



## MFI Management Tools and Service Development >>

# MFI Corporate Planning Toolkit

In Indonesia, government-owned People’s Credit Banks (PD BPR; secondary banks) are required to submit five-year corporate/business plans to the Ministry of Home Affairs. However, many PD BPRs lack the capacity to produce good quality corporate plans. As a consequence, many of the plans drawn up and submitted to the ministry are not being implemented by the BPRs for the intended purpose of further developing their business. Within this context Perbamide, the association of government-owned BPRs, approached ProFI for support in developing their members’ capacity in the area of corporate planning. A Corporate Planning Toolkit was developed which assists PD BPRs in setting organisational goals and drawing up action plans, thus promoting their growth and the provision of microfinance services to surrounding communities.

### Starting Points

- Five-year corporate plans are drawn up in order to satisfy requirements, but are not actually implemented. As a result corporate plans provide no actual benefit to the institution and its development.
- Lack of capacities in drawing up useful and strategic business plans. In particular, limited capacities in:
  - » Conducting preparatory assessments for the development of a business plan
  - » Developing a clear vision, goal and strategy based on assessment results
  - » Devising realistic action plans and steps for progressively working towards this goal
  - » Prioritising activities in line with the business strategy
  - » Monitoring, evaluating and updating the business strategy.

### ProFI Contributions

- A participative study on current PD BPR corporate planning practises and needs conducted via Focus Group Discussions and workshops.
- Development of an easy-to-use corporate planning toolkit in coordination with Perbamide.
- Submission of the toolkit to 8 PD BPRs for review and feedback collected.
- Further adjustment and finalisation of the toolkit based on feedback.
- Training and pilot-testing of the corporate planning toolkit in 8 PD BPRs.

### Glossary

PD BPR	government-owned People’s Credit Bank, secondary bank
Perbamide	association of government-owned BPRs
ProFI	a joint programme of Bank Indonesia and GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development

- Support in the dissemination of the finalised corporate planning toolkit.

### Partner Contributions

- Selection of sample PD BPRs to be included in the needs assessment study and toolkit development process.
- Participation and contribution to the needs assessment study through information sharing in form of Focus Group Discussions and workshops.
- Provision of feedback into the toolkit development process.
- Dissemination and application of the finalised toolkit.





## Methods, Tools and Instruments

- The toolkit developed is a text-based step-by-step guide for creating a five-year corporate plan. It helps PD BPRs to:
  1. Conduct an internal assessment to identify strengths and weaknesses
  2. Conduct an external assessment to identify opportunities and threats (i.e. carry out a market analysis, competitor analysis, Political, Economic, Social and Technological Environment (PEST) analysis.
  3. Define the BPR's mission, vision and values
  4. Identify goals/objectives and set targets
  5. Define measures, programmes, activities (i.e. action plans) in order to meet the targets
  6. Analyse resource needs
  7. Draw up a strategic plan
  8. Develop a yearly operational plan
  9. Communicate the corporate plan
  10. Monitor, evaluate and update the corporate strategy
- Implementation of a participatory approach to needs assessment and product development through Focus Group Discussions, pilot testing and feedback rounds.

## Experiences in Implementation

### a) What Worked Well?

- Demand-led support (officially requested by the PD BPR association Perbamida) resulted in a high level of industry ownership of the activity. Participating PD BPRs invested time and effort into the toolkit development process. As a result the development process ran smoothly.
- The application of the corporate planning tool is promoted by its user-friendliness.

### b) Lessons Learnt:

- Group discussions on current corporate planning practices and existing challenges can be usefully complemented by on-site visits and observations.
- Cost sharing increases the value of toolkit development and training support in the eyes of recipients.

## Impact

- A very comprehensive Corporate Planning Toolkit was developed, covering many aspects of BPR business.



- Successful pilot-tests indicate that the Corporate Planning Toolkit has a real potential for contributing to improved corporate planning and thus the development of PD BPRs. More detailed impacts will need to be observed following the tool's launch and dissemination.
- Following this initial role-out of the tool by Perbamida, it is hoped that the corporate planning tool might prove of use for the wider BPR sector. In contrast to government-owned BPRs, private BPRs are only required by regulation to submit a one year plan to Bank Indonesia; however a five-year plan might bring additional benefit to their business growth.

