



Buyer Case Study

Amdocs Powers Indosat's Dompetku Mobile Financial Services to Success

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IDC OPINION

Asia/Pacific is witnessing tremendous innovation and opportunities in the mobile payments space, with numerous initiatives and varied regional dynamics. Small, emerging markets sitting next to future superpowers and high-technology city states give credence to this region becoming the global leader in mobile payments (mpayments).

- **mPayments classification in Asia/Pacific.** Our assessment of markets in Asia/Pacific for their readiness for mpayments revealed the variations and different operating models that we are likely to see take shape in this region. We identified three separate kinds of markets, each with different potential for mpayments in scale and type. Asia markets will be split between card payment leaders, mobile payment leaders, and mobile money leaders. Most emerging Asia markets such as Indonesia, India, and others are predominantly classified as mobile money leaders.
- **Mobile financial services (MFS) to grow in Asia emerging markets.** IDC sees that the mobile financial services segment presents an excellent growth opportunity for telcos to capitalize over the next 3–5 years in emerging markets in Asia. The large unbanked population with access to mobile services in these emerging markets indicates the huge market potential for MFS. Moreover, most of the mobile money transactions today (globally) are either airtime top-ups or peer-to-peer (P2P) on-net money transfer. This provides the service providers with an opportunity to offer innovative products such as micro-lending, micro-investment, and micro-insurance services to the masses.
- **New service providers will look to enter into the MFS segment.** Today's telcos are facing a double-edged sword in the form of rapidly changing business dynamics, due to challenges from thinning profit margins from traditional telco services as well as continuously evolving consumer demands. MFS represents a business opportunity for telcos in the emerging markets, where they can leverage their reach and assets to provide new and innovative mobile money services to the mass market, which is often "too costly" for banks to service.
- **Traditional telecom solution providers to provide MFS platform.** There is a significant opportunity for telecom solution vendors, such as Amdocs, Redknee, and NetCracker, to extend their product portfolio to cover an MFS platform as well. Telcos in the region are looking for solution providers that can cater to both traditional requirements, such as OSS and BSS solutions, as well as new service requirements such as mobile money.

IN THIS BUYER CASE STUDY

This IDC Buyer Case Study discusses the mobile financial services market in Indonesia and how Indosat leveraged Amdocs' global expertise to foster an ecosystem necessary for MFS in the Indonesia market. It also discusses the evolution of Indosat's Dompetku mobile money portfolio of services in Indonesia.

SITUATION OVERVIEW

Asia is adapting to a rapidly changing environment for payments caused by high mobile penetration and massive adoption of feature phones and smartphones by consumers. This has opened up numerous possibilities to ease the traditional points of friction that have hindered both traditional commerce and ecommerce. World Bank reports (April 2015) that about 1.1 billion adults in Asia/Pacific are unbanked, with the combination of India, China, and Indonesia alone representing 75% of the figure. On an average, about 60–70% of the population in these economies is unbanked because of unavailability of banking branches in rural areas. Emerging markets such as Indonesia boast of a significant and growing middle class side by side with a large unbanked population with limited access to banking and finance. Indonesia's population is also saddled with infrastructure bottlenecks that hinder efficiency in day-to-day life.

As banks struggle to cater to the unbanked and even underbanked population segments, opportunities have opened up for new players. Telcos are among the largest players to push into this space, mainly through mobile money services modeled along the lines of Safaricom's iconic M-Pesa service in Kenya and Globe's GCash service in the Philippines. In Indonesia, Telkomsel was the first to launch TCash (2007), followed by Indosat's Dompetku mobile wallet (2008) and XL Telecom's XL Tunai service (2012). By 2012–2013, recognizing the opportunity in Indonesia, the three telcos were also joined by a small number of banks moving into the mobile money segment. Telcos do have a critical advantage when it comes to the reach and sophistication of their distribution network. For instance, the five major telcos in Indonesia together have a distribution network of about 300,000 agents and a market penetration of about 80%. This number is quite significant when compared with the reach of 150 commercial players in the financial sector (including banks, insurance, and micro-lending institutions), which together have a distribution network of only 30,000 and a market penetration of about 20%.

