Katalis Market Insight

IA-CEPA ECP KATALIS
Indonesia-Australia Growing Together

Let’s Meet in the Middle: Forging Connections Between Indonesian and Australian Fintech

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Acknowledgment

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IA-CEPA ECP Katalis (Katalis) is a unique, five-year (2020-25) government-backed business development program unlocking the vast potential of economic partnership between Australia and Indonesia.

Introduction

Until a few years ago, Indonesia was listed among cash-based holiday destinations where paper money was the preferred form of payment.

Take a look around Jakarta now and you'll see a city leading the pack in the transformation towards a cashless society.

An increasing number of vendors, from restaurants and cafes to street food stalls, openly display 'cashless payments only' signs. Even fresh vegetables, fish and meat vendors in wet markets use Quick Response Code Indonesian Standard (QRIS) for their transactions. Street buskers perform with QRIS codes nearby for easy donations, while rides on the city's Commuter Line and buses are cashless.

As digital payments become the norm, fintech[1] has revolutionised life and work for Indonesian society. New e-commerce and payment apps provide greater and easier access to goods and services, more opportunities for entrepreneurship and ultimately, improved financial inclusion.

Within Southeast Asia, Indonesia consistently ranks highest alongside Singapore as the key driver of fintech growth in the region, attracting the largest pool of fundraising. Indonesia's fintech landscape matters not only because of the size of its nearly 300 million citizens, but also because it offers huge potential for foreign investors.

This Market Insight digs deep into the nuances of Indonesia's booming fintech industry and how it can forge a connection with its neighbour Australia, where the fintech ecosystem is mature and strongly linked to all major global fintech markets. It gives a unique perspective on potential opportunities and challenges, important considerations for Australian and Indonesian fintechs seeking to enter each other's markets, and the scale of potential opportunities.

"I almost never use cash anymore. It started during the COVID-19 pandemic, where all the purchases and transactions I made had to be online, but the habit catches on. Buying groceries, shopping, paying for my gym membership, ordering taxi rides, even buying coffee. My phone and e-wallet allow them all. I just need to worry about keeping my phone safe!"
– Fara, 28, graphic designer, Jakarta

"One of the best things about this digital disruption in finance, for me personally, is how it allows anyone to invest. I'm into those robo-adviser investments, which is really helpful for beginners like me, having direct access to financial advice and investment management. It also sends me monthly reminders, keeping me from spending all my salary on other things."
– Laura, 45, accountant, Medan

"Sure, digital wallets make it easy and effortless to arrange purchases of goods and services, but at the same time I also think it opens the door to overspending. It's almost too easy to spend money."
– Rini, 39, housewife, Tangerang Selatan

"I first started using digibanking around ten years ago, when you still had to use a pin generator. There's this tool that you need to have to be able to make transactions. The technology has changed so fast within the past few years that those days seem obsolete Transactions happen within no more than three to four finger taps. It's growing more convenient with much wider uptake."
– Devan, 45, business owner, Surabaya

1 Fintech, short for financial technology, is the application of technology to improve and automate financial services.

Sweeping changes in Indonesian fintech

Traditional channels for obtaining financial services in Indonesia have not significantly addressed financial inclusion. This has been due to a fragmented financial sector, geographic and cultural diversity, and low levels of financial adoption.[2,3] Introducing new or innovative fintech has been seen as taking too big a leap, particularly where engagement with fintech requires the unbanked to first open a bank account. Historically, this has been difficult due to social norms around cash, low levels of financial literacy, a lack of banking infrastructure and the high level of administration often involved.[4]

However, this perception is often based on the experience of developed economies and a linear view of financial sector development. While it may seem intuitive that certain financial infrastructure needs to be in place before people successfully adopt newer, more innovative financial technologies, successful and entrepreneurial Indonesian fintechs have realised that the reverse can be true: innovative fintech products and services have the potential to engage the unbanked in Indonesia, and act as a gateway to financial inclusion and banking like no financial services have before.

Innovative fintech products and services can engage the unbanked and act as a gateway to financial inclusion and banking.

GoTo's GoPay is an example of a business doing exactly that. GoPay is one of Indonesia's most popular payment systems, with tens of millions of active users. In Australia, using an e-wallet typically requires the user to link a compatible debit card, credit card or bank account. With millions of Indonesians unbanked – in that they don't hold an account with a financial institution – GoPay allows users a variety of methods to top up their GoPay wallet, including by paying cash directly to Gojek drivers, at local Minimart stores and Pegadaian (government-owned pawnshops) or via requests to family or friends, among other ways.

GoTo is only one example of Indonesia's growing fintech ecosystem. Examples of other key Indonesian fintech players include unicorns (private start-ups that have been valued at more than USD 1 billion) such as:

- **OVO**: a digital payment (e-wallet) provider established in 2017, that by 2019 become Indonesia's first fintech unicorn. In 2021, OVO teamed up with mutual fund platform Bareska to launch a digital investment product.
- **Xendit**: a business-to-business (B2B) digital payment provider founded in 2015 that reached unicorn status in 2021, and will have expanded into the Philippines, Malaysia, Thailand and Vietnam by the end of 2023.
- **Ajaib**: a digital investment platform for stock and ETF trading and mutual fund investing established in 2019, that is now one of the fastest growing investment platforms in Indonesia and reached unicorn status in 2021. It is also increasing financial inclusion through educational resources such as articles, videos and webinars.
- **Akulaku**: a buy-now-pay-later platform that provides consumer credit, digital banking, wealth management and insurance brokerage services. Founded in 2016, it reached unicorn status in 2022 and has operations in Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
- **Kitabisa**: social crowdfunding platform established in 2013 that facilitates thousands of fundraising for health and social services every day.

2 Muthukannan, P. Tan, B. Chian Tan, F. T. and Leong, C. (2021), 'Novel mechanisms of scalability of financial services in an emerging market context: Insights from Indonesian Fintech Ecosystem', International Journal of Information Management, 61.

3 Deloitte and Fintech Indonesia (2018), 'Bolstering financial inclusion in Indonesia How QR Codes can drive digital payments and enable financial inclusion', accessible at: https://www2.deloitte.com/content/dam/Deloitte/id/Documents/financial-services/id-fsi-financial-inclusion.pdf.

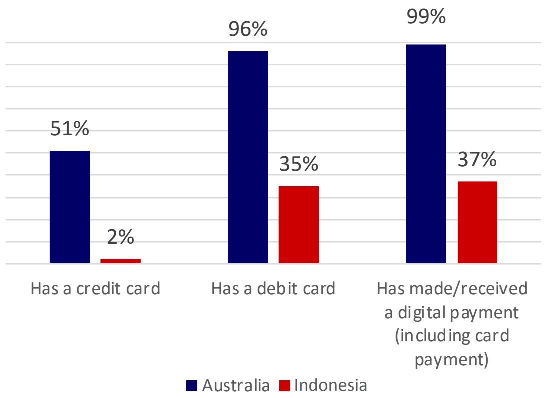
4 Ciptarianto, A. and Anggoro, Y. (2022), 'E-wallet penetration for financial inclusion in Indonesia', International Journal of Current Science Research and Review, 5(2), 319-332.

- **Amartha**: a fintech microfinance marketplace in Indonesia that has been officially licensed and supervised by Otoritas Jasa Keuangan, Indonesia's Financial Services Authority (OJK). Established in 2010, Amartha provides financial inclusion services or lending and borrowing business capital for Micro, Small and Medium Enterprises (MSMEs) in rural areas and has a mission to provide economic acceleration to micro-business actors so that they can increase economic inclusion in Indonesia especially for female MSMEs.

The structural shift towards digital finance in Indonesia is already underway.

In Australia, 99% of people have a bank account with a financial institution, and card payments (credit or debit cards) dominate 76% of all non-cash transactions (Figure 1).[5] Fintech products, such as e-wallets, are commonly facilitated by linked credit and debit cards. By contrast, almost half of Indonesians don't have a bank account with a financial institution and only 35% and 2% of Indonesians over 15 years of age own a debit card or credit card respectively.[6] Indonesians are already more likely to use e-wallets than debit or credit cards across all age groups, and many of these users are unbanked.[7] A survey of 1,035 e-wallet customers in Indonesia in 2021 found that the payment option being displaced most by e wallets is cash.[8] Between 2021 and 2022, the value of purchases using electronic money increased 33.4% to USD27.63 billion and is expected to come close to USD34 billion in 2023.[9]

Figure 1: Financial inclusion in Australia and Indonesia, percentage of population



Source: World Bank (2023)

Although there are still challenges to be overcome by e-wallet providers, such as culture and language barriers, and lower internet penetration and reliability in some regions, the uptake of e-wallets shows Indonesia is in many respects as a "digital first" economy and can accelerate the development of its financial services market via digital channels.

