



ASEAN INSIGHTS

Indonesia
ICO
Market

Created By
CYBERIUS

A digital marketing
company who
specializes
in online community
management
and crowdfunding

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Indonesia, ICO & Bitcoin

In the last year or two, the ICO market, blockchain funding, and the use of cryptocurrency has exploded all over the world. There are a myriad of companies moving on this change, and from 2016 to now, we have seen an unprecedented amount of change in the landscape of ICO awareness. Some call it a bubble bound to burst, while others have said it is the way of the future. Regardless of how it is seen, one thing is for certain: nations all around the world are divided on where they stand, with several governments of developing countries closing down and prohibiting the use of cryptocurrency as a form of payment - among these is Indonesia, the biggest economy in Southeast Asia.

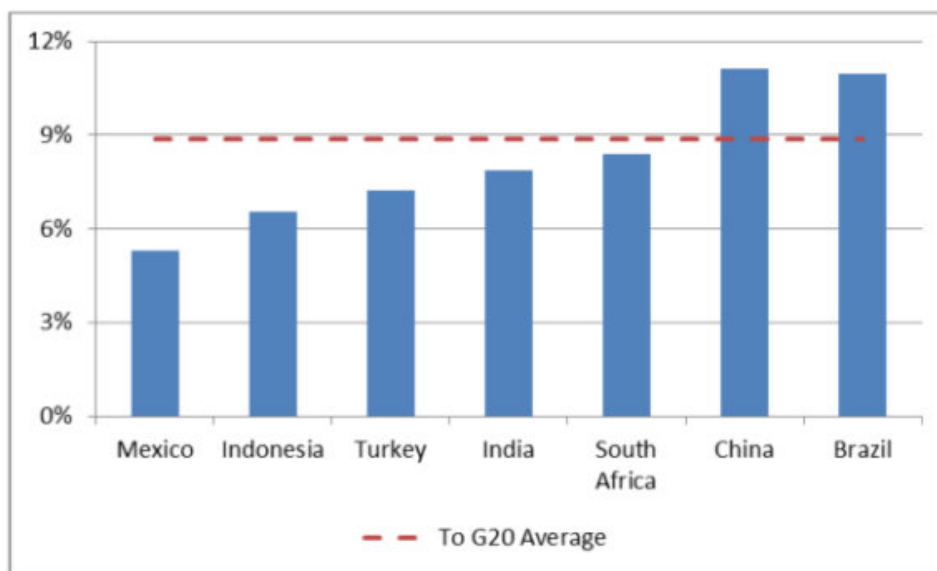
In 2017, Indonesia, along with several other countries like Ukraine, expressed their stance on the new rising wave of cryptocurrency. The central bank - Bank of Indonesia - had expressed bitcoin transactions as being a non-legal means of exchange, with the concept apparently going against the Service Provider of Payment System (PSJP) legislation.

Rise of Bitcoin

At the start of the year, as the world of cryptocurrency disseminated all across, Indonesia remained one of the countries to hop onto the bandwagon. Even with the Bank of Indonesia sharing their thoughts on the digital form of transaction being illegal, according to the Jakarta Post.

“the number of bitcoin users in Indonesia has risen from 80,000 up to 250,000, with a daily transaction value amounting to Rp 20 billion (US\$1.48 million)”

