



SEP 18-20 2020 @8am WIB

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Lecture  
Series

# WARÉKADA SERIES

THE ECONOMIC PATH OF A NATION



# *The Banking Sector in Indonesia: Current Challenges and Opportunities Ahead*

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Ketua Umum Ikatan Bankir Indonesia (IBI)

Managing Director PT Bank Central Asia (BCA), Tbk

**20 September 2020**

# Speaker's Profile



**Haryanto T. Budiman, Ph.D**

## Work History

- Ketua Umum Ikatan Bankir Indonesia or IBI (2019-2023)
- Managing Director – Compliance & Risk Management, PT Bank Central Asia (BCA), Tbk (2020 - Present)
- Managing Director & Chief Executive J.P. Morgan Indonesia (2012-2020)
- Senior Executive Vice President, PT Bank Mandiri (Persero), Tbk (2006-2011)
- Management Consultant, McKinsey & Company (1996-2006)

## Formal Education

- Doctor of Philosophy (Ph.D.), Aeronautics & Astronautics, Massachusetts Institute of Technology (MIT), 1996.)
- Master of Science (M.Sc.), Engineering Mechanics, Virginia Polytechnic Institute & State University, 1991
- Bachelor of Science (B.Sc.), *Magna Cum Laude*, Aerospace Engineering, Texas A&M University, 1990

## Other Training

- Senior Executive Courses at Harvard Business School, Sloan School of Management MIT, Stanford Graduate School of Business, and the Wharton Business School at the University of Pennsylvania
- Various Trainings by J.P. Morgan and McKinsey & Company

# ***Agenda***

The challenges

The brighter side

Case study: BCA

## Context



**Adam Tooze, Ph.D**  
Professor of History & Director of  
the European Institute -  
Columbia University

*“This is a period of radical uncertainty, an order of magnitude greater than anything we’re used to.*

*It would be foolish, amid such uncertainty, to make overly confident predictions about how the world economic order will look in five years or even in five months”*

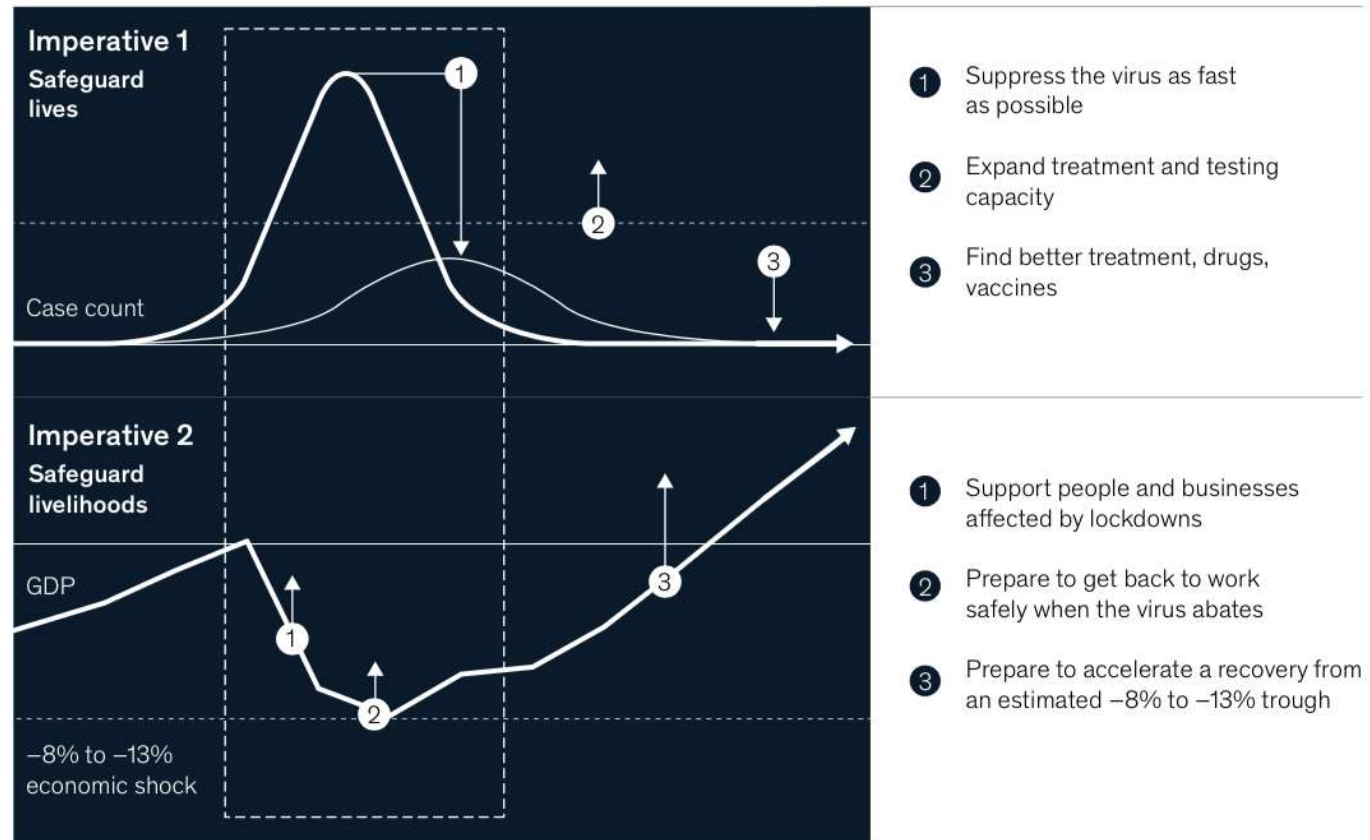
# Ongoing tension: (1) safeguarding lives and (2) safeguarding livelihoods

