

Fintech Indonesia: Making investing more accessible

Ari Pitoyo, Chief Investment Officer, Eastspring Investments Indonesia

Indonesia is an oasis of steady economic growth and increasing wealth. However, mutual fund investors represent a mere 0.52% of the archipelago’s population. In such an under-invested environment, financial technology (fintech) plays a key role in helping to unleash the economic potential of the mutual fund industry.

In 2016, there were only 340,869 mutual fund investors in Indonesia. That number has significantly increased to 1.40 million in 2019, with new investors being millennials and people using digital investment platforms.

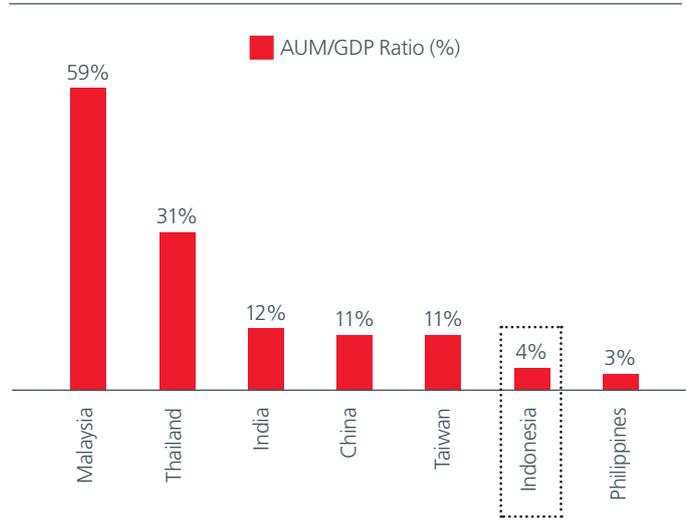
This figure, however, still only represents 0.52% of the 271 million population¹. Indonesians are under-invested – assets under management (AUM) account for just 4.0% of the country’s gross domestic product (GDP), which is far less than in other Asian countries. See Fig. 1.

UNLEASHING THE ECONOMIC POTENTIAL

Nonetheless, this bottleneck of 4.0% presents a huge opportunity for asset managers if they can

break through and capitalise on Indonesia’s robust economic growth. According to the World Bank, Indonesia’s economy – the largest in Southeast Asia – will grow by 5.1% in 2019; and this growth rate will accelerate to 5.2% in 2020, thanks to the country’s coordinated and prudent macroeconomic policies³.

Fig. 1. Assets under management (AUM) as a ratio of the gross domestic product (GDP)²



At Eastspring Indonesia, we believe that if Indonesia catches up with China, where the mutual fund industry is still in a fledgling state, then its mutual fund market could add capital inflows of around IDR1,120 trillion (USD79 billion) – a conservative estimate based on the 2018 GDP of Indonesia. See Fig. 2.

More positively, if Indonesia can catch up with Thailand, where mutual fund investing is more popular, then Indonesia’s mutual fund industry could grow even further to around IDR4,600 trillion (USD323 billion).

If this occurs, the additional inflows would provide ample liquidity to Indonesia’s capital markets. The question is, however, how should Indonesians invest their savings?

Currently, institutional investors and high-net-worth individuals constitute most of the investors in the Indonesia’s mutual fund industry. This is largely because bank distribution is the primary channel for mutual fund distribution, followed by retail sales and insurance agents.

High minimum investments and administrative fees, complicated procedures as well as a lack of bank/insurance networks outside Jakarta, have made mutual fund investing being inaccessible to less-affluent individuals, as well as those in remote areas.

Fintech, however, could change that and move beyond the status quo.