Figure 9 Average cost of remitting to G20 countries in 4Q 2013



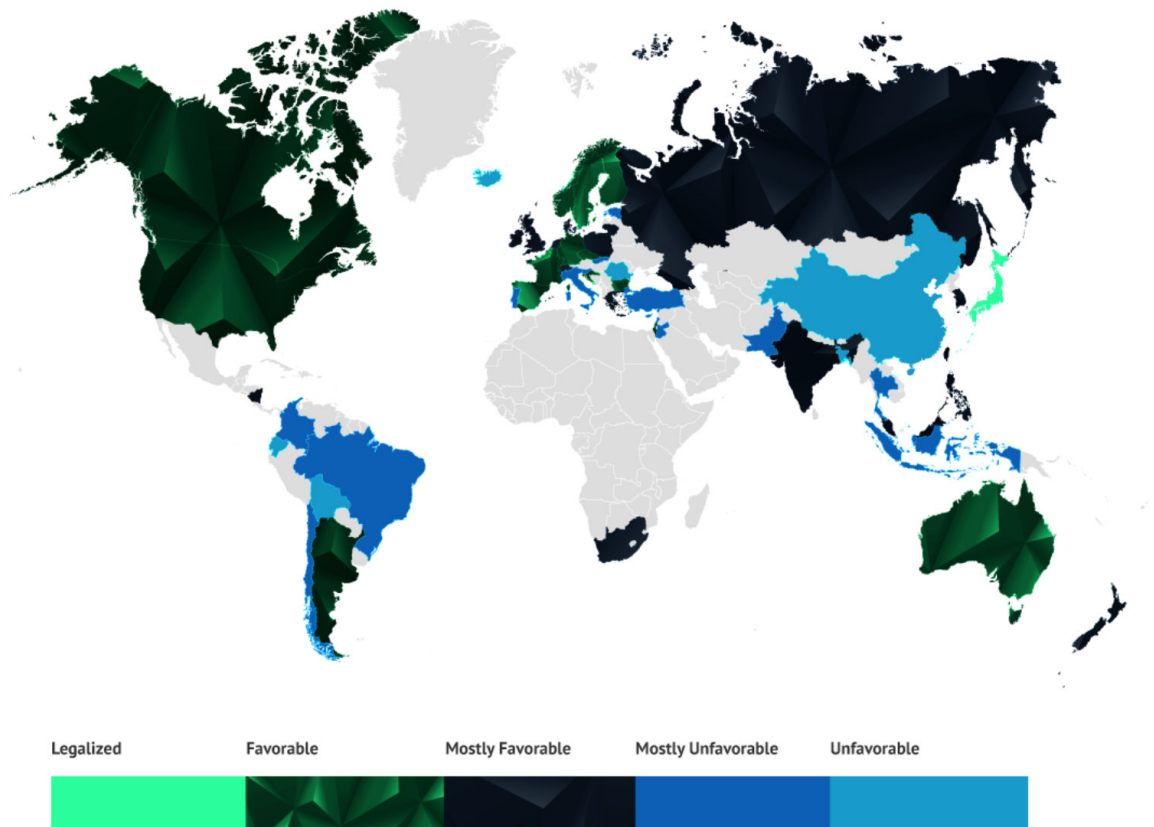
http://remittanceprices.worldbank.org/sites/default/files/RPW_Report_Dec2013.pdf

With the advent of bitcoin and emerging services utilizing the cryptocurrency, one of the major beneficiaries were the hard-working laborers of migrant workers. According to CCN, *“in 2010, over \$5 billion was sent back home from Indonesian migrant workers across the world. While a report from 2015, found that bitcoin remittance services could save Indonesia migrant workers \$374 million.”*

Regulations

Even though Indonesia continues to have great interest in the digital landscape (Indonesia is currently one of the world's largest e-commerce markets), it continues to hold back in regards to its stance toward cryptocurrency. Many have noted this to be due to its decentralized nature, and the disrupting quality on more traditional, fundamental models that have already been established thus far. While counterparts like Singapore have still not expressed any form of regulation against cryptocurrencies such as Bitcoin, 2018 continues to remain rather unsettling as Bank of Indonesia - the central bank in the country - is expected to set the following regulations (the graph below depicts the stance each country has on the legalization of cryptocurrency):

- Prohibit payment providers from collaborating with platforms that allow digital currency transactions.
- Virtual currency do not serve as legal payment instruments in Indonesia - based on Act No. 7 Year 2012 concerning Currency, Act No. 23 Year 1999, and Act No. 6 Year 2009.
- A ban against the use of crypto currency as a means of transaction includes arbitrage opportunities, unhealthy business practices and business controls.



<https://news.blackmooncrypto.com/cryptocurrency-regulation-cross-country-analysis-67452f1df80e>