## The imperative of our time

Containing the virus

VS

Restoring the damaged economy

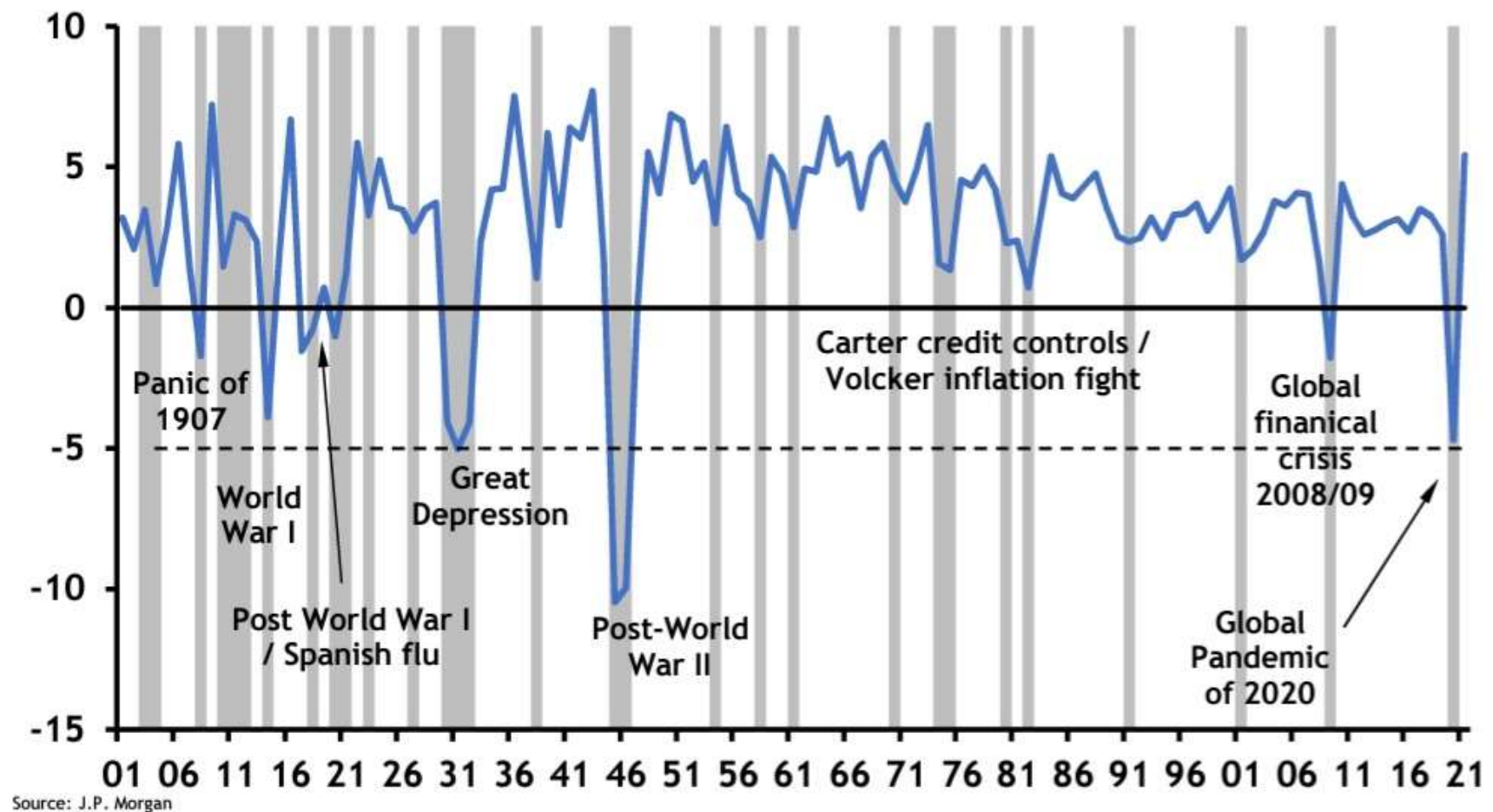


Source: McKinsey analysis in partnership with Oxford Economics

# ***The Covid-19 pandemic caused the biggest global GDP drop since World War II***

## **Global real GDP: The eight global recessions over the past century**

%yoy; US recession bars shown in grey (2020-21 forecast),



# ***The Covid-19 pandemic caused an economic impact that is very different from past crises***



**Mohamed A. El-Erian, D.Phil**  
Chief Economic Adviser at Allianz  
& Former CEO of PIMCO

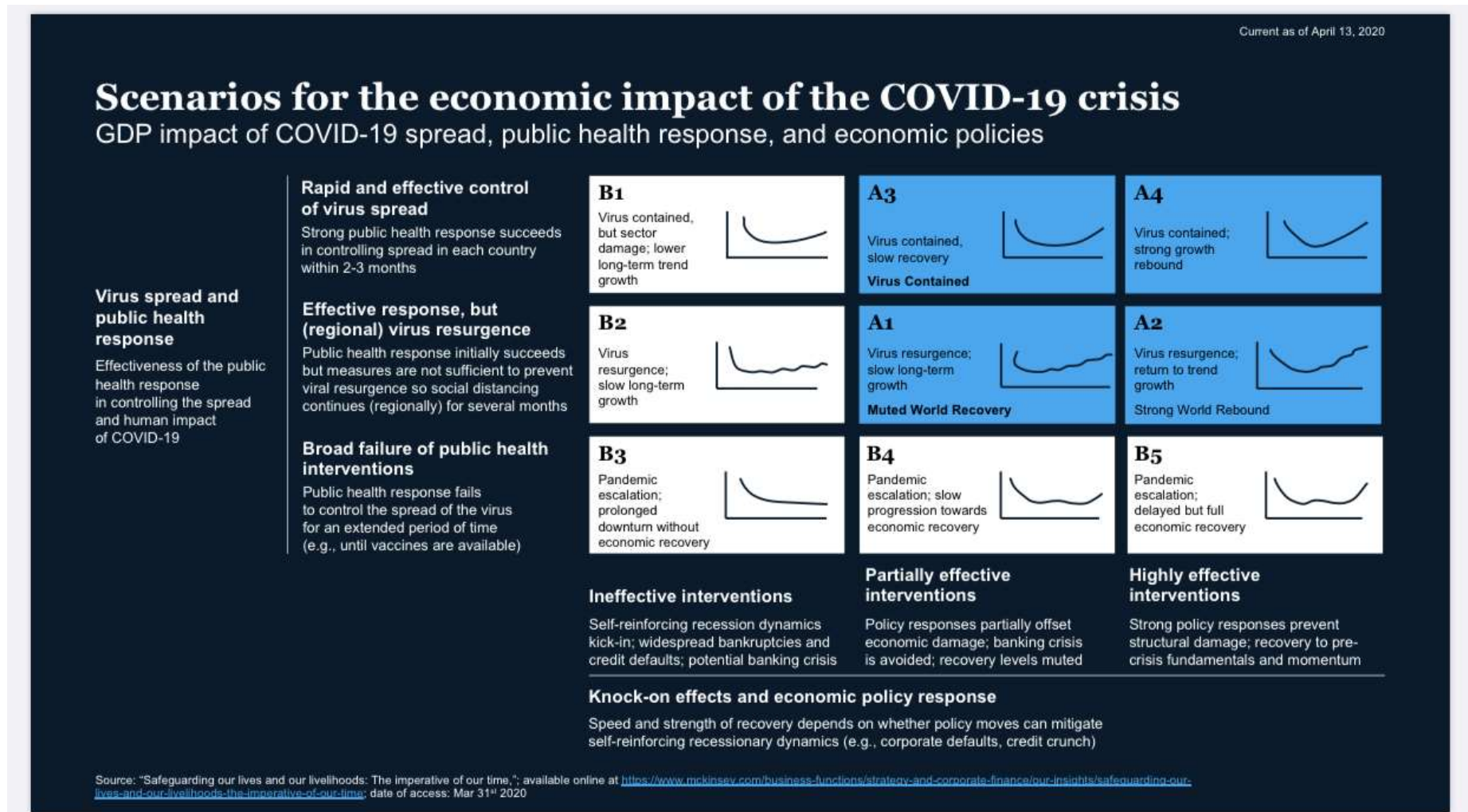
*"...this is NOT a financial crisis like what we saw in 2008-2009. A financial crisis is like a heart attack. It hits you hard at the heart. If you don't deal with the heart, everything else stops. The solution is for Central Bank to provide significant market liquidity to calm the market..."*

*"...what we are seeing now is an economic sudden stop. They start small and they cascade and reach critical mass....as if you are dealing with a broken leg and an infection in one leg, an infection in another leg, in the arm, and in another arm. Therefore it is a multi-symptom, multi-aspect disease..."*

***Previous crisis (2008-2009 global crisis and 1997-1998 Asian financial crisis) started in the banking sector which spreads to the real sector. The global crisis caused by Covid-19 pandemic starts at the real sector which, if left uncontrolled, could spread to the banking sector. Solution must be comprehensive: stimulus from fiscal and monetary as well***



# A simple framework developed by McKinsey to define various economic scenarios caused by the Covid-19 pandemic



*Which path will Indonesia follow?*



# Indonesia GDP contracted in Q2 2020 with across-the-board contraction in all components – loan growth also weak

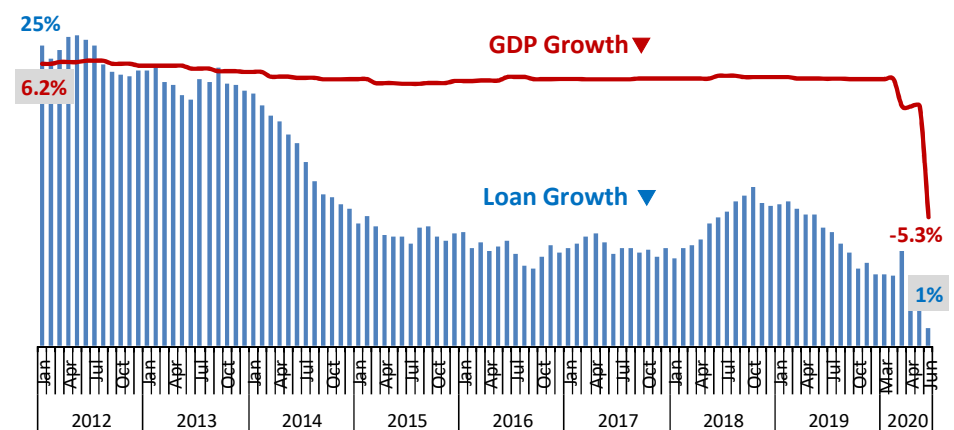
- Covid-19 impacted various components of Indonesian economy
- GDP contracted in 2Q 2020
  - Sluggish domestic consumption
  - Slower government spending
  - Weaker investment and external trade
- At best, expect a flat GDP for 2020, and a gradual recovery thereafter
- Banking is a proxy of economy
- Weak loan demand, recovery on loan growth unlikely to be fast and smooth