Box 1. Indonesia leads the way in ASEAN's digital transformation: A QR code revolution

Debit and credit card transactions have not had the same uptake in Indonesia as in Australia, largely due to the set-up costs for Electronic Data Capture Point of Sale (EDC POS) devices (such as card readers)

5 Reserve Bank of Australia (2023), 'Consumer payment behaviour in Australia', accessible at: https://www.rba.gov.au/publications/bulletin/2023/jun/consumer-payment-behaviour-in-australia.html

6 World Bank (2021), Global Findex Database, accessible at: https://www.worldbank.org/en/publication/globalfindex/Data

7 UOB (2021), 'Fintech in ASEAN 2021: Digital takes flight', accessible at: https://www.uobgroup.com/techecosystem/news-insights-fintech-in-asean-2021.html

8 Ciptarianto, A. and Anggoro, Y. (2022)

9 Indonesian Investments (2023), Booming digital economy of Indonesia: Indonesians increasingly prefer the use of digital payments, accessible at: https://www.indonesia-investments.com/finance/financial-columns/booming-digital-economy-of-indonesia-indonesians-increasingly-prefer-the-use-of-digital-payments/item9644

being prohibitively high for low profit margin, small businesses. As MSMEs make up over 99.9% of businesses in Indonesia,[10] this has meant consumers have been inadvertently required to pay cash (it has also contributed to the lack of visible financial history required to access credit).[11]

While the growth of digital and contactless payments in Australia has primarily been linked to credit and debit cards, Indonesia's digital revolution has developed around QR (Quick Response) code payment systems. QR code payments have become a primary method of digital and contactless payment in Indonesia because they offer a low-cost digital payment option for MSMEs. With QR codes, merchants only need to display a printed QR code at checkout, and consumers can then make payments with their smartphone camera and own app. This eliminates the need for physical cards or electronic data capture infrastructure, making it a more affordable option.

While QR codes initially benefited both Indonesian merchants and consumers, they also created challenges in terms of market fragmentation and competition among payment providers. Prior to 2020, payment providers used their own QR code standards, which made it difficult for merchants and consumers to know which QR code to use. Merchants also made deals with banks to only provide their QR code to customers, making it more expensive or difficult for customers from other banks to make digital payments. A lack of standardisation also increased vulnerability to fraud.

Recognising the challenge, in 2020, Bank Indonesia began requiring digital payments services to use standardised QR codes to ensure all banks and electronic wallets are interoperable. As a result, QR payments have tripled each year since, and in 2022 reached USD6.4 trillion (IDR 98.5 trillion) with 22.4 million registered merchants (substantially higher than other ASEAN countries, including triple the number of QR-adept merchants in Thailand[12]). Indonesia is expected to have 45 million registered merchants by the end of 2023.[13]

The success of Indonesia's QRIS has put the country in a position where it has been able to lead efforts to digitalise payments across the ASEAN region.

In 2021, Bank Indonesia and Bank of Thailand launched a cross-border QR payment linkage system that allows consumers and merchants to make instant cross-border payments. In November 2022, Indonesia, Malaysia, Singapore, the Philippines and Thailand signed an agreement to implement regional payment connectivity, with the adoption of QRIS by other countries. Under the agreement, ASEAN central banks have committed to using local currencies which are converted based on the prevailing exchange rate in each country.[14] The use of QRIS for cross-border payments in ASEAN means:

- more streamlined trade and travel, leading to a greater consumer base and increased economic activity
- accelerated digital transformation of regional economies
- greater interoperability and standardization across the region's payment systems
- improved security and fraud protection due to the strict security standards of QRIS
- reduced transaction costs, including lower fees and associated costs
- more stability, as countries are no longer dependent on the United States dollar

10 Findexable (2021) 'Asia Pacific Fintech Rankings: Bridging Divides 2022' accessible at: https://findexable.com/wp-content/uploads/2021/12/APAC_Report_final_30Nov21.pdf

11 Deloitte and Fintech Indonesia (2018)

12 Jakarta Post (2023), 'Indonesia spearheads efforts to digitalize payments, local currency adoption across ASEAN' accessible at: https://www.thejakartapost.com/adv/2023/05/15/indonesia-spearheads-efforts-to-digitalize-payments-local-currency-adoption-across-asean.html

13 US International Trade Administration (2023) 'Indonesia digital payment', accessible at: https://www.trade.gov/market-intelligence/indonesia-digital-payment.

14 ASEAN Indonesia 2023 (2023), 'QRIS Simplifies Payments in ASEAN Countries', accessible at: QRIS Simplifies Payments in ASEAN Countries- ASEAN Indonesia 2023 (asean2023.id)

Australian fintech on the rise

Australia's thriving fintech industry is driven by strengths like a highly developed financial services sector, a tech savvy population, high levels of consumer uptake of digital services, a strong track record on tech innovation and a highly skilled workforce.

Cards have long been Australia's most popular form of payments and accessing credit – with over 96% of Australians over the age of 15 owning a debit card (97% of females and 95% of males)[15] and 51% owning a credit card (54% of females and 48% of males).[16] Card payments dominate consumer transactions, with 76% of all non-cash transactions being via a credit card (26%) or debit card (51%).[17] This has led to Australians becoming some of the world's fastest adopters of cashless payments. The average number of cashless payments per person in Australia is higher than countries such as the United States, the United Kingdom, France or Germany. It is estimated that in 2022 over 98.9% of all bank transactions in Australia were conducted digitally via online or apps, an increase of 26% between 2019-20 and 2021-22.[18]

Digital payments that have traditionally been via electronic funds transfer at point of sale (EFTPOS) facilitated by credit and debit cards are increasingly becoming more diverse, with the introduction of digital wallets, buy now pay later, and other payment technology. Mobile wallet use has increased over 120 times in four years, from USD480 million (AUD746 million) in transactions in 2018 to more than USD60 billion (AUD93 billion) in 2022. The number of cards registered to mobile wallets has also increased almost seven-fold from just over two million to 15.3 million.[19] The share of debit and credit card transactions made via mobile wallets in Australia was 25% in 2022, up from 10% in 2020.[20] Mobile commerce now accounts for 60% of all e-commerce transactions in Australia (compared with 44% in Germany, 40% in the United Kingdom and 39% in the United States).

Australia is also one of the biggest global adopters of cryptocurrencies on a per capita basis, with one in four Australians either currently or previously holding cryptocurrencies.[21] Alternative payment options such as buy now pay later are also growing rapidly, with the number of accounts growing more than 40% per year[22] and accounting for around 2% of all card purchases.[23]

15 World Bank (2021)

16 World Bank (2021)

17 Reserve Bank of Australia (2023)

18 Australian Banking Association (2023), 'Bank on it: Customer trends 2023', accessible at: https://www.ausbanking.org.au/wp-content/uploads/2023/06/Bank-On-It-%E2%80%93-Customer-Trends-2023-1.pdf

19 Australian Banking Association (2023)

20 Reserve Bank of Australia (2023)

21 Commonwealth of Australia (2021), 'Select Committee on Australia as a Technology and Financial Centre: Final Report', accessible at: https://parlinfo.aph.gov.au/parlInfo/download/committees/reportsen/024747/toc_pdf/Finalreport.pdf;fileType=application%2Fpdf

22 McKinsey and Company (2022), 'A different kind of credit-card decline', accessible at: https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/chart-of-the-day/a-different-kind-of-credit-card-decline

23 Reserve Bank of Australia (2023)

This landscape means Australian fintechs focus primarily on business opportunities such as improving user experience compared to existing products (e.g. neobanks[24] like Judo) or innovative financial products (e.g. Afterpay, a large buy-now-pay-later service), rather than solving basic infrastructure and logistical challenges like enabling e-commerce or providing access to payment systems and financial services. These tend to be more popular in countries with large unbanked populations such as Indonesia.[25]

Box 2. Fintech for Australian SMEs

Melbourne-based Judo Bank has been dubbed “Australia’s only challenger bank purpose-built for small and medium businesses”. Founded by banking veterans Joseph Healy and Peter Hodgson, the bank offers personalised access to relationships, funding and financial services advice for SMEs, with business lending solutions starting at AUD 250,000. Since its inception in 2016, Judo Bank has grown its lending book to more than USD 9 billion with more than 35,000 customers.[26]

Judo Bank is unique in that it doesn’t have any physical branches. All transactions are online. Applications require applicants to submit information online, including identity verification, nominated bank account details, Australian Tax File Number or exemption code, as well as Australian mobile phone number and email address.

A partnership with digital banking software provider Backbase in September 2023 has seen Judo Bank create new digital experiences for SME business banking and term deposit customers, with additional features released every month.

As a consequence, the most obvious export markets for Australian fintech companies tend to be markets with structural similarities. For Australian fintechs planning overseas expansion, a recent survey found that the top target markets are the United States (47% of respondents), New Zealand (46%), United Kingdom (46%), Singapore (43%) and Canada (32%).[27] Despite the huge opportunity, Indonesia is not typically top of mind for expansion by Australian fintechs.

Indonesia remains an overlooked gem for Australian fintechs seeking global expansion.

24 Neobank is a type of direct bank that operates exclusively using online banking.

25 Findexable (2021)

26 FST Media (2023), ‘Judo taps Backbase to enhance digital CX’, accessible at: https://fst.net.au/financial-services-news/judo-taps-backbase-to-enhance-digital-cx/

