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Cash-In and Cash-Out Agents for Mobile Money in Indonesia

Fletcher School Leadership Program in Financial Inclusion:
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The success of mobile money in countries such as the Philippines and Kenya has inspired Mobile Network Operators (MNOs) in Indonesia to provide similar services. T-Cash, the first mobile money scheme in Indonesia, was launched in 2007 by Telkomsel, the country's biggest MNO. As of July 2011, three MNOs in Indonesia have been granted licenses from Bank Indonesia as e-money issuers and mobile money providers: Telkomsel, Indosat, and Exelcom. However, the last two companies are still in the early stages of development.

With regard to financial inclusion, mobile money has played a significant role in other developing countries as a means of making payments and sending (transferring) money, which can serve low-income and unbanked people. It can also reach people in remote areas who have limited access to formal financial services. Though providing access to mobile money does not unilaterally achieve financial inclusion, it can be considered a crucial step leading up to the next level of financial services: savings, credit, and other services.

Four years after Bank Indonesia granted the first mobile money license to an MNO, the level of mobile money usage in Indonesia remains quite low. This policy memo seeks to understand why the number of mobile money users and transactions in Indonesia, as compared to the number of mobile phone subscribers, remains so low. This is probably caused by several factors; this memo will focus on whether the number of mobile money agents is a major constraint to mobile money adoption in Indonesia and how Bank Indonesia's own policies can encourage the growth of the agent network and the greater adoption of mobile money services.

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BACKGROUND

Current condition of financial inclusion in Indonesia from demand and supply side aspects

Financial inclusion is now widely recognized as critically important in reducing poverty and income disparities, and increasing economic growth. Financial inclusion is based on the idea of providing the same opportunities to receive financial services for all and inviting every citizen in a nation to engage in economic activities with the help of financial service providers.[1] Through increased access to savings accounts and other financial services, the poor can build financial security, manage risks against adverse shocks such as illness or natural disaster, and even invest in new business opportunities.[2]

Indonesia is a large country in almost every sense. It has a population of 250 million, over 13,000 islands, and about 300 different ethnic groups. Indonesia also has a large number of people who are still financially excluded. A recent World Bank study on financial access in Indonesia estimated that 48 percent of the total households in the country are financially excluded.[3] While 31 percent of households have access to informal financial services, almost 17 percent do not have any financial services, formal or informal.

As the major provider of financial services in Indonesia, the banking sector plays a vital role in improving access to financial services; it controls almost 80 percent of total Indonesian financial assets. Unfortunately, it serves a relatively small proportion of Indonesian households, and access is highly skewed to urban areas. Only 20-34 percent of rural households have access to banking services.

Issues of financial inclusion in Indonesia

With Indonesia's wide geographic scope, the main issue is how to reach the unbanked poor in remote areas using cost-efficient means. Conventional, branch-based approaches to expanding financial services would require significant infrastructure and operational expenditures. On the other hand, because of its wide reach, mobile phones offer much promise in providing financial services to the poor in rural regions. According to a report from the Consultative Group to Assist the Poor, there are 172 million active SIM cards in service in Indonesia, but it is estimated that this represents only 90 million customers, many of whom hold multiple accounts.[4] This implies a penetration rate of around 38 percent of the population.

The mobile phone could be a cost-effective medium for enhancing access to financial services in Indonesia for the following reasons:

- The number of mobile phone users in Indonesia is far larger than the number of bank account holders and continues to grow. From out of a total population of 250 million, only 50-60 million Indonesians have bank accounts, while approximately 90 million people are mobile phone subscribers.
- Providing financial services using means that are already familiar (like the mobile phone) can play a significant role in promoting financial inclusion.

- Providing financial services through the mobile phone can save costs, since the infrastructure has already been deployed for telecommunications purposes. In other words, the provider only needs to enhance the system to accommodate financial services, rather than purchasing or building new infrastructure. Additionally, utilizing the current network will substantially reduce the cost of reaching the most remote areas.

