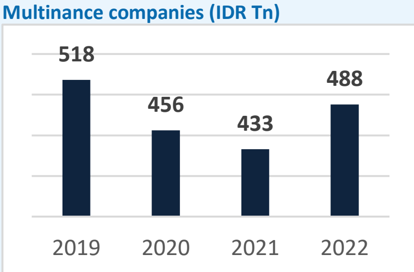
MULTIFINANCE INDUSTRY

Indonesia | May, 2023

KEY GRAPHS

Graph 1: Asset Growth for Indonesian Multinance companies (IDR Tn)



Source: Otoritas Jasa Keuangan (OJK), 2023

Graph 2: Financing Disbursed Growth (IDR Tn)

Source: Otoritas Jasa Keuangan (OJK), 2023

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Overview of Indonesia's Multifinance Industry

- **Modest growth and recovery in 2022**
- **Supportive policy to support the industry**
- **Indonesia's Multifinance Growth Potential**

Modest growth across multi-finance sectors

During the year 2022, the multifinance industry demonstrated noteworthy growth across crucial indicators, including assets and financing disbursed. Additionally, improved return on assets, return on equity, gearing ratio, operational efficiency, and non-performing loans further underscored the industry's resilience amidst the pandemic and its promising potential for future expansion.

Supportive policy to support Multi finance.

During the COVID-19 pandemic, supportive policies such as the restructuring program and the government's PPnBM stimulus played a crucial role in assisting the multi-finance sector. These policies helped the sector survive the challenging conditions by maintaining demand for cars and contributing to the growth of return on assets (ROA) and return on equity (ROE).

Indonesia's Multifinance Growth Potential

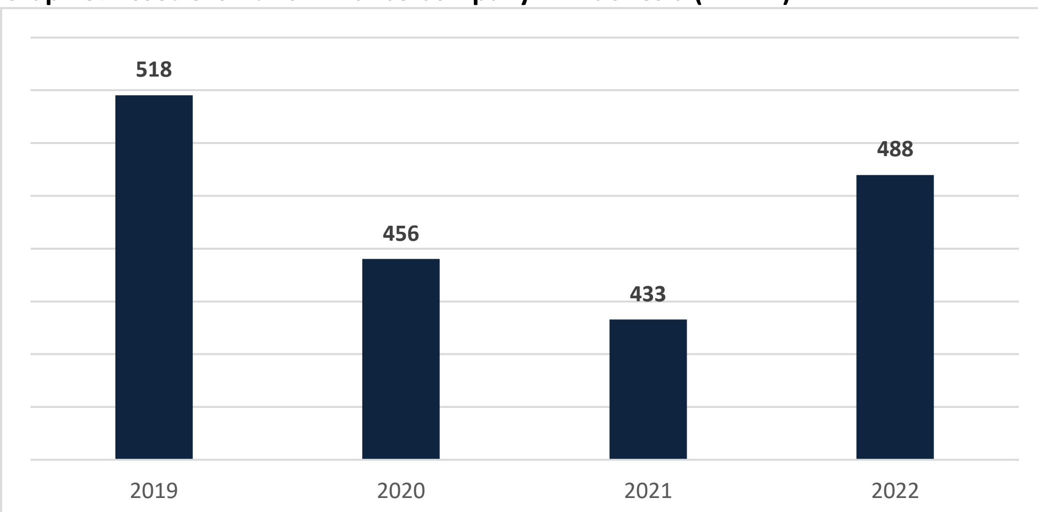
In light of the notable progress in the Indonesian economy's recovery, the multifinance sector is presented with ample opportunities. As financing assumes a pivotal and versatile role, it effectively addresses the diverse demands and needs of users in the current economic landscape.

MULTI-FINANCE SECTOR in 2022:

