

The Impact of BRILINK Agent Market Penetration on Inclusive Financial Growth in Indonesia

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ABSTRACT

In the last 3 years, market penetration by BRILink agents showed a positive performance and trend. This condition is in line with the growth of financial inclusion in Indonesia. As one form of the branchless banking programme which called “LakuPandai Programme” that dominates the branchless banking market in Indonesia, market penetration by BRILink agents certainly has an impact on the positive growth of financial inclusion in Indonesia. In 2018 they had 380 thousand Brilink agents. This research describes to illustrate the impact that arises from the growth of BRILink agents' market penetration towards the growth of inclusive finance in Indonesia. This study uses descriptive research methods with qualitative analysis. The data in this study were obtained through literature studies of various documents related to this study. The results show that the impact of BRILink's market penetration on the growth of inclusive finance in Indonesia is seen in the increase of the ability to utilize public financial services, especially the small community and micro business groups.

Keywords: Branchless Banking, BRILink agents, Financial Inclusion

1. INTRODUCTION

The rapid development of technology and changes in customers in the digital era makes all connected from a total population of 264 million people in Indonesia, there are 171.17 million people or around 64.8 percent who have been connected to the internet. This has an impact on the banking world that will soon face MEA 2020, digitalization changes the behavior of increasingly mobile customers and the existence of a bank office is not too important because all non-cash financial transactions can be done via smartphones. According to the Info Bank Research Bureau (birII), the population accustomed to using digital facilities will increase to 176,022 million by 2025 because in addition to generation Y there is a generation Z that for the next 5 to 10 years will become the target of the digital market.

The number of Indonesians scattered far from the location of the bank office due to uneven infrastructure in Indonesia has caused many community members who do not know how to use banking services and other financial services. The number of people who have new accounts reaches 49% or 95.4 million accounts by 2017 and in 2019, the Indonesian Financial Services Authority (OJK) targets to have 75% of public account ownership or 52.6 million accounts are still needed. Hendriyani & Raharja (2018) stated that transformation in technology triggered by many companies has changed their platform to business digitalization and the ability of the community to access financial services is then known as financial inclusion.

The ability of people to access financial services, known as financial inclusive. The Global Financial Development Report (2014) defines Financial Inclusion as "The proportion of individuals and companies that use financial services has become a quite interesting subject among policy makers, researchers and other stakeholders"; "Inclusive finance is a condition where all individuals can take advantage of available financial services and minimize the existence of groups of individuals who are not aware of obtaining financial access through available access without high costs". Inclusive finance is more successful for groups at the bottom of the pyramid, namely low income groups of workers, migrant workers, people living in difficult areas and others who generally do not have bank accounts. Financial inclusion in Indonesia is still low. This can be seen from the fact that there are still 60 million or 33% of Indonesians who do not have a bank.

The strategic role of financial institutions as institutions that collect and channel public funds is effective and efficient in improving people's lives. In other words, financial institutions consist of institutions that have excess funds (excess funds) with a lack of funds (lack of funds) and have the function of community financial intermediaries (financial intermediaries). With this role, the ability of the community to access various finances focuses on improving the welfare and economy of the community. The right of every person to have full access to financial services that are of the right quality, comfortable, clear and at affordable costs as full respect for his personal dignity.

In Indonesia, one of the efforts to increase financial inclusion is the implementation of the Office of Financial Services program in the context of Inclusive Finance (Laku Pandai). The Laku Pandai Program was officially released by OJK on March 26, 2015. The Laku Pandai agent is expected to encourage the growth of new account ownership in Indonesia by providing financial products that are simple, easy to understand and in accordance with the needs of the public who cannot yet reach financial services. Laku Pandai agents are also expected to launch community economic activities so as to encourage economic growth and equitable development among regions in Indonesia, especially between villages and cities.

