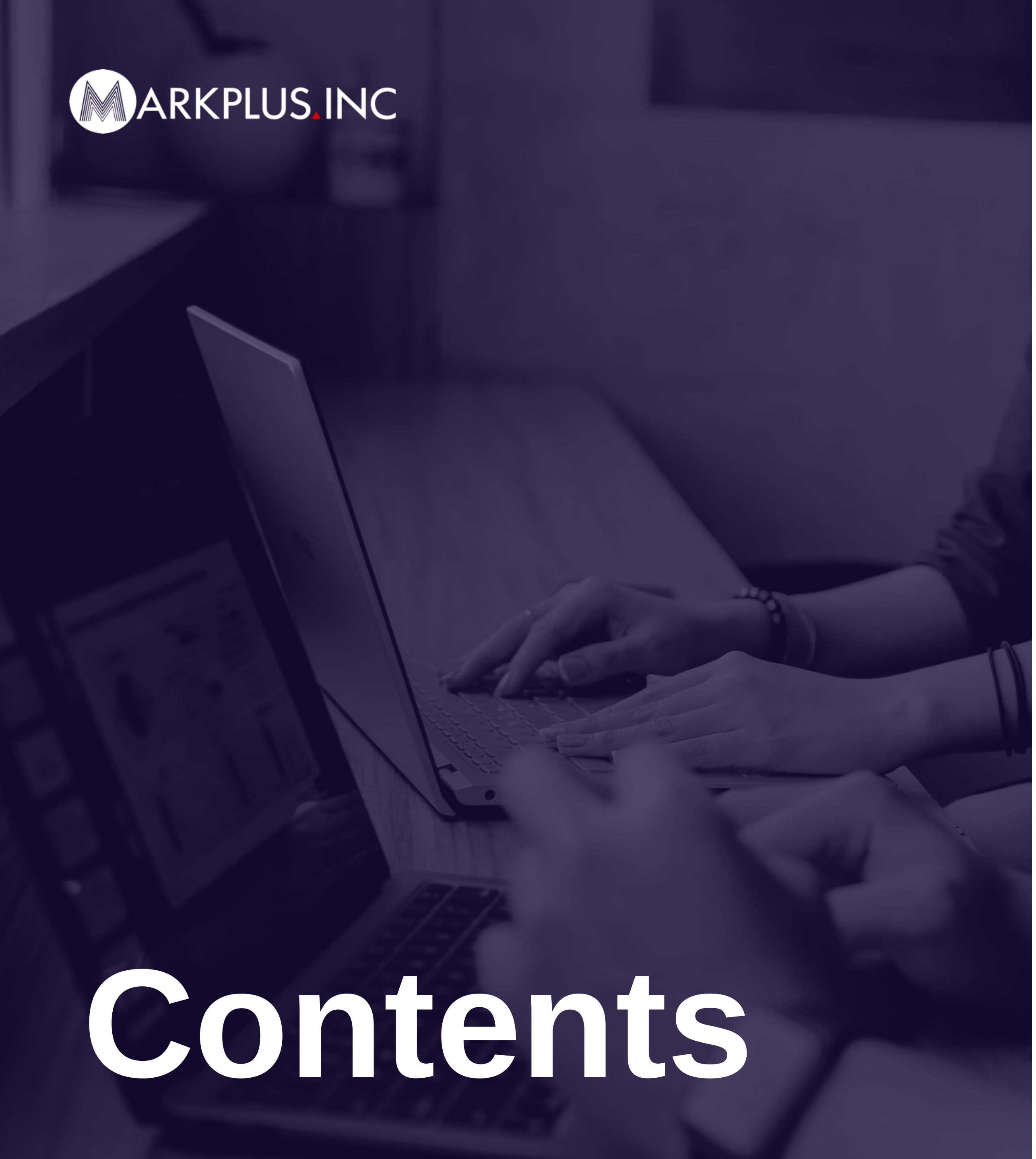
INDUSTRY UPDATE

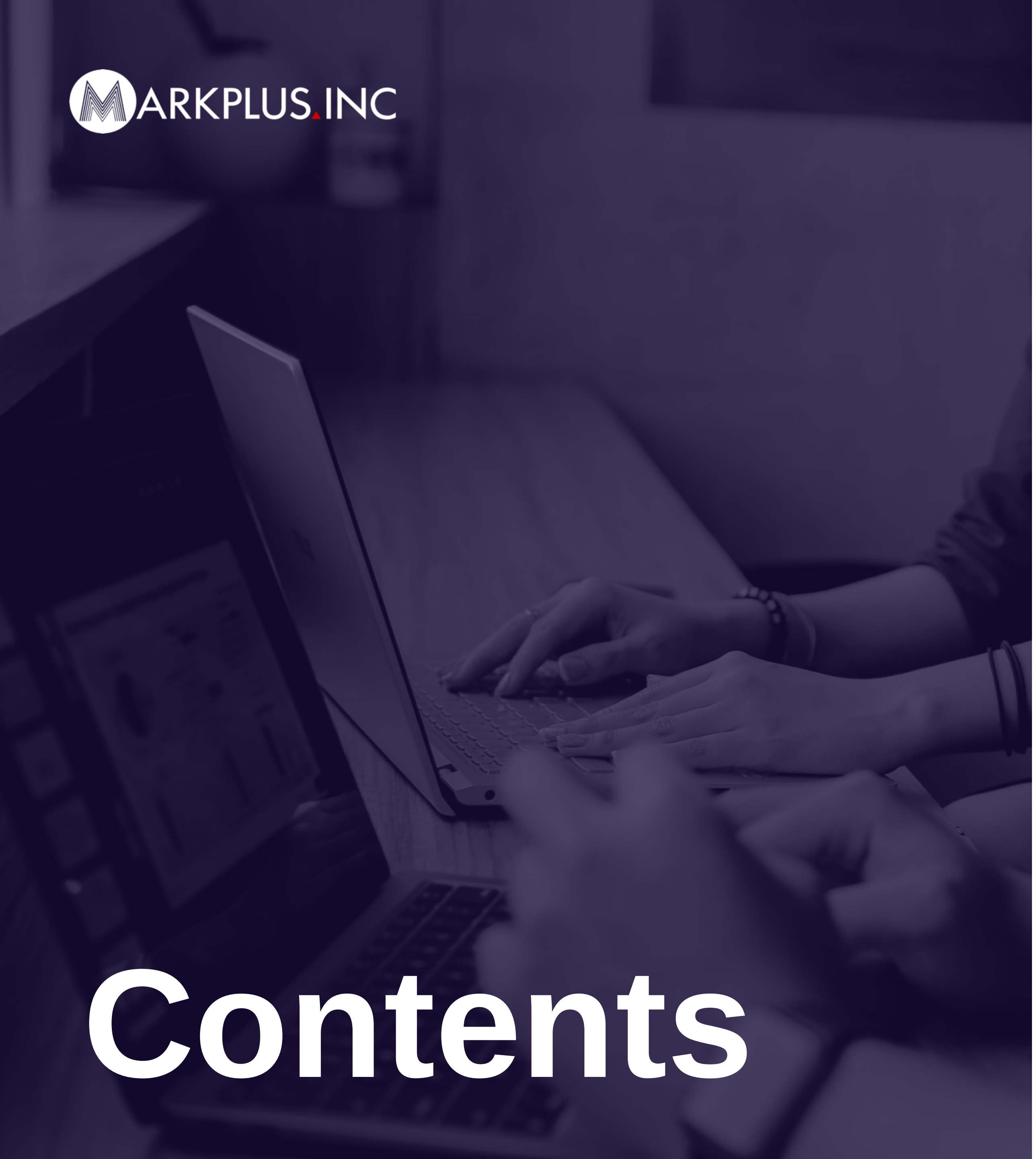
UNLOCKING POTENTIAL:

AI-POWERED DIGITAL TRANSFORMATION IN FINANCIAL SERVICES

August 2024



Contents



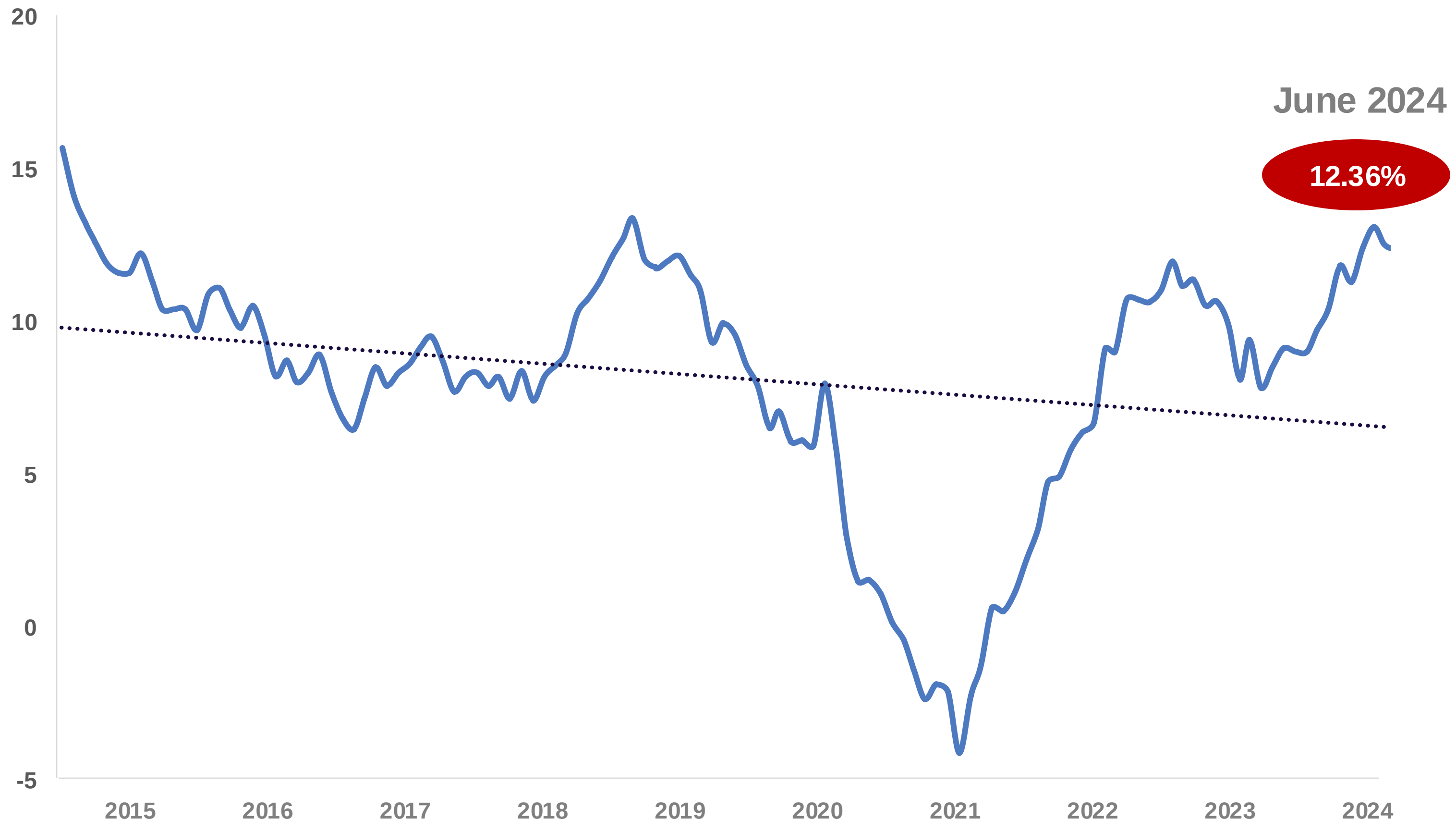
Contents

LOAN MARKET GROWTH TREND

Sustaining loan growth rebound is challenging amid long-term decline

Indonesia Commercial Banks Loan Growth

in percentage (%), Jul 2015 to Jun 2024



Key Fact

Though loan market growth increased, it still **hasn't reached its previous peak** before COVID-19.

Loan growth based on usage
in %, y-o-y, Jun 2024

Kredit Modal Kerja	Kredit Investasi	Kredit Konsumsi
10,9%	13,9%	10,4%

Kredit Modal Kerja		Kredit Investasi		Kredit Konsumsi	
22.9% Finance, real estate, corporate services	41.9% Mining and quarrying	19.4% Processing industry	14.1% Leisure, hotel, and resto	13.1% Housing loan	8.3% Vehicle loan
				7.2% Multipropose credit	

*) temporary data, data coverage provided by commercial banks

Industry players must strategize and innovate in slower growth segment and maintain the **acquisition costs** and **cost to serve** to still meet profit target.