Recovery and modest growth 2022

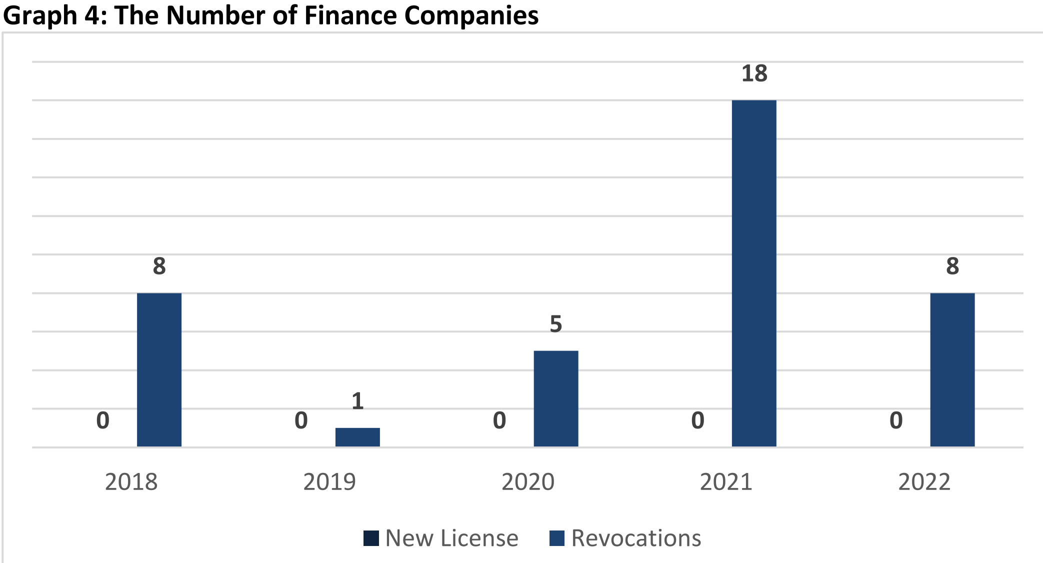
The multi-finance sector in Indonesia showed stable and growing performance in 2022, according to Otoritas Jasa Keuangan (OJK) data. Total assets reached approximately IDR 488 trillion, marking a 12.7% year-on-year increase compared to IDR 456 trillion in 2020 and IDR 433 trillion in 2021. However, asset levels in 2022 remained 5.8% lower than the pre-pandemic period of 2019.

Graph 3: Asset Growth of Finance Company in Indonesia (IDR Tn)



Source: OJK

Graph 4: The Number of Finance Companies

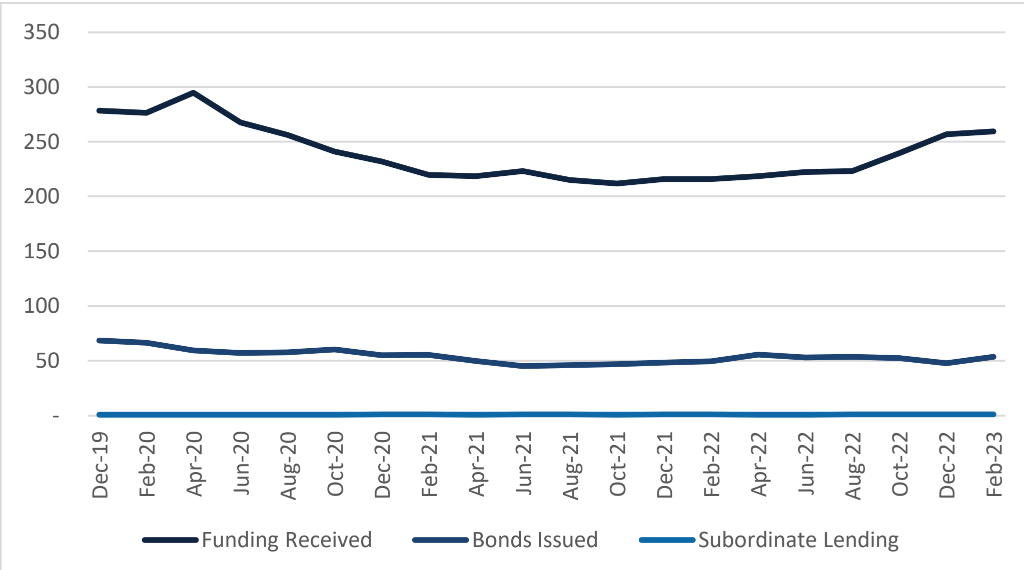


Source: OJK

Eight finance company licenses were revoked, and no new licenses were issued in 2022, resulting in a decrease in the number of finance companies to 153. The industry has faced challenges even before the pandemic, leading to a consolidation trend since 2017, intensified by competition and selective funding support from the banking sector, particularly during Covid-19.

Finance companies are expected to enhance their ecosystem through digital collaborations with fintech lending and digital banks, indicating OJK's commitment to creating a better financial services environment. This strategic move aims to adapt to market changes and improve the industry's overall performance.