Bank BRI as one of the successful banks organizes the Laku Pandai Program where the contribution of transactions produced by BRI's Laku Pandai agent titled BRILink almost matches the wholebanking transaction. BRILink agent has an average of 1.6 million transactions every day, while whole banking transactions reached 1.8 million. BRILink agents also contributed to BRI's commission revenue from e-channel transactions which until April could reach Rp 13.3 trillion, with growth reaching 52 percent yoy. Now, the number of BRILink agents has reached 400,000.

The high level of market penetration of BRILink agents, which is supported by the presence of BRI's office units that reach almost all villages in Indonesia, certainly has an impact on the level of financial growth in Indonesia. Departing from these conditions, it needs to be seen and measured further to the extent of the role of the BRILink agent market penetration in encouraging inclusive financial growth in Indonesia.

2. LITERATURE REVIEWS

2.1 Branchless Banking

Frame and White's (2014) stated that financial innovations occur as a result of technological and communication developments that encourage banks to change products and processes. The use of third parties to transact banking business, commonly referred to as banking agency, has grown substantially.

In the Preliminary Study of Bank Indonesia (2011) agreed that Branchless Banking in general is a strategy that serves the public will provide finance without depending on the bank's branch offices physically. Branchless Banking is designed around policies that facilitate easy inclusion. The registration process often simply requires just a phone number or national ID number be entered into the mobile money system. Branchless Banking can be defined as perform the financial services activity outside the branches or bank building. Dermish et al. (2011) stated that branchless banking allows customers to conduct basic financial transactions such as deposits and withdrawals at everyday retail stores, using technology readily available to both customers and store clerks in the form of cards or mobile phones to properly secure and authorize the transaction and is about building a general payments infrastructure that allows people and businesses to deposit and withdraw funds and make electronic payments from everyday retail stores, thus eliminating the need for bank branches or other bank-specific infrastructure. Basically, the technology used in the branchless banking is mobile banking and bank cards to carry out financial transactions electronically. According to Vong, Jhon (2013), yet in branchless banking, financial transaction is helped by a third party called the agent. Lyman et al. (2006) stated that according to the CGAP (Consultative Group to Help the Poor) Branchless Banking resolutions are conducted outside the bank branch offices using information and communication technology as well as non-bank retail agents.

According to Porteous (2006) there are two models in branchless banking: (1) Additive model, which focuses on mobile banking and internet banking services to be able to use banking services; (2) Transformational models, which are the main targets of this model are people who do not have a bank account and thus need channels that are easily accessible to them. Lyman et al. (2006) stated that in general there are 2 branchless banking branchless banking models namely the Bank Led Model and the Telco Led Model. In the Bank Led model, banks use telecommunications services or agents or both to serve the needs of the community whereas in the Telco Led Model the technology company provides the most basic banking services without involving banks in business processes, or banks in this case are only supporting.

According to the Financial Services Authority (OJK), the concept of branchless banking is the extension of banking services without relying on branch offices, utilizing technological media, or assisted by agents such as stores, post offices, individuals, and others. Customer can do banking transaction such as opening an account, paying bills, and transferring money by using internet and the help from field-agent, without necessarily have to go to the bank. Branchless Banking utilizes technology to expand financial access through collaboration with retail agents, microfinance institutions, cell phone operators and technology companies.

2.2 Agency

Agency is a binding relationship between two parties where one party is often referred to as an Agent, that is, a party that is given the authority to do acts for and on behalf of and under another party but does not bind itself but to the parties it represents, given its position only as an intermediary. According to Santoso, Budi (2015), the other party is the Principal, that is, the party that gives the authority to the Agent to take certain actions and supervises

the actions taken by the Agent, while the party conducting the transaction with the Agent is called a third party.

Branchless banking services use the involvement of individuals or business entities or legal entities to become banking agents. Where the position of these agents replace the functions of banks in the general public, especially people with a lower middle economy. In Financial Services Authority Regulations Number 19 / POJK.03 / 2014 Article 1 point 4 is defined that the agent is a party that cooperates with the branchless banking which is an extension of the Bank to provide banking services to the public in the framework of inclusive finance as promised.