27 EY Australia and FinTech Australia (2022)

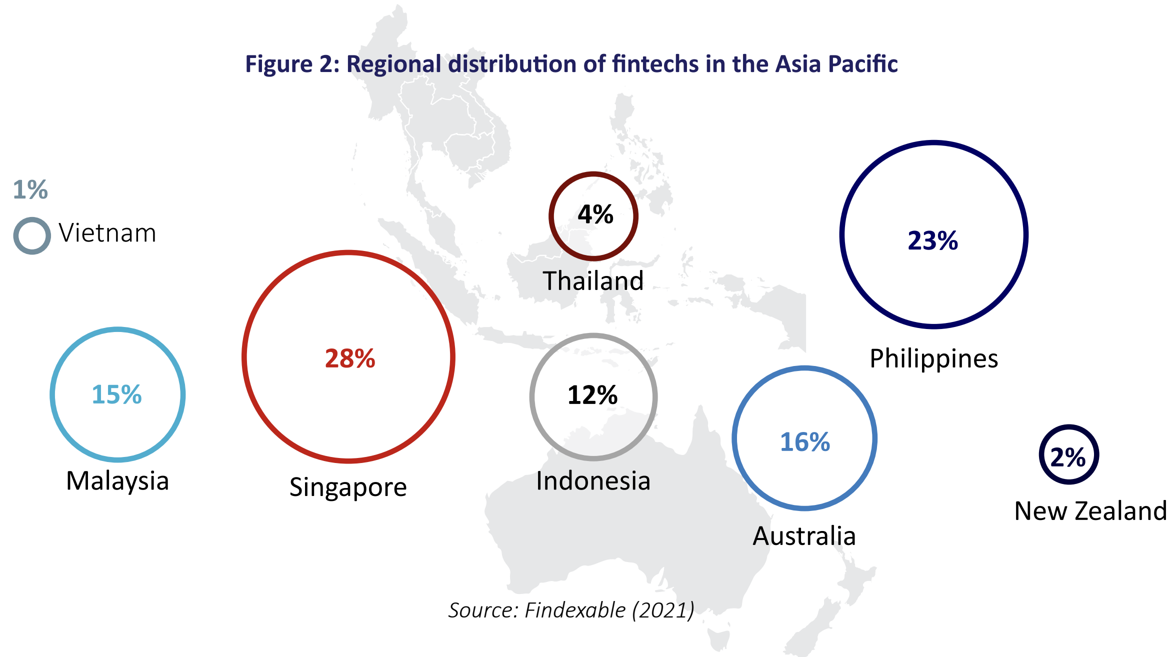
Forging connections between Indonesian and Australian fintech

Playing to each other's strengths

Australia and Indonesia have both emerged as key players in the rapidly evolving Asia Pacific fintech landscape. In 2021, Australia ranked 6th in the world in global fintech rankings (2nd in the Asia Pacific) and Indonesia was 43rd (9th in the Asia Pacific).[28]

Indonesia is also a leading fintech player in ASEAN, where the share of global fintech funding is increasing.[29] Despite having a smaller proportion of fintechs than Malaysia (12% of the Asia Pacific region compared with 15%; see Figure 2), Indonesia ranks higher in fintech ratings than other ASEAN nations, except for Singapore (ranked 4th globally). By contrast, Malaysia ranks 46th, Thailand, 55th and Vietnam, 70th.

Figure 2: Regional distribution of fintechs in the Asia Pacific



Source: Findexable (2021)

Australia and Indonesia both have strong fintech sectors, but the foundations of their strengths differ. Key Australian fintech success stories include AirWallex which enables businesses to make fast and cost-effective global payments in multiple currencies and Afterpay. There are an estimated 775 active fintech companies in Australia,[30] with the largest number in B2B enterprise software (23.2%),[31] followed by digital payments (20.9%) and digital lending (13.3%) (Figure 3).[32]

28 Findexable (2021)

29 ASEANs share of fintech funding grew from 5% to 7% between 2021 and 2022.

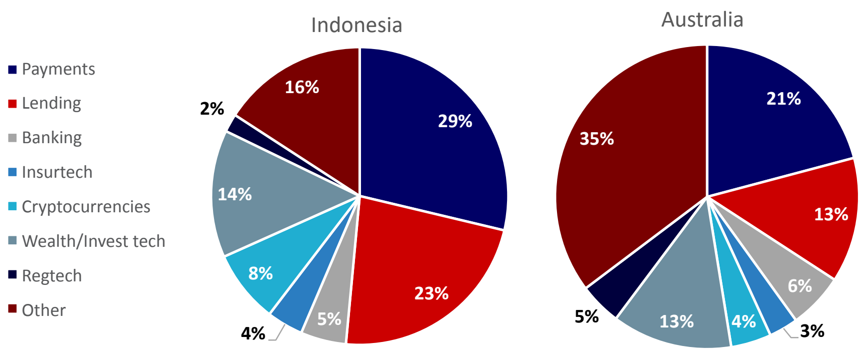
30 KPMG (2022) 'Australian Fintech Landscape 2022', accessible at: https://kpmg.com/au/en/home/insights/2022/10/australian-fintech-landscape.html

31 Enterprise software is B2B technology designed for fintechs or enterprises. As Indonesian data does not have a separate category for enterprise software it is incorporated into "Other" for consistency.

32 FinTech Australia (2012) 'The fintech ecosystem', accessible at: https://www.fintechaustralia.org.au/what-is-fintech

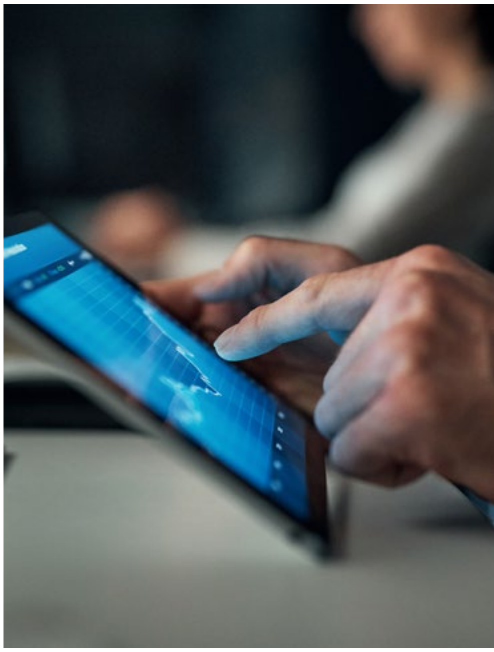
In Indonesia, the focus of fintechs is primarily on the technical aspects that enable digital payments, particularly for e-commerce. Jakarta is the top ranked city in the Asia Pacific in terms of e-commerce and ranked 13th globally, compared with Melbourne which is ranked 35th.[33,34] High profile examples of successful Indonesia fintechs include GoTo (formed from the merger of on-demand multi-service platform Gojek and e-marketplace Tokopedia), and Dana and OVO digital wallet and payments platforms. It is estimated that of the 785 fintech companies in Indonesia,[35] around 29% are payments companies, closely followed by digital lending (23%) (Figure 3).[36]

Figure 3: Distribution of fintechs by category, Australia and Indonesia



Source: Calculated from UOB, PWC, SFA (2021) and FinTech Australia (2013)

As a high growth sector, fintech has interest from venture capitalists



The Australian and Indonesian fintech industries have grown dramatically in recent years and continued growth is expected.

The Australian fintech sector is estimated to have grown from USD160 million (AUD250 million) in 2015 to USD2.6 billion (AUD4 billion) in 2021.[37,38] It is expected to continue to grow 28.3% annually, reaching USD9.7 billion by 2028.[39] In Indonesia, fintech services grew 32% from USD208 billion in 2019 to USD275 billion in 2022. The change was driven predominantly by a USD60 billion growth in payments with changing consumer preferences and increased demand for online shopping and e-services (such as ride shares).[40] As in Australia, strong growth is expected, with fintech anticipated to grow 64% to USD451 billion by 2025. This includes 17% annual growth in payments (from USD266 to 421 billion), 51% for digital lending and insurtech (from USD5 to 16 billion and USD400 million to 1 billion, respectively), and 74% for wealth/investment tech (from USD2 to 10 billion) (Figure 4).[41]

33 Findexable (2021)

34 StartupBlink (2021) 'Ecommerce & Retail technology rankings', accessible at: https://www.startupblink.com/blog/e-commerce-retail-technology-rankings/

35 UOB, PWC, SFA (2021). Though sources differ in their estimates. For example, BCG estimates that in 2022 there are currently 334 fintech players in Indonesia.

36 UOB, PWC, SFA (2021), 'Fintech in ASEAN 2021: Digital takes flight', accessible at: uobgroup.com/techecosystem/pdf/fintech-in-asean-2021.pdf

37 Australian Trade and Investment Commission (2022), accessible at: https://www.globalaustralia.gov.au/sites/default/files/2022-07/GB-Financial_Fintech-FactSheet_Jul1.pdf

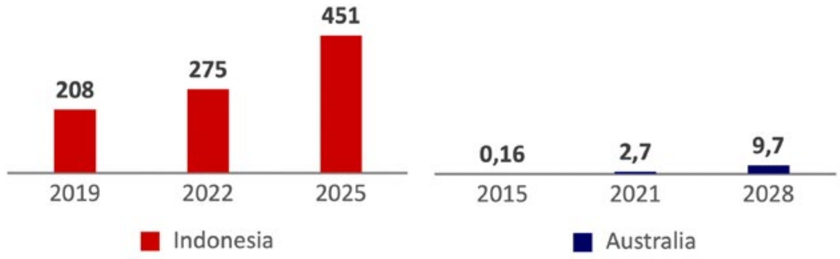
38 FinTech Australia (2023)

39 This estimate is based on a 2022 valuation of Australian fintech of USD2.1 billion, lower than other estimated 2021 figures of AUD4 billion (USD2.76 billion). Imarc (2022) 'Australia Fintech Market: Industry Trends, Share, Size, Growth, Opportunity and Forecast 2023-2028' accessible at: https://www.imarcgroup.com/australia-fintech-market

40 Google, Temasek and Bain and Company (2022), accessible at: https://www.bain.com/insights/e-conomy-sea-2022/

41 Google, Temasek and Bain and Company (2022)

Figure 4: Value of fintech services in Australia and Indonesia (billions/various years)

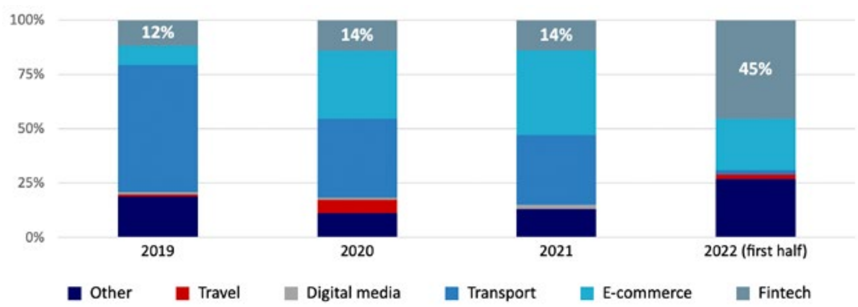


Sources: Australian Trade and Investment Commission (2022), Fintech Australia (2023), Imarc (2022), Google, Temasek and Bain and Company (2022).

