

# Holistic Landscape Involving the Banking Industry and the Ultra Micro Community

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## ABSTRACT

Ministry of State-Owned Enterprise of the Republic of Indonesia (BUMN) recently created Ultra Micro Holding BUMN consisting of PT BRI (Bank Rakyat Indonesia), PT Pegadaian and PT PNM Permodalan Nasional Madani. Permodalan Nasional Madani (PNM) and PT Pegadaian are subsidiaries of PT Bank Rakyat Indonesia (Persero) Tbk (BBR) as part of the establishment of Ultra Micro Holdings (UMi) with BRI as the holding company. The two BUMNs officially became BRI's subsidiaries after the government officially transferred its Series B shares in PNM and Pegadaian to BRI so that the government's shares directly remained only Series A shares in PNM and Pegadaian. When the government issued PP Number 73/2021 concerning the Investment of the State of the Republic of Indonesia into the Share Capital of the Limited Liability Company (Persero) PT Bank Rakyat Indonesia Tbk, this regulation regulates the formation of the Ultra Micro holding, which involves three BUMN entities, namely BRI, Pegadaian, and PNM, until it is finally realized with the joining of the two BUMNs to BRI. The implementation of the integration of these three companies in the field is expected to provide efficiency in the company's operations. In simple terms, it is hoped that aspects of risk and operational costs can be minimized by collaboration and digitalization, for example, by utilizing co-location and optimizing the current huge customer database.

This research is aimed to help PT Bank Rakyat Indonesia to analyze the Politic, Economy, Social, Technology, Environment and Legal (PESTEL) landscape of banking industry in Indonesia in ultra-micro segment.

**Keywords:** Banking, Ultra-Micro, PESTEL

## INTRODUCTION

People who are still feasible but unbankable are classified as Ultra Micro segmentation, followed by those who are unfeasible and also unbankable. Unbankable refers to a financial institution that is unwilling to lend money to a business that it deems unsuitable and that banks cannot serve because it lacks a business license, collateral, or better terms. The crucial issue is that ultra-micro people in a survival-oriented manner. If ultra-micro people briefly leave their businesses, they will lose money.

PESTEL Analysis is a useful tool for understanding the description of an environment or industry in which company operate. PESTEL analysis too can be used to find out opportunities and threats that exist in that environment. Therefore, companies can take a chance existing one and reduce threats. PESTLE

analysis is a risk management method used to evaluate the external environment of a business. This analysis is carried out by breaking down opportunities and risks into the following factors. Currently used in this journal is the banking industry with more specific regarding the MSME and Ultra Micro segment. The environment that is analyzed is Politics regarding Holding Ultra Micro, Economic trend that affect banking industry, Social of the Ultra Micro segment, Technology of the most bank companies used, Environment regarding the climate or also regarding green policy banking and Legal that affect banking industry and also Ultra Micro segment.

## LITERATURE REVIEW

### **Holding Company**

A Holding Company is a company that controls or determines the management organs and holds more than half of the total number of shares issued by other companies. Therefore, a holding company can be interpreted as a parent company or a controlling company because the Company has shares in its subsidiaries [1].

### **PESTEL Analysis**

PESTEL analysis is a quick and efficient method for determining which outside factors might impact a company. It is important to identify these qualities since they present both possibilities and risks. To make it easier for people to remember, the phrases Politics, Economics, Social, Technology, Environment, and Legal were combined to form the acronym PESTEL [2].

## METHODOLOGY

This study used PESTEL analysis as the method of research. The PESTEL analysis is will be discussed about the Politics, Economic, Social, Technology, Environment and Legal of the banking industry, ultra-micro, and MSME ecosystems in Indonesia. Author determines the analysisbased on the research in internet and journal.

## RESULT AND DISCUSSION

The external analysis is to evaluate outside environment of the PT Bank Rakyat Indonesia and Holding Ultra Micro. The external analysis is consist of PESTEL analysis and competitor analysis. PESTEL here is Politic, Economic, Social, Technology, Environment and Legal of the banking industry and also Ultra Micro Community as a whole in Indonesia. Based on a comprehensive analysis of the external situation related to Ultra Micro Holding and PT Bank Rakyat Indonesia, the following are the findings of the analysis

### **Politics**

The idea of forming an ultra-micro holding by the Ministry of SOEs has received approval from various parties, including the DPR RI. The purpose of the synergies of the BRI, Pegadaian, and PNM ecosystems is to make it easier for ultra-micro business actors to access formal financial services that

have been difficult to reach. The approval from the DPR certainly gives solid political legitimacy to the business continuity of Holding Ultra Micro, especially for BRI.

