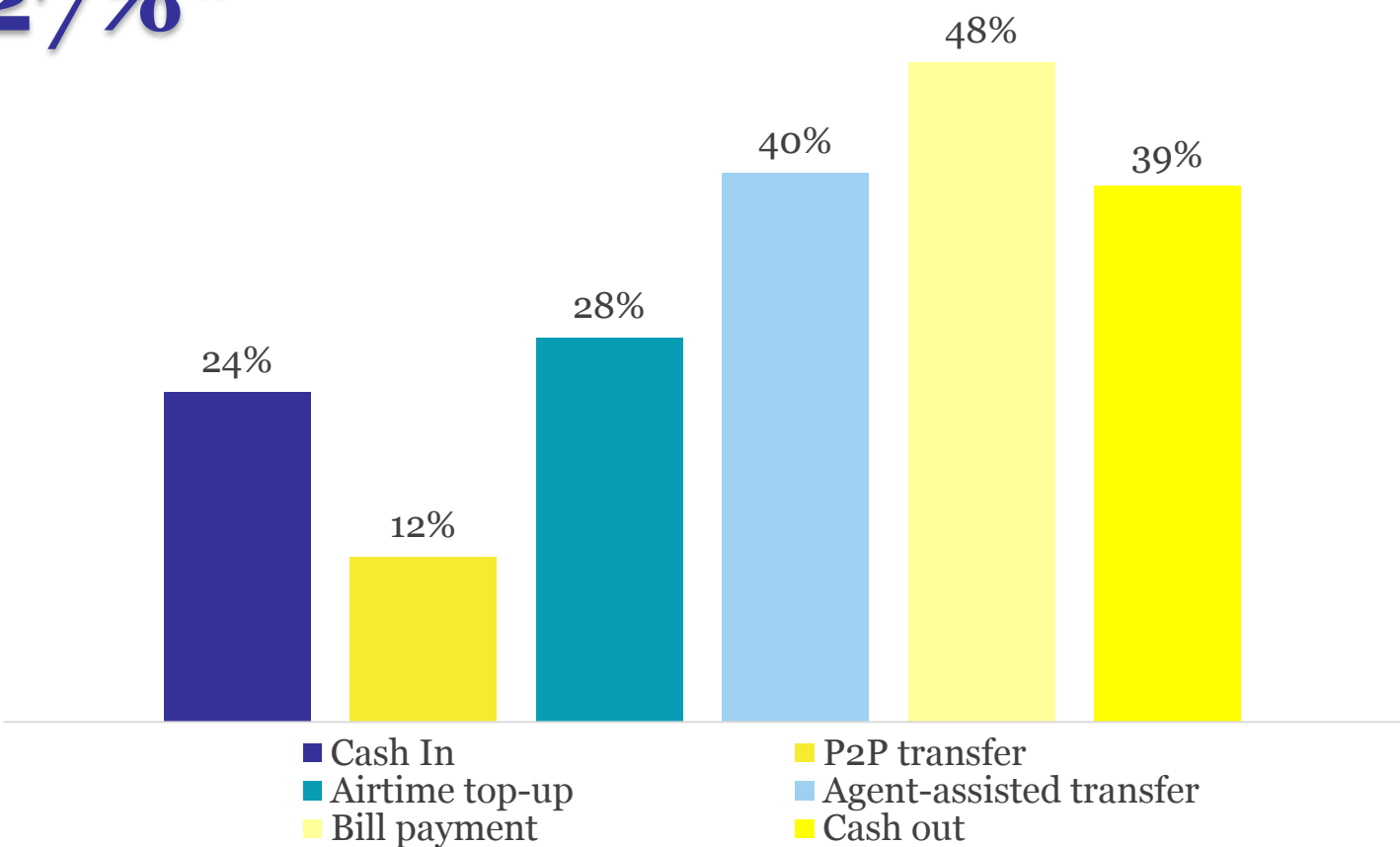
Low Awareness about Transaction Charges

Overall awareness about transaction charges remains low. This is even lower in case of LKD with only 15% of the users being aware of transaction charges. A market with low awareness creates perfect environment for risks related to over charging by agents. (refer to next slide).

Laku Pandai Users' Awareness
on Charges of Top 6 Transactions

Q26 Base: Users, n=886

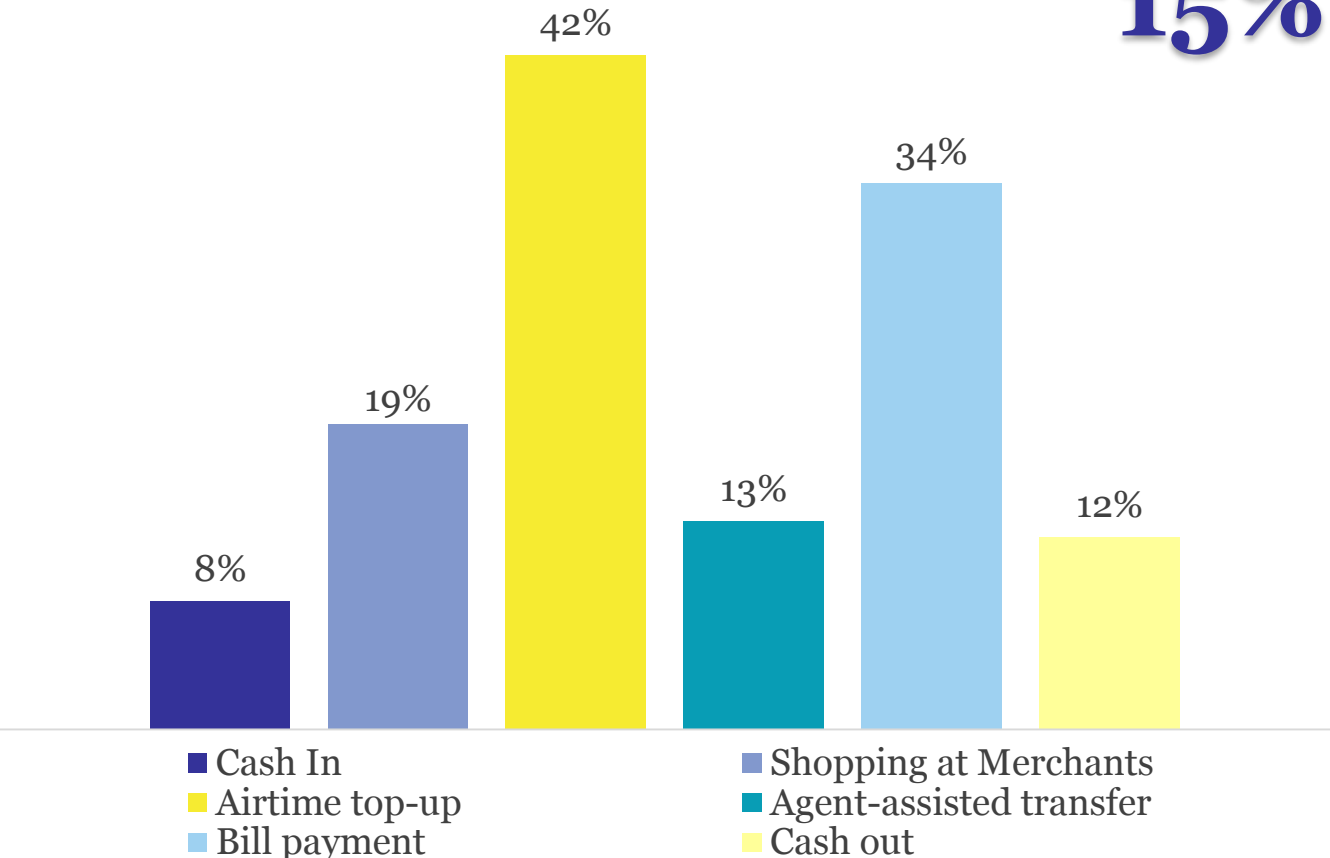
27%*



LKD Users' Awareness
on Charges of Top 6 Transactions

Q26 Base: Users, n=528

15%*



Agent Overcharging is Common!

Agent overcharging happens rampantly for cash-ins; Cash-in also happens to be the most frequently used transaction.

Charges Comparison– Actual vs Tariff Sheet (Laku Pandai)

Transaction Type	Provider 1 Field Avg (in IDR)	Provider 1 Tariff sheet	Provider 2 Field Avg (in IDR)	Provider 2 Tariff sheet
Cash-in	4,836	Determined by agent	2,866	Free
Agent Assisted Transfer	5,798	Not Applicable	5,146	Not Applicable
Bill Payments*	4,285	2,500	2,745	3,000

Red = strong indication of overcharging; Yellow= possibility of overcharging; Green= no overcharging

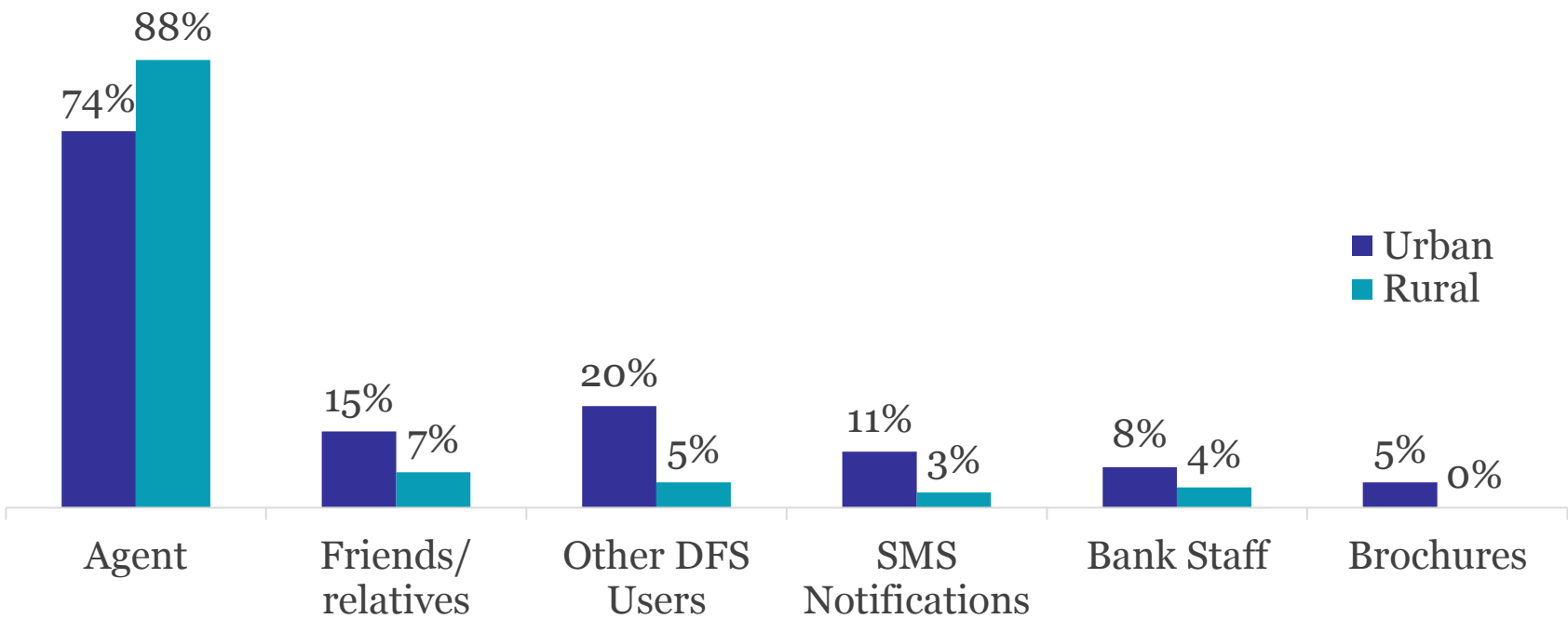
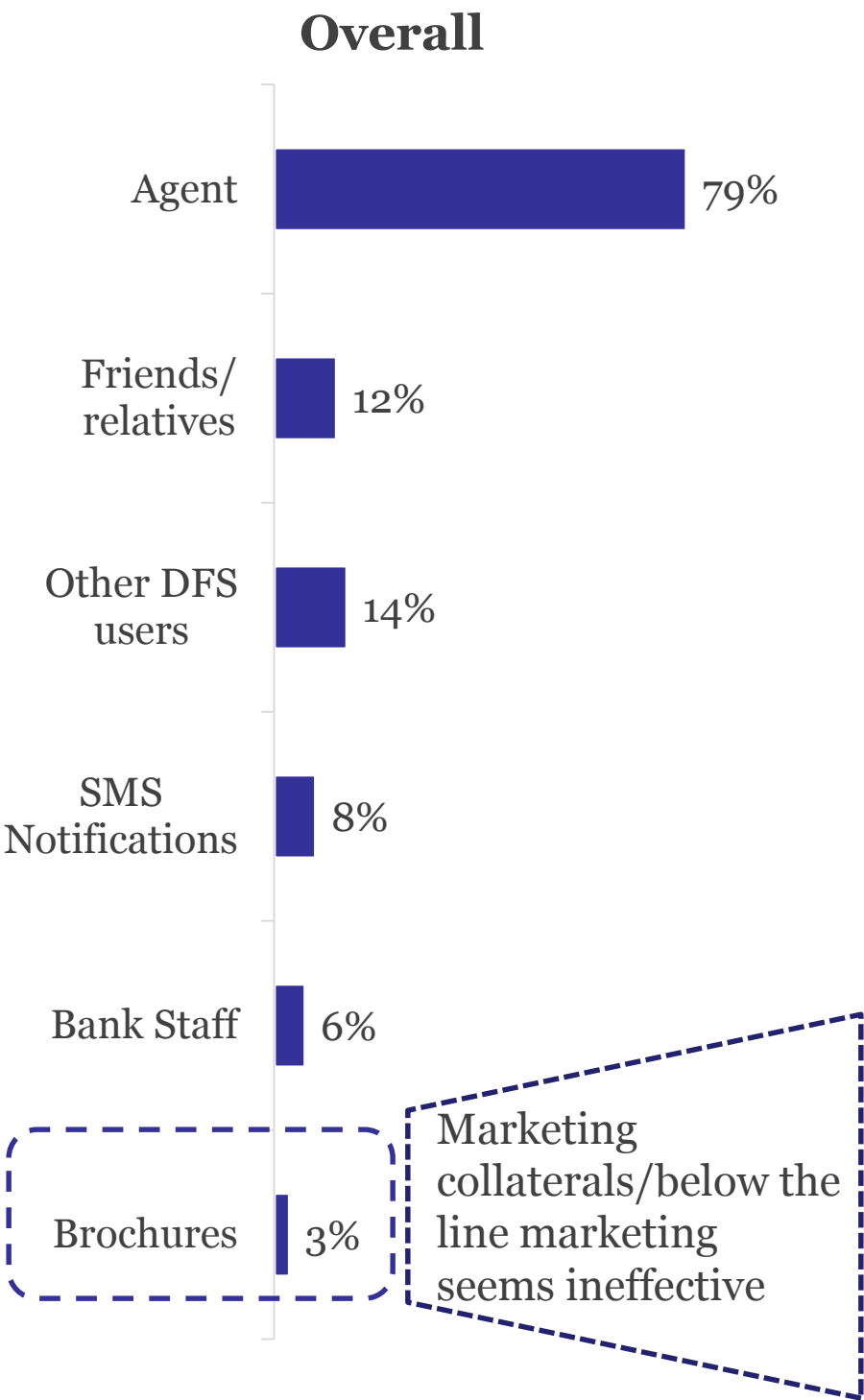
Table compares average fee paid by user with the official tariff of the provider. Evidently, overcharging is common and especially so with cash-in transactions.

Charges should be determined by the provider (and not agent) in order to ensure standardisation and avoid overcharging

Thank You Fees: Agents usually charge “thank you fee” for almost all the transactions. The fee depends on various factors such as type of transaction/service, amount of transaction, agent location etc.

Source of Information for Transaction Charges

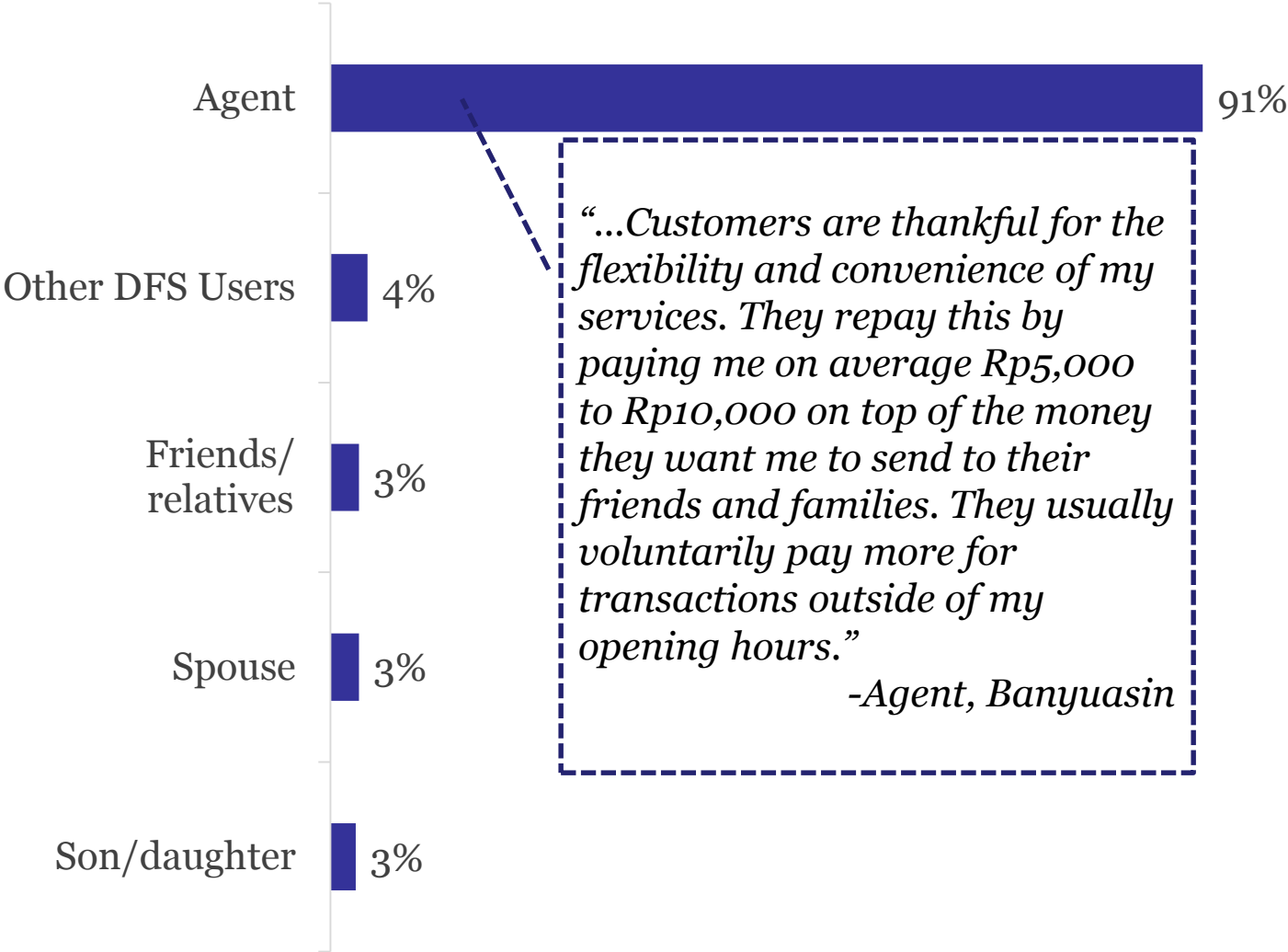
Potential risks exist since most users still depend on the agents



- Chances of exploitation by agents are high, as agents are the main source of information about transaction charges.
- Brochures/pamphlets which play a key role in informing customers about the products/charges rank low at 3%. This is especially so in rural areas. The lack of brochures/pamphlets was so common that agents print their “own” pamphlets displaying their own transaction charges!