## Sustainability

- At this point in the development process, it is deemed too early to draw conclusions on the sustainability of the corporate planning toolkit. Sustainability will depend on the continual use of the toolkit and the recommendations derived of it by BPRs. Nonetheless, the fact that the tool's development has been demand-led, responding to a specific, voiced need, as well as the strong involvement of the PD BPR industry in the tool's development process provide a promising basis for future sustainability.

## Replicability:

- A demand-led and participative corporate planning toolkit development could also be suitable in other contexts:
- The creation of a corporate planning toolkit for MFIs could be replicated, as long as demand for such a tool exists.
- Strong commitment from MFIs and a participative tool development process would ensure the tool's application and usefulness.



## Knowledge Carriers

### ProFI

- Osa Hartoyo (toolkit development, and training)
- Wahyu Wulandari (baseline study and toolkit development)
- Meike Goetze (concept development)

### Consultants

- MICRA, Pak Hata (baseline study and toolkit development)

### Perbamida

- Pak Fahmi Akbar Idries (Perbamida chairman)
- Pak H. M. Safri (Perbamida, PD. BPR Sarimadu)

## Further Readings

- **Blue Print for the Creation of a Strategic Plan for PD BPR.** MICRA; 2009; ProFI Concept Paper (ind)
- **Corporate Planning Toolkit.** MICRA; ProFI; 2010; ProFI toolkit -document and Excel templates. (ind)
- **Corporate Planning.** ProFI; MICRA; 2010; ProFI training presentation. (ind)

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Published by:  
Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH

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June 2010



## MFI Management Tools and Service Development >>

# Loan Pricing & Portfolio Planning Tool (SIAP)

People’s Credit Banks (BPRs) are secondary banks that offer microfinance services to micro, small and medium enterprises and low income customers. However, outreach and good-quality service provision to these target groups is often hindered by poor portfolio management capacities. In partnership with industry representatives ProFI has created the Loan Pricing and Portfolio Planning Tool (SIAP), a tool that enables BPR managers to measure a BPR’s portfolio efficiency and account manager performance. It can detect inefficiencies and highlight potentials for efficiency increases, thus enabling better loan pricing and improved financial services for the local community.

### Starting Points

- Most BPRs are operationally self-sufficient, but existing inefficiencies push the cost of interest rates unnecessarily high.
- Standard reporting for BPR supervision emphasises non-performing loans and financial sustainability. As a result many BPR managers lack capacities in assessing financial ratios for the purpose of improving product and portfolio efficiency.
- BPR managers tend to measure the performance of account managers and a product’s profitability by relying on ‘rule of thumb’ estimations. Technical capacity to set optimal (and often cheaper) interest rates based on accurately measured performance is frequently lacking. As a result potentials for efficiency increases and lower costs for the clients remain largely unnoticed and untapped.
- In the absence of technical capacity to conduct precise efficiency calculation, the paradigm of financial sustainability for some BPRs is to serve a smaller number of clients with larger loans or savings accounts. This, however, engenders higher liquidity risks and also the BPR’s client outreach and the proportion of the community it serves.



### Glossary

BPR	People’s Credit Bank, secondary banks
Perbarindo	National BPR association with regional chapters
ProFI	A joint programme of Bank Indonesia and GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development

### ProFI Contributions

- Carrying out a study on BPR operational efficiency via mail-out questionnaire to 61 BPR. Verification of data through 12 onsite visits.
- Recommendations on improving BPR efficiency provided based on the findings of the operational efficiency study.
- Conceptualisation and development of a Loan Pricing and Portfolio Planning Tool (SIAP).
- Presentation of the tool to BPR participants and Bank Indonesia for feedback.
- Revision and adjustment of the tool based on received feedback.
- Carrying out of a 3 month pilot test with 7 BPRs. Joint analysis of the data provided by the tool following its application.
- Refinement of the Loan Pricing and Portfolio Planning Tool (SIAP) based on the pilot testing feedback and release of Version 1.0.
- Carrying out an interactive training for 10 BPRs in Padang, Sumatra.
- Review of the SIAP Tool’s usefulness and impacts for BPRs



several months after pilot testing through a field visit to Yogyakarta, Java. Release of Version 1.0.

- Development of training guidelines, course materials and a tool manual.
- Carrying out of a 5-day long training of trainers (ToT).
- Collection of further feedback from 35 BPR in 2 provinces on the tool's implementation via trainers. Refinement of the tool. Release of Version 1.1.
- Handing-over of the Loan Pricing and Portfolio Planning Tool (SIAP) to relevant industry representatives.

