Grant Thornton

Conventional to Digital

A Shift as an Accelerator of Growth in the Banking Industry

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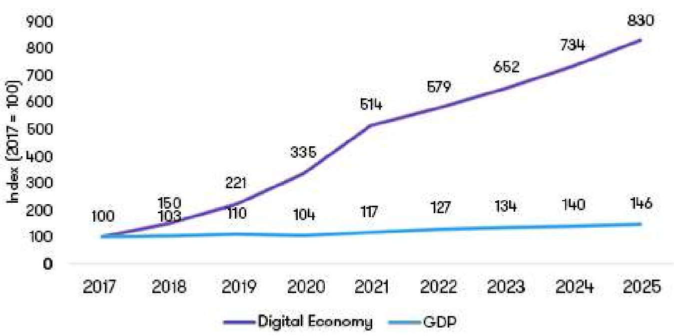
Most people cannot imagine life without mobile phones, paritcularly those who live in big cities as people now use it for most daily tasks in life. Mobile phones offer a convenient way to travel anytime and anywhere through booking a ride on ride-hailing apps. Shopping and purchasing goods are also made simpler with e-commerce apps.

Traveling is also made easier by using mobile phones as people can effortlessly book accomodations, transportation, and even entertainment with just a single click. The use of digital technology is transforming and indeed disrupting all sectors. Despite all the conveniences that technology brings, its full potential may be used a driver for the digital economy.

Indonesia's Digital Economy and Economic Performance Outlook



*The digital economy data includes measured the total revenue from e-commerce, digital health, apps, digital media, digital advertising, e-services, smart homes, and fintech. 2022 onwards are forecast

Source: Statista (2022)

As illustrated in the graph above, the digital economy continues growing year after year. Indonesia experienced a 414% spike from 2017 to 2021 and the digital economy is expected to double in size by roughly 62% between 2021 and 2025.

Furthermore, despite a slowdown in GDP, the digital economy persists in thriving. Indonesia's digital economy is mainly driven by financial technology and e-commerce and is expected to grow in the coming years. The transformation of digital payment systems using the Quick Response Indonesian Standards (QRIS) has culminated in a constant rise in the number of users. This phenomenon highlights how everything is increasily interconnected, compelling organizations to embrace a new business strategy.

As digital technology advances, new business models are critical to delivering more connections while also aiming for expansion and profitability. Similarly, the banking industry struggles in the face of an extensive downpour of financial technology. Phan, Narayan, Rahman, and Hutabarat (2019) discovered that their bank's performance suffered from volatility in their financial system as financial technology expanded.

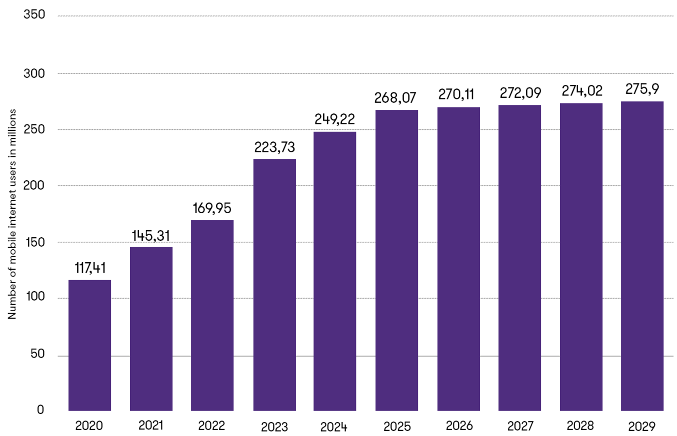
This development might be due to a shift in consumer habits. Three facts support this argument are internet penetration, societal demographics, and customer behavior.

249,22

million Indonesians are mobile internet users as of 2024.

1. Internet Penetration

Number of Internet Users in Indonesia



Source: Statista (2024)

As seen in the figure above, Indonesia experienced an increase in its number of internet users each year. Since 2020, Indonesia's internet users have crept up to 90% with 223.73 million users in 2023 and is forecasted to rise as technology advances and shadows every aspect of life. It is a signal to transform bank services by utilizing technology to retain their customer base.

2. Societal Demographics

Generation	Male	Female	Total	% of Composition
Baby Boomers	13597	11581	25178	9.34%
Generation X	23981	24015	47996	17.80%
Generation Y	31897	31239	63136	23.41%
Generation Z	34467	32691	67158	24.90%
Generation Alpha	33921	32272	66193	24.55%