Mobile money in Indonesia compared to other developing countries

Compared to other developing countries, the number of mobile money transactions and users in Indonesia to date has not shown significant growth. The number of users in May 2011 was estimated at 5.4 million, or around 3.8 percent of total mobile phone subscribers; however, not all of these registered users are active customers. Additionally, the number of transactions from January to May 2011 only reached 174,959, about 34,992 transactions per month, with a total value of 6,587 million rupiah (US$774,941), or 1,317 million rupiah (US$154,988) per month.[5] This only accounts for 1.19 percent of total e-money transactions in terms of volume, and 2.17 percent in terms of value.[6]

M-PESA in Kenya was launched in the same year as T-Cash in Indonesia, but it now has been adopted by 17 million customers, or 80 percent of Safaricom's subscriber base. The service now reaches 70 percent of Kenyan households and 50 percent of all unbanked households.[7] Meanwhile, in the Philippines at the end of 2007, more than 8 million Filipinos had registered to use two types of mobile money—Smart Money (introduced in 2000) and GCash (introduced in 2004). This was out of 25 million Smart subscribers and 19 million Globe subscribers.[8]

ANALYSIS

The importance of cash-in and cash-out agents

Mobile money can be used as an instrument to pay for goods or services, or as a means of sending/transferring money. In other developing countries, the primary use of mobile money is for sending money—that is, person-to-person transfers.

Like other developing countries, Indonesia has many migrant workers, with many people from rural areas working in urban areas. According to the World Bank, the number of Indonesian migrants working overseas is more than 2.5 million.[9] This group regularly sends money home to their families, using informal channels (such as returnees) to send remittances. While many of these households are unbanked, most of them have mobile phones. Accordingly, by using mobile money, this group of households could send money home to their families easily and cheaply.

Since one of mobile money's main functions is as a means of sending money, it is necessary for the provider to ensure that cash-in and cash-out agents can be easily found by its customers. A migrant, for example, will not use mobile money if his or her family in the village cannot easily cash out the money being sent. The migrant will also consider how easy the process is if he or she wants to exchange cash into electronic value (cash in). Therefore, to achieve the necessary scale for this low-value, high-transaction business to become sustainable, it is important for the provider to build a large network of cash-in and cash-out agents.

Telkomsel and other MNOs already have a significant number of airtime dealers who also have the potential to become cash-in/cash-out agents for mobile money. Yet there are few agents that can provide cash-out services, in terms of both number and location. For example, Telkomsel now has around 500,000 airtime dealers that are located in almost every province in Indonesia. On the other hand, it has approximately 5,000 outlets for cash out for T-Cash[10]—only 10 percent of its total airtime dealers—most of which are located in big cities. With the number of T-Cash users in May 2011 estimated at 5.4 million, it means that there is only one cash-out agent available for every 1,000 T-Cash users.

Regulation and its implications for agents

According to the "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia" conducted in 2009 by CGAP, IFC, and GTZ, the relatively small number of cash-out points was most likely caused by Bank Indonesia regulations regarding the use of cash-out agents for e-money issuers. Current regulations allow e-money issuers to use agents to upload value to e-money accounts (cash in). However, if an e-money issuer wants to use agents to offer cash-out services, the agent must be licensed as a money remitter by Bank Indonesia. The regulation is based on the principle that cash-out services attach to the person-to-person transfer facility provided by the e-money issuer. Accordingly, there was concern about the implementation of "know your customer" requirements.

Unfortunately, an MNO cannot leverage its usually vast distribution network to serve as a cash-out point because each of its airtime dealers must apply individually for a remittance license before they are authorized to provide cash-out services, unless the airtime dealer is a "branch office" of the MNO. The relatively extensive licensing requirements imposed by the regulation discourage a significant number of small airtime dealers from applying for the license.

Money remitter versus cash-out agent

Since agents are a necessary condition for the wide use of mobile money, it is important to evaluate the current regulations, especially those related to cash-out agents. We will start with two basic questions: Why are cash-out agents regulated as money remitters? Do they really conduct money remittance activities?

Referring to regulations on money remittance issued in 2006, a money remitter in Indonesia is defined as an individual legal entity or non-legal entity that acts as a sending agent and/or a receiving agent of a money remittance. A sending agent is defined as an individual legal entity or non-legal entity that receives a sum of money from the originator to be sent to the beneficiary through the receiving agent. A receiving agent is defined as an individual legal entity or non-legal entity that receives a sum of money from a sending agent to be delivered to the beneficiary. Since the new Fund Transfer Act was enacted in early 2011, a money remitter must be a legal entity, and neither an individual or a non-legal entity is allowed to become a money remitter.

Referring to the definitions above, a money remitter can act as sending agent or receiving agent, where both are involved directly in the process of transferring money. As a sending agent, the money remitter is responsible for sending or transferring money received from the originator to the receiving agent. While acting as a receiving agent, the money remitter is responsible for delivering the money received from the sending agent to the beneficiary.