### Partner Contributions

- Participation and information sharing by 61 BPRs in the study on BPR operational efficiency.
- Ongoing provision of inputs and feedback by industry stakeholders, associations and regulators on the Loan Pricing and Portfolio Planning Tool (SIAP).
- Recommendation of trainer candidates by the professional certification institute for microfinance professionals (CERTIF) and the BPR association, Perbarindo.
- Participation of trainer candidates in Training of Trainers courses and upon passing of the assessment, provision of trainings.
- Integration of the Loan Pricing and Portfolio Planning Tool (SIAP) into BPRs' management processes.



### Methods, Tools and Instruments:

- **The Loan Pricing and Portfolio Planning Tool 'SIAP'** is an Excel based tool which helps measure operational efficiency and allows for optimal portfolio and product management. It calculates a BPR's portfolio and account management performance through a variety of parameters and indicates fields of operation in which efficiency can be increased, lower interest rates can be offered and outreach can be improved.

- **Participative tool development.**

- **The promotion of the tool through the regional chapters of the BPR association** Perbarindo has helped spread awareness and knowledge of the tool and increased demand for it.

### Experiences in Implementation

#### a) What Worked Well?

- The Loan Pricing and Portfolio Planning Tool (SIAP) helps BPR managers obtain operational and portfolio management information which is highly useful, as proven by the high demand for the tool and its training.
- **The technical expertise, strong experience and dedication of the consultant.** The consultant is also available for future tool refinements.
- **Information from previous ProFI studies** on the BPR industry was able to be used, leading to a faster tool development process.
- **The recommendation of trainer candidates** by the professional certification institute for microfinance professionals (CERTIF) and the BPR association Perbarindo maximised the suitability of trainer candidates.
- **The high commitment of trainers** in East Java and Jakarta in organising and conducting trainings.

#### b) Lessons Learnt:

- **Tool development:** The functionality and purpose of the tool need to be weighed against simplicity and ease of application (also for less qualified staff). The tool needs to be user-friendly, for example by applying easy to understand terminology and simple methods for collecting and inputting data. Data input can be made more time efficient by making data transfer from existing financial reports into the tool possible.
- **Tool application by BPR staff:** The previous capacities of BPR staff highly affect the success of learning how to use the tool and correctly interpret its results, e.g. Excel familiarity and the financial expertise needed to interpret tool results.



- **Trainings:**

- » The clarity, tempo and structure of the trainings conducted impact the comprehension of the training content by training attendees. The introduction of a monitoring and feedback system can ensure consistent training quality.
- » The number of training classes required is related to the complexity of the tool. A sufficient amount of classes should be scheduled, as a lack of familiarity with the tool can affect both its application and trainers' confidence in teaching it.
- » Easy availability of training facilities and appropriately priced training courses promote a larger provision of training events and application of the tool by the industry.

- **A clear and early handover procedure** helps ensure ongoing open access to the tool, its maximum dissemination, and industry commitment to supporting its further development.

## Impact

- **Participative development of a Loan Pricing and Portfolio Planning Tool (SIAP)**
- **Training of 11 trainer candidates.** 9 have passed the trainer assessment and are capable of either conducting trainings or serving as training assistants.
- **Training of BPR staff in SIAP:** staff of 35 BPRs has so far been trained. Training is ongoing.
- **The BPR industry's heterogeneity means that the Loan Pricing and Portfolio Planning Tool (SIAP) may be more useful to some BPRs than to others.** In addition, the tool's usefulness and impact on individual BPRs is dependent on the commitment of their directors to integrate the tool into routine processes and apply the tool. Out of the BPRs who participated in the pilot tests around 1/3 have so far integrated the tool into their management systems.
- **The SIAP Tool as helped some BPR become aware of specific products in their portfolio which were accruing losses.**
- **A few BPR directors have already used the tool to initiate paradigm changes** regarding efficiency and portfolio manage-

ment within their respective BPRs. It has helped them take strategic decisions on the determination of optimal interest rates and improved the soundness and outreach of their business.