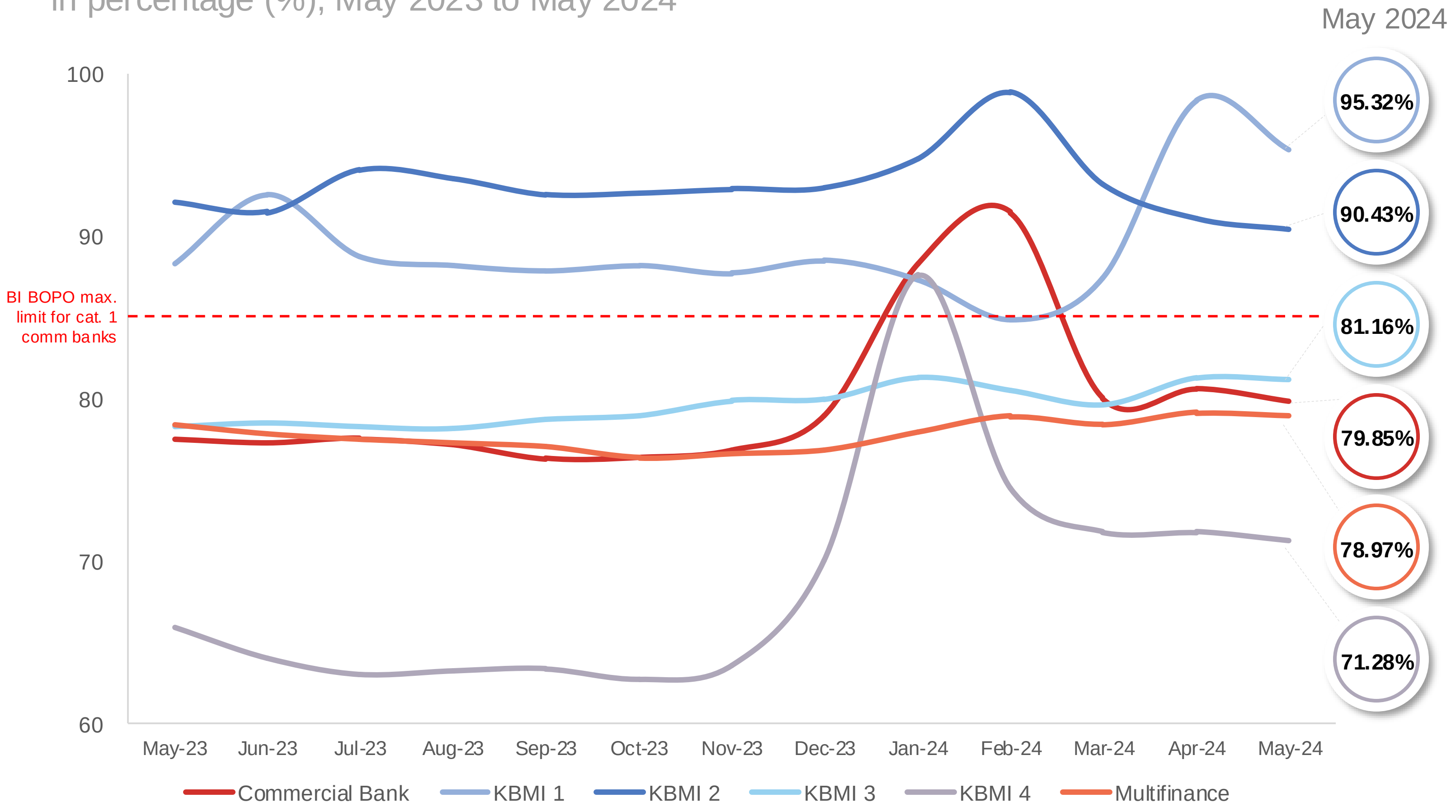
Source: Trading Economy (2024), Bank Indonesia (2024)

OPERATIONAL EXPENSES TREND

The growth challenge is reflected in increased operating expenses

Indonesia Financial Services Operating Expense/Operating Income (BOPO)

in percentage (%), May 2023 to May 2024



Reasons of **the increase of operating expense/operating income** in financial services industry:

Operational Cost

Cost of Fund

Infrastructure Investment

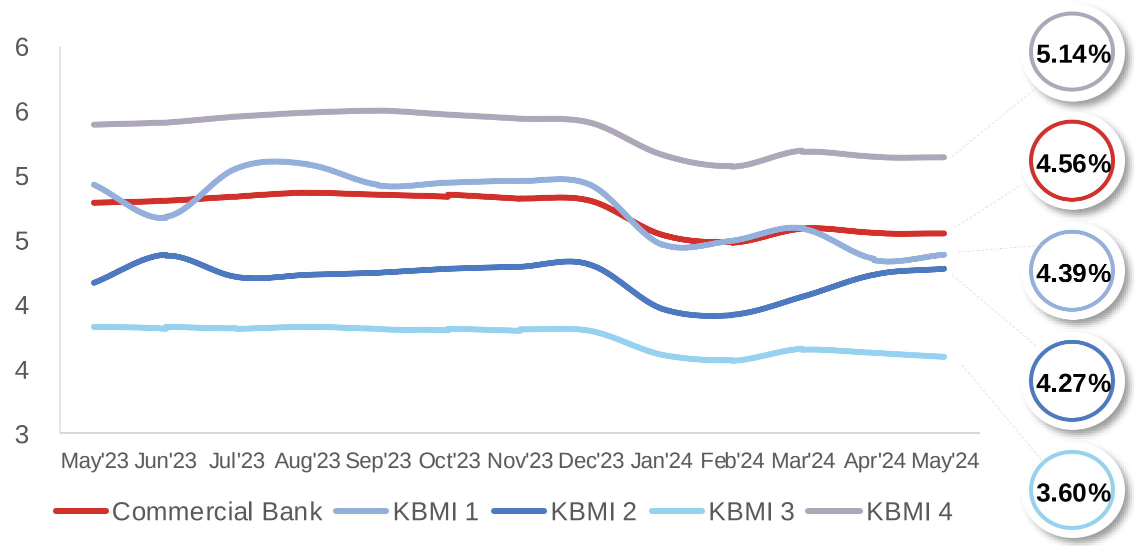
Source: Otoritas Jasa Keuangan (2024); MarkPlus Analysis (2024)

Hence, companies are struggling to maintain profitability

Commercial banking facing struggle in terms of managing NIM, especially on the first and second quarter of 2024…

Indonesia Commercial Banking Net Interest Margin (NIM)

in percentage (%), May 2023 to May 2024



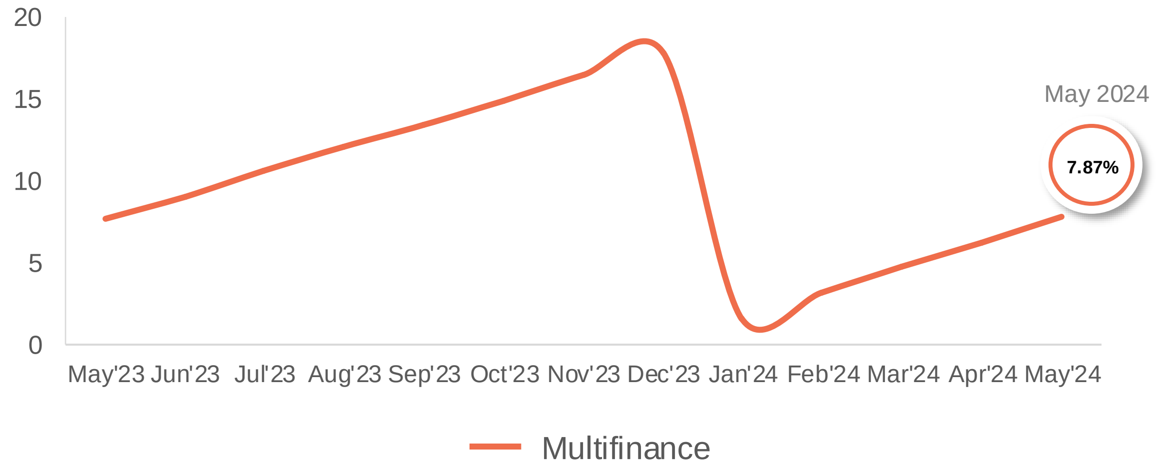
Key Facts

Rising funding costs from escalating global and domestic interest rates **have not been matched by corresponding increases in lending rates,** putting pressure on banks' profit margins.

…compared to 2023's performance, the multi-finance industry is still in the midst of its resurgence.

Indonesia Multi-finance Net Interest Margin (NIM)

in percentage (%), May 2023 to May 2024



Key Facts

Decreasing in purchasing power leading to the higher number of non-performing financing, squeezing the revenue number especially from vehicle loan.