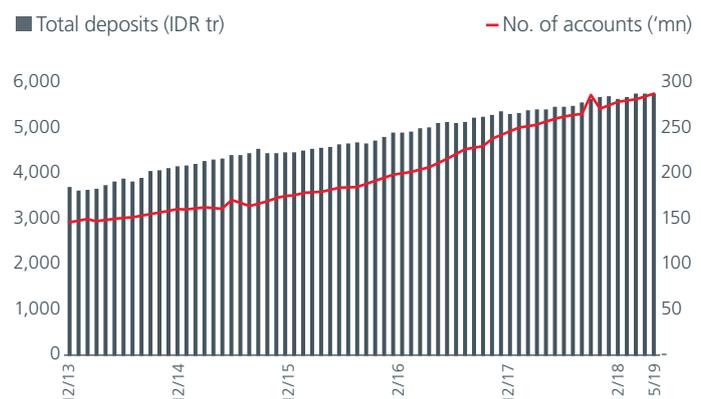
UNDER-INVESTED AND UNDER-SERVED

According to the Indonesia Millennial Report 2019, Indonesia currently has 63.4 million millennials⁶. At the same time, Indonesia’s banking system has about IDR5,758 trillion in deposits and 288 million accounts (see Fig. 3). Approximately 98% of the savings, however, are from accounts with a balance of less than IDR100 million (USD7,021).

Fig. 2. Indonesia’s mutual fund market growth potential⁴

Scenarios	No Growth	Conservative	Optimistic
Mutual Fund Market AUM (IDR)	510 trillion ⁵	1,630 trillion	4,600 trillion
Penetration (AUM/GDP) assumption	4%	11%	31%
Benchmark market for penetration	Indonesia	China	Thailand

Fig. 3. Rising bank deposits and number of accounts in Indonesian banks⁷



With Indonesian equities (Jakarta Stock Price Index) and bonds (S&P Indonesia Bond Index) yielding 12.75% and 9.04% per annum over the last 10 years⁸, we believe that investing potentially offers a more attractive alternative over cash deposits that yield about 4.5%⁹.

With increasing internet use, notably amongst millennials, online distribution is fast becoming a low-cost platform for people with less disposable income to experience investing for themselves.

The popularity of online financial services can be seen in the rising number of both internet and mobile transactions. Bank Central Asia (BCA), which is the largest bank in Southeast Asia, registered 890 million mobile banking transactions in Q2 2019, up 264% from Q1 2017; for the same period, branch transactions decreased 14% to 36 million. More than 70% of bank transactions now take place online. See Fig. 4.

DIGITAL INVESTMENT PLATFORMS

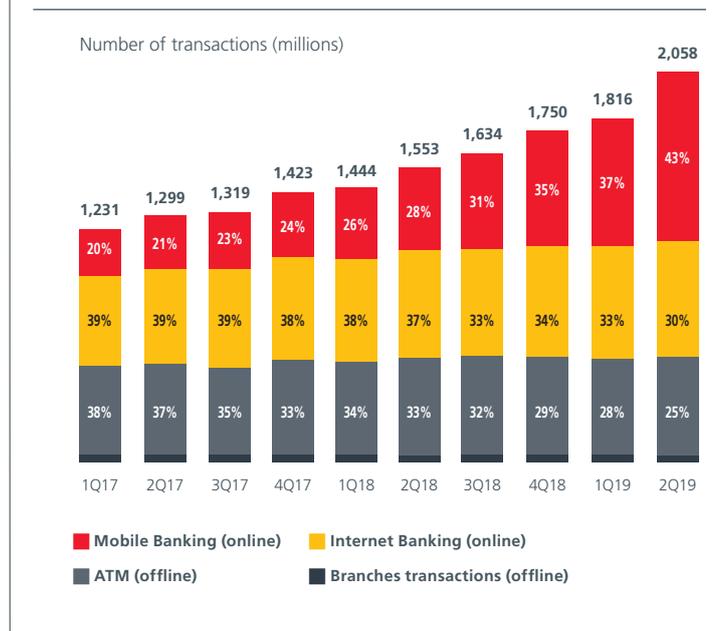
Because of the nation’s archeologic challenges, Indonesia’s bank account ownership is only 49%, far below the South Asian average of 70%¹¹. As mobile banking continues to grow, inhabitants who used to be excluded by traditional ‘brick-and-mortar’ banks will now be more connected than ever before. If Indonesia can draw level with its South Asian peers, then the number of bank accounts could potentially increase from 288 million to 411 million, creating a huge customer base that asset managers cannot afford to ignore.

