

The State of the Indonesian Banking Sector - Challenges and Opportunities

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Outline of Presentation

1. The State of the Covid-19 Pandemic

- 2. The Indonesian Banking Sector Performance*
- 3. How the Indonesian economy is evolving*
- 4. Global trends in banking and Tips to Prepare to face the VUCCA World*
- 5. Key Take-Aways*

Context



Adam Tooze, Ph.D

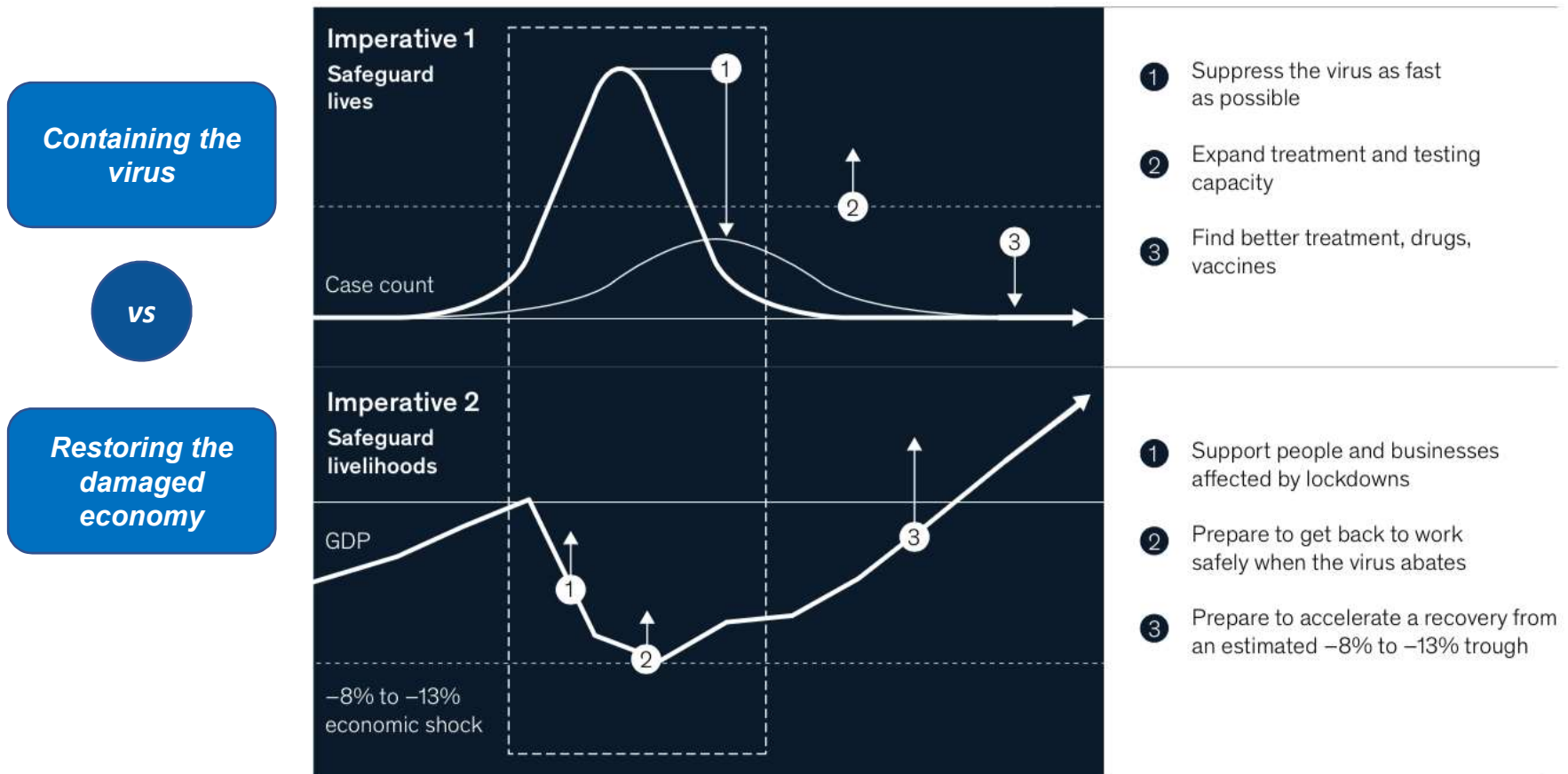
Professor of History & Director
of the European Institute -
Columbia University

*“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”*

On-going tension on “safeguarding lives” versus “safeguarding livelihoods”

The imperative of our time



Source: McKinsey analysis in partnership with Oxford Economics

The situation in 2020 is very different from other 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 under that circumstance is for the Central Bank to “pump” liquidity to calm the market...”

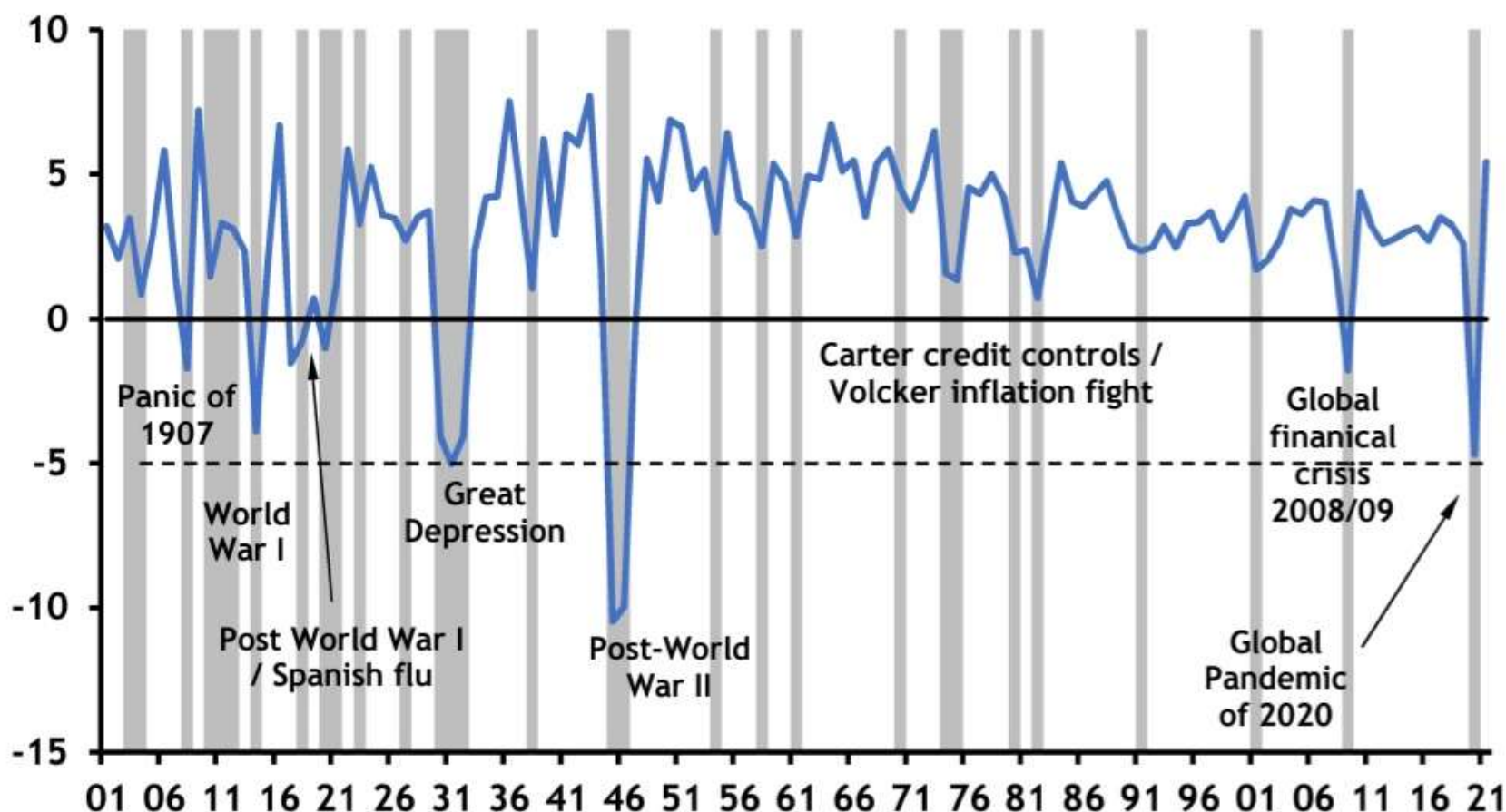
“...what we are seeing now is an economic sudden stop. They start small and they cascade and reach critical mass....as if you are dealing with a broken leg and an infection in one leg, an infection in another leg, in the arm, and in another arm. Therefore it is a multi-symptom, multi-aspect disease...”

Past crises (2008-2009 global crisis and 1997-1998 Asian financial crisis) started in the banking sector which spread to the real sector. The global crisis due to 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

Impact of “economic sudden stop” is massive – worst global GDP decline after end of World War II

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

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

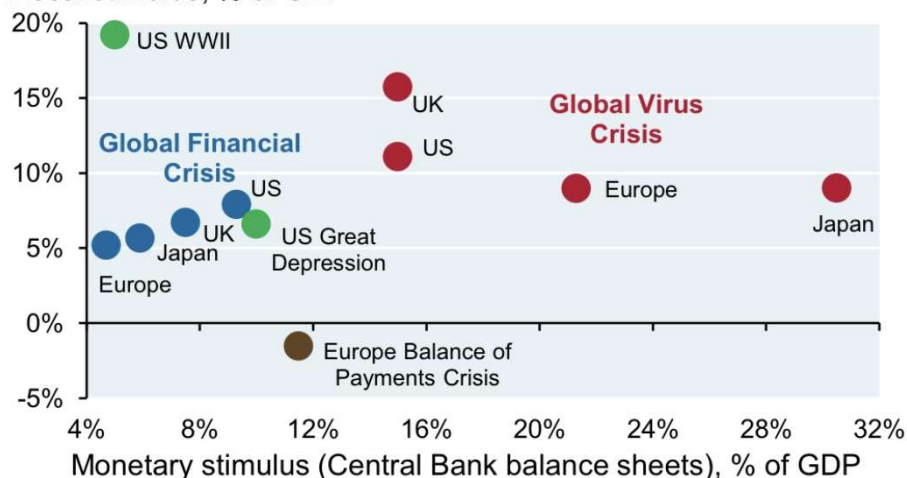


Source: J.P. Morgan

Massive stimulus (fiscal and monetary) and liquidity injection globally in 2020

Stimulus response to COVID sets a new bar

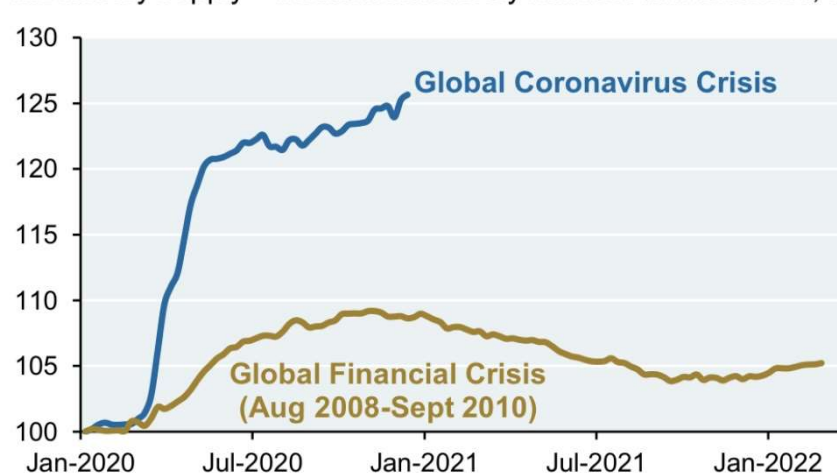
Fiscal stimulus, % of GDP



Source: Central bank sources, OMB, St Louis Fed, JPM Global Economic Research. JPMAM. December 2020.

Faster growth in the money supply this time around

M2 money supply + institutional money market fund balances, index



Source: St Louis Fed, J.P. Morgan Asset Management. December 14, 2020.

Source: "Eye on the Market Outlook 2021", Michael Cembalest, Jan 1, 2021

Recovery depends on how well we contain the pandemic and how effective the government stimulus program is

FORCES AT PLAY

Scenarios for the Economic Impact of the COVID-19 Crisis

GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies

Most likely scenario¹

Virus Spread & Public Health Response

Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective control of virus spread

Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus recurrence

Initial response succeeds but is insufficient to prevent localized recurrences; local social distancing restrictions are periodically reintroduced

Broad failure of public health interventions

Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

B1



Virus contained, but sector damage; lower long-term trend growth

A3



Virus contained; growth returns

A4



Virus contained; strong growth rebound

B2



Virus recurrence; slow long-term growth insufficient to deliver full recovery

A1



Virus recurrence; slow long-term growth with muted world recovery

A2



Virus recurrence; return to trend growth with strong world rebound

B3



Pandemic escalation; prolonged downturn without economic recovery

B4



Pandemic escalation; slow progression towards economic recovery

B5



Pandemic escalation; delayed but full economic recovery

Ineffective interventions

Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis

Partially effective interventions

Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly effective interventions

Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

Knock-on Effects & Economic Policy Response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

1. Based on McKinsey survey of global executives, May 4-May 8, 2020, Global N=2,452, ASEAN N=105

The good news is that the end of the pandemic is made possible due to breakthrough in vaccine development

Type	Method of provoking antibody response to SARS-CoV-2	Drug companies (bold = approved)	Existing licensed vaccines
1 Attenuated	A live but weakened coronavirus that will infect cells and cause them to make viral proteins	Codagenix	Measles, yellow fever, mumps, smallpox, polio
2 Attenuated	A "killed" coronavirus that will get recognized as foreign matter by the immune system	Sinovac¹, SinoPharm², Covaxin³	Polio (dev countries)
3 Recombinant	Recombinant coronavirus proteins, produced industrially in outside cell cultures, which are recognized as foreign matter by the immune system	GlaxoSmithKline/Sanofi, Novavax ⁴	Tetanus, pertussis, flu, shingles
4 Genetic (vector vaccines)	A different virus (human or ape adenovirus, measles, etc) that is engineered to include genetic components coding for the SARS-CoV-2 spike proteins, which causes the body to produce them	CanSino⁵, Oxford/AstraZeneca⁶, J&J⁷, Gamaleya⁸	Ebola
5 Genetic	DNA or RNA that will be taken up by cells and will cause them to make coronavirus proteins	Moderna, Inovio, BioNTech/Pfizer	

: Sinovac has been approved for use in China, Hong Kong, Indonesia, Philippines, Brazil, Chile, Mexico, Turkey and several other countries

: Sinopharm has been approved in China, UAE, Bahrain, Egypt, Hungary and Jordan. No Phase III trials released by the company

: Covaxin has been approved for emergency use in India, Iran, Philippines, Paraguay, Guatemala and several other countries

: Protein vaccines are not new, but the Novavax vaccine is combined with a proprietary adjuvant which has not been approved for use before

: CanSino has been approved for use in China, Mexico and Pakistan

: Oxford/AstraZeneca's vaccine has been approved for use in the UK, Europe, South Africa, Brazil, Chile, and several other countries

: J&J's vaccine has been approved for use in the US and Bahrain

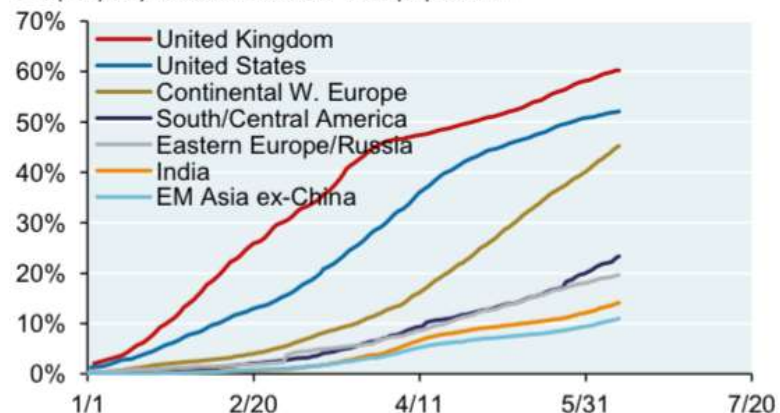
: Gamaleya's vaccine has been approved in Russia, Argentina, Venezuela, Mexico, Hungary, Iran, UAE, and several other countries

Source: J.P. Morgan Asset Management. 2021.

However, vaccines not uniformly distributed across developed and developing countries

Country/Region vaccination rates

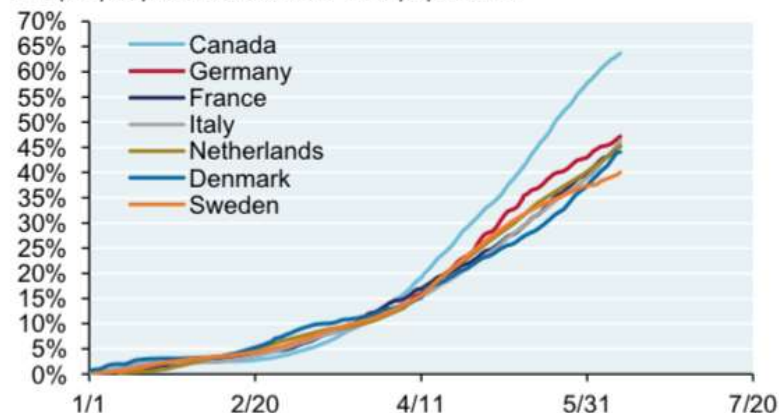
Unique people vaccinated as % of population



Source: OWID, JPMAM. June 10, 2021.