## Indonesia Real GDP

GDP Components	%YoY				%QoQ			
	3Q19	4Q19	1Q20	2Q20	3Q19	4Q19	1Q20	2Q20
Private Consumption	5.0	5.0	2.8	-5.5	4.9	5.0	-3.3	-25.3
Government Spending	1.0	0.5	3.7	-6.9	-14.6	6.2	-3.4	-12.8
Fixed Asset Investment	4.2	4.1	1.7	-8.6	3.2	2.9	1.4	-35.5
Exports	0.1	-0.4	0.2	-11.7	-1.3	-8.5	-6.9	-21.2
Imports	-8.3	-8.0	-2.2	-17.0	-12.9	-10.9	-8.9	-26.6

Sumber: Badan Pusat Statistik

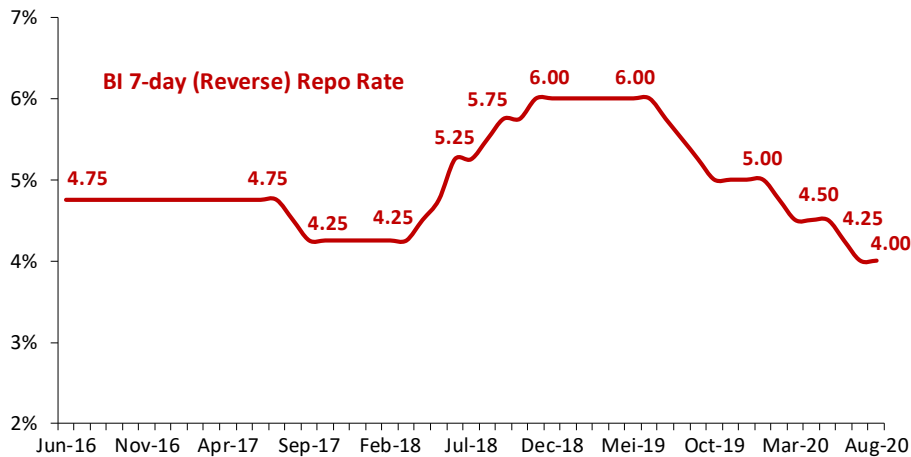
## GDP & loan trend



# Furthermore, low interest rate environment pressuring bank margin

- Benchmark rate has come down by 200bp since 2018 but overall market liquidity is ample because loan growth has been muted
- Interest rates across all segments trend lower, partially also caused by loan restructuring
- Net Interest Margins (NIM) of banks expected to continue to decline – NIM unlikely to recover anytime soon

Indonesia Benchmark Rate (BI 7-Days Repo) (%)



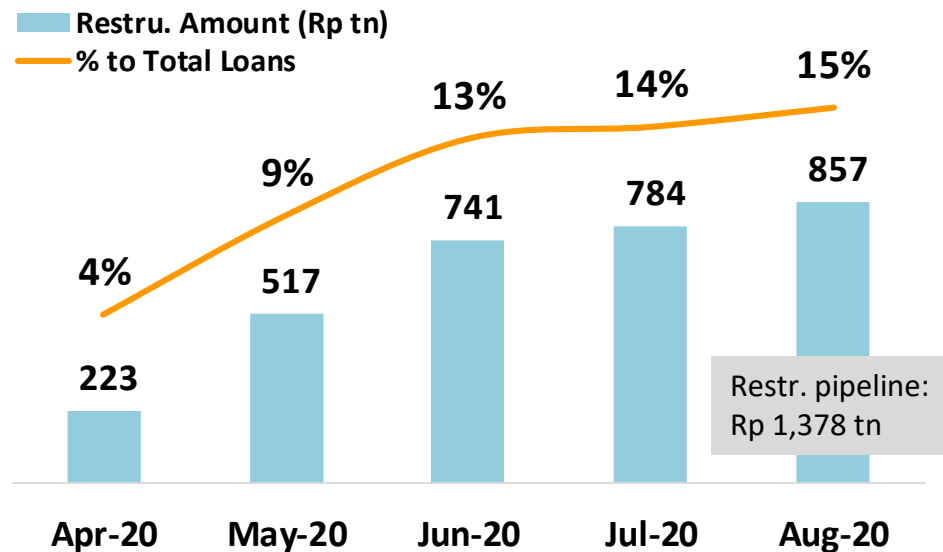
Source: Central Bureau of Statistics (BPS) and Bank Indonesia

Sector NIM % trend



# Restructured loans jumped 3.8x since Apr20, reaching ~15% of total sector loans... and could be even more

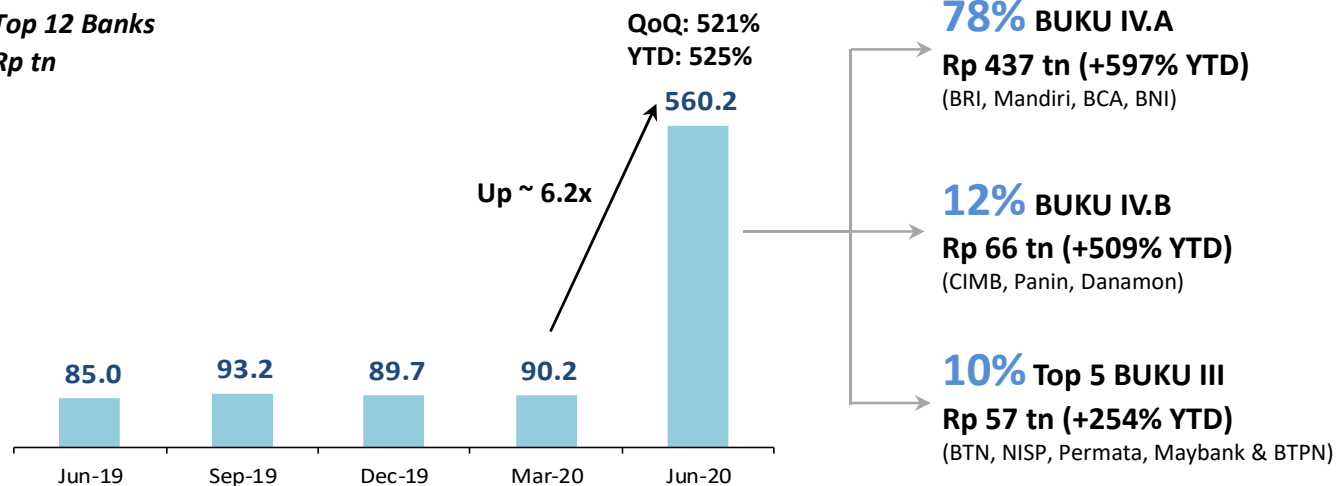
## Total Restructured Loans - Banking Sector



- Massive loan restructuring from all loan segments: business and consumers
- Regulator supports loan restructuring to help the economy (all restructured loans classified as performing as of today)
- Major banks expect restructured loans to reach ~20 – 23 % of total loan, a big challenge !
- Restructuring sustainability unknown – depends on the overall recovery and the sector