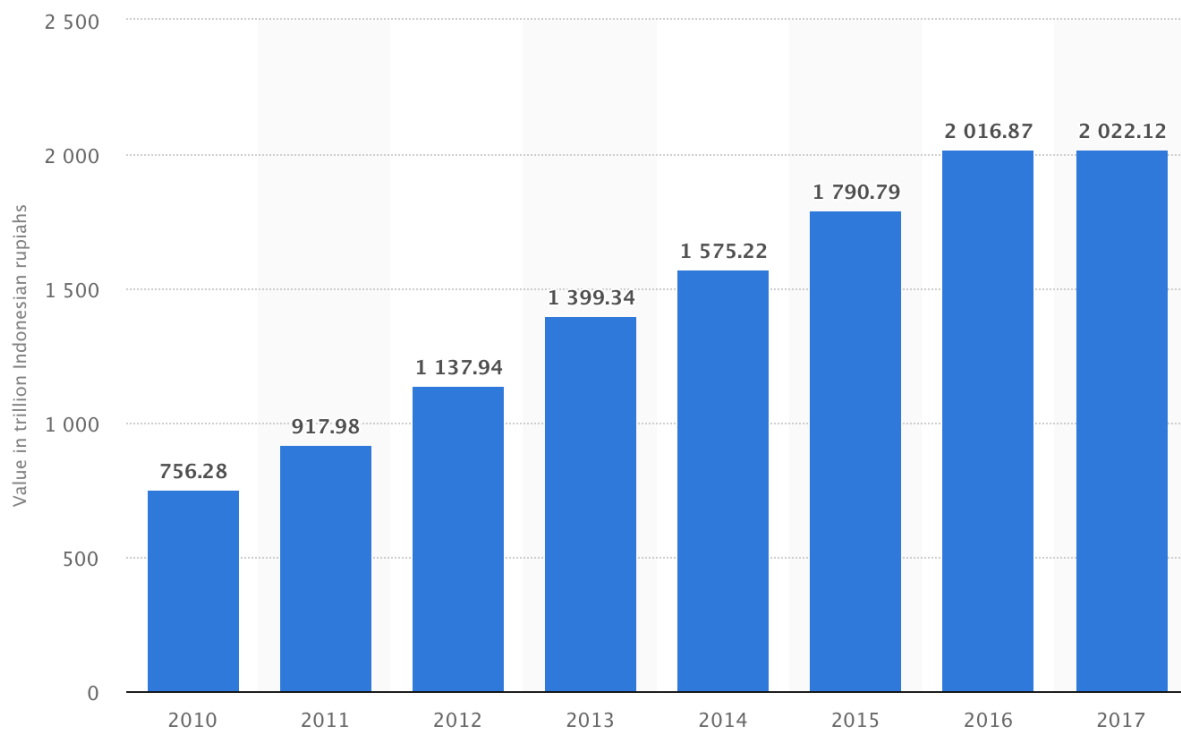
Regardless of this being the case, there are several Bitcoin-related business owners and organizations that continue to look on the positive side of things. For example, Suasti Atmastuti Astaman (Bitcoin Indonesia's Business Development Manager) has expressed that this law has not necessarily negated the use of cryptocurrency. The regulations enforced have only been in reference to using it as a payment for transaction, but its existence has not been completely eradicated from the Indonesian market. This means that like any other commodity, it still may have its place in the society.

Furthermore, as noted in Dealstreetasia, *"Bank Indonesia plans to collect data on financial technology and digital commerce in order to create a balanced economic policy. The central bank is far keener on blockchain technology and is distributed ledger aspect, rather than virtual currencies themselves."* This is a clear demonstration that the stances on cryptocurrency and blockchain are quite different, even within a country like Indonesia that has banned the use of it. Prominent names in the digital space such as Indonesia's Communications and Informations Minister, Rudiantara is one person who has expressed his openness to blockchain technology.

“Blockchain is something unavoidable and I fully support the technology. It enables transparency in a lot of things, for example, in transferring money it enables us to know where the money has been. It would ease the Corruption Eradication Commission (KPK)’s job”

The Big Four & Blockchain

Since the advent of blockchain technology and Bitcoin have become so prevalent all throughout the finance and technology industries, it is impossible for big corporations, such as the Big Four (Deloitte, EY, PwC, and KPMG) have begun to seize every opportunity to get into the game. In the case of Indonesia, the ‘Big Four’ refers to Bank Mandiri, Bank Central Asia (BCA), Bank Negara Indonesia (BNI) and Bank Rakyat Indonesia (BRI).



<https://www.statista.com/statistics/781254/lending-asset-value-of-big-four-banks-indonesia/>

Data visualized by  + a b l e a u

© Statista 2018 

The graph above depicts the total combined value of lending assets provided by the Big Four banks in Indonesia from the years 2010 to 2017. As we can see from the graph the Big Four have progressively lent out more and more asset-based loans every year, hitting an approximate amount of 2,022 trillion Indonesian rupiahs by last year 2017. Compared to the 2010-2015, where the lending assets increased in increments of 200 million Indonesian rupiahs every year, we can notice that 2016 to 2017 did not follow in the same way. In fact, in that one year alone, the Big Four’s combined value of lending assets

only rose by 5.25 million Indonesian rupiahs, a significant small increment in comparison to the earlier years. It is interesting to note that, it is during these last two years, the digital landscape and blockchain technology in Indonesia emerged, which may demonstrate the overall effect it may have on the Big Four banks.

Major Initiatives

With 36% of Indonesians having a bank account and adoption rate of non-cash payments being 10%, Indonesia continues to be the second largest cash based economy in the world. This makes the country's bankers feel they are in a perfect market of opportunity, as it is believed that Indonesia is most appealing due to its high margins, population size, low banking penetration, and economic growth (compared to other Southeast Asian countries). Even though 2016 and 2017 may have been slow years for many Indonesian bankers due to the disruption of blockchain technology, there is an optimistic outlook that things will continue improving. To further stimulate the economy, PwC released a report indicating some of the top initiatives currently in progress to help strengthen, grow, and develop the Indonesian economy:

- The Investment Coordinating Board (BKPM) aim to establish a one-stop integrated services centre.
- The establishment of 13 deregulation packages for major investment sectors.