In the banking industry, especially for micro-entrepreneurs in Indonesia, there is also a discourse regarding making a policy to provide loans with zero percent interest. This discourse was encouraged by the Minister of SOEs Erick Thohir because, so far, cheap loan interest has been enjoyed by prominent business actors and not small business actors, primarily ultra micro, a phenomenon like this that the government wants to balance. This idea also received approval from Jokowi, the president of the Republic of Indonesia.

Economic inclusion is also a priority agenda for the president in Indonesia's G20 Presidency because financial inclusion can boost productivity, capacity, and access to finance. Besides that, President Jokowi also wants digital technology to be optimized for economic transformation, which must be felt by the community, especially for MSMEs. The existence of this agenda is, of course, not only shown by the government to the government but also by the government to business actors and business actors to business actors. This certainly affected the banking sector in Indonesia through the policies that Jokowi made to participate in realizing this idea.

### Economics

At a time when many companies went out of business or decided to stop production during the COVID-19 pandemic, the micro-business ecosystem continues to snowball. Interest in micro businesses continues to dominate during the COVID pandemic. The interest in micro businesses continues to dominate during the pandemic and grows positively in line with the government's efforts to issue various policies in the context of recovering the national economy from the impact of the COVID-19 pandemic. The role of MSMEs is so prominent in the movement of the national economy.

