

## Banks are making more money but are they doing a better job?

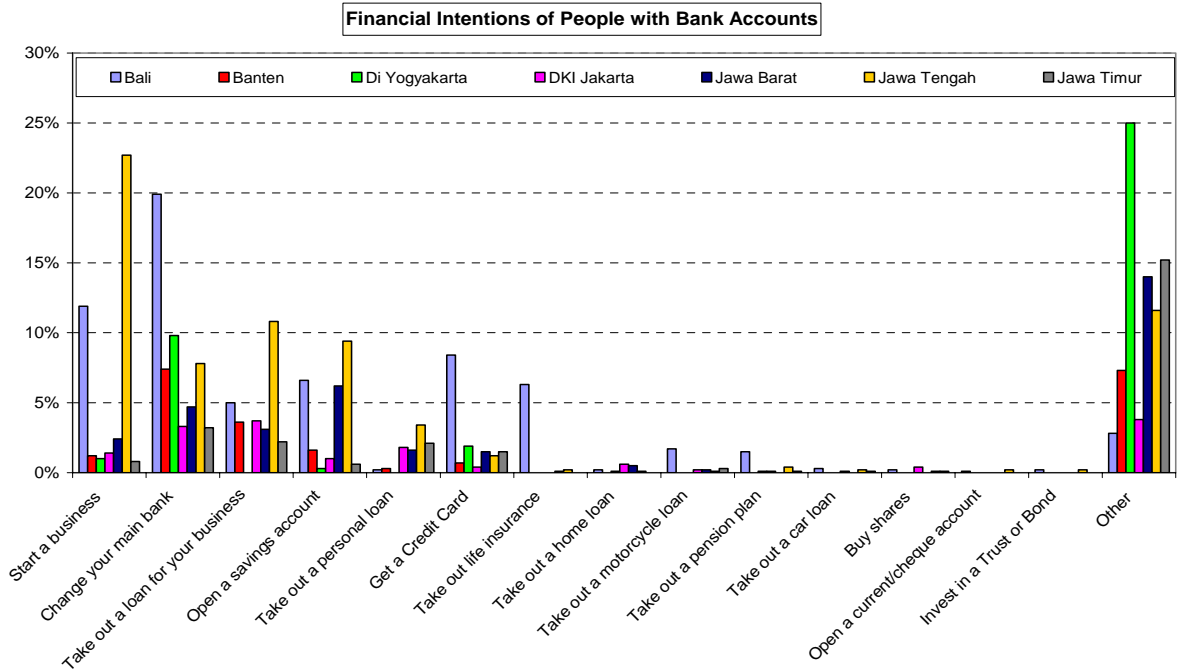
If you look at the periodic reports of the 'Big Four' banks in Indonesia, you would wonder what the fuss is all about. They are all making more money than they did last year. The next six banks aren't doing badly either. Where is that global financial crisis, that local downturn that other industries are worrying about? Across the water in neighbouring Australia, in a different socio-economic environment, the same could also be said of its own banking sector.

If the banks in Indonesia are making more money, does it mean they are doing a better job? The answer to that simple question depends entirely on perspective.

The first few "green shoots" as they are fancifully named, are already beginning to appear in the global landscape. A few American banks have reported first quarter profits this year, only to be ridiculed by talk-show hosts crediting their early recovery entirely to bailout funds pumped in. They should know better. Shovel-ready projects across that country are beginning to receive their federal fund injections aimed at creating jobs while rebuilding worn-out infrastructure. Just about every country has embraced that path to accelerated recovery, conscious of the fact that it was the war effort that in fact got the world out of its last big depression. It could well be argued that if both sides had produced all the guns, the tanks, the aircraft, the ships and then buried them, nobody would have died but the recession would still be over.

In China today, the battle against economic gloom seems to have become a people's movement. 'Project 8', bearing that lucky number between last quarter's 6 per cent GDP growth and the previous year's 10, is now a target that every citizen has been encouraged to embrace. Recent stories from China are not just about demand for steel going up again as a result of funds deployed for massive infrastructure projects, but also about small businesses individually creating more work to employ the jobless. In the meantime, many democracies around the world have lawmakers on different sides of the aisle still busy with mindless point scoring. Despite worst-ever levels of public support, the views of the Republican party in the United States typify the ideological divide, still harking back to their mantras of deregulation, free market principles and lower taxes. The recent glimmers of hope, the first few signs of recovery have failed to impress.

Fortunately for Indonesia, that political divide isn't really very wide. Here, the problems take on a different hue. Estimates for the quarter just ended are heralding a growth rate of over 4 per cent, no small achievement in these difficult times. What has not received enough attention is the fact that the much-trumpeted stimulus funds have been very slow in their release, therefore contributing much less than they could have in the first quarter. Assurances from the Finance Ministry that the majority will indeed be available in the second and third quarters, augurs well for the economy. The fact that a large number of banks have been enlisted to spread the loans to eligible small businesses is good news too. But the risk of fuelling the concentration of wealth, of increasing inequality by making the rich even richer at the cost of the underprivileged, looms rather high. On that particular score, Indonesia's banks are failing to make a contribution to society. They are not alone.



In contrast with the popular view, consumer banking in Indonesia is in fact going backwards. The number of people with any financial relationship with a bank, is actually on the decline. Yet, as we all know, the banks are making more money than before. The simple conclusion? The banks are making more money from a shrinking number of people. There can be no better evidence in support of the popular view that the rich are indeed getting richer, that the gap between rich and poor is increasing. Only 19 per cent of Indonesians 18 years and older have a bank account today, down from 21 per cent just five years ago. Even if you were a shareholder, would the full picture fill you with pride and joy?

These conclusions are based on Roy Morgan Single Source, a syndicated survey with over 25,000 Indonesians 14 years and older interviewed each year. That national database is updated every quarter, reflecting changes as they occur in the unpredictable times we live in. Almost 90 per cent of the population is covered, in both urban and rural Indonesia.

Even the shrinking universe of account holders presents opportunities that very few banks appear to be interested in. For instance, large numbers of them around the country are interested in ‘starting a new business’ in the next 12 months, but most of them would be deemed micro-businesses and therefore unattractive. But the gap between Bank Indonesia’s declining official interest rates and those charged by banks to their customers continues to grow. It is obvious that they are focussed almost entirely on making money from the affluent few with those products that only a tiny fraction of Indonesians need, want or understand. Exceptions prove the rule and that exception among Indonesian banks is clearly Bank Rakyat Indonesia, the people’s bank. The biggest can also be the best, from almost any perspective. For an honest and balanced opinion, just remember to consider all the evidence. Then decide whether or not the banks are indeed doing a good job.

The writer can be contacted at [Debnath.Guharoy@roymorgan.com](mailto:Debnath.Guharoy@roymorgan.com)