Country vaccination rates: Europe/Canada

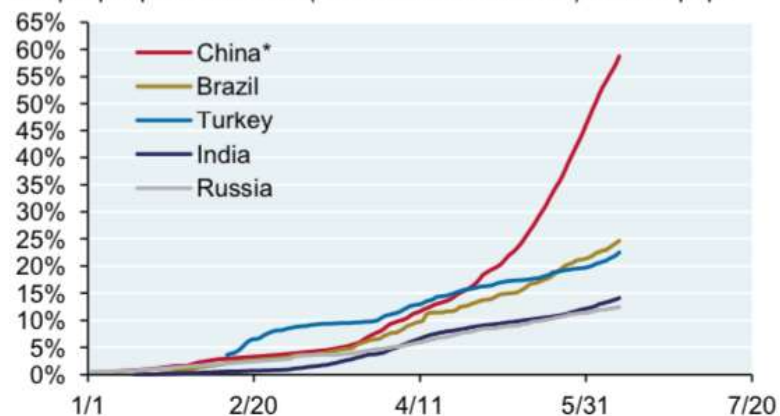
Unique people vaccinated as % of population



Source: OWID, JPMAM. June 10, 2021.

Country vaccination rates: Large EM

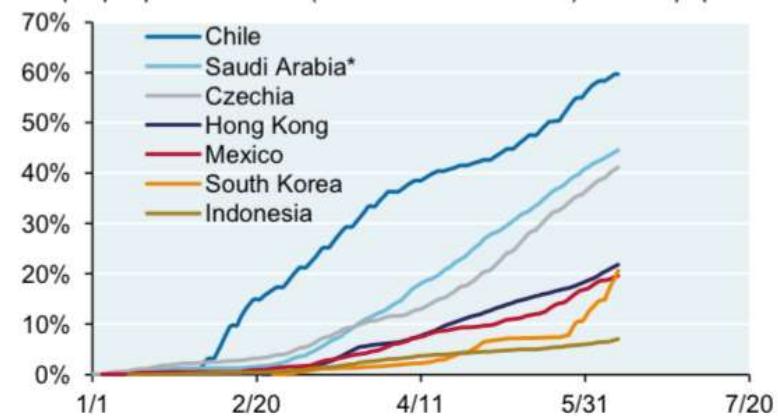
Unique people vaccinated (or doses administered*) as % of pop.



Source: OWID, JPMAM. June 10, 2021.

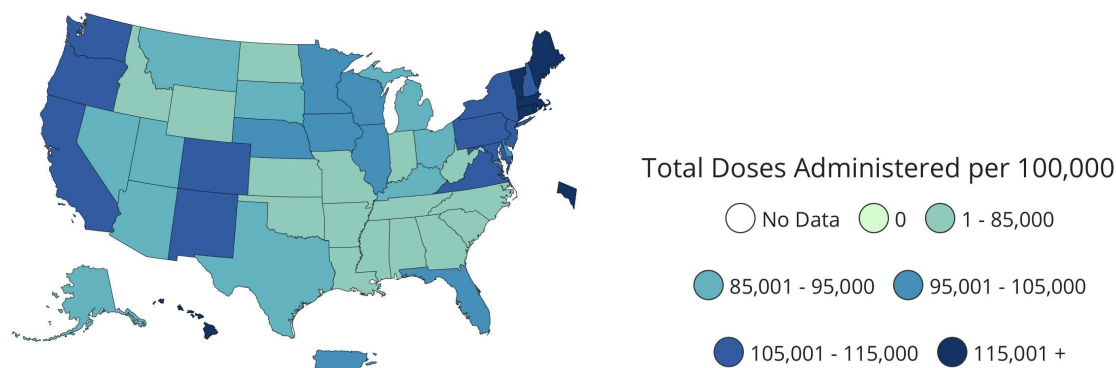
Country vaccination rates: Other EM

Unique people vaccinated (or doses administered*) as % of pop.



Source: OWID, JPMAM. June 10, 2021.

Despite ample supply, only 46% of the US population has been fully-vaccinated due to strong anti-vaxers especially in the south



Territories



Total Vaccine Doses

Delivered 381,282,720

Administered 323,327,328

Learn more about the distribution of vaccines.

153.0M

People fully vaccinated

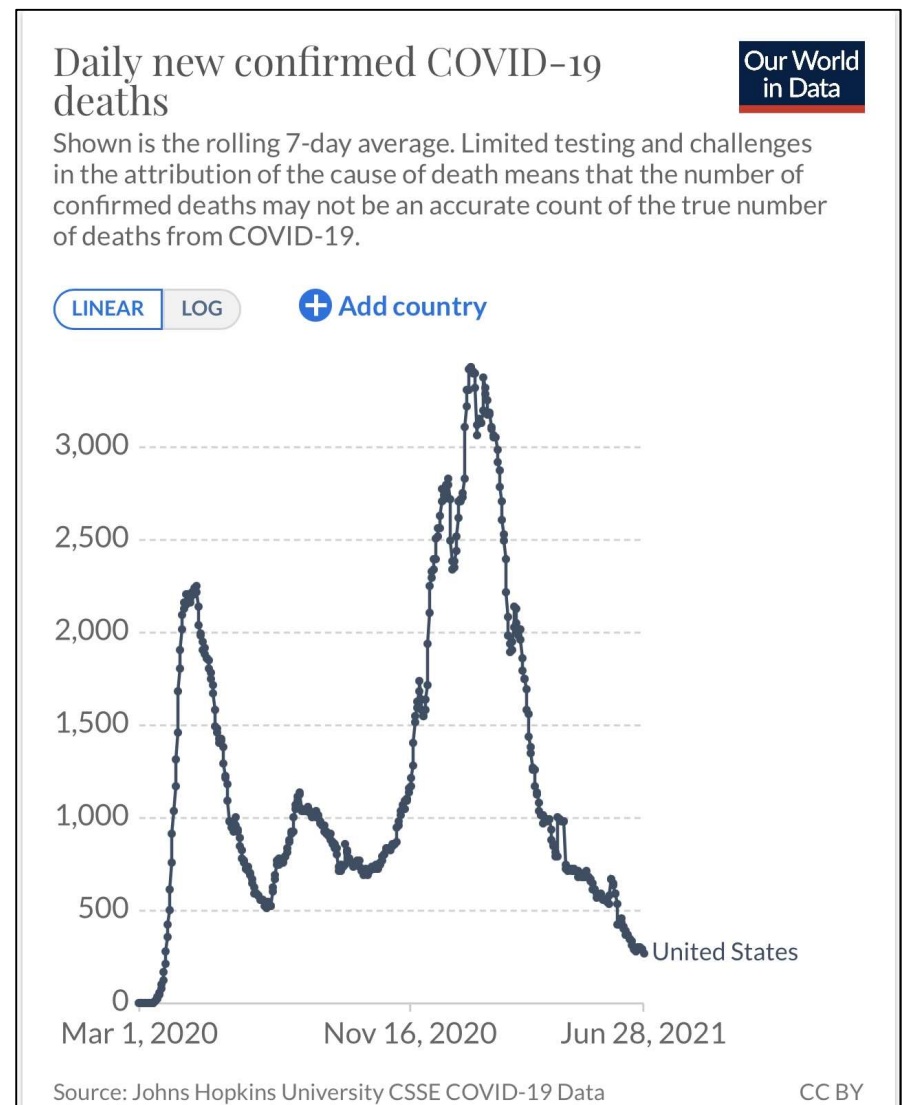
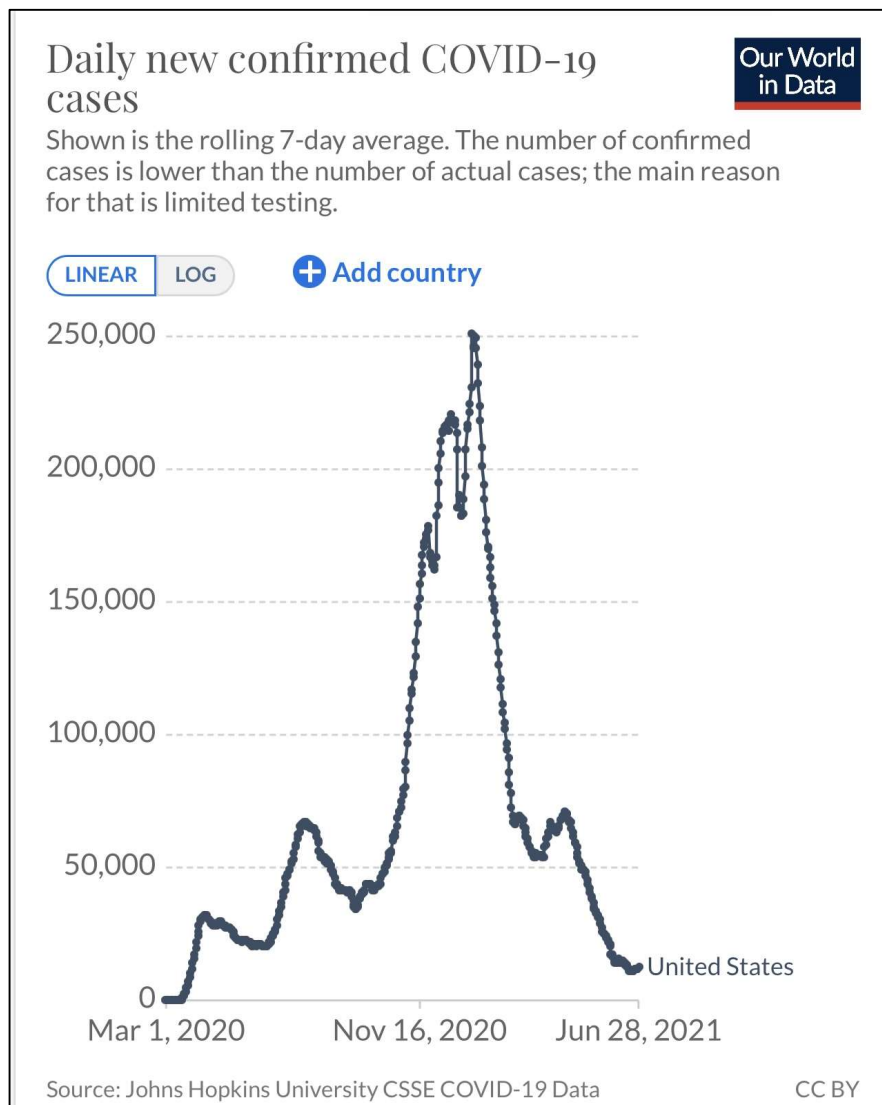
People Vaccinated

	At Least One Dose	Fully Vaccinated
Total	179,261,269	153,028,665
% of Total Population	54%	46.1%
Population ≥ 12 Years of Age	179,052,568	152,915,464
% of Population ≥ 12 Years of Age	63.1%	53.9%
Population ≥ 18 Years of Age	170,546,116	146,691,387
% of Population ≥ 18 Years of Age	66%	56.8%
Population ≥ 65 Years of Age	47,937,782	42,504,448
% of Population ≥ 65 Years of Age	87.6%	77.7%

i About these data

CDC | Data as of: June 27, 2021 6:00am ET. Posted: Sunday, June 27, 2021 1:33 PM ET

The number of new cases and deaths in the US dropped significantly but now “flattening” (data as of Jun 28, 2021)



New York and California used to be the epicenters of Covid-19 – their new confirmed cases are quite low

New confirmed cases of Covid-19 in New York and California

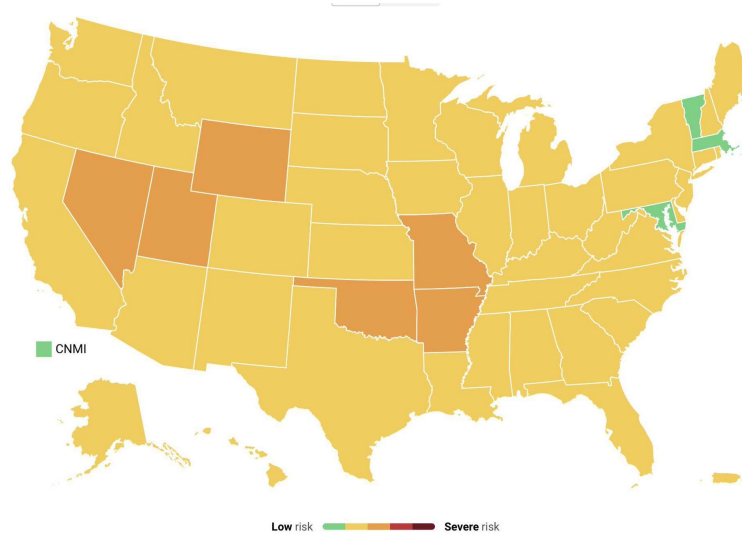
Seven-day rolling average of new cases (per 100k)



Source: Financial Times analysis of data from the Johns Hopkins CSSE.
Data updated June 15 2021 5.19pm BST. Interactive version: ft.com/covid19

FINANCIAL TIMES

However, cases are still increasing in Nevada, Missouri, Arkansas, Wyoming and Utah due to low vaccination rate

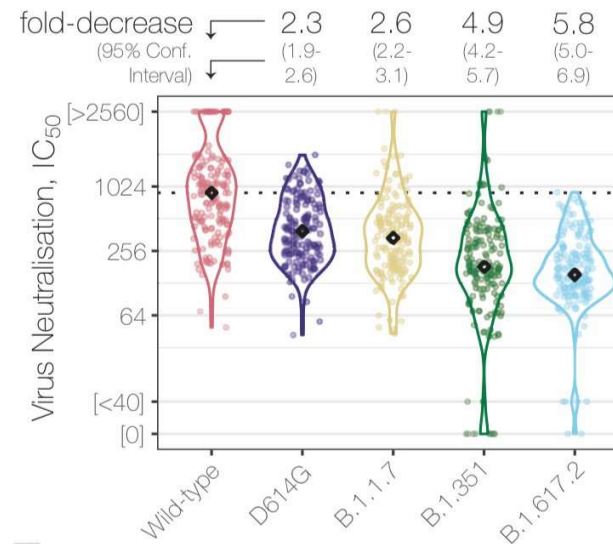
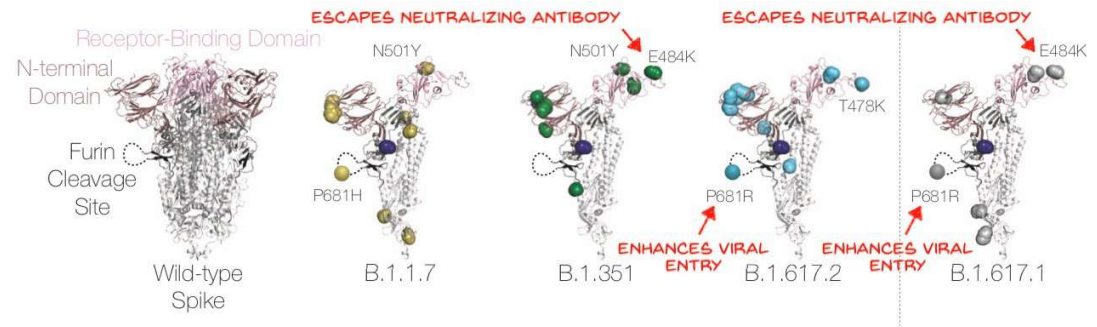
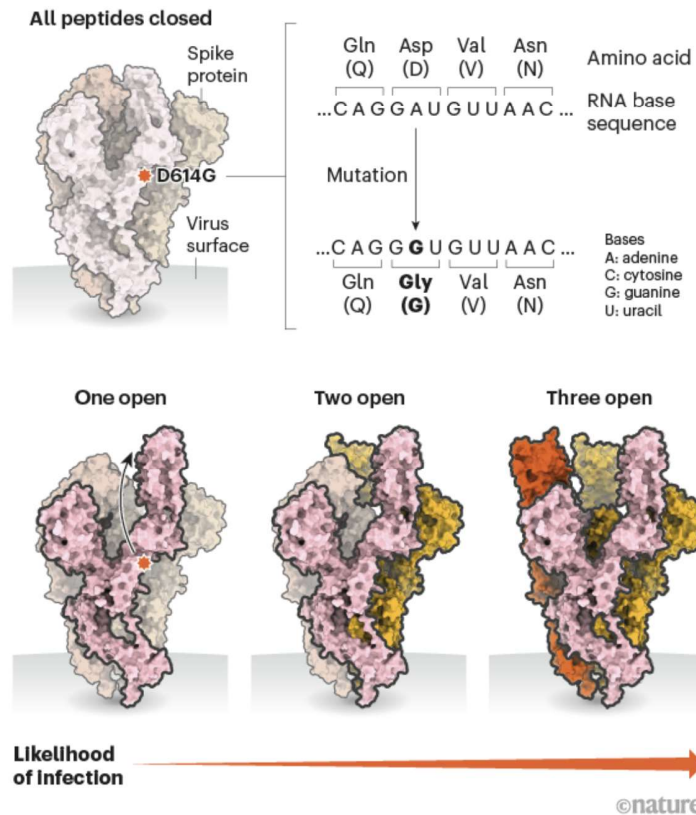


	CASES DAILY AVG.	PER 100,000	14-DAY CHANGE	HOSPITALIZED DAILY AVG.	PER 100,000	14-DAY CHANGE	DEATHS DAILY AVG.	PER 100,000	FULLY VACCINATED
United States	11,842	4	-15%	16,718	5	-14%	289.4	0.09	46%
Nevada ›	431	14	+93%	332	11	+39%	3.4	0.11	42%
Missouri ›	814	13	+44%	864	14	+21%	5.6	0.09	39%
Arkansas ›	361	12	+61%	290	10	+33%	3.0	0.10	34%
Wyoming ›	67	12	+2%	39	7	-12%	0.9	0.15	34%
Utah ›	348	11	+27%	175	5	+16%	5.0	0.16	37%

The increase is caused by virus mutation, particularly the newer variants

THE MUTATION THAT LOOSENS THE SPIKE PROTEIN

Spike proteins on SARS-CoV-2 bind to receptors on human cells, helping the virus to enter. A spike protein is made up of three smaller peptides in 'open' or 'closed' orientations; when more are open, it's easier for the protein to bind. The D614G mutation — the result of a single-letter change to the viral RNA code — seems to relax connections between peptides. This makes open conformations more likely and might increase the chance of infection.



