

# Digital banking in Indonesia: Building loyalty and generating growth

Global Banking February 2019

Authored by:  
Sonia Barquin  
Guillaume de Gantès  
Vinayak HV  
Duhita Shrikhande

# Digital banking in Indonesia: Building loyalty and generating growth

Digital technology will continue to transform the banking landscape in Indonesia. Our latest survey of financial services customers in the country shows considerable growth in the adoption of internet and mobile banking, indicating that digital channels will become increasingly crucial in building loyalty and generating growth for financial institutions.

To understand the dynamics of the personal financial sector, in 2017 McKinsey surveyed 900 consumers of financial services across Indonesia on their banking habits—part of a broader survey<sup>1</sup> of approximately 17,000 personal finance consumers in 15 Asian markets<sup>2</sup> that builds on research that began in 1998.

The Indonesia research shows a continuation of the shift to digital channels observed in the 2014 version of the survey. Digital penetration is 1.6 times the 2014 rate, and has now reached 58 percent, in line with the rest of Emerging Asia.

Several factors combined to accelerate the migration to digital channels in Indonesia. In addition to the rapidly increasing adoption of the internet and smartphones, and growth in e-commerce, a strong digitization push by Indonesian banks has stimulated demand. Banks' efforts to encourage customers and explain online banking were the most frequently cited reason respondents gave for trying digital channels.

## Three trends shaping retail banking in Indonesia

We believe three trends—the diversification of banking relationships, the increasing receptiveness of consumers to digital propositions, and

the increasing value of digitally active consumers—will continue to shape Indonesia's retail banking sector.

### 1. Diversifying banking relationships

Indonesia's banks—as well as their peers in the rest of Emerging Asia—trail Developed Asia's banks in product penetration. While this figure has grown from an average of 2.2 products in 2014 to 2.7 in the recent Indonesia survey, it is still well behind the 5.7 average for Developed Asia. At the same time, the number of banking relationships per customer is growing, albeit still trailing Developed Asia as well. We believe these figures will increase as Indonesia's economy continues to grow and customers mature financially. This increase in product penetration will represent a significant growth opportunity, but will also draw intense interest and competition from fintech attackers. Indonesian banks will need to take swift action to address decreasing customer loyalty.

### 2. High level of openness to digital banking propositions

Indonesian consumers are very open to digital banking. Over the past three years, monthly usage of digital banking channels in Indonesia has grown twice as fast as other Emerging Asian markets. Furthermore, 55 percent of nondigital customers said they were likely to use digital banking in the next six months; this is the second-highest figure for any country in Emerging Asia, after Myanmar (Exhibit 1, next page).

The survey also points to an opportunity for purely digital players: about 50 percent of all

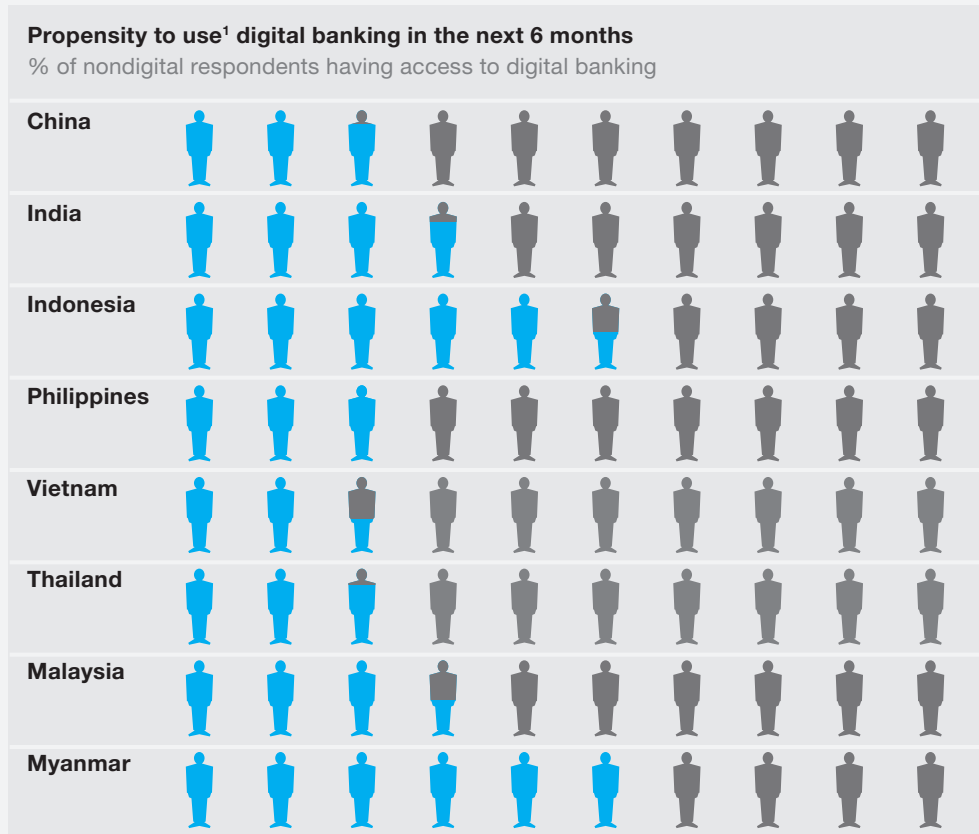
<sup>1</sup> Sonia Barquin, Vinayak HV, and Duhita Shrikhande, "Asia's digital banking race: Giving customers what they want," April 2018, McKinsey.com.