2.3 Financial Inclusive

Bihari, Suresh Chandra (2011) defines that Financial inclusion is the ease of access, availability and use of the formal financial system by all members of the economy. The importance of an inclusive financial system is widely recognized in the policy circle, and, recently, financial inclusion has become a policy priority in many countries. Initiatives for financial inclusion have come from the financial regulators, the governments, and the banking industry. Financial inclusion is no less important than social inclusion. As we see in our society, millions of people are not considered for fair treatment either from the social institutions or from the financial institutions. According to Financial Services Authority Regulations number 19 / POJK.03 / 2014 Article 1 point 5 Inclusive finance is a situation where the entire community can easily access financial services and has a culture to optimize the use of financial services.

In Indonesia, financial inclusion becomes a national strategy to encourage economic growth through equitable distribution of income, poverty reduction, and financial system stability. The right of every individual is guaranteed to be able to access the entire range of quality financial services at an affordable cost. According to Bank Indonesia (2014), the target of this policy is very concerned about the poor low-income, productive poor people, migrant workers, and people living in remote areas.

Levine (2005) stated that empirical studies show a positive relationship between financial system development and long-term economic growth. In a regression using a cross-country sample Beck, Demirguc-Kent, and Levine (2005) measure the impact of the development of financial intermediation on the poor and income inequality. The results show that the growth of the financial sector has a positive impact on (i) decreasing income inequality (Gini coefficient), (ii) increasing income of the very poor, and (iii) decreasing the percentage of the population living below the poverty line. Indeed Beck, Demirguc-Kunt, and Honohan (2008) revealed that pro-poor financial access reduces income inequality and poverty faster.

Based on these three elements, this study defines financial inclusion as a process to ensure access of the poor as marginalized groups to various financial system services.

3. METHOD

The research is based on a comprehensive review of the literature. The method used in this study was qualitative research with descriptive approach to describe the phenomenon of the development of BRILink agent market penetration as seen from the growth of BRILink agents over the past 3 years, the percentage of the growth of Laku Pandai agents as a whole, and their impact on inclusive financial growth in Indonesia through the Laku Pandai program.

4. RESEARCH AND FINDINGS

Results of research at BRILink agent through data collection techniques, observation and documentation study obtained the following results:

4.1 Inclusive Financial Growth in Indonesia

Inclusive finance is positioned as one of the strategies in national economic development and efforts to reduce poverty and social inequality. National financial inclusive strategies are formulated by Bank Indonesia to encourage the role of the banking sector to increase financial inclusion. As a step to accelerate financial inclusion and facilitate access to unbanked people, banks provide branchless banking and non-cash services.

Throughout 2014 and 2017, Indonesia was the country with the largest number of bank account ownership increases compared to other developing countries in the East Asia and Pacific region. As many as 48.9% of Indonesian adults currently have a bank account. This fact shows a big jump in the country's efforts to increase financial inclusion. This achievement also marked a significant development of 36% of bank account ownership in 2014 and 20% in 2011. According to Global Findex (2018), in terms of using accounts for savings, Indonesia also has a strong value, which is 10 points higher than the average of other developing countries in world. It is known that 42% of account holders save at a formal financial institution such as a bank or microfinance institution.

According to Demirgüç-Kunt et al. (2018), in the 2018, from OECD economic survey, it was found that the percentage of Indonesian adults who have accounts in financial institutions rose from 36% to 48% between 2014 and 2017, as rural areas catch up.