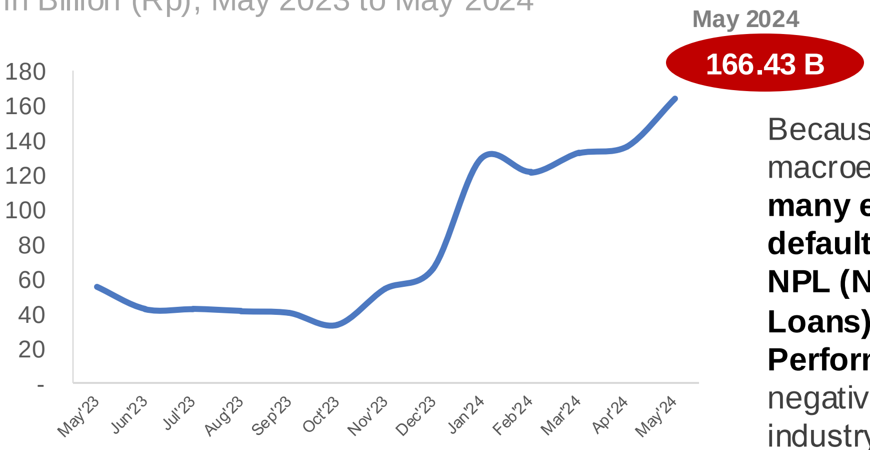
Source: OJK (2024), MarkPlus Analysis (2024)

Competing for high-quality customers efficiently is essential

A Uncertain Outlook

- The rise in the cost of basic commodities
- The decreasing of purchase power
- The challenging job market
- The downward trend of vehicle loan

Indonesia Commercial Banking NPL and NPF
in Billion (Rp), May 2023 to May 2024



Because of the macroeconomic uncertainties, **many existing loans to default, which increase the NPL (Non-Performing Loans), and NPF (Non-Performing Financing)** negatively impacting the industry' revenue.

B High-Competitive Landscape

Competition from traditional banking players to SaaS providers with payment system, **encompassing both direct** and **indirect competitors.**

- Conventional Banking
- Digital Banking
- Multi-finance
- E-wallet
- Tech company with self-owned payment system

Increasement in Marketing Activity

Double date campaigns, aggressive ads, push notifications on digital app, and merchant promos—**all players commit significant budgets**.

High Pressure to Increase Sales

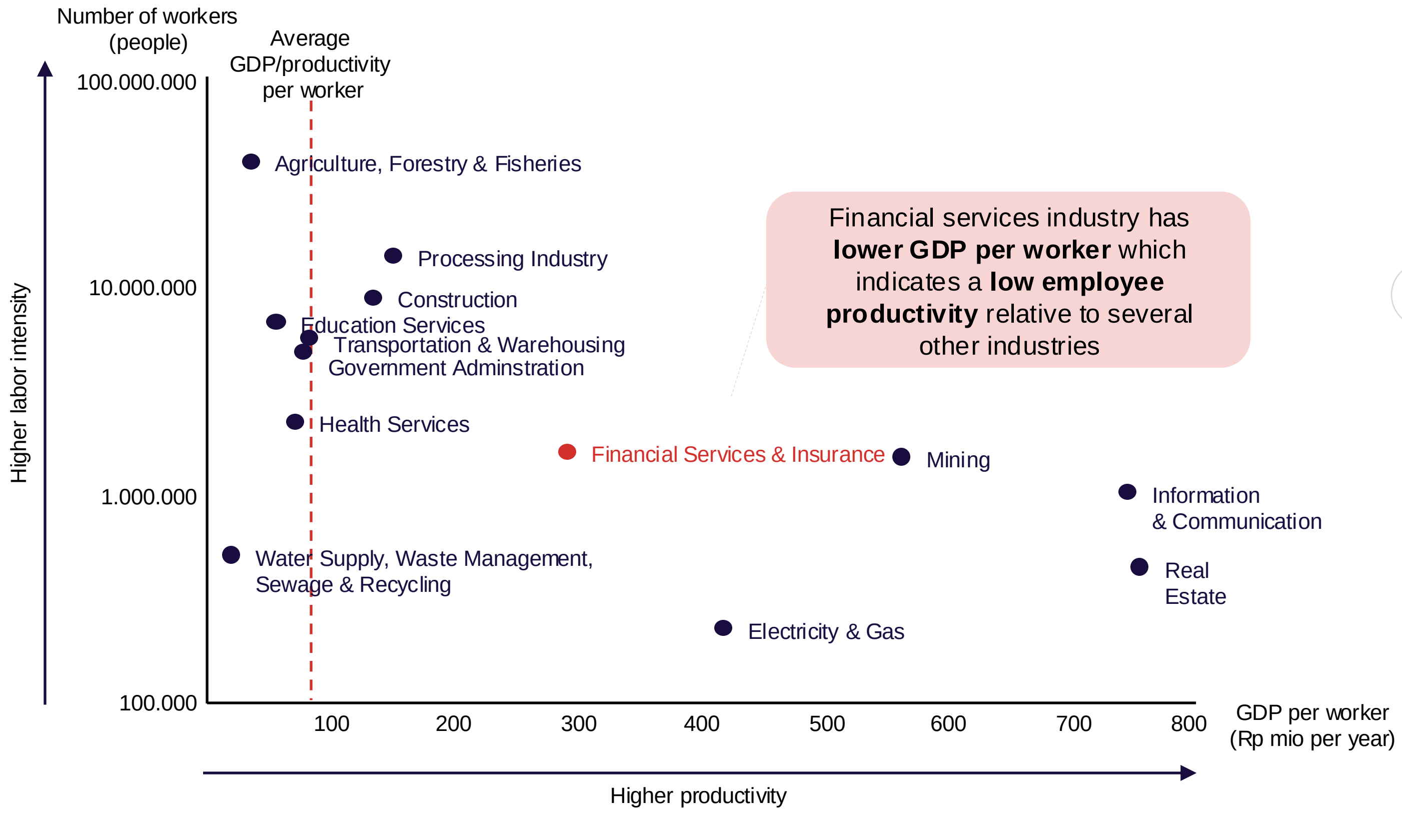
Pressure to increase sales getting higher as the market remain competitive and the company's effort getting harder.

Source: OJK (2024), MarkPlus Analysis (2024)

Enhancing employee productivity is mandatory

Sectoral GDP Contribution per Worker (2022)

The further to the top-left, the more labor-intensive the industry is. The further to the bottom-right, the industry tends to be capital-intensive.



Although number of workers are relatively low in the Financial Services industry, **employee costs are still high due to:**

1

Wage Inflation

2

Bargaining Power of In-Demand Professionals

Therefore, increase in **employee productivity should be the industry's foremost concern** to achieve better cost efficiency

Source: Kompas (2022), MarkPlus Analysis (2024)

Companies must grow revenue while reducing costs

GROWTH IMPERATIVE

Financial services companies are expected to continue **growth momentum** amid **long-term decline trend**

PROFITABILITY CHALLENGE

Companies face p**ressure to increase revenue** to **offset macroeconomic risks** and rising **operational costs**