Source: Neutralizing antibody activity against SARS-CoV-2 VOCs B.1.617.2 and B.1.351 by BNT162b2 vaccination, *The Lancet*, Vol 397, Jun 2021

Vaccines developed (so far) still effective against the new variants (including the notorious delta variant)

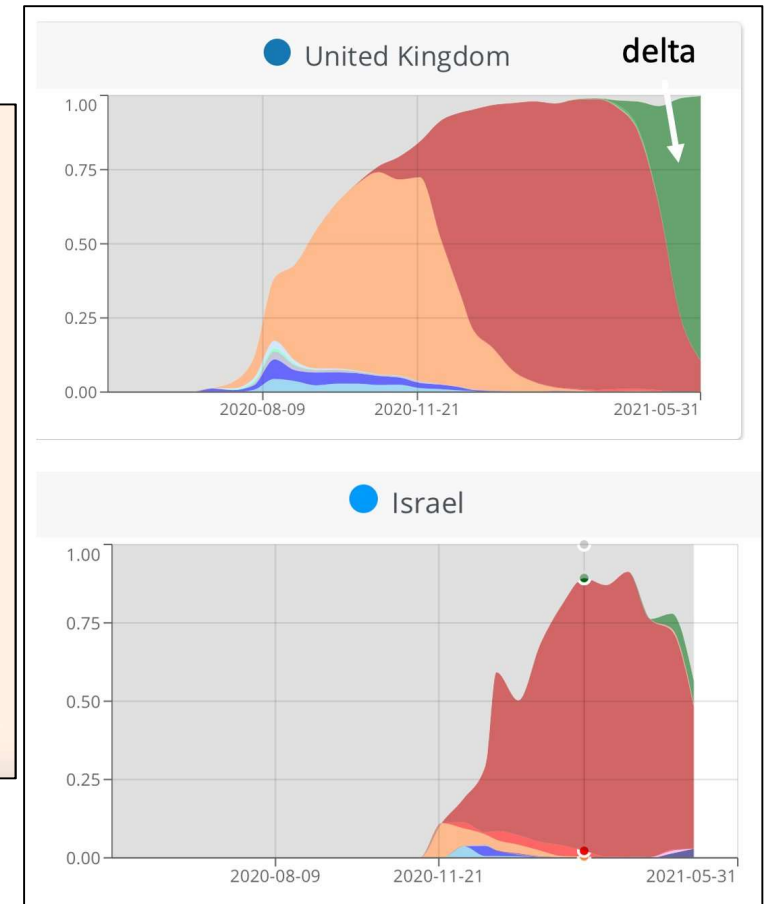
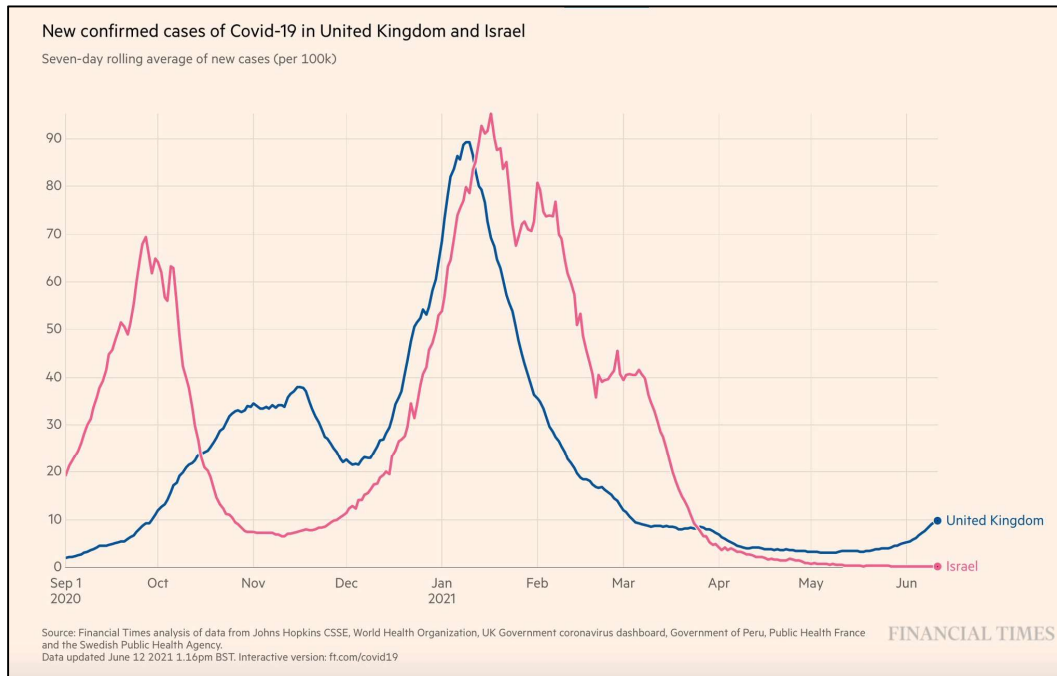
Table 1: Estimated vaccine effectiveness against hospitalisation

		Alpha			Delta		
Vaccination status		OR vs symptomatic disease	HR vs hospitalisation	VE vs hospitalisation	OR vs symptomatic disease	HR vs hospitalisation	VE vs hospitalisation
Any vaccine							
	Dose 1	0.51 (0.48-0.55)	0.44 (0.28-0.70)	78% (65-86)	0.69 (0.64-0.75)	0.37 (0.22-0.63)	75% (57-85)
	Dose 2	0.13 (0.1-0.15)	0.64 (0.24-1.72)	92% (78-97)	0.20 (0.18-0.23)	0.29 (0.11-0.72)	94% (85-98)
Pfizer							
	Dose 1	0.53 (0.47-0.58)	0.32 (0.14-0.73)	83% (62-93)	0.64 (0.54-0.77)	0.10 (0.01-0.76)	94% (46-99)
	Dose 2	0.06 (0.05-0.08)	0.88 (0.21-3.77)	95% (78-99)	0.12 (0.1-0.15)	0.34 (0.10-1.18)	96% (86-99)
Astrazeneca							
	Dose 1	0.51 (0.48-0.55)	0.48 (0.30-0.77)	76% (61-85)	0.70 (0.65-0.76)	0.41 (0.24-0.70)	71% (51-83)
	Dose 2	0.26 (0.21-0.32)	0.53 (0.15-1.80)	86% (53-96)	0.33 (0.28-0.39)	0.25 (0.08-0.78)	92% (75-97)

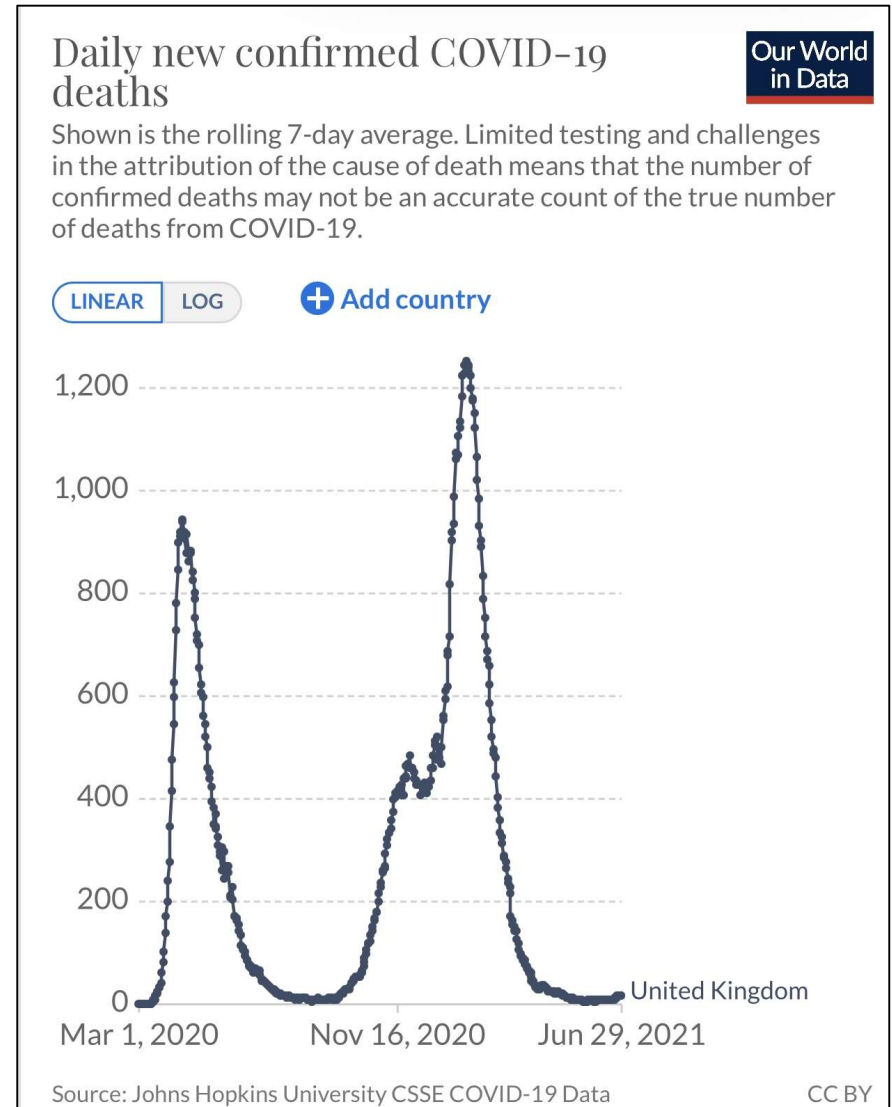
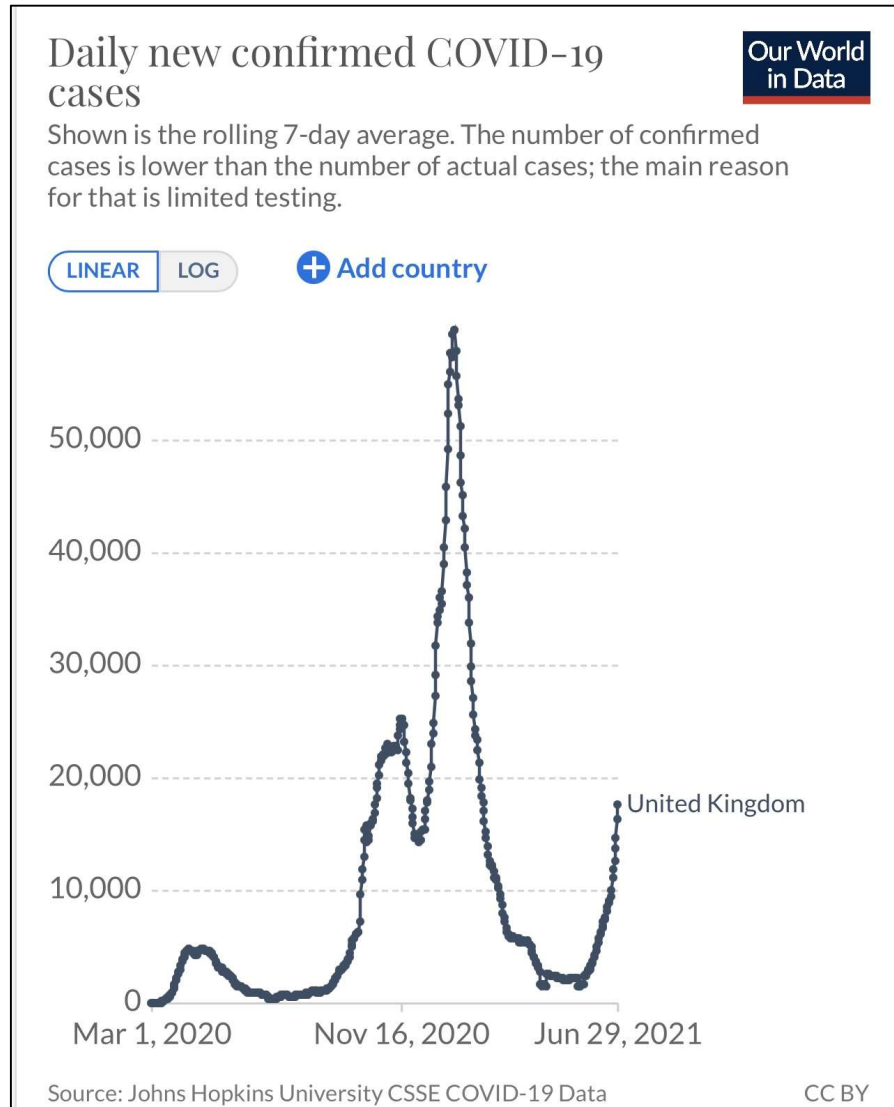
OR =odds ratio. HR = hazards ratio. VE = vaccine effectiveness. OR vs symptomatic disease as described in (1). HR and VE vs hospitalisation adjusted for age, clinically extremely vulnerable groups, ethnicity and test week

Source: Effectiveness of Covid-19 vaccines against hospital admission with the Delta (B.167.2) variant by Julia Stow, et.al., Public Health England, Jun 2021

Delta variant is the reason why confirmed cases in the UK (and also in Israel) beginning to rise again



Despite the increase, the number of deaths in the UK relatively 'flat' due to aggressive vaccination with 61% fully vaccinated



Similar pattern to Israel with 57% fully-vaccinated – increased confirmed cases with minimal impact on mortality

Daily new confirmed COVID-19 cases

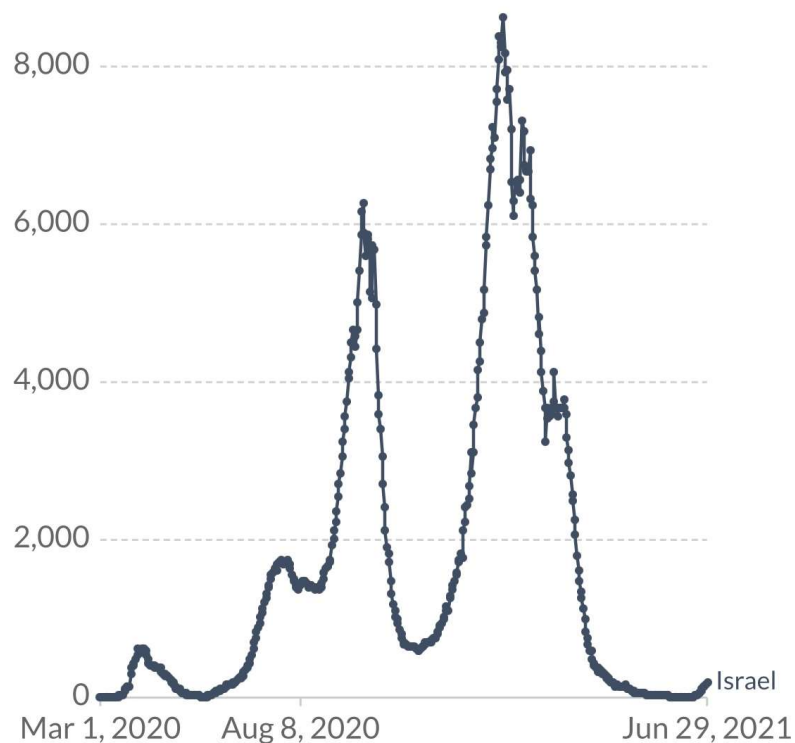
Our World in Data

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

LINEAR

LOG

+ Add country



Daily new confirmed COVID-19 deaths

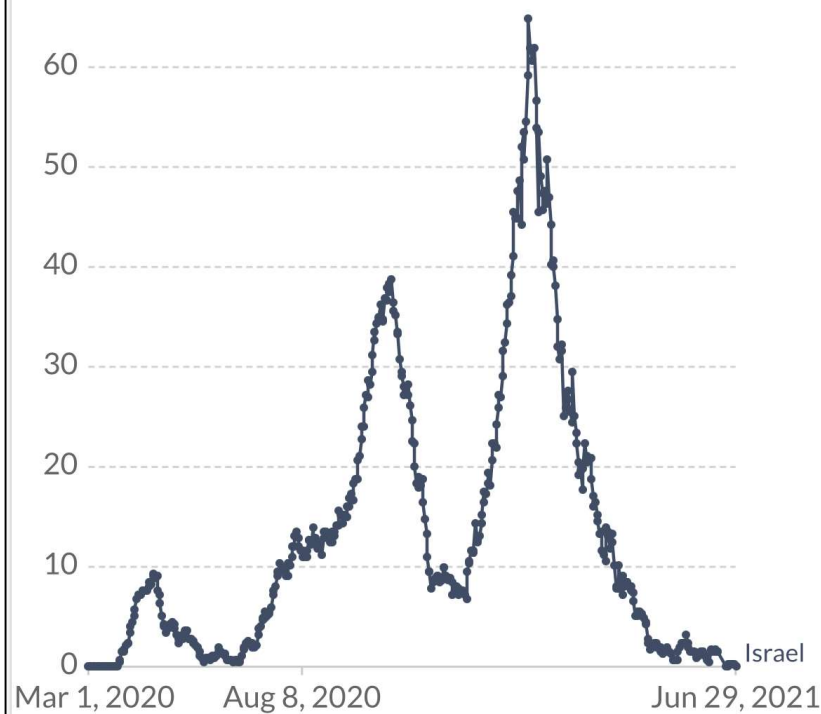
Our World in Data

Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.