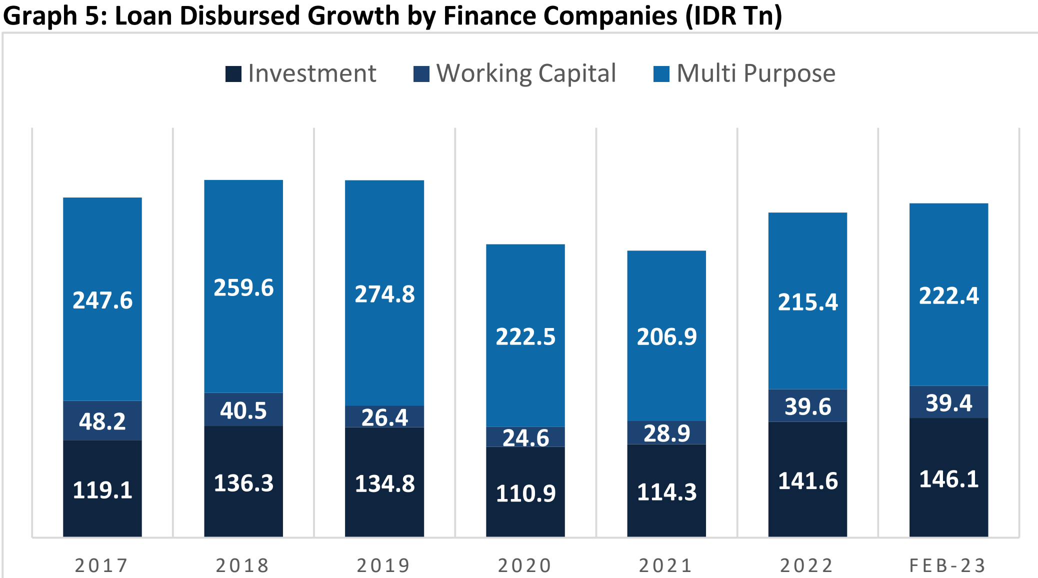
Graph 5: Funding Sources of Finance Companies (IDR Tn)



Source: OJK

Another important variable to look at finance industry is their source of funding. The source of funding for finance companies comprised of many entities, and three of the most significant financial institution such as banks and non-banks, MTN/bonds, and subordinate lending. For Indonesia, the most common source of funding is still coming from banks and non-bank financial institution, especially domestic banks, which contributed more than half of finance companies' source of funding.

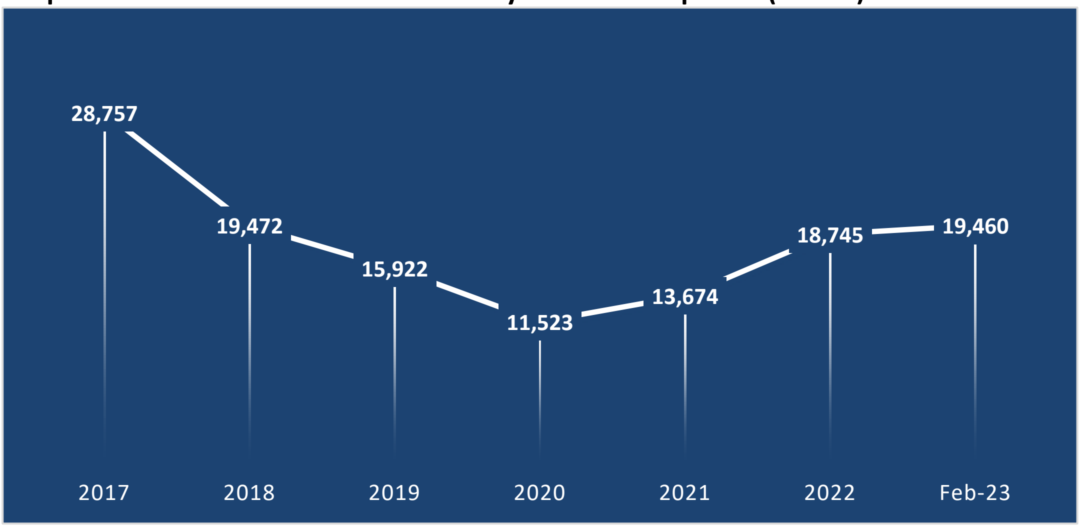
Graph 5: Loan Disbursed Growth by Finance Companies (IDR Tn)



Source: OJK

Total loan disbursed serves as a key indicator of the multi-finance industry's performance and growth in Indonesia. Recent data reveals a positive trend in this area. As of February 2023, total loans disbursed by the financing sector reached IDR 428.4 trillion, indicating a 20.2% increase from February 2022 (IDR 356.5 trillion). Multipurpose financing accounted for the largest portion of credit, followed by investment and working capital. This improvement reflects the promising outlook for the sector, aligned with the ongoing economic growth and recovery in Indonesia.