PRODUCTIVITY GOAL

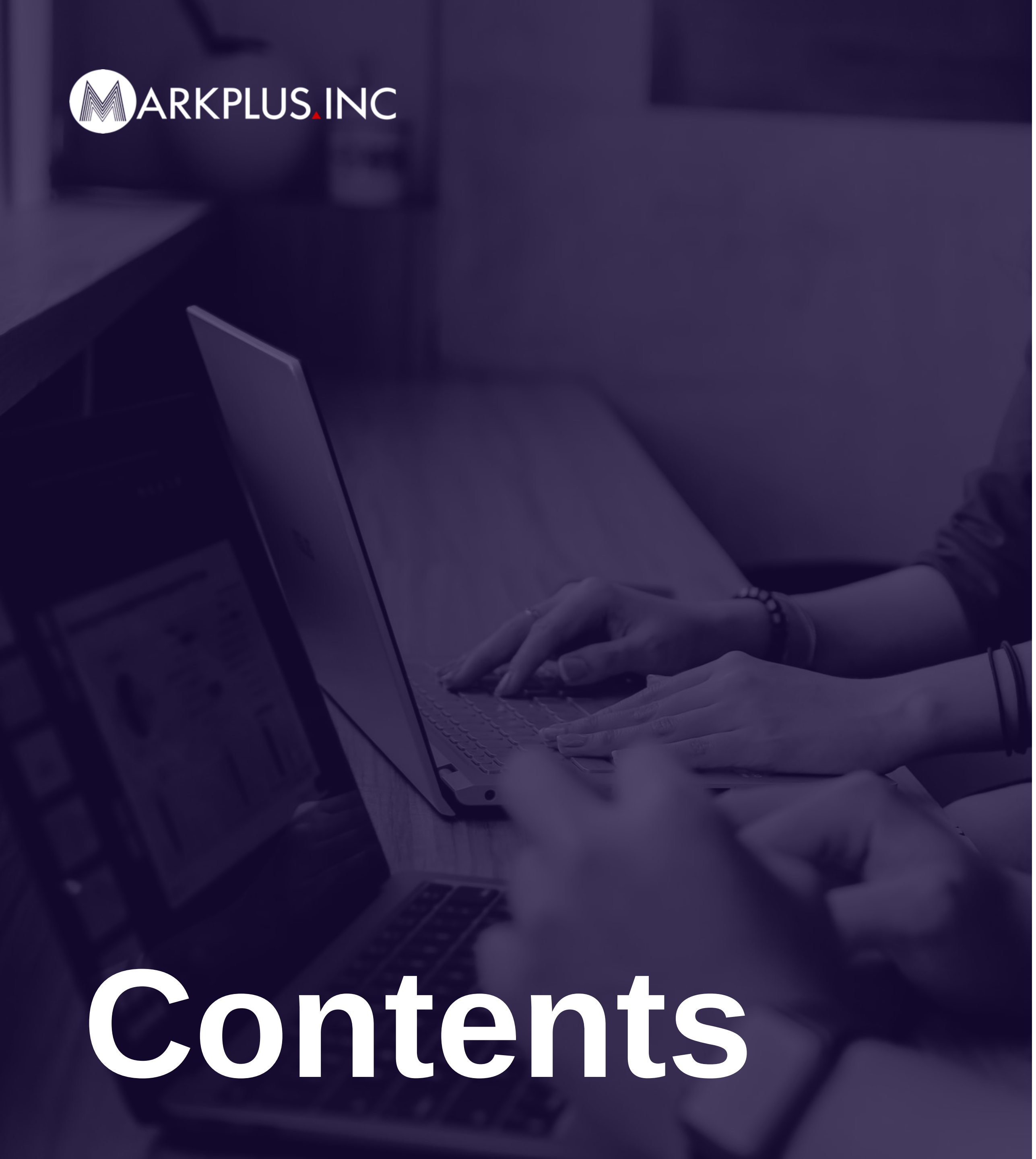
Cost pressures demand **higher productivity** and better **allocation of resources**

REVENUE GENERATION

COST EFFICIENCY

AI Implementation in Sales & Service Team

Source: MarkPlus Analysis (2024)



Contents

AI has proven effective in driving revenue growth and cost reduction

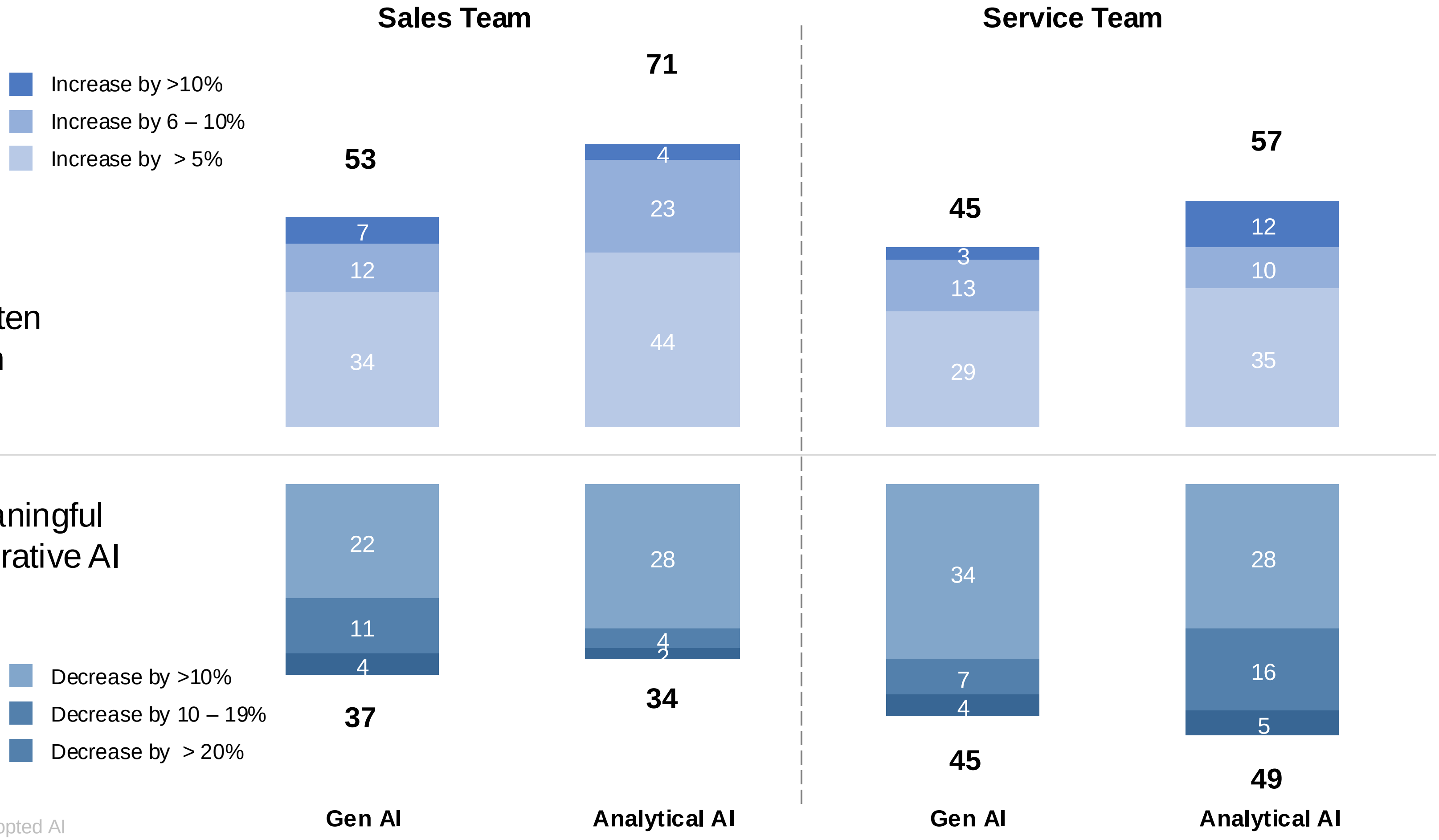
Cost decrease and revenue increase from AI adoption in 2023[1]
% of respondent