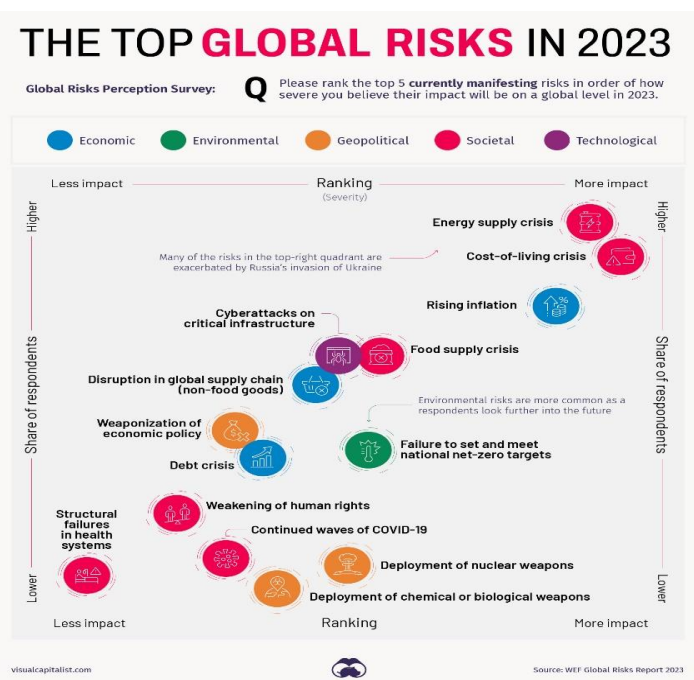


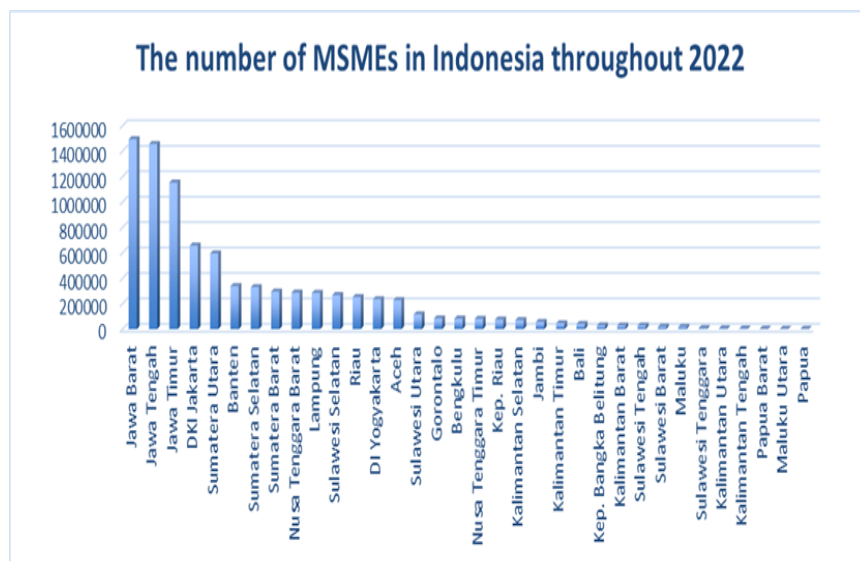
Figure 1 Global Risks in 2023

Source: Visual Capitalist

When the 1998 crisis occurred, MSMEs became the most significant pillar of Indonesia's economic recovery. The same happened during the economic crisis due to the pandemic in 2020. Instead of waiting for the post-pandemic momentum, micro-enterprises continued to operate actively and innovate to get the greatest possible profit. MSMEs play a role in opening employment opportunities in Indonesia, to exact, around 96.87% of the total national workforce. In order to continue to support the interest of micro businesses to continue to dominate during the pandemic, the government has also helped by providing stimulus, such as the Assistance for Micro Business Actors (BPUM) program.

**Social**

The phenomenon of online loans (loans) is in the social spotlight because many people especially who have economy in the bottom of pyramid are caught in the loan trap. One of the reasons why people choose to borrow is considered to be due to the economic crisis due to the Covid-19 pandemic. In this age of technology, everything seems so easy. Likewise, with capital, in the past, the Indonesian people had difficulty getting a loan. Now it is so easy to get a loan. One of the things that makes it easier is the existence of a digital loan service provider platform or an online loan (Pinjol). This online loan has become polemic because of the low financial literacy of the Indonesian people. This is certainly a risk for online loan debtors to be trapped in debt bondage that is too heavy to be able to pay the installments. People who borrow money from moneylenders must of course pay very high interest and not to mention if there is a delay in payment. Moneylenders can withdraw fines at will and confiscate business assets, in the end the person who borrows money is forced to find a way out by borrowing money from someone close to him to pay his debt to the loan shark. Most people who still rely on online loans for business purposes and daily needs must look for alternatives to obtain safer loans. This is why there is a classification of ultra-micro financing which in terms of terms tends to be new in Indonesia, as a finance alternative compared to relying on moneylenders and close relatives, whose loan terms are easy and fast on ultra-micro financing. Ultra Micro community still have low financial literacy regarding and some people still does not have gadget. Ultra micro community mainly lives in remote area that does not have proper signal for telecommunication function.



**Figure 2** Number of MSME in Indonesia 2022

Source: Ministry of Cooperative

Based on the **Figure 2**, It is no longer surprising that the Indonesian people are dominated as small business actors. The evidence is based on data reported by the Ministry of Cooperatives and Small and Medium Enterprises. Indonesia's total number of MSMEs will exceed 8.71 million business units in 2022. The island of Java dominates the sector. For these MSMEs, West Java province became the champion with the acquisition of up to 1.49 million business units, followed by Central Java, reaching 1.45 million business units. The third is East Java, with 1.15 million business units. This certainly makes banking business loans in Indonesia very popular in the eyes of the public, and the ultra-micro community is no exception. Ultra-micro criteria certainly have a different style from micro. Ultra-micro financing is a program of financing facilities for ultra-micro businesses in the form of conventional credit and financing based on sharia principles. This ultra-micro financing aims to provide easy and fast financing facilities for ultra-micro businesses and to increase the number of entrepreneurs. As the name suggests, ultra-micro financing is provided to individual or group ultra-micro business actors with a maximum outstanding credit of IDR 10 million per individual. It is hoped that the classification of ultra-micro financing will also increase the economic level and business capacity to become micro.

The characteristic of UMi segmentation is that the ultra micro-community has limited knowledge related to finance (outside of savings products). The second character, namely transactions through cash and not cashless, still dominates. The third character is that it requires the presence of a financial institution that has the same domicile as the ultra micro-community concerned. The fourth character is that more than 50% of potential UMI customers do not have stable finances and do not feel comfortable with traditional loan products from current banks. Ultra micro behaviour essentially wants to survive. They have daily business day to day that they have to operate on their own and the economy capacity is very low, is they not work for a day the might unable to get any income.

