

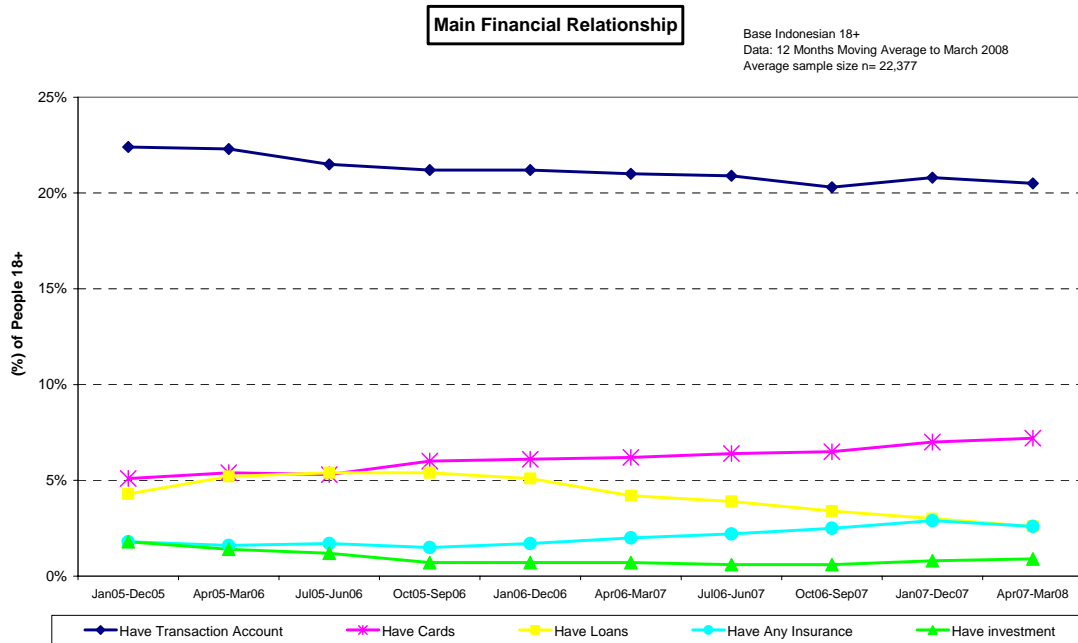


**State of consumer banking reflects weakening consumer economy.**

There are some universal indicators that reflect the real state of the consumer economy, regardless of what that country’s government, the central bank or the national bureau of statistics may say. Marketers and entrepreneurs everywhere keep an eye on these local clues. If the advertising industry slumps, it is an early signal that the marketing fraternity as a whole has lost faith.

The ‘pain at the pump’ is impacting on almost aspect of life, for almost everybody, everywhere. There are no signs of abatement anywhere and the pundits are now predicting \$200 per barrel prices in the not-too-distant future. The only positive fallout of these runaway prices is the increasing competition that alternative energy resources are now poised to offer. It has often been said that solar and wind become commercially attractive if oil hit \$135 per barrel. We are at that point, now.

In Indonesia, that pain is translating to the reversal of one major sign of national progress. That sign is the number of people with a bank account, down from 23.5 per cent of adults in 2005 to just over 20 per cent today. The number of consumers with personal loans is also shrinking. The rate of decline in the number of accounts held by children in the age group of 14-17 has dipped even more rapidly in the last six months. In that sense, Indonesia is going backwards in contrast with its large regional neighbours, China and India. In neighbouring Australia, a major bank’s CEO has his annual bonus influenced by customer satisfaction ratings produced from Roy Morgan Single Source, the country’s largest consumer survey. Imagine the impact of similar measures for bankers in Indonesia. Till such time transparency becomes an essential facet of doing business, the urge to spin will overwhelm reality.



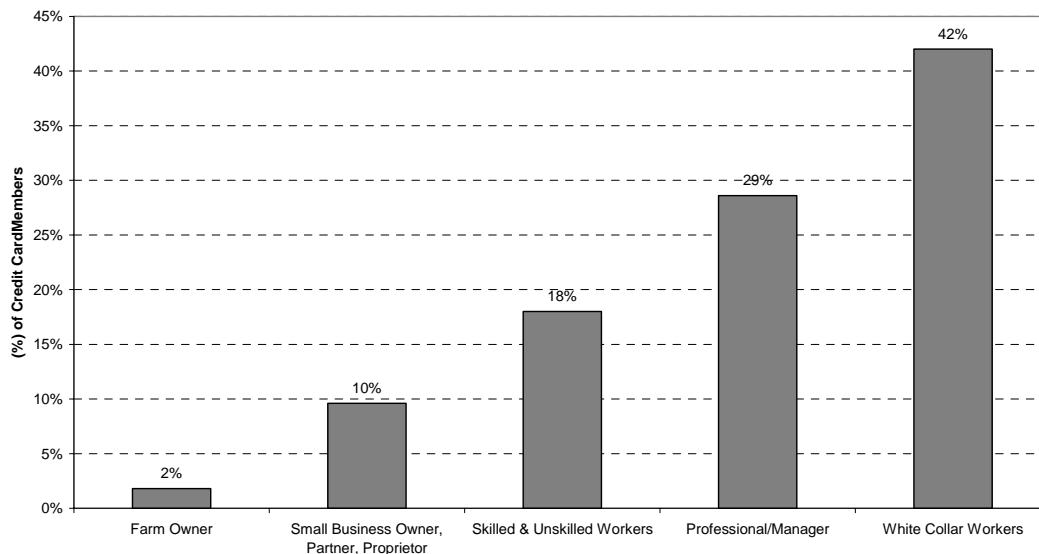
The annual reports of Indonesia's banks make no mention of these unpleasant truths, preferring only to mention increasingly difficult market conditions that they have to combat. The less evidence there is in the public domain, the more seemingly comfortable they are. What little is said about consumer banking is focussed on proud proclamations of how account profitability is on the increase, thanks perhaps to heightened service charges.