## Performing but Restructured loans in the Top 12 Banks (76% of Total Restructured Loans)

Top 12 Banks  
Rp tn

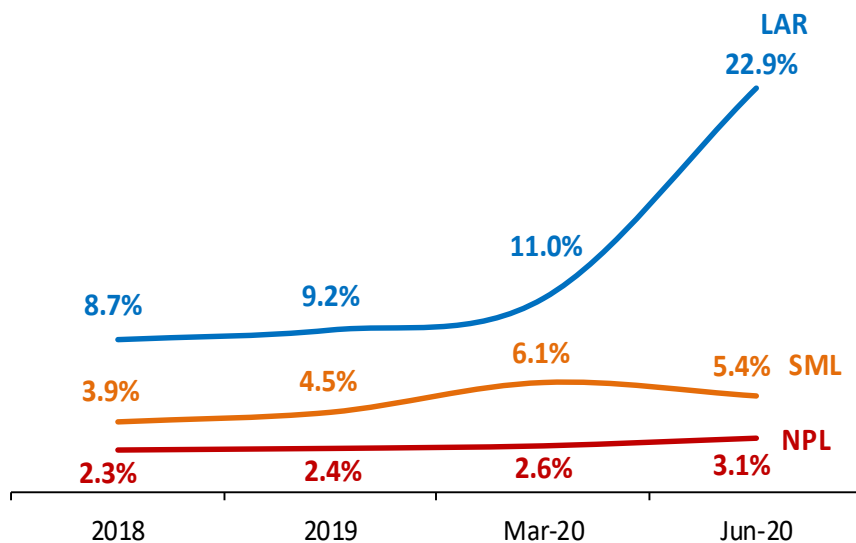


# ***We have also observed a spike in Loan at Risk (LAR)***

**LAR: Non Performing Loan (NPL) + Special Mention Loan (Coll. 2) + Restructured Coll. 1 Loan**

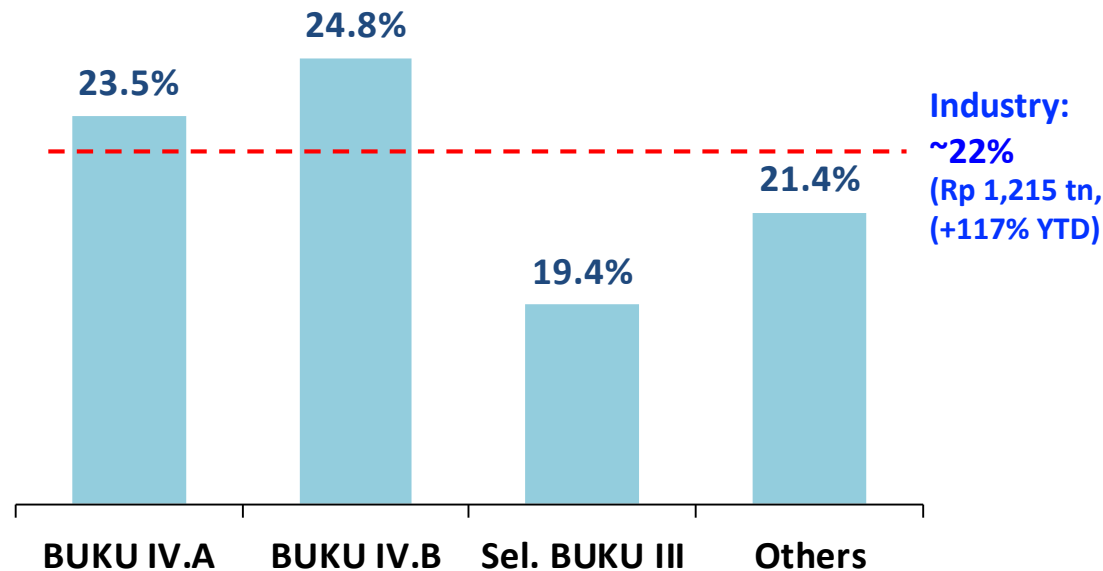
- Due to relaxation of loan restructuring rating, NPLs are now less meaningful
- Look at : a total of NPL + SML + Loan Restructuring, so called “Loan at Risk”
- True credit quality will emerge post relaxation period.

**LAR, SML, NPL Ratio – Top 12 Banks**



Note: 12 Banks are BRI, Mandiri, BCA, BNI, BTN, CIMB, Panin, Danamon, OCBC NISP, Maybank, Permata & BTPN

**LAR Ratio by BUKU**



Note: **BUKU IV.A:** BRI, Mandiri, BCA, BNI. **BUKU IV.B:** CIMB, Panin, Danamon **Selected BUKU III:** BTN, NISP, Permata, Maybank & BTPN. **Others** is the remaining 94 banks. Total industry: 106 banks.

