An assessment of the Indonesian financial services sector

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This assessment report, prepared for the International Labour Organization by Komara Djaja, Eugenia Mardanugraha and Manue Sihombing, is intended to provide a rapid overview of the financial services sector in Indonesia and to stimulate discussions at the Tripartite Workshop to Promote Social Dialogue on Financial Services Reforms in Selected Asia and Pacific Countries (Jakarta, Indonesia, 5-6 August 2015).The views expressed in the report are not necessarily those of the ILO.

International Labour Office

Geneva

4 August 2015

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1. Introduction

This report provides a rapid assessment of the Indonesian financial services sector. Specifically, the report consists of two major sections. The first provides an overview of the structure of and recent developments in the sector, including changes in bank ownership, and their labour-employment effects. The second section reports on recent social dialogue and industrial relations in the sector.

2. Structure of Indonesia's Financial Services Sector

The Indonesian financial services sector comprises banks, multi-finance companies, capital market companies, insurance companies, and pension funds.

2.1. Banks

The banking sector accounts for about 80 per cent of the sector's assets. Table 1, below, presents nominal assets and shares of financial institutions for the 2012-14 period.

Table 1. Financial sector market share by total asset

	2012		2013		2014	
Total Asset	**Trillions (IDR)**	**% share**	**Trillions (IDR)**	**% share**	**Trillions (IDR)**	**% share**
Banks	4,131.6	78	4,654.2	78	4,884.6	78
Insurances	569.32	11	652.9	11	700.8	11
Pension Funds	158.37	3	162.06	3	166.29	3
Leasing companies	356.08	7	420.14	7	421.29	7
Other financial companies	75.79	1	96.06	2	98.54	2
Industries that support NBFI	3.49	0	4.29	0	4.29	0
Total	*5,294.65*	*100*	*5,989.65*	*100*	*6,275.81*	*100*

Indonesia boasts a large number of banks, compared to many other countries in the sub-region, with the latest figures showing 119 banks. Table 2, below, presents the number of bank offices and branch offices by bank groups. Assuming one branch or office involves thirty employees, then the number of workers in the banking subsector is estimated at around 600,000 persons. Furthermore, if it is assumed that workers are directly proportional to the bank assets, then employment in financial services is estimated at 720,000. These estimates exclude the country's *Bank Perkreditan Rakyat* (rural banks) and *sharia* banks, as well as outsourced workers in banks' and financial institutions' counterparties – which cannot be distinguished from management within the financial sector – such as insurance agents, credit card issuers, ATM providers, and similar providers of ancillary services to the banking industry.

Table 2. Number of banks and bank offices based on group of bank

Bank category	2011	2012	2013	2014	2015 (Feb)
State-owned					
Total	4	4	4	4	4
Total offices/branches	4,362	5,363	6,415	7,198	7,203
Foreign exchange commercial					
Total	36	36	36	38	38
Total offices/branches	7,209	7,647	8,052	8,313	8,351
Non-foreign exchange commercial					
Total	30	30	30	29	29
Total offices/branches	1,288	1,447	1,578	1,656	1,666
Regional development					
Total	26	26	26	26	26
Total offices/branches	1,472	1,712	2,044	2,301	2,316
Joint-venture banks					
Total	14	14	14	12	12
Total offices/branches	260	263	272	283	283
Foreign-owned					
Total	10	10	10	10	10
Total offices/branches	206	193	197	197	197
Total					
Total banks	*120*	*120*	*120*	*119*	*119*
Total bank offices/branches	*14,797*	*16,625*	*18,558*	*19,948*	*20,016*

National private banks and state-owned banks control a large portion of national banking assets. Table 3, below, shows the market share of banks by group, based on assets. At the managerial level, expatriate staff predominates in foreign exchange commercial banks, mainly due to the high levels of foreign share ownership in banking, particularly since the 1997-98 Asian financial and economic crisis which hit Indonesia very hard.