The potential for high long-term growth in Australia and Indonesia has led to a surge of interest from venture capitalists over recent years, although growing concerns about a global economic slowdown and rising interest rates have seen interest decline from its 2021 peak. In Australia, fintech made up the highest funded sector of all start-ups, comprising USD810 million (AUD1.26 billion) of total start-up funding[42] in 2022 and 12% of all deals.[43] This funding was predominantly to male led start-ups, with female only led firms accounting for a mere 2% of all deals and mixed gender start-ups accounting a further 13%.

In Indonesia, investor funding in fintech was around USD900 million in 2021,[44,45] accounting for a quarter of all ASEAN investments.[46,47] Investment in fintech in Indonesia is expected to continue to increase, as a growing digitally savvy population and greater affluence make the country a top investment opportunity. As a result, fintech is expected to become the largest sector for tech funding, outperforming e-commerce and other digital services.[48] In 2021, e commerce contributed the highest proportion of private funding into Indonesian digital services in 2021 (39% compared to 14% for fintech services). By the first half of 2022, fintech contributed to 44% of total digital services (compared with 23% for e-commerce) (Figure 5).

Figure 5: Fintech's share of investor funding in digital services, Indonesia 2019-2022



Source: Google, Temasek and Bain and Company (2022)

42 Total funding for start ups across all sectors was AUD7.4 billion

43 Cut through venture and Folklore ventures (2022), 'The state of Australian start-up funding', accessible at: https://australianstartupfunding.com/wp-content/uploads/2023/02/State-of-Australian-Startup-Funding-2022.pdf

44 UOB, PWC and SFA (2022)

45 Google, Temasek and Bain and Company (2022) estimate the private funding value of digital financial services in Indonesia at a higher $1.26 billion.

46 Findexable (2021) and UOB, PWC, SFA (2021)

47 UOB, PWC, SFA (2021)

48 Google, Temasek and Bain and Company (2022)

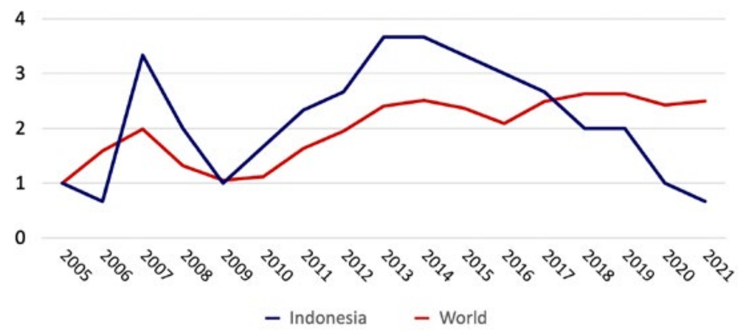
While there is no data on bilateral fintech investment, for financial and insurance services more broadly, in 2022 Australia received USD14 billion (AUD22 billion) in foreign direct investment (FDI) and invested USD10 billion (AUD15 billion) abroad,[49] USD60 million (AUD93 million) of which was invested in Indonesian Financial Intermediation services. This accounted for 17.7% of Australia's gross FDI investments in Indonesia in 2022 (the most invested sectors were Manufacturing 51% and Mining and Quarrying 25%) and 3% of total foreign investment in Financial Intermediation in Indonesia.[50]

There is room for growth in bilateral trade

The digital nature of fintech means that goods and services can be more easily delivered across international borders, bypassing many of the traditional barriers and costs of cross border trade. The 2022 census of Australian fintech found that of Australian fintech companies that generate overseas revenue, 40% earn more than half of their revenue from overseas sales.[51] However, Indonesia is not typically thought of as a fintech trading partner for Australia, with Australia more likely to trade with countries with similar culture and financial systems.

As reliable trade data is not collected at the fintech services level, this report used higher level statistics on Australia and Indonesia's trade in financial services, and insurance and pension services. Financial services are Australia's 21st largest export sector, accounting for 0.7% of all Australian exports.[52] In 2022, Australia was a net exporter of financial services, exporting USD2.6 billion and importing USD1.8 billion, respectively (Figure 6). In insurance and pension services it was a net importer, exporting USD784 million and importing USD1 billion in services.[53] Australia's largest export markets for financial services are the United States, the United Kingdom, the European Union and New Zealand. For insurance and pension services, over half of Australia's exports are to New Zealand, with other key markets including China and Malaysia.

Figure 6: Australian exports of financial services (2005=1, 2019-2022)



Source: UNCTAD (2023)

In 2021, Indonesia made up only a small component of Australia's export market, comprising 0.1% (USD 2.3 million) and 0.83% (USD 5.3 million) of Australia's exports of financial services and insurance and pension services, respectively (Figure 7). Australian exports of financial services to Indonesia have declined 78% since their peak in 2014.[54] This was likely due to a shift in strategy for the Australian financial services industry (more broadly than just fintech), as Australian exports of financial services grew globally over the same period, including

49 ABS (2022), International Investment Position, Australia: Supplementary Statistics, 2021/

50 Bank of Indonesia, CEIC (2023)

51 EY Australia and FinTech Australia (2022)

52 Australian Department of Foreign Affairs and Trade (2023), 'Australia's trade in goods and services 2021-22', accessible at: https://www.dfat.gov.au/trade/trade-and-investment-data-information-and-publications/trade-statistics/trade-in-goods-and-services/australias-trade-goods-and-services-2021-22

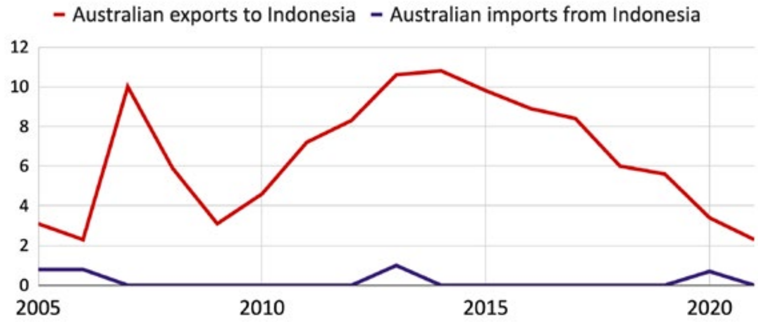
53 Trade Map (2023)

54 UNCTAD (2023)

to China, India, Hong Kong, Malaysia, and Singapore. Total assets in Australian-owned Joint Venture banks in Indonesia (including ANZ and Commonwealth Bank) also declined from their peaks in 2015. In 2016, ANZ sold most of its retail and wealth businesses in Asia to the Development Bank of Singapore.

Reflecting Indonesia's lower level of financial sector development, it is a net importer of both financial services and insurance and pensions services. In 2022, Indonesia exported USD874 million and imported USD2.2 billion in financial services and exported USD155 million and imported USD2 billion in insurance and pension services.[55] Australia imported USD2.3 million in insurance and pension services from Indonesia in 2021.[56]

Figure 7: Australia-Indonesia trade in financial services (USD millions, 2019-2022)



Source: UNCTAD (2023)

Eyes on the prize

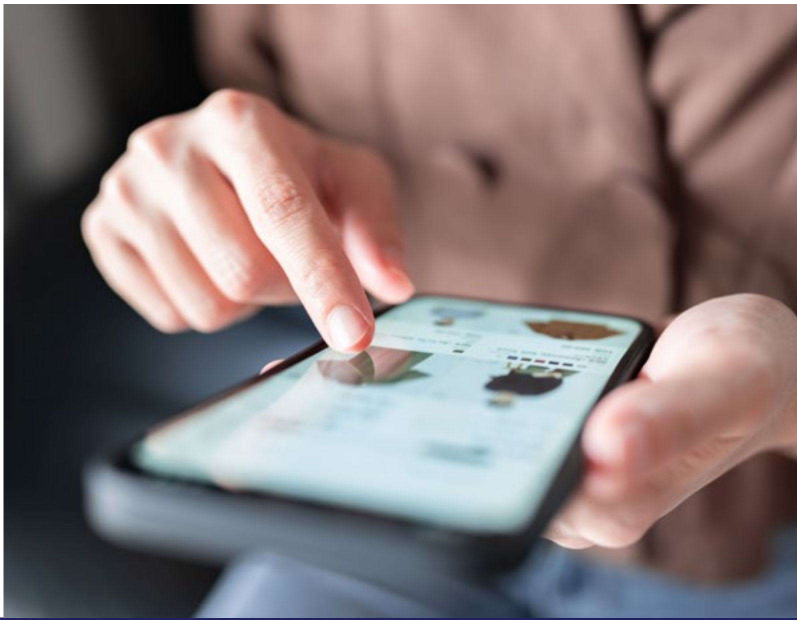
By focusing only on financial environments similar to Australia, Australian financial services providers are missing an emerging, growing opportunity to adapt and apply existing products and technology to the digital-first Indonesian fintech sector. Indonesia's large and growing consumer market of 275 million people, its growing middle class and the high proportion of mobile phone and internet users is a golden opportunity for both Australia's and Indonesia's fintech industries.

At the same time, there is great opportunity for Indonesian fintechs to partner with and harness Australian expertise to propel their growth.

