

THE ALTERNATIVE PAYMENTS LANDSCAPE IN INDONESIA



by **decomo**.digital



GoPay and a wide, open market

In 2014, the Bank of Indonesia launched the nation's non-cash movement in an effort to build public awareness and adoption of digital payment methods.¹ Since the campaign's launch, the financial technology landscape in Indonesia has changed dramatically: a combination of strong demographics, supportive government policies, and a thriving fintech ecosystem is driving the adoption of digital wallets. Google's e-Conomy SEA Report 2020 found that Indonesia's digital economy would double by 2025, ballooning to as much as \$124 billion,² with plenty of room to grow.

The landscape is ripe with opportunity for digital wallets. Indonesia still struggles with a significant unbanked population, and many cannot access credit cards though they may have bank accounts.³ Digital wallets could fill the gap and drive financial inclusion, and indeed, many are already turning towards them. As of January 2020, e-money retail transactions reportedly rose 173% to reach as much as \$1.13 billion (Rp15.8 trillion),⁴ and this growth was led by digital wallets. Between June 2019 and June 2020, the total number of digital wallet payment sessions surged from 1.67 billion to 2.83 billion.⁵

¹ Ministry of Finance, Republic of Indonesia. BI - MoF Introduce National Non-Cash Movement. Available online at: <https://www.kemenkeu.go.id/en/publications/news/bi-mof-introduce-national-non-cash-movement/>

² Google. Google e-Conomy SEA 2020. Available online at: <https://economysea.withgoogle.com/>

³ KrAsia. Serving the unbanked: Driving financial inclusion in Indonesia's rural areas (Part 2 of 2). Available online at: <https://kr-asia.com/serving-the-unbanked-driving-financial-inclusion-in-indonesias-rural-areas-part-2-of-2>

⁴ International Trade Administration. Indonesia e-Wallet Market. Available online at: <https://www.trade.gov/market-intelligence/indonesia-e-wallet-market>

⁵ KrAsia. GoPay is the most popular e-wallet in Indonesia: Survey. Available online at: <https://kr-asia.com/gopay-is-the-most-popular-e-wallet-in-indonesia-survey>

E-commerce driving the digital wallet war

Unlike most other countries, Indonesia's digital wallets space is dominated by local players. It's an incredibly competitive market, with nearly 50 wallets operating across a network of online and offline merchants including the mom-and-pop warungs that make up a large chunk of Indonesia's informal market.⁶ Digital wallets are extremely popular with Indonesians. A recent report by iPrice and Jakpat found that 26% of respondents preferred using digital wallets for online transactions.⁷ In comparison, only bank transfers rank higher (30%) while some noted that the use of cards have declined.

The primacy of local digital wallets has made the landscape particularly difficult for foreign companies to make any significant progress in Indonesia, especially OEM-backed wallets. Samsung Pay is present in the market but reliant on partnerships with local service GoPay and Dana.⁸ Neither Apple Pay nor Google Pay are available in Indonesia, which makes sense as the most popular handsets in the region are Vivo, OPPO, Samsung, Xiaomi and Realme.⁹

The most popular of these local digital wallets is superapp GoPay, an offering from ride hailing conglomerate Gojek. According to a recent report by Ipsos, GoPay has claimed the lion's share of the market (58%), closely followed by Ovo (29%), Dana (9%), and Jakarta's government-backed LinkAja (4%).¹⁰

GoPay's primacy in the digital wallet space is driven by the prominence of Gojek's portfolio of services, which have come to characterise Indonesian life. Despite Gojek supporting cash payments, 70% of passengers opt for the digital wallet payment solutions,¹¹ whose footprint is likely to grow in light of news of Gojek's potential merger with e-commerce giant Tokopedia.¹² The merger will allow GoPay to leverage Tokopedia's massive customer base, while also building out merchant access to GoPay's POS infrastructure and Gojek's Bank Jago.