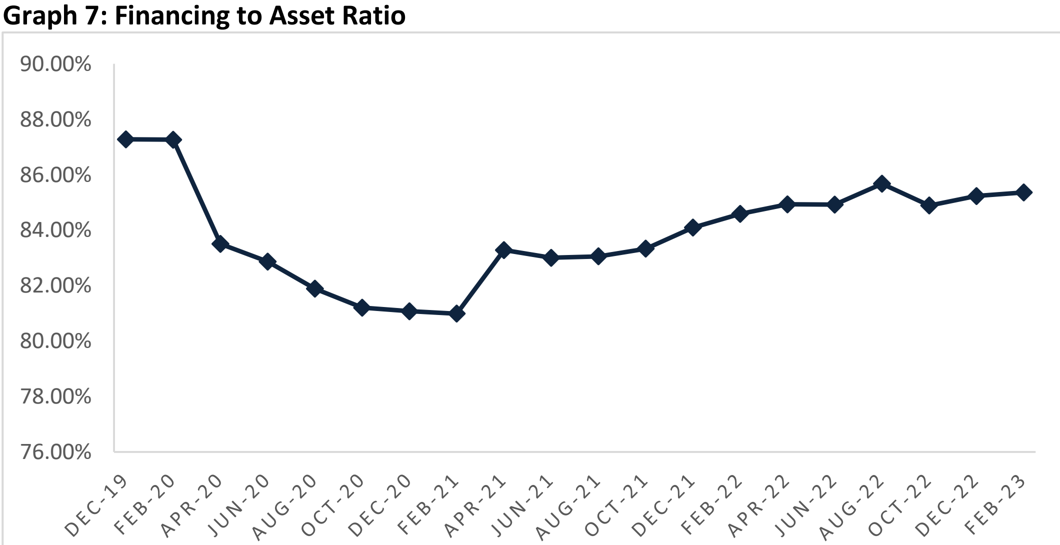
Graph 6: Sharia Loan Disbursed Growth by Finance Companies (IDR Tn)



Source: OJK

Pre-pandemic, sharia loan growth experienced a decline in 2018 and 2019 (-32.3% and -18.2% YoY). The pandemic exacerbated the situation, with a significant drop in 2020 (-27.6% YoY). However, as Indonesia's economic recovery progressed, sharia loan growth rebounded with positive rates of 18.7% (YoY) in 2021 and 37.4% (YoY) in 2022. As of February 2023, sharia loans reached pre-pandemic levels at IDR 19,460 billion. Although sharia financing has a smaller market share, it presents growth opportunities, reflecting the acceptance and potential for further development in sharia-compliant financial products and services.

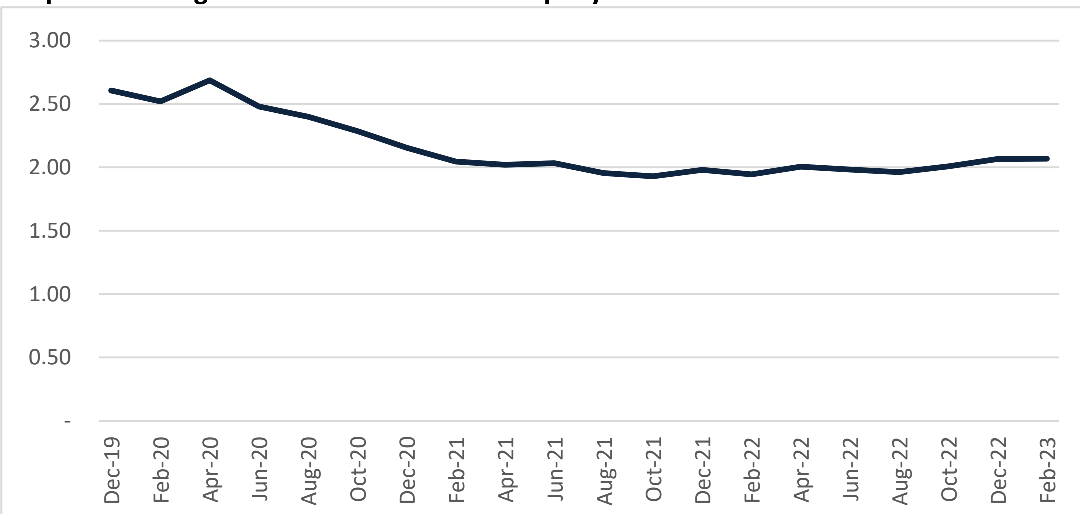
Graph 7: Financing to Asset Ratio



Source: OJK

The Financing to Asset Ratio (FAR) in the multi-finance industry remained steady before the COVID-19 pandemic but declined thereafter. FAR dropped to 83.29% in March 2020 and continued to decrease until February 2021 when a slight improvement was observed at 82.64%. However, the sector thrived in 2022, with FAR steadily improving, particularly during Q2 and Q3. The latest data from OJK shows the current FAR level at 85.36%, reflecting a 0.9% increase and indicating stability over the past year. This progress signifies positive signals and improvement in the sector.