<sup>2</sup> For our analysis, Developed Asia comprised Australia, Hong Kong, Japan, Singapore, South Korea and Taiwan. Emerging Asia comprised China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Exhibit 1

Indonesian banking customers are among Emerging Asia’s most enthusiastic adopters of digital banking.

 Likely to use in next 6 months (10% of respondents)       Unlikely to use in next 6 months (10% of respondents)



Note: N=555 for China; 1,512 for India; 339 for Indonesia, 589 for Philippines; 320 for Vietnam; 318 for Thailand; 216 for Malaysia; and 598 for Myanmar.

<sup>1</sup>Digital banking usage or penetration refers to respondents who say “yes” to either using internet banking via PC or via smart-phone. Includes respondents who are highly likely and somewhat likely to use digital banking in next 6 months

Source: McKinsey Asia PFS survey 2017

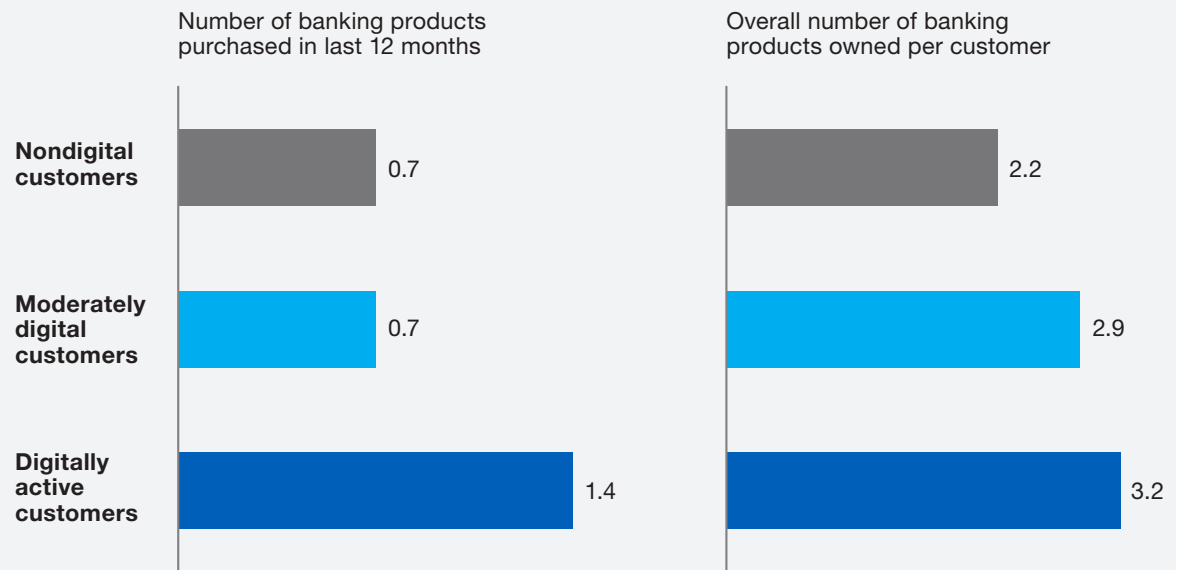
respondents would consider shifting to a bank without any physical presence, and a majority of those respondents expressed confidence that they would shift 25 to 50 percent of their balance to a pure digital bank.