The merger is likely responsive to the rise of ShopeePay, a digital wallet from the Sea-backed e-commerce platform, whose popularity has soared over the course of the COVID-19 pandemic. Since mid-2020, ShopeePay has been reported to have beaten GoPay and Ovo in terms of the number of transactions on its platform.¹³ The wallet's success has been driven by the exponential growth of its e-commerce arm, which surpassed Tokopedia as the most visited shopping site in Q3 2020.¹⁴

GoPay and ShopeePay's dominance of the segment has meant that its main competitors, Ovo and Dana have been left to compete over the remaining market share. As both companies fight off cash burn and growing competition from new market entrants, news has emerged of a potential merger between Ovo and Dana though details have been scarce.¹⁵ The OVO and DANA merger might also suggest the potential for more tie-ups between smaller digital wallets in the future, as the number of players in the market begin to proliferate.

⁶ Tech in Asia. Why it may be hard for e-wallets in Indonesia to transform into super apps. Available online at: <https://www.techinasia.com/ewallets-battling-superapp-crown>

⁷ Iprice. E-Wallet Lokal Masih Mendominasi Q2 2019-2020. Available online at: <https://iprice.co.id/trend/insights/top-e-wallet-di-indonesia-2020/#English>

⁸ The Jakarta Post. Samsung teams up with Dana, GoPay to provide Samsung Pay. Available online at: <https://www.thejakartapost.com/news/2019/10/10/samsung-teams-up-with-dana-gopay-to-provide-samsung-pay.html>

⁹ Counterpoint Research. Indonesia Smartphone Market Sales Register 20% YoY Decline in Q2 2020, Online Market Share Hits All-time High of 19%. Available online at: <https://www.counterpointresearch.com/indonesia-smartphone-market-q2-2020/>

¹⁰ Iprice. E-Wallet Lokal Masih Mendominasi Q2 2019-2020. Available online at: <https://iprice.co.id/trend/insights/top-e-wallet-di-indonesia-2020/#English>

¹¹ Oxford Business Group. How cashless transactions support fintech growth in Indonesia. Available online at: <https://oxfordbusinessgroup.com/analysis/digital-alternatives-cashless-options-provide-new-ways-reach-unbanked-population-and-encourage>

¹² KrAsia. Too big to fail: Are Gojek and Tokopedia about to merge? Available online at: <https://kr-asia.com/too-big-to-fail-are-gojek-and-tokopedia-about-to-merge>

¹³ Mime Asia. ShopeePay Beats GoPay and OVO during the Pandemic. Available online at: <https://www.mime.asia/shopeepay-beats-gopay-and-ovo-during-the-pandemic/>

¹⁴ Iprice. The Map of E-Commerce in Indonesia. Available online at: <https://iprice.co.id/insights/mapofecommerce/en/>

¹⁵ Bloomberg. Indonesia's Ovo Is Close to Merger With Dana to Fight Gojek. Available online at: <https://www.bloomberg.com/news/articles/2020-06-12/indonesia-s-ovo-is-said-close-to-merger-with-dana-to-fight-gojek>



A sampling of popular e-wallets across markets and their fees

Indonesia has levied a fee of 0.7% on regular merchant transactions completed by using a QR, starting in 2020.¹⁶

E-wallet providers in Indonesia are able to charge a processing fee as high as 2% to merchants.¹⁷

Top e-wallets: **GoPay, OVO, DANA and LinkAja**¹⁸

Government gets interested in the digital wallet

Although 50% of digital wallets are owned by internet companies, the offerings by traditional financial institutions and government authorities are also a growing force. These wallets have the potential to directly combat social issues that would not otherwise be addressed by private companies, such as financial inclusion and weak infrastructure.