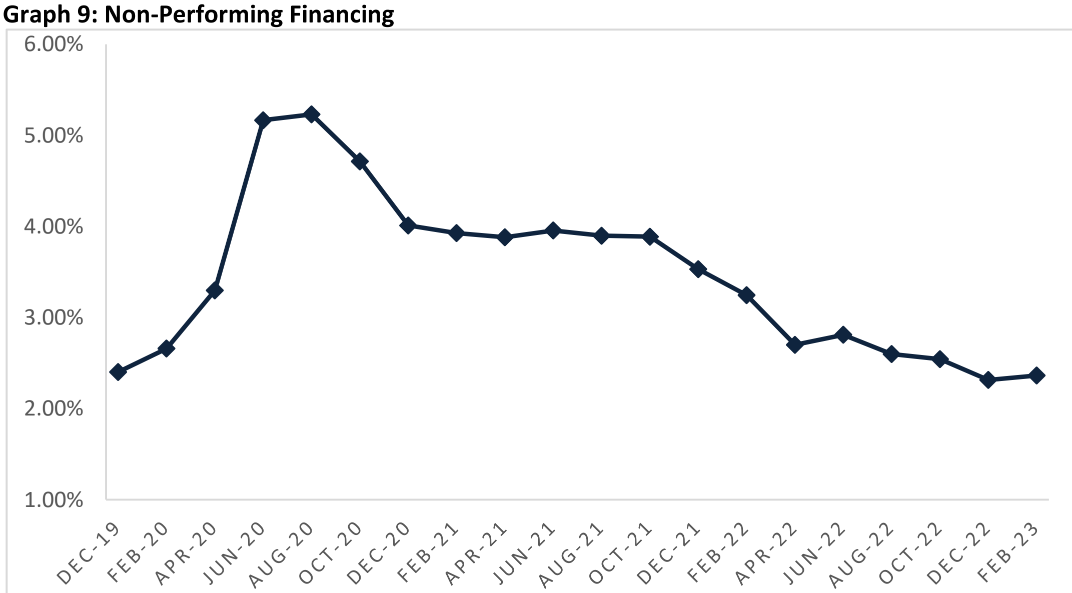
Graph 8: Gearing Ratio of Multi-finance Company



Source: OJK

Before the pandemic, the Gearing Ratio showed a downward trend. However, it significantly increased in early 2020 due to loan freezes from banks during the COVID-19 period. Multi-finance institutions faced challenges with credit restructuring and rescheduling, focusing on collecting credit to maintain revenue and profitability. As the pandemic situation improves, the gearing ratio in the sector has continued to improve, reaching 1.94 in February 2022 and 2.07 in March 2023. While still below OJK's threshold, this indicates progress in the sector.