Now, let's take a look at the activities performed by cash-out agents, which are similar to those performed by cash-in agents. Cash-out agents in the mobile money scheme are not involved in the process of remitting money from one person to another person but in exchanging electronic value to cash. To understand this, we can look first at the activities that occur during a cash-in transaction:

- The customer gives cash to the agent.
- Using the mobile phone, the agent transfers the electronic value from the agent's mobile money account to the customer's mobile money account in the same amount, with the cash given by the customer.
- The transfer of electronic value is conducted through the MNO's network in real time, meaning that the agent's account will be directly debited and the customer's account will be directly credited before the customer leaves the agent's store.

The opposite flow of activities occurs for a cash-out transaction:

- The agent gives a certain amount of cash to the customer.
- Using the mobile phone, the customer sends the same amount of electronic value from the customer's mobile money account to the agent's mobile money account through the MNO's network, in real time.
- The agent's account is directly credited and customer's account is directly debited before the customer leaves the agent's store.

When a customer wants to send money to his or her family in another location (basically, this is the real case of money remittance), he or she doesn't need to go to an agent. The customer can send money from anywhere at any time by sending the instruction of money transfer via his or her mobile phone—it's as simple as sending a text message. After sending the instruction, the customer's account will be debited and the receiver's account will be credited, in real time. Afterward, if the receiver wants to get cash, he or she can go to an agent to exchange his or her electronic value to cash by using the same cash-out mechanism explained above.

Based on the definition of money remitter and from the analysis above, we can see that cash-out activities should not be considered money remittance activities because they only exchange electronic value to cash, in real time. The case of money-changer activities is quite similar. For that reason, there is a strong case for critically evaluating the current regulations for cash-out agents.

OPTIONS

The experience of other developing countries suggests that agents are a necessity for the success of a mobile money scheme in Indonesia, given that they enable the necessary scale for this low-value, high-transaction business to become sustainable. Accordingly, in order to promote financial inclusion in Indonesia, especially from the payment system aspect, there are strong reasons to review the current regulations related to cash-out agents. In this regard, Bank Indonesia should consider the following options:

- Recognizing that cash-out transactions are distinct from remittance activities, it is not necessary to require a remittance license for mobile money cash-out agents. However, considering agent misconduct as well as concerns about anti-money laundering/combating the financing of terrorism (AML/CFT) and consumer protection, the mobile money provider should also set up certain criteria for its prospective agents, including a required education program regarding AML/CFT for its agents. The mobile money provider also has to be responsible for the misconduct of its agents.
- Bank Indonesia can still require licenses for mobile money agents. As a consequence of this option, in the best case, Bank Indonesia would probably be presented with a flood of applications by small airtime dealers, and also face the task of creating the capacity to supervise a large number of these dealers.

RECOMMENDATIONS

Option A

This option is consistent with Bank Indonesia's concern in promoting financial inclusion. As we are aware, financial inclusion covers various activities, including savings, credit, insurance, and payment systems. As a payment instrument and a means of sending money, mobile money does not constitute complete financial inclusion. However, it can be an essential step toward providing other financial services.

Making cash-in and cash-out points available in many places will make these financial services convenient for potential customers, especially in rural areas. Accordingly, this option will enable mobile money providers to leverage their network of distributors to be cash-in/cash-out agents while still appropriately addressing concerns about AML/CFT and consumer protection.

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1. The World Bank, Financial Sector Development, technical note, October 2010.
2. Kang, Kyounghwa, *What Is Financial Inclusion?* The University of Iowa Center for International Finance and Development, January 31, 2010. Available at http://ebook.law.uiowa.edu/ebook/faqs/what-is-financial-inclusion.
3. *Improving Access to Financial Services in Indonesia*, The World Bank, 2010.
4. *Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia*, CGAP, in cooperation with IFC and GTZ, June 2009.
5. Using conversion of US$ 1= 8,500 rupiah.

6. In Indonesia, there are two types of e-money: chip based and server based. Mobile money is categorized as server-based e-money.
7. Ignacio Mas and Dan Radcliffe, *Scaling Mobile Money*, Bill & Melinda Gates Foundation, April 2011.
8. *Notes on Regulation of Branchless Banking in the Philippines*, CGAP, May, 2008.
9. *The Migration and Remittances Factbook 2011*, World Bank.
10. Personal communication with Telkomsel's officer.