While only time can tell whether these acts will help the banking sector in Indonesia, 75% of local banks (the Big Four of Indonesia and other rural banks) believe that the market conditions for banking will improve, while 33% of banks believe things will stay the same.

What It Means for the Big Four

For one, with the advent of blockchain technology, it offers opportunity for these big accounting firms to expand their business. One primary example is that it provides the Big Four opportunity for consulting services. Since this field is fairly new to many people, trustworthy organizations with a level of credibility can think of and offer new ways for the blockchain to be used, which may be rather appealing for many startups looking to blockchain for funding. This is undoubtedly true when it comes to the financial services and information security.

Since the Big Four make the most money from financial services, it is only reasonable that the Big Four can take advantage of this new emerging blockchain technology industry and push a myriad of digital solutions. This is an inevitable occurrence since the financial services industry is one that has been disrupted the most from the introduction of blockchain.

On another note, since the applications of blockchain and its tax implications are still fairly new and unknown, there is plenty of opportunity for the Big Four to seize this opportunity. As noted on an article on the Big Four's relationship with blockchain, *"[they] have ample opportunity in their tax services offerings. They will have opportunities in federal, state and international tax since this is a global currency/technology."* Furthermore, an article by Deloitte on using Blockchain technology to drive supply chain transparency concludes that *"Blockchain driven innovations*

in the supply chain will have the potential to deliver tremendous business value by increasing supply chain transparency, reducing risk, and improving efficiency and overall supply chain management.”

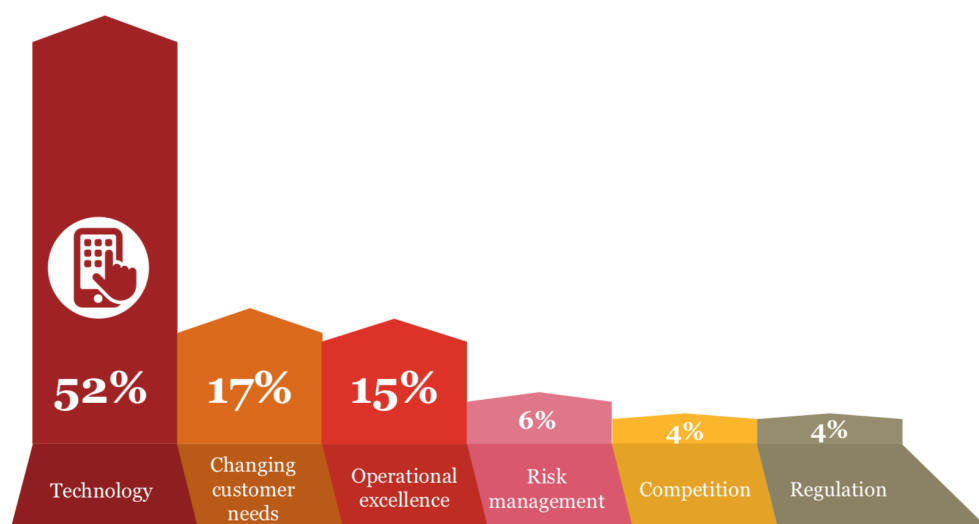
Although the initial reaction to blockchain technology was met with great skepticism, the technology behind it is what these Big Four are looking into. Not only does it offer ample opportunity for various advisory, consulting services, it provides these Big Four the ability to make most of the changing world, and inevitable future of where our world is going.

Changes through Technology

Figure 17: Technology is the main driver of Indonesia bank transformation over the next 3 to 5 years

Q: What is the #1 driver of transformation in your banking business over the next 3 to 5 years?

% selecting the area as a #1 driver of transformation



http://remittanceprices.worldbank.org/sites/default/files/RPW_Report_Dec2013.pdf

One of the largest driving forces of Indonesia’s banking transformation is technology. The graph above illustrates how 71% of BUKU 4 banks and 58% of BUKU 3 banks view technology as the #1 driver for change. As noted by PwC’s Retail Banking 2020 Survey, *“59% of global bankers expect the importance of branch banking to diminish significantly as customers migrate to digital channels,”* which is why many are preparing beforehand as *“84% of Indonesia banks surveyed are likely to invest in technology transformation over the next 18 months.”*

Going Digital

As the world becomes more connected and the rate of technology continues to grow, it is impossible to avoid the inevitable: everything is going digital. The countries that do not adopt to this ineluctable trend will fall behind faster, and those that hop on the ever-evolving change will stand at the fore front of the future.

