

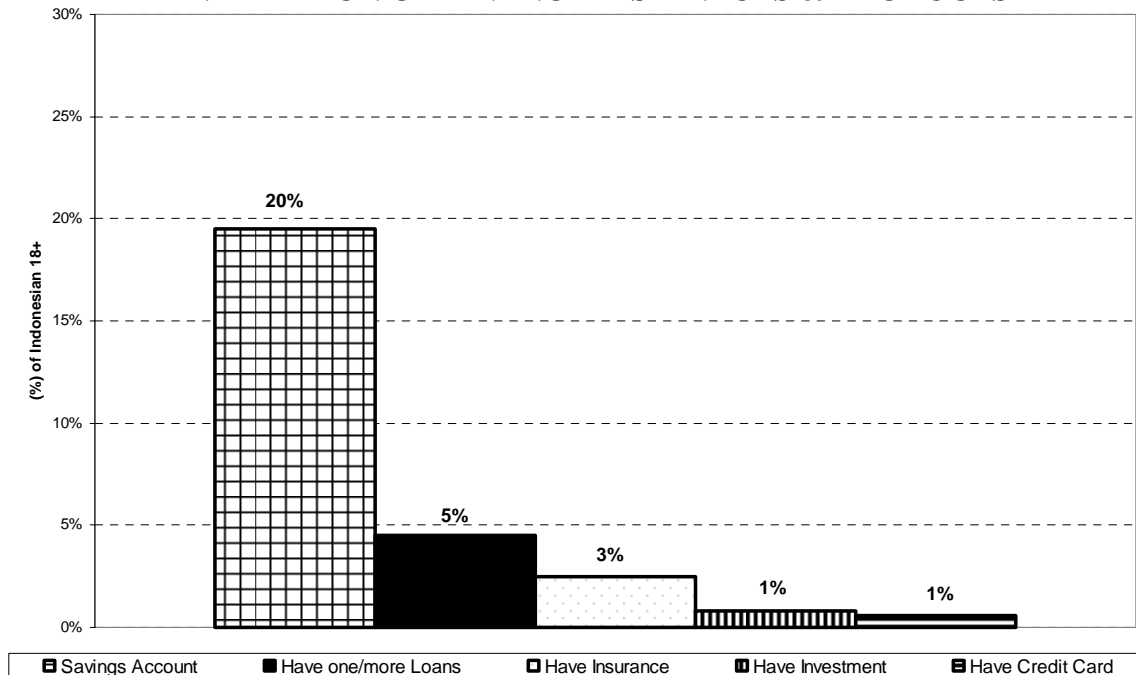
## Growth in banking relationships bolsters consumer economy

By all accounts, the latest G20 communique isn't worth the paper it's written on. Despite the polite smiles, the Americans and the Chinese seem determined to see their currencies devalued while everybody else is left scratching their heads. At APEC, the hosts decided to save the money that's usually spent on the funny shirts that mark the group photo of the attending leaders. Bruised in Seoul, they had little to cheer over the weekend in Yokohama.

For Indonesia, the lack of common purpose isn't as much of a concern as it is for most other countries. Similar to India in many ways, this mixed economy is now better equipped to ride any regional economic storms than it was a decade ago. Both countries have weathered the recent global financial crisis better than most other countries, staying out of it almost untouched. Perhaps the biggest single reason for that state of well-being is their large consumer economies. The buying and selling of goods and services of the people and by the people has kept both engines well oiled, ticking over rather nicely even in the worst of times. For a developing country, the high degree of self-reliance is now the strongest bulwark against the swinging tides of our globalised world.

In Indonesia, consumer confidence is being expressed over and over again, in both word and action. While the national index remains at the highest levels ever, the signs of strong consumer sentiment can be seen across a myriad industries. With the July-September update of Roy Morgan Single Source now in hand, industry updates in the following weeks will illustrate how each acts as a piston of the collective engine. To begin with, the financial services sector. Bank Indonesia, the country's central bank has kept a reasonably steady hand on the wheel these last five years. Neither inflation nor the rupiah have run out of control, as in decades past. The pain we see when consumer prices go rocketing up at global and local levels, or when the effects of a fuel price hike cascade downwards, is not to be taken lightly. But each dip in recent years has seen a quick comeback in consumer confidence and consumer spending, every time.

**PENETRATION OF FINANCIAL SERVICES & PRODUCTS**



■ Savings Account ■ Have one/more Loans ■ Have Insurance ■ Have Investment ■ Have Credit Card

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While the economy grew, even as individual incomes climbed, the overwhelming majority of Indonesians continued to struggle with their usual burden day after day. Higher service fees and higher minimum balances saw millions leave their bank accounts dormant, virtually dead in their minds. Finally, the years of steady decline in the number of people with any banking relationship has not only been arrested, the signs of a turnaround are becoming visible. This may be seen as old news for those who misread the rapid growth in the number of bank accounts as an indicator of national health. They are the same people who mistakenly conclude that “accounts” reflect “individuals”, ignoring the growing number of multiple-account holders. They cannot see how absurd it is to believe that there were 80 million Indonesians who flew an airline last year, while the reality is a relatively affluent minority flying several “sectors” many times each year. When a journalist jumps to the wrong conclusion that there are 180 million Indonesians who are subscribers of cellular networks today, they start painting an unreal picture of the state of progress.

But the banking sector is always a good indicator of the country’s middle class, not just its wealthy few. At the quarter ending June the decline in the number of Indonesians with a bank account had plateaued. As at the end of September, the turnaround was easily visible. The number of people with ‘any banking relationship’ now stands at 20 percent of all Indonesians 18 years of age and older. Not only has ground lost over recent years been recovered, the numbers have hit an all-time high. Today, there are more than 25 million Indonesians with at least one banking relationship. As recently as March this year, only 17 percent of adult Indonesians had one. Not only have the number of accounts gone up, the number of actual account-holders are rapidly rising. Syariah banking is growing too, with Bank Mandiri in particular registering a commanding lead despite increased competition from old and new entrants alike.

Equally reassuring are other signs from the same industry. For example, the amounts in savings are growing too, across socio-economic strata, from the modest to the rich. Customer satisfaction is high, and getting better. Then there’s the concurrent growth in other financial products and services. While the number of people involved are still relatively small in comparison, the signs are good. For several years, the primary growth for the credit card business came from multiple relationships with the same affluent few. Banks chased the same people, stories of membership data available for sale, the sight of wallets strained with lots of plastic all became familiar everyday occurrences. Now, the number of Indonesians with plastic cards, both credit and debit, is climbing again. 9 percent of adults have one already, but credit card penetration is still hovering at less than 2 percent.

The insurance sector is seeing rapid growth, but remains a nascent industry even today. While the number of accounts are growing, the number of new entrants remain small. Overall, penetration levels are still small, lingering at 1 percent. This is equally true with people who have ‘any investment’, also at 1 percent of adults. But loans are becoming increasingly popular, with 5 percent of the population now using one to advantage. The best news for the financial services industry is the reversal of the decline in active savings accounts. That augurs well for all Indonesians, not only those joining the banking fraternity for the first time.

These conclusions are based on Roy Morgan Single Source. In Indonesia, it is the country’s largest syndicated survey with over 25,000 respondents annually, projected to reflect almost 90% of the population over the age of 14. The insights are updated every 90 days.

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