## Sustainability

- The SIAP Tool's participative development as well as its fulfilment of industry needs lay the foundations for its continued application and thus sustainability.
- The handover of the SIAP Tool to the industry at large, with the BPR regulator (Bank Indonesia) committed to ensuring its open access, maximises the application of the tool by the BPR industry.
- The BPR association's commitment in keeping the tool up-to-date with current industry and accounting standards and needs is important in facilitating the tool's continued usefulness in the future.
- The financial sustainability of training provision makes access to trainings in the application of the SIAP Tool possible.

## Replicability

- The SIAP Tool could be used for various types of micro-finance institutions, however the parameters would have to be adapted to the MFI industry's specific attributes. Alternatively, the development of a similar tool in other contexts is possible, provided it responds to industry needs and commitment to its maintenance exists. In addition, adequate infrastructure should be available to ensure the tool's training and dissemination.

## Knowledge Carriers

### Consultant

- Birgit Galemann (creator of the SIAP tool, Master trainer)

### ProFI

- Osa Hartoyo (pilot project, training, dissemination)
- Ashok Malkarnekar (Component Manager)
- Wulan Wulandari (operational efficiency survey preparation and analysis)
- M. Pulungan (pre-survey)
- Thomas Foerch (pilot-project evaluation mission, technical observation and advice)
- Intan Maulida (training, pilot-project evaluation mission)



## Perbarindo

- Pak Edi Purnomo, Pak Hiras L. Tobing, Pak Zinsari, Pak FX Soegeng (SIAP training providers, input into the development process)

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Imprint

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Published by:  
 Deutsche Gesellschaft für  
 Technische Zusammenarbeit (GTZ) GmbH

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June 2010

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## Further Readings

- **SIAP Simulasi BPR Tool.** Galemann, Birgit; 2010; ProFI tool - Excel. (eng/ind)
- **Operational Efficiency, Outreach and Loan Pricing of the Bank Perkreditan Rakyat (BPR) in Indonesia: Assessment and Recommendations.** Galemann, Birgit; 2008; ProFI publication. (eng/ind)
- **Operational Efficiency, Outreach and Loan Pricing of the Bank Perkreditan Rakyat (BPR) in Indonesia No. 2.** Galemann, Birgit; 2008; ProFI publication. (eng/ind)
- **Loan Pricing and Portfolio Planning: Application and Basic Concepts of SIAP-Simulasi BPR.** Galemann, Birgit; Hartoyo, Osa; 2009; ProFI seminar presentation. (eng/ind)
- **Addendum to Loan Pricing and Portfolio Planning: Application and Basic Concepts of SIAP-Simulasi BPR - Seminar and Workshop for Master Trainers.** Galemann, Birgit; Hartoyo, Osa; 2009; ProFI presentation. (eng/ind)
- **A New Concept for BPR: Loan Pricing and Portfolio Planning.** MediaBPR; 2009 May-June; Magazine article. (ind)
- **Managing Your Credit Portfolio: SIAP-Simulasi BPR, Tool for Quantitative Management.** MediaBPR; 2009 Sept-Oct; Magazine article. (ind)
- **SIAP Training Brochure.** Perbarindo; Bank Indonesia; 2010; Partner document. (ind)





## MFI Management Tools and Service Development >>

# Customer Assessment Toolkit

People’s Credit Banks (BPR) in Indonesia are facing increasingly intense competition from commercial banks offering microfinance products. To gain a competitive advantage and secure their market position, these BPR need to offer better tailored services and products to the clients they serve and specialise in their role as *community banks*. However, due to limited technical capacities and financial resources, many BPR are unable to empirically measure customer satisfaction, needs and market demand. Products and services are often either developed based on market assumptions or adapted from other regions. As a result, and in response to industry demand, the ProFI programme has supported the BPR industry in the development of a Customer Assessment Toolkit. BPRs can use this toolkit in-house to improve their services and increase market outreach.

### Starting Points

- **Limited capacities and resources for conventional market research:** most People’s Credit Banks (BPR) are unable to empirically measure customer satisfaction, needs and market demand. As a result no guidance exists for developing customer tailored products and services. Products and services are often developed based on market assumptions or adapted from other regions.
- **Information on client satisfaction and needs is often obtained only through informal conversations and feedback.** No regular feedback and market assessment procedures exist which are able to be channelled into product development or refinement.
- **BPRs face increasing competition** from larger commercial banks which operate microfinance windows. An improved orientation of these BPR towards their local communities and role as *community banks* may help to gain a competitive advantage while enhancing financial services provision to the local population.