The Australian fintech market is one of the most developed in the world, meaning one of the key benefits of expanding into the Australian market is tapping into Australia's deep well of fintech expertise. This includes skilled talent, innovative products and R&D. Indonesian fintechs can leverage this expertise to develop new products and services, or to improve their existing offerings.

However, the Australian market is also highly competitive, and Indonesian fintechs seeking to establish an Australian presence will need to carefully consider their niche and how they can differentiate themselves to be successful in the Australian context.

The following analysis explores opportunities for Australian fintechs to leverage Indonesia's growing



55 Trade Map (2023)

56 UNCTAD (2023)

consumer market. It also suggests ways for Indonesian fintechs to increase their chances of success in the Australian market, such as by:

- Identifying a niche where they can add expertise and/or where they can differentiate themselves.
- Partnering with local players, which can help Indonesian fintechs build credibility, leverage the reputation of their Australian partners, and overcome regulatory hurdles.
- Investing in customer service to respond to Australian consumer expectations of high levels of customer service.
- Tailoring their products and services to the Australian market, recognising that Australian consumers have different needs and preferences than Indonesian consumers.

Three areas of opportunity for Australian fintechs

Improving market efficiency

There are numerous examples of opportunities for Australian fintechs to improve access and efficiency in existing markets by identifying gaps and developing innovative new products to fill those gaps. For example, Katalis is currently supporting an Australian based fintech explore entry into the Indonesian financial services market for electric motorcycles. The company is considering making credit sales for electric motorcycles more flexible and lower the barrier to entry for middle-to-low-income customers through affordable payment plans.

Another example of an industry ripe for fintech investment is insurance. Insurance penetration in Indonesia is low in comparison to both Australia and other ASEAN countries. It is estimated that the market is currently only meeting 1% of the need for insurance services in Indonesia, creating a significant opportunity for Australia's highly developed insurtech* and regtech**

Digitalising traditional industries

There are many industries in Indonesia, including those dominated by small and medium businesses, that are lagging in the digital economy. For example, Katalis's *Creative and Cultural industries Market Insight* found opportunities for tech companies (including fintech) to support traditional handicraft MSMEs with tech solutions, including matching buyers and sellers, more effective payment solutions, access to finance and improved business data analytics.

New financial technologies do not always need to be disruptive; they can complement existing services by making them more efficient, provide additional services or allow them to scale up more easily. Gojek's success is a high-profile example of how a fintech company identified a need within a traditional industry, and met that need with an efficient solution, creating a formal market where a non-digital informal market had previously existed.

Supporting Micro, Small and Medium Enterprises

Indonesia is home to over 65 million MSMEs, which are estimated to account for more than 99.9% of all businesses, employ more than 90% of all workers, and contribute more than 50% of Indonesia's GDP. Despite being a huge contributor to Indonesia's economy, MSMEs are highly underfunded, comprising less than 20% of outstanding business loans in 2018 (Findexable, 2021).

Accessing loan finance is traditionally difficult for MSMEs due to issues such as low levels of financial literacy, a high requirement for collateral, complex application procedures, and geographic proximity to finance providers. As a result, a substantial number of P2P Peer lenders have emerged, including illegal online lenders. After working with Australia's Monash Business School to design new financial system rules, the Indonesian Government increased minimum capital and equity requirements for P2P companies to support the development of Indonesia's insurance sector and increase accessibility and efficiency (e.g. health, life, disability, crop and microcredit insurance).

Other opportunities include:
- platforms that allow the Indonesian Government to provide services more efficiently (e.g. improve the efficiency of payments, data analytics);
- big data analytics to improve decision making for various industries;
- cloud based services and distributed infrastructure to bring fintech services to the regions;
- task automation for MSMEs (e.g. processing payments, managing customer accounts); and
- Cybersecuriy.

There are numerous other opportunities for fintechs to digitalise Indonesian traditional industries, this may include:
- Agriculture (e.g. connecting buyers and sellers, microloans)
- Creative and cultural services (e.g. connecting buyers and sellers and streamlining business operations)
- Tourism (e.g. booking and payment systems, peer to peer accommodation, travel insurance)
- Warehousing and logistics (e.g. freight management, tracking and payment processing, insurance)
- Social sectors and healthcare (e.g. access to care and insurance)
- Education (e.g. student loans and payments).

lenders, including minimum paid-up capital of USD1.6 million (a significant increase from USD165,000) (Monash University, 2017).

Australian fintechs have a significant advantage in developing innovative products to overcome the challenges facing MSMEs due to their substantial experience and higher levels of capital. This includes:
- developing alternatives to standard collateral and reducing information asymmetry using big data;
- facilitating legitimate P2P lending;
- assisting MSMEs to improve their business finances to access credit; and
- offer services that make the provision of smaller loans more economically viable.

*Insurtech is technology used to disrupt and innovate the insurance industry, such as online insurance, streamlined claims processing, AI-powered underwriting, and virtual assistants.

**Regtech is technology that streamlines and enhances regulatory and compliance processes within the financial services industry, such as Know Your Customers solutions and reporting automation tools.

Three areas of opportunity for Indonesian fintechs

Fintech and gaming

Katalis's *Creative and Cultural Industries Market Insight* showed the strong potential for increased trade between Australia and Indonesia in the gaming sector. In 2021, the Australian digital gaming sector generated AUD226.5 million in revenue, while Indonesia's gaming market is the 16th

Skills development and TVET

Indonesia has one of the fastest growing digital services industries in the world (including fintech), but the current workforce lacks the skills to meet existing demand (Katalis, 2022).

By 2030, Indonesia will need over 17 million tech experts

RegTech & cybersecurity

In Australia, 8.1% of people experience card fraud, and 0.8% experience identify theft (Australian Bureau of Statistics, 2023). In Indonesia, a survey of 1,000 people found that 9.4% had their identity stolen and used to open a financial account. 29% of those surveyed have also reduced or largest in the world with an estimated value of USD1.92 billion.

Fintech is becoming increasingly important in the gaming industry as a means for players to make payments and receive rewards.

Indonesia is estimated to be Southeast Asia's largest gaming market, with mobile gaming valued at around USD200-400 million in 2020 (Codapay, 2023). Third party payments are a very significant component of the market.

Australia's highly developed fintech industries position it well to provide significant expertise to Indonesian fintech companies seeking to access this growing market. For example, Indonesian fintech giant GoPay initially collaborated with Australian fintech Codapay to allow Indonesian gamers to make payments within games and digital content using their GoPay balance, before developing its own gaming payment platform, GoGame.

Opportunities for areas of collaboration between Australian and Indonesian fintechs and the gaming industry include:

- Processing payments for in-game purchases (including for the unbanked and micropayments).
- Data analytics about gamers' spending habits and preferences.
- Gamified investing.
- Gaming as a service (e.g. subscription models to access gaming libraries).

to support the growth of the digital economy. Currently, only around 50% of Indonesia's workforce has basic to intermediate digital skills, while less than 1% have advanced digital skills. In the Indonesian fintech industry, common skills shortages relate to machine learning, artificial intelligence, cybersecurity, programming, as well as a range of soft skills (Katalis, 2022). Australia is also facing skills shortages, with around 85% of Australian fintechs finding attracting and retaining staff at least somewhat of a challenge. The biggest shortages are for software engineers, data scientists and sales and product managers (EY Australia and FinTech Australia, 2022).

The digital skills gap presents opportunity for Indonesian Fintechs to partner with Australia's TVET sector to train Indonesia's large and growing workforce. Indonesian fintechs could work with TVET providers to develop training programs that could be delivered online or in person, designed to meet their specific needs. Skills exchanges can also assist to develop cross-border skills.

stopped using a personal bank account and 34% have stopped using a credit card because of difficult or time-consuming identity checks (FICO, 2022).[2]

Countering these issues presents an opportunity for regtechs. Driven by Indonesia's unique challenges (such as high internet penetration but low digital literacy, fragmented regulatory landscape and lack of cybersecurity awareness), many Indonesian regtechs are already offering successful and innovative solutions to help businesses reduce fraud and comply with financial regulations.

One example of a successful business already doing this is Privy, an Indonesian company established in 2016 that provides digital identity verification, personal data protection and enterprise document handling solutions, to minimise the risk of fraud. While Indonesia remains Privy's core market, it has recently opened an office in Sydney and offering its services to Australian firms and individuals.

Australia's highly regulated financial sector means there is strong demand for regtech products and services (including from Indonesia). Examples include:

- regtech for fraud detection and identify verification (Know Your Customer);
- cybersecurity;
- enhancing market supervision (e.g. anti-money laundering transaction monitoring).

Technology isn't enough

To take advantage of each other's markets, it is critical that Australian and Indonesian fintechs tailor their products and services to the context of the market they are entering. As many fintechs already know, taking a simple copy-paste approach and applying a domestic strategy to a foreign market unlikely to succeed – just because a product or service is good, does not mean it will be adopted.

For example, Australian fintechs must carefully consider how to adapt their services to a market where traditional financial infrastructure may not already exist. Indonesian fintechs must consider social norms around how financial services are used in Australia (e.g., that digital payments are primarily made via debit and credit cards) and are more likely to be successful if they offer innovative or improved user experience that builds on existing infrastructure.

The most successful companies expanding into either market are likely to be those that not only have a clear understanding of market size and growth potential, but also an in-depth understanding of the cultural and behavioural barriers to uptake of their products/services. Therefore, a contextual understanding of consumer behaviour is essential for fintechs seeking to enter either the Australian or Indonesian market, which will allow businesses to tailor their products and services to meet consumer needs and fully capitalise on opportunities.