Apparently, what happens to the 'little people' as a consequence is deemed to be of little interest to the shareholder, as if they have ever been asked for an opinion. If the state is the largest shareholder, does the humble citizen's view count? Foreign-owned banks are exempt.

In contrast, there is ample evidence to show that the GDP growth of over 6 per cent per annum is being enjoyed primarily by less than 10 per cent at the top end of society. The perceived widening of the rich-poor gap is not just a perception, it is a reality. While the number of bank accounts is declining, witness the growth in plastic cards, from 5 per cent of all adults in 2005 to 7 per cent today. That includes both credit and debit cards, a number aggressively denied by issuers of the cards who claim they are much higher.

Just like there are not more than 50 million active cellular subscribers today, despite the 100 million quoted by the ministry of telecommunications, there are no more than 1 million Indonesians who have at least one active credit card. They are the same people who have all the cards in the country, offered by a growing number of issuers, all reported to Bank Indonesia who have no way of knowing the difference between 'cards issued' and 'people'. Even if we were to accept the argument that tax evaders for example are wary of disclosing their assets or relationships, it would be equally true that they are not keen to create traceable paper trails. In any case, the percentage of the population in any such debate would be very small indeed. Even 2 million cardmembers would constitute less than 2 per cent of Indonesia's adult population.

CREDIT CARDMEMBERS: BY OCCUPATION



Not surprisingly, 70 per cent of this elite group are white collar workers, managers and professionals. Skilled and unskilled workers add up to another 18 per cent, with business owners contributing 10 per cent and farm owners bringing up the rear with 2 per cent of the credit card community. While the spending power of active cardmembers has steadily and visibly grown to an average of Rp 2 million, the service has drawn more competition to the same small universe, with very little real growth in new entrants joining the fold.

Educating the customer is as important as issuing the plastic. The bigger number of people with a debit card would probably be much higher than the 7 million determined by Roy Morgan Research, if only the owners of the card knew they are indeed debit cards and not just an ATM card. Therein lies another opportunity. While half the people who have a bank account would rather not go to a branch to conduct their banking, ATMs were visited by only 29 per cent of account holders in the last four weeks. Yet, the visible concentration of machines in shopping malls and office blocks makes one wonder why that is so. Are the customers in the small towns the sole responsibility of BRI? It may not be the most profitable, but the country's largest bank is also the most highly rated by its customers. Only 26 per cent of account holders reside in the Top 20 cities, the rest in Indonesia's smaller cities and rural hinterland. Is there a message in these facts?

If national assets are invested by the nation's banks only in enterprises managed by the rich, empowerment of the middle class will take that much longer. That means fewer customers, for everybody, including credit cards. Without a growing middle class, the alleviation of the poorest will become even more difficult to achieve. It is another universal fact that personal bank accounts owned by 'micro-businesses' everywhere are often a combination of business and personal, all rolled into one. A growing, not declining number of such accounts would have wide-ranging impact on the development of the consumer economy. While competing for 'low-hanging fruit' is an understandable pursuit, chasing the same group of elite customers for a share of their wallet to the exception of everyone else, is more like moths to flames than bees to honey, in the long run.

As a key pillar of the consumer economy, the growth of consumer banking is vital to real progress. The collective power of the big banks is immense, the opportunities limitless. If more companies are encouraged to bank staff salaries, if more alliances between banks and big business to develop micro-businesses actually transpire, there will be more wealth created to everyone's advantage. It is no secret that small businesses and small savings are the bedrock of the wealthiest countries around the world. Imagine the side-effects of such growth on key societal issues like corruption, women's emancipation and social welfare.

That requires a lot of planning, even more hard work and constant monitoring. Not the kind of work that is fashionable in party circuits but rewarding to those willing to go the extra mile. These observations are based on Roy Morgan Single Source, the country's largest syndicated survey with over 27,000 Indonesian respondents annually, projected to reflect almost 90% of the population over the age of 14. That is a universe of 140 million people. The results are updated every 90 days. The opinions expressed are my own.

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