### Glossary

BPR	Secondary banks, People’s Credit Banks
ProFI	A joint programme of Bank Indonesia and GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development

### ProFI Contributions

- Observation and recording of methods used by BPR to assess their customers’ satisfaction.
- Focus Group Discussions: BPR managers voice their challenges and needs in the provision of better and increased financial services. Proposals for improvements are suggested.
- Development of a test version of the Customer Assessment Toolkit. Toolkit sent to participating BPR for review.
- Further adaptation of the Customer Assessment Toolkit according to feedback received. Increased userfriendliness of the tool promoted.
- Pilot testing and review of the toolkit.
- Launching of the Customer Assessment Toolkit and hand-over to the industry.





## Partner Contributions

- Active BPR demand the Customer Assessment Toolkit: BPRs that had participated in previous customer satisfaction surveys, conducted with the support of ProFI, found the results generated useful and requested help in collecting and analysing customer data in-house.
- Participation and information sharing of participant BPRs on customer assessment practices and financial services development needs during the Focus Group Discussions.
- Provision of feedback on the developed Customer Assessment Toolkit and participation in its pilot-testing.
- *(For further information on ProFI's customer satisfaction surveys please see the profile: "Market Research > Market Research").*

## Methods, Tools and Instruments

- Initial piloting of the Customer Assessment Toolkit in the form of a customer survey methodology and questionnaire. Following feedback, the questionnaire is transformed into an Excel based toolkit.
- 6 Customer Assessment Tools:
  - » Customer satisfaction: quantitative tool, qualitative tool
  - » Customer needs: quantitative tool, qualitative tool
  - » Customer loss: quantitative tool
  - » Customer financial dynamics: qualitative tool

## Experiences in Implementation

### What Worked Well?

- Involving BPRs in the technical development of the toolkit ensured the toolkit was user-friendly and suited to meet their demands.

### Lessons Learnt:

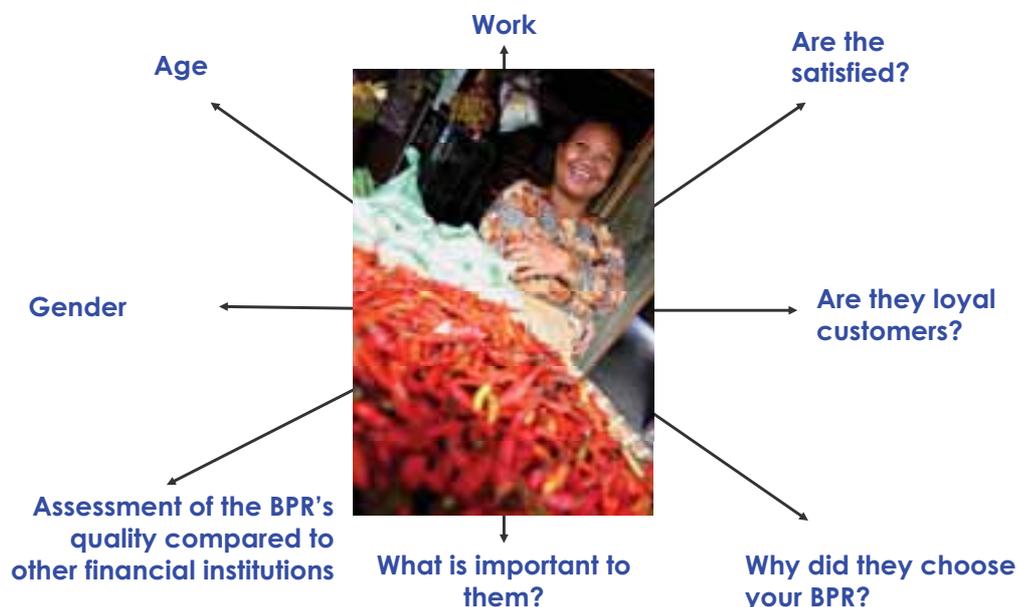
- Developing a toolkit in response to the demand of individual BPR may limit the promotion and dissemination of a toolkit throughout the whole industry if key industry representatives (such as associations) are not involved in the development process.

## Impact

A user-friendly Customer Assessment Toolkit is available to the BPR industry which assists BPR in conducting in-house satisfaction, needs and demand assessment of their customers. The findings obtained through its application enable the development of customer-oriented savings and loan products and services.