Revenue

Use of analytical AI most often **yields revenue increase** in **marketing & sales...**

Cost

...While most often see meaningful **cost reductions** from generative AI use in **service operation**



Global survey on AI conducted by McKinsey on Feb 22 – March 5 2024
Question were asked only of respondents who said their organizations have adopted AI
N= 1,336 participants at all levels of the organization

Source: McKinsey & Company[1] (2023) ; MarkPlus Analysis (2024)

AI USE CASES IN MARKETING

AI enhances marketing productivity particularly in sales and service

AWARE → APPEAL → ASK → ACT → ADVOCATE

ADVERTISING
- AI-powered audience targeting
- AI-enhanced ad creation
- Programmatic media buying
- Contextual ad

CONTENT MARKETING
- AI-powered audience targeting
- Predictive journey
- Content personalization
- Content optimization

DIRECT MARKETING
- Product recommendation engine
- Marketing copy personalization
- Direct marketing automation
- Forecasting and analytics

SALES CRM
- Lead management chatbot
- AI-powered account management
- Sales forecasting and analytics

DISTRIBUTION CHANNEL
- Self-service kiosk
- Frontline robot
- Drone logistics
- Biometric payment
- IoT-powered retail
- Virtual experience

PRODUCT & SERVICE
- Mass customization
- Dynamic pricing
- Everything-as-a-service
- Predictive product development

SERVICE CRM
- Service chatbot
- AI-enhanced helpdesk
- Predictive social listening

Source: Marketing 5.0 (2021), MarkPlus Analysis (2024)

DBS has successfully implemented AI in banking operations

DBS' **digital transformation journey** goes way back in 2014…

What Drives DBS' Digital Transformation?

- **Lowest customer satisfaction score** of any banks in Singapore.
- Known for the acronym "**DBS — Damn Bloody Slow**".
- Had a reputation for being a **bureaucratic, unimaginative**, and **unresponsive** bank.

Transformation was done to **improve productivity, efficiency**, and **overall growth** and later achieve better:

- **Customer Experience**
- **Cost Savings**
- **Agility and Adaptability**

…one of which being **the use Generative AI** that has also been implemented in various cases across the financial services industry.

Repurposing to become an **AI-fueled bank**

From a laggard in customer satisfaction, now the world's **best digital bank** through a **purpose-driven digital transformation** journey **powered by AI.**

Generative AI Implementation in DBS

- Generative AI **virtual assistant for customer service** workforce.
- AI-powered nudges, **offering personalized recommendations.**
- Early **identification of** potential non-performing **credit risks.**
- AI and **data analytics** for **sped up financing process** (application, approval, disbursement).

Success in Numbers

- DBS' AI/ML use cases delivered an **SGD 180 million worth of economic value.**
- Successfully **avert over 80%** of identified at-risk **borrowers from risk.**
- Offer almost an **instant access of financing** to SMEs totaling up to **SGD 300 thousand.**
- **50% lower cost to income ratio** and **15% higher ROE** serving digital customers compared to traditional customers.

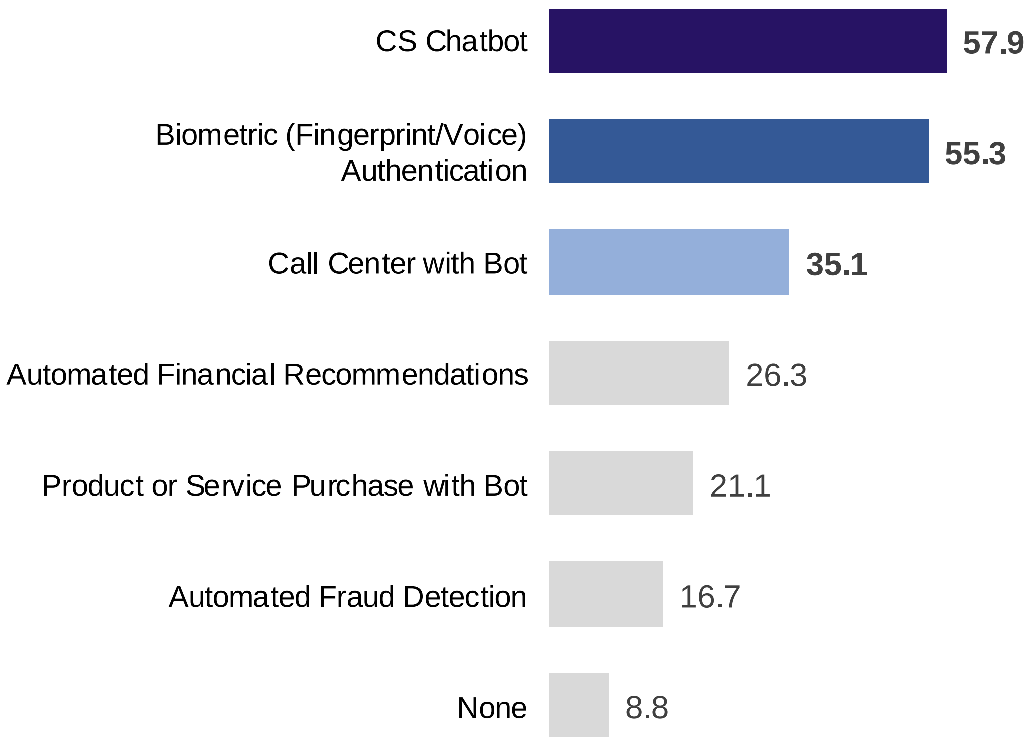
Source: DBS (2017), McKinsey & Company (2021), DBS (2023), MarkPlus Analysis (2024)

Indonesia customers are ready to adopt more AI in financial services

AI is **most commonly used for service-related tasks**, such as chatbots and virtual assistants….

…**however**, customers **desire more** from AI **than just service**; they want AI to **offer personalized product recommendations.**

AI Features that Customers Use
in percentage (%), n: 114



What Customers' Wants From AI Utilization
n: 114

64.0% Give **recommendations** on financial products or services.

