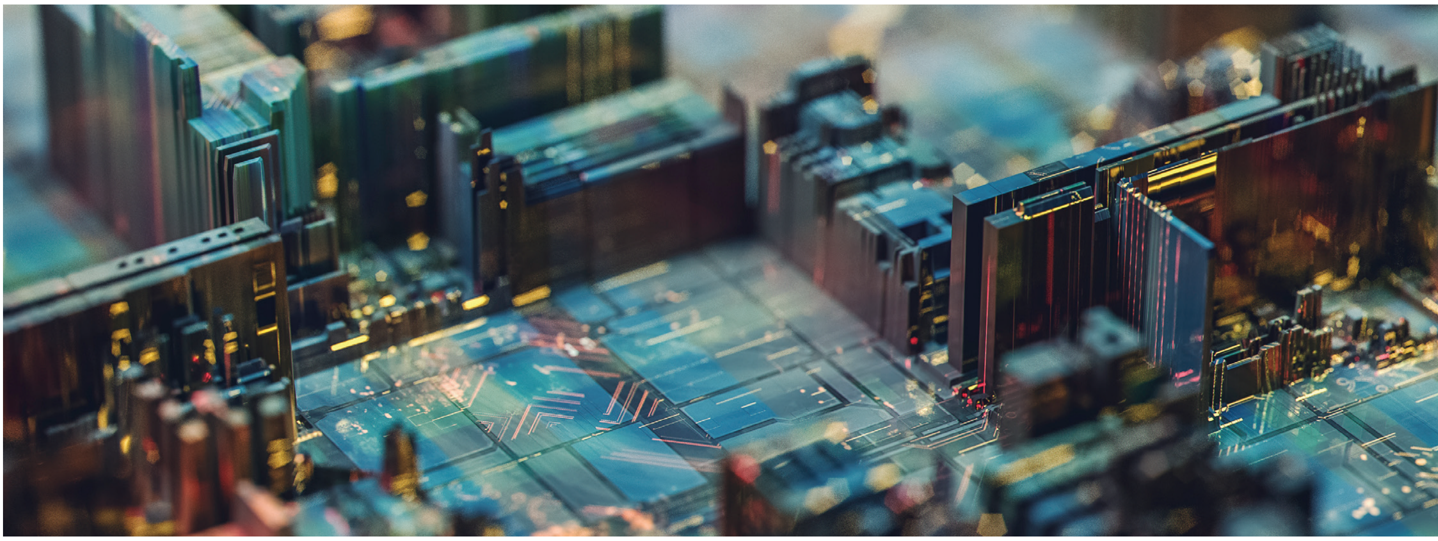

Fintech Indonesia: Making investing more accessible

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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.

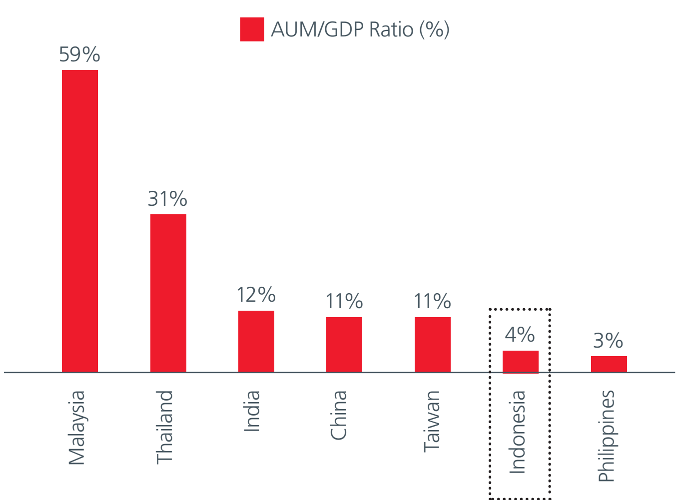
In 2016, there were only 340,869 mutual fund investors in Indonesia. That number has significantly increased to 1.40 million in 2019, with new investors being millennials and people using digital investment platforms.

This figure, however, still only represents 0.52% of the 271 million population[1]. 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 policies[3].

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.

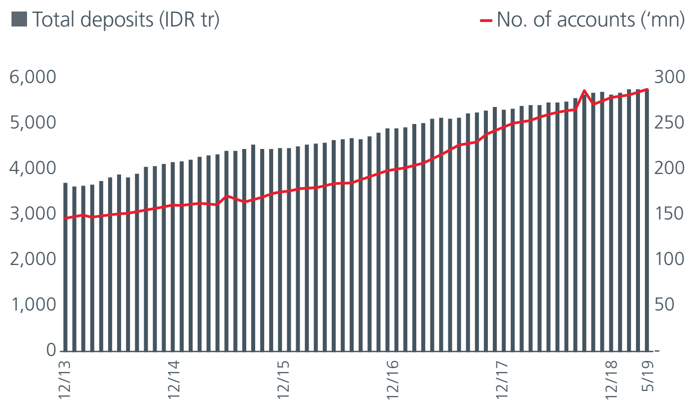
High minimum investments and administrative fees, complicated procedures as well as a lack of bank/insurance networks outside Jakarta, have made mutual fund investing being inaccessible to less-affluent individuals, as well as those in remote areas.

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

Fig. 2. Indonesia's mutual fund market growth potential[4]

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 banks[7]



UNDER-INVESTED AND UNDER-SERVED

According to the Indonesia Millennial Report 2019, Indonesia currently has 63.4 million millennials[6]. 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).