## Sustainability

Sustainability of the Customer Assessment Toolkit requires its integration into routine management processes of BPRs and its periodical revision to accommodate changes in the BPR's industry's environment. The current commitment of the industry is a positive step in this direction.





## Replicability

The basic form of the Excel based Customer Assessment Toolkit is favourable for replication. The data collected and survey methodology could be adapted to local conditions and needs.

## Knowledge Carriers

### Consultants

- MICRA, Caroline Mangowal (data collection, analysis and development of Customer Assessment Toolkit)

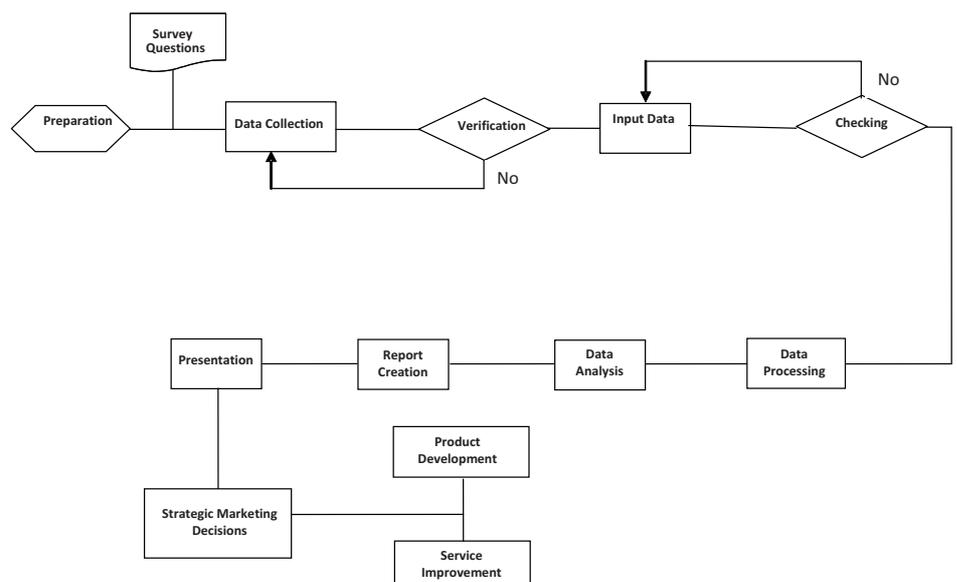
### ProFI

- Wahyu Wulandari (Customer Assessment Toolkit methodology and development)

## Further Readings

- **Customer Assessment Toolkit: Preliminary Research.** MICRA; 2009; report ProFI. (ind)
- **Customer Assessment Toolkit.** MICRA; ProFI; 2010; ProFI toolkit - document and Excel templates. (ind)
- **Customer Assessment Toolkit: People's Credit Bank.** Wulandari, Wahyu; 2009; ProFI training presentation (ind)

### Customer Assessment Process



#### Imprint

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Published by:  
Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH

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June 2010



## MFI Management Tools and Service Development >>

# M-Banking

In Indonesia the use of information and communication technology (ICT) solutions to improve the efficiency and outreach of microfinance services is comparatively underdeveloped. At the same time, People’s Credit Banks (BPR secondary banks which are also known as Rural Banks,) need to improve their services in order to stay competitive. Mobile banking (m-banking) is one of the innovative ICT-based solutions for offering more convenient financial services to clients and increasing outreach. The ProFI programme has assisted BPR industry stakeholders in learning from international experience, exploring m-banking options for the BPR industry and engaging with the BPR regulator Bank Indonesia on this topic.

### Starting Points

- **High transaction costs** of providing small-scale financial services are one of the key barriers in microfinance.
- **The BPR industry faces increasing competition.** The provision of improved and more convenient financial services is a key ingredient to a better market position and higher outreach.
- **SIM card penetration has reached around 44%** in Indonesia and mobile telephone networks cover over 90% of the population. The popularity and wide use of mobile phones provides an opportunity for offering convenient, ICT-based financial services and increasing client outreach.
- **Mobile-banking is currently still underdeveloped in Indonesia;** however a number of telecommunication and banking industry leaders are becoming actively involved in exploring and initiating m-banking solutions.
- **Regulatory grey areas inhibit the growth of m-banking.**

### Glossary

AML-CFT	Anti-money Laundering - Combating the Financing of Terrorism
BPR	People’s Credit Banks, secondary banks
ICT	Information and communication technology
KYC	Know Your Customer
M-Banking	Mobile phone banking
ProFI	A joint programme of Bank Indonesia and GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development

- **In 2008 a conference entitled ‘Towards a Less Cash Economy’ inspired the BPR association** to actively learn from m-banking experiences made in the Philippines.
- **BPRs perceived the need to make use of these new ICT and m-banking systems** to improve their services, efficiency and outreach. However, individual BPRs would find it difficult to negotiate vis-à-vis telecommunications operators. In addition, telecommunications companies did not recognise the untapped potential of cooperation with the BPR industry.