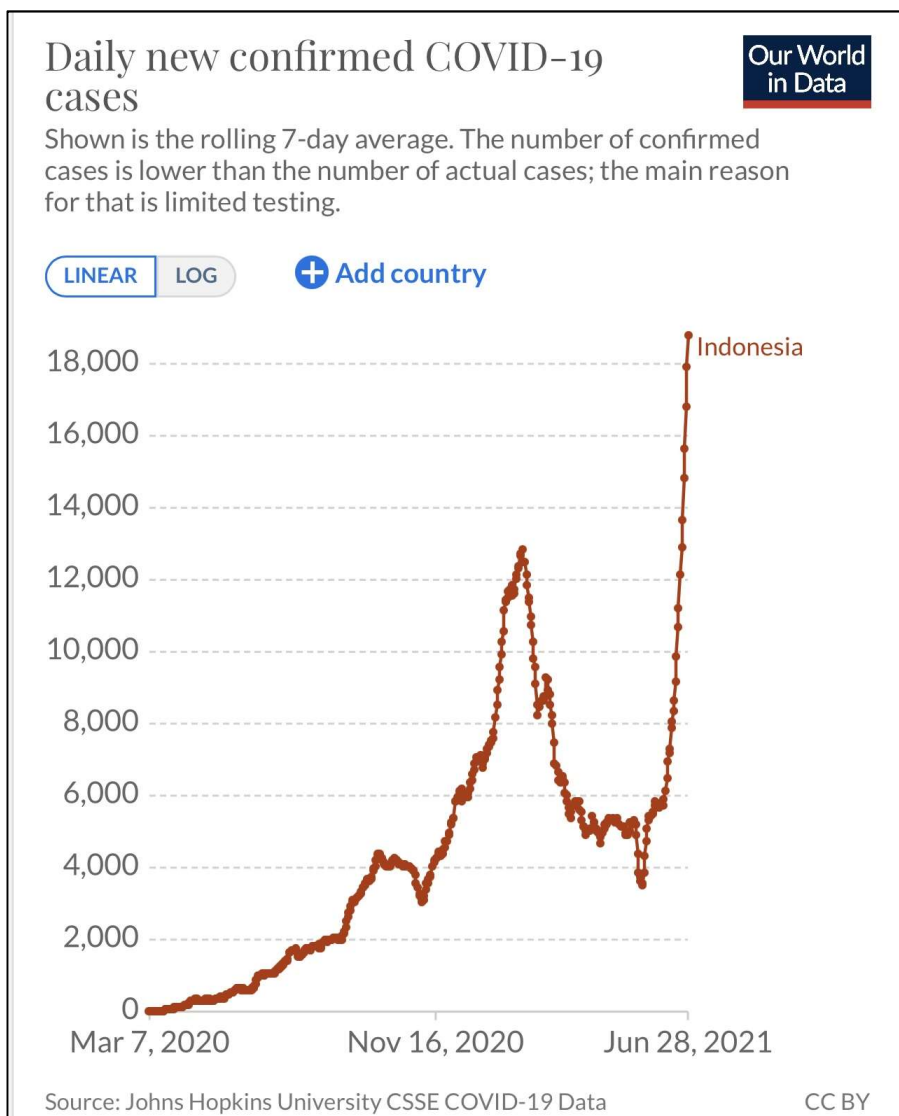
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In Indonesia, we are also seeing a surge on the number of confirmed cases and deaths post Idul Fitri holiday due to delta variant

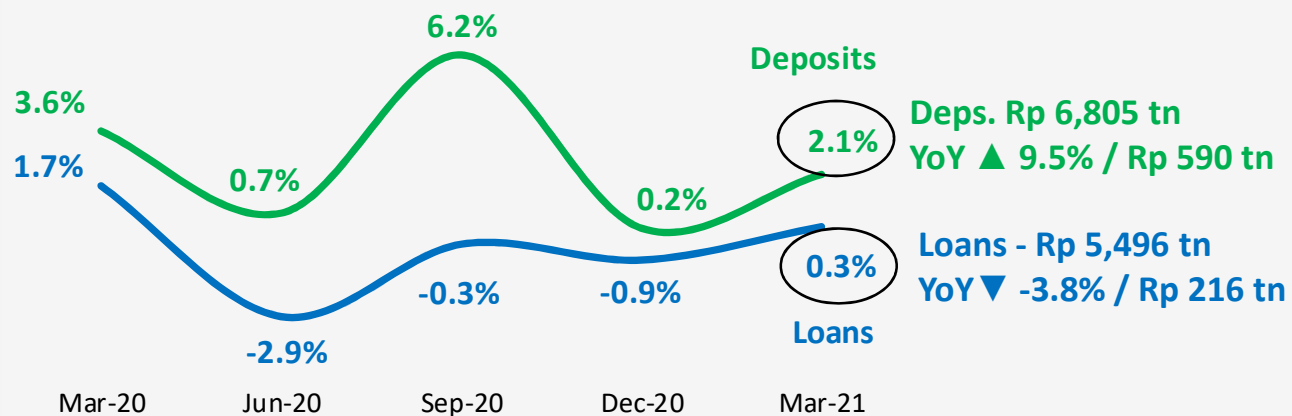


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1. *The State of the Covid-19 Pandemic*
2. ***The Indonesian Banking Sector Performance***
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5. *Key Take-Aways*

Sector overview: positive loan growth (data per Q1 '21)

QoQ Loan & Deposit



Loan growth by BUKU:

- IV (8 banks*) +5.8% YoY / +4.7% YtD
 - III (25) – 18.6% YoY / -6.6% YtD
 - II (62) – 6.5% YoY / -3.5% YtD
 - Syariah (12) +14.3% YoY / +2.9% YtD
- *) Excl BDMN in Mar20, BNLI in Mar20 and Dec20

YTD loans gradually recover

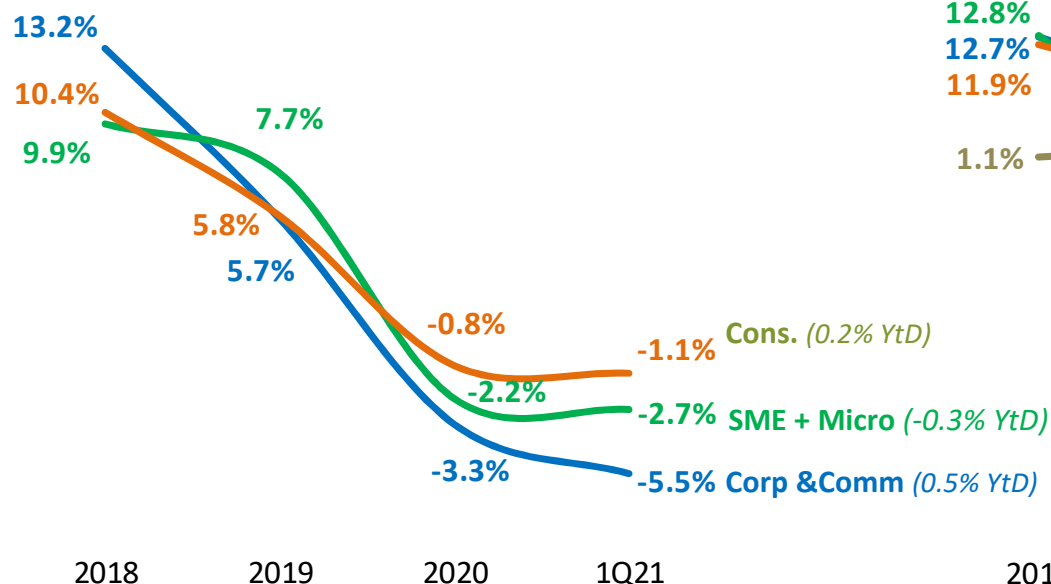
Mar 21	Rp tn	Compo	Growth YoY	Growth YtD
W. Cap	2,472	45%	(132) -5.1%	6 0.3%
Invs.	1,474	27%	(67) -4.3%	5 0.3%
Cons.	1,551	28%	(17) -1.1%	4 0.2%
Total	5,496	100%	(216) -3.8%	15 0.3%

YTD deposit growth was supported by CA

Mar 21	Rp tn	Compo	Growth YoY	Growth YtD
CA	1,850	27%	239 14.8%	163 9.7%
SA	2,132	31%	201 10.4%	(41) -1.9%
TD	2,822	42%	150 5.6%	17 0.6%
Total	6,805	100%	590 9.5%	139 2.1%

Loans by segment – SME and Mortgage led growth, followed by Corporate and Commercial (data per Q1 '21)

Loan by Segment YoY

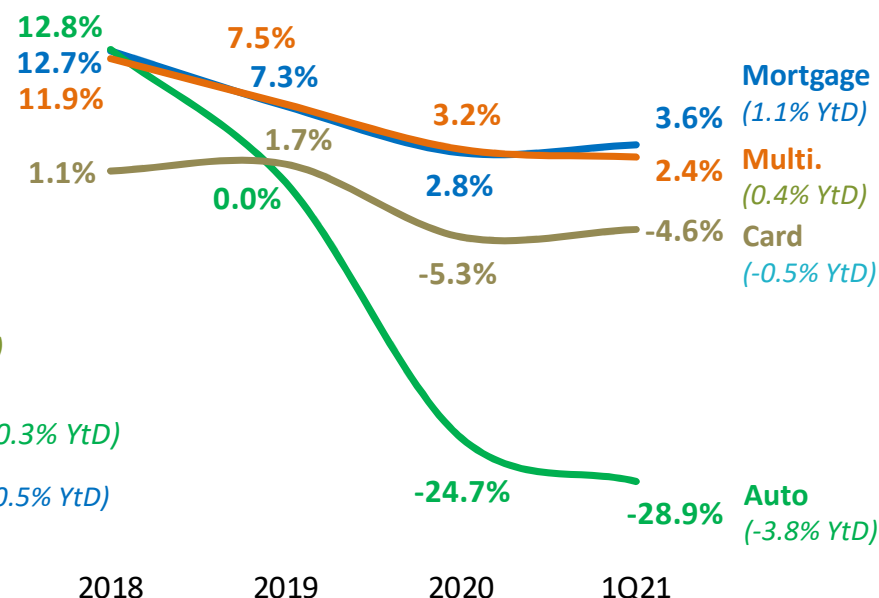


Mar 21	Rp tn	Compo	% YtD
Corpo & Comm	2,927	53.3%	0.5%
Consumer	1,551	28.2%	0.2%
SME + Micro	1,019	18.5%	-0.3%
Total	5,496	100.0%	0.3%

SME: 816 tn +6.5% YoY, +2.6% YtD.

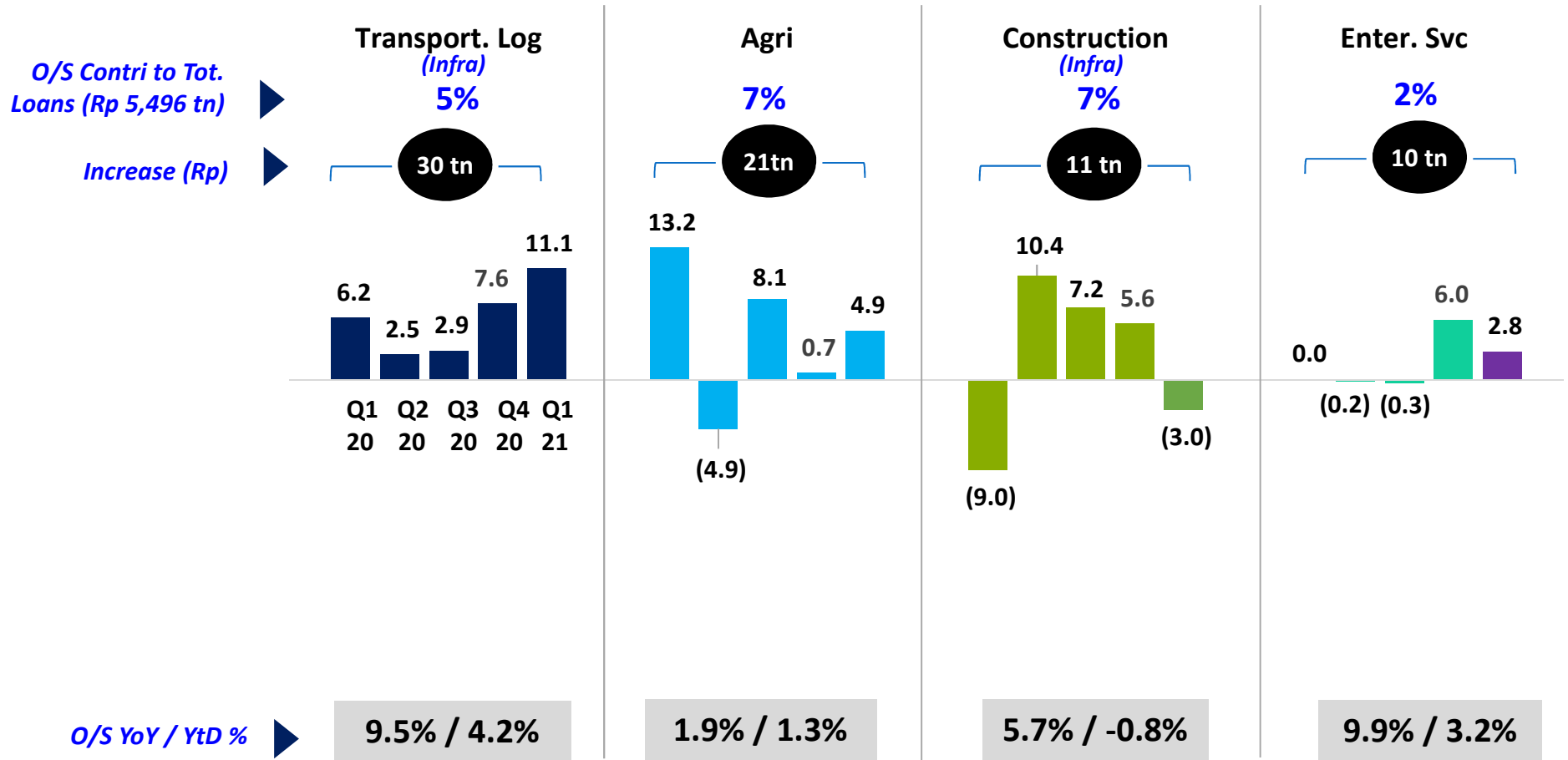
Micro 202 tn -28% YoY, -11% YtD

Consumer Loan by Segment YoY

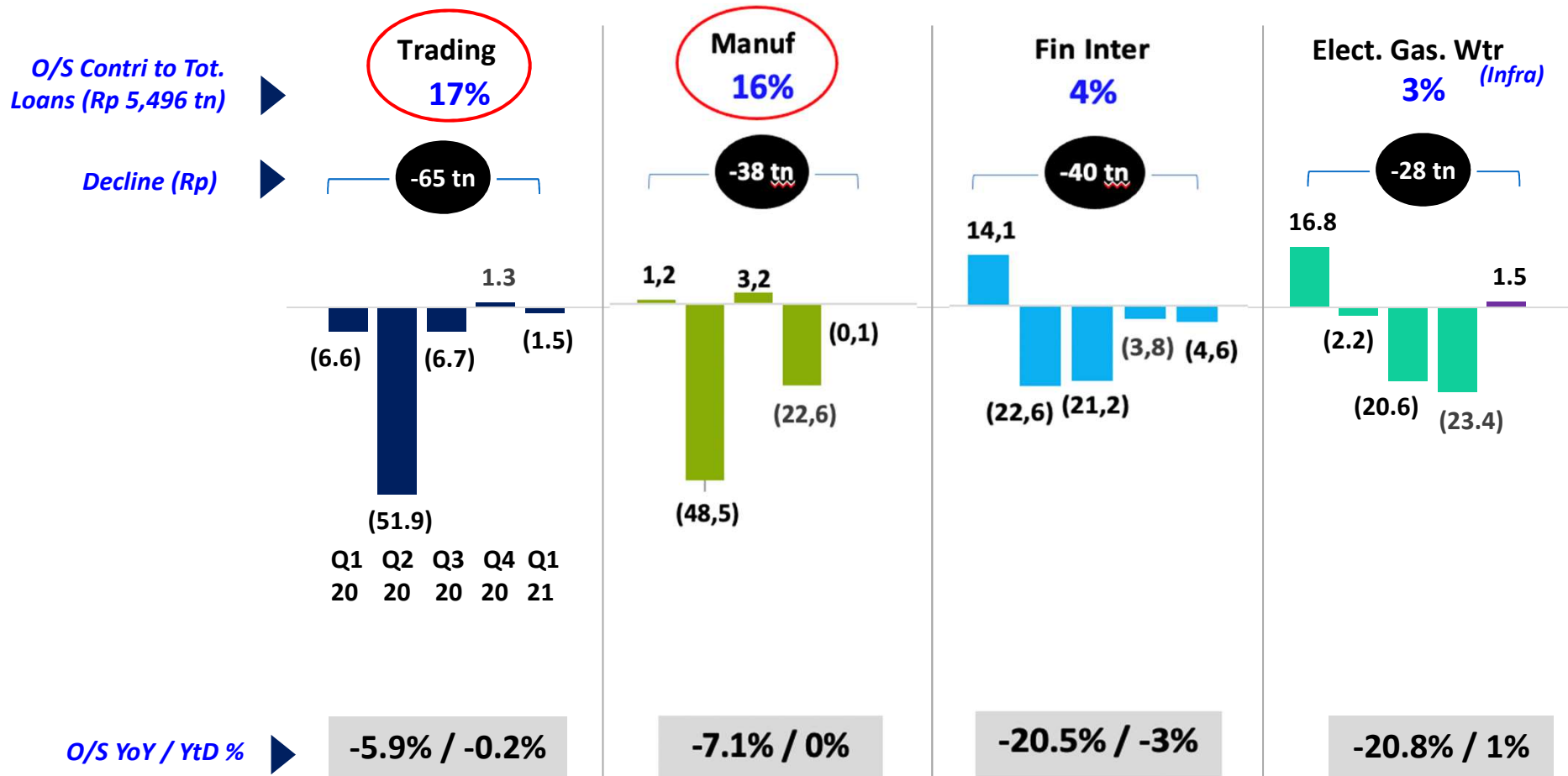


Mar 21	Rp tn	Compo	% YtD
Multipurpose	675	43.6%	0.4%
Mortgage	548	35.3%	1.1%
Card	226	14.6%	-0.5%
Auto	102	6.6%	-3.8%
Total	1,551	100.0%	0.2%