49.1% Provide help with **personal financial management.**

44.7% Quickly **provides** needed **financial information.**

35.1% Increase the **speed of product or service purchase.**

Source: MarkPlus Analysis (2024)

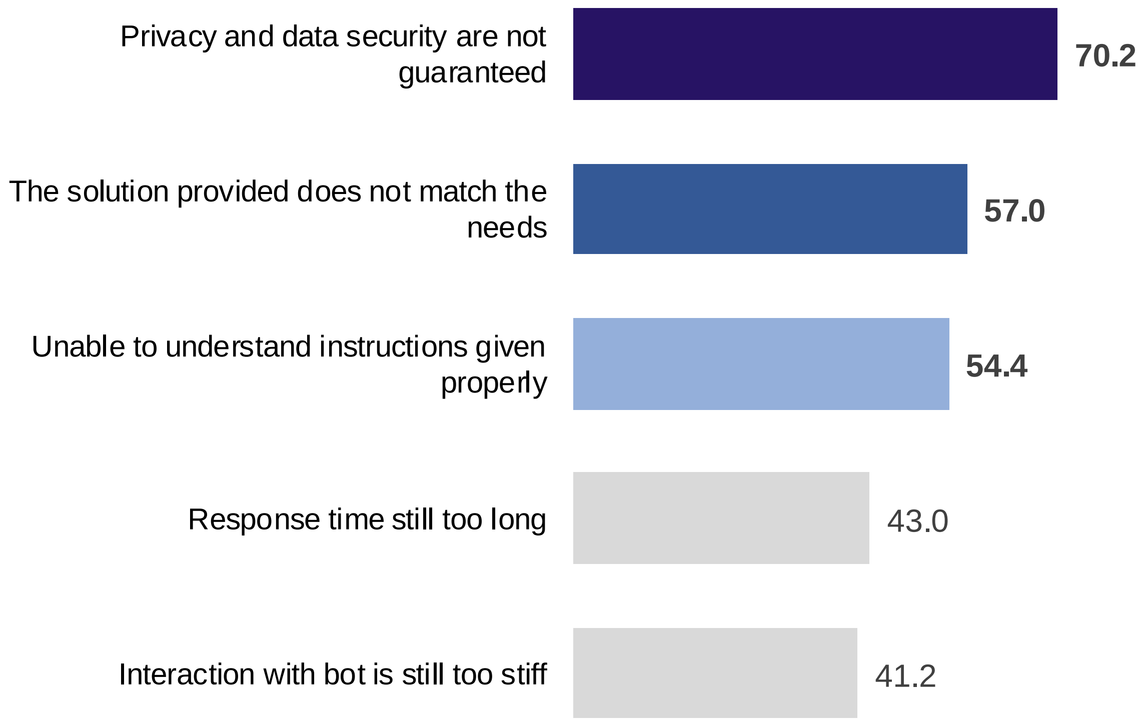
However, they still require the option to have human touchpoints

While customers still have **concerns about AI**, particularly regarding **privacy and data security,**…

…AI is still viewed in a positive light, recognizing the value it brings while **acknowledging the ongoing need for human interaction.**

Customers’ Concerns Over AI Utilization

in percentage (%), n: 114



Customers’ Perception of AI

n: 114

84.3%

of respondents feels that they **still need the option for human interaction** in AI utilization.

83.3%

of respondents **think that AI utilization** in financial services **is important.**

83.3%

of respondents looks forward to **AI innovation in financial services.**

74.6%

of respondents **trust AI to help make financial decisions.**

Source: MarkPlus Analysis (2024)

AI can significantly augment human capabilities in sales process

Sales Process	How AI Can Help?	
Prospecting	**Leads Generation** **Analyze customers' database** to identify potential customers who match the company's target profile.	**Leads Profiling** **Analyze potential customers'** profile to identify which products to recommend.
Approaching	**Personalized Outreach** **Craft personalized messages** and offerings based on each prospect's needs and preferences.	**Automated Outreach** **Initiate contact with prospects** to provide information and answer questions about the offering.
Negotiation	**Data-Driven Offers** **Analyze past negotiations** and outcomes to suggest optimal pricing, terms, or product bundles.	**Automated Negotiation Tools** **Manage automated negotiation processes**, such as adjusting loan rates to predetermined parameters.
Sales Closing	**Workflow Automation** **Streamline the preparation** for closing documents and verifications.	**Customer Onboarding** **Automate the onboarding process**, guiding new customers on setting up new accounts and using services effectively.

Source: MarkPlus Analysis (2024)

AI also allows a more personalized service experience

Service Process

Pre-
- Information Seeking Activities

During
- Onboarding
- Branch Visit

Post-
- Complaints & Inquiries
- Aftersales Activities

How AI Can Help?

Instant Response
Provide instant and personalized 24/7 response to customer

Answering Complex Question
AI **help to understand better and respond complex question** faster

Personalized Content
Personalize content and information based on the previous behavior and database

Initiative Evaluation
Analyze pain point on customer's side when it comes to interact with company's channel and people

Verification Automation
AI help by **automating document verification and KYC** process

Virtual Assistant on Self-service Process
Provide assistance for customer both through written and video communication

Sentiment Analysis
Identify urgent and high-risk customer issues to prioritize and solved immediately

Personalized After Sales
Provide **personalized after sales and cross selling opportunities** by automate follow up responses after transaction

Source: MarkPlus Analysis (2024)

Companies can use AI to address the productivity challenges

Sales Team

Cost Efficiency

By **automating and optimizing various aspects** of the sales process, AI helps sales team achieve better results with less effort and time.

Revenue Generation

AI empowers sales team to maximize revenue potential by improving personalization and decision making.