Users Rely on Agents to Conduct Transactions

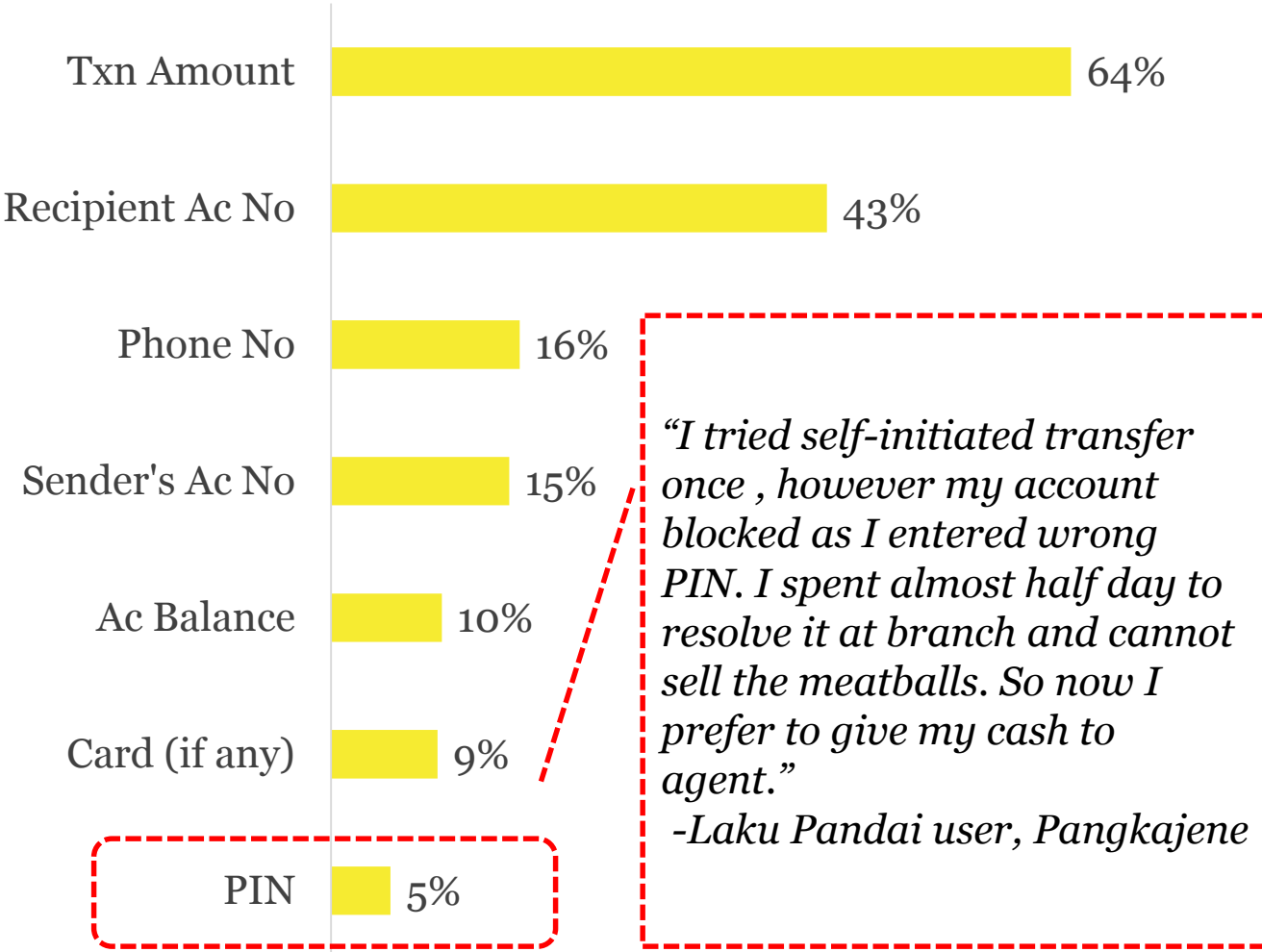
Who Helps You In Carrying Out a Transaction?
n=567



“...Customers are thankful for the flexibility and convenience of my services. They repay this by paying me on average Rp5,000 to Rp10,000 on top of the money they want me to send to their friends and families. They usually voluntarily pay more for transactions outside of my opening hours.”
-Agent, Banyuasin

91% of the users who cannot do transactions on their own share information with agents. This makes customers vulnerable to exploitation by the agents.

Information Shared to Get Transaction Done
n=567



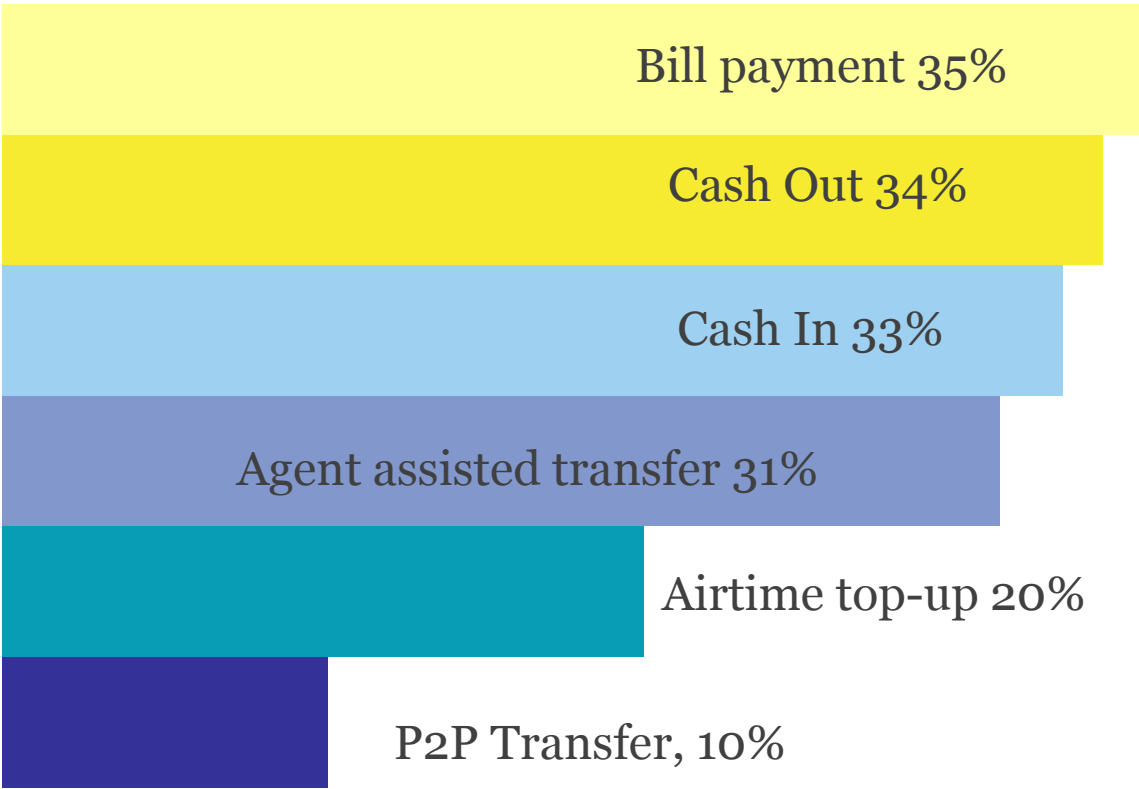
“I tried self-initiated transfer once , however my account blocked as I entered wrong PIN. I spent almost half day to resolve it at branch and cannot sell the meatballs. So now I prefer to give my cash to agent.”
-Laku Pandai user, Pangkajene

Sharing of PIN is relatively low at 5% as compared to other advanced markets such as Tanzania where 21% users reported sharing PIN with agents. However, this is merely an indicator of early user behavior i.e. users avoid perceived complication of self-initiated transactions and prefer agent-assisted transactions using cash.

Notification of Transaction Charges

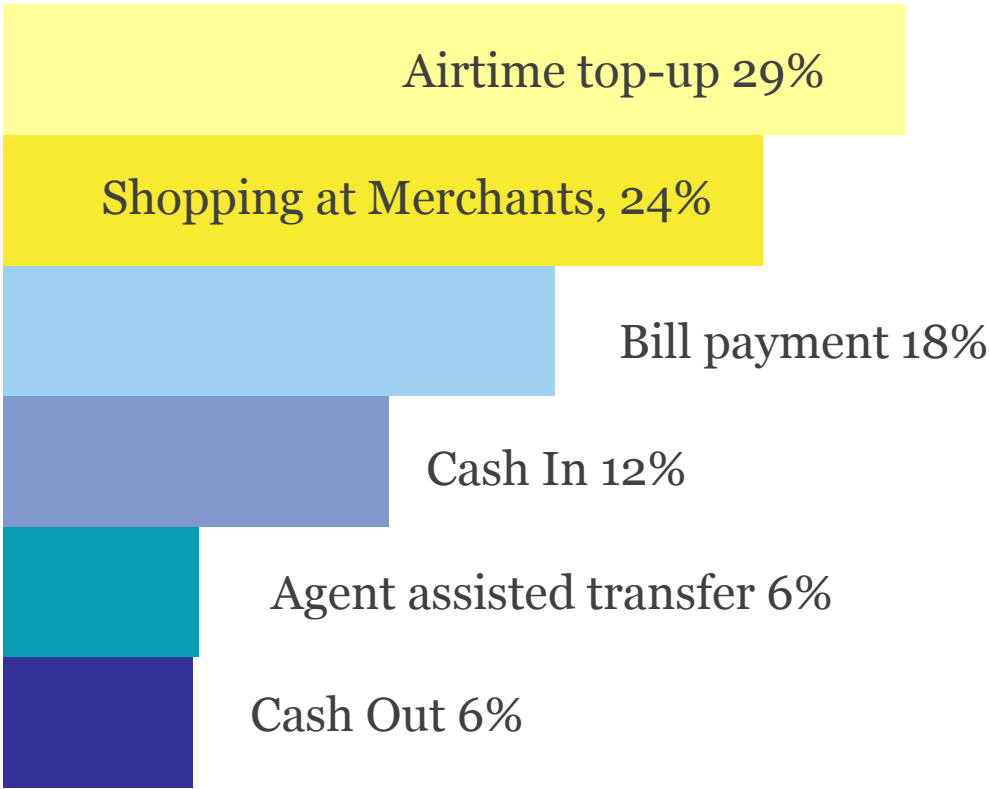
Average
30%

Laku Pandai



Average
16%

LKD



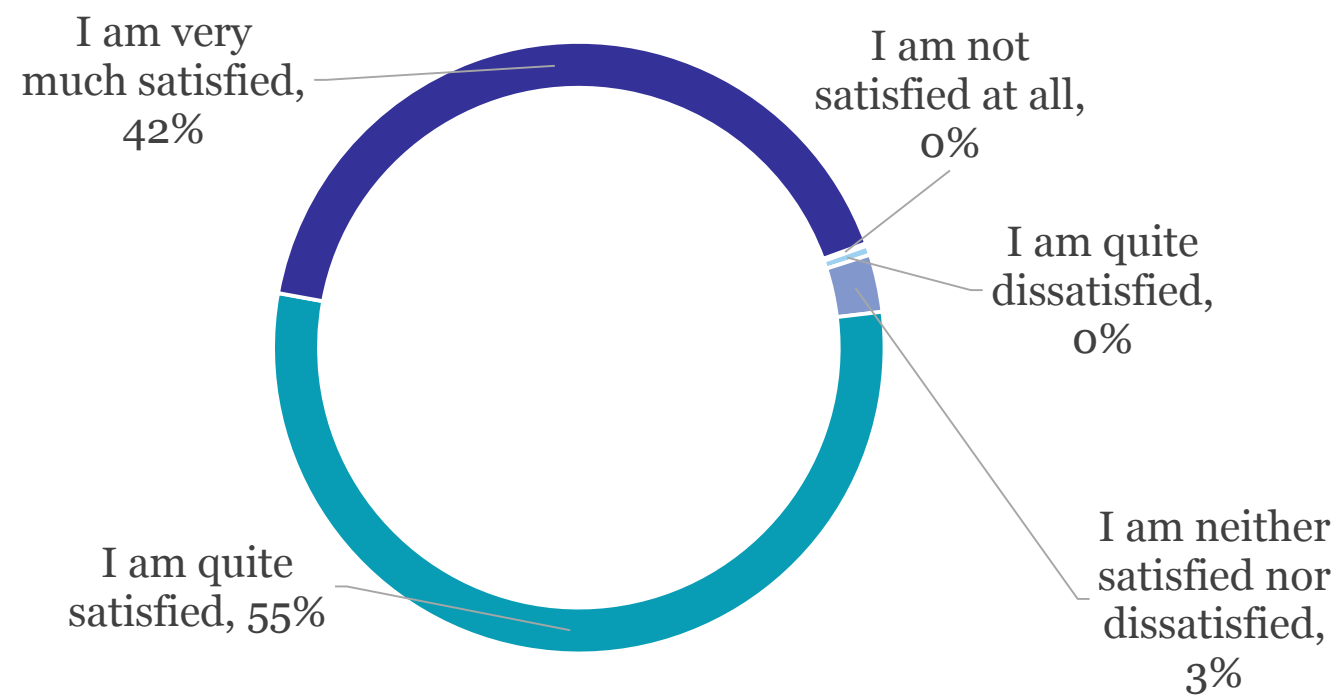
- On an average, only around 30% of Laku Pandai users (16% for LKD users) reported to have received notification of charges for the transactions they conducted. This is also one of the key enablers of agent overcharging.

Support And Experience



Customers are Satisfied with Service Provided by Agents

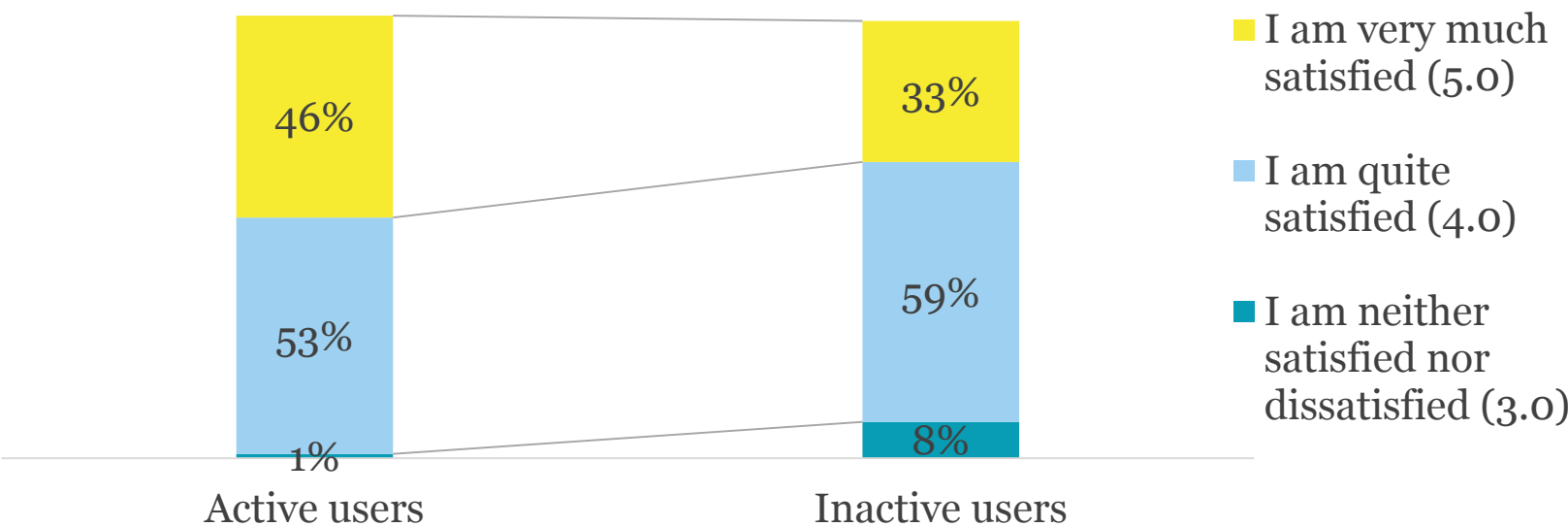
Satisfaction With Agent Service



- At a consolidated level, 42% of users gave the best rating (“I am very much satisfied”) for agent service, while a majority of users were “quite satisfied”.

- Additionally, the percentage of active users who gave the best rating (46%) is significantly more than that of inactive users (33%), with 8% of inactive users feeling “neither satisfied not dissatisfied” with agent service.

Active vs Inactive users



Case Study: Loss of Funds Leading to Unsustainable Usage!