# ***Agenda***

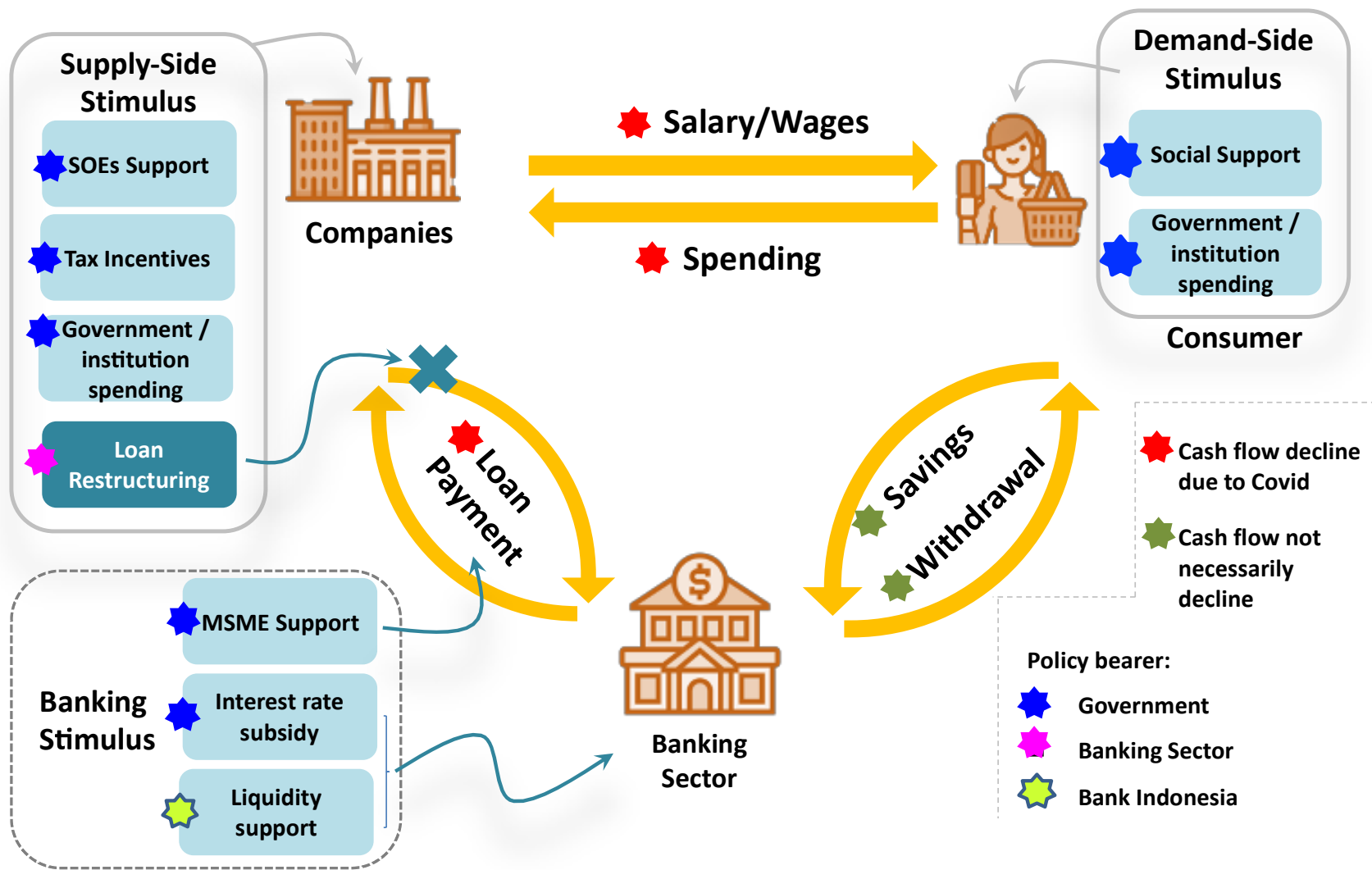
The challenges

The brighter side

Case study: BCA

# Government measures have been comprehensive

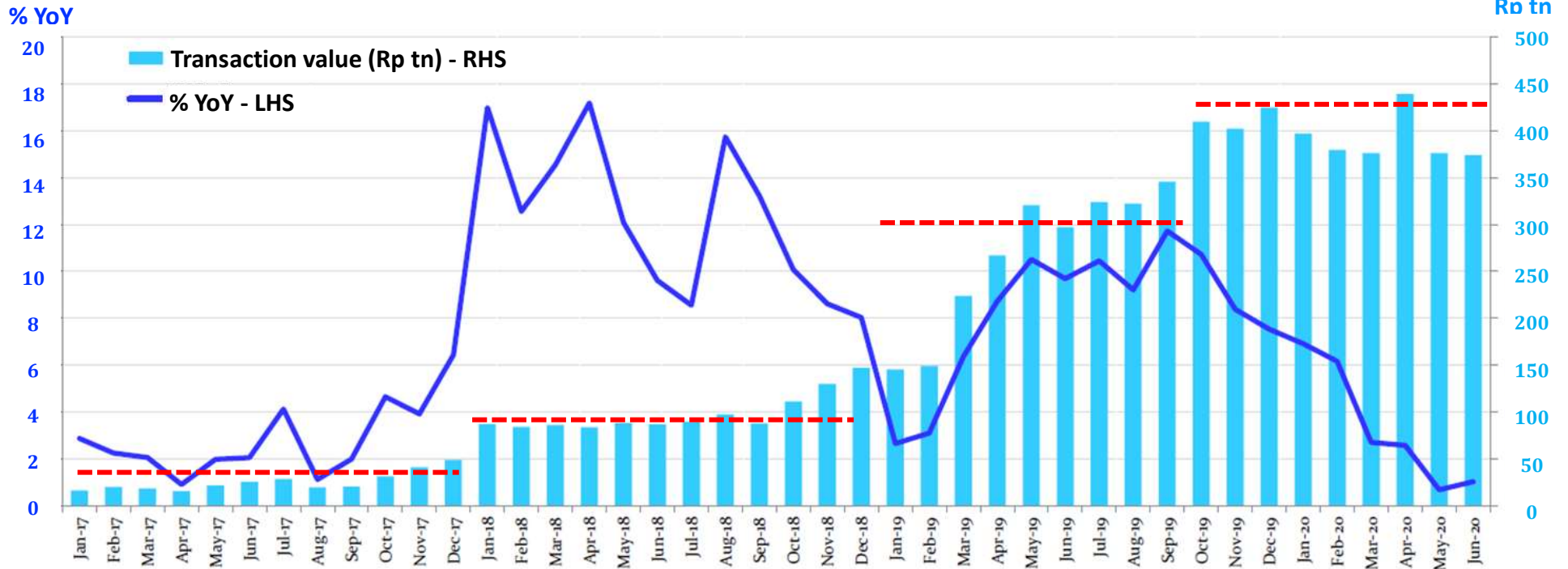
- National Economic Recovery Program (PEN) was launched in May20, with total stimulus of Rp 695 tn despite slow dispatch.





# Promising e-commerce trend, will play a bigger role during the pandemic and beyond...

E-commerce transaction value trend

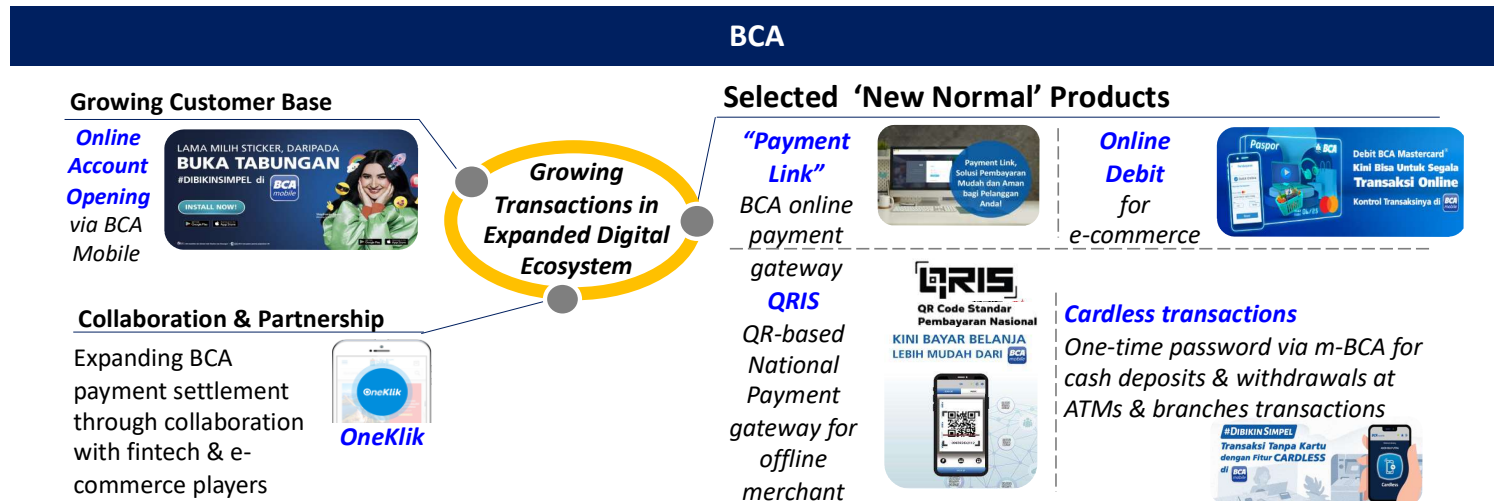


Source: BI



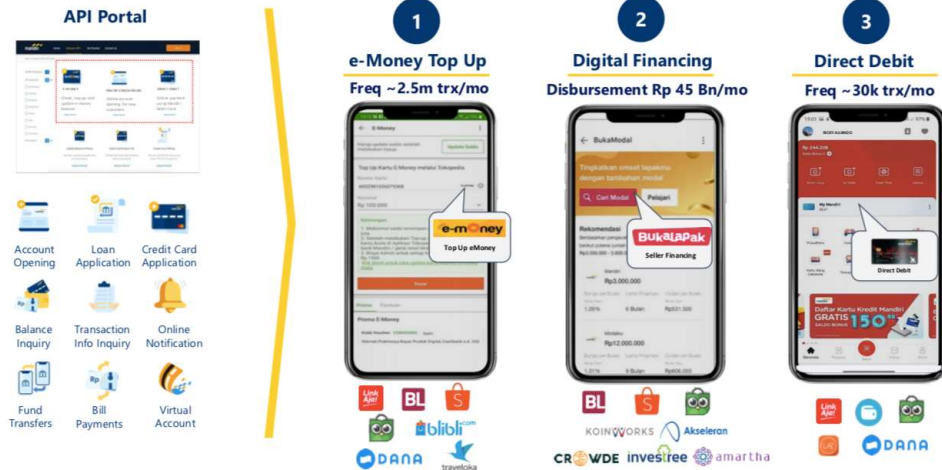
"Indonesia's 2020 e-commerce Gross Merchandise Value (GMV) will reach US\$40 billion this year, the third-highest in the world and higher than India's predicted \$38 billion."

