

Ronald Waas: Digitization in a growing economy

Keynote speech by Mr Ronald Waas, Deputy Governor of Bank Indonesia, at the Visa Card Managers Annual Meeting, Bali, 27 February 2015.

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Distinguished,

- President Director of Visa and his team for organizing this event,
- People of Payment System Industry,
- Ladies and Gentlemen,

Good Morning and May God Bless Us All, Om Swastiastu,

1. To begin this speech, please allow me to invite all of us to praise God the Almighty for his blessings so that we meet in a healthy and favorable condition in Sofitel Hotel, Nusa Dua – Bali, in the **Visa Card Managers Annual Meeting**.
2. I welcome the theme “**Digitization in a Growing Economy**”, particularly because digital technology has been a consistently increasing part of our daily lives at the local, Asian, and international levels.
3. On this great occasion, I would also like to extend my appreciation to Visa and all System Payment people who are present here and constantly show their commitment to promote a better Payment System in Indonesia in the future.

Ladies and Gentlemen, distinguished guests,

Regulatory function

4. On several occasions of interacting with industries and the wider community, I always quote a famous American writer in the beginning of the 19th century, James F. Cooper: “**the very existence of government at all, infers inequality**”. The most fundamental essence of the existence of authorities is to guarantee that any unbalanced social and economic establishments in the community may be managed for the welfare of the wider community.
5. This adagio is important, primarily related to the massive potentials of Indonesian domestic market with a consistently increasing economic capacity. Without acceptable management, our nation will never be “the host” in its own country.
6. Therefore, in line with the complex social plurality and highly dynamic digital technology development, the authority’s function as a control tool to organize people’s life to become more strategic, especially to achieve a completely safe, smooth, and efficient payment system.

Ladies and Gentlemen, distinguished guests,

Indonesia’s economic development

7. Millennium 21 is a new horizon which opens many opportunities for Indonesia to become a country providing better welfare. With such determination, Bank Indonesia will keep strengthening its contribution to the national economy.
8. In the last few years, the magnitude of global environmental change keeps happening to the domestic economy. Amidst such unfriendly strategic environment, our economic foundation needs improvement and strengthening in some parts.
9. History shows that although Indonesia’s economy keeps experiencing turbulence, it always manages to survive by creating stabilization and even to rise by recording high growth. The year 2011 marks the end of Indonesia’s recovery transition period

by successfully entering into the category of middle income country with per capita income of over USD 3,000. The World Bank has ranked Indonesia's economy 10th in the world through Purchasing Power Parity (PPP).

10. It is certainly the pride of Indonesia as a big nation. However, it also leaves a challenge and work for all of us to allow the wider community to enjoy the benefits of the nation's huge economic capacity.

Ladies and Gentlemen, distinguished guests,

Domestic market potential

11. We realize that the huge potential of Indonesia's market has not been optimally explored. In spite of the increasing use of payment system, a survey by McKinsey & Company (2013) shows that **the volume of use of cash for retail transactions is still dominant, i.e. 99.4%**, which is one of the highest compared to ASEAN peer countries.
12. In such condition and in line with the **digitization trend development** of Indonesian people and the international world, we are confident that the future potentials of electronification increase will become higher. Some factors may boost such payment system potentials.
13. **First**, payment system development in Indonesia keeps increasing. Statistics show that non-cash transactions grow by 22% in average annually (in terms of volume) and 21% (in terms of transaction value). Out of all non-cash instruments, the most rapid development is shown by electronic money by around 30% in 2014.
14. **Second, digitization trend** through the use of telecommunication device by the community, including in remote areas, consistently indicates an increase, which now has reached 270 million¹ users. Penetration of internet users in Indonesia is also very high, reaching 74.6 million in 2014².
15. **Third**, Indonesia has very high population of around 250 million people or half of the total population of ASEAN countries. With the increasing number of **middle class growth** reaching 150 million people in 2014, more than 50% of Indonesian people may potentially become payment system users.
16. **Fourth**, we record that **payment infrastructure development** also shows significant growth every year, such as ATM, EDC, and use of electronic channels, e.g. mobile banking, internet banking, and phone banking. Payment infrastructure growth of ATM and EDC in the last two years reaches 14% and 50% respectively.
17. **Fifth, Non-Cash National Movement (GNNT)** launched in 14 August 2014 gains strong supports from various Government institutions. Bank Indonesia consistently makes extensification and intensification programs for effective GNNT program.

Ladies and Gentlemen, distinguished guests,

Mandates of Bank Indonesia

18. As a payment system authority, the mission of Bank Indonesia is to manage and maintain safe, efficient, and smooth Payment System and Money Management through access expansion and by considering the national interest. The mission will be achieved through two important aspects: first, **Payment System strengthening** and second, **proactive in initiating cooperation and collaboration**.

¹ Data of MOCIT, 2014.

² Mark Plus Insight Netizen Survey, 2014.

19. Payment system strengthening is specified in four pillars: first, effective and efficient money management system; second, **payment electronification expansion**; third, reliable and safe Payment Infrastructure; fourth, strong and rigorous supervision and oversight. On this occasion, we will focus more on exploration of the second pillar, i.e. Payment Electronification Expansion.
20. In relation to the Payment Electronification Expansion, one of the visions of Bank Indonesia in non-cash sector is **to realize a society with strong preference to using non-cash payment instruments and facilities in making financial transactions, also known as Less Cash Society**.
21. The realization of Less Cash Society is important to boost more efficient economy, in addition to promoting better governance in financial management by the community, businesses, and government institutions.

