

If the people now own major banks, who are their board members?

What a week it was last week. Six trillion dollars wiped off the world's stock exchanges. Two trillion dollars gone from the savings of Americans alone. Three trillion dollars in bailouts worldwide. Finally, the US Treasury changed course yet again and followed the disunited Europeans into buying equity in their own banks, directly. If the people now own major chunks of their banks, when are the board of directors going to be replaced? Citizens get to throw out their inept politicians with the vote, so why should incompetent managers be treated differently? If the people were asked to choose a new CEO of a nationalised bank, the choice between a bright young MBA and Wall Street's finest would be no contest today.

The IMF bullied and lectured the distressed economies of South America and Asia for more than a decade, dictating structural changes. Not much by way of criticism yet of their traditional puppeteers, the major bankrollers who have now let the world down, collectively. A new global structure is slowly and painfully falling into place, not because of any voluntary reform, some altruistic new vision, but for financial and political survival. As the old edifices crumble, old ideologies and old mantras are rapidly fading into oblivion. On Saturday, the G7 meeting of financial leaders was followed by another with their counterparts from the G20 countries. A follow-up meeting of the bigger grouping is scheduled for Sao Paolo in November.

That meeting will include die-hards from both left and right of the political divide, now colliding at the centre. They are doing what needs to be done. Pragmatism is finally grappling with the one human failing central to this collapse: greed. Indonesia is a key member of G20, a country that swallowed the bitter pills prescribed by the IMF in the late 1990s. Unless it insists on better global standards of regulation, strict enforcement and even more rigorous penalties, a major opportunity for real reform will be lost. It needs to discourage its other fellow members of the G20 from signing up to a new global structure that The World Bank's Robert Zoellick is suddenly promoting with such enthusiasm, unless it has real checks and balances. The collective bargaining power of the G20's seven trillion dollars in reserves should not be wasted at this critical juncture.

Closer to home, arguably the most qualified man in the country has taken over the reins from his disgraced predecessor at Bank Indonesia. The current crisis is more than Governor Boediono may have bargained for, but it also represents a major opportunity for a cultural change in Indonesia as well. A look at the economy from the people's perspective would help understand the reality that contrary to popular belief, the financial services sector has been heading backwards for some time now.

The number of people closing transaction accounts or leaving them dormant, continues to climb. The majority of these inactive accounts were held by young parents, who are obviously struggling to pay the bills for their everyday essentials. The number of people intending to open bank accounts in the next 12 months is also on the decline. Four years ago, 22 per cent of Indonesia's adults had a transaction account. Today, it is 20 per cent and dipping. In contrast, the number of people buying motorcycles has continued to grow during the same four years. That phenomenon reflects a hardening at the top end of Indonesia's

PT. Roy Morgan Research, Wisma 46, Kota BNI, 17th Floor, Jl. Jend.Sudirman Kav. 1 Jakarta 10220

Tel: (021) 572 2021 or 572 7529 Fax: (021) 572 4864

411 Collins Street, Melbourne, Victoria 3000, G.P.O. Box 2282U, Melbourne, Victoria 3001, Australia

Tel: (03) 9629 6888 Fax: (03) 9629 1250 (03) 9224 5387 Email: melbourne@roymorgan.com

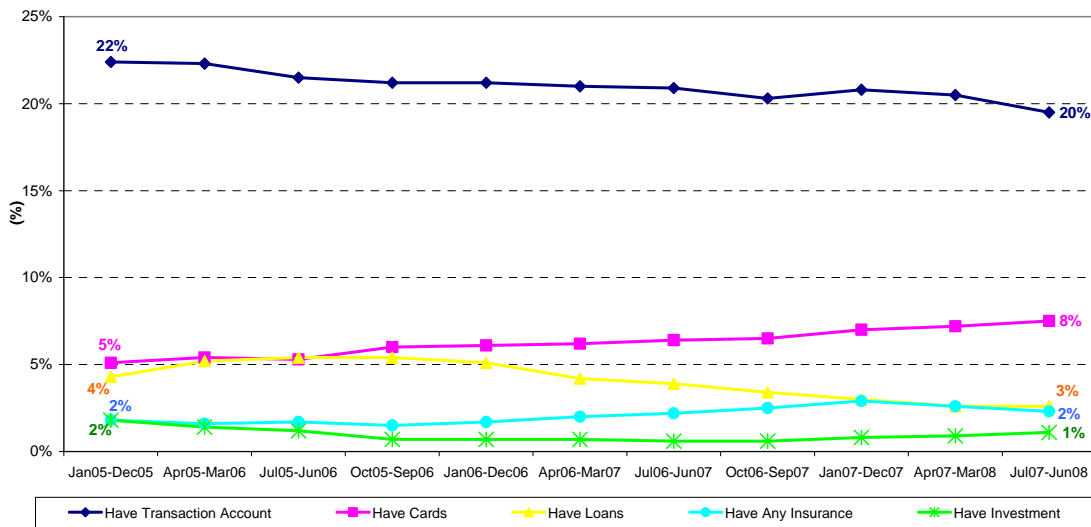
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middle-class, but a softening at its bottom. Simply put, the number of people who are opening accounts is lesser than the number of people closing them. Banks may not know this because they maybe ‘closed’ in the account holder’s mind, but not recorded as closed on the books of the banks. Bank Indonesia has no way of knowing what’s going on in in the consumer’s mind, especially among those that are shutting off their relationship with the country’s smaller banks. None of the Top 10 banks are showing any significant declines, except for Lippo Bank. Among the Top 5, BRI and Bank Mandiri are the two with noticeable growth in new relationships. All five continue to win the largest share of growth in plastic cards, the only growing category among consumer banking relationships. Proof yet again that the rich are getting richer, but the weaker sections of society are getting even weaker. How many of those cards were in fact issued unasked and remain unused is another pandora’s box.

People With Accounts, Investments and Loans

Base Indonesian 18+
Data: 12 Months Rolling Average to June 2008
Average sample size n=22,496



The number of people with consumer loans is down to 3 percent, people with any investments down to 1 per cent. Insurance is holding steady, with a 2 per cent penetration of the population. Not a rosy picture, regardless of what individual banks are reporting to Bank Indonesia. These conclusions 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. It is used by more marketers and advertising agencies than any other survey in the country.

All of these realities were recorded prior to the earthquake on Wall St and its continuing aftershocks across the world. How the wide cross-section of Indonesians is reacting to the changing scenario is being recorded around the country, every week. Watch this space for reports on repercussions, as experienced and expressed by its people, not its banks.

The writer can be contacted at Debnath.Guharoy@roymorgan.com