That said, telcos have traditionally struggled to get widespread acceptance from consumers and merchants in many markets. Regulations around mobile money and mobile payments are still evolving in some countries. Before March 2013, Bank Indonesia did not allow an agent to perform a cash-out transaction unless the agent had a remittance license issued directly by it. Customers were able to perform cash-out transactions only at an outlet managed directly by their mobile operator, which limited their reach to a large extent (because of the limited number of "direct branch outlets") and prohibited telcos from building a capillary distribution network for financial services. However, the new Regulation on Funds Transfer (March 2013) and branchless banking pilot guidelines (May 2013) paved the way for smoother distribution of mobile money and several thousands of mobile money agents signed up with Bank Indonesia to become a part of the mobile money ecosystem.

In 2013, the three major mobile operators in Indonesia — Telkomsel, Indosat, and XL Telecom — realized that in a geographically dispersed country such as Indonesia, standalone payment schemes were unlikely to drive significant usage. Thus, they partnered to create an interoperable environment that allowed customers to send and receive money across the three networks. For instance, it allowed

a Telkomsel customer to send money from its TCash mobile wallet to an Indosat Dompetku customer in real time, resulting in a bigger and more flexible ecosystem.

Organization Overview

Indosat is one of Indonesia's largest telecom service providers of prepaid and postpaid mobile services, fixed line services, as well as multimedia, Internet, and data communication services. It has about 63 million subscribers on its networks and has generated a revenue of US\$2 billion in 2014.

Indosat recognized the opportunity to provide mobile money services to its customers in Indonesia and launched its Dompetku mobile wallet in 2008, on the back of the Electronic Money and Remittance license it acquired from Bank Indonesia. The license allowed the service provider to offer basic services such as inward international remittances, airtime purchases, payment of electricity bills, and domestic wallet-to-wallet transfers, among a few others. However, back then, the service provider was not allowed to facilitate a cash-out transaction through its agents, unless the agent had a remittance license issued directly by Bank Indonesia (eventually relaxed by Bank Indonesia in March 2013). This meant that Indosat customers were able to perform cash-out transactions only at outlets directly managed by it known as "Galeri Indosat." This limited Indosat's reach to a large extent and prohibited it and other telcos from building a comprehensive network for distribution of financial services.

During the 2008–2013 period, Indosat was operating these services through an mbanking unit that was not solely dedicated for this purpose, which limited its flexibility and the corporate freedom it had in decisions related to service offerings.

Challenges and Solution

Even though the scope of mobile financial services evolved in time (from 2008 to 2014), the uptake rate for the mobile wallet was much slower than expected. This limited growth stemmed from a variety of reasons including regulatory constraints (for instance, around cash-out options) or inability to build an ecosystem, and inability to add popular new features due to platform deficiencies. Major challenges that Indosat faced included:

- **Creating and managing a complete ecosystem.** Indosat established a dedicated MFS unit in January 2014 with 38 full-time employees to focus on the development of its MFS portfolio as well as enabling the creation of an ecosystem. However, soon it found itself caught in the middle of a vicious cycle, in which the customers did not avail its MFS because there weren't enough merchants they could use it with, and retailers (and utilities) would not sign up because Indosat couldn't offer them enough customers to leverage. To support its business objectives of creating a strong ecosystem, it needed an MFS solution that would allow Indosat to bring together all the entities, namely, their customers, channel partners, merchants, and financial partners, on a single platform. It needed a solution that allows easy on-boarding and management of all the stakeholders in its ecosystem.
- **Gaining traction with the masses.** Even though Indosat had managed to sign up nearly a million customers for its mobile wallet service by July 2014, less than 10% of them were actively using it. Indosat decided to overcome this challenge through heavy promotions and by incentivizing the entire ecosystem including the end users, partners, and retailers. However, to accomplish this, it needed a system that allows it to create, disburse, implement, and manage these promotions in a quick and efficient manner, to address dynamic market requirements and stay ahead of its competition.