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 years[8], 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

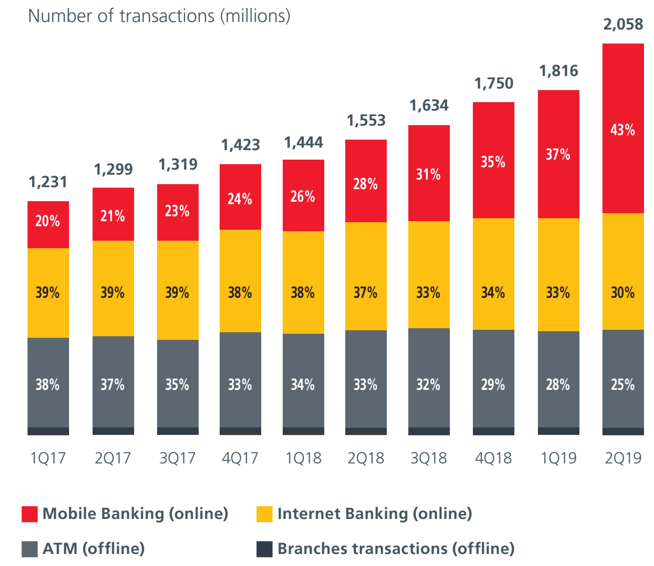
Because of the nation's archeologic challenges, Indonesia's bank account ownership is only 49%, far below the South Asian average of 70%[11]. As mobile banking continues to grow, inhabitants who used to be excluded by traditional 'brick-and-mortar' banks will now be more connected than ever before. If 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 users[12] 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 2019[13].

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 regions[15].

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

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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 installation[17].

BREAKING THE MOULD

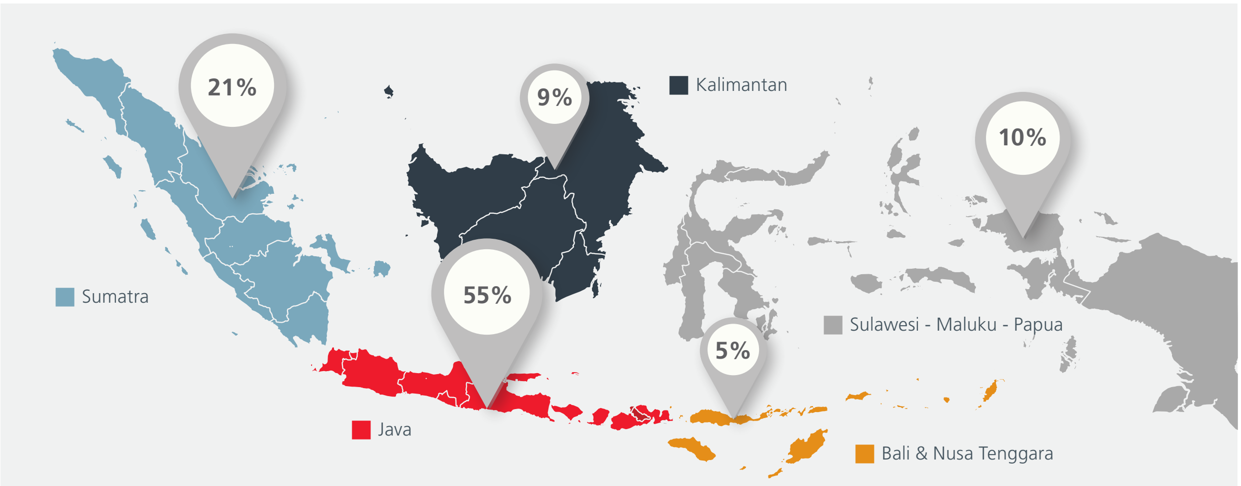
Fintech could be a means of deepening financial inclusion and reaching Indonesia's millennials and less affluent groups, giving them an opportunity to invest and tap into the country's long-term growth.

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 Indonesia[16]



Sources: [1] CLSA Research, 23 August 2019 and Worldometers: Indonesia Population (LIVE), 27 August 2019. [2]CLSA Research, 23 August 2019, based on data (2015-2016) from World Bank, and Oliver Wyman. [3]The World Bank: Indonesia Maintains Steady Economic Growth in 2019, 1 July 2019. [4]Eastspring Indonesia, based on Indonesia's 2018 GDP (current LCU) IDR 14,837 trillion, GDP (current US$) USD1.042 trillion [5]The Financial Services Authority (OJK), data as at 30 June 2019. [6]IDN Research Institute, 20 January 2019. [7]Indonesia Deposit Insurance Corporation (IDIC) LPS: Deposit statistics of commercial banks for May 2019 period. [8]Bloomberg, 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. [9]HSBC Indonesia Time Deposit, 26 August 2019. [10]Bank Central Asia, as at 30 June 2019 [11]World Bank: Global Financial Inclusion (Global Findex) Database, last updated 19 April 2018. [12]The Wall Street Journal: More Than a Third of China Is Now Invested in One Giant Mutual Fund, 27 March 2019.[13]Tianhong Asset Management, quarterly report, assets under management as at 30 June 2019. [14]Digital News Asia: Fund Invested Via Bareksa Hit USD72 Mil, 26 April 2018. [15]CLSA Research, citing data from Bareksa, as at 31 July 2019. [16]Indonesia Internet Service Provider Association (APJII), National Survey of Penetration of Internet Users 2018, released in March 2019. Page 5. [17]KOMINFO: 2019 Seluruh Wilayah Indonesia Terlayani 4G LTE, 25 February 2019.

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