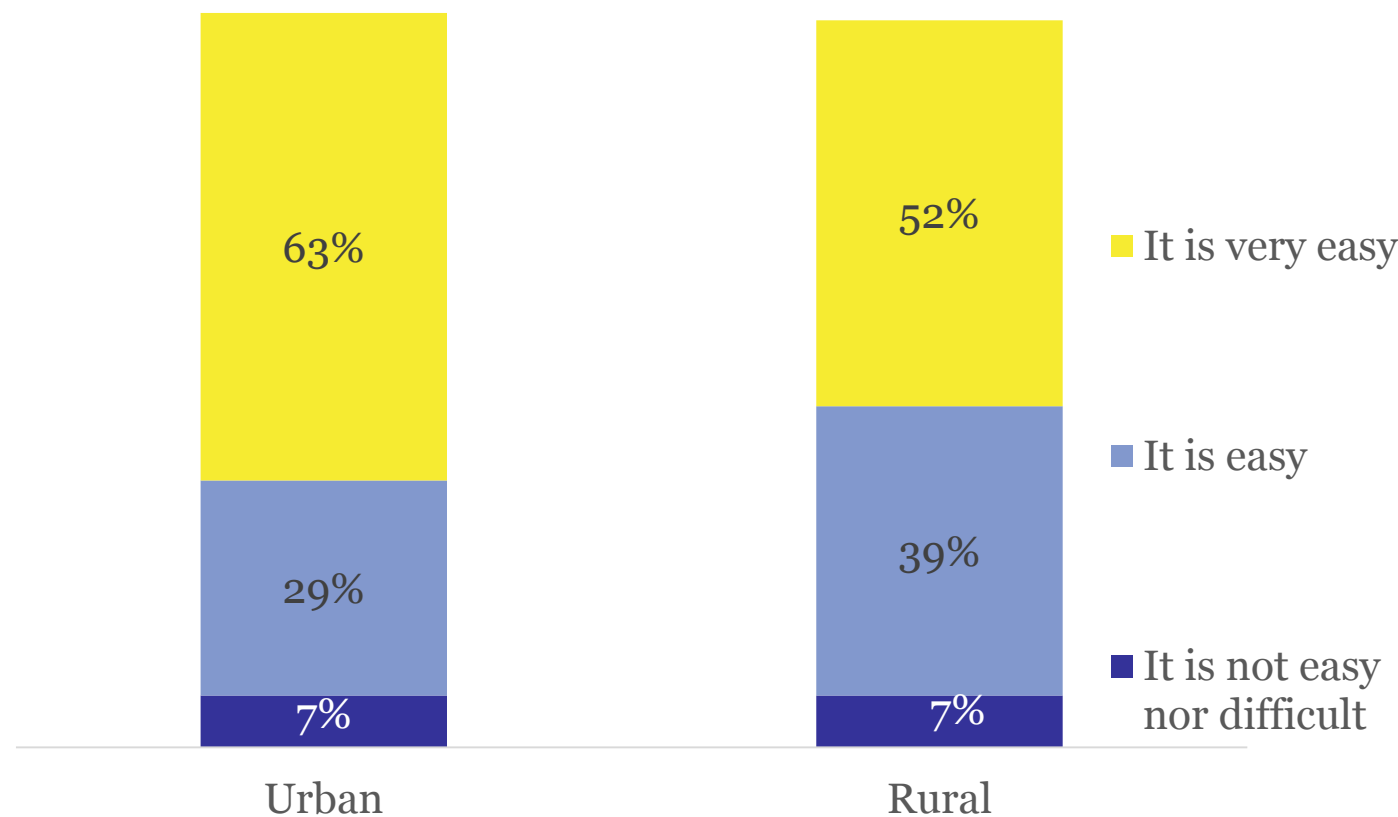


“ *“It has been a bad experience for me. I will use LKD more cautiously here on!”* ”

- Ning is a 36-year old mother and the owner of a drugstore. She has been a regular LKD user since the past 4 years. She has experience of using LKS services offered by both bank and telco. The main motivating factor for her using LKD is to take advantage of discounts and promotional programmes by e-money providers for shopping and dining.
- Lately, Ibu Ning had a bad experience that discourages her to increase her use of LKD. To her horror, Ning discovered that when the SIM card expires or gets deactivated, LKD/e-money balance linked to the SIM card cannot be retrieved. Her number (linked to LKD account) got deactivated as she did not use it for some time. But when she wanted to reactivate the number and recover her balance, she was told that it is not possible. She thus lost her funds in the LKD account.
- As a result of these hassle factors, she maintains a low balance of Rp50,000 to Rp100,000 in her LKD accounts. She feels that the time until which an idle SIM is deactivated should be extended. Further, she prefers to be able to retrieve her funds even if her number gets deactivated.

Rural Users Have Poorer Sign-up Experience than Urban Users

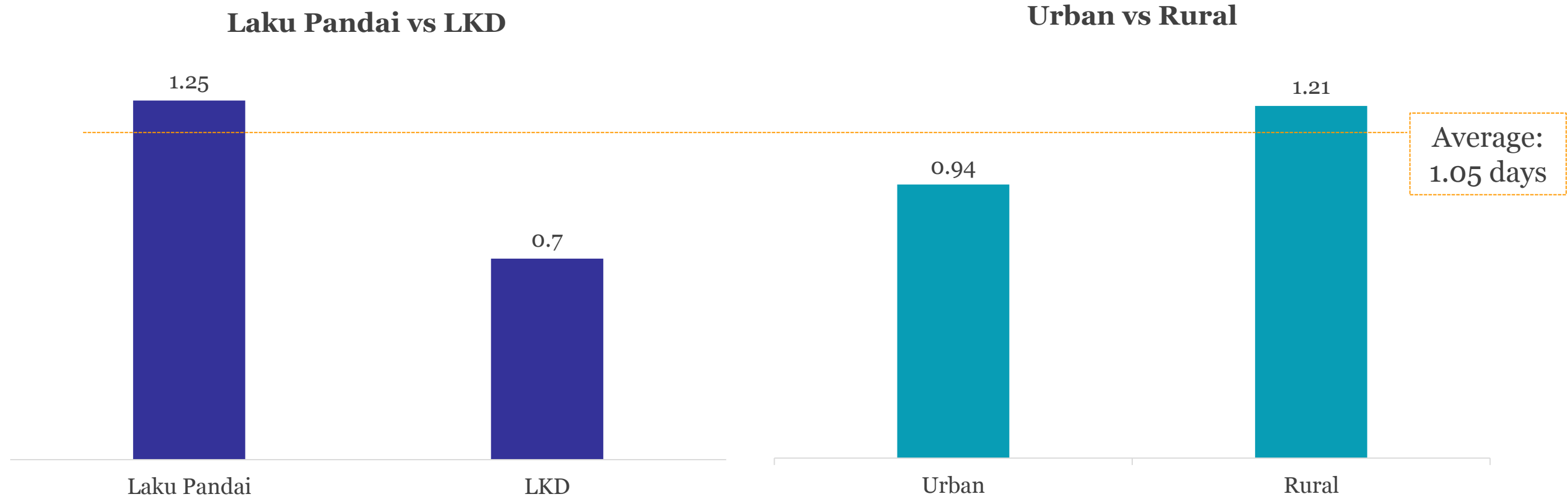
Ease of New Account Sign-Up with Agent



- A significantly greater proportion of urban users (63%) finds it “very easy” to sign up a new account with an agent as compared to rural users (52%). This could be due to better education levels and comfort with technology.
- Rural users are also less informed as compared to urban users about the type of transactions that can be done with their DFS accounts, and the signing up cost.

Information Shared by Agent during Signing Up	Total	Urban	Rural
Base	1414	862	552
ID documents requirement	69%	65%	75%
How to conduct transaction	34%	35%	32%
Transaction cost	22%	22%	23%
Type of transactions that can be done with the account	22%	27%	14%
The new account signing up cost	15%	17%	12%
Types of documents that user will receive	14%	13%	15%

Time Needed to Activate DFS Account

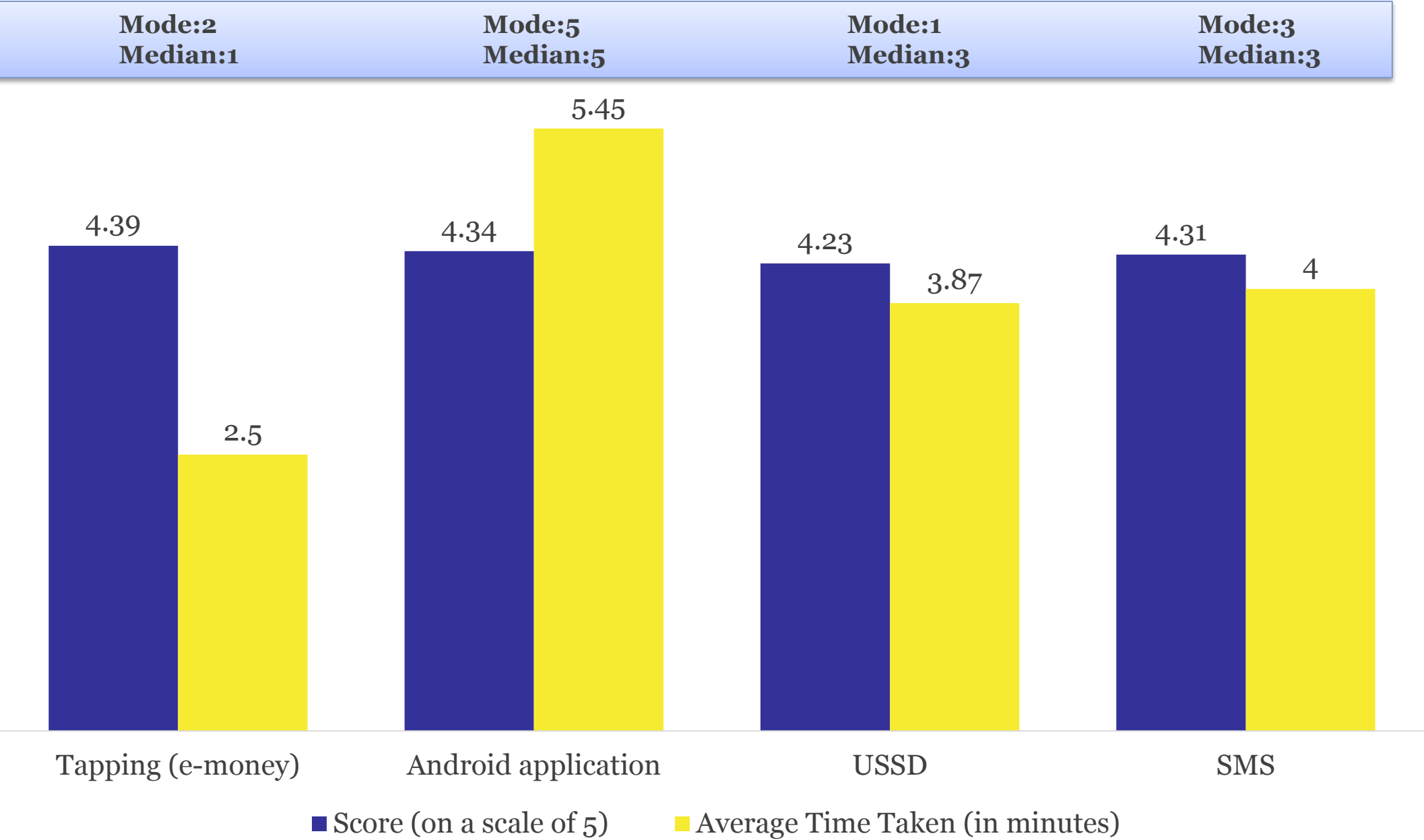


- On an average, it takes 1.05 days for a DFS account to be activated. For a Laku Pandai user, activation time is more than the average while it is lesser than the average for an LKD user. This reiterates the need for providing instant activation of accounts even if it means lower transaction limits or restricted usage of accounts.
- It takes more time for rural users than the urban users to activate their accounts. This can be explained by relatively poorer infrastructure in rural areas and majority of rural users being Laku Pandai users.

“Customers who transact at the point of registration are more likely to be future active customers (26% more likely) and produce significantly higher mobile money ARPU (95% higher) than those that walk away after registering without transacting.” - [GSMA](#)

Comparison of DFS Interfaces

Overall Satisfaction with DFS Interfaces and Avg Time Taken to Conduct a Transaction

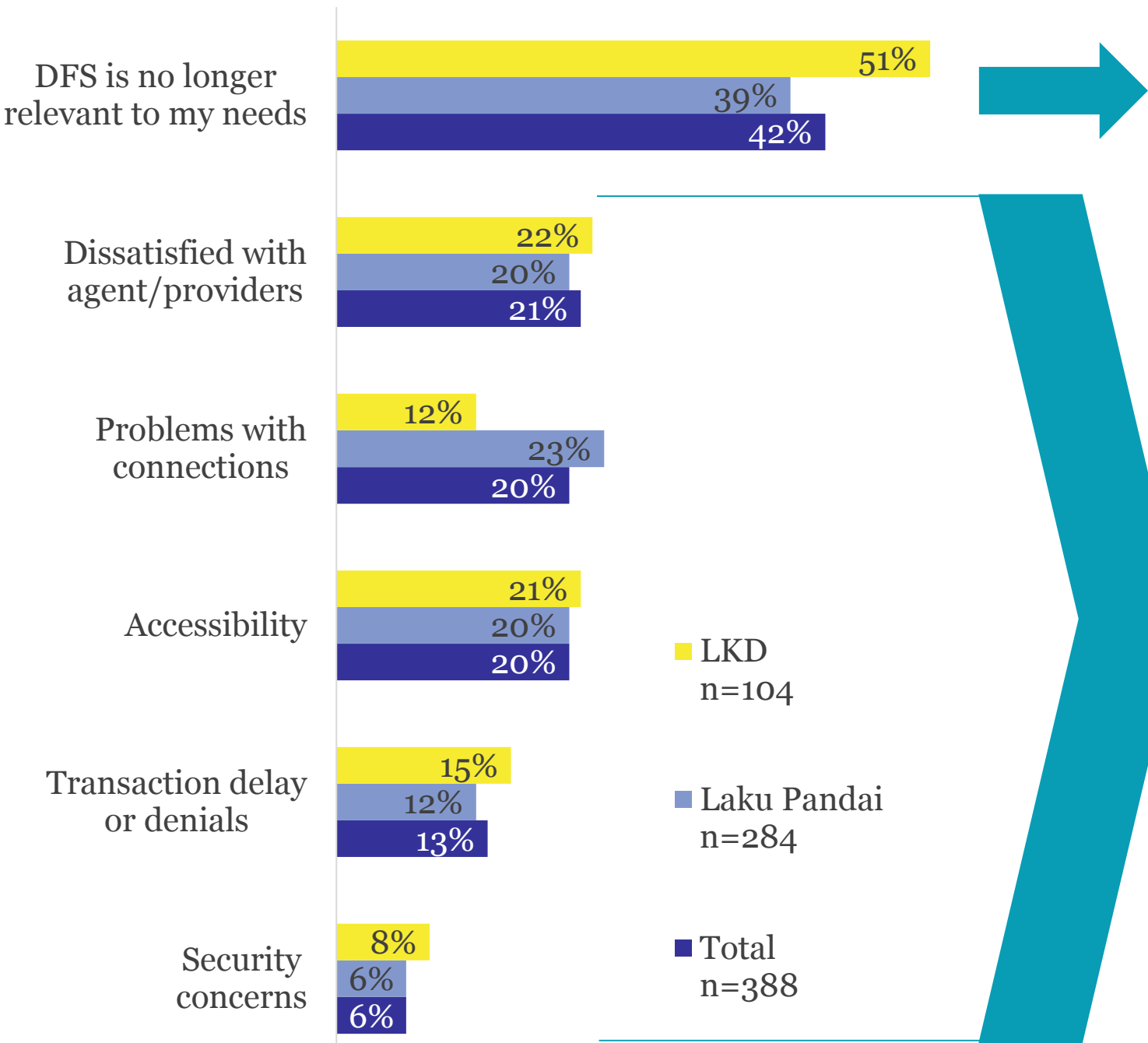


- Overall satisfaction levels with DFS interfaces do not show much variation (4.23 - 4.39 on a scale of 5).
- Contrary to popular perception, transactions through android applications take the longest time of around five minutes.
- More importantly, USSD and SMS channels take less time. For example - though the average time for a USSD transaction is 3.87, most of the transactions (see mode) take one minute.

Quality of Support and User Experience Impacts Inactivity (1/2)

Product relevance, quality of service and experience spur activity (or lack thereof) of users

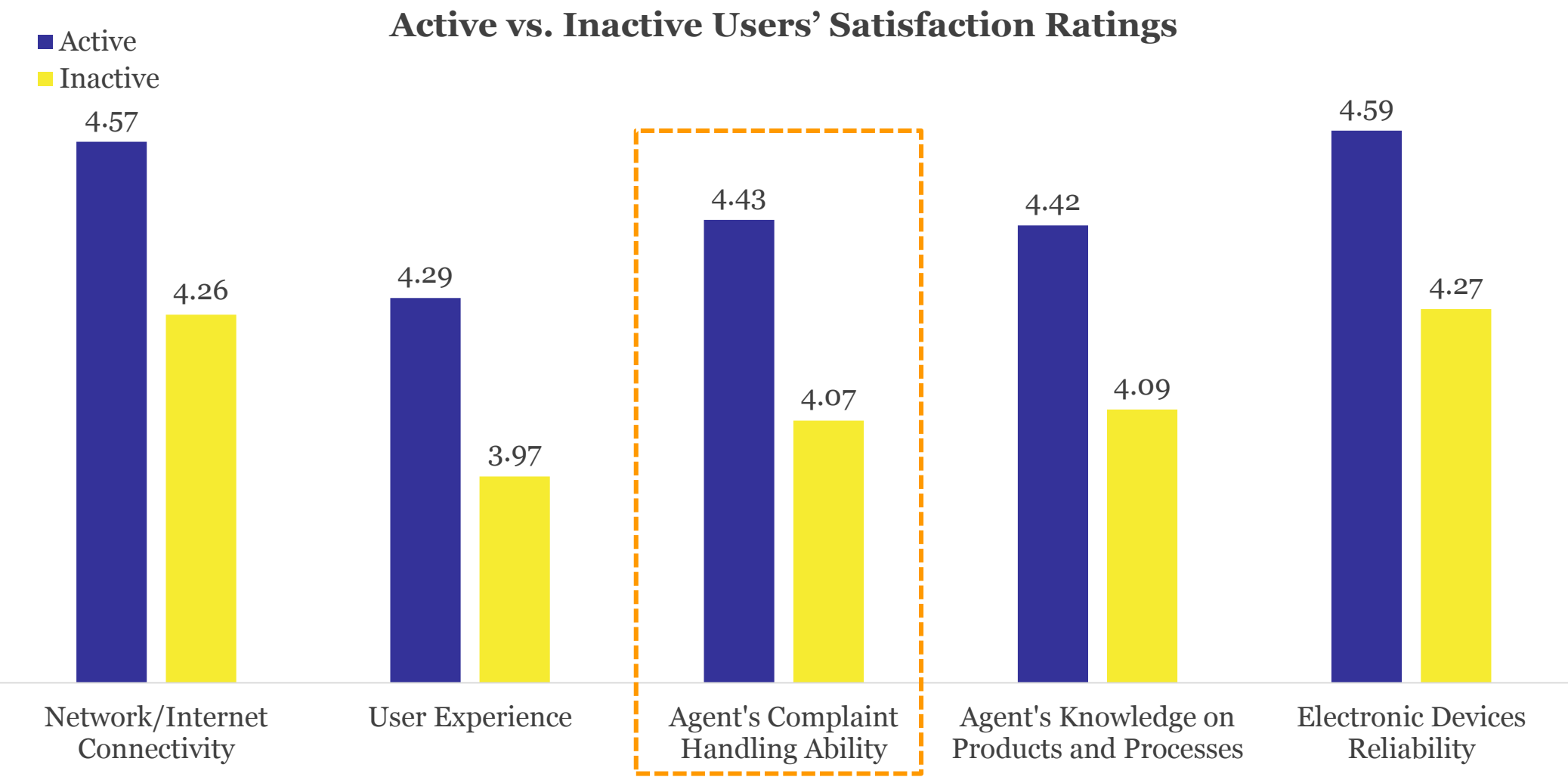
Reasons for being Inactive



- DFS is not relevant to the needs of customers. This probably explains why respondents already have an existing account which they use to meet their financial service needs. Alternatively, it could also be that because they have an existing account, DFS is less relevant to their needs.
- Apart from relevance of the products/services offered through digital channels, quality of service and user experience help in keeping the accounts active. The next slide analyses this further.