Resilient sectors ($\pm 20\%$ of total loans) - posted growth despite pandemic (data per Q1 '21)



Sectors still struggling ($\pm 40\%$ of total loans) - trading & manufacturing (33% of loans) hit the most (data per Q1 '21)



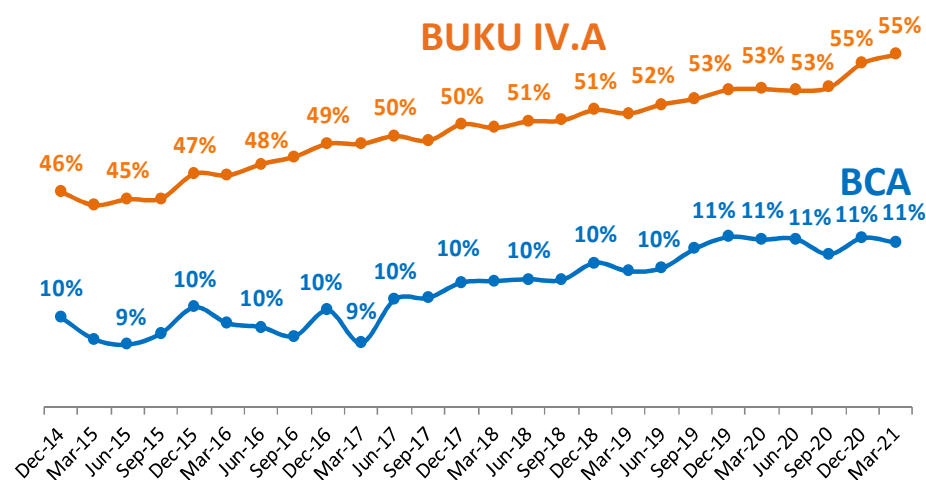
Top 4 banks grew 0.8% until Q1 '21 led by BRI

Loans Top 4 (BUKU IV.A)

	Mar-21			Apr-21*		
	Rp tn	YoY	YtD	Rp tn	YoY	YtD
BRI	918	-1,7%	-2,4%	897	1,4%	1,8%
MANDIRI	981	9,1%	10,4%	770	1,1%	0,9%
BCA	587	-4,2%	-0,3%	573	-4,2%	-0,4%
BNI	559	-3,3%	-4,4%	554	2,3%	0,3%
TOTAL	3.045	0,7%	1,4%	2.794	0,3%	0,8%

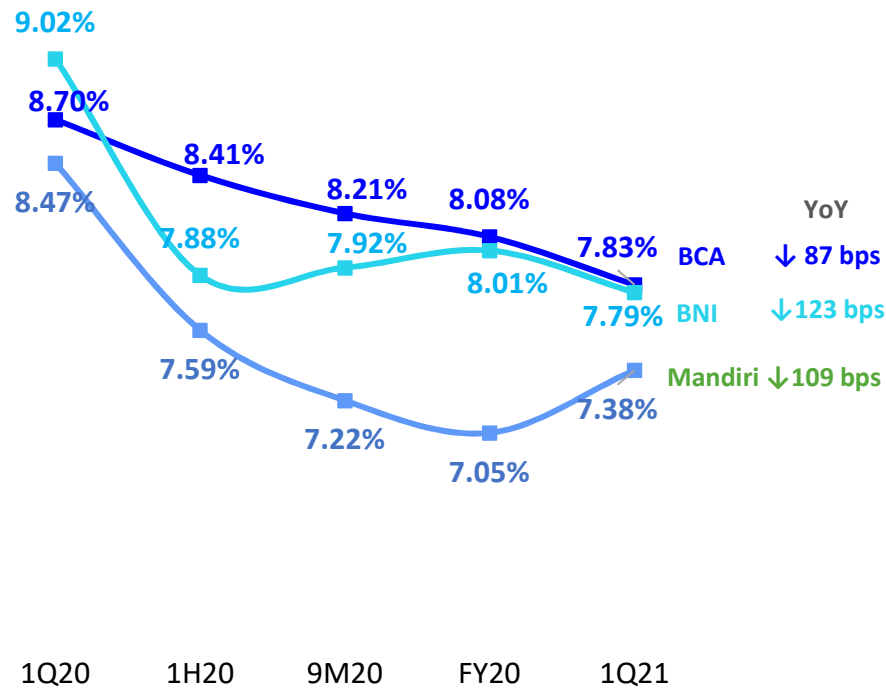
*Bank Only

Loan Market Share - BCA vs BUKU IV.A

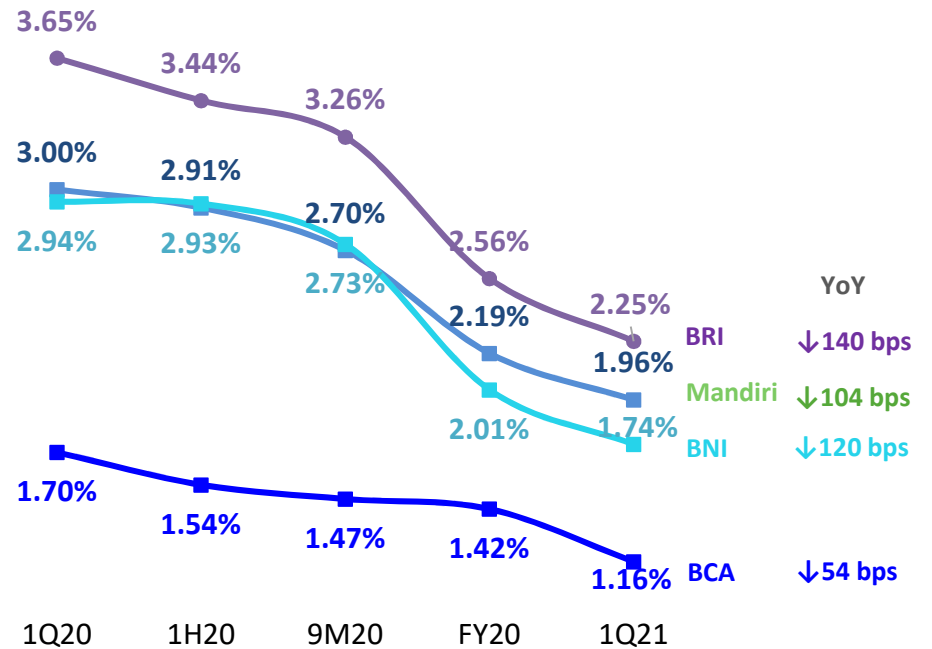


Declining yield and Cost of Funds of major banks

Loan Yield (%) - IDR FCY



Cost of Fund (%) - IDR FCY

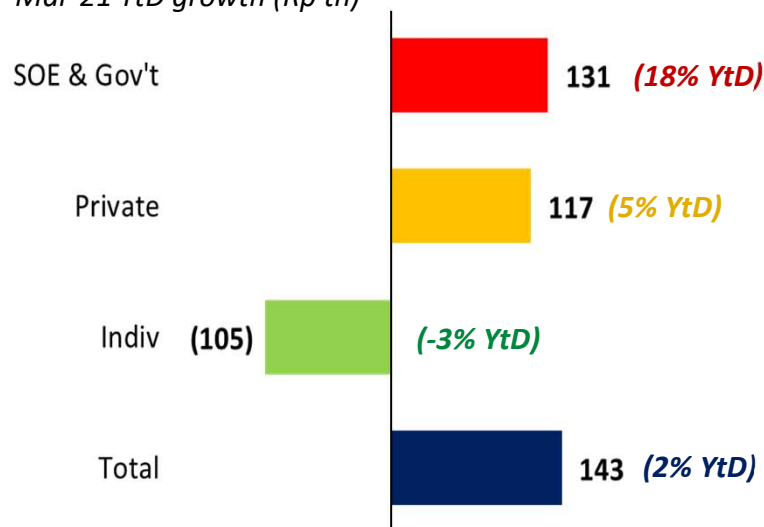


Source: Company reports

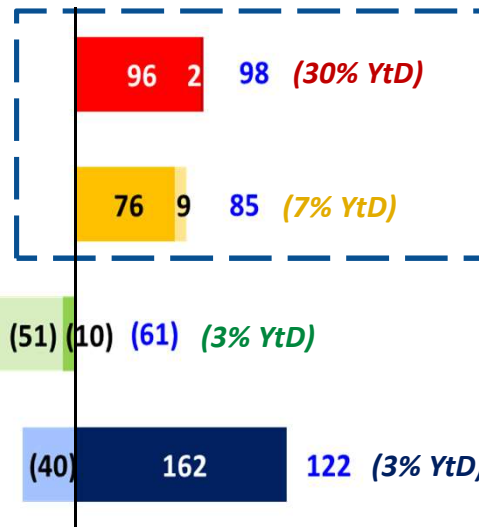
YtD deposit growth driven by CA SOE & Gov't & Private

Total Deposits - Rp 6,899 tn

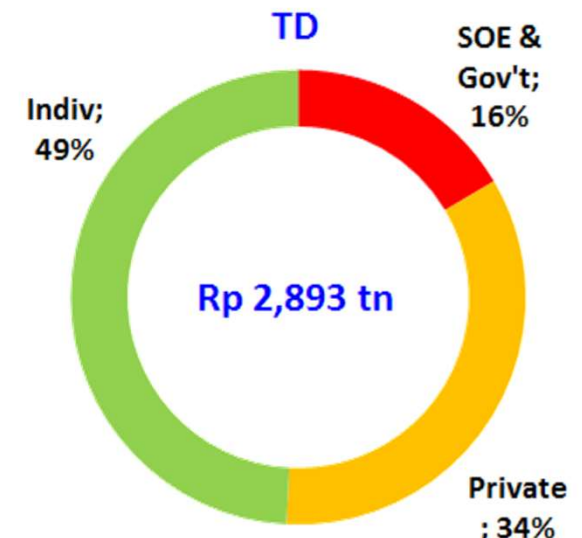
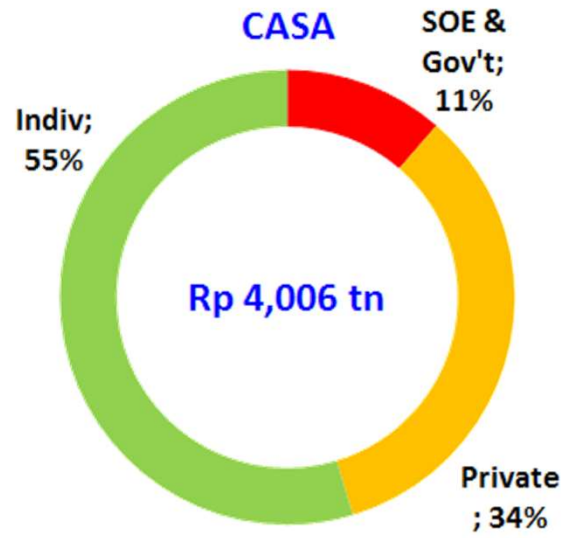
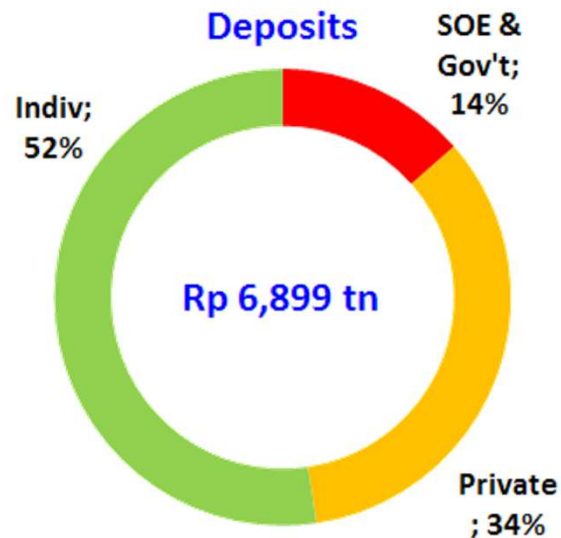
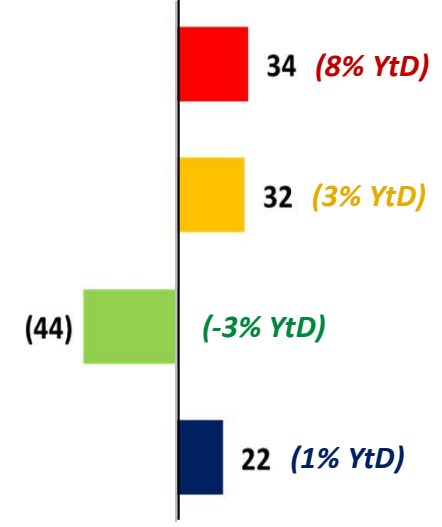
Mar-21 YtD growth (Rp tn)



CASA O/S - Rp 4,006 tn



TD O/S - Rp 2,893 tn



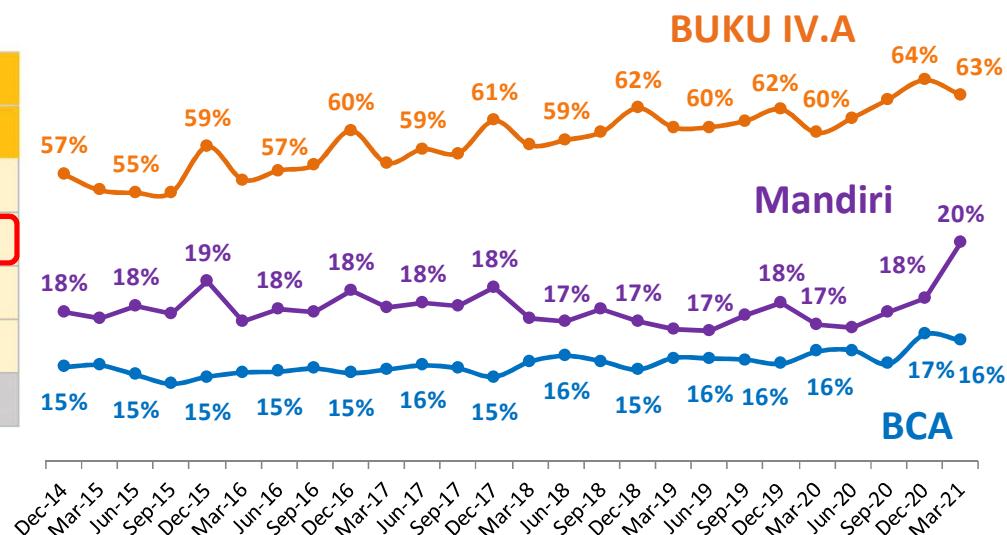
CA: 64% Private; SOE & Gov't 25%
SA: 91% Indiv.

Top 4 Deposits : Mandiri led CASA growth, BCA in TD

CASA

	Mar-21			Apr-21*		
	Rp tn	YoY	YtD	Rp tn	YoY	YtD
BCA	656	15,4%	1,9%	668	18,3%	4,1%
MANDIRI	799	32,3%	14,7%	659	25,8%	5,9%
BRI	618	10,7%	-7,6%	615	10,5%	-4,3%
BNI	434	9,5%	-6,6%	435	6,1%	0,5%
TOTAL	2.506	17,9%	1,3%	2.377	15,7%	1,6%

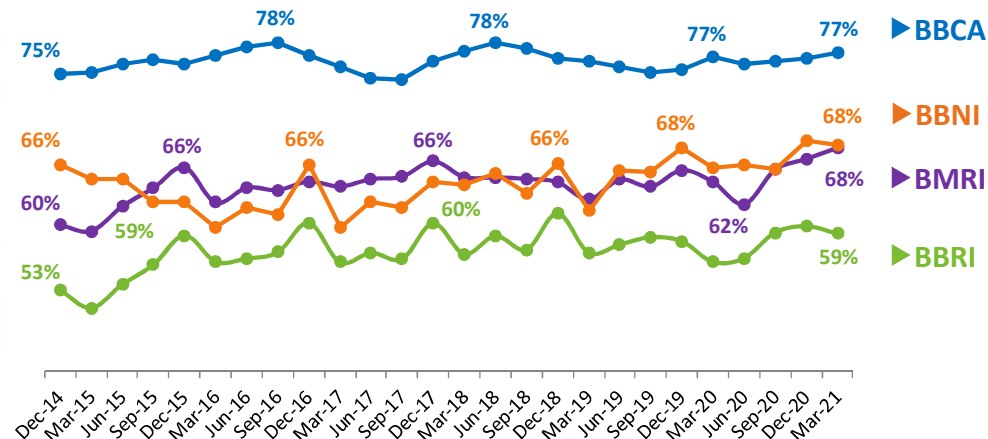
CASA Market Share – BCA vs Mandiri vs BUKU IV.A