Take for example LinkAja, a state-owned mobile payments service that ranked as one of the top five digital wallets in Indonesia in terms of monthly active users. The service was created by an alliance comprising a handful of public banks and the country's biggest telco, Telekomunikasi Indonesia.¹⁹

LinkAja claimed to have amassed 22 million users since its launch in 2019,²⁰ thanks to a network of more than 150,000 merchants who sell over 400 digital products to customers through e-commerce platforms like Tokopedia and Bukalapak.²¹ Another example is JakOne, a wallet owned by the DKI Jakarta government, who reported exponential growth of monthly active users within a single quarter thanks to its role in distributing government aid, such as the Kartu Jakarta Pintar educational grant, and spending-tracker features.²²

Telcos in Indonesia have, for the most part, entered the digital wallet space by teaming up with existing wallets, as Telekomunikasi Indonesia did with LinkAja. However, there is plenty of potential for further moves in the area of direct carrier billing (DCB) thanks to the fact that Indonesians are highly reliant on mobile data to get online, and few of them have access to credit cards. Put together, the landscape is ripe for DCB solutions to make significant impact. Recently, Indonesian telcos and digital services have been able to positively push the prominence of DCB services, especially in the over-the-top (OTT) market.²³

For example, leading Indonesian publisher Tempo recently introduced a DCB option for readers to purchase digital subscriptions.²⁴ Other big international names in the digital entertainment space such as Spotify, Netflix and Google Play are also enabling purchases through DCB solutions.²⁵

Digital wallets drive policy

In terms of policy, Indonesia has been especially proactive in driving the adoption of cashless payments solutions for both customers and merchants. In May 2019, Bank Indonesia outlined Indonesia's Payment System (IPS) 2025 Visions which set out a roadmap to ensure digitalisation trends "develop within a conducive digital economic and financial ecosystem". The visions will encompass a number of initiatives driven by aspirations toward more open banking practices, without sacrificing the economy's security and stability. One such initiative is the launch of the QR Code Indonesia Standard (QRIS), a government-backed system that will enable consumers to make payments regardless of their digital wallet preference, with a merchant counterpart in the works.²⁶

There is also speculation that the government intends to implement fixed fees for certain digital wallet transactions. Currently, e-wallet services charge tiered fees—premium prices for big retailers which help soften the blow for smaller merchants—but the onset of fixed fees, coupled with the QRIS could make digital wallet transactions more attractive to shoppers. However, critics of the policy have pointed out that by capping fees, the Bank of Indonesia could permanently hamper the growth potential of e-wallet operators,²⁷ many of which are yet to become profitable and whose profits are already split between a large number of parties.²⁸ Furthermore, foreign wallets may also find themselves facing problems with the onset of new regulations that requires a non-bank payment service to maintain a certain percentage of Indonesian share ownership.²⁹

Financial literacy poses a problem

Governmental policies aside, digital wallets and the fintech industry as a whole will likely continue to struggle through a number of challenges endemic to the realities of Indonesia's archipelagic geography and poor financial literacy among target markets.³⁰ Despite relatively positive rates of financial inclusion, the Financial Services Authority noted in 2019 that the majority of Indonesians lack a solid grasp of financial literacy, an additional challenge for digital wallet operators who still have an uphill battle to convince consumers that their offerings can make a measurable positive impact on their lives.³¹

The problem is further compounded by the fact that the majority of the unbanked are found in rural areas where internet connections are fragile and access to financial infrastructure such as banks and ATMs is already poor to begin with.³²

Some progress has been made, nonetheless. The COVID-19 pandemic—although devastating to the economy—has lent itself well to faster adoption of financial services. Digital wallets have seen their usage spike thanks to fears that cash could circulate the virus. In this regard, the government was quick to encourage the use of digital wallets to bolster the effect of social distancing policies.³³ The government's pandemic relief package was also noted by the University of Indonesia's Social and Economic Research Institute (LPEM-UI) as a major incentive for individuals to sign up for a formal financial account.³⁴

¹⁶ KrAsia. Indonesia's QR code standardization is taking effect this year, payment providers not threatened with fees. Available online at: <https://kr-asia.com/indonesias-qr-code-standardization-is-taking-effect-this-year-payment-providers-not-threatened-with-fees>