- **Crafting sustainable business models.** Indosat's basic idea for Dompetku (in the beginning) was to generate a sizable revenue via transaction fees. But the revenue generated didn't match up to Indosat's expectations and it soon realized that it needed to revisit its strategy and look at other business models. Because of its limited in-house capabilities, it needed an expert that would help it scan the landscape to identify opportunities. Indosat also realized that it would have different business models for different segments and thus needed a customized platform that allows configuration for B2C, B2B, and B2B2C models on the same platform.

Indosat also believed that signing customers for its mobile wallet service would tie the customers more firmly to its telecom service, thereby making it inconvenient for them to change to another service provider.

Indosat had partnered with Utiba (acquired by Amdocs in March 2014) since 2008 for its Dompetku mobile wallet service, wherein Utiba provided the IT platform for Indosat to offer the service. Indosat's push into the MFS segment gained further momentum following the establishment of its dedicated MFS division in January 2014. Amdocs' acquisition of Utiba complemented Indosat's refreshed push into the MFS space in Indonesia. This gave Indosat access to Amdocs' resources and professional expertise to further develop its mobile money services.

Over the last year, Indosat has leveraged Amdocs' capabilities to strengthen its ecosystem further. The service provider's partnership with Amdocs can be broadly classified under the following two heads:

- **Business acceleration.** Indosat leveraged Amdocs' global professional expertise in the mobile financial services industry to narrow down the services to offer in the Indonesia market. Amdocs also helped Indosat understand the dynamics of the MFS ecosystem and the extensive role that the merchants, partners, and retailers play. Amdocs also conducted field research for Indosat where it interviewed end users including customers, merchants, and other partners to understand their take on MFS, their pain points, and expectations. This was followed by a few workshops with Indosat executives to brainstorm over 100 ideas on services that they can offer and merchants that they should partner with. Eventually some of them were selected such as a partnership with banks to allow cash-out using ATMs, offering MFS to enterprise customers to process payroll for its employees (especially blue-collar employees in rural areas), and partnering with large convenience stores to achieve scale quickly.
- **Center of Excellence.** Amdocs and Indosat, together, have established a Center of Excellence (CoE) in Jakarta for the development, testing, maintenance, and support of Indosat's MFS platform. This CoE acts as a test bed for both of them to test out new functionalities and works to the advantage of both the parties. Also, since this is a dedicated CoE for Indosat, it allows the CoE to respond to dynamic market requirements by rolling out new features in a short time frame. This CoE is of strategic importance for Amdocs as well, since this allows Amdocs to tweak its MFS platform according to market needs, offer relevant MFS platform to other telcos in similar markets and help Amdocs revise its MFS road map according to market demands.

Results

In partnership with Amdocs, Indosat's renewed focus on mobile financial services has reaped significant benefits for itself and has seen the service grow gradually. Following the establishment of a dedicated MFS unit, Indosat was able to considerably grow the MFS service portfolio as well as the ecosystem. Indosat Dompetku now allows its customers to use their mobile phone numbers to conduct various financial transactions such as purchases at retail as well as online stores, for bill payments, airtime purchase, international and domestic money transfers, as well as cross-operator money

transfers (within Indonesia). It has partnered with various modern brick-and-mortar stores such as Alfamart, Alfamidi, Indomaret, and 7-Eleven, as well as online stores such as Cipika, FoodPanda, and DinoMarket, among others.

It leverages its customized Amdocs MFS platform to facilitate Dompotku's international money transfer (inward), which allows its customers to receive money from Hong Kong, Australia, Malaysia, and almost all Europe countries in collaboration with partners such as WorldRemit, Shinetown GoldREX, and Xendpay. Indosat has also partnered with BPJS payment services to allow Dompotku customers to pay for their Cigna and Adira insurance services through their mobile wallet.

Earlier this year Indosat introduced a mobile money ATM card in partnership with Qatar National Bank to connect the mobile wallet of Dompotku customers to Indonesia's ATM Bersama network. This allows its users to withdraw cash from Indonesia's ATM Bersama network. In addition to this, Indosat currently has a vast network of 187,000 agents, of which 81,000 are actively facilitating over-the-counter MFS transactions. Indosat's MFS network is currently handling more than 150,000 transactions a day and according to its group head for MFS division, Randy Pangalila, the mobile financial network is expected to process transactions worth a total of US\$200 million in 2015. The Amdocs platform allows Indosat to effectively manage its channel partners, perform reconciliations, generate reports, and highlight any potential areas of concern. Pangalila also highlighted Indosat's plan to expand its suite of MFS offerings to include international remittance (outward), and micro-lending services to assist the poor in Indonesia who are forced to borrow money from small-time lenders, who charge significantly higher interest, to run small businesses such as a tea shop or a hawker stall.

