Cash in and Cash Out Agents for Mobile Money in Indonesia

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1. Problem

The success story of mobile money in other countries such as the Philippines and Kenya has inspired Mobile Network Operators (MNOs) in Indonesia to provide similar services. The first mobile money scheme in Indonesia, named T-cash, was first launched in 2007 by Telkomsel, the biggest Mobile Network Operator (MNO) in Indonesia. As of July 2011, there are 3 MNOs in Indonesia that 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 very 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 payment and sending (transfer) money, which can serve low income and unbanked people. It can also reach people in remote areas with 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 before moving up to the next level of financial services: saving, credit, and other services.

Four years after Bank Indonesia granted the first mobile money license to a MNO, the level of usage of mobile money 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 low. This is probably caused by several factors, but this memo will focus on whether the

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1 This paper is prepared in compliance with the Fletcher School Leadership Program for Financial Inclusion. This paper is made based on author’s view; therefore it doesn’t reflect Bank Indonesia’s view.
number of m-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 in Indonesia and the greater adoption of m-money services.

2. Background

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

Financial inclusion is now widely recognized as critically important in poverty reduction, reducing 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. 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.

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. Along with those large aspects, 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% of the total households in Indonesia were financially excluded. While 31% of households had access to informal financial services, almost 17% did not have any financial services (either formal or informal).

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

**b. 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 CGAP’s report, 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.\(^5\) This implies a penetration rate of around 38% of the population.

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

1). The number of mobile phone users in Indonesia is far larger than the number of bank account holders and is continuing to grow. From out of a total population of 250 million, only 50-60 million of Indonesians have bank accounts, while on the other hand approximately 90 million people are mobile phone subscribers.

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\(^5\) Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia; June 2009; CGAP in cooperation with IFC and GTZ
2). Providing financial services using means that are already familiar (like the mobile phone) can play a significant role in promoting financial inclusion.

3). Providing financial services through the mobile phone can save costs, since the infrastructure has already been deployed for telecommunications purposes. In other words, the phone only needs enhancement for 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.

c. Mobile Money in Indonesia compared to other Developing Countries

Compared to other developing countries, to date, the number of mobile money transactions and users in Indonesia has not shown significant growth. The number of users in May 2011 was estimated at 5.4 million (corresponding to around 3.8% 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 (or about 34,992 transactions per month), with a value of 6,587 million rupiah (equal to USD 774,941) or 1,317 million rupiah per month (equal to USD 154,988).\(^6\) As compared to total e-money transactions, it only accounts for 1.19% in terms of volume and 2.17% in terms of value.\(^7\)

M-Pesa in Kenya was launched in the same year as T-cash in Indonesia, but now has been adopted by 13.3 million customers (corresponding to 80% of Safaricom’s subscriber base). The service now reaches 70% of Kenyan households and 50% of all

\(^6\) Using conversion of 1 USD = 8,500 rupiah
\(^7\) In Indonesia, there are two types of e-money, they are: 1) chip-based and 2) server based e-money. Mobile money is categorized as server-based e-money.
unbanked households. Meanwhile, in the Philippines at the end of 2007, more than 8 million Filipinos had registered to use either “Smart Money” or “GCash,” two types of mobile money in the Philippines (“Smart” was first introduced in 2000 while “GCash” was introduced in 2004). This was out of 25 million “Smart” subscribers and 19 million “Globe” subscribers.

3. Analysis

a. The importance of cash in and cash out agents

Mobile money can be used as a payment instrument (to pay for goods or services) or as a means of sending money (to transfer funds). In other developing countries, the primary use of mobile money is for sending money (person to person / P to P) transfers.

Similar to other developing countries, Indonesia also 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. This group of people 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 its main functions is as a means for 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/her

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9 CGAP. Notes on Regulation of Branchless Banking in the Philippines (May, 2008).
family in the village cannot easily cash out the money being sent. The migrant will also consider how easy the process is if he/she wants to exchange cash into electronic value (cash in). For these reasons, to enable the necessary scale for this low-value, high-transaction business to become sustainable, it is important for the provider to provide 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/out agents for mobile money. Yet there are very few agents that can provide cash out services, in terms of number and location. For example, Telkomsel now has around 500,000 airtime dealers who are located in almost every province in Indonesia. On the other hand, it has approximately 5000 outlets for cash out for T-cash11 (or only 10% of its total airtime dealers), where most of them are located in big cities. If the number of T-Cash users in May 2011 was estimated at 5.4 million, this means that there is only one cash out agent available for every 1,000 T-Cash users.

b. Regulation and its implications for agents

According to the “Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia” in 2009 conducted by CGP, IFC and GTZ, it was most likely caused by Bank Indonesia regulation regarding the use of cash out agents for e-money issuers. Current regulation allows 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 from Bank Indonesia. The regulation was based on the principle that cash out

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11 According to Telkomsel’s officer
services attach to the P to P transfer facility provided by the e-money issuer. Accordingly, there was concern about the implementation of KYC requirements.

Unfortunately, an MNO cannot leverage its usually vast distribution network to serve as 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.

c. 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 regulation especially those related to cash out agents. We will start with some basic questions, such as: Why are cash out agents regulated as money remitters? Do they really conduct money remittance activities?

Referring to regulation on money remittance issued in 2006, a money remitter is defined as an individual, legal entity or non-legal entity in Indonesia 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. While 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 act of Fund Transfer was enacted last March this year, money remitter must be a legal entity. An individual and non-legal entity is not allowed anymore to become a money remitter.
Referring to the definitions above, a money remitter can act as sending agent or receiving agent, where both of them are involved directly in the process of transferring money. As a sending agent, the money remitter is responsible to send or transfer money received from the originator to the receiving agent. While as a receiving agent, the money remitter is responsible to deliver the money received from the sending agent to the beneficiary.

Now, let’s take a look at the activities performed by the cash out agent. Similar to activities 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 rather exchange 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/her family in another location (basically, this is the real case of money remittance), he/she doesn’t need to go to an agent. The customer can send money from anywhere and anytime by simply sending the instruction of money transfer via his/her mobile phone, as simply 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/she can go to an agent to exchange his/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 as 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 exists a strong case to critically evaluate the current regulation of cash out agents.

4. Options

The experience of other developing countries suggests that agents are a necessary condition 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 is a strong reason to review the current regulation related to cash out agents. In this regard, Bank Indonesia should consider the following options:
a. 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 the requirement of an education program regarding AML/CFT for its agents. The mobile money provider also has to be responsible for the misconduct of its agents.

b. Bank Indonesia can still require licenses for mobile money agents. As the implication 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 small airtime dealers.

5. Recommendation:

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 as a means of sending money, mobile money does not constitute complete financial inclusion. However, it can be an essential step towards 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.

Jakarta, 6th of September 2011

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