Service Team

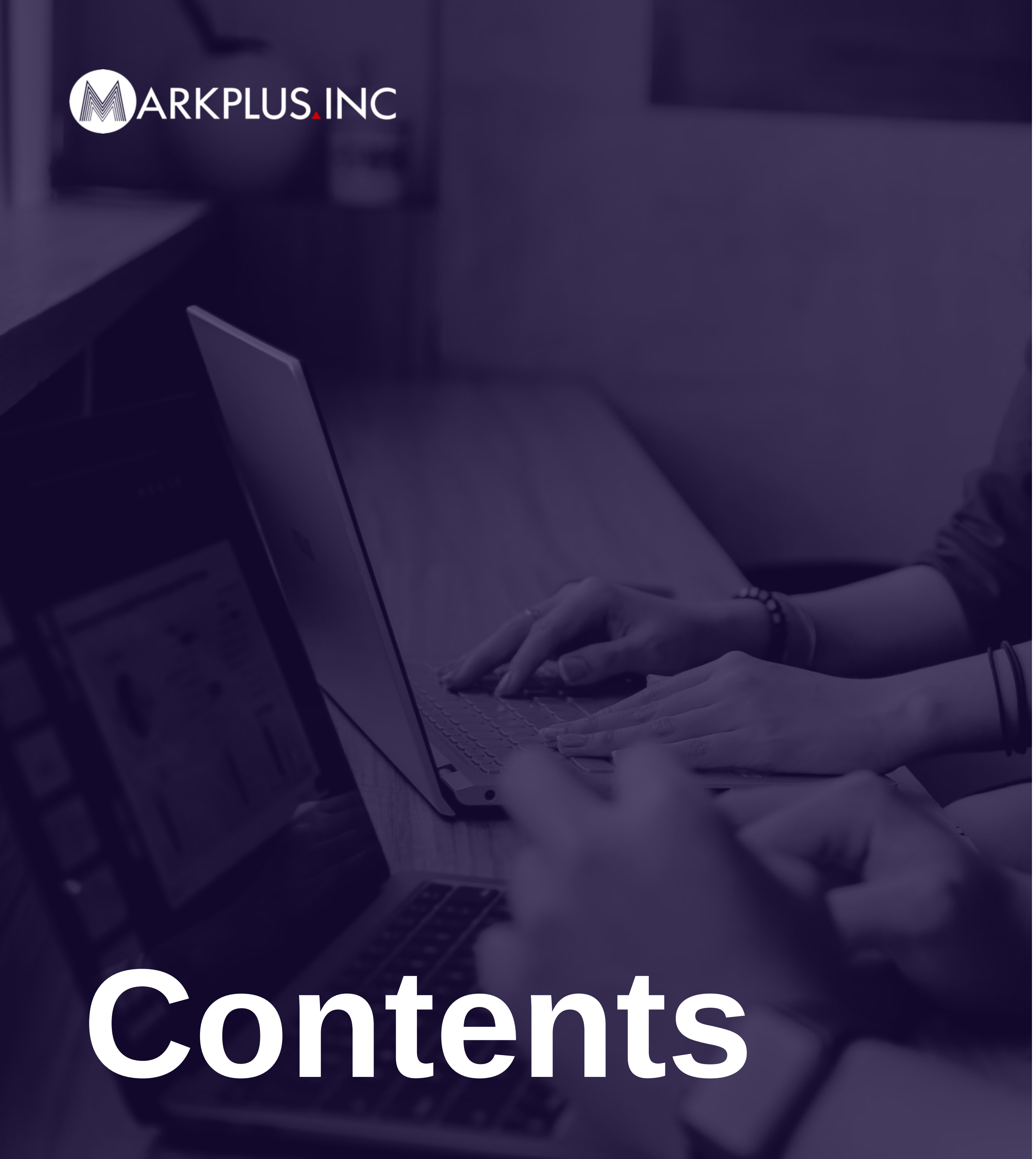
Cost Efficiency

AI improves the speed and precision on service delivery, allowing companies to serve more customers with fewer resources.

Revenue Generation

AI boosts personalized service, driving revenue **through cross-selling and up-selling.**

Source: MarkPlus Analysis (2024)



Contents

Implementing AI requires a series of change to ensure success

AI
UTILIZATION

FINANCIAL RESULTS

- **Cost Efficiency**
- **Revenue Generation**

1. **Redesign Customer Experience**
   - **Customer interface** transformation
   - Creating **new sales blueprint** for frontliners
   - AI as a tool to enhance, not replace, **human interaction**

2. **Revamp Internal Sales Structure & Process**
   - Transitioning all sales to be a **generalist**
   - Implementing a **new AI-enhanced sales process**
   - Prioritizing and ensuring **customer's data security**

3. **Redefine Learning & Growth**
   - Developing new **AI-related skills**
   - Shifting to **result-based KPIs** instead of activity-based
   - Driving **a culture change** in the sales team

Source: MarkPlus Analysis (2024)

A new CX map is essential for seamless AI implementation

	AWARE	APPEAL	ASK	ACT	ADVOCATE
Customer Activities	• Identifying need • Exploring option • Brand discovery • Initial engagement	• Engaging with content • Evaluating alternatives	• Seeking clarification • Using interactive tools • Reviewing testimonials	• Applying or signing up • Setting up account • Onboarding	• Providing feedback • Sharing experiences • Referring others
Touch point	**Ads & Marketing Campaign** **SEO & Paid Search.** **Content Marketing**	**Websites & Landing Pages** **Social Media** **Product Description**	**Customer Support & Service Center** **Financial Advisor** **Interactive Tools**	**Mobile App** **Customer Service Machine** **Branch**	**Customer Satisfaction Survey** **Referral Program**
Pain Point	• Struggle to understand financial needs due to complex product offering. • Complicated or lengthy process to obtain preliminary information.	• Limited tools to easily compare financial products based on personal criteria. • Content may not be tailored to individual needs.	• Inconsistent information provided by different representatives, causing confusion. • Skepticism about the authenticity of testimonials.	• Lengthy and complex application processes. • Technical issues or bugs during the setup process.	• Lack of easy-to-access channels for providing feedback • Insufficient rewards or recognition for successful referrals
AI Utilization	• **AI-Powered audience targeting** • **Product Recommendation Engine**	• **Product Recommendation Engine** • **Predictive Journey** • **Lead management chatbot**	• **AI-Powered Account Management** • **Mass customization** • **Content Personalization**	• **AI-Enhanced helpdesk** • **Everything as-a-service** • **Direct marketing automation**	• **Virtual experience** • **Predictive product development** • **Predictive social listening**

content channel interaction point

Source: MarkPlus Analysis (2024)

Sales process needs redefinition to fully integrate AI across the funnel

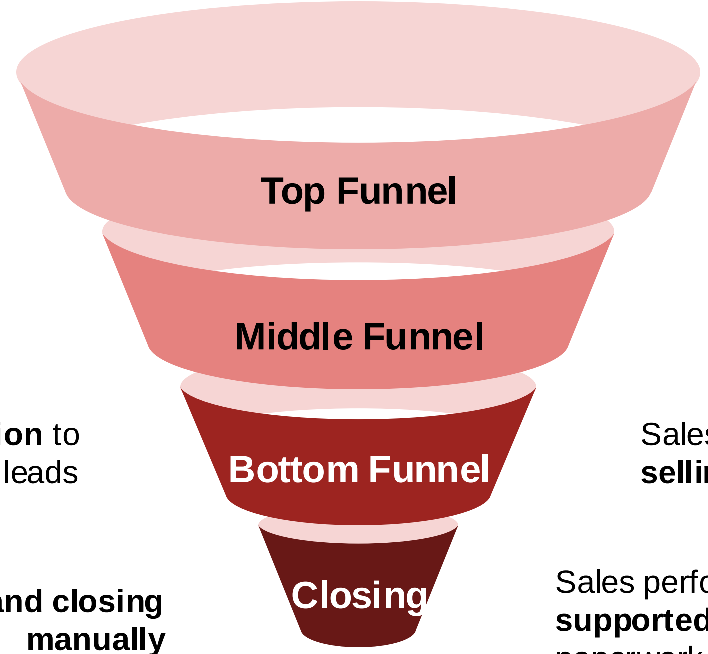
CURRENT PROCESS

Sales rely on **broad marketing campaigns**, **cold calls**, and **manual lead generation** to attract customers

Sales **manually nurture leads** through follow-up email, calls, and meetings using **one-size-fits-all approach**

Sales **rely on experience and intuition** to convince qualified leads

Sales perform final **negotiation and closing manually**



AI-SUPPORTED PROCESS

AI analyze database to **identify potential leads** & **personalize marketing messages** based on customer profile

AI **automate and personalize the lead nurturing process** by sending targeted contents and follow-ups

Sales convince qualified leads with **consultative selling** supported by **AI-driven recommendation**

Sales perform final **negotiation and closing**, **supported by AI-automation** for the necessary paperwork

Sales Specialist

Focus on one specific product to be able to have **deep product knowledge**.

Sales Generalist

Focus on **delivering a strong human experience** with AI-supported product knowledge.

Source: MarkPlus Analysis (2024)

New skillsets, metrics, and culture are imperative for implementation

Transactional Based Skill Set

- Product Knowledge
- Customer Interaction
- Sales Techniques
- Process Adherence
- Problem-solving

Activity-Based KPI

- Sales Visit and Call
- Sales Volume
- Compliance Adherence
- Customer Satisfaction

Process Oriented Culture

- Process Oriented
- Top-down Decision Making
- Individual Performance
- Risk-averse

Data-Driven Skill Set

- Data Literacy
- AI Tools Proficiency
- Strategic Thinking
- Digital Communication

Result-Based KPI

- Conversion Rate
- Customer Retention
- Net Promoter Score
- Data Utilization Rate

Innovative Culture

- Innovation Oriented
- Data-driven Decision Making
- Collaborative Environment
- Customer Centric
- Agility And Flexibility

Source: MarkPlus Analysis (2024)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Source: MarkPlus Analysis (2024)