TD

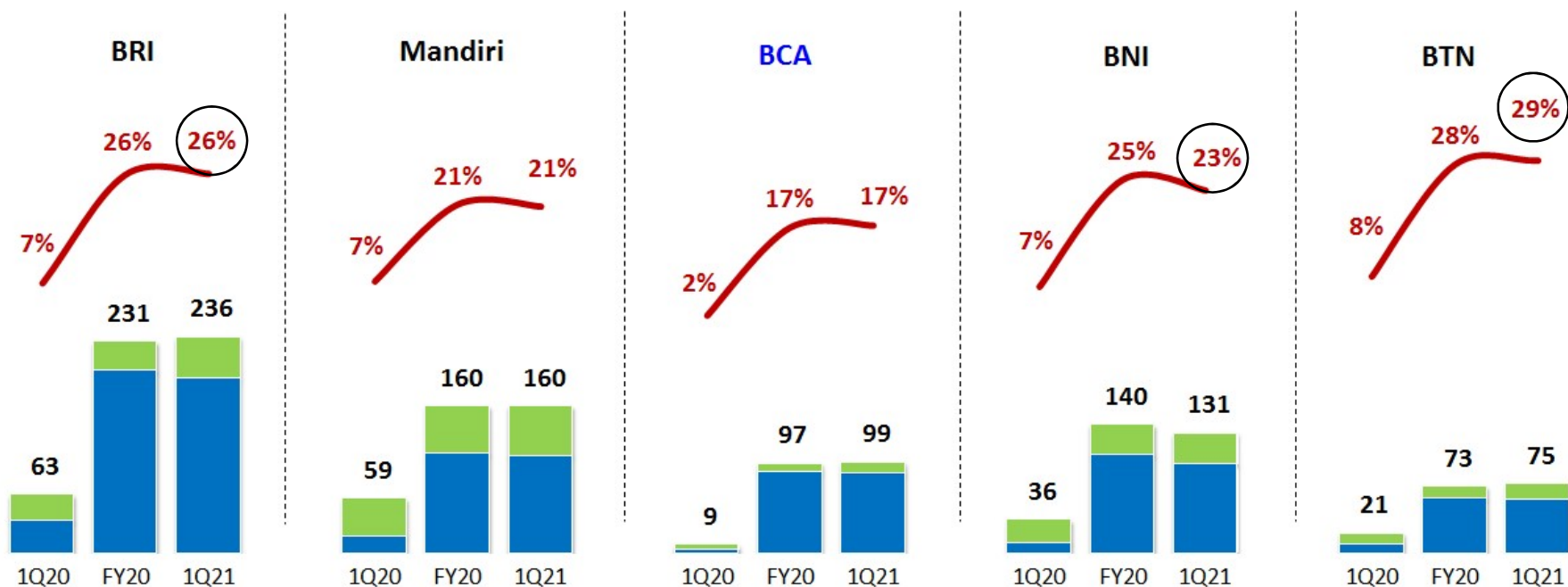
	Mar-21			Apr-21*		
	Rp tn	YoY	YtD	Rp tn	YoY	YtD
BRI	431	-1,5%	-4,7%	419	-0,8%	2,0%
MANDIRI	383	13,4%	9,0%	257	-7,3%	-10,2%
BNI	205	-0,9%	-4,6%	204	-0,3%	2,2%
BCA	194	12,2%	-1,7%	190	10,1%	-1,2%
TOTAL	1.213	5,0%	-0,2%	1.070	-0,7%	-1,7%

CASA Ratio - Top 4 Banks



Restru loans: BTN trend is rising

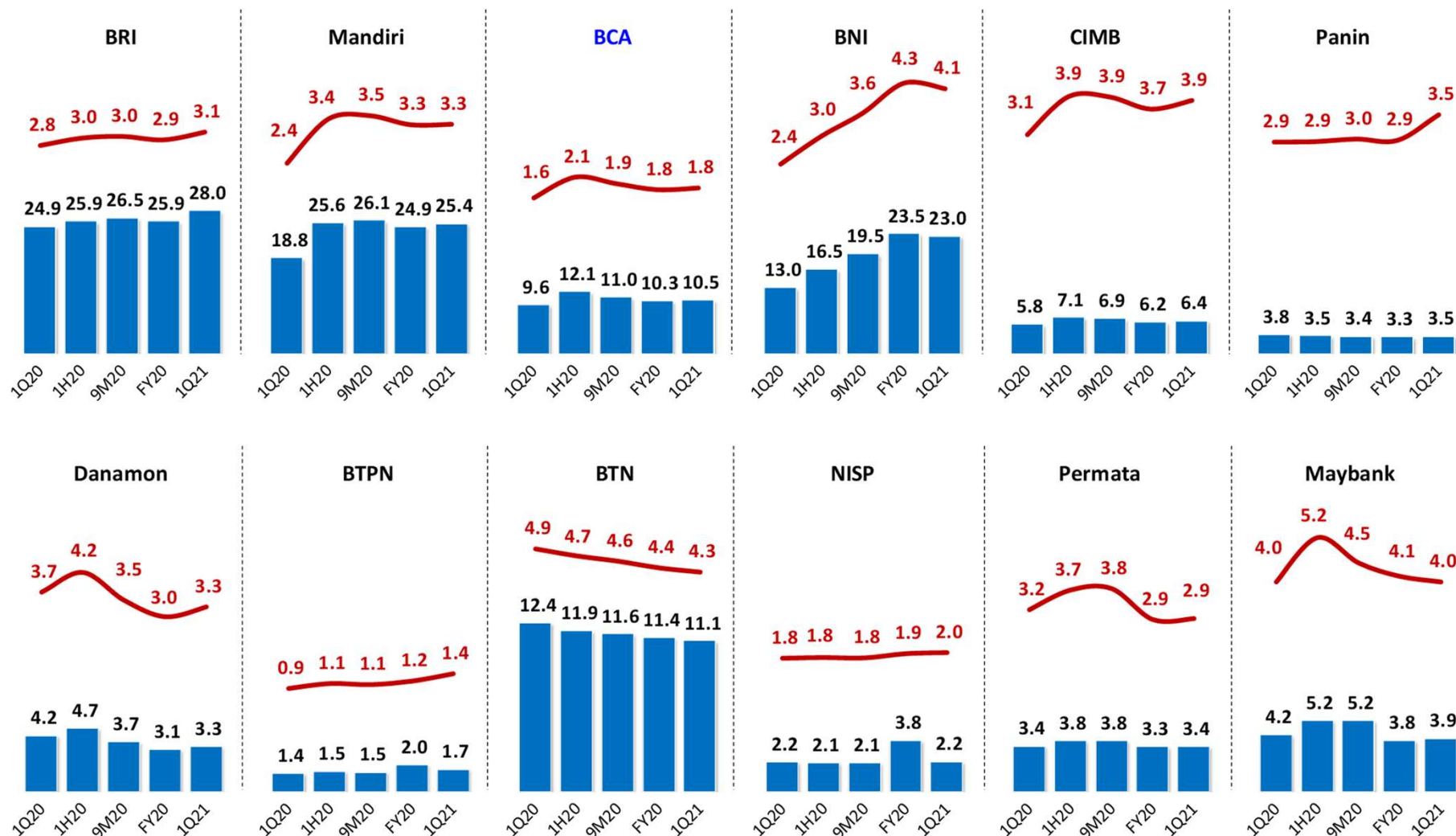
■ Restru Coll. 1 (Rp tn) ■ Restru Coll. 2-5 (Rp tn) — % Restru to Total Loans



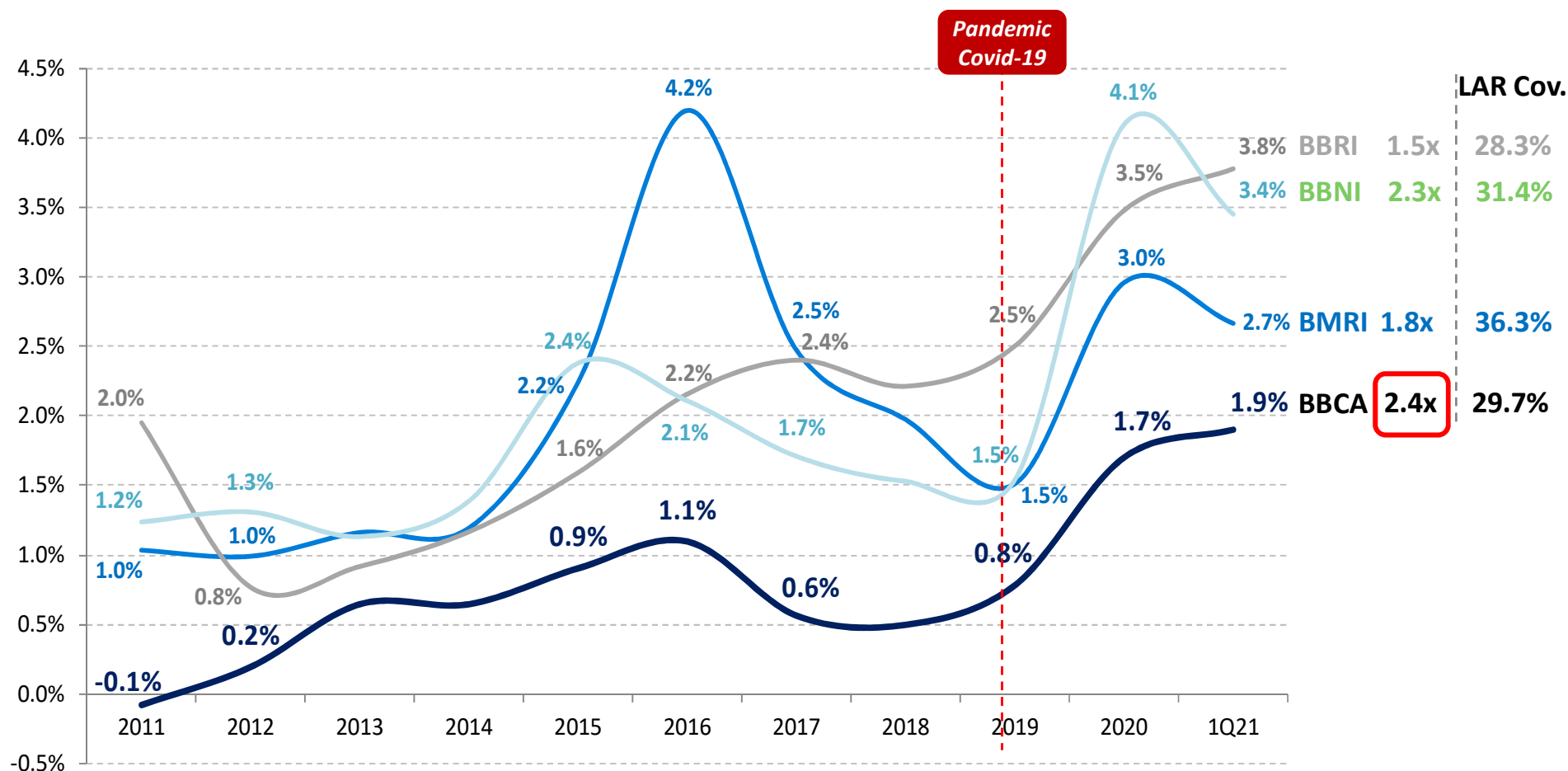
NPLs are manageable due to OJK relaxation

Sector's NPL in 1Q21: 3.2% (1Q20: 2.8%)

■ NPL Abs. (Rp tn) — % NPL Ratio

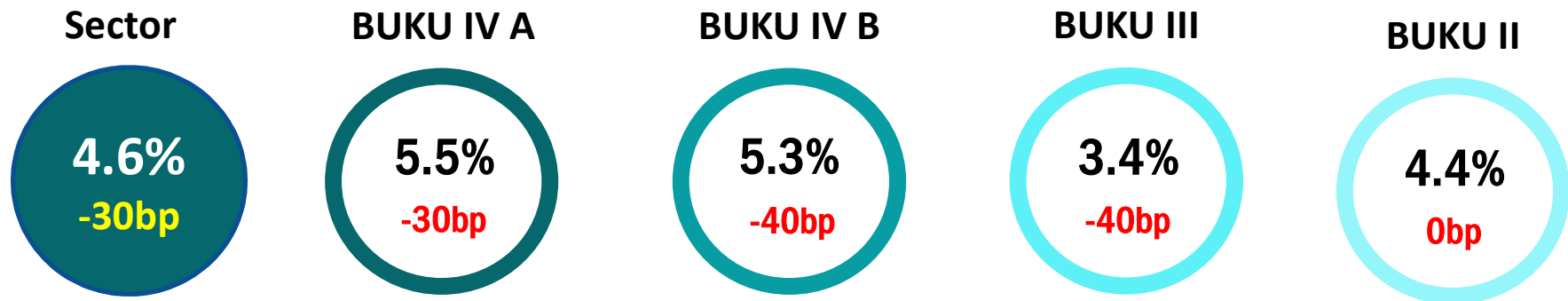


Credit cost of the top 4 banks – setting the new normal?

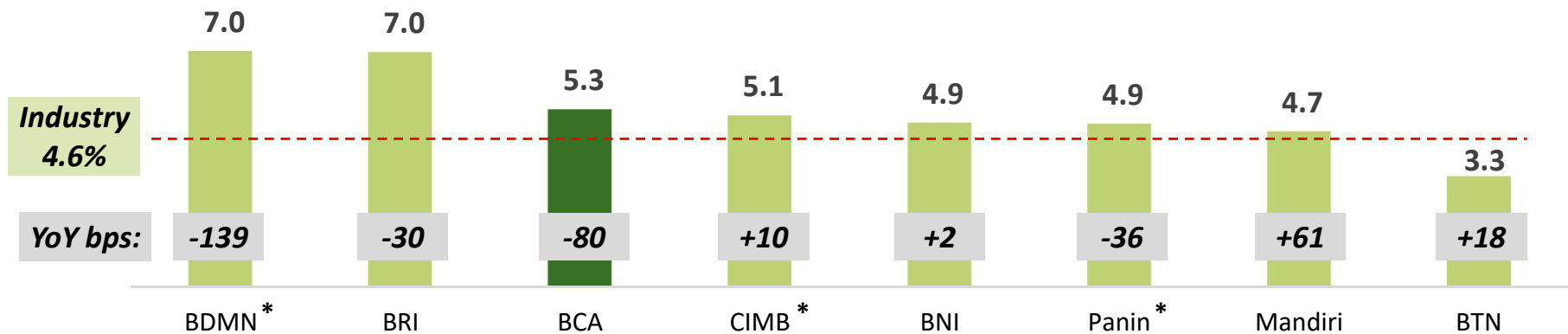


NIM: BUKU IV.B and BUKU III declined the most

NIM - YoY (1Q21)



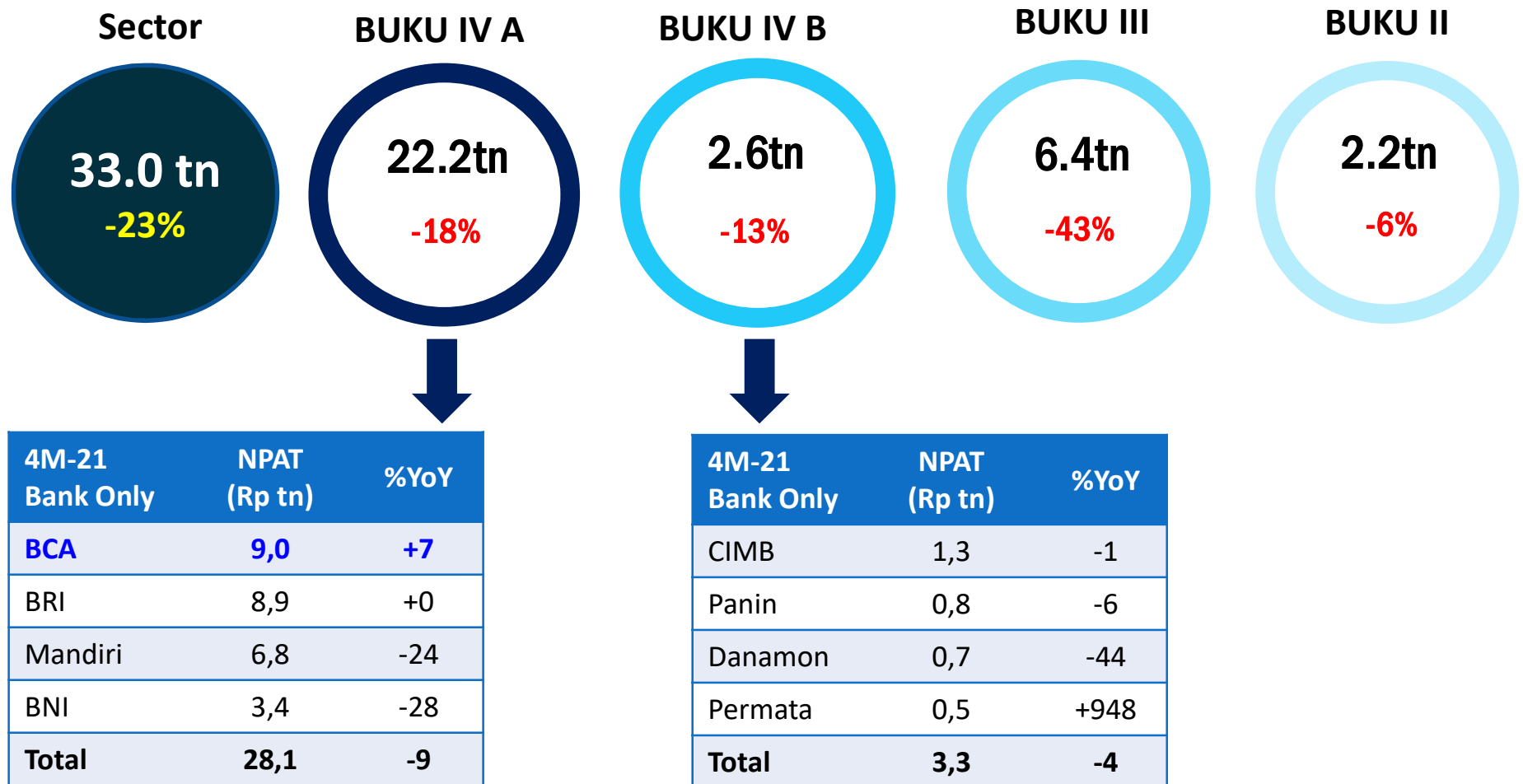
NIM 1Q21 (%)