One success story for Indonesia to look to is China’s e-commerce giant Alibaba Group. Already 588 million users¹² of Alibaba’s mobile-phone-payment network have parked their ‘leftover’ money in Tianhong Yu’e Bao for higher interest.

With all small amounts amassed digitally in China, Yu’e Bao has become the world’s largest money-market fund in just four years, with an AUM of USD146.24 billion as at June 2019¹³.

In Indonesia, with digital money in e-wallets currently offering a 0% yield, online mutual fund sales through mobile apps is an attractive solution lowering the bar of entry for millennials, who are more digital native, to optimise their ‘leftover’ money.

Fig. 4. Total number of on/offline transactions in Bank Central Asia (BCA)¹⁰



So far, Bareksa Portal Investasi, offers the easiest way for Indonesians to buy small amounts of mutual funds, and without any paperwork. In a move to reinforce its online business model, Bareksa began partnering with e-commerce giants Bukalapak in 2017, and Tokopedia in 2018. This partnership, similar to the one with Alibaba, allows online shoppers to invest in a mutual fund with just IDR10,000 (USD 0.70)¹⁴ through just a few clicks on a smartphone. At present, Bareksa has about 600,000 investors, most of them are millennials from diversified regions¹⁵.

Thanks to such digital investment platforms, Indonesians millennials who have never had a financial adviser, could build a diversified, institutional-level portfolio.

INFRASTRUCTURE IS A CHALLENGE

Although the outlook appears promising, Indonesia's digital infrastructure presents a key challenge. The availability of reliable, fast, and affordable digital connectivity holds the key to e-commerce and online distribution. Yet, internet penetration rates remain low in Indonesia, and even lower in Sumatra, Kalimantan, Sulawesi and Bali (see Fig. 5).

The good news is that Indonesia is now beginning to see an accelerating migration towards high-speed mobile services. The coverage of 4G LTE broadband has reached 90% of all Indonesian citizens since the network was launched in 2015. It is also expected to cover all Indonesian regions by the end of 2019, thanks to the more affordable investment and easier installation¹⁷.

BREAKING THE MOULD

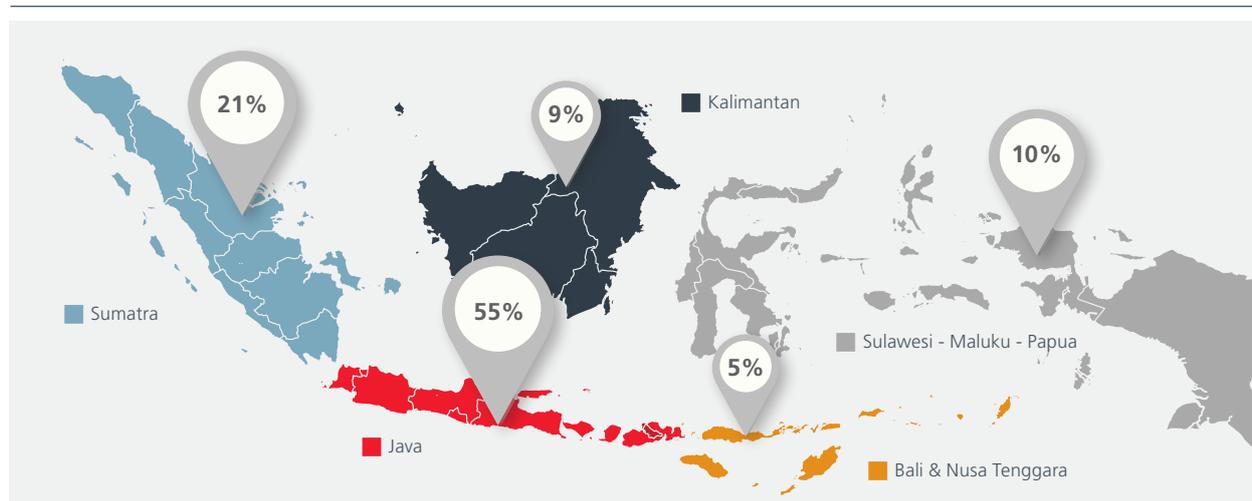
Fintech could be a means of deepening financial inclusion and reaching Indonesia's millennials and less affluent groups, giving them an opportunity to invest and tap into the country's long-term growth.