Box 3. Technology is not enough: the behavioural barriers to fintech adoption

For fintechs to succeed they must have more than just a great product. They need to have a deep understanding of the behavioural barriers that can limit the adoption of new products and technology, and strategies to overcome them. These barriers can include:

Status quo bias: Status quo bias occurs when people prefer things to stay the same, even when there is a better alternative. For example, many Indonesians may be more comfortable continuing to use cash, because that is what they have always done. Therefore, to access the Indonesian market, Australian fintechs must ensure they have options for cash. By contrast, when entering Australia, Indonesian fintechs may find consumers are less willing to use QR codes outside of hospitality and will expect to pay for items via debit or credit card. To overcome status-quo bias, fintechs either need to align with established practices, or make the incentive or the cost of doing nothing sufficiently large to encourage behaviour change.

Present bias: People tend to value present rewards over future ones, which can lead to procrastination or poor decision making when benefits are primarily received in the future. For the adoption of new fintech products and services, even if customers believe the technology is superior to what they currently use, they may put off switching if they feel it is hard to overcome the short-term effort or costs. As with status quo bias, fintechs promoting a new product in either Australia or Indonesia need to make the immediate benefits of adoption outweigh the costs.

Social norms: Social norms are the informal rules of society that govern how people behave in given situations. In terms of fintech and payments systems, people are much more likely to try new technology if they see or know others who are also successfully using it. When entering the Australian or Indonesian market, fintechs should consider the local context and the best method of influencing social norms. For example, research has demonstrated that social influencers can impact the decision-making processes of millennial investors with low financial literacy in Indonesia; there is a tendency for young Indonesians to imitate someone who they consider successful (e.g., those who demonstrate wealth and luxury in their life).[57]

Sunk cost bias: People tend to continue with a choice or course of action because they have already invested in it. For example, if a business has already invested significant time and resources into a financial or payments system, they are more likely to continue with it. For Indonesian businesses seeking to enter Australia, the easiest path to success is innovation or improved user experience that fits within the context of existing infrastructure. As Indonesia has less developed financial infrastructure, this may present less of a problem than in Australia.

Risk aversion: People tend to avoid risk and uncertainty. If a business or individual is unsure about a new technology, they may feel they can't afford to expose themselves to the risk of failure. This is particularly true where change requires a significant investment of time or money. To reduce this risk, business need to gain customer confidence or reduce the perceived risks associated with failure. Indonesian and Australian businesses will also find differences in the dollar amount people are willing to risk between the two countries, due to differences in average incomes. For example, an Australian business may be willing to invest a few hundred US dollars in trying a new technology, whereas Indonesian businesses with smaller margins may view this as too large of a risk.

Cognitive overload: People can easily become overwhelmed trying to understand fintech products and services. They can end up in 'analysis paralysis', unable to make decisions and leading them to avoid thinking about pursuing change. To minimise cognitive overload, fintechs need to make the benefits of using their products clear, relevant and easy. However, financial literacy is lower in Indonesia than Australia.[58] Fintechs can play a vital role in improving financial literacy and inclusion in Indonesia, but they need to tailor their products and services to the specific needs of this market.

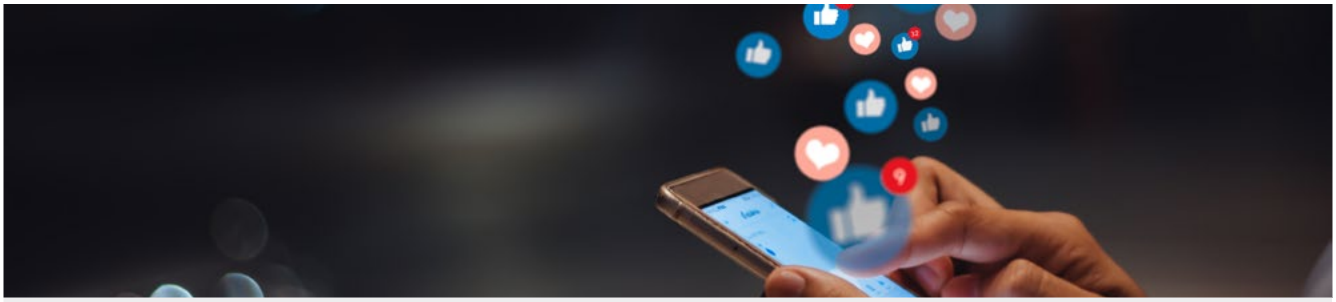
Trust: Trust in fintech companies can often be low. For example, in Australia digital banks are only trusted by 1 in 10 people to keep their money safe, while they are distrusted by almost 1 in 3. They are also distrusted to a similar extent in their ability to keep personal information secure.[59] In Indonesia user trust influences perceived usefulness and intention to use fintech services.[60] To support uptake in either market, fintechs need to ensure their products and brands are trusted. This may be assisted by exploring partnerships with established and trusted local or global brands, by receiving certification from a trusted source, or by undertaking a campaign aimed at increasing consumer trust.

57 Bharata, W., Fourqoniah, F., Novianti, R. (2022), 'Herd behaviour in millennial stock investors in Indonesia: the concept of bandarmology', Proceedings of the Fifth Annual International Conference on Business and Public Administration.

58 Asher, A. (2020), 'Financial literacy among young Indonesians and Australians', accessible at: https://aiya.org.au/2020/08/05/financial-literacy-among-young-indonesians-and-australians.

59 Deloitte (2019), 'Open banking: switch or stick. Insights into consumer switching behaviour and trust', accessible at: https://www.ausbanking.org.au/wp-content/uploads/2022/06/Open-Banking-Switch-or-Stick-Insights-Into-Customer-Switching-Behaviour-and-Trust-Deloitte-2019.pdf

60 Meyliana, M. Fernando, E. and Surjandy, S. (2019). 'The Influence of Perceived Risk and Trust in Adoption of FinTech Services in Indonesia', CommIT, 13(1), pp32-37.



Box 4. Harnessing the power of social media to overcome behavioural barriers to uptake

Indonesia has one of the largest active social media populations in the world, including over 135 million Facebook users (the 3rd largest audience in the world),[61] almost 100 million TikTok users (the largest TikTok audience outside of the United States)[62] and over 14 million Twitter/X users (the world's 6th largest user-base).[63]

In September 2023, the Government of Indonesia banned transactions on social media platforms, citing the need to ensure "fair and just" competition and protect user data as well as offline SMEs. The ban impacted TikTok, home to some 6 million sellers and nearly 7 million influencers. Following the threat against its e-commerce app, in December 2023 ByteDance-owned TikTok agreed to invest USD 1.5 billion in Indonesia's local e-commerce giant Tokopedia, a unit of GoTo, taking a controlling 75.01 percent stake.[64]

Indonesia's large social media audience is an attractive place for fintech companies to build brand awareness and overcome behavioural barriers to uptake. Many Indonesian fintechs are already harnessing promotional methods involving social media advertising and influencer marketing, with paid influencers commonly educating followers about how to use fintech applications. The use of influencers not only builds brand awareness but also potentially increases the perceived trustworthiness of fintech companies and normalises its use via social influence (helping overcome behavioural barriers such as established social norms and distrust).[65]

A survey on the influences of social media marketing found it significantly impact consumer trust in companies and encouraged a positive brand image, both of which amplify the impact of marketing on consumer's intention to purchase. It also found word of mouth (e.g., content shares with friends, comments) and entertainment (interesting and exciting content) were the most impactful forms of social media advertising on intention to purchase.[66]

61 Oberlo (2023), 'Facebook users by country', accessible at: https://www.oberlo.com/statistics/facebook-users-by-country

62 Kemp, S. (2023), 'Tiktok users, stats, data and trends', accessible at: https://datareportal.com/essential-tiktok-stats

63 Kemp, S. (2023), 'Twitter users, stats, data and trends', accessible at: https://www.oberlo.com/statistics/tiktok-users-by-country

64 FT (2023), 'TikTok to take over Indonesia's Tokopedia in bid to overcome ecommerce rules', accessible at: https://www.ft.com/content/2678b6ae-f2af-46cb-a138-bdc927e673f9

65 Safatri, Y., Luthfia, A. and Ramadanty, S., (2021), 'Social media influencer credibility and social influence on intention to use fintech in Indonesia', Proceedings of the 2nd International Conference on Interdisciplinary Arts & Humanities (ICONARTIES) 2020, accessible at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3800662

66 Moslehpour, M. Ismail, T. Purba, B. and Wong, W. (2022). 'What Makes GO-JEK Go in Indonesia? The Influences of Social Media Marketing Activities on Purchase Intention.' Journal of Theoretical and Applied Electronic Commerce Research, 17, 89-103.

Open for business

Indonesia's large and increasingly connected population is a golden opportunity for both Australia's and Indonesia's fintech industries.

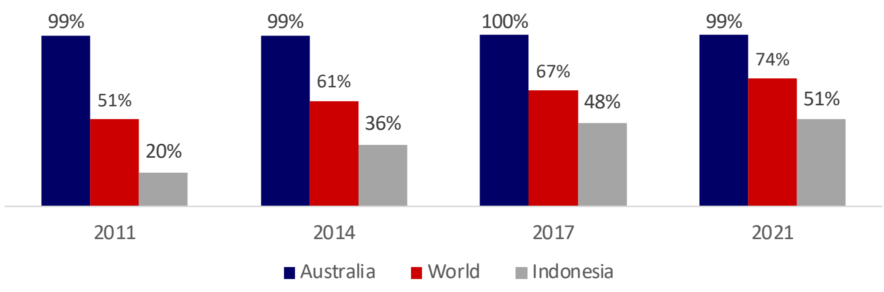
A surge in internet connectivity means Indonesia now exceeds the regional average for individual internet usage (66.5% of Indonesians use the internet compared to 64.3% in the Asia Pacific region and 66. 3% globally).[67] Eighty-seven percent of Indonesian households have internet access in the home, representing a market of around 238 million internet users. This market that will only continue to grow, with an even higher proportion (92%) of young Indonesians (aged 15-24) currently using the internet.