## Technology

The Covid-19 pandemic has changed the way people live. This includes the need for technology. Several things will change and have an impact on the use of technology. The first is more technology. Since there is a pandemic, more and more new technologies will emerge that will be used by the community to support their daily needs. Since the onset of COVID-19, almost all community activities have been carried out using technology, ranging from office absences which are carried out digitally, to virtual meetings and even worship through digital networks. This will also encourage people to start owning a cellphone and using it. Another thing that has changed is the existence of Less Mobility or borderless work. By utilizing existing digital facilities, people can do work remotely. Usually, people have to travel to other countries to promote their projects, but with the help of technology, people can do it in their own homes without having to travel.

Sectors and businesses with distinct technological solutions and the capacity for swift adaptation have a competitive advantage as technologies progress. Although the epidemic has accelerated technology adoption across industries and sectors, our reliance on it has grown significantly. Recently, technology has played a more prominent role in the banking industry's transformation. Long queues and mountainous paperwork have traditionally been associated with banks. However, the requirement for labour and documents has substantially dropped due to technological advancements in the banking industry. The banking and finance sectors are increasingly adopting cutting-edge technology. System updates and simplifying client services are quickly gaining popularity in tech installations. the trend in

recent years for banking industry has been the use of mobile wallets, online deposits, e-bill payments, and other similar financial transactions. Due to rising client demand for digital banking services, artificial intelligence is at the centre of the transformation of banking into the digital age. When human precision and knowledge were the only factors used in banking, errors and defects were more noticeable. Due to the limitations of human abilities, people frequently need to remember important details or make incorrect calculations. Since the introduction of computers, errors have nearly disappeared. The fact that computers or other advance technology can protect the data much more efficiently is another crucial component of this.

### **Environment**

Because it affects many economic sectors, climate change is no longer seen as an environmental threat but is predicted to accelerate. Furthermore, the financial sector is exposed to physical and transitional risks due to climate-related concerns. The banking industry began implementing numerous green banking measures to reduce adverse effects. Financial institutions are not an exception to the trend among large international companies to lessen their carbon impact. But banks utilise a lot of paper in their daily operations and client contacts. Thus, being paperless in the banking industry has become their top concern. Not only will paperless banking reduce operational costs, but it will also contribute to environmental preservation.

Furthermore, it will support the achievement of client expectations for a great, safe, and customized digital banking experience. Bank customer behaviour has changed due to the digitization of the financial services sector. Mobile banking, contactless payments, and digital currencies are paving the way for paperless banking and eliminating the need for physical paper in all contexts, including for money and documentation.

In the upcoming ten years, according to specific market observers, the paper will become "extinct." Today's facets of the management and provision of goods and services can be digital. The face of banking would be better if the financial industry made a thorough transition to paperless banking.

### **Legal**

Abuse rampant in digital financial transactions are increasingly diverse and sophisticated, for example, searching for someone's data through social media, which is now increasingly being used by the public to open their data. To protect digital financial transactions through banking, the Financial Services Authority (OJK) has issued a regulation, namely OJK Regulation Number 12/POJK.03/2018, concerning implementing Digital Banking Services (LPD) by Commercial Banks. Consumer protection principles include transparency, fair treatment, reliability, confidentiality, and security of consumer data or information, handling complaints, and resolving consumer disputes simply, quickly, and at affordable costs.

The Ministry of Finance issued Permenkeu Number 95/PMK/05/2018 concerning Ultra Micro Financing as a legal regulation, while this legal regulation serves as a basis and reference for government agencies in providing funding assistance to ultra micro-entrepreneurs which will later be distributed by companies such as PT Pegadaian, PT Madani National Capital. What is important regarding this regulation is that there is an obligation for the companies mentioned above to be obliged to provide assistance and training to ultra-micro business actors, whereas, for micro-business actors and above, there is no right to receive

such training and assistance. The source of funding for this comes from the state budget and contributions from local governments and financial institutions, both domestic and global.

## CONCLUSION

Through a PESTLE analysis, it was found that the majority of the largest economic supporters are derived from Micro, Small, and Medium Enterprises (MSMEs) and the ultra micro community. This MSME and Ultra Micro surely need funding thus making BRI and Holding Ultra Micro who are locally embedded in every place in Indonesia have significant advantage. Moreover, the Indonesian environment strongly supports BRI (Bank Rakyat Indonesia) and Holding Ultra Micro in maintaining their dominance in this market segment so based on this Holding Ultra Micro can flourish from this environment.

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