Table 3. Market share in percentages, by assets, of bank category

Bank category	2011	2012	2013	2014	2015 (Feb)
State-owned	36	36	36	37	36
Foreign exchange commercial	40	40	40	39	39
Non-foreign exchange commercial	3	3	3	3	3
Regional development	8	9	8	8	8
Joint-venture	5	5	6	5	5
Foreign-owned	7	7	8	8	8
Total	*100*	*100*	*100*	*100*	*100*

Bank Perkreditan Rakyat (rural banks) are commonly located in villages. They provide depository, savings and credit services to rural communities. These banks operate very inefficiently, as they provide loans only in small amounts, but require repayments which are collected regularly and personally from each client by the banks' staff. The rural banks' clientele have usually no chance of accessing service from mainstream financial institutions. The loan requirements at rural banks are not as onerous as those of conventional banks. Moreover, the close relationships which develop between the staff of rural banks and clients or potential clients, foster trust and encourage the banks to lend, even when as is often the case the borrower cannot offer any collateral. However, interest rates at which rural bank loans are offered are usually much higher than those of conventional banks. In February of 2015, for instance, the average rural bank interest rate was 27%. In February 2015, rural banks in Indonesia numbered almost 5,000. Assuming an average staff of about 20 workers per institution, then this category of banks employed close to 100,000 workers.

2.2. Insurance, pension funds and leasing

As of 31 March 2014, the Indonesian insurance industry comprised 141 companies. Table 4, below, presents breaks these down by category ownership. It can be seen that insurance companies are dominated by national privately owned companies and Indonesia-foreign jointly owned companies. Insurance involves more freelance, commission-based workers than any other financial service, due to the agent system in use by almost all insurance companies.

Table 4. Number of insurance companies, by category and ownership, as of 4th Quarter of 2014

No	Insurance category	Number
1	Life insurance	
	a. State-owned	1
	b. Private national	29
	c. Jointly-owned	19
	Sub-total	49
2	Damage insurance	
	a. State-owned	3
	b. Private national	63
	c. Jointly-owned	17
	Sub-total	83
3	Reinsurance	4
4	Social insurance & *Jamsostek* provider	2
5	Civil service, Armed forces & National police insurance providers	3
	Total insurance and reinsurance	*141*

Table 5, below, provides the number of insurance ancillary and support services companies, as of Quarter 1 2014.

Table 5. Number of insurance industry support companies as of 4th Quarter 2014

No	Type of Company	Number
1	Insurance brokerages	154
2	Reinsurance brokerages	29
3	Insurance agent company	26
4	Damage appraisal services	25
5	Actuarial consultants	29
	Total	*263*

The pension funds industry consists of *Dana Pensiun Pemberi Kerja Program Pensiun Manfaat Pasti* (DPPK PPMP), *Dana Pensiun Pemberi Kerja Program Pensiun Iuran Pasti* (DPPK PPIP), and *Dana Pensiun Lembaga Keuangan* (DPLK). Table 6, below, shows how quite high is the number of pension fund companies. This is due to the fact that each company can manage its own employees' pension funds. Pension fund management units at companies then develop into separate, individual pension fund companies. Insurance companies with pension fund programmes are also included in the pension fund industry. Most large companies, whether state or privately-owned, have established their own pension fund companies in order to manage their employees' pension funds; only a small proportion of these large-sized companies leave pension fund management to independent companies, such as insurance companies.

Table 6. Number of Pension Fund Companies as of Quarter IV 2014

No	Type of pension fund	Number
1	DPPK PPMP	198
2	DPPK PPIP	43
3	DPLK	24
	Total	*265*

2.3. Other financial services companies

The rest of the financial services industry comprises financing companies specializing in different areas of finance, such as venture capital firms, and infrastructure financing companies. The number of financing companies as of the first quarter of 2014 (as per February 2014 data) was 202 companies. This industry segment is dominated by 64 companies (representing 32% of total the industry institutions), accounting for 91 per cent of the industry's assets. The owners of these companies are banks or holding companies.