*) Consolidated

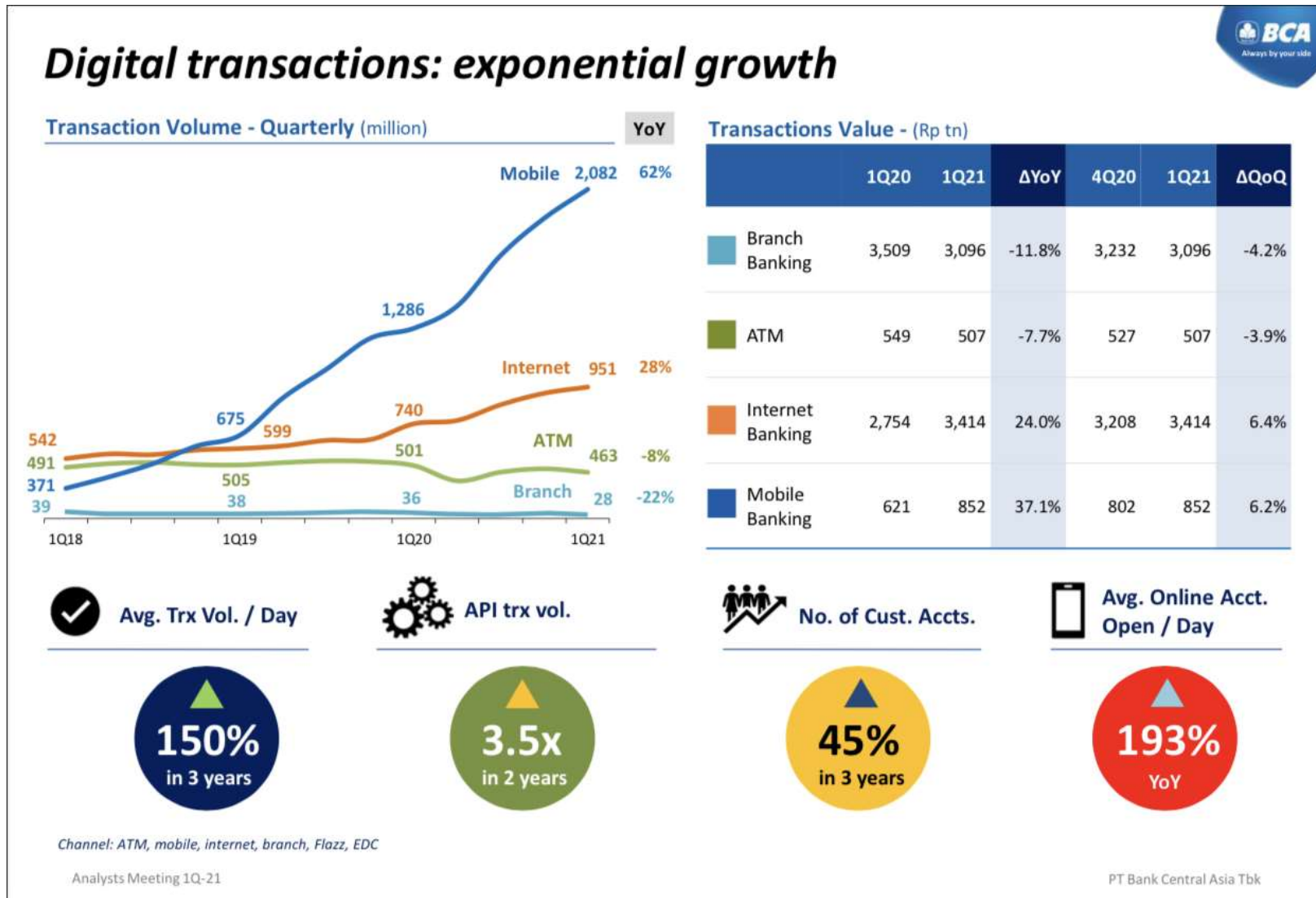
NPAT of BUKU III was the most affected by the pandemic

1Q21 NPAT - YoY



Source: SPI, corporate presentation, financial statements, analyst reports

Impact of the pandemic on the banking transactions – BCA example

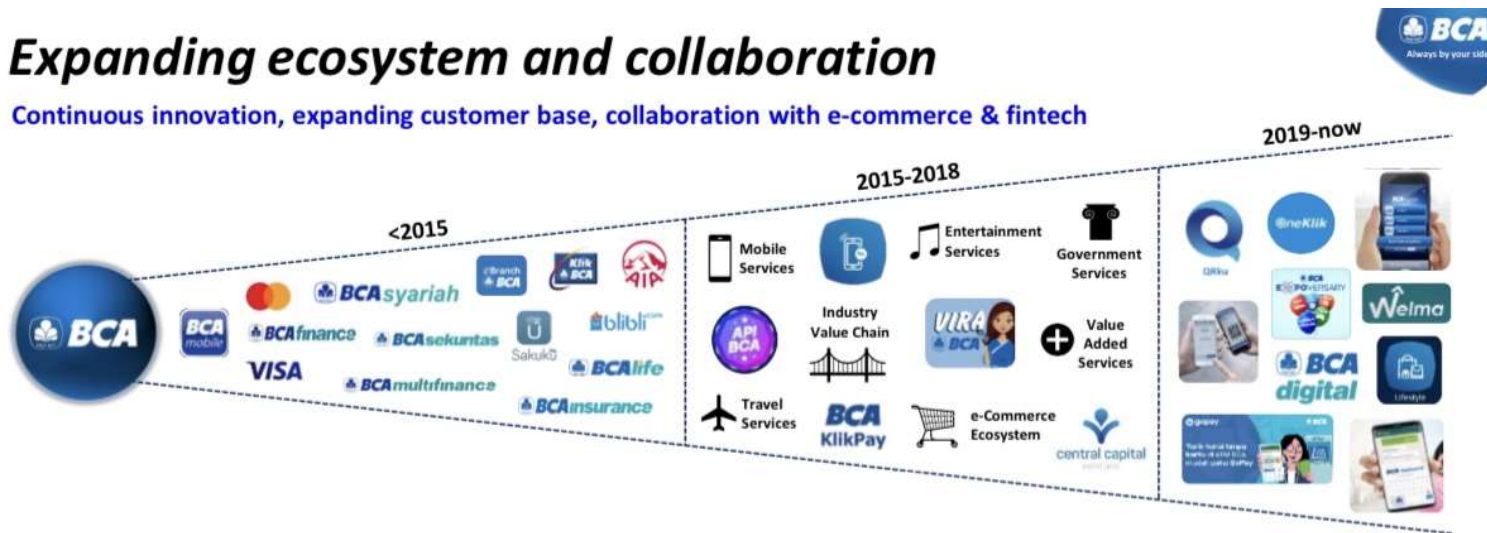


Source: Public Expose BCA Q1 Results, April 2021

Banking of the future requires collaboration with other players forming ecosystem

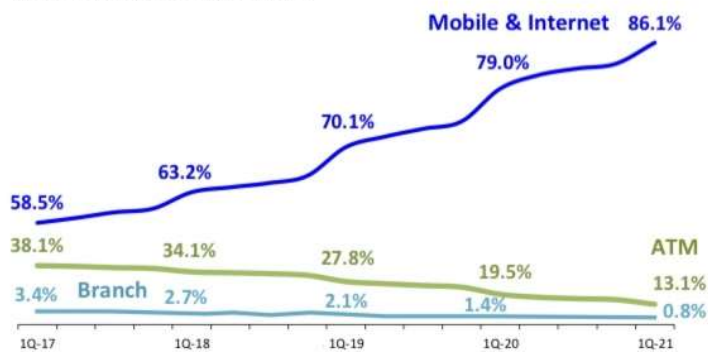
Expanding ecosystem and collaboration

Continuous innovation, expanding customer base, collaboration with e-commerce & fintech



Rising the bar for mobile & internet channels

Trx. Volume Composition



Analysts Meeting 1Q-21

Trx. Value Composition



PT Bank Central Asia Tbk

Source: Public Expose BCA Q1 Results, April 2021

Banks also expected to address topic of sustainability by their stakeholders



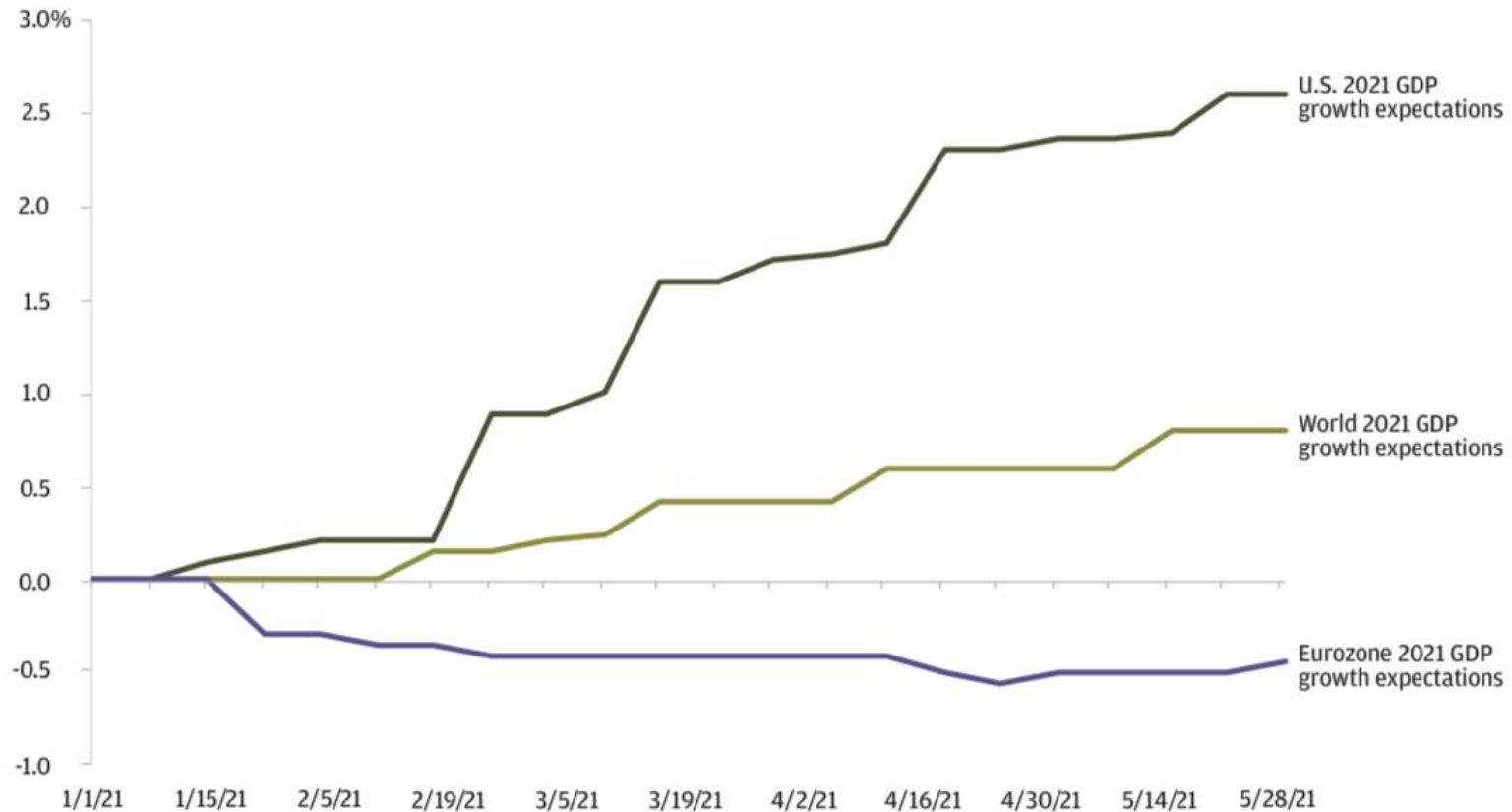
Source: Public Expose BCA Q1 Results, April 2021

Outline of Presentation

- 1. The State of the Covid-19 Pandemic*
- 2. The Indonesian Banking Sector Performance*
- 3. How the Indonesian economy is evolving***
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- 5. Key Take-Aways*

With pandemic under control, the US economy expected to grow faster than the rest of the world

GDP GROWTH EXPECTATIONS IN THE UNITED STATES HAVE SURGED, WHILE THE REST OF THE WORLD HAS LAGGED
Change in 2021 GDP growth expectations, % pt.



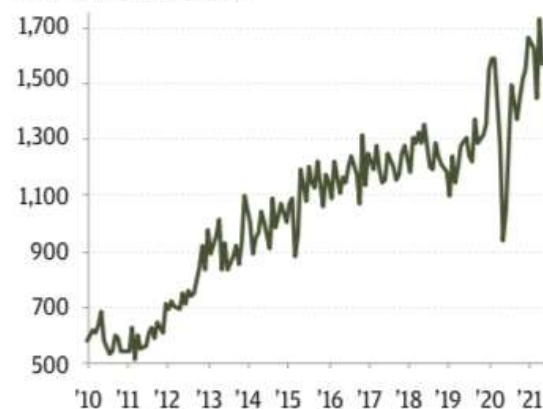
Source: Bloomberg Finance L.P. May 31, 2021.

Source: Mid-Year Outlook 2021 – the winding path to a post-pandemic world, J.P. Morgan Private Bank,

Key economic indicators showing notable recovery post pandemic

U.S. HOUSING STARTS

Thousand units, SAAR



Source: U.S. Census Bureau. April 2021.

U.S. RETAIL SALES

Millions, USD



Source: U.S. Census Bureau. April 2021.

KOREAN EXPORTS

Millions, USD



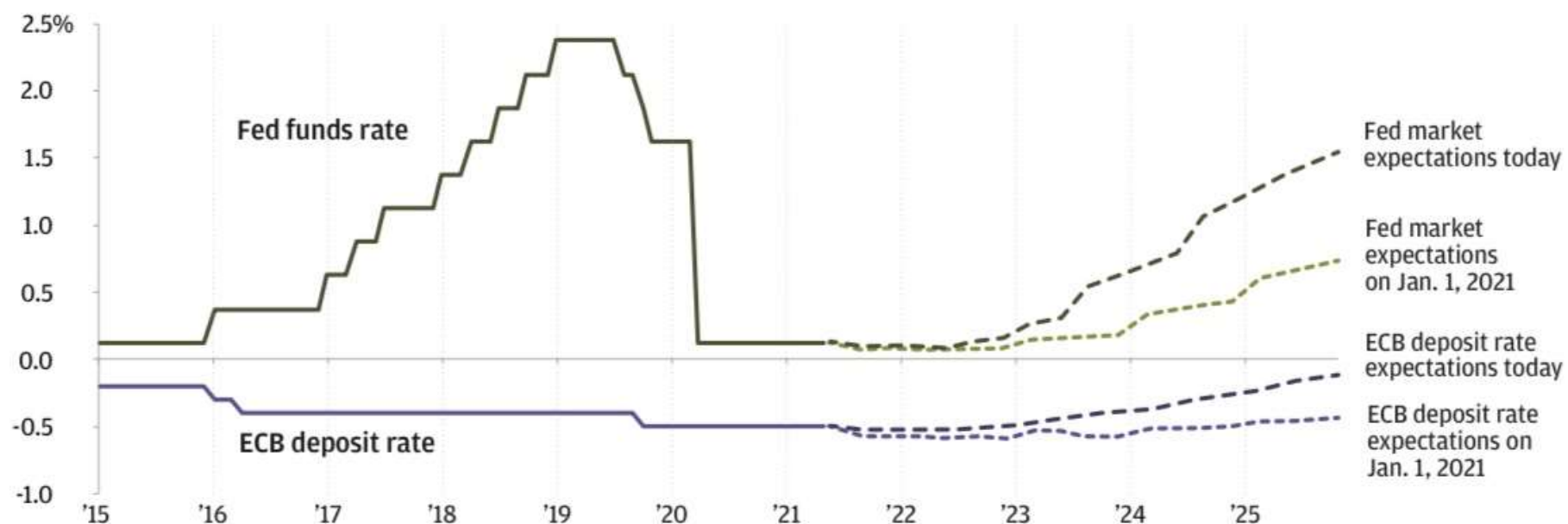
Source: KCS. May 2021.

Source: Mid-Year Outlook 2021 – the winding path to a post-pandemic world, J.P. Morgan Private Bank,

Emerging markets need to anticipate potential reversal of US monetary policy

A FASTER RECOVERY COULD LEAD TO A FASTER TIGHTENING CYCLE

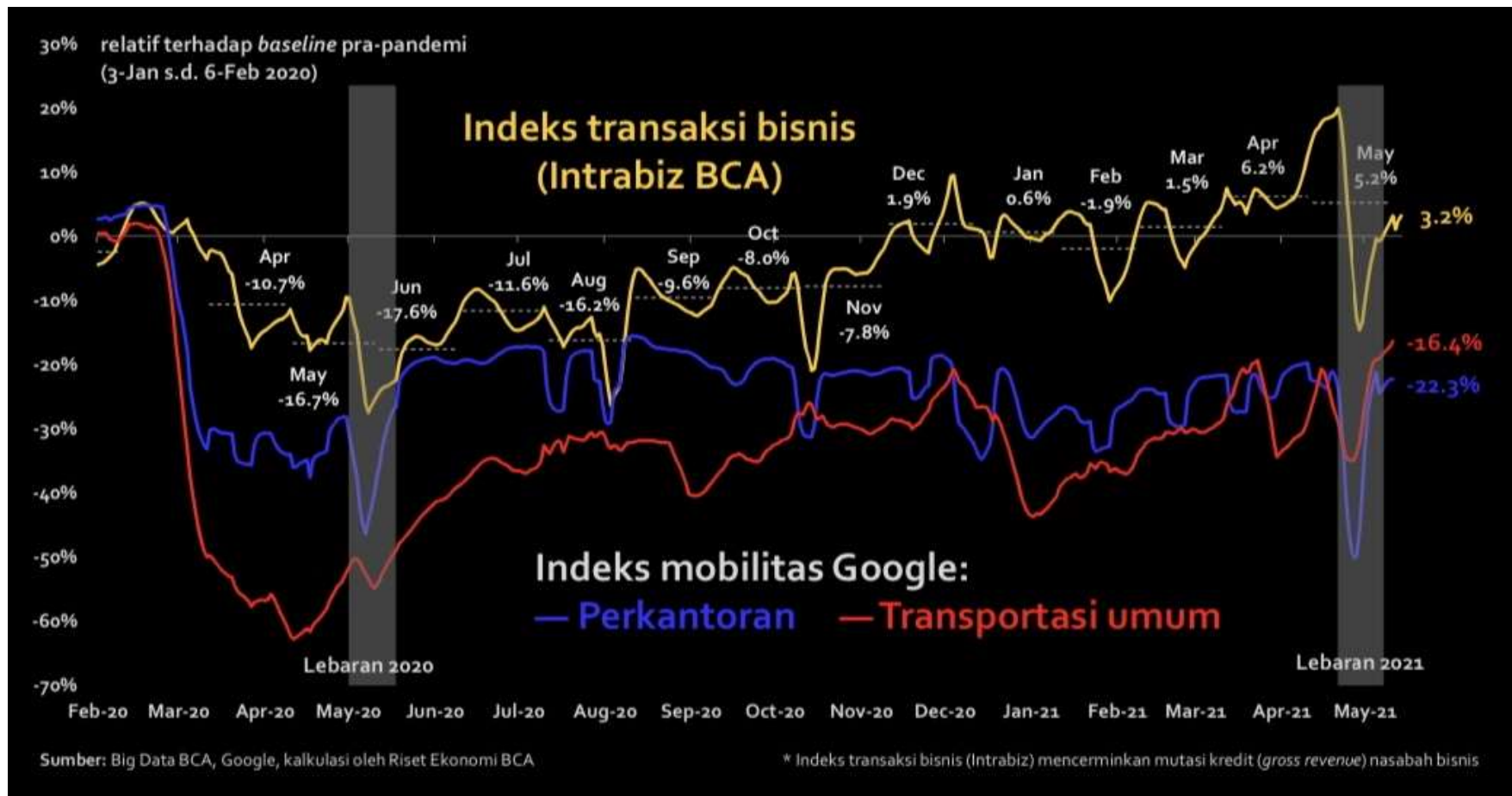
Fed funds policy rate with market expectations



Source: Bloomberg Finance L.P., Federal Reserve, J.P. Morgan Asset Management. May 31, 2021.