“As cosmetics seller I need more cash rather than it stay at account. Meanwhile to perform transaction at agent I need to call him first to ensure he is at home since he also working as electricity staff who are mobile.”
-LP Inactive User, Pangkajene”

Quality of Support and User Experience Impacts Inactivity (2/2)



Top 5 Differences in Active vs Inactive User Satisfaction Ratings

1. Agent's ability to handle complaints
2. Agent's knowledge about products and processes
3. User experience in conducting transactions
4. Reliability of electronic devices
5. Reliability of network and internet connectivity

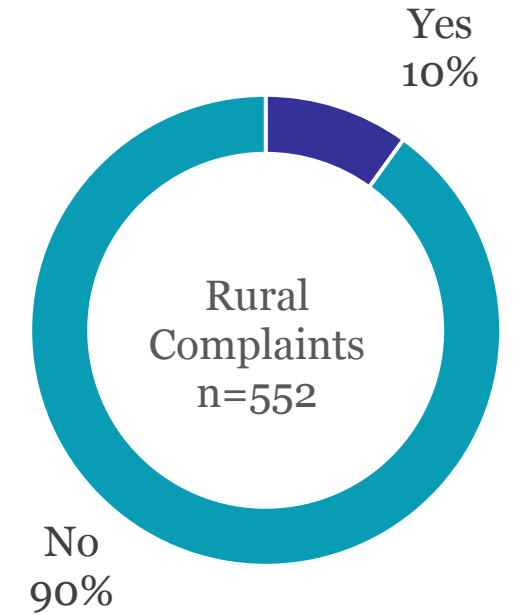
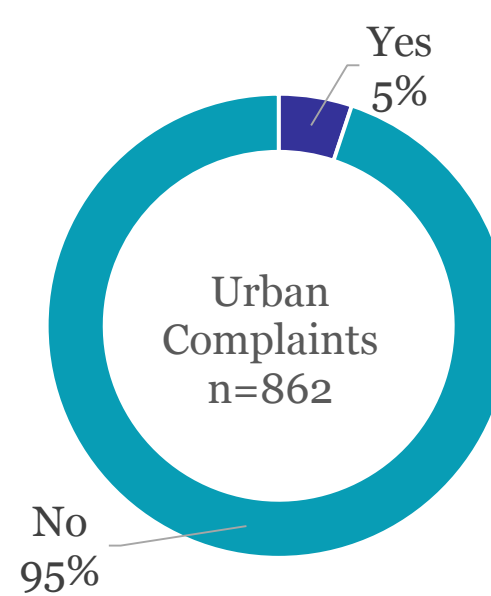
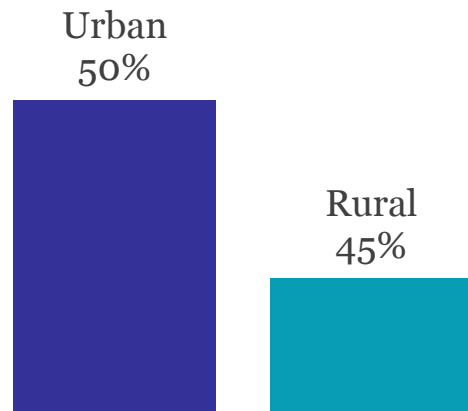
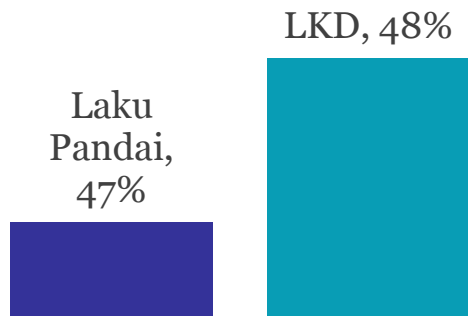
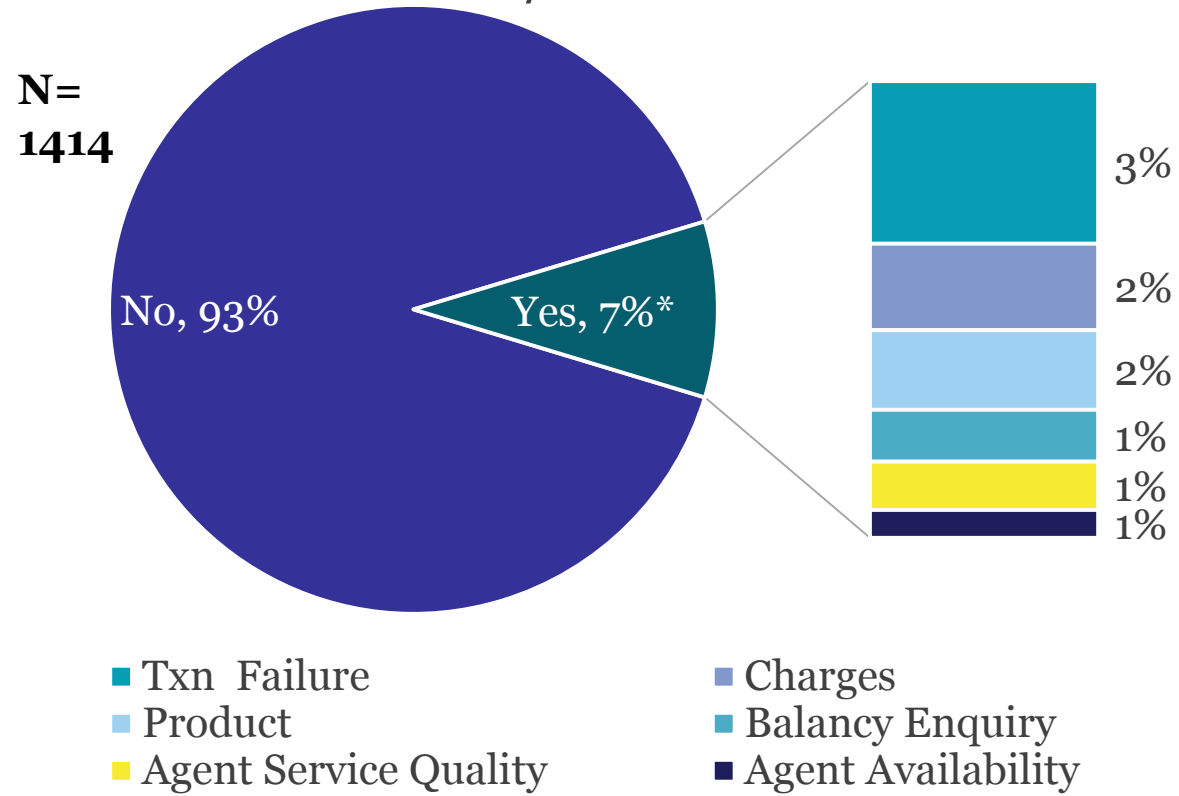
- Quality of support and user experience account for the largest differences in user satisfaction ratings between active and inactive users.
- Handling of complaints by agents accounts for the biggest difference in rating among active vs inactive users. This is explained by users' primary reliance on agents instead of other channels.
- The findings resonate with those other studies conducted in Asia and Africa and call for providers to offer products with compelling value propositions and vast improvement in quality of support/experience.

Complaint Handling & Grievance Redressal Mechanism



Customers Occasionally Have Queries/Complaints

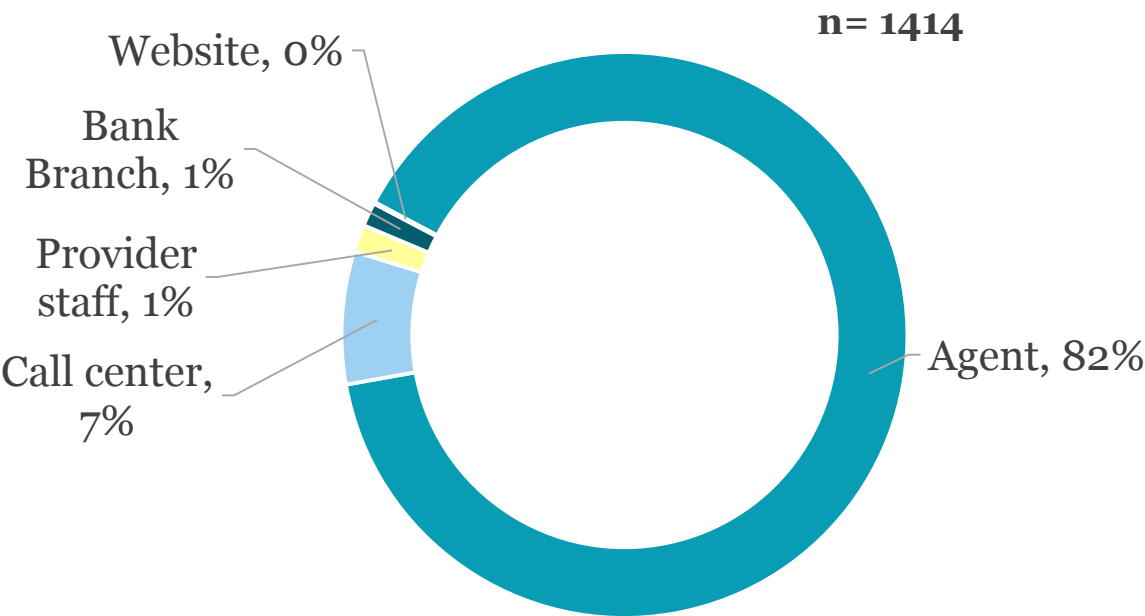
Queries/Complaints Related to LP/LKD



- Queries/complaints higher in rural areas (10%) as compared to urban areas (5%). Further we also observe that non-bank users (4%) have fewer queries/complaints as compared to bank users (8%).
- Customers raised fewer queries/complaints, most often when there was a transaction failure.

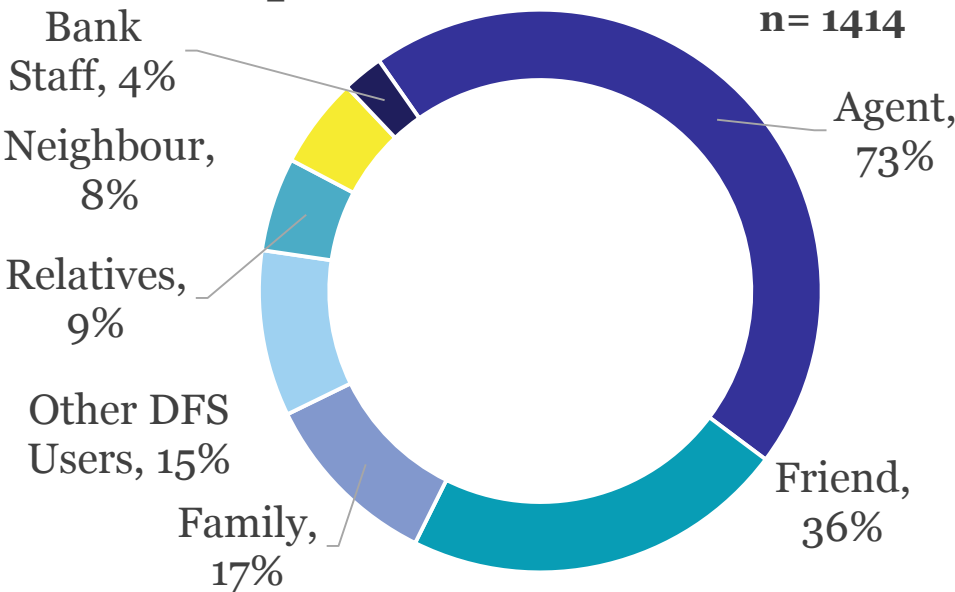
Agents are the Key Resource for Complaint Resolution

Channel for Complaint Resolution



- Agents (82%) remain the dominant channel for resolution of complaints. This reinforces the need for two key things:
 - Agents need to be trained properly to be able to resolve complaints successfully.
 - There have to be effective alternate complaint resolution channels. This is to ensure proper handling of a complaint if agent is unable to resolve it. Users also need alternate channels in case the complaint is against the agent himself/herself.

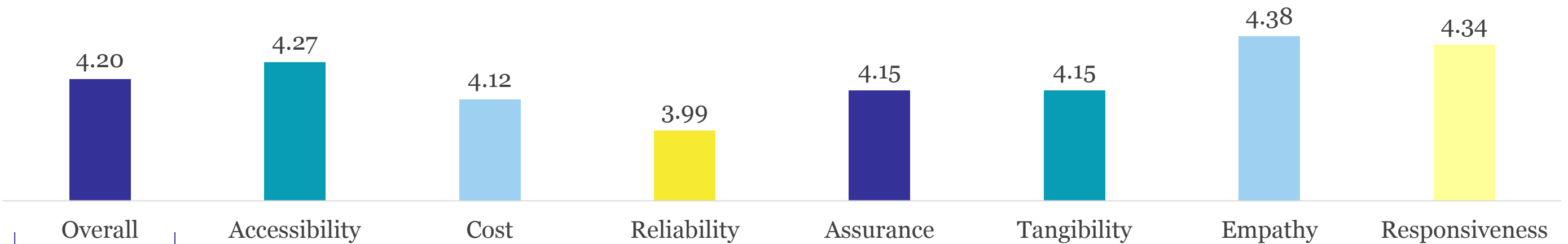
Source of Awareness of Complaint Resolution Channel



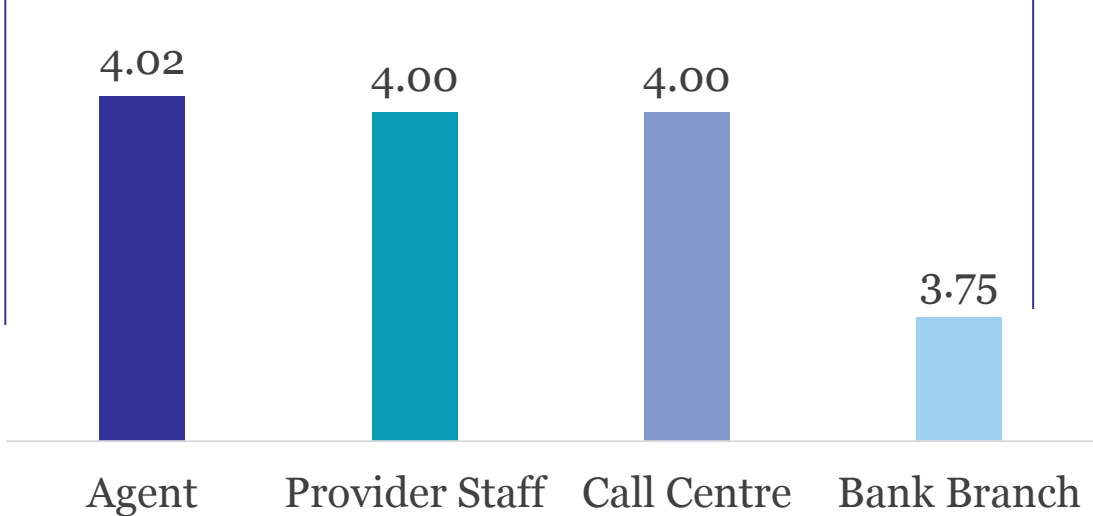
- Users come to know about complaint resolution channels mainly through agents (73%).
- It is worth noting that family, friends, relatives and members of the community play a key role in informing users about complaint resolution channels.
- Its absence on social media is conspicuous!

Experience with Customer Service Channels

Experience With Customer Service Channels (On a Scale of 5)



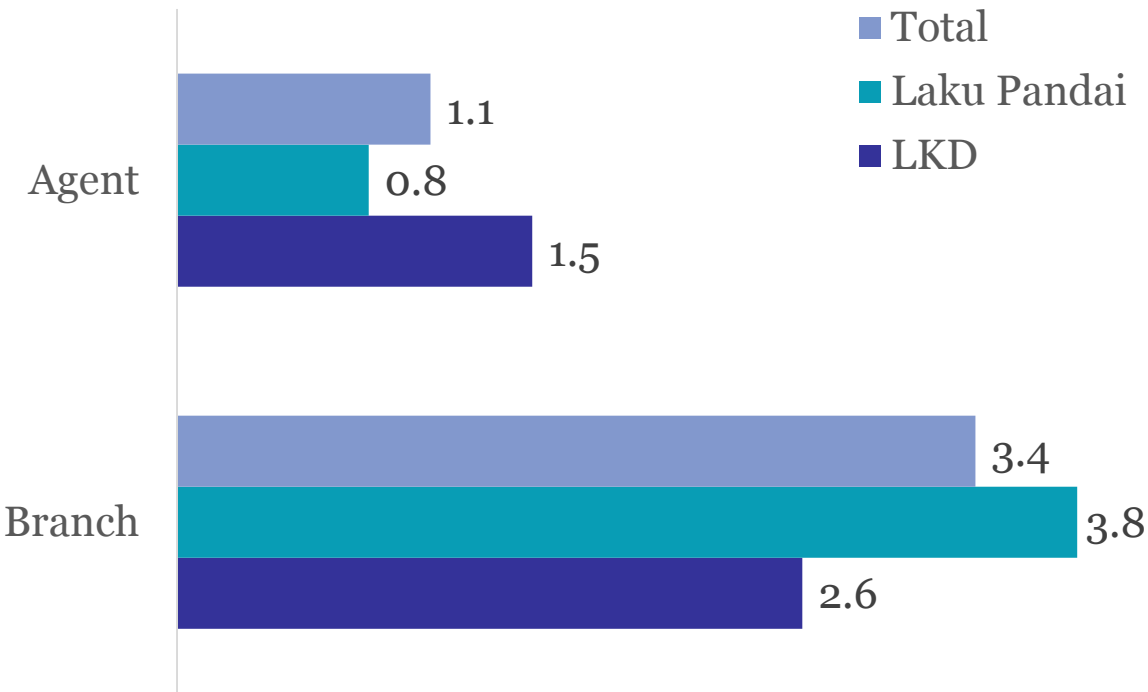
Experience with Individual Customer Service Channels (On a Scale of 5)



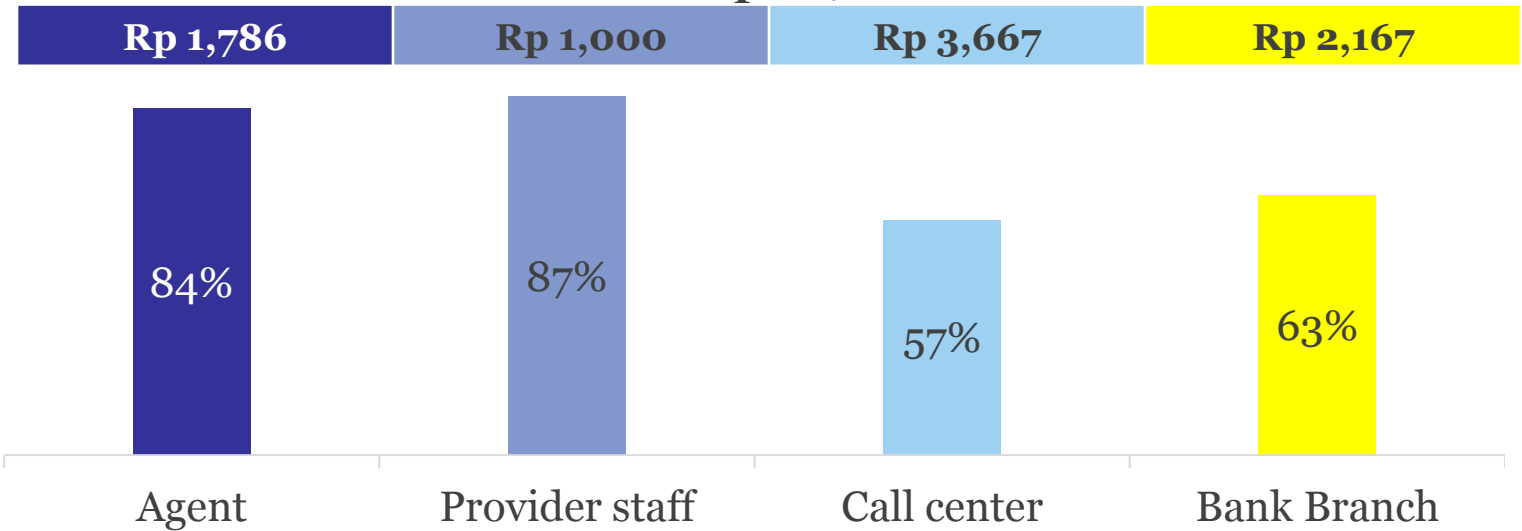
- Users have been liberal with giving good ratings on their experience with various customer service channels. Overall ratings for experience stands at 4.20 out of 5.
- Reliability – an indicator of consistency of transaction performance – is evidently low at 3.99 out of 5.
- Furthermore, when looked at individually, bank branch experience remains relatively low at 3.75. This is because bank branches are far away and resolving queries takes a lot of time at bank branches.