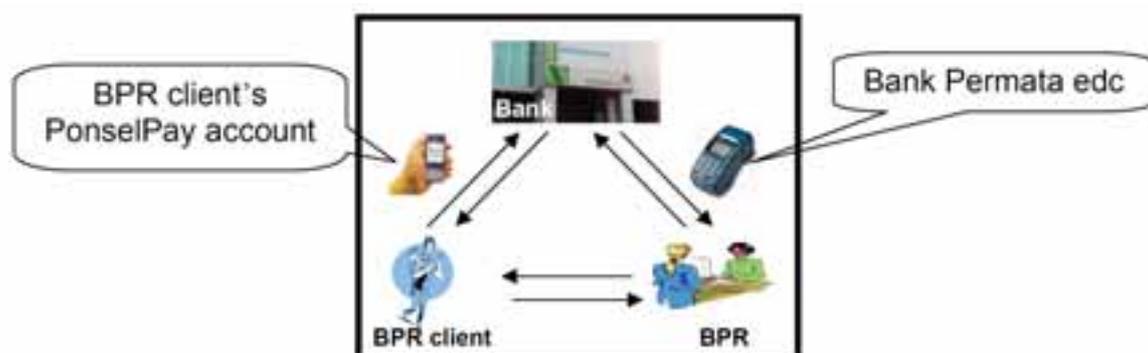
## Joint Contributions

- Joint establishment and participation in a working group by BPR industry representatives, Bank Indonesia and ProFI to learn from international experiences in m-banking and develop a feasible model for the BPR industry.
- Organisation, co-funding and participation in international exposure visits to the Philippines and India, in order to take observe and learn from different branchless banking models and related policy and regulatory frameworks.
- Cooperation with the International Finance Corporation and CGAP to conduct a branchless-banking legal and regulatory environment diagnostic for Indonesia.
- Invitation of regulators from other countries, such as the Financial Services Authority from Britain, to provide insights on m-banking and e-money regulatory issues.
- M-banking study produced outlining current approaches in Indonesia and suggesting various partnership models for the BPR industry.
- Further development of one identified model by the joint working group in cooperation with various telecommunications providers.
- Mapping of BPR internal processes relevant for m-banking and development of operations manuals for BPRs. The operation manuals include customer transactions and back office procedures, such as BPR registration with the m-banking system.
- Beta testing of the draft operations manuals and the integration of the m-banking product into BPR processes.
- Documentation of m-banking related risks and risk-mitigation measures.
- Design of initial concepts for the product's promotion strategy.
- Preparation for pilot-testing the developed BPR m-banking model.

## Methods, Tools and Instruments

- **The m-banking working group** consists of bank regulators and BPR industry practitioners who are committed to the forward-movement of the industry (BPR 'champions'). These individuals serve as knowledge carriers and drivers of the discussion process. The working-group members should also disseminate their knowledge gained within their respective networks. Working group activities include exposure visits, knowledge sharing with regulators, practitioner and pioneer inputs and conference participation. The joint learning process is important because it provides a common ground for discussion.
- **The m-banking model for BPRs**, which was developed, is based on a cooperation between the microfinance institutions (BPR), a commercial bank (Bank Permata) and a technology partner (MV Commerce):
  - » The microfinance institutions/BPR ensure outreach to microfinance clients, perform Know-Your-Customer (KYC) processes, and serve as cash-in, cash-out points.
  - » The commercial bank is the issuer of e-money and acts as a conduit between the microfinance institutions and the payment system.
  - » The technology partner is responsible for the development of a technology platform and the building of partnerships with further institutions to increase the outreach of the m-banking eco-system.