Mobile phones are by far the dominant method of internet access with 115 active mobile-broadband subscriptions per 100 inhabitants, compared with only five fixed broadband subscriptions per 100 inhabitants.[68] Eighty-one percent of individuals use a mobile phone (including 68% who own their own mobile phone) and 96% of the population is covered by at least a 4G mobile-cellular network. 61% of females own a mobile phone compared with 71% of males.

Though increasingly connected, financial inclusion in Indonesia remains very low. In 2021, almost half (49%) of Indonesians over the age of 15 were unbanked (see Figure 8).[69] The credit market in Indonesia is also underdeveloped, with only 13% of people having borrowed money (compared with 27% of Australians and 29% of people globally).[70]

Levels of both household debt (17%) and total private debt (40% for both households and nonfinancial corporations) are low as a share of Gross Domestic Product (GDP) compared with both Australia and other ASEAN countries, indicating significant capacity for expansion (see Figure 9).[71] In 2017, the Asian Development Bank estimated that only 64% of the need for credit amongst the poorest two thirds of Indonesians (mainly women and micro, small and medium enterprises) is being met by the formal financial services sector.[72]

Figure 8: Percentage of population aged 15 years and over holding an account with a financial institution



Source: World Bank (2021)

67 ITU Council (2023), DataHub, accessible at: https://datahub.itu.int/

68 ITU Council (2021), 'Indonesia', accessible at: https://www.itu.int/en/ITU-D/Statistics/Documents/DDD/ddd_IDN.pdf

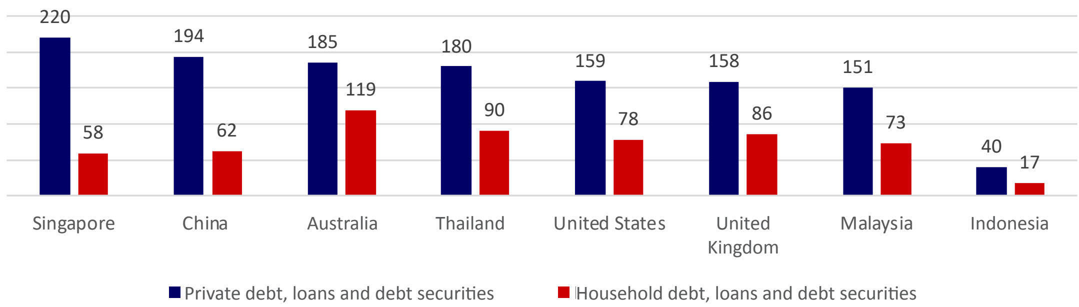
69 World Bank (2021)

70 World Bank (2021)

71 International Monetary Fund (2021), Global Debt Database, accessible at: Global Debt Database (imf.org)

72 Asian Development Bank (ADB) (2017), 'Accelerating financial inclusion in South East Asia with digital finance', accessible at: https://www.adb.org/sites/default/files/publication/222061/financial-inclusion-se-asia.pdf

Figure 9: Debt, loans and debt securities (% of GDP), 2021, by country

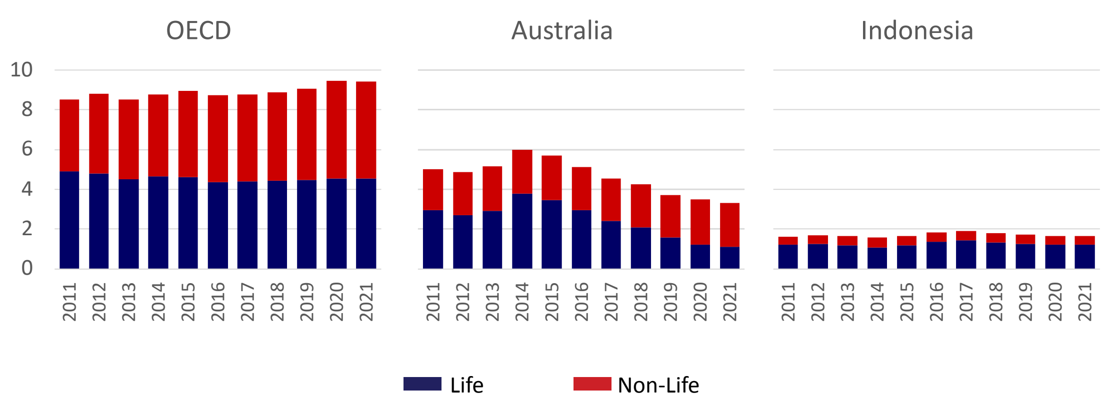


Source: IMF Global Debt Database (2021)

Digital payments is the largest fintech sector in Indonesia and the sector still has significant growth potential. Just over a third of Indonesians have ever made or received a digital payment (37%) compared to almost two thirds of people globally. In 2017, it was estimated that only 35% of the need for digital payments and transfers in Indonesia is being met by formal financial services providers, with this gap amounting to an untapped value pool of approximately USD144 billion. An estimated 37% of this gap could be addressed by digital finance services.[73] The structural shift has already begun, with financial payments growing 30% from 2016 to 2021, and expected to grow more than five times by 2031,[74] driven in part by a huge, anticipated growth in e-commerce transactions; between 2022 and 2030, e-commerce transactions in Indonesia are expected to grow from USD59 to USD95 billion.[75]

There are similar exciting growth opportunities in Insurtech. The OECD estimates insurance penetration (in terms of gross premiums to GDP) in Indonesia in 2021 was as low as 1.6%, compared with Australia (3.3%), Malaysia (4.8%), Singapore (11.4%) and OECD countries (9.4%), indicating considerable potential for growth (Figure 10).[76] It is estimated that this is only meeting 1% of the need for insurance services in Indonesia, with market potential of around USD700 million.[77]

Figure 10: Insurance Penetration by type (OECD, Australia and Indonesia)



Source: OECD (2023)

73 Asian Development Bank (ADB) (2017), 'Accelerating financial inclusion in South East Asia with digital finance', accessible at: Accelerating Financial Inclusion in South-East Asia with Digital Finance (adb.org)

74 JakartaGlobe (2023), 'Indonesia's Thriving Fintech Landscape Is Undergoing Fundamental Shifts: Learnings from The Market', accessible at: https://jakartaglobe.id/opinion/indonesias-thriving-fintech-landscape-is-undergoing-fundamental-shifts-learnings-from-the-market

75 Google, Temasek and Bain and Company (2022)

76 OECD (2023), 'Insurance indicators: Penetration'

77 ADB (2017)

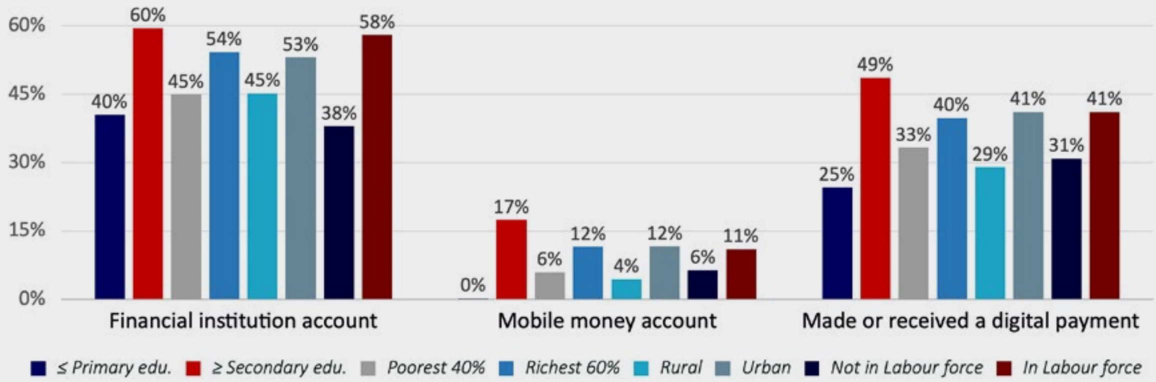
Box 5. Beyond the commercial: the power of fintech to create a more equitable and financially inclusive Indonesia

Indonesia presents an exciting business opportunity for Australian fintechs, but the benefits are not only commercial. By investing in Indonesia, Australian businesses are also contributing to a more equitable and financially inclusive society in Indonesia.

Indonesians with lower socio-economic status are less likely to use financial services than those with higher socio-economic status. By providing increased access to untapped markets, fintechs not only increase their market penetration, but also enable individuals and families to save, budget, invest, manage risk and access resources that they may not otherwise be able to.