# ...supported by propelled digitalization from banks



## Mandiri

**Leverage Digital Ecosystem To Provide Our Services On External Digital Platforms**



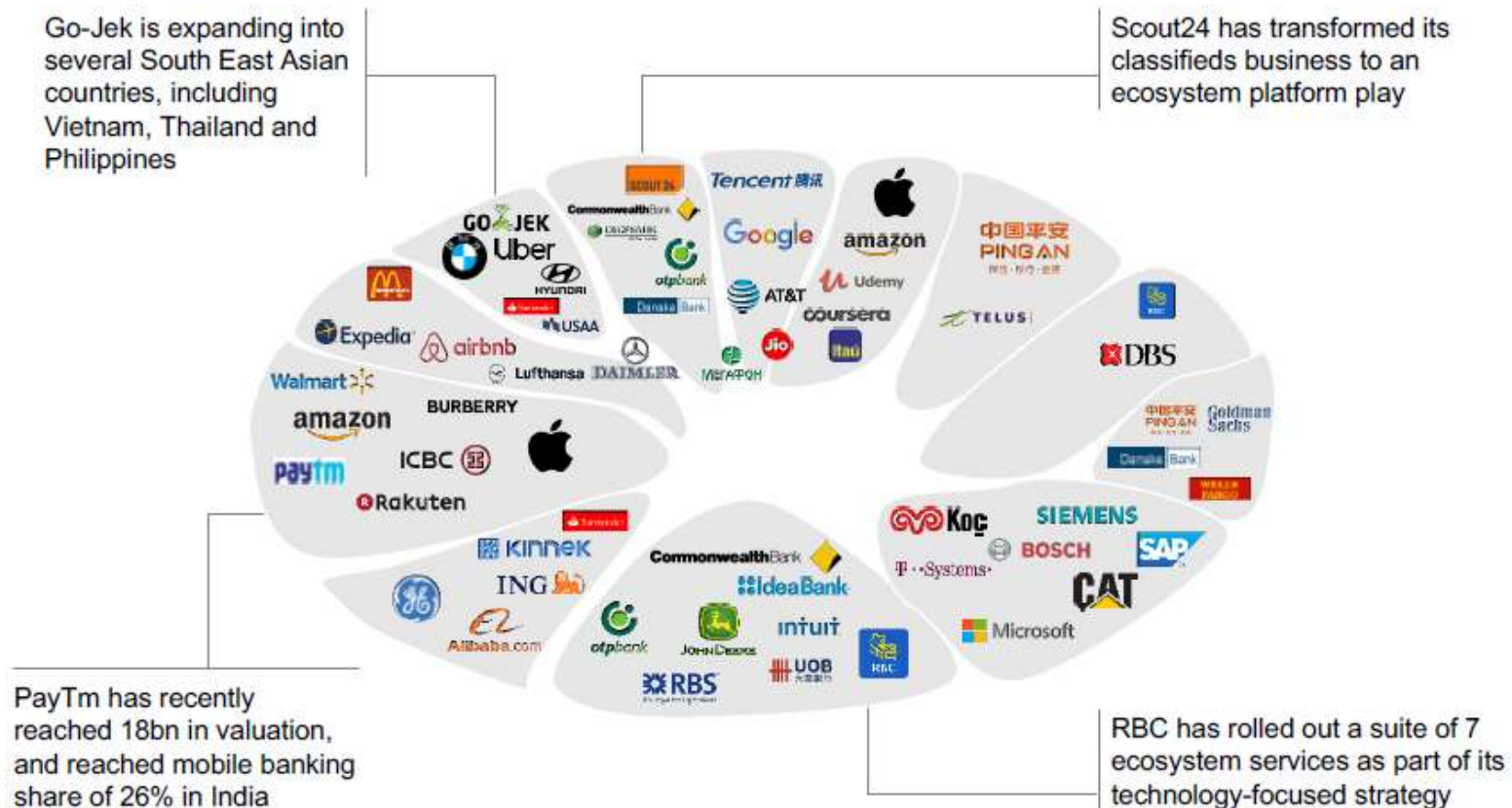
Sharing Session



# *The future of banking is about Connectivity & Collaboration*

- **Indonesia** has a fast growing generation of millennials entering the “bankable” market, requiring a digital service model
- **Fintechs will continue to grow**, looking for opportunities to expand their customer base via partnerships

In the last two years, both dominant ecosystem players, startups and incumbents are accelerating their activities globally