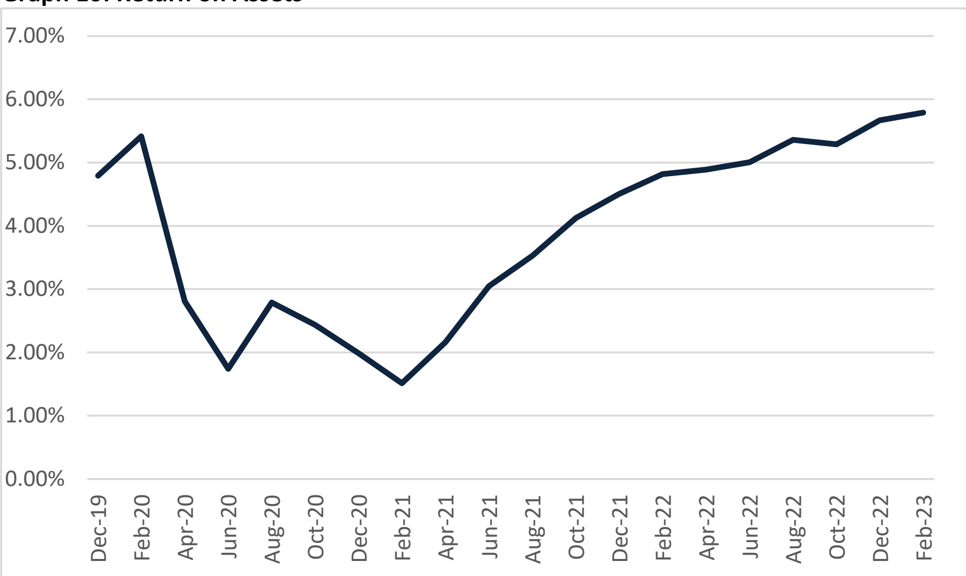
Graph 9: Non-Performing Financing



Source: OJK

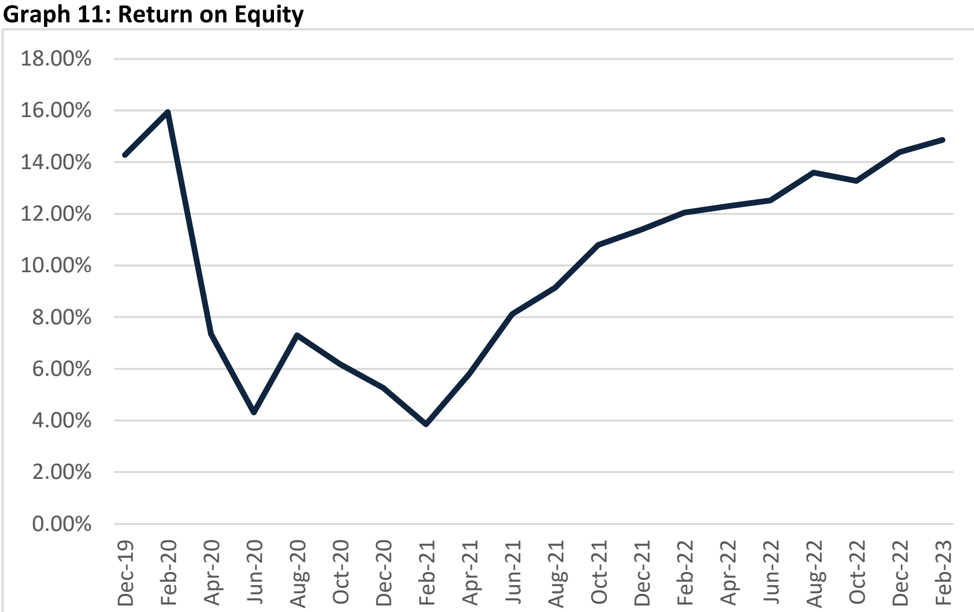
The Non-Performing Financing (NPF) ratio, which measures the default rate in the financing sector, remained steady until the pandemic hit. However, it reached its peak in July 2020, exceeding 5.6%, due to weaker repayment ability from borrowers during the pandemic. The rise in NPF was primarily caused by a significant decrease in new bookings due to low demand for financing. Multi-finance institutions became more cautious in loan disbursal during this period. Post-pandemic, the NPF ratio gradually decreased during Q2-Q3 2022. The latest data in February 2023 indicates that the NPF level has returned to 2.36%, aligning with pre-pandemic levels.

Graph 10: Return on Assets



Source: OJK

Graph 11: Return on Equity

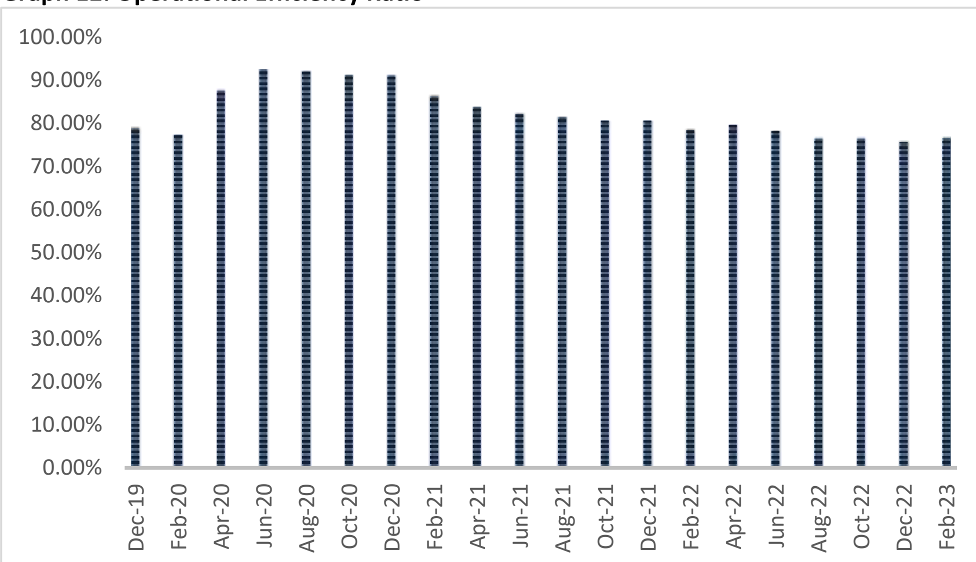


Source: Otoritas Jasa Keuangan (2023)

Return on Asset (ROA) and Return on Equity (ROE) also experienced an upward trend in recent years, coinciding with the improvement in the NPF ratio. This positive performance was accompanied by increased profitability, as total expenses decreased.