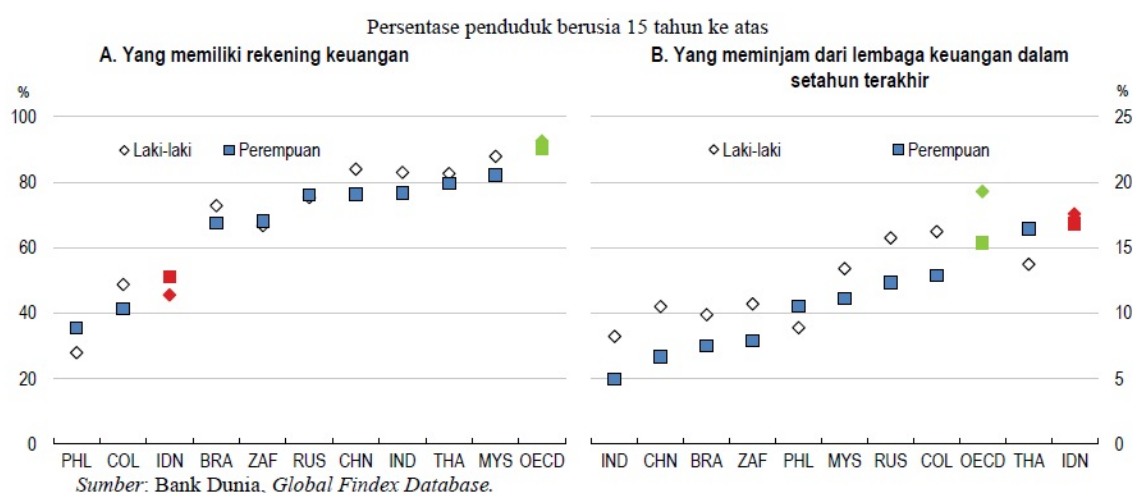


Figure 1. Comparison of Inclusive Financial Developments with Account and Loan Ownership Indicators

Source : World Bank (2018)

4.2 Growth of Branchless Agents (Laku Pandai) in Indonesia

Based on the results of the National Literacy and Financial Inclusion (SNLIK) survey conducted by Financial Services Authority only 57.28% of the public enjoyed banking services. Geographical conditions are one of the main challenges for banking services, it is difficult to reach remote areas of Indonesia, and the cost of building office networks that are also not cheap. The lack of public knowledge and understanding regarding financial products and services is allegedly the reason there are still groups that are not reached by financial services.

The function of Branchless Agents (Laku Pandai) not only increases access to financial services, but also extends financial education to the public. Laku Pandai agent is believed to be able to help people who have never been in contact with banks. Laku Pandai agents as a

programs under Financial Services Authority Supervision that provide banking services and/or other financial services performed not through office networks, but through cooperation with other parties supported by the use of information technology facilities and also through retail networks. This program aims to provide financial products that are simple, easy to understand, and in accordance with the needs of the public that cannot be reached by conventional financial or banking services.

Based on data released by the Financial Services Authority per Dec 2018, it can be seen that the Branchless Agents (Laku Pandai) program also shows positive growth :

Table 1 : The development program Branchless Agents

	Dec 2015	Dec 2016	Dec 2017	Dec 2018
Number of Bank	Mandiri, BRI, BCA, BNI, BTN, BTPN	16 conventional commercial banks & 2 Islamic commercial banks	25 conventional commercial banks & 2 Islamic commercial banks	26 conventional commercial banks & 4 Islamic commercial banks
Number of individual agents / legal entity outlets	60.805,-	275.911,-	740.121,-	1.004.547,-
Outstanding account amount (customer)	1.216.952,-	3.700.215,-	13.645.396,-	22.833.627,-
outstanding amount of savings	67 billion	216, 5 billion	1.03 trillion	1.57 trillion
number of provinces where the agent	34 provinces (all over Indonesia)	34 provinces (all over Indonesia)	34 provinces (all over Indonesia)	34 provinces (all over Indonesia)
number of districts / cities	385 (out of a total of 514 districts / cities)	507(out of a total of 514 districts / cities)	512(out of a total of 514 districts / cities)	509(out of a total of 514 districts / cities)

Source : Financial Services Authority (2019)

The distribution of the Branchless Agents (Laku Pandai) until 2019 is still concentrated in Java (64.94%), where the highest percentage of agents is in West Java Province, which is 20.24%. Whereas based on the Big Island, the regions that had the least percentage of Branchless Agents (Laku Pandai) were Maluku and Papua, which was only 1.35%.