Despite the strong openness to digital banking, branches will continue to be relevant in Indonesia.

About four in five respondents cited convenient branch and ATM locations as a reason for choosing a bank. In addition, digital transactions remain limited mostly to simple services and products as consumers cite security concerns and difficulties in understanding more complex offerings. Branch access as part of a multichannel offering could address such worries.

Exhibit 2

## Digitally active customers in Indonesia purchase more banking products than other customers



Note: N=381 for nondigital; 236 for moderately digital; and 288 for digitally active.  
Source: McKinsey Asia PFS survey 2017

### 3. Digitally active consumers are more valuable

The percentage of Indonesia's banking consumers that are digitally active<sup>3</sup> has grown 2.5 times since 2014, and they now comprise 32 percent of the banked population. This growth becomes even more significant in light of the fact that digitally active consumers are more valuable in an economic sense to banks. Two metrics from our research underscore why this segment will be so important for Indonesian banks seeking growth:

*Loyalty:* Digitally active consumers are twice as loyal as nondigital consumers.

*Purchase activity:* Digitally active consumers bought twice as many banking products in

2017 compared to nondigital consumers, and currently own 1.5 times more products than nondigital peers (Exhibit 2).

#### Responding to consumer trends

The rapid shift towards digital banking in Indonesia presents opportunities for both incumbents and attackers to enhance customer engagement and add value:

##### Building new digital capabilities

To capture the growth potential in Indonesia's increasingly digital customers, banks must invest in new capabilities:

- To keep up with the fast pace of change in today's banking landscape, banks must

<sup>3</sup> Digitally active consumers use digital banking at least fortnightly and have made a recent online purchase. Moderately digital consumers use digital banking but have not yet made an online purchase. Nondigital consumers do not use digital banking channels.

become more agile; that is, they need to be both flexible and dynamic in response to shifts in technology and customer behavior.

- Digital customers bring value to banks, but they are also used to the high level of responsiveness, customization, and service they receive from native digital firms. To attract and satisfy these customers, banks must adopt a customer-centric mindset and redesign customer journeys.
- Digital channels give banks access to valuable data on customer demographics, product usage, and credit behavior, but this information is only useful if a bank has advanced analytics capabilities to unlock insights and value from them.

**Make banking a part of the customer's life**  
As digitization continues to spread across industries, traditional boundaries are fading, and ecosystems are emerging in their place. In this new paradigm, Indonesian banks start with a significant strength: high customer trust. We believe Indonesian banks should start integrating and broadening their offerings across their customers' daily lives, creating seamless ecosystems that improve stickiness and drive growth. Successful

ecosystem orchestration requires strong collaboration skills, as banks will need to work with nonbanking firms such as fintechs or other service providers to deliver value to customers.

**Provide simple digital onramps for customers**  
A significant portion of Indonesian consumers find digital channels and banking products overly complicated. By introducing simple offerings first, banks can let customers grow comfortable with digital channels before nudging them toward more complex products that deliver more value. This process may also involve investing in customers' financial education, which could also build credibility, trust, and loyalty.



The shift toward digital banking in Indonesia will continue. Consumers are increasingly open to digital channels and digitally active consumers bring more economic value to their banks. Given the opportunities for rapid growth, competition both within and from without the banking sector will be intense. Banks should continue their digitization efforts, and move quickly to attract new customers and build loyalty in their existing customers.

**Sonia Barquin** and **Guillaume de Gantès** are partners in McKinsey's Jakarta office, **Vinayak HV** is a partner in the Singapore office, and **Duhita Shrikhande** is a consultant in the Bangkok office.

Global Banking Practice

February 2019

Copyright © McKinsey & Company

[www.mckinsey.com/industries/financial-services/our-insights](http://www.mckinsey.com/industries/financial-services/our-insights)