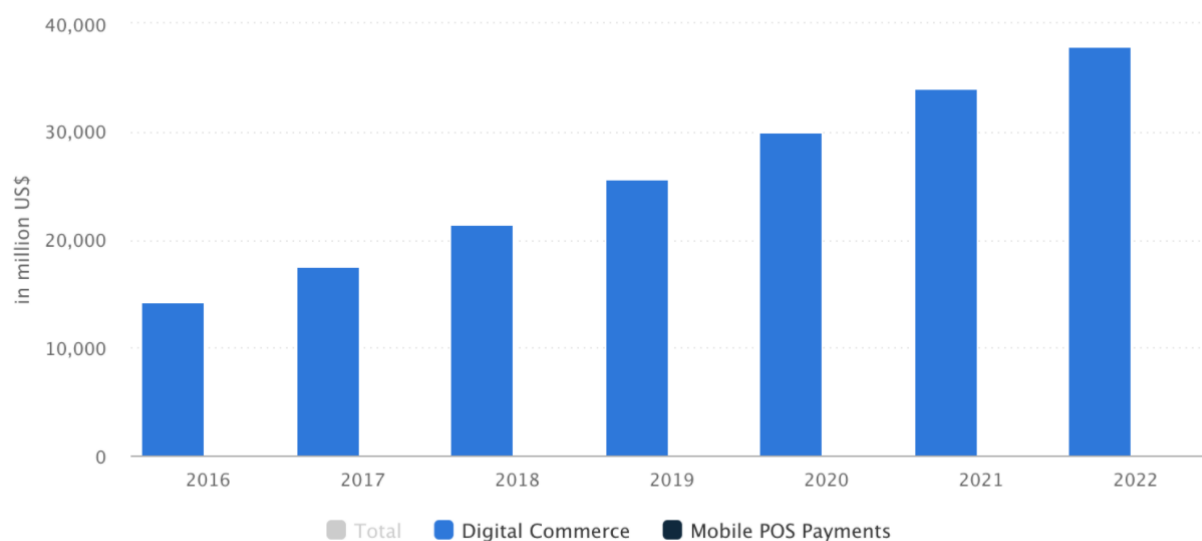
In all of this, ASEAN countries continue to be doing their best to adapt to the inevitable wave of tomorrow, and within these nations, we ask ourselves: *where does Indonesia stand in all of this?*

As mentioned above, Indonesia may not be too keen on the use of cryptocurrency as a form of payment, the world of Fintech is still ripe, and only growing. According to the studies by McKinsey, they believe that:

“By going digital, Indonesia can unleash the next level of economic growth—to the tune of USD 150 billion in annual economic impact by 2025.”

Low Penetration: Room to Grow

According to Statista, digital commerce transaction value has risen from approximately 14,167.8 million USD in 2016 and has only increased to 17,593.8 million USD in a single year (2017). The graph below illustrates the ongoing expected rise of transaction value until 2022, digital commerce and mobile POS payments are become more popular as a means of paying.



Source: Statista, December 2017

<https://www.statista.com/outlook/296/120/digital-payments/indonesia#marketStudy>

Info

Based on research done by McKinsey on 20 markets in the world, they have found that Indonesia only has room to grow. One of the primary reasons that it has not been able to keep up with the rest of the world's bigger players like USA, China or Singapore is because of the lack of infrastructure within the current business sectors. However, this in itself is opportunity.

*“McKinsey conducted research and analysis on 20 select markets in the world. Our findings indicate that **Indonesia is in a nascent stage of digitization.***

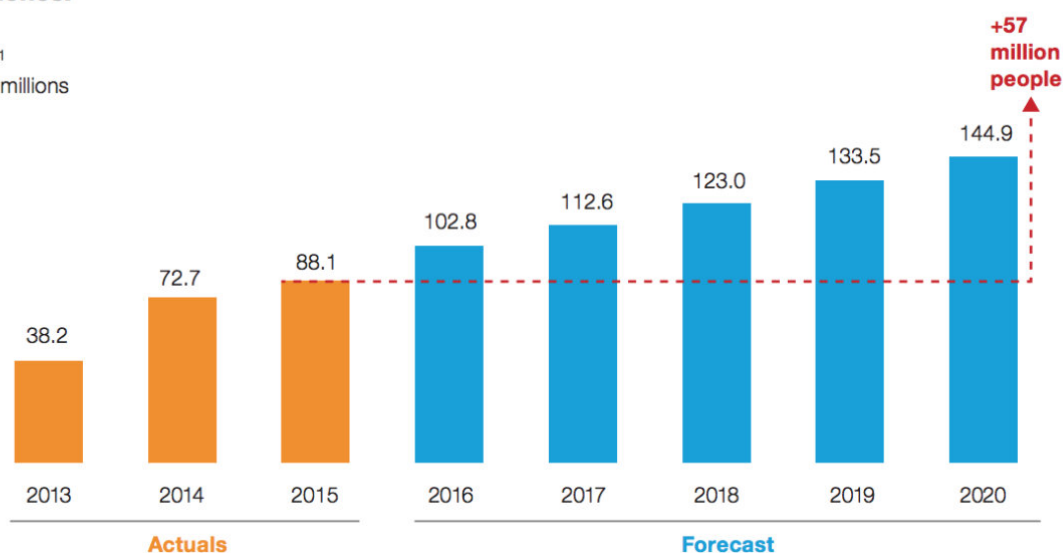
However, the country presents a curious paradox: its digital denizens are among the world's most active, and it **has a vibrant startup ecosystem**, but overall the country lags in embracing the benefits of modern technology. **ICT infrastructure is weak and digital usage is uneven within and among various business sectors. Indonesia's connected citizens are tech-savvy, but Internet penetration is low.**"