Indosat's actions are in-line with its strategy to focus on the long term and to develop customer-centric business models, a sentiment that both Indosat and Amdocs share deeply. Indosat is actively pursuing new initiatives aimed at developing the ecosystem by investing in a number of start-ups that can leverage its payment platform. In January this year, Indosat funded Dealoka, a mobile app that allows merchants to push evoucher promotions to end users.

With most of these initiatives taking shape, Indosat is seeing strong growth in both number of transactions as well as the adoption of its mobile financial services. This not only showcases a success story for Indosat, but also for Amdocs. Amdocs has been central to Indosat's success as it has not only provided Indosat with a powerful, reliable, and flexible core engine to innovate and build on, but also provided Indosat with its global experience and expertise in the MFS space. This association has been a win-win scenario for both, as it has allowed Indosat to build a strong suite of MFS services and Amdocs to demonstrate its capabilities in the MFS space in the region.

ESSENTIAL GUIDANCE

The business landscape is constantly evolving, and service providers and solution vendors must consider the following to differentiate themselves in a highly competitive marketplace:

- **Emerging Asia markets with lower card adoption and spend will drive mpayments.** IDC sees significant opportunities in the markets that are deemed to be mpayment leaders: China, Taiwan, Malaysia, and Thailand. India and Indonesia can also be included in this category based on the strong recent performance of third-party wallets in these markets. These markets will see an explosion in mpayment transactions, largely driven by the increase in mobile commerce sales in both B2C and P2P categories across the region. Increasingly, remittances and recharges will also be implemented over a unified payments platform to offer an end-to-end service to consumers with a consistent user experience.
- **Mobile wallets will see strong growth in emerging Asia markets.** Wallets with stored-value accounts have already seen a massive surge in usage in China with Alipay. They are also growing very strongly in markets such as India, where Paytm has grown fourfold to nearly 100 million accounts in less than a year. If one counts all the telco mobile money accounts and other third-party wallet offerings into this, then the scope of the overall opportunity becomes clear. Stored-value wallets have many advantages. For consumers, the transaction becomes much more seamless and quicker. Transactions also become more "secure" since the total exposure is limited to only what has been uploaded or transferred from the consumers' bank accounts. There is also the added ease of the purchase as money can be deducted straight from the wallet as opposed to remembering PINs and passwords.
For merchants, stored-value wallets are beneficial because they address one of the biggest points of friction for them, namely, the need for two-factor authentication (2FA). Once the money is transferred into the wallet, there is no need for any additional PIN or password so long as the required balance is available. This has resulted in higher conversion rates. Merchants also benefit from the bigger addressable market that these types of wallets tap into. This is not just true for physical goods purchased but also for online purchases.
- **Telcos need to broaden their market coverage to increase scale or risk irrelevance.** Many telcos have launched mobile money services and many have achieved significant success. However, most of these services were designed with a focus on recharges and remittances. Telcos need to expand their market coverage to effectively tap into the newer usage scenarios that are exploding. Consumers with smartphones are increasingly tapping into these on-demand and mcommerce services. If telcos are not able to rapidly add support for these new services, they will not be able to scale their user base and as a result, they will face irrelevance.
- **MFS platform providers will play a significant role in endorsing these solutions in emerging markets.** Regulations around mobile money and mobile payments are still evolving in some countries and since these markets are highly return on investment (ROI)-driven, telecom solution providers such as Amdocs and Redknee have a major part to play in convincing the service providers of this opportunity and expected benefits to get them on board.

LEARN MORE

Related Research

- *Mobile Payments in Asia/Pacific: Where Do the Opportunities Lie?* (IDC #AP251048, May 2015)
- *The Evolving Landscape for Mobile Payments in Asia/Pacific* (IDC #AP251002, April 2015)

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