At the same time, investors will also have new factors to take into consideration when assessing the potential of banks and other financial platforms.

Whilst banks are still the most effective channel to distribute mutual funds, digital financial services offer a different way to reach clients. With the traditional approach reaching its limit, there needs to be new, bold and creative ways to raise awareness of digital financial services.

Looking ahead, financial services and technology companies that embrace the digital transformation and capitalise on the rise of millennials will likely benefit from the nascent and open mutual fund industry.

Fig. 5. Distribution of internet users across Indonesia¹⁶



Sources: ¹CLSA Research, 23 August 2019 and Worldometers: Indonesia Population (LIVE), 27 August 2019. ²CLSA Research, 23 August 2019, based on data (2015-2016) from World Bank, and Oliver Wyman. ³The World Bank: Indonesia Maintains Steady Economic Growth in 2019, 1 July 2019. ⁴Eastspring Indonesia, based on Indonesia's 2018 GDP (current LCU) IDR 14,837 trillion, GDP (current US\$) USD1.042 trillion ⁵The Financial Services Authority (OJK), data as at 30 June 2019. ⁶IDN Research Institute, 20 January 2019. ⁷Indonesia Deposit Insurance Corporation (IDIC) LPS: Deposit statistics of commercial banks for May 2019 period. ⁸Bloomberg, as at 23 August 2019. The Jakarta Stock Price Index is a modified capitalization-weighted index of all stocks listed on the regular board of the Indonesia Stock Exchange. The index was developed with a base index value of 100 as of August 10, 1982. The S&P Indonesia Bond Index is designed to track the performance of local-currency denominated government and corporate bonds from Indonesia. ⁹HSBC Indonesia Time Deposit, 26 August 2019. ¹⁰Bank Central Asia, as at 30 June 2019 ¹¹World Bank: Global Financial Inclusion (Global Findex) Database, last updated 19 April 2018. ¹²The Wall Street Journal: More Than a Third of China Is Now Invested in One Giant Mutual Fund, 27 March 2019. ¹³Tianhong Asset Management, quarterly report, assets under management as at 30 June 2019. ¹⁴Digital News Asia: Fund Invested Via Bareksa Hit USD72 Mil, 26 April 2018. ¹⁵CLSA Research, citing data from Bareksa, as at 31 July 2019. ¹⁶Indonesia Internet Service Provider Association (APJII), National Survey of Penetration of Internet Users 2018, released in March 2019. Page 5. ¹⁷KOMINFO: 2019 Seluruh Wilayah Indonesia Terlayani 4G LTE, 25 February 2019.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore and Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (531241-U).

This document is produced by Eastspring Investments (Singapore) Limited and issued in **Thailand** by TMB Asset Management Co., Ltd. Investment contains certain risks; investors are advised to carefully study the related information before investing. The past performance of any the fund is not indicative of future performance.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 10 Lower Thames Street, London EC3R 6AF.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as **Eastspring Investments**.

The views and opinions contained herein are those of the author on this page, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this posting is at the sole discretion of the reader. Please consult your own professional adviser before investing.

Investment involves risk. Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.



A member of Prudential plc (UK) 