EXHIBIT 6

Indonesia's Internet population is further set to boom due to accessible mobile Internet and cheaper phones.

Internet user¹

No. of people, millions



Internet

penetration,
% of population

15 29 34 39 43 46 50 53

¹Actual data from We are Social and forecast from Statista; 2020 penetration is a projection.

Source: Statista, population data from World Bank

As seen from the graph above and noted from the research done by McKinsey, Indonesians are quite tech-savvy and spend about 3.5 hours on the Internet via mobile device, almost 2-3 times more than the US (which spends about 1.9 hours per day via mobile). They have also been seen to spend 2.9 average hours a day on social media, while America surprisingly only spends 1.7 hours average hours a day. When it comes to online shopping, Indonesia is slightly higher in percentage of population per active users (about 78%), comparing that to the US at 75%.

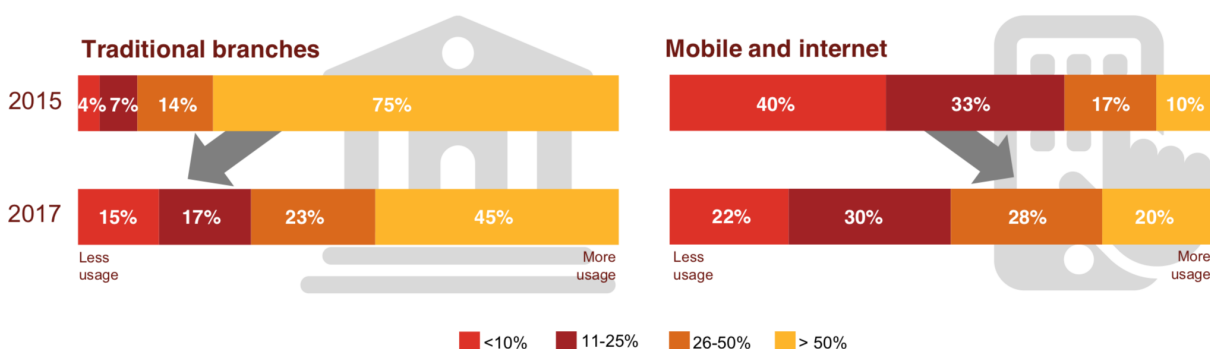
Preparing for the Future

According to PwC, many banks are moving their attention to investing in e-banking. This seems to be the top priority, more so than customer acquisition as this disruption in the financial world through technology has left many bankers wondering whether they are ready for what is to come in the future.

Even though branch channels continue to dominate customer transaction methods, with about 45% users processing their customer transactions through branches, comparing that to 20% through mobile and Internet (digital channel), and 15% through ATM, this will definitely change as the younger generation come up. In fact, as seen from the graph below, we can see that there is a visible trend of customer migration from branches to digital channels.

Figure 22: Clear trend of customer migration from branches to digital channels

Q: What is your estimate of the proportion of customer transactions processed through branch and internet/mobile banking?