2.4. Informal Financial Services

The existence of a still-dominant informal economy in Indonesia must be taken into account. A joint 2010 Asian Development Bank (ADB) and *Badan Pusan Statistik* (BPS, Statistics Indonesia) Survey 2010 noted that non-agricultural sectors with significant informal economy contributions to provincial economies were other services (72%), wholesale and retail trade (63%), and hotels and restaurants (55%). Because informal economy operators are unable to access funding from the conventional financial services sector, an informal financial industry has developed and grown in order to service the growing financing demand from informal economy businesses. Lenders in this subsector are commonly referred to as *tengkulak* (lit. middlemen).

3. Developments and trends affecting employment and social dialogue in Indonesian financial services

In the aftermath of the 1997-98 Asian financial crisis large-scale government bailouts caused shifts in bank ownership, with internationally-networked financial institutions competing to acquire Indonesian banks. The subsequent changes in ownership resulted in concomitant changes in banking's management-labour structures, with senior-most managerial positions becoming dominated by foreign executives, usually from the new parent company's home country, or simply other foreign professionals. Other structural changes affecting labour and employment included the adoption of international banking standards, ion of international standards for the financial industry, such as the Basel international regulatory framework for banks.

The authority and functions of monitoring and regulating financial services in Indonesia have, since December 2013, been transferred from Bank Indonesia (BI) to the Financial Services Authority of Indonesia (OJK). OJK monitors not only banks, but all financial services institutions. This change has had no significant labour or employment impact beyond shifting employment considerations for both bank and non-bank institutions to the same level.

To strengthen the sector even further, Indonesia established a deposit insurance agency (DIA), through law No. 24/2004, which came into effect in September 2005. Over the following decade, the insurance premiums collected by the agency totaled Indonesian Rp.50 trillion, of which only 4.5 trillion has been dispensed, mainly to maintain the financial system's stability by closing a few distressed small banks.

The ASEAN Economic Community (AEC), which comes into effect from December 2015, will significantly affect labour and employment in the Indonesian financial services sector. The Community envisages free movement of goods, services, investment, skilled labour, and freer flow of capital among Community members. It provides for progressive lifting of restrictions in various sectors, including substantial relaxation of restrictions on trade in insurance, banking services and capital markets among member states, by 2020. There are currently many banks in Indonesia owned by financial conglomerates from other ASEAN countries, such as Malaysia and Singapore. The AEC eases even further the entry into Indonesia's financial services employment for industry professionals from other ASEAN member states.

With the impending implementation of this agreement, Indonesian workers in the financial services sector will need to close their current skills gap with their counterparts from other ASEAN countries, especially those of Singapore and Malaysia, whose companies own quite a large share of the Indonesian financial sector. Policy-makers and the sectoral social partners recognize the need for stepped up training and greater human resource development efforts to ensure local staff also acquire the skills required for work in the post AEC financial services sector in Indonesia, particularly in banking and capital markets. The greater liberalization of the ASEAN labour market has the potential to increase even further the share of workers from other ASEAN member states in the Indonesian financial sector.

It is important to note that the Indonesian economy generally was not significantly affected by the 2008 global financial and economic crisis. The country's international financial exposure was relatively small compared with, for instance, those of Singapore or Malaysia. Because the finance and banking sectors had been experiencing liquidity problems in the second semester of 2008, the central bank had eased monetary policy, lowering reserve ratios, facilitating foreign exchange denominated swap arrangements, and even arrangement for international reserve backup from international financial institutions. As a result, when the crisis erupted, market confidence in Indonesia was relatively high, with economic growth, at 6.3 per cent in 2007, at its highest level since the 1997-98 crisis.