4.3 Growth of BRILink Agents

BRILink is a form of Laku Pandai program organized by BRI which is one of 4 pioneering banks implementing Laku Pandai. In the 2015-2017 period, when viewed from the growth of BRILink agents, a positive growth trend was seen. The number of BRILink agents increased every year :

The growth in the number of agents was also followed by a growth in the number of BRILink transactions. The number of BRILink transactions increased by 105.4% YoY from 98.4 million transactions in 2016 to 202.1 million transactions in 2017 and 378,7 million in 2018. Until June 2019 transactions through BRILink Agents reached 234 million transactions with transaction volume reach to 331 trillion.

.According to BRI (2018), from BRILink's performance, BRI obtained a Fee Based Income of Rp 448.82 billion in 2018, growing 177.79% from 2017 amounting to Rp 161.57 billion. This increase has a positive impact on BRI's overall revenue. In addition, BRILink also increased the Current Account Saving Account (CASA) by IDR 5.5 trillion, growing 39.95% from 2017 IDR 3.93 trillion. While the transaction volume from BRILink was IDR 512.69 trillion.

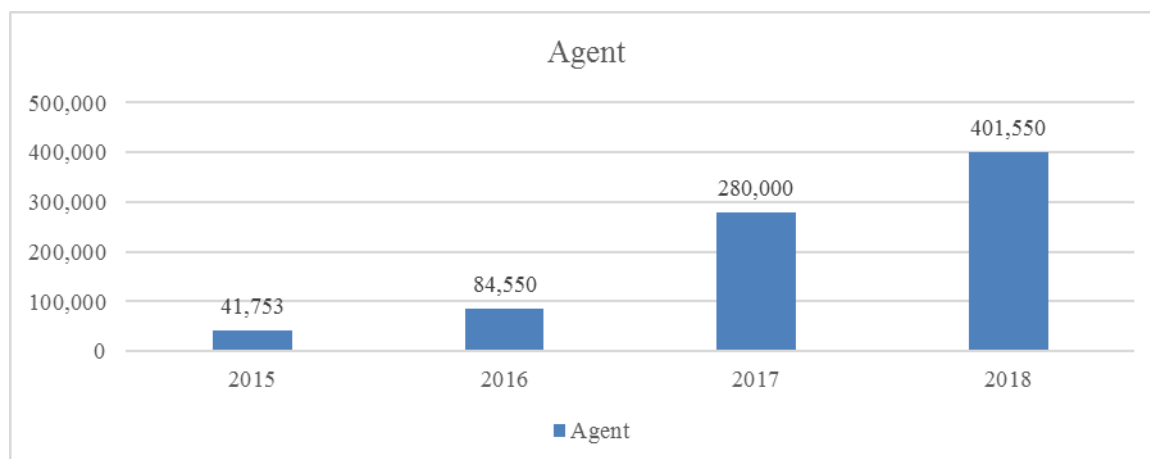


Figure 2. Number of BRILink Agents

Source : BRI (2019)

Table 2 Progress BRILink 2016-2018

	2016	2017	2018
BRILink agent	84.550	279.750	401.550
Financial Transactions (Thousands)	98.292	202.074	378.722
Fee Based Income (Thousand)	70.585	161.568	448.817
Current Account Saving Account (Thousand)	1.382.660	3.930.473	5.498.974
Transaction Volume	139.11	298	512.69

Source: BRI Annual Report (2018)

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusions

Indonesia has growth in the value of inclusive financial indexes over the past three years. Although this growth tends to be slow because it only touched 48.9% in 2018, but when compared to countries in the Asia Pacific region, the growth of the inclusive financial index in Indonesia is among the fastest.

Inclusive financial growth in Indonesia is inseparable from the impact of market penetration carried out by BRILink agents. BRILink has the advantage in terms of broad reach because it is supported by the distribution of BRI units that have existed in all villages in Indonesia and the presence of BRI satellites that support BRILink's digital financial services. BRILink agents until 2018 have covered 49.92% of all Laku Pandai agents which are currently run by 29 banks in Indonesia.