<https://www.pwc.com/id/en/publications/assets/financialservices/ibs-2017.pdf>

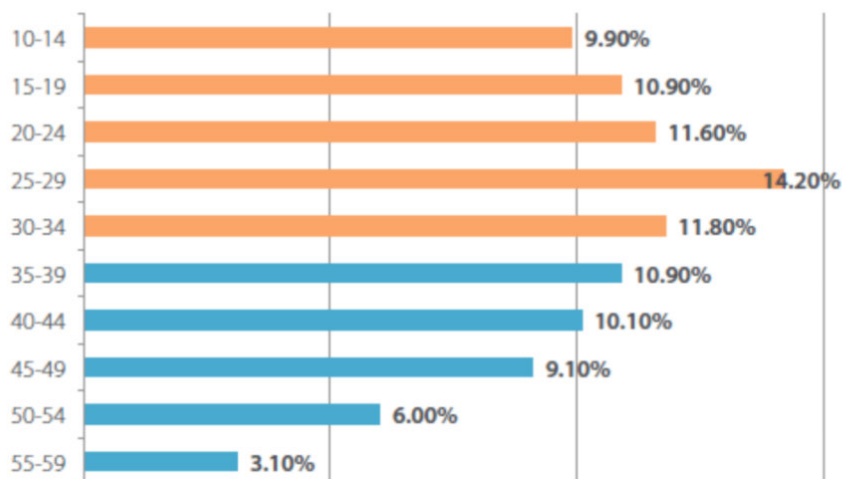
To keep up with this rapid transformation, many banks need to adapt to the technologies at hand. Based on a survey of bankers, 21% felt as if their bank IT systems were ‘very prepared’ for the future, while over half (57%) believed they were only somewhat prepared. If banks do not learn to keep up with the ongoing changes, they can be sure to lose their customers at as much of a rapid rate as the transformations are happening, since it has been noted in a PwC survey of 5,351 members of the public in 22 countries (2016) that “78% say IT outages and disruptions causes them to lose trust in companies.”

Forward with FinTech

As noted above, regardless of government's current stance on Bitcoin and the use of cryptocurrency, this has not swayed Fintech companies as viewing Indonesia as a great hub for establishing their services. According to Fintechnews,

“with only 25% of the population – 60 million Indonesians – having a bank account, fintech holds the promise of delivering affordable financial services to the underbanked population.”

INDONESIA POPULATION STRUCTURE



DIGITAL NATIVE 60%

This younger generation born and live in the internet era. They tend to be trend leaders

DIGITAL IMMIGRANTS 40%

This older generation knew internet when they were an adult. They often feel the need to always learn to adapt with new technology.



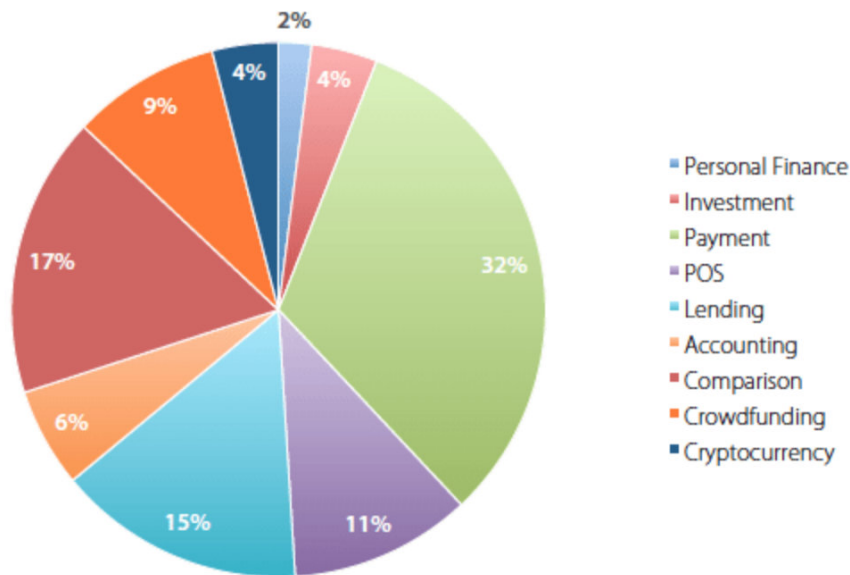
@FINTECHINA

SOURCES • World Bank
• CIA World Factbook

<http://fintechnews.sg/4814/indonesia/new-fintech-report-highlights-indonesias-untapped-opportunity/>

Although the government has been cracking down the use of cryptocurrency for payment, the graph below shows that payment is where the greatest distribution of the Indonesian Fintech ecosystem lies. This only means one thing: do not fight against it, but embrace it. To thrive, rather than die out, active action to collaborate and innovate needs to be made to develop the current Fintech infrastructure in Indonesia, which in turn helps to develop the country to a prosperous hub for the digital space.