The implementation of the PPnBM (Luxury Sales Tax) stimulus by the government in 2022 positively impacted the sector, particularly in attracting people to purchase new cars. Both ROA and ROE exhibited positive growth, reaching 5.79% and 14.86% respectively in February 2023, which are comparable to pre-pandemic levels. These indicators show promising signs of returning to their pre-pandemic performance.

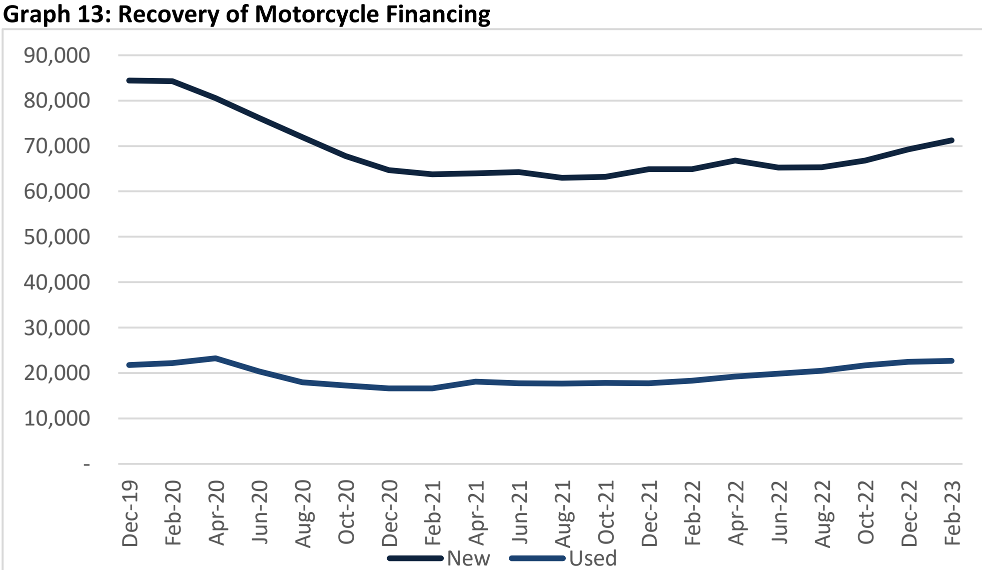
Graph 12: Operational Efficiency Ratio



Source: OJK

Operation efficiency ratio across multi-finance sector also shows massive recovery. This is measured using Operational Efficiency ratio data which measures operational cost ratio relative to the operational income. We can see from the data provided by OJK, that when covid-19 pandemic hits, operational cost ratio increased significantly to over 90%. But then during 2021 and 2022, along the covid 19 recovery stage, operational efficiency also returns back to its pre-pandemic number.

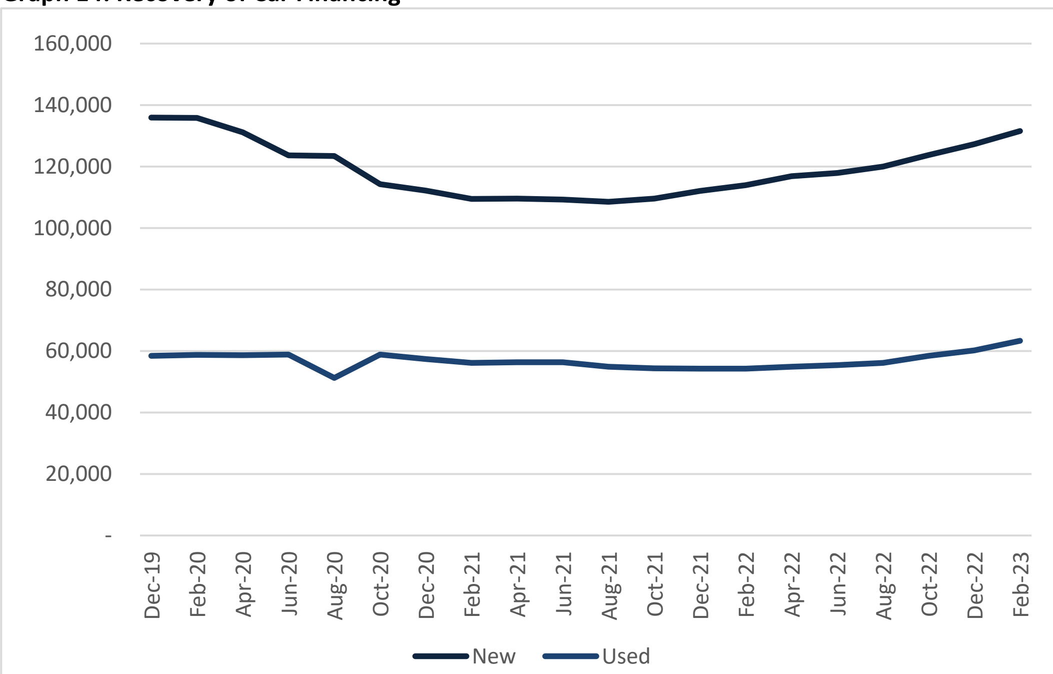
Graph 13: Recovery of Motorcycle Financing