Source: McKinsey Global Ecosystem Team

# ***Agenda***

The challenges

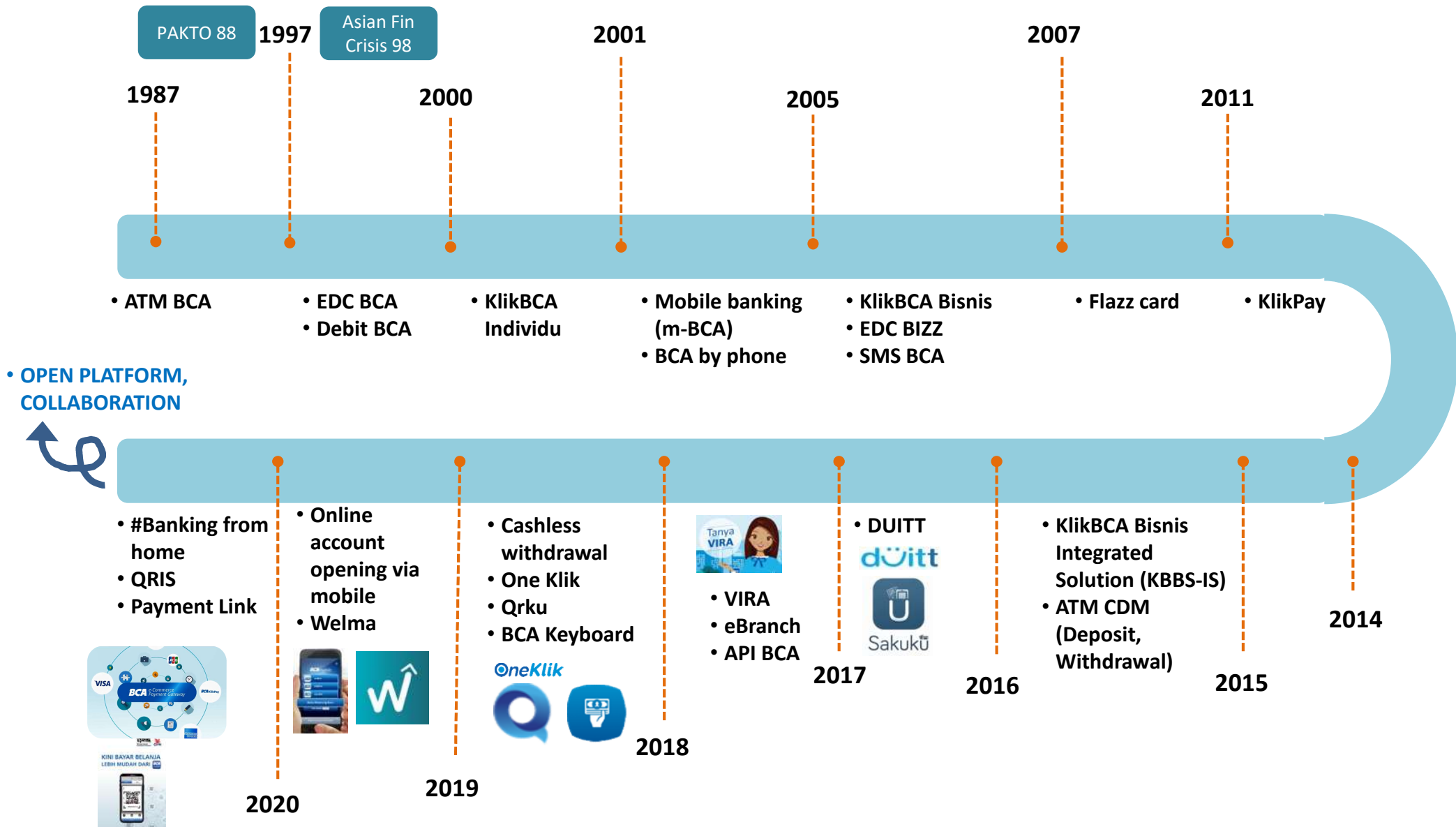
The brighter side

Case study: BCA

***Founded in 1957, Bank Central Asia (BCA) is now one of the leading banks in South East Asia***

Bank Name	Country of Origin	Market Cap (as of 18 Sep 2020)
Bank Central Asia	Indonesia	US\$ 47 Billion
Bank Rakyat Indonesia	Indonesia	US\$ 27 Billion
Bank Mandiri	Indonesia	US\$ 18 Billion
Bank Negara Indonesia	Indonesia	US\$ 6 Billion
Development Bank of Singapore (DBS)	Singapore	US\$ 37 Billion
OCBC	Singapore	US\$ 28 Billion
UOB	Singapore	US\$ 24 Billion
Maybank	Malaysia	US\$ 18 Billion
Public Bank	Malaysia	US\$ 15 Billion
CIMB	Malaysia	US\$ 7 Billion

# Endless digital journey in BCA

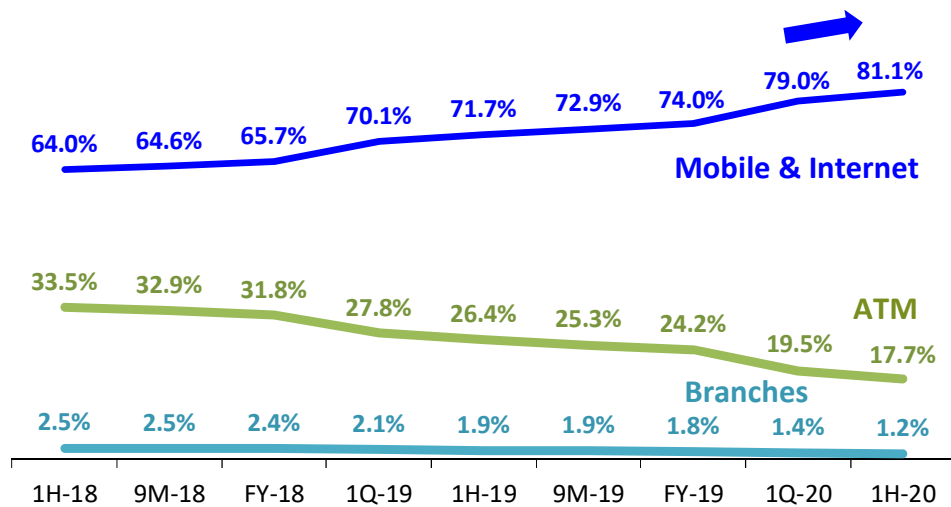




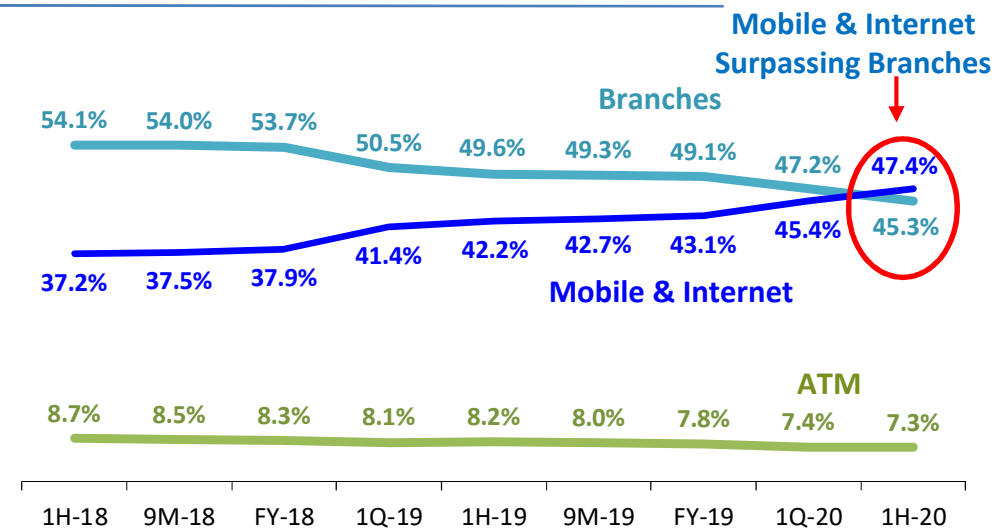
# Growing digital transactions

- Transactions have evolved..... online channels gained larger share at faster pace
- Customer behavior has changed
- But we can not neglect branch banking yet... transaction value is still a significant portion