Cost and Time Spent on Complaint Resolution – Agents Fare Well!

Distance to the Nearest Channel -
Laku Pandai and LKD (in km)

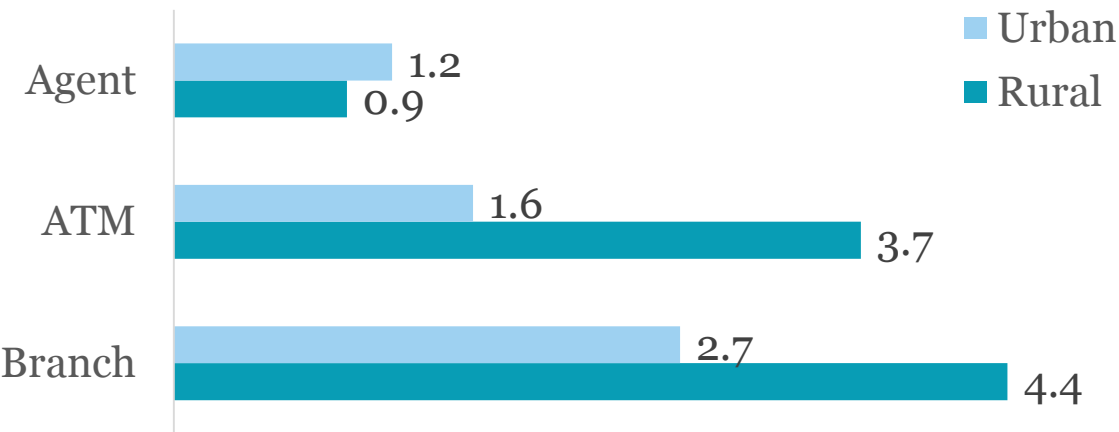


Incidence of Users Saying They Spend Cost for
Complaint Resolution (%) and The Avg Costs (in
Rupiah)



“...if I have any issues with my LKD card, I ask the agent for help. I do not use the call centre because it is too expensive.”
-User, Banjarmasin”

Distance to the Nearest Channel –
Urban and Rural (in km)

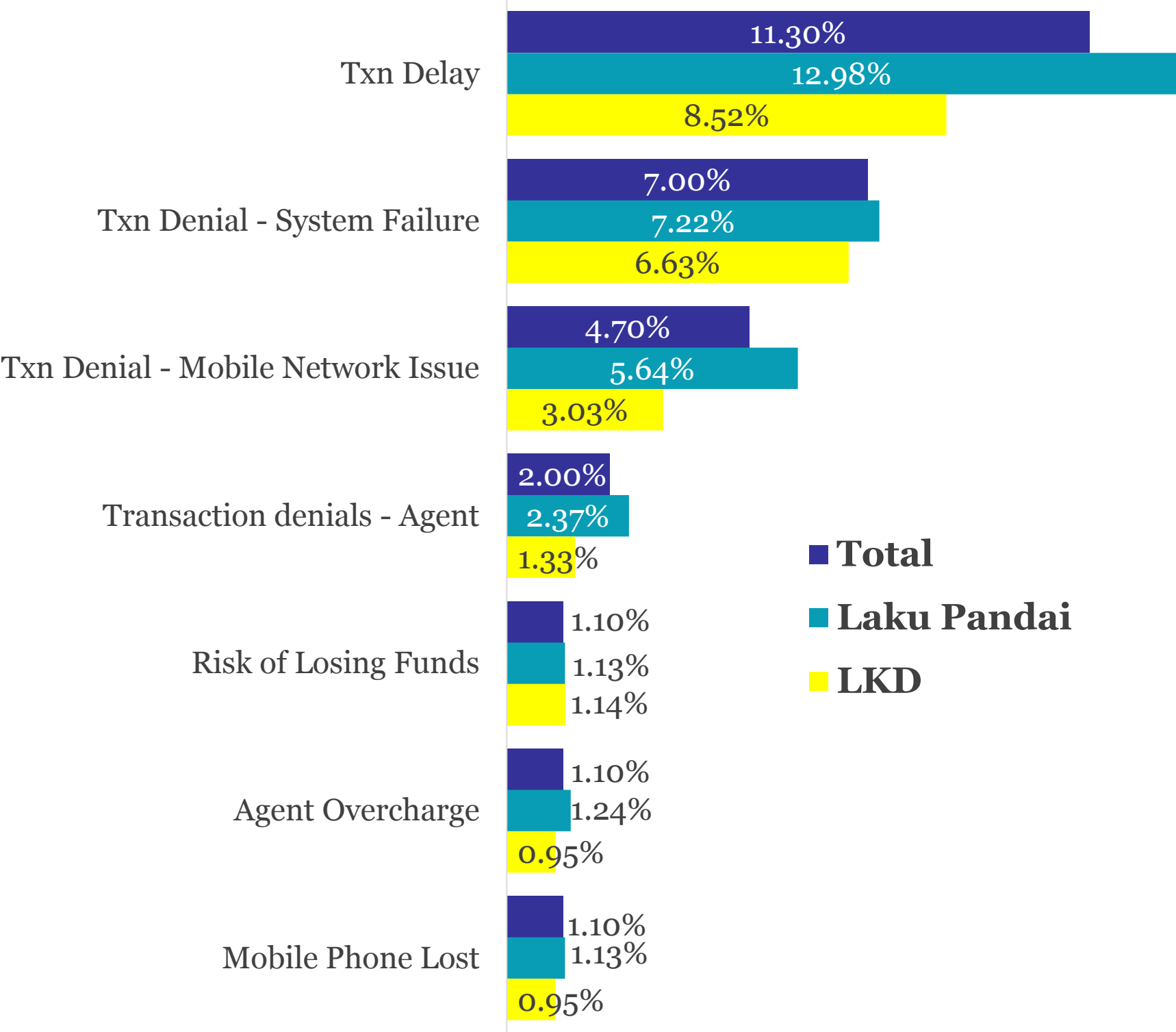


- Bank branch is the farthest at an average of 3.37 km away. Similarly, agent outlet is the closest at 1.07 km. Even distance to agent is similar in both urban and rural areas, the average distance being 1.04 km. In case of Laku Pandai, agents are usually closer than they are in case of LKD.
- While it is understandable that the cost of complaint resolution through call centre is the most expensive at Rp. 3,667, it is interesting to note that it cost Rp 1,786 for getting a complaint resolved through agents. This is again an indicator of “thank you fees”

Credibility & Trustworthiness

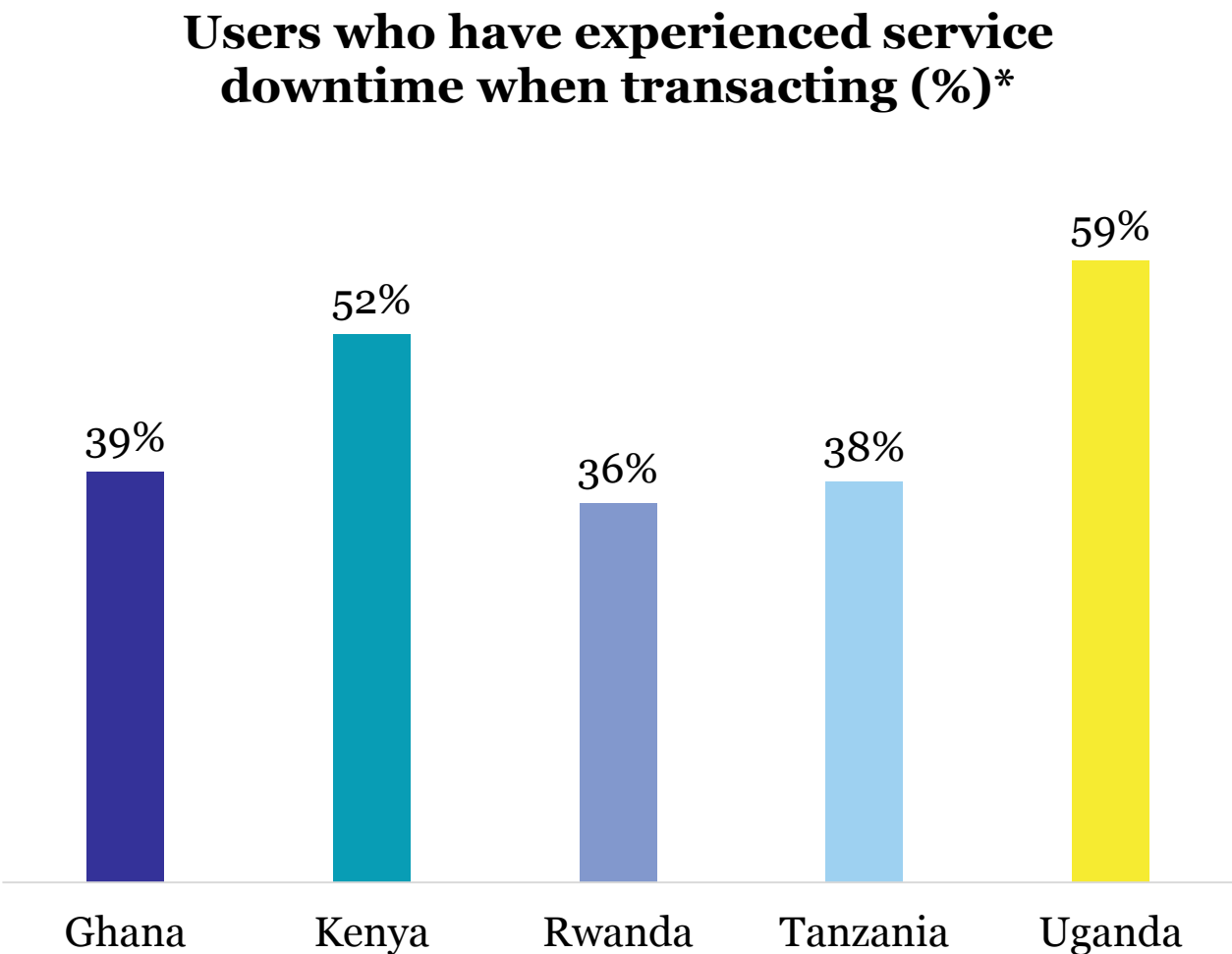
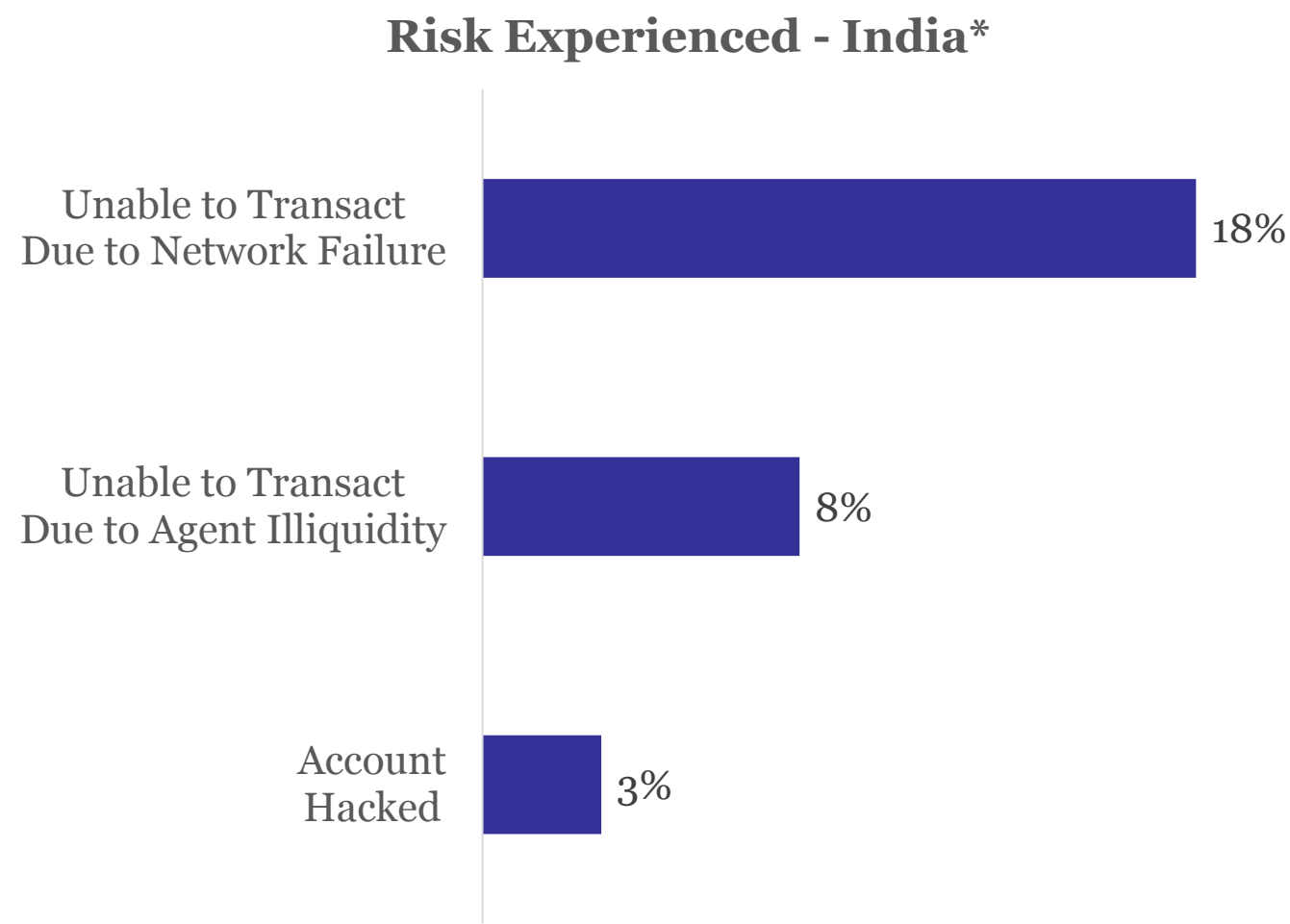


Actual Risks: Transactions Delays and Denials Remain Prominent (1/2)



- Even though the account activity is relatively low, transaction delays (11%) and denials remain prominent. Notable reasons for transaction denial are system failure (7%) and mobile network issue (5%).
- Agent overcharge, though low at 1%, is a high potential risk going forward as transaction activity increases. The responses may not adequately capture this risk because users find the overcharging worth the convenience of using their DFS accounts.

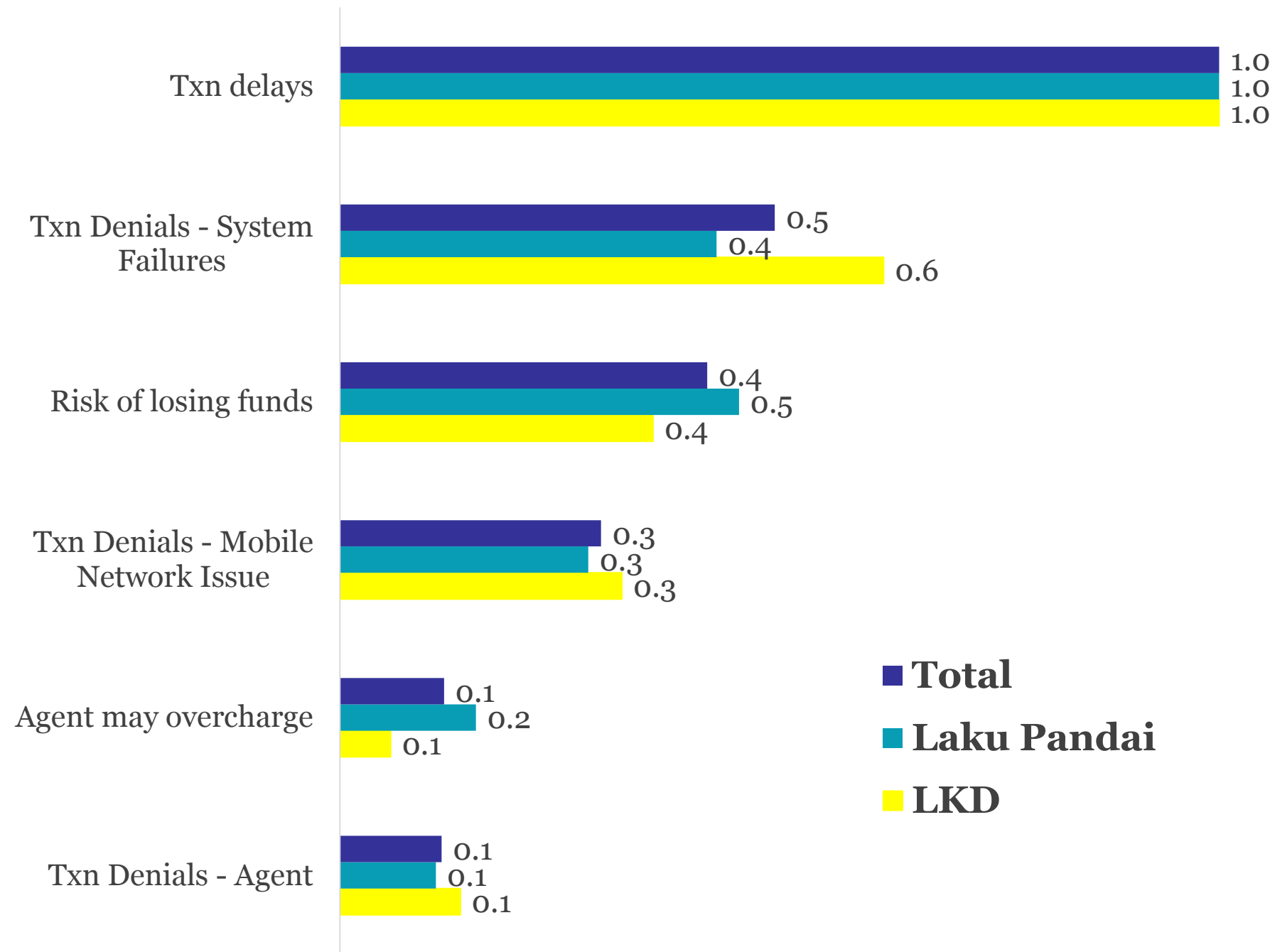
Actual Risks: Transactions Delays and Denials Remain Prominent (2/2)



- The actual risks as per the Indonesia survey are consistent with findings in other countries*. Especially transaction denials due to system failure and network issues is common among all the markets offering digital financial services.

