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Indonesia 2045: Banking Industry Trend

Background

Indonesia is now the 16th largest economy in the world with 45 million members of the consuming class. 53% population in cities is now producing 74% of GDP. According to the data in 2015, Indonesia ranked 39 with 3.4 thousand USD GDP/capita amongst all the country in the world. Based on the World Economic Outlook Database in April 2016, Indonesia contributed 35% of total ASEAN GDPs (859.0 billion USD) with 41% of total ASEAN population (255 million). Indonesia's internet penetration is also considered very fast. As per 2016, there are more than 132 million people are now have the access to internet. This condition then grows more opportunity in the world such as banking industry. Banking industry has a bigger role in the digital world in the future. That's why, Indonesia needs to be aware of what opportunities that come and optimize it to bring more benefit for customers. On the other hand, there are several challenges that Indonesia need to face. One of them is the connectivity between the islands which sometimes create more costing to operation. In summary, Indonesia has its fuel to be the biggest economy power in the world.

However, Indonesia needs to work together with all stakeholders to maintain the momentum. The future of the country will lie between the powers of the nation itself and how the nation can cooperate with the region. Sumit Dutta, President Director PT Bank HSBC Indonesia shares his vision on how banking could be a part to achieve Indonesia's future during the Indonesia Economic Forum 2017, 23rd November 2017.

Details

- In 2045 Indonesia will have reached 100th year of independence. President Joko Widodo has said that his finance minister and coordinating economic minister projected predictions that Indonesia will be the 4th largest in the world. Indonesia will have a population of 309 million people. Economic growth will be of 6% with a GDP of US\$9.1 trillion, and income per capita that is predicted to reach US\$29,000.
- Indonesia has a lot of growing players from every industry. For example there are number of start-ups that are trying to connect farmers with their markets directly even university students making their own hydroponic farms and teaching others to grow their own vegetables at home. Indonesia has a lot of great opportunities in this industry. With the growing opportunities, peoples, technology, and any resources, one day, Indonesia could be the financial hub of ASEAN.
- Now, things are moving fast. Especially as over 50% of Indonesians are under 30 years old. Entrepreneurship is rising, with more startups coming online. Indonesia is having a different media consumption habit as well. They're moving from papers to e-paper. This change sign that technology needs to be leverage and embraced.
- However, one of the challenges for Indonesia is to connect main islands and the increasing of logistics to magnify Indonesia's economic potential. The Government is currently focusing on that by planning infrastructure projects with 10 projects valued at 60.8 billion USD is underway and railway projects of 17.9 billion USD are planned for roll outs in 2015-2019.
- In Indonesia, there are 3 main challenges that must be overcome in order for all these plans to become a reality, namely: regulatory environment, capabilities and financing. Land acquisition, project planning and licensing challenge is an issue which we have no control. However, HSBC can help contribute and work together with the government in building capacity in financing aspects. As a matter of fact, HSBC are now

collaborating with professional service firm in providing counsel to local authorities on feasibility assessments and financing options.

- Then, how can Indonesia turn its potential into performance? This is where banks, especially a global one like HSBC, can play a strategic role in helping the country realise its potential by acting as a conduit. Connections around the globe, linking global customers with the right opportunities in Indonesia, and also opportunities outside Indonesia are things banks can tap into.
- Don't forget about the current generations. In 2020, the world population is predicted to increase to 7.5 billion compared with 6 billion in year 2000 which also means there are 6.1 billion smart phone subscriptions. So, businesses, wherever they are based in the world, need to be aware of how consumer tastes and expectations are changing so they can respond positively.
- Generation Z, or the post-millennial generation, will be the majority of population and the biggest consumption of digital contents. On the other hand, today there are more than 900 million people aged 60 and above in the world, and with ongoing improvements in longevity, this figure is due to rise to 2 billion by 2050. Even by 2020, the over-60s will outnumber the under-5s for the first time in human history. As a consequence of this shift, older consumers will be responsible for an increasing proportion of demand, particularly in advanced economies. The share of wealth these senior consumers command will also increase significantly by 2020.
- HSBC's global research also indicate - from a geographic perspective, there are going to be a large chunk of people who will enter the middle class by 2050 largely in Asia including us in Indonesia - and this will completely shift the consumption pattern around the world and trade.
- These set of Indonesians are wealthier, more educated - and they are going to demand health, education and communications differently than what usually people do now. Consuming more expensive, most likely imported goods delivered through robust infrastructure.
- At the same time, by 2020 Indonesia also has to deal with an aging population with the number of people age 60 and above will be greater than children aged five and below. While millennial have captured the headlines, the 60 and above age group control 70% of total global wealth and not all of them are comfortable banking purely online. So, balancing the needs of two groups will be the challenge for banks and financial institutions.
- Given this landscape, Indonesia will no doubt be a connected country, and this 'connectedness' will allow us to be a unified Indonesia. Indonesia will not only produce but consume. People have been investing in China for years but in the future there will be many alternatives. Geographically Indonesia has unrivalled reach with Japan and Australia for example for trade. In size, scale and stability, it's hard to look beyond Indonesia.
- Moving forward, there are a number of areas where Indonesia can work together to try and make sure all of above things evolve. Government and businesses must be together creating an environment where wealth are distributed evenly and make sure our people well educated and trained. Also a need where countries are more open in their trade, and remove barriers for a long-term thrive.

Quote

Sumit Dutta, President Director (designate), PT Bank HSBC Indonesia

"HSBC has been in Indonesia for more than 150 years and after completing our integration earlier this year, we expand our local expertise in Indonesia as well as opening the vast and global network to Indonesia. We



realize the big opportunities that lie within the country and we are ready to connect Indonesia with the opportunities outside the country. We are also committed to connect our customers business to Indonesia's growth opportunity. This is the time for Indonesia to also produce and be seen as the economy power country and achieve our dreams."

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