¹⁷ M2Insights. Indonesian E-wallet Race 2020 – GoPay, OVO, DANA, or LinkAja. Available online at: <https://m2insights.com/the-2020-indonesian-ewallet-race/>

¹⁸ International Trade Administration. Indonesia e-wallet market. Available online at: <https://www.trade.gov/market-intelligence/indonesia-e-wallet-market>

¹⁹ International Trade Administration. Indonesia e-Wallet Market. Available online at: <https://www.trade.gov/market-intelligence/indonesia-e-wallet-market>

²⁰ KrAsia. After long delay, Indonesia's state-owned e-wallet LinkAja officially launched. Available online at: <https://kr-asia.com/after-long-delay-indonesias-state-owned-e-wallet-linkaja-officially-launched>

²¹ Ibid.

²² Iprice. E-Wallet Lokal Masih Mendominasi Q2 2019-2020. Available online at: <https://iprice.co.id/trend/insights/top-e-wallet-di-indonesia-2020/#English>

²³ GlobeNewswire. Indonesia Over-the-top Market is Estimated to Reach \$1.50 Billion by 2026: AMR. Available online at: <https://www.globenewswire.com/news-release/2020/06/10/2046311/0/en/Indonesia-Over-the-top-Market-is-Estimated-to-Reach-1-50-Billion-by-2026-AMR.html>

²⁴ The Fast Mode. Indonesia's Leading Digital Publisher Tempo Offers Subscriptions via DCB powered by Fortumo. Available online at: <https://www.thefastmode.com/services-and-innovations/17037-indonesia-s-leading-digital-publisher-tempo-offers-subscriptions-via-dcb-powered-by-fortumo>

²⁵ The Insight Partners. Asia-Pacific Direct Carrier Billing Market to 2027. Available online at: <https://www.theinsightpartners.com/reports/asia-pacific-direct-carrier-billing-market/>

²⁶ Tech Wire Asia. Is Indonesia the new e-wallet battleground? Available online at: <https://techwireasia.com/2020/11/is-indonesia-the-new-e-wallet-battleground/>

²⁷ Reuters. Indonesia plans fixed fees for e-wallet transactions: sources. Available online at: <https://www.reuters.com/article/us-indonesia-ewallets/indonesia-plans-fixed-fees-for-e-wallet-transactions-sources-idUSKBN1YZ06Y>

²⁸ Tech in Asia. Why it may be hard for e-wallets in Indonesia to transform into super apps. Available online at: <https://www.techinasia.com/ewallets-battling-superapp-crown>

²⁹ Nasdaq. Indonesia sets new rules on payments systems. Available online at: <https://www.nasdaq.com/articles/indonesia-sets-new-rules-on-payments-systems-2021-01-10>

³⁰ The Jakarta Post. Fintech's role in financial inclusion rises but infrastructure, literacy challenges loom. Available online at: <https://www.thejakartapost.com/news/2020/09/24/fintechs-role-in-financial-inclusion-rises-but-infrastructure-literacy-challenges-loom.html>

³¹ KrAsia. Serving the unbanked: Driving financial inclusion in Indonesia's rural areas (Part 2 of 2). Available online at: <https://kr-asia.com/serving-the-unbanked-driving-financial-inclusion-in-indonesias-rural-areas-part-2-of-2>

³² The Jakarta Post. Fintech's role in financial inclusion rises but infrastructure, literacy challenges loom. Available online at: <https://www.thejakartapost.com/news/2020/09/24/fintechs-role-in-financial-inclusion-rises-but-infrastructure-literacy-challenges-loom.html>

³³ Asian Legal Business. Playing Catch-Up. Available online at: <https://www.legalbusinessonline.com/features/playing-catch>

³⁴ The Jakarta Post. Fintech's role in financial inclusion rises but infrastructure, literacy challenges loom. Available online at: <https://www.thejakartapost.com/news/2020/09/24/fintechs-role-in-financial-inclusion-rises-but-infrastructure-literacy-challenges-loom.html>

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