Ladies and Gentlemen, distinguished guests,

Electronification

22. In the beginning, we frequently use the term **Digital Payment Services**; however, in line with the focus and efforts to achieve the mission in non-cash sector, we consider **Electronification** as a more appropriate term.
23. **Electronification is an incorporated and integrated effort to change cash payment into non-cash payment**. Expanded use of electronification is defined as an effort to change most payment mechanism from physical into digital or from manual into electronic and to increase limited financial access to wider (inclusive) financial access.
24. Expanded payment electronification strategy is made through an integrated campaign effort involving all stakeholders. We will seek facilitation with the Government and the relevant institutions which may potentially serve as the catalyst of use of payment system electronification.
25. Expanded payment electronification is also an integral part of financial inclusion policy to increase the access of unbanked people to financial institutions. Through the use of information technology, we expect that the launched electronification program may serve as a drive to answer this challenge by providing services to such people in a safe and efficient manner.

Ladies and Gentlemen, distinguished guests,

Bank Indonesia' policy to promote less cash society

26. Bank Indonesia's authority in payment system is embodied in the following 4 roles: (1) establishment of policy, (2) authority in the entry and exit policy of payment system industry, (3) payment system operators, and (4) oversight. Through such 4 roles, we may determine the future direction of payment system development.
27. The established policy is directed to achieve **targets of non-cash transactions of up to 2.4 times of GDP by 2015 and 3 times of GDP by 2016**. The **entry and exit policy** aims to make the payment system industry **healthier and ready to compete** with the global industry. **As an operator**, Bank Indonesia consistently builds a safe and reliable payment system following the requirements of the community and payment industry. Lastly, Bank Indonesia continuously **strengthens payment system oversight** to ensure any payment system development innovation is followed by **good risk mitigation aspect** which in turn will increase public trust in non-cash payment system.
28. To boost non-cash expansion, Bank Indonesia has launched less cash society achievement strategy in 4 focus activities, namely (1) change of public culture

towards non-cash transactions, (2) expanded services of non-cash payment, (3) development of supporting infrastructure, and (4) alignment of regulations.

29. **First, culture change strategy** will be realized through an integrated campaign involving all stakeholders. We will seek facilitation with the Government and the relevant institutions which may potentially serve as the catalyst of use of payment system electrification. The efforts made jointly by Bank Indonesia and the industry among others are e-ticketing cooperation in public transportation sector and development of Government's assistance distribution (government to people).
30. On the other hand, we are also seeking to increase public awareness on non-cash transactions through a sustainable education program, like integration of non-cash study into the education curriculum.
31. **Second, expanded payment electrification** is also an integral part of financial inclusion policy to increase the access of unbanked people to financial institutions. Through the use of information technology, we expect that the launched electrification program may serve as a drive to answer this challenge by providing services to such people in a safe and efficient manner.
32. Bank Indonesia has presently expanded payment electrification through development of Electronic Bill Presentment and Payment to integrate bill payment.
33. **Third, to realize reliable, efficient, and safe payment infrastructure** through National Payment Gateway (NPG) and National Scheme. NPG infrastructure development eventually aims to increase PS service efficiency, including in terms of cost, to add PS service coverage through interconnection and interoperability among operators, and to build independency of national retailers PS by domestic processing.
34. PS independency closely relates to the national standard implementation. Bank Indonesia will ensure that the set standard is in line with the national interest and implemented according to the determined time target. We all have started it and it is our obligation to complete it. I am aware that something we originally start may have downsides, but it is our task to cover those downsides.
35. **Fourth, strong and transparent regulations and oversight** must be applied to all payment system operators. In the aspect of oversight of payment system instruments, BI will surely strengthen the capability of payment system oversight.
36. In addition, we will **strengthen coordination and consolidation between policy authorities and payment system businesses**. The step is realized through a plan to establish a high level coordination medium consisting of payment system authority and businesses. Intensive coordination and consolidation is expected to synergize various interests and direct industries for their efficient movements, to promote favorable climate, and to strengthen customer protection by upholding the national interest.

Ladies and gentlemen,

Closing

37. To conclude my speech this morning, I wish to remind us all that payment system development must be built under the principle of **a sound competition to minimize any negative impacts potentially resulting in public confusion, to open access reachable by domestic actors and the wide community, and to eliminate economic rent**.
38. Particularly in connection with Expanded Electrification, I also wish to re-emphasize that the realization of the expected less cash society basically aims to a cultural/behavioral change instead of system change. Therefore, improvement of

education quality for the public is the most strategic phase. The reason is only through improvement of education quality we can open comparative excellence window and build the foundation to reach excellent and prosperous Indonesian society.

39. In this regard, Bank Indonesia as the Payment System Authority will seek to direct the industry for their efficient movements, promote favorable climate for payment system and settlement of financial transactions, and strengthen customer protection by upholding the national interest.
40. I conclude this speech with the confidence that God will always be with us to support and smooth our moves towards a better future.

Thank you.