This fact shows that the BRILink agent market penetration process shows a positive trend. BRILink which has reached all villages in Indonesia coupled with the emergence of BRILink Mobile and the penetration policy of BRILink agents in local-traditional markets, has an impact on the growth of financial service utilization where the number and value of BRILink transactions continue to increase throughout the year where the value of growth has reached almost 100% during 2017-2018. This is in line with one focus of strategies currently being implemented by BRILink, namely the expansion of BRILink's delivery channel. The

strategy is carried out by evenly acquiring 451,550 BRILink Agents in rural areas and remote areas in Indonesia (BRI: 2018).

When compared with the overall development of the OJK Laku Pandai program, the market penetration process of BRILink agents dominates the branchless banking market in Indonesia.

5.2 Suggestions

Through BRI's competitive advantage going forward, the BRILink delivery channel expansion strategy must continue to be carried out with a focus on increasing the number of account openings and the education process for the public through BRILink agents on the importance of utilizing financial services to improve public welfare. BRILink agents are the most appropriate party in carrying out the process of education and financial literacy to the community because BRILink agents have a close relationship both in terms of regional closeness and the closeness of social relations with the community.

APPENDIX

Financial Inclusion in Indonesia (2018)

Indonesia

East Asia & Pacific		Lower middle income		
Population, age 15+ (millions)	188.9	GNI per capita (\$)	3,400	
	Country data	East Asia & Pacific	Lower middle income	
Account (% age 15+)				
All adults	48.9	70.6	57.8	
All adults, 2014	36.1	69.1	41.9	
All adults, 2011	19.6	55.1	28.9	
Financial institution account (% age 15+)				
All adults	48.4	70.3	56.1	
All adults, 2014	35.9	68.9	40.6	
All adults, 2011	19.6	55.1	28.9	
Mobile money account (% age 15+)				
All adults	3.1	1.3	5.3	
All adults, 2014	0.4	0.4	3.2	
Account, by individual characteristics (% age 15+)				
Women	51.4	67.9	53.0	
Adults belonging to the poorest 40%	36.6	59.3	50.7	
Adults out of the labor force	42.1	59.8	50.8	
Adults living in rural areas	47.0	68.8	57.6	
Digital payments in the past year (% age 15+)				
Made or received digital payments	34.6	58.0	29.2	
Made or received digital payments, 2014	22.4	39.0	19.7	
Used an account to pay utility bills	12.0	20.8	7.5	
Used an account to receive private sector wages	5.9	15.9	5.5	
Used an account to receive government payments	8.9	12.2	8.3	
Used the internet to pay bills or to buy something online	11.2	38.6	6.8	
Used a mobile phone or the internet to access an account	7.7	31.0	8.3	
Used a debit or credit card to make a purchase	12.3	33.1	10.0	
Inactive account in the past year (% age 15+)				
No deposit and no withdrawal from an account	14.7	11.8	21.6	
No deposit and no withdrawal from a financial institution account	14.7	11.9	22.0	
Domestic remittances in the past year (% age 15+)				
Sent or received domestic remittances through an account	15.3	15.0	10.1	
Sent or received domestic remittances through an OTC service	5.3	7.3	4.7	
Sent or received domestic remittances through cash only	9.3	5.8	8.8	
Saving in the past year (% age 15+)				
Saved at a financial institution	21.5	30.6	15.9	
Saved at a financial institution, 2014	26.6	36.7	14.4	
Saved using a savings club or person outside the family	29.9	8.6	13.0	
Saved any money	61.8	53.1	39.7	
Saved for old age	27.4	23.2	13.2	
Credit in the past year (% age 15+)				
Borrowed from a financial institution or used a credit card	18.4	21.5	9.8	
Borrowed from a financial institution or used a credit card, 2014	13.7	19.5	10.0	
Borrowed from family or friends	35.7	29.6	30.4	
Borrowed any money	54.8	46.8	42.9	
Outstanding housing loan	6.0	10.8	5.0	

Source: Global Findex (2018)

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