Perceived Risks: Transaction Delays Dominate (1/2)

Ranking of Perceived Risks Based Risk Severity Index*



- Transaction delay remains the top most perceived risk.
- Transaction denials are due to many reasons such as agent unavailability, mobile network/internet issues.
- Transaction denials due to lack of liquidity remains conspicuously absent. This is mainly because of two reasons:
 1. The transaction activity is relatively low.
 2. OTC transactions are prevalent. Users generally give cash and the recipient's account number. Agent in turn uses these funds to top-up his/her float account and transfer funds later (in the absence of customers).
- The risks highlighted are similar to the ones identified in other countries such as [India](#) , [Philippines](#), [Bangladesh](#), and other [East African countries](#).

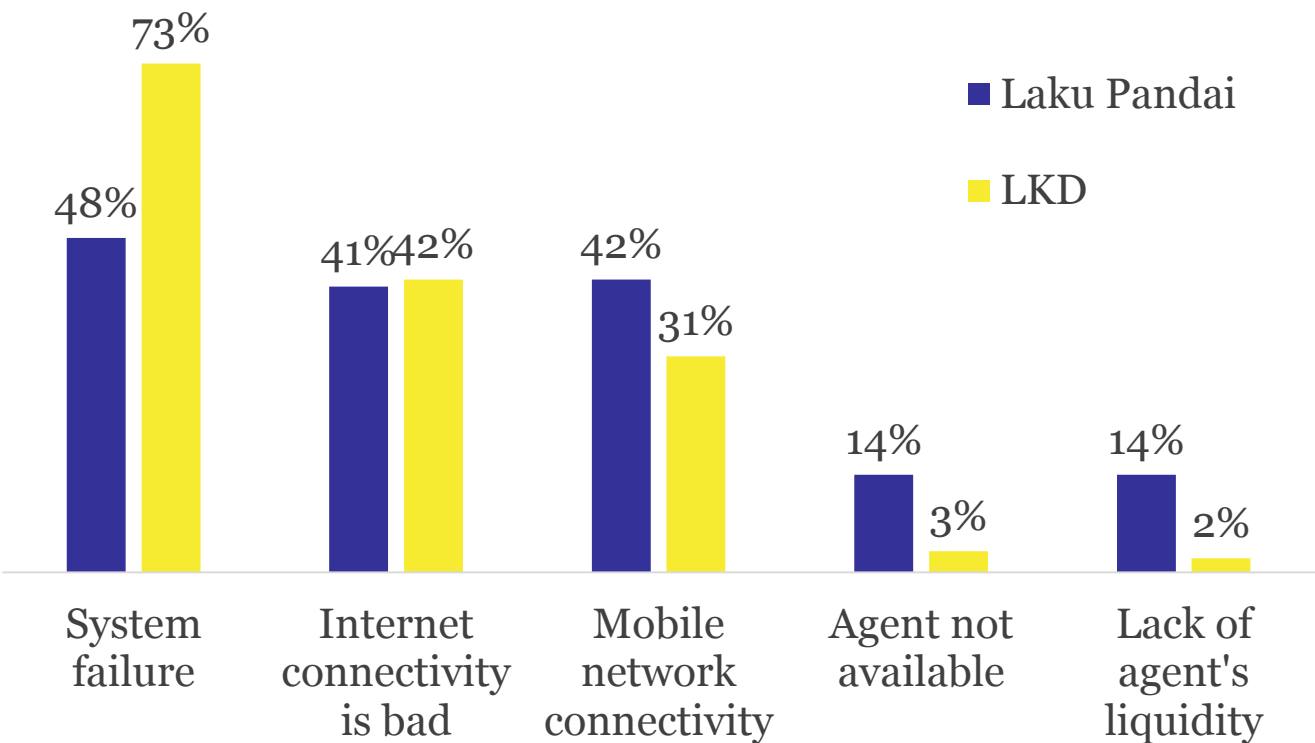
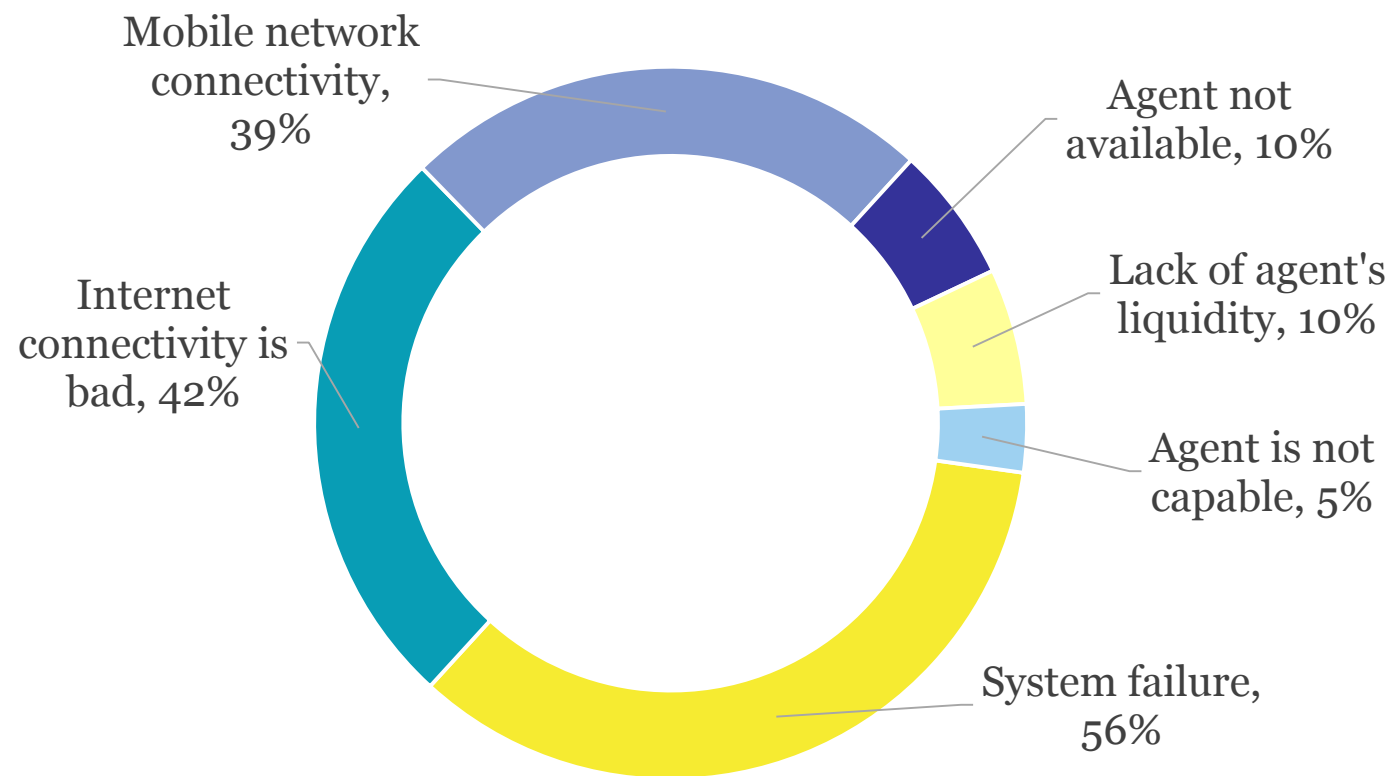
Perceived Risks: Transaction Delays Dominate (2/2)



“...transactions can be delayed up to thirty minutes during the beginning of the month. This happens due to poor network connectivity, and especially for the payment of electricity bills.”
-Agent, Gresik

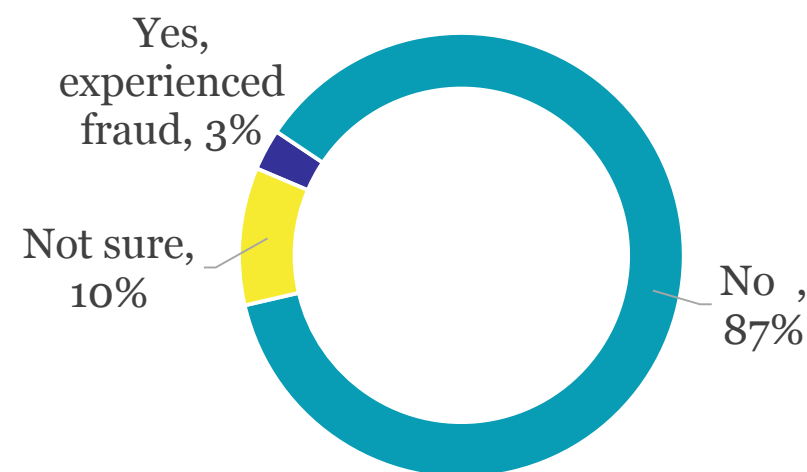
- Transaction delays are mostly caused by system failures and connectivity issues, while a small percentage of users experience delays due to agent-related issues such as agent is not available or agent's lack of liquidity.
- A significantly greater percentage of LKD transactions are delayed due to system failures, while a greater percentage of Laku Pandai transactions are delayed due to agent-related issues.

Reasons for Transaction Delays

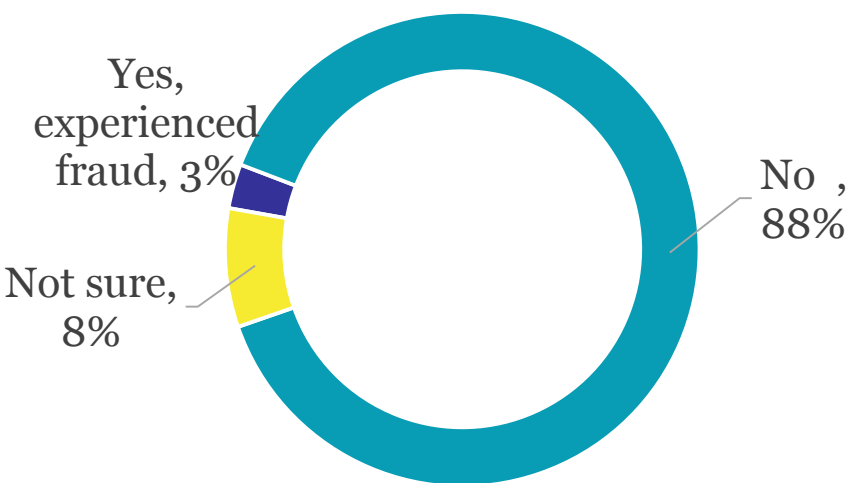


Fraud Incidence Remains Low, Mainly As the Transaction Activity is Low

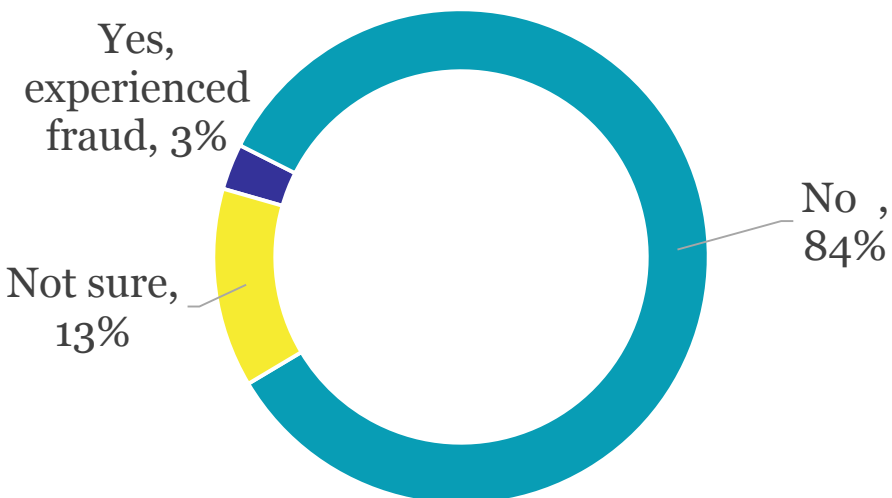
Total



Laku Pandai

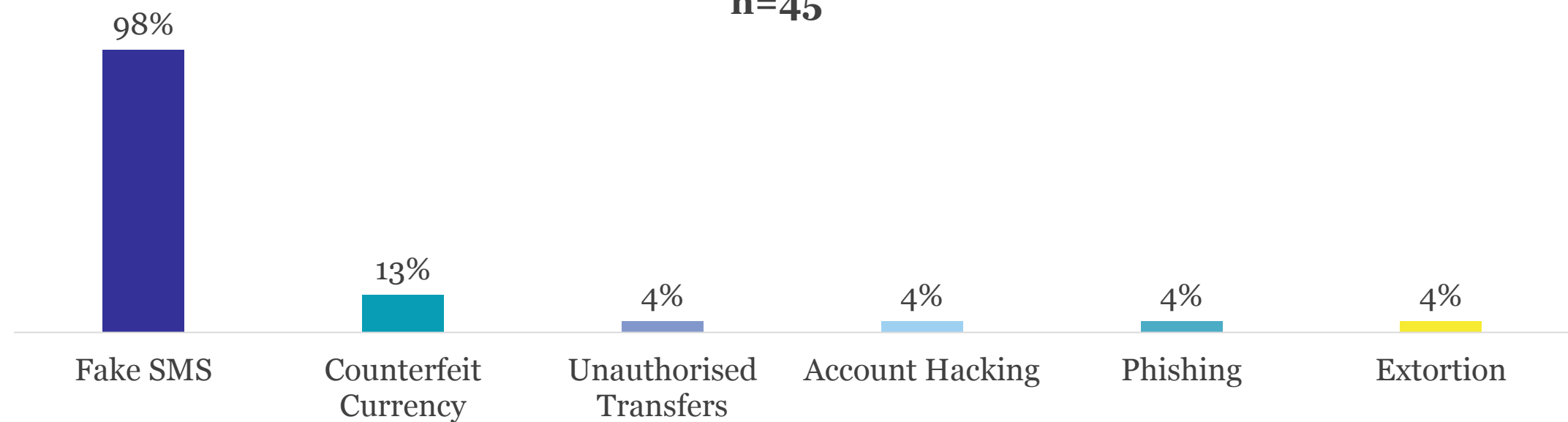


LKD



Types of Fraud Experienced

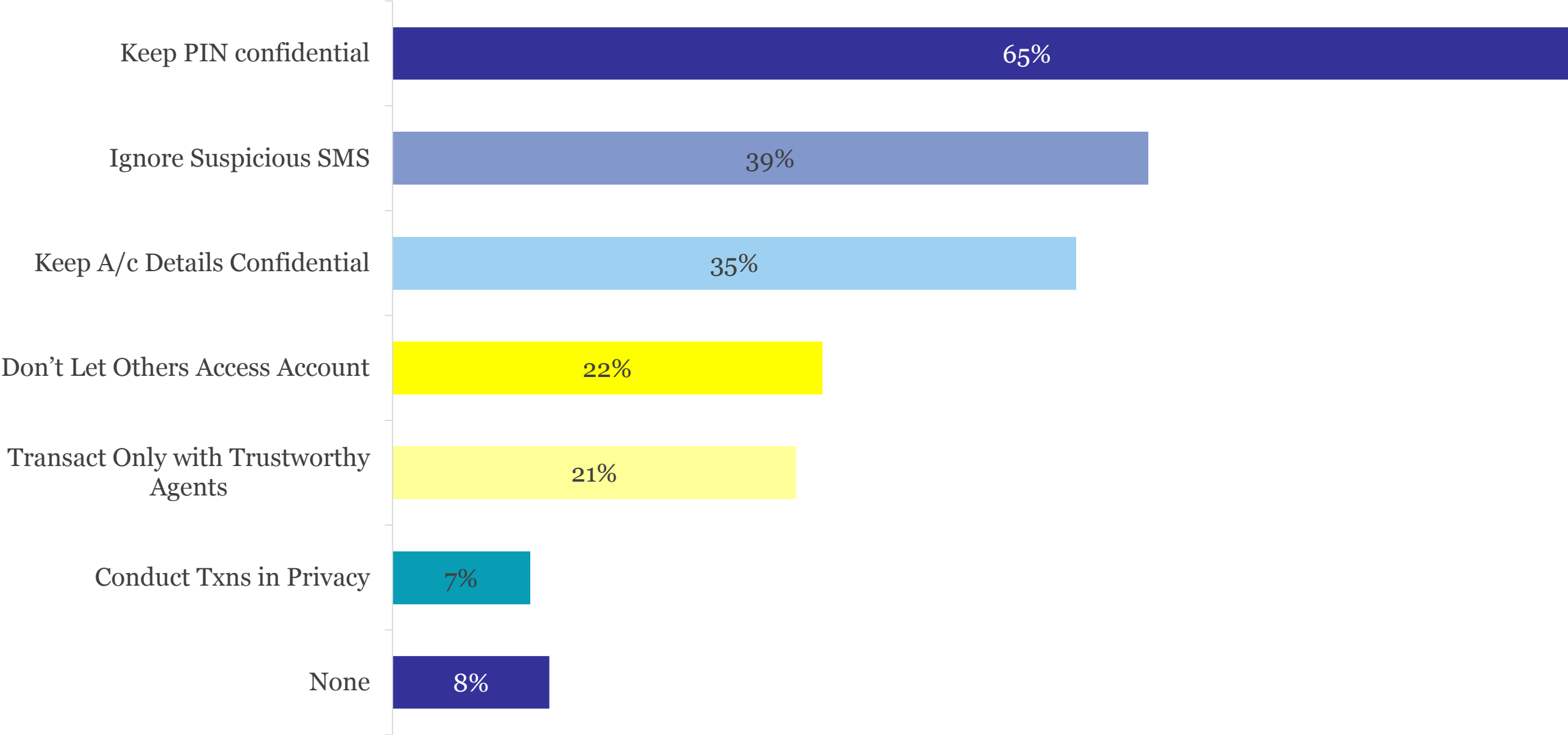
n=45



- Fake SMS requesting the user to send money to unauthorised accounts seems to be the most prominent fraud taking place in the field.
- It is very similar to the fake SMS frauds for Pulsa loads, very famous among them being “Mama Minta Pulsa”.