## Number of Transactions Composition



## Transaction Value Composition

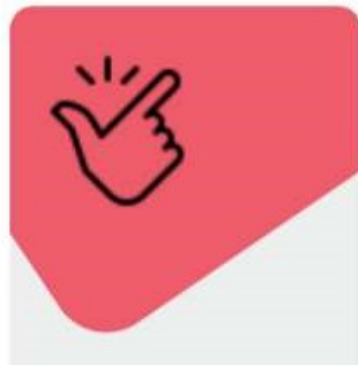


# ***BCA digital value proposition***

## **Security and convenience in BCA digital platform**



**Security**



**Convenience**



**Speed**



**Precision**

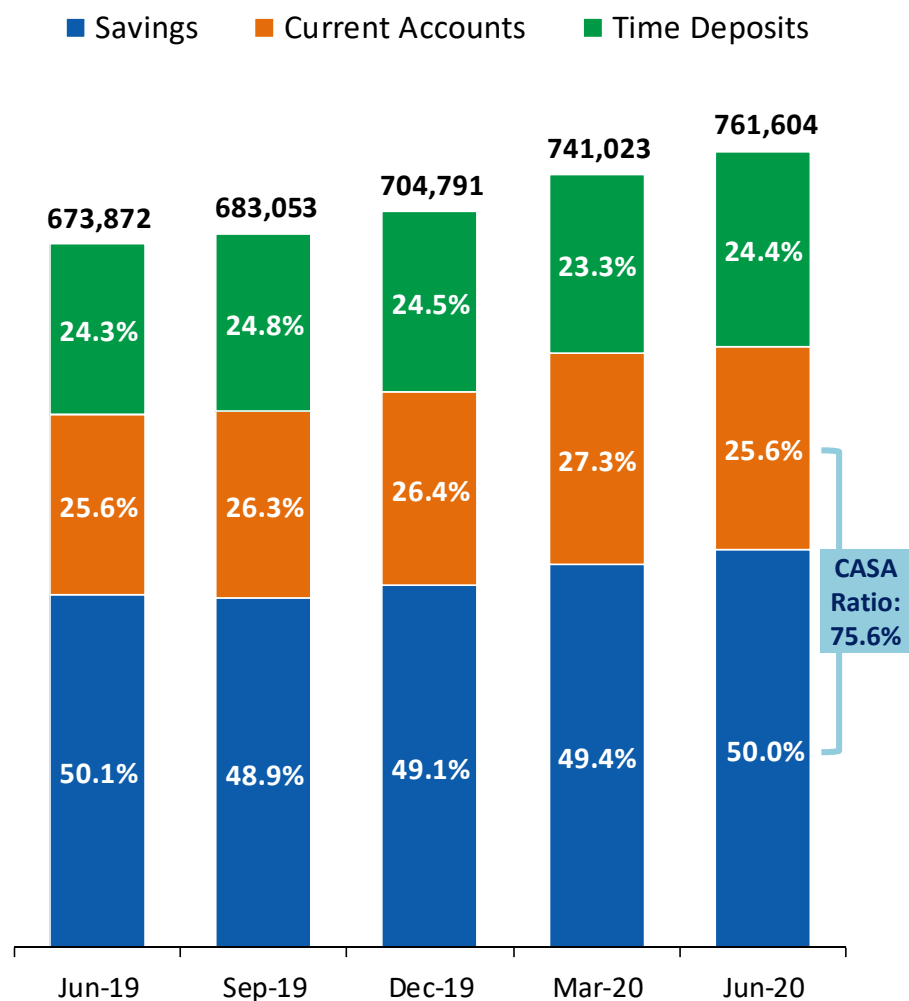


**Price**

*BCA digital products are to complement the existing ones*

# BCA efforts in transaction banking has translated to numbers

Third Party Fund Composition (Rp bn) - Consolidated



Third Party Funds (Rp bn) - Consolidated

	Jun-19	Dec-19	Mar-20	Jun-20	ΔYoY	ΔYtD	ΔQoQ
<b>CASA</b>	<b>510,410</b>	<b>532,013</b>	<b>568,526</b>	<b>575,974</b>	<b>12.8%</b>	<b>8.3%</b>	<b>1.3%</b>
Current Accounts	172,644	185,722	202,204	195,020	13.0%	5.0%	-3.6%
Savings Accounts	337,766	346,291	366,322	380,954	12.8%	10.0%	4.0%
Time Deposits	163,462	172,778	172,497	185,630	13.6%	7.4%	7.6%
<b>Third Party Funds</b>	<b>673,872</b>	<b>704,791</b>	<b>741,023</b>	<b>761,604</b>	<b>13.0%</b>	<b>8.1%</b>	<b>2.8%</b>
CASA Ratio	75.7%	75.5%	76.7%	75.6%	-0.1%	0.1%	-1.1%

## Well-integrated Channels



24/7 Mobile & Internet Banking



Connected with +1,200 parties via API



24/7 World-Class Contact Center



Total 17,360 ATMs. More than 40% is Cash Recycling Machine (CRM)

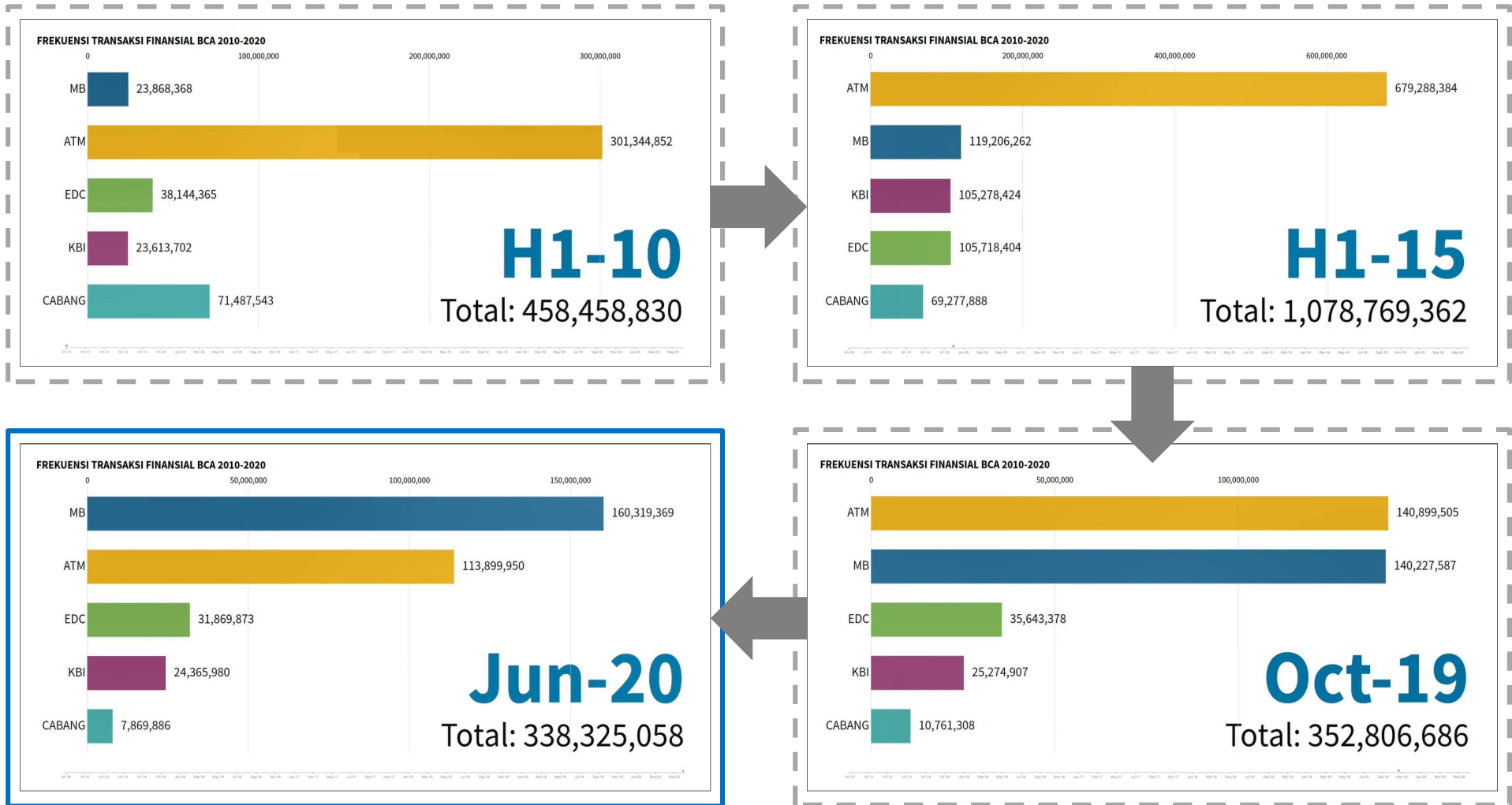


1,251 Branches



Wide distribution of EDCs & QRIS connection

# Mobile banking has been growing exponentially



# Key take-aways

- The Covid-19 pandemic has resulted in a biggest global GDP drop since World War II with some sectors more negatively impacted than others
- To soften the pandemic impact, governments around the world addressing two issues at once: (1) how to “safeguard our lives” and (2) how to “safeguard our “livelihoods”
- Fiscal stimulus (e.g., cash transfer, credit guarantee scheme, interest subsidy, tax breaks) as well as monetary stimulus (e.g., liquidity injection, interest rate reduction, reserves requirement adjustments, and other macro-prudential measures) introduced by almost all countries
- Although the banking sector in general enters this pandemic with a state of strength (in terms of capital and liquidity), the pandemic has undoubtedly impacted the sector globally and also in Indonesia
  - LAR or Loan at Risk (the total of (a) Non Performing Loan, (b) Special Mention Loan (Category-2 Loan), and (c) Restructured but classified as Category-1 Loan) increased from ~9% pre-pandemic to ~23% currently - banks might still need to increase its loan-loss provision over the next few years
  - Net Interest Margin compressed across all segments caused by (1) lower benchmark rate and (2) loan restructuring (loan interest rate decrease and deferred) and unlikely to recover anytime soon
  - Muted loan growth as the real sector taking longer to recover
- There are still a number of “silver linings”
  - Banks in general are better capitalized with ample liquidity
  - Previous investment for digitalization paying-off - more customers switched to mobile channels
  - New competitors emerging - NOT the traditional P2P players but the more aggressive tech companies trying to enter the financial services. Use of artificial intelligence, machine learning, big data analytics, blockchain by banks will only accelerate going forward
  - In the future, the “winning banks” are those that are part of larger “eco-systems” – therefore, banks must prepare the hardware (tech aspects) and the software (human capital and capability)

# *Thank you*

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