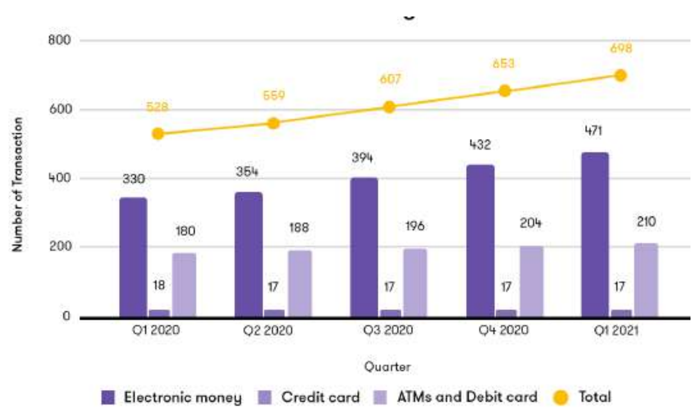
Source: Indonesia Statistic Bureau – Population Projection 2020-2023

In terms of societal demographics, the Indonesia Statistic Bureau has estimated the population of Indonesia in 2020-2023, as shown in the table. Most Indonesians are from Generation Y and Generation Z, which makes them a demographic bonus. The composition of Generations Y and Z has a considerable impact on purchasing behavior, which originally shifted from

conventional to digital. This has occurred since the convenience granted by technology captivated them to further explore the digital realm.

3. Consumer Behaviour

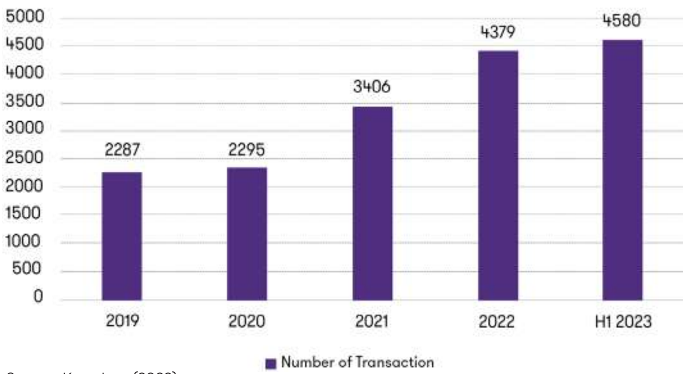
Number of Transactions Based on Payment Instrument



Source: Indonesia Payment System Association (ASPI)

The graph above reveals that the number of transactions has elevated from the first quarter of 2020 to the first quarter of 2021. During this period, transactions have increased by 32%, indicating the strengthening of purchasing power along with economic expansion. The graph compares three types of instruments: electronic money, credit cards, and Automatic Teller Machines (ATMs) and debit cards. Electronic money accounts for the majority of transactions and shows a steady increase while ATMs and debit cards slither in numbers. On the other hand, the use of credit cards remains stagnant. As seen in the graph above, electronic money has historically been the most prevalent alternative among these three tools.

Number of Digital Banking Transaction



Source: Katadata (2023)

In the banking industry, electronic money is normally associated with a digital banking feature enabling each purchase to be completed in a single moment. Digital banking transactions spiked throughout 2020 and 2022. In the first quarter of 2023 however, it rises further to IDR 4.5 quadrillion on average. This phenomenon exemplifies how technology has substantially improved banking and its transactions, allowing them to become more efficient and reliable.

The recent shift in community purchasing behavior paved the way for the banking businesses to expand into digital channels. Technology adoption in the financial services sector resulted in a transition in banks' operational processes from manual to internet-based. This opportunity allows banks to improve its efficiency and attract more customers. Furthermore, the growth of financial technology companies may also pose a threat to the banking industry while also creating opportunities for collaboration by mixing financial technological systems with banking business operations. As a result, the collaboration may assist both parties in decreasing costs, being able to differentiate, retain customers, and generate income.

To accelerate the adoption of technology in financial services, the banking industry should undertake swift steps, as follows:

1. **Reinforcement of information technology (IT)**
   IT might not appear to be an appealing option for all business players, but security and safety issues might arise unexpectedly. As a major industry, it is critical to establish and execute excellent information technology governance, which is interconnected with corporate governance, as well as constantly review any potential risks to solidify IT risk management and lower the possibility of failure.

2. **Adoption of a game changer**
   It is critical to implement cutting-edge technology infrastructure such as artificial intelligence, blockchain, cloud computing, and even Application Programming Interface (API). The adoption of IT game changers facilitate the banking sector in seamlessly meeting client expectations and desires. This action is consistent with the national banking's future market because it is supported by OJK's policy adjustments and collaboration with all stakeholders.

3. **Banking ecosystem**
   Banks provide a competitive advantage as they safeguard the confidentiality of consumer data, are experts in governance and risk management, and develop innovative financial products. Meanwhile, the market has seen a tremendous technological boom, with new technologies being adopted more swiftly and flexibly. Knowing these two sides' strengths allows banks to build collaboration and competition, also known as co-opetition, by fostering a digital ecosystem.

Finally, banks can continue innovating by leveraging technological advancements. Banks may offer plenty of different technological features alongside unified financial solutions that will not solely enhance people's consumption, transactions, and investments but likewise add to the future strength of the economy.

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