Users' Efforts to Avoid Fraud

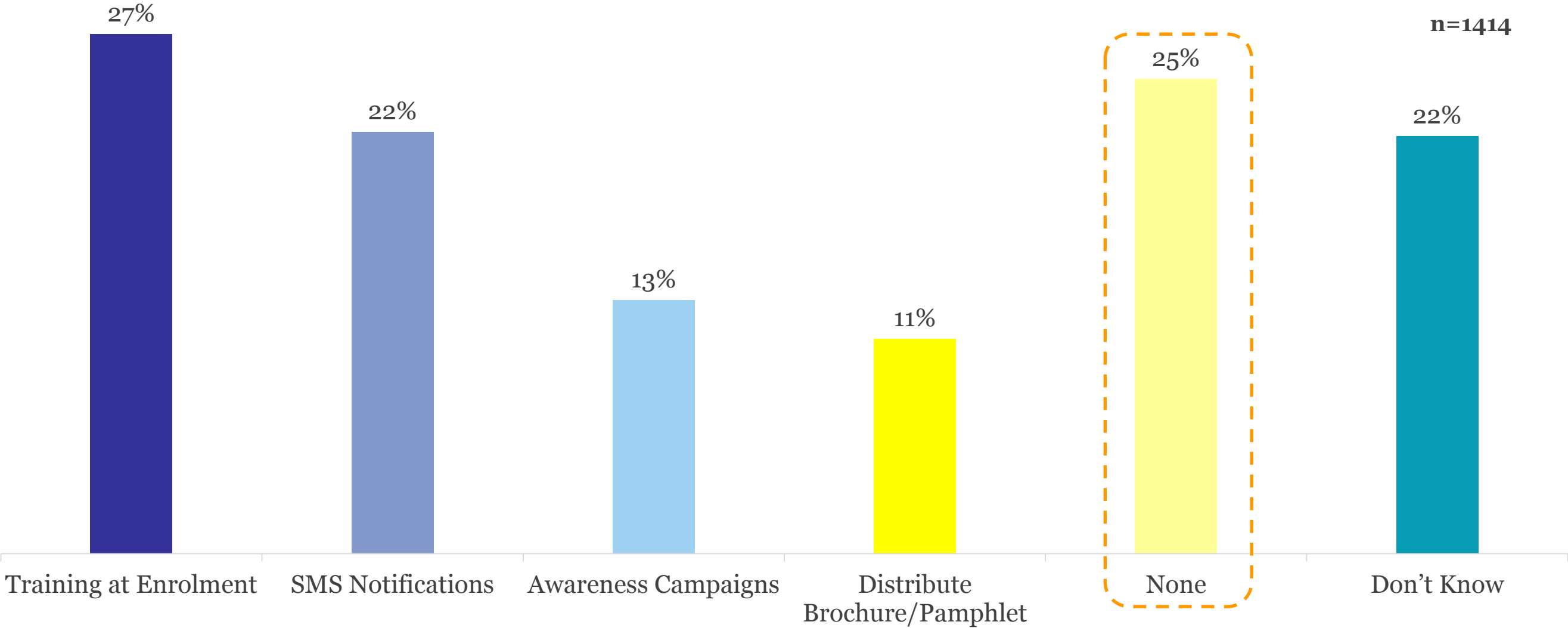
Percentage of DFS Users in Making a Particular Effort to Avoid Fraud/Risks



- Users seem to be making efforts to mitigate risks of fraud. Primary among these efforts is keeping PIN confidential and ignoring suspicious SMSs. SMS [frauds](#) have become increasingly common in East African Countries with high levels of transaction activity. As the transaction activity increases, Indonesia may also witness more SMS frauds.

Providers' Efforts to Protect User Accounts

Providers' Efforts to Protect User Accounts

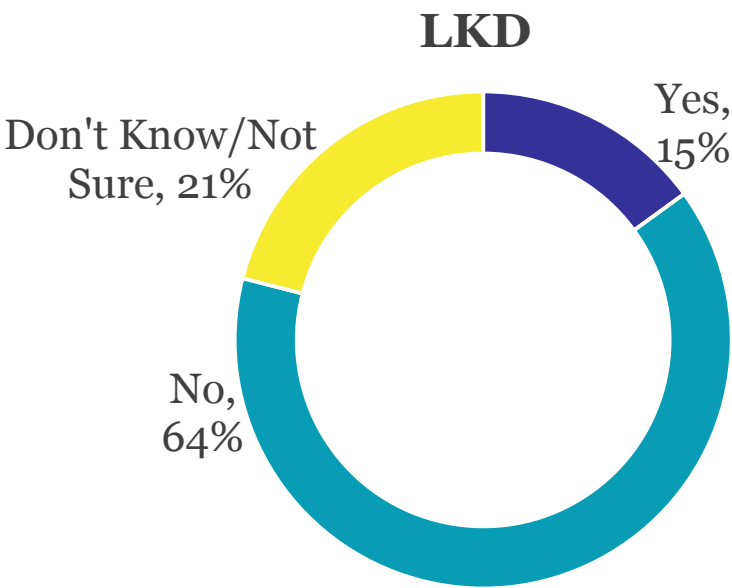
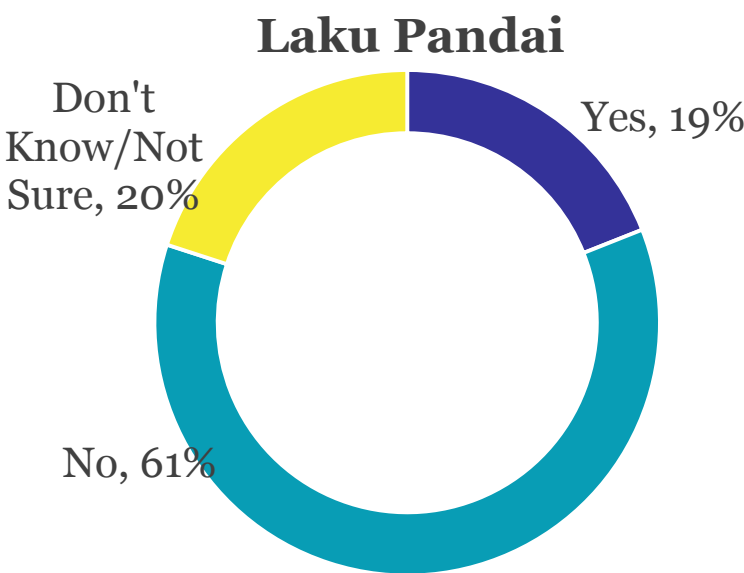
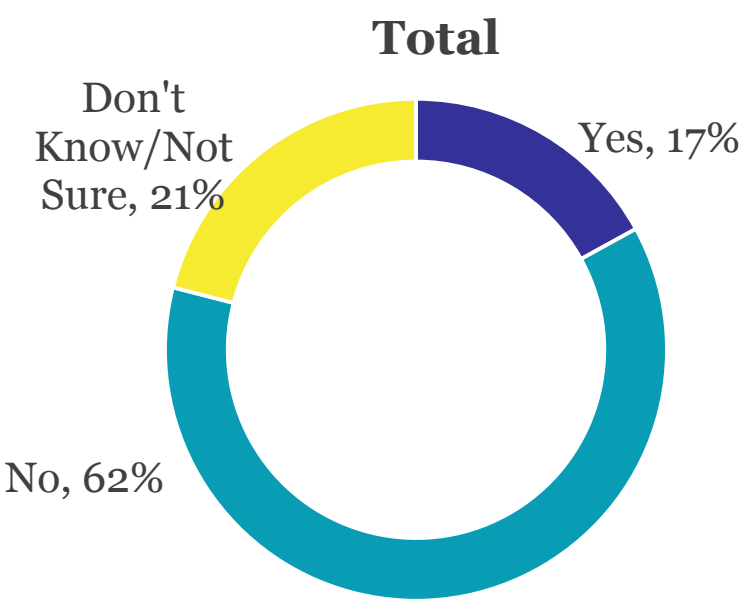


- Notably, 25% of the users say that providers do not take any proactive steps to protect consumers' accounts.

Frequency of Receiving SMS Notification Related to PIN Security

Do you get SMS notification related to PIN security?

n=1,414



Frequency of Receiving SMS related to PIN security*	Overall	Laku Pandai	LKD	BTPN
Base	246	168	78	110
Once a day	4%	4%	5%	4%
Once every two or three days	9%	5%	18%	3%
Twice or three times a week	7%	7%	6%	5%
Once a week	8%	10%	5%	6%
Twice a month	3%	3%	4%	3%
Once a month	24%	29%	12%	28%
Less than once a month	24%	27%	19%	33%
Never	2%	2%	3%	2%

“...I trust my agent with my debit card and PIN, which I have set using an easy combination, to ease the process of transferring funds”
-User, Gresik

- Only 24% of the respondents reported that they receive SMS reminders once a month.
- Providers need to actively send reminders through SMS and other channels to customers informing them to keep their PIN and other personal data confidential.

Recommendations

Both regulators – OJK and Bank Indonesia – have done a commendable job in terms of incorporating customer protection principles in the regulations. Customer protection also features as one of the main [pillars](#) of Indonesia's financial inclusion strategy. Further, regulators have come up with innovative initiatives such as setting up of a [fintech](#) office to encourage innovation in financial services without compromising safety/security of customer funds.

Apart from the ongoing initiatives, the section talks about additional initiatives that both regulators and service providers can undertake.



Recommendations – Awareness

Constituent	Current Progress	Recommendation
Financial Literacy: Programmes and Impact Evaluation	- Both OJK and BI have conducted financial literacy programmes. OJK has a national strategy for financial literacy targeting diverse user segments. OJK and BI also have run surveys to assess impact of FL programmes.	- Regulators need to conduct FL programmes with special focus on digital financial services specifically for unbanked/underbanked segments in coordination with stakeholders such as service providers and community level organisations. Considerations for FL programmes: <i>Diverse Media</i>: Print, electronic and social media <i>Diverse Segments</i>: Youth, urban/rural, MSMEs, housewives, migrant workers, farmers etc <i>Diverse Stakeholders</i>: Ministries, Providers, NGOs, Grassroots/community level organisations etc. - Diverse Methods: Behavioural insights based FE/FL programmes, using games/interactive tools, structured education programmes through digital channels. - More importantly, regulators should employ new methods such as mystery shopping, A/B testing (especially for digital channels) etc. to evaluate these FL programmes.
Marketing Collaterals for Awareness	Agents are the main source of information. Availability of brochures/pamphlets as a source of awareness for transaction charges is very low at 3%.	- Providers need to make effective use of marketing collaterals to spread awareness. Considerations for marketing collaterals: - Supply correct information about products and charges - Display collaterals prominently within agent outlet - Use simple and local language
Notifications and Reminders	Less than 30% receive notifications on transactions/charges.	- Providers should send regular notifications and reminders on: - Transaction information and charges - PIN confidentiality and account security - Reminders to inactive users - Notice during planned/unplanned service disruptions - Change of rates/terms and conditions
Media Engagement	Limited activities to educate media about various aspects of DFS including consumer protection and risks.	- Regulators should engage media in the form of: - Training and education initiatives - Regular media briefs and press conferences - Publications and dissemination of reports

Recommendations – Support and Experience

Constituent	Current Progress	Recommendation
Digital Identity: To address KYC and customer sign- up issues	Around 95% already have digital identity called e-KTP. However, integration with financial services is limited.	OJK/KEMENKO should advocate the use of e-KTP infrastructure of financial inclusion initiatives. India is a good example for using its digital ID – <i>Aadhaar</i> – for offering financial services. More than 250 million bank accounts are linked with <i>Aadhaar</i>. Research suggests that using digital ID as KYC reduces enrolment time to six minutes.
Agent Network Manager Model	Currently regulations do not allow ANM model.	Regulator should allow agent network managers in the DFS ecosystem. ANM model enables effective monitoring and supervision of agents. Our analysis reveals that 24 out of 31 major DFS providers across the world use the ANM model to manage agents effectively.
Improve Quality and Cost- Effectiveness of Agent Training	There is a need to improve quality of agents through training.	There is a clear link between training/awareness of agents and demand for digital financial services. A Study conducted by MicroSave and Harvard Business School suggests that agent's ability to answer DFS queries increases demand by 10%.
Agent Training Institute	No such institution currently exists	Regulator(s) can consider setting up a training centre for agents in collaboration with market providers. (Refer to next slide for more details).

Case: National Institute for Agent Training

Regulator, in collaboration with the DFS providers, should have an agent training institute to improve and maintain the quality of DFS agents.

National Institute for DFS Agent Training



- **Objective:** To develop and maintain good quality agents to facilitate DFS transactions
- **Set-up:** To be owned and operated by the regulators and DFS providers
- **Training Topics:**
 - Regulator approved/mandated topics such as: KYC/due diligence & regulatory requirements; fraud, security & risk management mechanisms; customer protection issues.
 - Provider related topics such as: DFS concept, products/services offered, agent responsibilities and obligations; liquidity management, customer service etc.
- **Training methods:**
 - In-class sessions through regional centres/branches and community level organisations at village/sub-district level, structured e-learning through digital channels such as YouTube (see [here for an example](#)); internet; social media of mass appeal; and mobile applications), demonstrations, expert speakers etc.
 - Refresher trainings especially through mobile based digital channels.
- **Training Benefits:**
 - Regulators can ensure standardisation and consistency in the quality of training programmes. They can also test/evaluate the training methods/curriculum periodically to suggest amendments.
 - Providers get good quality agents who adhere to regulatory requirements and seamlessly facilitate DFS transactions.
 - Participants get a certificate upon successful completion. This makes them eligible to work as agents for any provider.



Recommendations – Complaint Handling and GRM

Constituent	Current Progress	Recommendation
Complaint Analysis & Dissemination	Both BI and OJK collect complaint related data from providers. However, that data is not published.	- Regtech* can enable regulators to collect and analyse complaints received by providers and suggest corrective measures. They can then publish the analysis to increase awareness among consumers and other stakeholders such as consumer advocacy organisations, media etc. - Key parameters for analysis: Type of complaints, frequency of complaints, resolution status etc. (Refer to next slide for example).
Multiple channels for complaint resolution	Agent remains the primary channel for customer service and complaint resolution.	- Providers should ensure the availability of diverse customer service/complaint resolution channels. Considerations for channels: - Low or no cost - Specialised hotline for DFS Dedicated hotline for agents
Code of Conduct for DFS	No industry code of conduct for DFS.	- OJK and BI should advocate the introduction of code of conduct for Laku Pandai/LKD. Providers should adopt and abide by the code of conduct. Essential components of the code could be: - Clear and transparent disclosure of charges for services. - Effective customer service and complaint handling mechanisms. - Adequate security mechanisms to safeguard customer funds and data. - Effective monitoring and supervision mechanisms to ensure consistent and reliable services by agents. Mystery shopping is also an effective exercise to examine the extent of compliance with code of conduct.

Case: Complaint Publishing by Central Bank of Brazil

- Banco Central Do Brasil, the Central Bank of Brazil publishes a ranking of institutions according to the complaints received on its website (<http://www.bcb.gov.br/?RANKING>).
- The data is broken down as per relevant indicators such as
 - Ranking of banks with more than 2 million customers
 - Ranking of banks with less than 2 million customers
 - Ranking of the most frequently received complaints

Snapshot of the Website for Complaints

- Data helps the central bank to take relevant action against the financial institutions.
- Newspapers and other media generally publish these rankings – “naming & shaming” the institutions.

Bancos e financeiras
Mais de quatro milhões de clientes

Bancos e financeiras
Menos de quatro milhões de clientes

Administradoras de consórcio
(periodicidade semestral)

Reclamações mais frequentes
por assunto

1º trim/2017

Mensal/Bimestral/Trimestral

Semestral

Ranking de Bancos e Financeiras

2017 Jan/Fev 1º Trim 2º Trim 3º Trim 4º Trim 2018

Imprimir

Posição	Instituição Financeira	Índice 1	Reclamações reguladas procedentes 2	Cientes 3
1º	BB (conglomerado)	25,84	1.536	59,432,237
2º	BRADESCO (conglomerado)	25,82	2.379	92,106,865
3º	CAIXA ECONÔMICA FEDERAL (conglomerado)	24,61	2.068	84,016,461
4º	SANTANDER (conglomerado)	21,87	821	37,527,740
5º	ITAU (conglomerado)	18,66	1.279	68,531,765
6º	BANRISUL (conglomerado)	13,37	59	4,410,257
7º	VOTORANTIM (conglomerado)	7,78	32	4,109,589
8º	MIDWAY S.A. - CRÉDITO, FINANCIAMENTO E INVESTIMENTO	1,23	8	6,451,982
9º	PERNAMBUCANAS (conglomerado)	0,91	4	4,374,493

Recommendations – Credibility and Trustworthiness

Constituent	Current Progress	Recommendation
Protection of Funds	• Laku Pandai: Laku Pandai accounts are insured through deposit insurance scheme. • LKD: There is no formal protection in the form of insurance for LKD accounts. Further, LKD funds can be held in deposit accounts (savings, current or time deposits).	• As a best practice, funds under LKD should be parked in trust accounts to protect user funds. • Further deposit insurance facilities can be extended to LKD funds either directly (by bringing them under deposit insurance scheme) or indirectly (through pass through deposit insurance).
Risk Management Frameworks	• BI/OJK already mandates providers to have risk management frameworks in place. • However, this seems to be more of a regulatory compliance document than a risk mitigation tool.	• Providers need to have a risk management framework for DFS. The framework should identify risks and assess their impact and frequency, and develop mitigation mechanisms. • Regulators need to ensure that third party risk and technology audits are carried out periodically. • As a best practice, regulator should also conduct periodic audit of agent networks.
Automated Transaction Monitoring and Suspicious Transaction Reporting Systems	• Many providers do not have this facility.	• Regulators and providers need to ensure such a facility exists in order to track suspicious transactions and to prevent potential fraud. For example, Telenor Pakistan flags any account making more than 45 cash deposits in 15 days' period or three deposits per day as suspicious.
Agent Blacklist	• No such list exists.	• Regulator needs to collect data about blacklisted agents, consolidate and share it with industry stakeholders.

Annexures

- Indonesia DFS Evolution Map
- Glossary
- Research Method: Sampling Frame, Geography Details, Providers Break-Up, Number of Agents
- LKD Charges Comparison
- Risk Severity Index Calculation Method
- Respondent Profile
- Volume and Value of Transactions



Indonesia DFS Evolution

- Consultations and drafting of NFIS commences
- E money products launched by banks/non-banks



- BI allows BUKU IV banks to have unregistered agents



- Ministry of Social Welfare Affairs pilots G2P payments through e-Money



- BI allows BUKU III and BUKU II banks to have unregistered agents
- Fintech Office and Regulatory Sandbox launched
- OJK drafts Fintech regulation Peer to Peer lending
- Pre-pilot of G2P rice subsidy program in 7 cities



2012



2014

2016

2017

2015

2013

- BI conducts first branchless banking pilot with 5 banks
- Interoperability in 3 Telcos for money transfer
- Mobile wallets (e-cash/T-bank) for e-money launched



- LAKU PANDAI regulation released by OJK
- Licences given to 6 banks
- 1 million PSKS payments made through Mandiri e-cash



- Pilot of G2P- digitizing rice subsidy- in 44 cities through HIMBARA banks
- BI starts work on National Payment Gateway (NPG)
- Launch of *Kartu Tani* program for farmers
- Rapid growth in LAKU PANDAI agents driven by BRI, BTPN, Bank BNI

Glossary (1/3)

Terms	Definition
Agent	A person or entity that is authorised or appointed to represent or act on behalf of another person or entity and has a fixed relationship with the represented.
Call Center	A centralised office used for the purpose receiving or transmitting a large volume of requests by telephone . Besides handling consumer complaints and queries, it can also be used as an alternative delivery channel to improve outreach and attract new consumers via various promotional campaigns.
Channel	The consumer's access point to a financial service provider , namely who or what the consumer interacts with to access a financial service or product.
Consumer, customer, user	This paper uses the term "consumers" interchangeably with "customers" and "users" to refer to those who use one or more DFS.
Consumer Risk	The possibility that a consumer will experience financial loss or harm arising out of lack of access to own accounts or stored value, unfair, abusive, or discriminatory conduct from FSP staff, agents, or outsourced service providers, or exposure to other immediate or future risks such as loss of privacy and security of personal data, harassment by private, unintentional involvement in illegal activity, etc.
Digital Financial Service (DFS)	The use of digital means to offer financial services . Encompasses all mobile, card, POS, and e-commerce offerings delivered to customers via agent networks.
Electronic Data Capture (EDC)	Electronic Data Capture or EDC is the device that empowers merchant to accept and process card transactions via debit and credit cards.