PERCENTAGE DISTRIBUTION OF THE INDONESIAN FINTECH ECOSYSTEM



@FINTECHINA

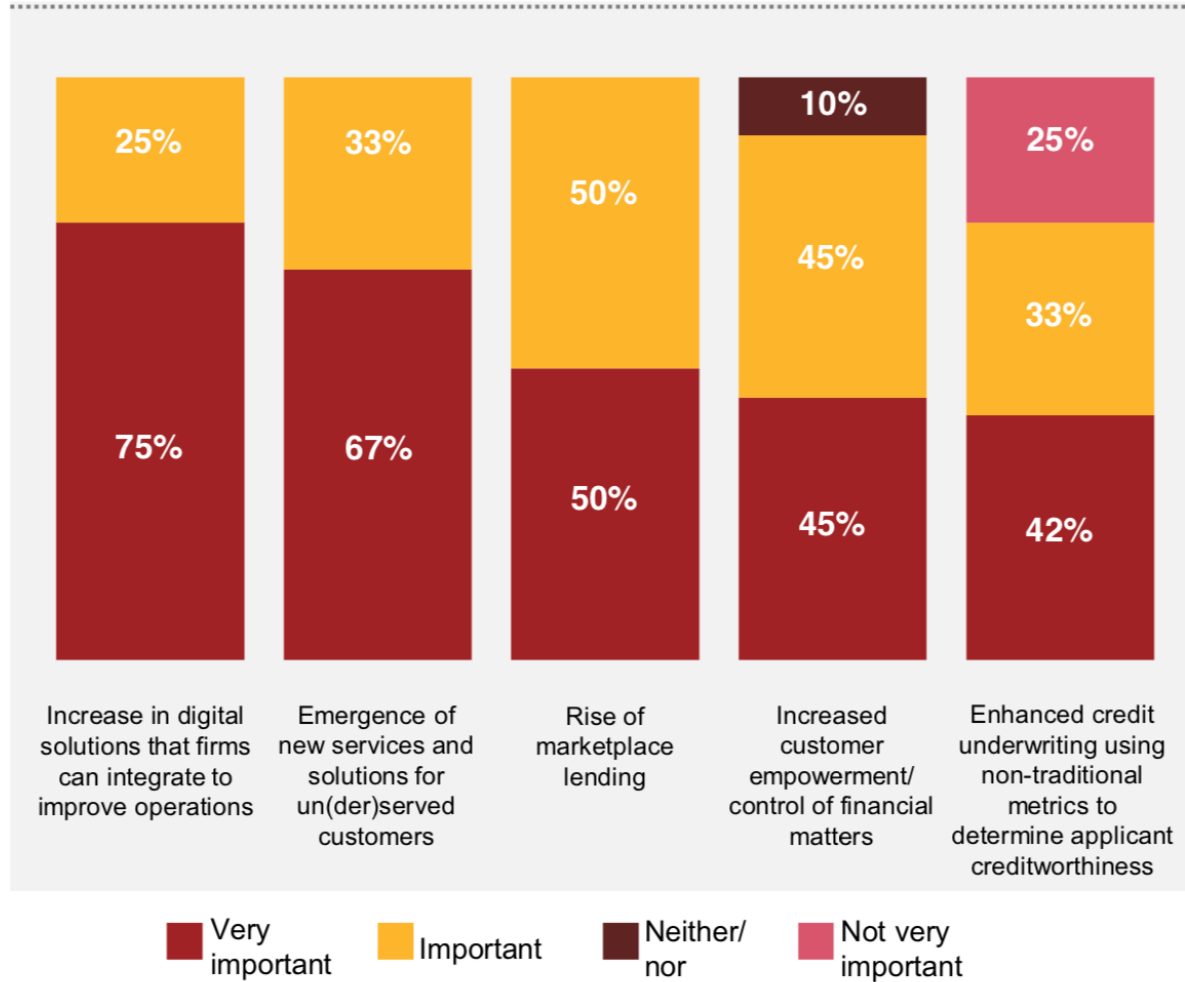
<http://fintechnews.sg/4814/indonesia/new-fintech-report-highlights-indonesias-untapped-opportunity/>

As Fintechnews indicates, “a majority of Indonesian fintech companies desire greater collaboration with other parties. 44% of fintech companies cited collaboration as at least one of several priorities and 51% described collaboration as critically important.”

It is believed that “23% of banking business could be at risk due to further development of FinTech though FinTech companies anticipate they may be able to acquire 33% of incumbent business” (PwC Global FinTech Report, March 2016). While there seems to be mixed views on how much Fintech may influence the banking industry, one thing is for certain: there is disruption, and with that comes a need to change or adapt accordingly. Due to this divide between banks, with the general view being that there is moderate to significant impact of Fintech on banking sector, there are still many responses that result in investment and partnering with Fintech companies to help support businesses to this digital transformation.

Figure 25: FinTech trends expected to have a significant impact to the Indonesia banking industry over next 5 years

Q: To what degree will these FinTech trends be important for the banking industry over the next 5 years?



Source: PwC Global FinTech survey 2017 Base: 31 respondents from Indonesia banking, fintech and technology sectors.

<https://www.pwc.com/id/en/publications/assets/financialservices/ibs-2017.pdf>

Get good insight into your market with a well researched report to help improve your business.

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