The poorest 40% of Indonesians are less likely to have an account with a financial service provider compared to the rest of the population (45% compared to 54%), to make or receive digital payments (33% compared with 40%), and around half as likely to hold a mobile money account (6% compared with 12%) (Figure 11). Similar trends can be seen in people with lower levels of education, people not participating in the labour force, and people in regional areas. While there appears to be no data available on the relationship between disability and financial inclusion in Indonesia, global research has found barriers to financial inclusion particularly for those with cognitive, ambulatory, hearing or multiple disabilities.[78]

Figure 11: Financial inclusion by demographic (2021)

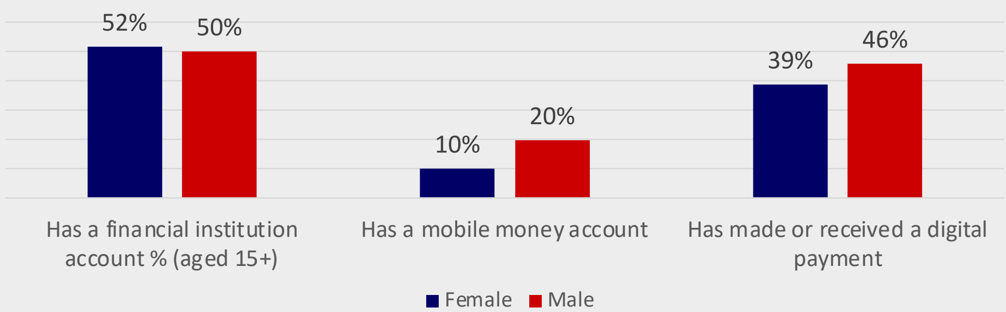


Source: World Bank (2023)

78 Wann & Burke-Smalley (2022) ‘ Differences in financial inclusion by disability type’

Indonesia has much more parity when it comes to women's financial inclusion compared with many countries, with women more likely than men to hold an account with a financial institution (Figure 12). However large differences exist among different cohorts of women.[79] For example, non-income generating women are significantly less likely to access and use accounts than income-generating women.

Figure 12: Financial inclusion by gender (2021)



Source: World Bank (2023)

Financial inclusion and accessibility vary substantially by province, with inclusion substantially higher in Jakarta (the only province considered to have high financial inclusion) where the average salary is also higher. By contrast, eight provinces can be considered to have medium financial inclusion[80], and 25 have low financial inclusion, with the lowest levels in West Sulawesi and Lampung provinces.[81]

The fintech sector is estimated to be able to address around 40% of unmet need for payment services, and 20% of unmet credit needs for the poorest two-thirds of people as well as micro, small and medium enterprises. It is estimated that addressing financial exclusion could increase the GDP of countries like Indonesia between 9% and 14%.[82] Fintech can play a major role, with digitally driven financial inclusion boosting GDP by 2 3% (translating to a 10% increase in income for Indonesians earning less than USD2 a day). Surprisingly, research has also shown that improving financial inclusion has more impact on improving community welfare than directly reducing the proportion of people considered poor in Indonesia.[83]

Indonesia allows relatively high levels of foreign ownership but requires data to be stored locally

The rise of fintech in Indonesia has led to a rapid increase in the number of fintech companies, including rogue and illegal companies. This has resulted in controversy and calls for increased regulation and supervision.[84]

79 Women's World Banking (2021), 'Women's Economic Empowerment and Financial Inclusion in Indonesia', accessible at: https://www.womensworldbanking.org/wp-content/uploads/2021/06/2021Womens_Economic_Empowerment_and_Financial_Inclusion_in_Indonesia.pdf

80 Riau Islands Province, DI Yogyakarta, Banten, Bali, East Nusa Tenggara, East Kalimantan, North Sulawesi, and West Papua Province.

81 Hidayat & Sari (2022) 'Linkage between financial inclusion and Indonesian welfare: a recent evidence'

82 ADB (2017)

83 Hidayat & Sari (2022)

84 Baker McKensie (2023) 'Indonesia: Financing service businesses under the P2SK law', accessible at: https://insightplus.bakermckenzie.com/bm/dispute-resolution/indonesia-financing-service-business-under-the-p2sk-law#:~:text=The%20P2SK%20Law%20mentions%20that,new%20requirement%20for%20foreign%20entities.

Recognising the importance of the sector and of protecting consumers, Indonesia enacted Law No. 4 of 2023 on *Financial Sector Development and Reinforcement* (also known as the "P2SK Law"). The law covers a wide range of topics directly impacting fintech businesses, introducing new legislation and replacing many outdated laws. It sets out provisions on the use of data, capital adequacy requirements, supervisory authority, and regulates fintech activity.

Fintech businesses in Indonesia operate primarily under the supervision of government organisations OJK and Bank Indonesia, with business licensing and/or registration generally required.[85] Fintech businesses that are recognised and regulated under Indonesian law include: payment services systems and providers, insurance, equity crowdfunding, P2P lending, investment management, risk management, funding disbursement, market support, digital assets including crypto, financial services marketplaces and other digital financial sector activities.

Indonesia allows relatively high levels of foreign ownership for fintech companies, including 99% maximum foreign equity participation for digital banks[86], 85% for P2P lending (except for publicly listed companies),[87] 85% for payment system services providers (with a max 49% shares with voting rights),[88] 85% for securities brokerage (up to 99% for foreign shareholders who hold a broker license in the relevant jurisdiction)[89] and 49% of equity crowdfunding.[90] Indonesian regulations forbid the use of cryptocurrency as a payment, but investment and trade in cryptocurrencies and exchanges are allowed.[91] However, the P2SK Law moves supervision and oversight of cryptocurrencies to OJK over the next two years, so further regulatory change is possible.

There are also minimum paid-up capital requirements for fintech businesses including IDR25 billion (USD1.6 million) for P2P lenders,[92] IDR10 trillion (USD650 million) for digital banks,[93] IDR2.5 billion (USD160,000) for equity crowdfunding[94] and IDR500 million to 15 billion (USD30,000-900,000) for payment system service providers depending on type.[95]

In 2022, the rise of rogue and illegal P2P lenders and intimidatory debt collection practices led Indonesia to increase its oversight of the sector.[96] As a result, there are further restrictions on board member residency and citizenship as well as employment of foreign persons.

A key requirement for fintech businesses seeking to enter the Indonesian fintech sector is Indonesia's

85 Crytocurrency trading was also previously supervised by BAPPEBTI, but this has transferred to OJK under the P2SK law

86 OJK Regulation No 12/POJK.03/2021

87 OJK Regulation No. 10/POJK.05/2022

88 BI Regulation No. 23/6/PBI/2021

89 OJK Regulation No. 20/POJK.04/2016

90 OJK regulation No. 57/POJK.04/2020

91 ICLG (2023), 'Fintech laws and regulations in Indonesia 2023', accessible at: https://iclg.com/practice-areas/fintech-laws-and-regulations/indonesia

92 OJK Regulation No. 10/POJK.05/2022

93 OJK Regulation No. 12/POJK.03/2021

94 OJK regulation No. 57/POJK.04/2020

95 BI Regulation No. 23/6/PBI/2021

96 ASEAN Briefing (2022), 'Increased oversight in Indonesia's peer-to-peer lending sector', accessible at: https://www.aseanbriefing.com/doing-business-guide/indonesia/sector-insights/increased-oversight-in-indonesia-s-peer-to-peer-lending-sector

data localisation requirements. Requirements around data storage are more stringent for financial services than other digital services. Under OJK and BI regulation, data must be stored locally, with fintech providers required to establish data centres and disaster recovery centres in Indonesia. In addition, all QR code-based payment systems must also be made through Bank Indonesia's National Payment system (GPN) using QRIS.

Indonesia is also taking a 'sandbox' approach to regulation, where fintechs who qualify under OJK regulations (including that they are attempting to implement a new business model and are a member of the Indonesian Fintech Association) can experiment with new technologies under an exemption from non-prudential OJK regulations for a period up to one year (and extendable for a further six months). Bank Indonesia has a similar experiment regulation, that allows exemption for six months (extendable a further six months). To participate, fintech companies must apply to the relevant regulator.

Australia is open to foreign fintech companies, with exemptions to licensing for foreign companies currently under discussion

Australia's regulation around fintechs is contained in legislation related to financial services, consumer credit lending, registration and disclosure, consumer law, privacy and anti-money laundering, and counterterrorism.[97] Businesses that provide financial services in Australia are supervised by the Australian Prudential Regulation Authority (APRA) and are generally required to hold an Australian Financial Services Licence (AFSL). Businesses engaging in the provision of finance and corporations with assets greater than USD32 million (AUD50 million) are required to regularly report statements of financial position to APRA.

There are some AFSL exceptions for foreign businesses, although these are currently in transition. Some foreign businesses seeking to provide financial services in Australia to wholesale clients may be eligible to apply to obtain a foreign AFSL which exempts them from certain obligations such as financial requirements.[98]

Government approval is also required for anyone to acquire a share greater than 20% of a financial sector company, including authorised deposit taking institutions and authorised insurance companies (including holding companies).

97 Gilbert and Tobin (2023), 'International Comparative Legal Guide – Fintech 2023', accessible at: https://www.gtlaw.com.au/knowledge/international-comparative-legal-guide-fintech#Fintech%20Regulation

98 Gilbert and Tobin (2023), 'Global legal insights: Fintech in Australia', accessible at: https://www.gtlaw.com.au/knowledge/global-legal-insights-fintech-australia#Key%20regulations%20and%20regulatory%20approaches

What’s next?

Major opportunities exist to expand trade and investment between Indonesia and Australia’s fintech industries. Although both markets have well developed fintech sectors, there are still gaps and substantial opportunities for international collaboration. In particular, there are opportunities to assist Indonesia to create innovative products that improve market efficiency, digitalise traditional industries, develop skills, link fintech and gaming, support MSMEs access to credit, and for cybersecurity and fraud prevention.

There is a clear opportunity for Indonesia to leapfrog to a digital-first economy. Indonesia does not need to follow the same linear path to financial services sector development as Australia. It is crucial for fintech companies seeking to enter the Indonesian or Australian markets to consider the cultural and behavioural barriers to uptake of their services.

Katalis can help you better understand the respective markets and connect you with strategic partners. If you are an Indonesian or Australian business looking to enter the Australian or Indonesian market respectively, Katalis may be able to assist you.

For more information please visit:
https://iacepa-katalis.org/about-katalis/