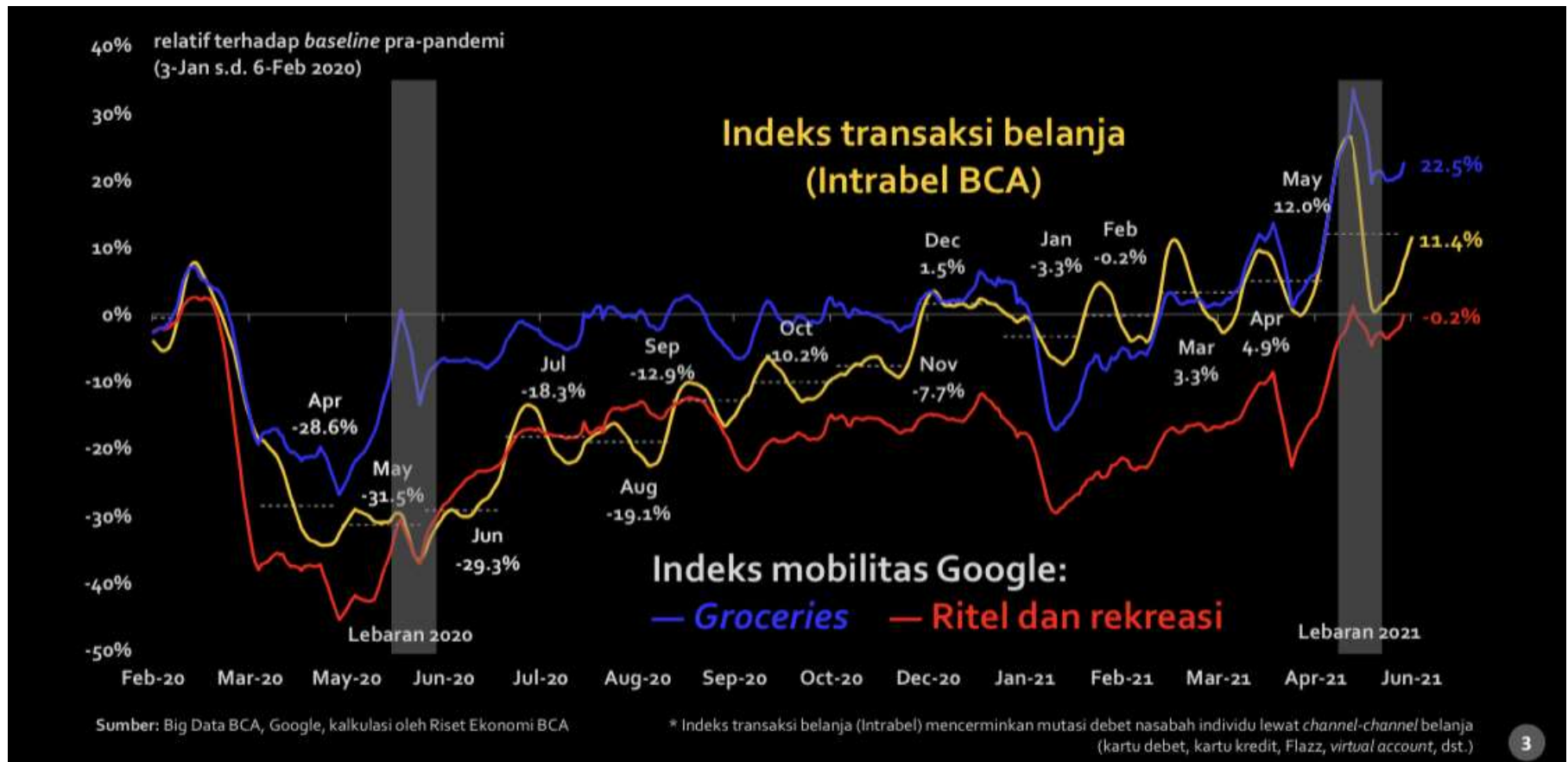
Source: Mid-Year Outlook 2021 – the winding path to a post-pandemic world, J.P. Morgan Private Bank,

How about recovery in Indonesia? Are activities returning to “normal” level?



*baseline is pre-pandemic level

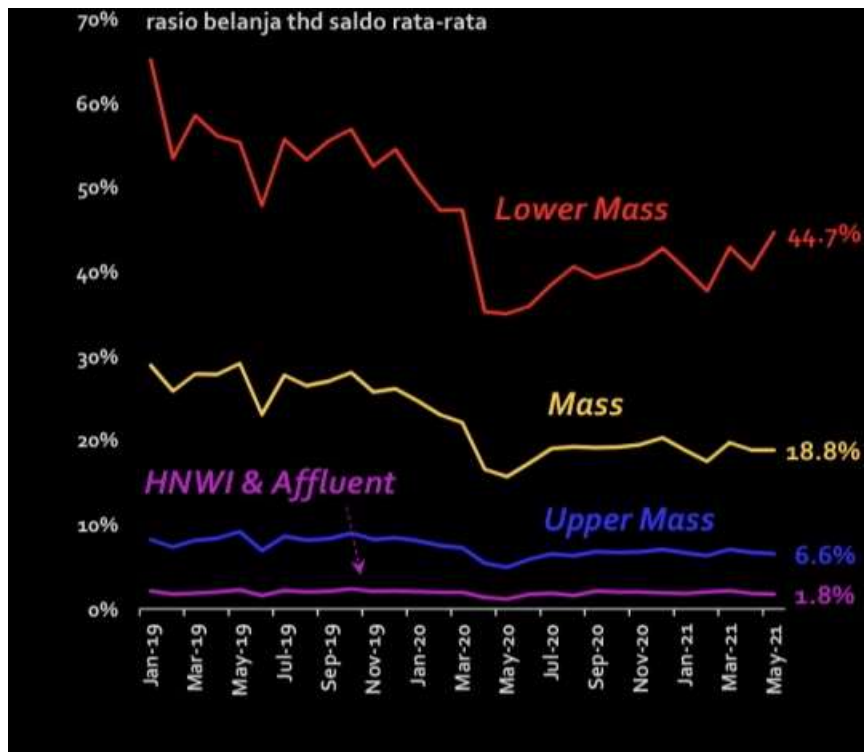
Positive trend in consumption spending is continuing...



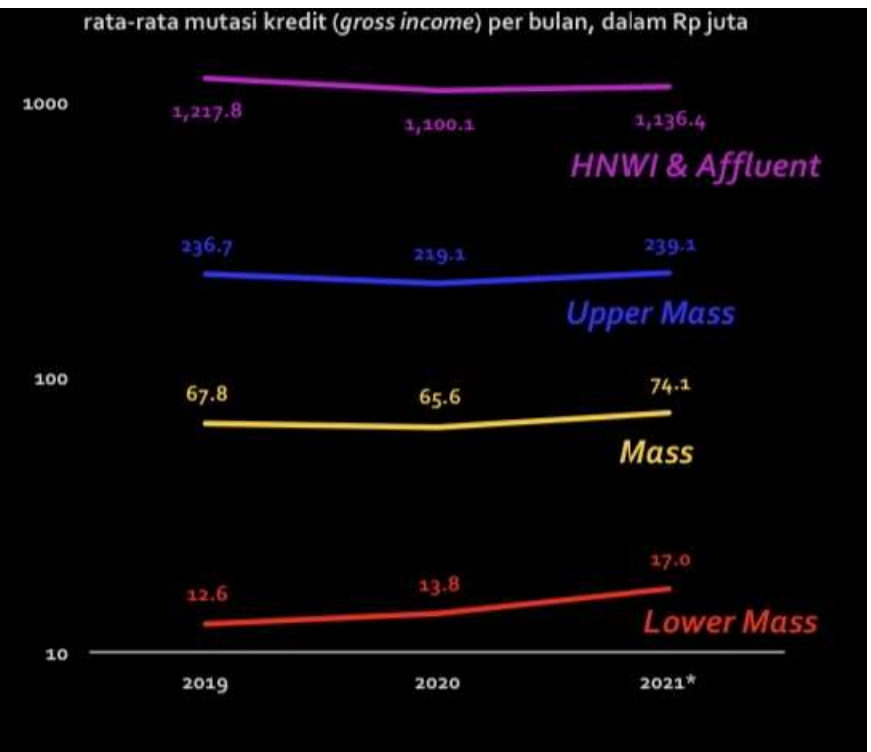
*baseline is pre-pandemic level

...but not for the middle and upper class segments

Recovery seen in the lower-mass segment...



...correlated well with the fast income recovery of the lower mass segment



*baseline is pre-pandemic level

Our in-house projection for 2021 - 2022

	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP YoY (%)	(0.74)	6.13	4.54	4.06	3.65	3.94	4.01	4.23	4.46	4.43	4.93	5.11
Inflation YoY (%)	1.37	1.60	2.12	2.26	2.85	2.79	2.76	2.86	3.40	3.74	3.79	3.95
BI 7-Day RR (%)	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.25	4.50	4.75	5.00	5.25
Exchange Rate - End of Period (USD/IDR)	14,525	14,436	14,553	14,669	14,785	14,901	15,018	15,134	15,250	15,366	15,483	15,599
Oil Price - Brent (USD/barrel)	68.91	69.11	73.68	73.98	69.41	67.27	64.22	66.02	67.53	68.79	70.42	72.62
	Actual			Annual				Annual				Annual

- Supported by booming commodity prices and increasing business activities and spending, Q2 2021 GDP growth is expected to be robust at around 6%. However, with significant increase on the number of newly confirmed cases post Idul Fitri holiday, imposition of mobility restrictions is unavoidable. If such a restriction continuing for too long, growth in Q3 2021 and beyond could be impacted,
- Bank Indonesia expected to continue accommodative policy by keeping the benchmark rate low at 3.5%. However, as growth in the US continues (and potentially creating inflationary pressure), the Fed could increase the rate earlier (and also faster) and also start the “tapering” program earlier than planned. When that happens, there could be a “shock” on emerging markets forcing the Central Bank to also increase the rate,
- Any disinformation (hoaxes) on the planned tax increase (income tax, Value Added Tax or VAT, etc.) must be addressed holistically and managed to minimize negative repercussions on market confidence.

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5. *Key Take-Aways*

Business challenges for banks in the new normal

Fiscal stimulus and the low interest rate environment, technological innovation and the COVID-19 crisis are driving the rapid creation of a future operating model for banks



Using new data analytics capabilities and client segmentation techniques, banks favor “nimble” operating models



Latest research finding from Greenwich report (1/3)

That “Future Operating Model” will be digital, nimble and open.



Digitization/Digitalization. In the span of just a few months, the COVID-19 crisis swept away most hesitations among corporate clients about using online tools, as well as any inertia remaining in the industry about the switch to digital. This sudden shift has given banks leeway to expand the use of digital channels and tools to reduce costs-to-serve.



Agile/Nimble. Using new data analytics capabilities and client segmentation techniques, banks are attempting to leave behind one-size-fits-all approaches in favor of “nimble” operating models that calibrate service levels and channels to meet the needs of clients in the most efficient way possible and at the lowest possible cost-to-serve.



Open. Perhaps the biggest change will be the transformation of the bank operating model from a closed system to open architecture. The development of application programming interfaces (APIs), the cloud and software as a service (SaaS) are eliminating the high switching costs that, to this point, have defined both client relationships and bank business strategies.

Latest research finding from Greenwich report (2/3)

Corporates' Preferred Mode of Engagement with Banks is Likely to Change

Relative Importance of Main Modes of Contact

During COVID-19


#1  **Phone call**

#2  **Video call**

#3  **Webinar**

#4  **Email**

#5  **Text/Instant messaging**

#6  **Face-to-face meeting**

Post COVID-19

} Likely to retain high level of importance, especially for operational issues and 'day-to-day' functions

} Expected to increase once 'in-person' interactions are safer; however, likely to be limited to strategic discussions or high-level meetings

Note: Based on 764 respondents.

Source: Coalition Greenwich 2021 Global Large Corporate Banking Study

Latest research finding from Greenwich report (3/3)

Evolution of Client Service with Automation

Key Impact of Automation on Client Service



Elimination of mundane tasks



Ensures accurate routing of information/requests (smart processes)



Ability to leverage data analytics for problem-solving



Enhancement of Coverage Banker Role

- **Substantial time savings** – Robotics for set-up work, so bankers are ready to execute
- **More client interaction** – Time freed up for more human-led value-added services
- **Proactive resolution of requests** – Data to identify and anticipate client needs
- **Better talent retention** – Top bankers do not want to 'push papers'

Human beings are still the “secret sauce”, but [with automation], they won't be needed for much of the service work that pertains to setting them up to execute.

Source: Coalition Greenwich 2021

Additional challenges on operational risks for bank business model in the new normal

- *How can we ensure that our employees are properly screened during hiring process and uphold the bank's code of conduct & values under any working model?*
- *With WFO and WFH work arrangement & split operation becoming common in the midst of pandemic,*
 - *How can we ensure that **NO** confidential information (including customer personal data and client transaction data) leaking outside the bank?*
 - *How can we prevent frauds due to lack of supervision or control caused by remote working?*
 - *How can we prevent any cyber attacks (phishing, malware attacks) coming through unsecured wifi connection?*
- *With shifting of transactions to digital channels, how can we ensure that the security of our systems is robust and resilient against any cyber attacks?*

As things are changing rapidly, tips for all of you to prepare to face a VUCCA world



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5. Key Take-Aways

Key Take-Aways (1/2)

- With progress in vaccine development and aggressive vaccination program, we are seeing economic recovery in countries that have managed to control the pandemic (such as US, UK, Israel and China)
- Vaccine distribution currently skewed towards developed countries. Significant increase of new cases currently happening at many countries - even those that managed to “dodge the bullet” via strict control (such as Taiwan, Vietnam, Japan) are seeing their cases increasing rapidly
- GDP growth in Indonesia expected to be robust at around 6% in Q2 2021 supported by booming commodity prices and increasing business activities and consumer spending,
- Few “tailwind”:
 - Continued booming of commodity prices due to sustained global recovery,
 - Recovery in consumer spending,
 - Structural reform (including UU Cipta Kerja) beginning to materialize,
 - Vaccine availability in H2 2021 allowing for more aggressive vaccination program
- A few things to watch out for (“headwind”)
 - Uncontrolled increase of the current newly-confirmed cases post Idul Fitri resulting in prolonged mobility and business operation restrictions that could impact growth in Q3 2021 and beyond,
 - Delayed completion of the country-wide vaccination program,
 - Quality of restructured loan portfolio in the banking system (post relaxation measures),
 - The Fed increasing rate faster and more aggressively due to over-heating of growth in the US,
 - Increasing yield of US Treasury resulting in higher borrowing cost of Indonesian government, and
 - Disinformation (hoaxes) surrounding government plan to increase revenue (income tax increase, extensive VAT, etc), if not addressed holistically, could negatively impact market confidence

Key Take-Aways (2/2)

- Banks must adapt their business models in the midst of the pandemic
 - Use of digital channels (mobile banking and internet banking) increasing rapidly overshadowing the number of transactions at bank branches,
 - Banks venturing into collaboration with other financial and non-financial players as part of the so-called bank “eco-system”, and
 - “Virtual expo” and/or “semi-virtual expo” for property and vehicle financing becoming “business-as-usual” in the midst of mobility restriction.
- Banks are facing structural challenges on their profitability
 - Lingering Covid-19 pandemic negatively impacting loan demand – corporations and people delaying investment or business expansion,
 - Low interest rate environment prevents further cost of fund reduction, and
 - Potential further increase of “Loans at Risk” (LaR) and downgrade of a number of large corporate loans to NPL necessitating higher loan-loss provisioning.
- Issues of sustainability becoming important for banks to address
 - Responsible banking: financing sustainable sectors; MSME segment financing; customer data privacy & security protection; and service quality & customer trust,
 - Sustainability Culture: fair operating practices; human rights & labor practices; and environment, and
 - Social value creation: education; environment; health, culture preservation & donation; community empowerment; and financial inclusion & literacy.
- Anti Money Laundering and Counter Financing of Terrorism becoming more important as Indonesia plans to join the Financial Action Task Force (FATF).

Thank you