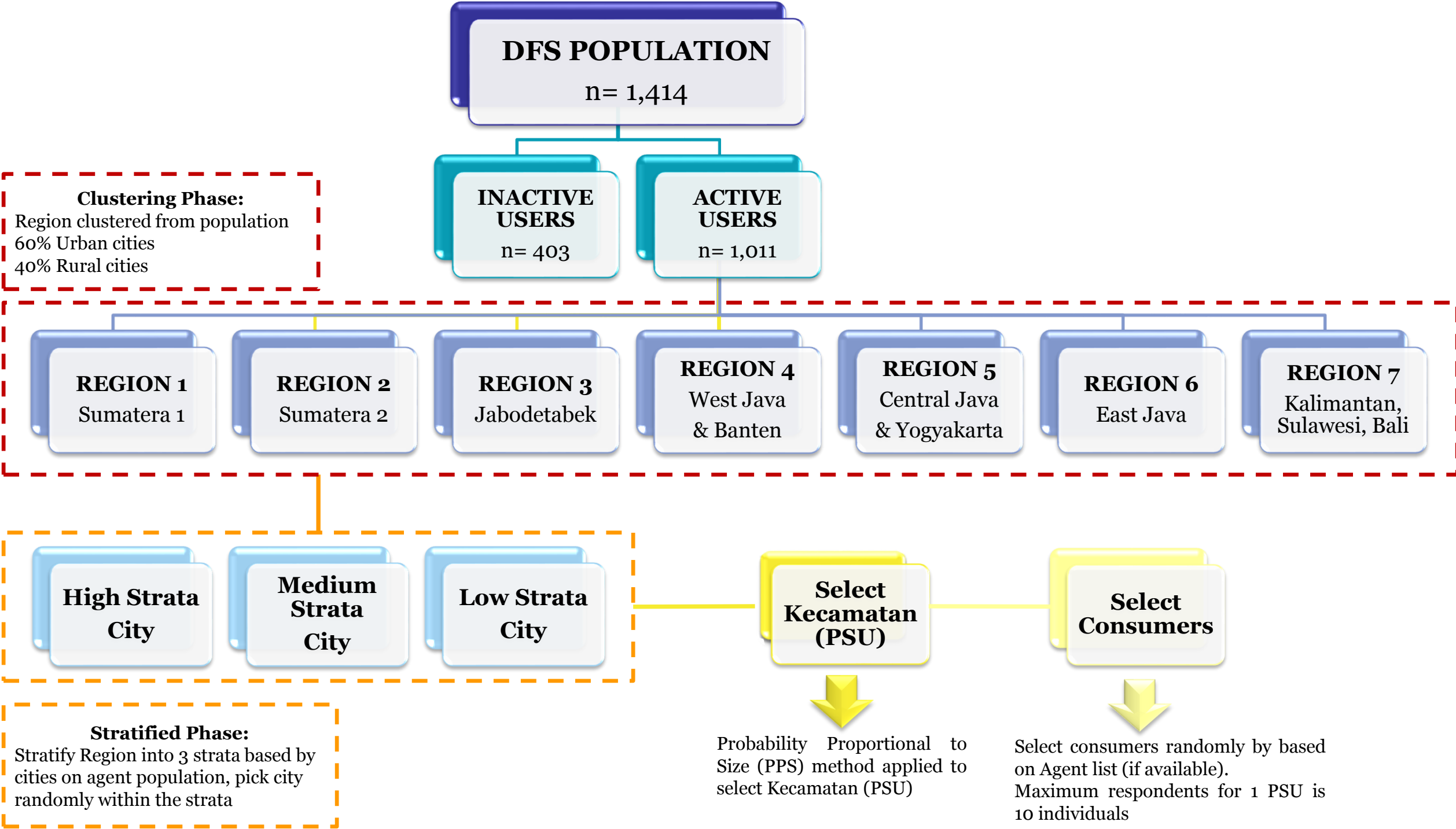
Glossary (2/3)

Terms	Definition
e-Money	Abbreviation for ' electronic money ', it is stored value held in accounts such as e-wallets or cards. Typically, the total value of e-money issued is matched by funds held on one or more bank accounts and usually held in trust, so that even if the provider of the e-wallet service was to fail, users could recover the full value stored in their accounts.
e-Wallets	An e-Money account belonging to a DFS customer and accessed via mobile phone or a smart card.
Financial Service Providers (FSP)	Financial Service Providers (FSP) including Mobile Network Operators (MNOs) or “Telcos”, banks, non-bank financial institutions that provide financial services like money transfers, bill payments, insurance etc.
Financial Literacy	Financial literacy is the combination of consumers’/investors’ understanding of financial products and concepts, and their ability and confidence in appreciating financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.
Know Your Customer (KYC)	Rules and procedures related to prevention of Anti-Money Laundering (AML) /Countering Financing of Terrorism (CFT) activities that providers carry out to identify consumers and to detect, monitor, and report suspicious activities.

Glossary (3/3)

Terms	Definition
Laku Pandai	<i>Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif</i> , is the official name given of the branchless banking program of OJK to provide banking/financial services through other parties (called agents), and supported by the use of information technology infrastructure.
LKD	<i>Layanan Keuangan Digital</i> is the term used to refer to the provision of electronic money (e-money) services provided by banks and non-banks in Indonesia, supervised by Central Bank of Indonesia.
Merchant	A person or business that provides goods or services to a consumer in exchange for payment.
OJK	Otoritas Jasa Keuangan/ Indonesia Financial Services Authority, banking and financial services regulator of Indonesia.
Over-the-counter transactions (OTC)	OTC occurs when consumers conduct financial transactions such as P2P transfers, bill payments etc. in cash with an agent , who executes the electronic payment on the consumers' behalf.
Unstructured Supplementary Service Data (USSD)	A protocol used by GSM mobile devices to communicate with the service provider's computers/network . This channel is supported by all GSM handsets, enabling an interactive session consisting of a two-way exchange of messages based on a defined application menu.

Research Methodology: Sampling Frame



Research Geography Details

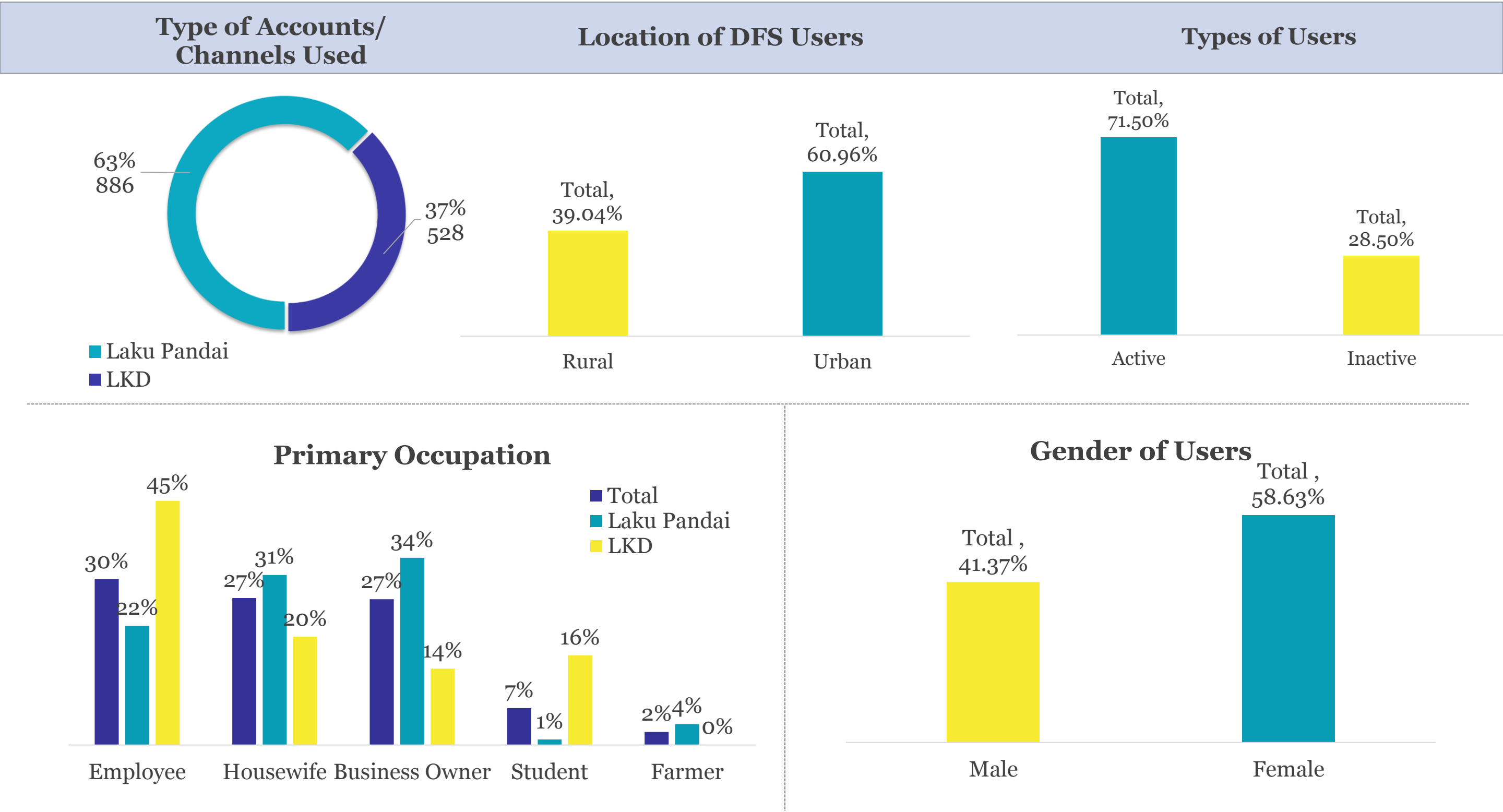


Risk Severity Index Calculation Method

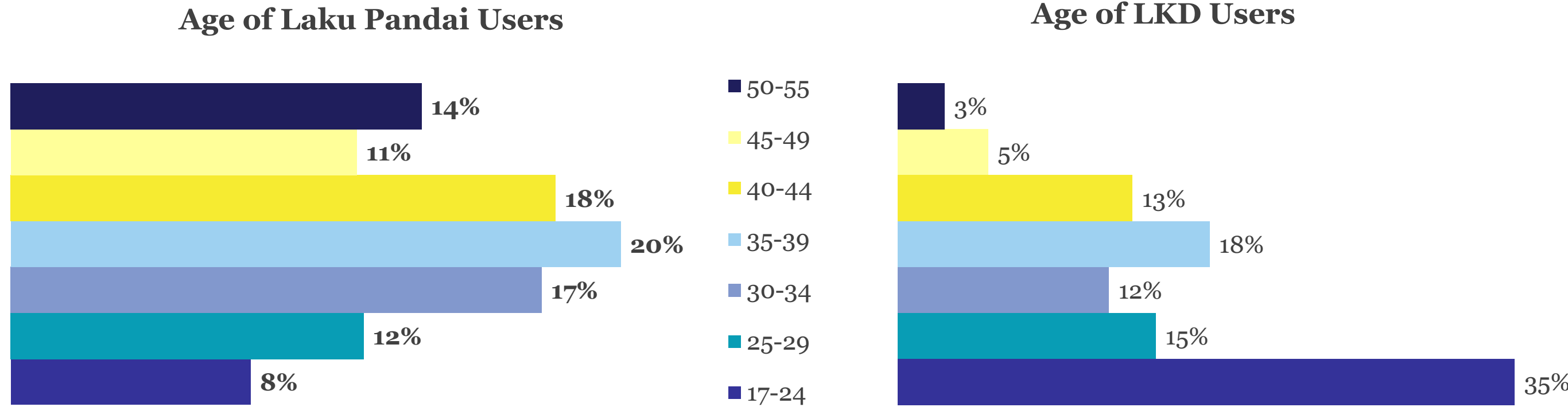
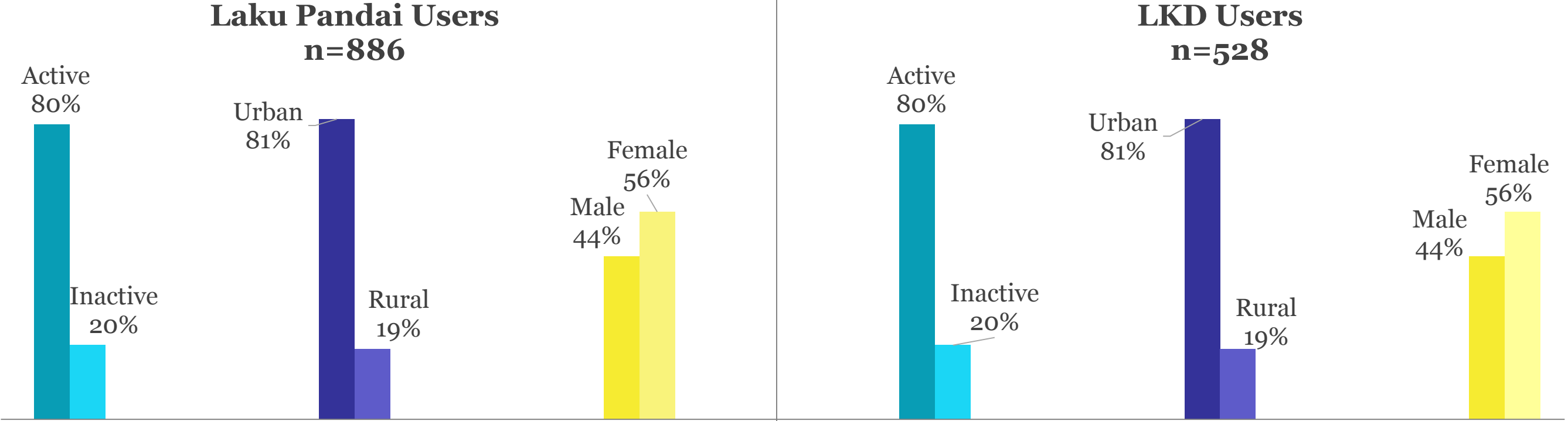
- 1. List each risk rank frequency
- 2. Sum all the frequencies of each rank, and then get the total sum of all risks
- 3. Calculate Aggregate Ranking Score of each risk by multiplying frequencies with this formula: $((n \times \text{frequency of rank } n \text{ of risk } 1) + ((n-1) \times \text{frequency of rank } n-1 \text{ of risk } 1) + \dots + 1 \times \text{frequency of rank } 1 \text{ of risk } 1))$, with $n = \text{total of ranks used in the question (usually 5)}$, and the risks can be listed as many as asked.
- 4. Calculate each Item Response Rate by dividing total frequency sum of each risk with the total sum of all risks.
- 5. Calculate the Adjusted Aggregate Ranking Score of each risk by multiplying Aggregate Ranking Score with Item Response Rate.
- 6. Determine the maximum value and the minimum value of the Adjusted Aggregate Ranking scores.
- 7. Calculate each risk's Severity Index by using the formula:

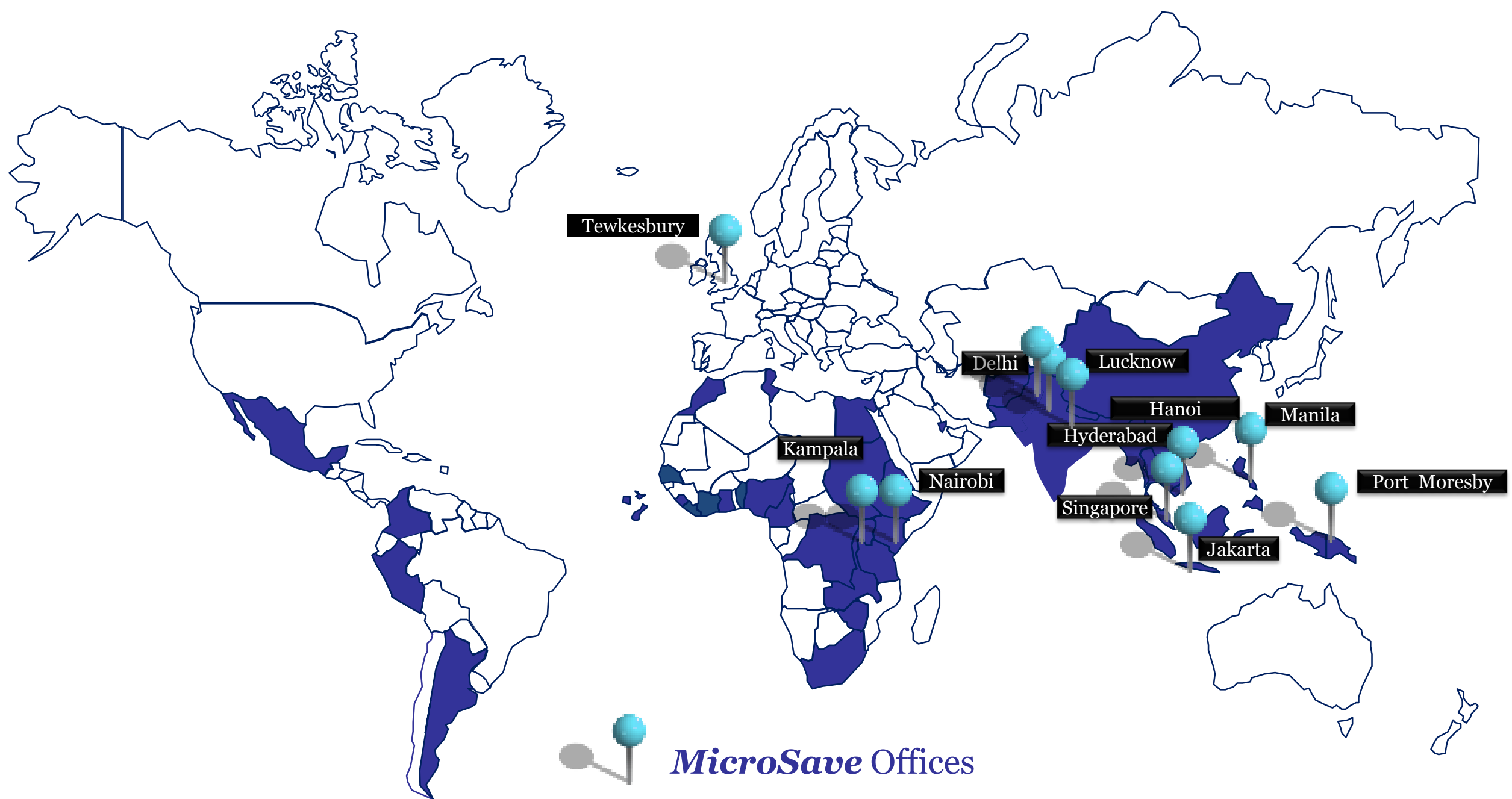
$$\frac{(\text{Adjusted Aggregate Ranking Score of Risk } 1 - \text{Minimum value of all Adjusted Aggregate Ranking Scores})}{(\text{Maximum value} - \text{Minimum value})}$$
- 8. Interpretation: the higher the severity index, the more severely is the risk perceived or occurred, because this risk is mentioned more frequently in higher ranks than other risks.

Respondent Profile - Aggregated



Respondent Profile – Laku Pandai and LKD Users





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