Source: OJK

The Association of Indonesian Financing Companies (APPI) emphasizes the need to capitalize on the post-pandemic momentum for performance improvement in the automotive sector. Motorcycle financing, which reflects the purchasing power of the middle class, has gradually recovered from the pandemic's disruptions. Both new and used motorcycle financing initially declined, but numbers have been steadily increasing in 2021 and 2022. Used motorcycle financing has surpassed pre-pandemic levels, while new motorcycle financing is still in the process of recovery.

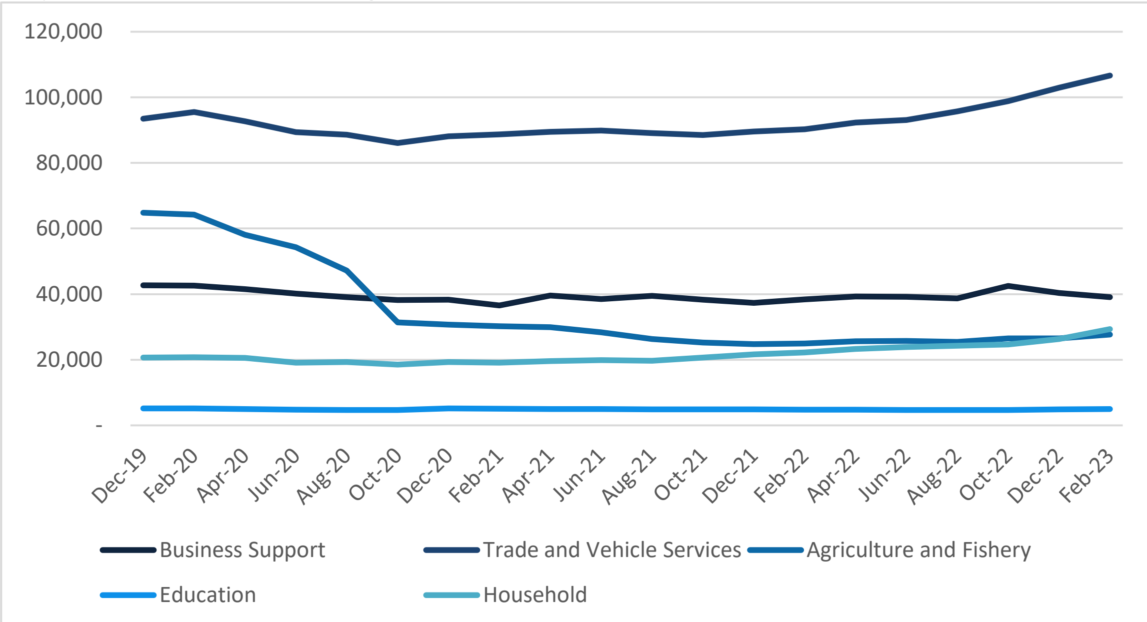
Graph 14: Recovery of Car Financing



Source: OJK

The used car financing sector in Indonesia has fully recovered and surpassed pre-pandemic levels as of 2023. This is driven by increased demand for used cars and overall economic recovery. The automotive financing market, the largest in the country, is expected to thrive as people prioritize personal vehicle ownership for health and safety reasons. Monthly car sales data from PT Astra International show consistent growth, with sales reaching pre-pandemic levels of around 94,087 units in February 2023, reflecting an 11.9% year-on-year increase.

Graph 15: Other Sectors Financing



Source: OJK

Multi-finance companies have expanded into various sectors such as household, retail, commerce, fisheries, agriculture, and education. While the COVID-19 pandemic significantly impacted these sectors, with fisheries and agriculture being the most affected, other sectors have shown signs of recovery and returned to pre-pandemic performance levels. Multi-finance companies have played a crucial role in supporting sectoral recovery by providing financial solutions and assisting businesses in overcoming challenges. Although challenges persist in fisheries and agriculture, the overall outlook for economic growth and stability is promising based on the positive recovery in other sectors.