The model takes advantage of existing payment systems infrastructure and linkages of the commercial bank, technology partner and BPRs. The model is operator-agnostic, meaning that it is based on an inclusive approach: all mobile-phone operators, all billers, all merchants are able to connect to the centrally operated platform.





## Lessons Learnt

### a) What Worked Well?

- The dialogue with and involvement of the regulators facilitated a greater awareness of m-banking related issues.
- Successful south-south exchange of experiences and knowledge between Indonesia and the Philippines.
- The BPR industry drivers/champions brought a high level of commitment to the learning process and pilot testing.
- The commercial bank (Bank Permata) and technology partner (MV Commerce) were very responsive to the proposed partnership with microfinance institutions (BPRs). The commercial bank had already established agreements with billers and mobile phone operators, and invested heavily in IT, payment and other systems. This existing infrastructure is able to be used by the BPRs at minimal cost.

### b) Lessons Learnt

- The broad variety of potentially feasible partnership models and the innovative character of these models can make it difficult to discuss their implications beyond a theoretical level.
- The potential risks related to technology based solutions and their criminal misuse is a major concern for all stakeholders.
- One challenge is putting into place mechanisms to protect MFI customer information vis-à-vis the commercial bank partner.

## Framework Conditions

### Promoting Factors:

- The bank regulator is open to industry innovations. The enhanced regulatory framework for e-money is conducive for m-banking development.
- The commercial bank (Bank Permata) and BPRs address different market segments, thus there is a high degree of complementarity, which supported cooperation.

### Hindering Factors:

- There are grey areas in BPR regulation concerning ICT-based services, which allows for a wide range of disparate interpretations.
- The pilot-testing process has been delayed because of the emission of new e-money regulations and the resulting necessity to adapt the model to new requirements.

## Impact

- **The awareness and competence of regulators and BPR industry drivers regarding m-banking has improved.** Participants of the project's working group are eager to continue testing the feasibility of the developed approach and will act as catalysts for future development.
- **The approach developed by the project has the potential to improve BPR industry image, efficiency and outreach.** The end goal is improved services for current and future customers.
- **Discussions have also fed into a growing awareness of the grey areas** relating to ICT-based products and services within current BPR regulations and supported Bank Indonesia in reviewing existing BPR regulations. *(For more information please see the profile under: "MFI Policy and Regulation > Secondary Banks (BPR)").*

## Sustainability

- In the Indonesian context, in order for m-banking innovations to be sustainable compliance with bank regulations is essential. The close cooperation with Bank Indonesia as the bank regulator thus lays one of the foundations for the developed model's sustainability.
- A business model which is attractive for all M-Banking eco-system partners creates strong incentives for all parties to join the m-banking network. A wide network will provide a multitude of possible acceptance points and thus make the product more desirable for customers.
- Customer education and habituation is crucial in ensuring the sustainability of m-banking innovations. The development of specialised marketing systems and training of staff in these approaches is essential.
- Customer's ability to quickly and easily turn their e-money into cash is a significant factor in the popular acceptance of the product.





## Replicability

- The provider-agnostic approach to m-banking could be beneficial in other contexts. For the replicability of such an approach the existence of a telecommunications market, which is not too concentrated, is beneficial.
- The model developed based on cooperation between micro-finance institutions, a commercial bank and a technology partner could be replicated in other contexts.
- Regulated and supervised MFIs are particularly apt to participating in e-money systems because they comply with Know-Your-Customer (KYC) and Anti-Money Laundering - Combating the Financing of Terrorism (AML-CFT) regulations and manage liquidity as part of their core business.
- A prerequisite to replication is the existence of a conducive regulatory framework for e-money.
- It can be helpful to have a third-party facilitator, such as a technical assistance project, mediate initial contact between various stakeholders.

## Knowledge Carriers

### M-banking Working Group

- Pak Sawaluddin (Director of host BPR for the first pilot-tests, participant on the exposure trip to the Philippines)

### Bank Indonesia

- DBKU -Mohamad Miftah (BPR regulation)

### ProFI

- Ashok Malkarnekar, Laksmi Anggraeni (entire process)

#### Imprint

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Published by:  
Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH

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June 2010

## Consultants

- Amarante Consulting - Aize Mitha (industry assessment and development of strategic options)
- Nixon Mahilum (process mapping, guideline development, beta-testing, training material development)

## Further Readings

- **Concept: Pilot-testing mobile phone banking services with 3 BPRs.** 2010; Joint document. (eng)
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