However, the private commercial bank sector is experiencing pressures not only from preparations for AEC, but also from an unexpected source: the worries related to the Greek crisis in the Euro zone. That crisis has created a high degree of uncertainty in global finance whose contagion, it is feared, could spread to Asia, where people are watching with anxiety to see what impact it might have on China's economy. The fear is that, should the Chinese economy experience negative fallout, its effects would then spread to the rest of Asia, if not the rest of the global economy.

Faced with this unfavourable external environment which might directly or indirectly affect the country's finance and banking industry, the Indonesia Financial Services Authority last month issued a number of policy packages to stimulate the economy. These consist of 12 policies for the banking sector; 15 for the capital market; four for the non-bank financial industry; and for to cover education and consumer protection.

4. Social Dialogue in the Indonesian Finance and Banking Sector

The Indonesian trade union movement in the finance sector emerged significantly strengthened from the 1997-98 Asian financial crises. The end of the Suharto government also ushered in a new era of democracy, including freedom of expression and of association. The Trade Union Law, No. 21/2000, also facilitated the establishment and flourishing of trade unions. By August 2000, already 24 national unions and over 10,000 enterprise unions had registered with the Department of Manpower. There are currently more than 90 registered national unions with a total membership of about 3.4 million workers.

Trade union growth in the financial services sector has also been steady, and social dialogue and collective bargaining have kept pace. Currently, almost all the commercial banks, both state-owned and private, have concluded collective labour agreements (CLA) as stipulated by law no 13/2003 and Minister of Manpower's Regulation No.16/2011.

The union movement in the private commercial banks seems very dynamic, perhaps understandable given the fact that the finance and banking industries are one of the most risky businesses. The competition environment is extremely stiff, not just domestically but also regionally and even globally, with capital flows not recognizing national boundaries. Even day-to-day business decisions in private commercial banks, especially foreign-owned banks, are often taken by executives in head offices, instead in Indonesia. There are consequently a number of recent cases of tensions between trade unions and management of some foreign-owned commercial banks.

Trade unions in state-owned commercial banks have not been as active compared with their counterparts in privately-owned commerce banks, due mainly to the supportive role governments have played vis-à-vis unions in state-owned banks. In addition, most of the trade union leaders in state-owned commercial banks have tended to be relatively senior with close working relationships to top management. In other word, the militancy of their union leaders in state-owned banks was not as strong as that of union leaders in privately-owned commercial banks.

In the privately-owned commercial banks, especially affiliates of foreign firms, internal and external adjustment in line with global market dynamics is a survival imperative. They are therefore very active in mergers and acquisitions. Some of these banks are also active in integrated cross-border operations. For example, because the net interest margin in Indonesia is higher than that in the neighbouring countries, many foreign banks affiliates in Indonesia are used as cushions by their head offices to support the operations of affiliates in other countries in the region.

Private commerce bank unions are fully aware of the highly competitive nature of the industry, and their members' vulnerability in such a risky industry. They are therefore very active in efforts to consolidate their movement, and especially to conclude win-win collective labour agreements (CLA).

A PwC study has reported that worker turnover in the Indonesian banking industry is about 10 per cent, when it should in ideally not be higher than around five per cent. In some privately-owned commercial banks, labour turnover was even higher, at about 12 to 15 per cent. In general, employees move to another new employer, but remain in the banking sector because they are offered higher salaries or in order to increase improve their career prospects. Demand for additional labour in the banking sector was forecast at about 25,000 yearly.

According to the Outsourcing Association, outsourced workers in the banking industry are currently about 150 thousand to 200 thousand. Labour demand in the Indonesia banking sector is expected to rise once the ASEAN Economic Community comes into effect.

In the medium term, the greatest pressure on social dialogue and industrial relations in the Indonesian financial services sector will be related to ensuring that the country and the social partners in the sector are fully ready for the ASEAN Economic Community (AEC). In the state-owned segment, the current discussion revolves around whether there should be a merger of Bank Mandiri and Bank BNI, and also that of BRI and BTN. This proposal is attracting very strong opposition from trade unions, and the issue seems to have faded away once the current government came to power.