

The Development of Online Banking System in Indonesia, Implication in Human Resources Management Strategy

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Abstract

The development of information technology has affected the banking business strategy. Internet have been the backbone in the last decade in expanding the banking business, especially in increasing financial transaction services. The term online banking has emerged and became an aspect in banking services development. Bank Indonesia coined the term Electronic Banking to include phone and short messaging services into the area. This study is aimed to describe the banking industry strategy in accommodating information technology development in retail banking transaction services; the requirements in operating core human resource especially to front-liners viewed from the development of banking transaction; and what competencies are expected by the banking industry in the era of Electronic Banking. The study found that opening branch offices are still conducted by banks. The assumption that the banking business strategy has developed towards a cashless society has not yet been proved.

JEL classification numbers: M12, M15, M54, 033

Keywords: human resources management, electronic banking, internet, front-liners

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1 Introduction

The era of digitalization in the banking industry has create the operational processes of transactions become shorter, faster and efficient. Online banking technology began in the 1990s in the United States. Bruene (2005) reported that nearly 4 million people start using online banking services, where an increasing number of service users increased by 11% (Online Banking Report, h.6). Meanwhile in Indonesia, Electronic Banking users in 2001 reached 1.79 percent of total customers that banks have internet banking which is approximately 16.4 million customers (Gloria Cyber Ministries 2002 in Maharsi and Mulyadi, 2007).

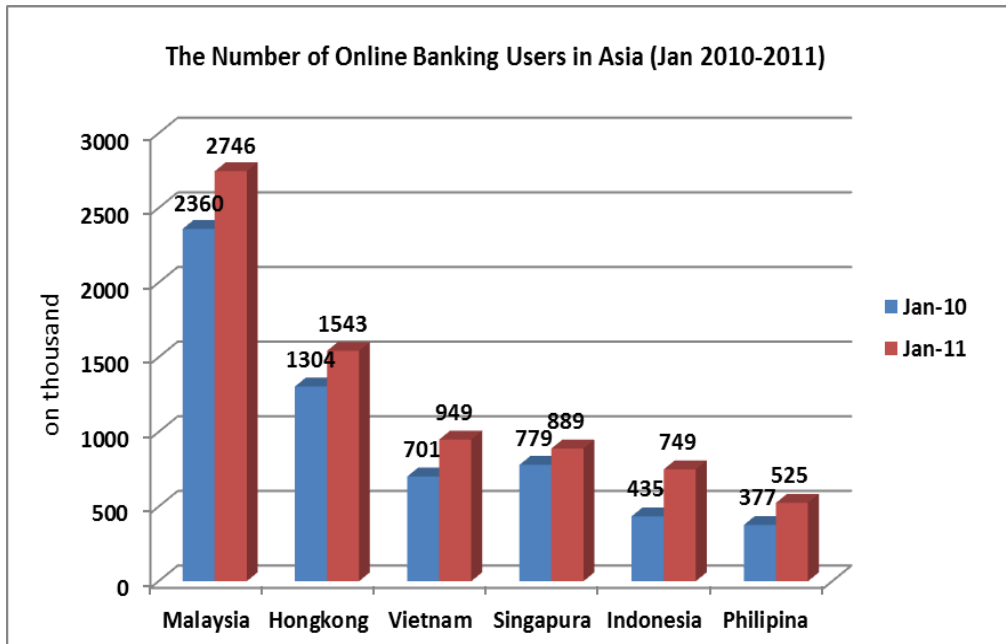
Bank can be defined as a financial firm which offers loan and deposit products on the market, and caters to the changing liquidity needs of its borrowers and depositors. There are many other types of financial institution, and some banks offer other products and services, but it is these two functions which are banks' distinguishing features and explain why banks exist in modern economies (Heffernan, 2005). While Stuart (in Dendawijaya, 2005) explains that the bank is an agency that aims to satisfy the credit needs. Kasmir (2004) stated that the bank is a financial institution whose main activity is to collect funds from the public and provide other banking services. From the description of three definitions can be concluded that the bank is a financial institution whose main activity is collecting funds from the surplus money to be channeled through loans to deficit party and provide other banking services.

There are seven principal function of the banks, which are as follows (Siamat, 2001): (a) to provide a mechanism and tools of payment that is more efficient in economic activity, (b) Creating the money, (c) To collect and distribute funds to the community, (d) to offer other financial services, (e) to provide facilities for international trade, (f) to provide storage for valuables, and the last one (g) to provide funds management services.

Nowadays, the banks offer those functions become more efficient. Through the internet and communication technology (ICT), the banks provide online services known as electronic banking or e-banking. Electronic Banking define as a service via internet to process some banking transactions where the customer can view the account, access and transact by itself (Nixon and Dixon, 2000). The Central Bank of Indonesia (BI), which is the regulator in the banking industry provides the definition of electronic banking (e-banking) as a service that allows bank customers to gain information, communicate, and perform banking transactions through electronic media such as Automated Teller Machine (ATM), phone banking, electronic funds transfer, Internet banking and mobile banking.

Most of electronic banking users, use the facility machine Automated Teller Machine (ATM). For example, the frequency of using ATM of the Bank Central Asia (BCA) on of the largest private bank in Indonesia, reached 821,000 transactions per day. The transactions ranging from checking account balances, transferring money and bill payment. ComScore, in March 2011, released the data

that Indonesia has the most rapidly growth of the Electronic Banking users among asian countries as described in the following figure.



Source: Comscore, 2011

Figure 1: The Comparison of the number of internet users that using e-banking services in Asia region

Table 1: The Figure of Electronic Banking Users in Asia Region (Jan 2010-Jan 2011)

Countries	Total Users Jan 2010	(in thousands) Jan 2011	Percentage
Malaysia	2360	2746	16 %
Hongkong	1304	1543	18 %
Vietnam	701	949	35 %
Singapura	779	889	14 %
Indonesia	435	749	72 %
Philipina	377	525	39 %

Source: comScore.com, 2011

The data showed that in Indonesia an increasing number of users / customers who actively use Electronic Banking services increased by 74% from 435.000

people to 749.000 people. Comparing to Malaysia, the number of e-banking users just growth slightly by 16% from 2.360.000 people to 2.746.000 in the period of Januari 2010 until Januari 2011. (comScore, 2011). In details, the increment of electronic banking users in Asia region, can be viewed on the Table 1.

Table 2 showed that the various banks that rank in top three in Asia countries which has offering electronic banking services. This situation indicates that there are operational shifting from the conventional pattern of banking transactions in which customers conduct transactions through tellers at the branch into a more transaction-automation using online services done by the customer themself. Mintzberg (1993) argues that basically an institution has two components, namely the core of the service (core service) which is essentially the work of producing goods and services, and administrative components, which are the managers and analysts who are responsible for coordinating existing work. Operating core banking can be represented by staff in the branches of the bank's operations and served as a teller and customer service.

Table 2: The Top Three of Bank That Provide Electronic Banking in Asia

Countries	Number #1	Number #2	Number #3
Malaysia	Maybank Group	CIMB	Pbebank.com
Hongkong	HSBC	Bochk.com	StandarChartered PLC
Vietnam	Vietcombank.com.vn	Acb.com.vn	Dongabank.com.vn
Singapura	DBS.com.sg	United Overseas Bank Group	Citigroup
Indonesia	Bankmandiri.co.id	BNI.co.id	Citigroup
Philipina	BpiexpressElectronic.com	Citigroup	HSBC

Source: comScore.com, 2011

The beginning of the modern banking industry changing business strategies, especially in the expansion of branch offices and the empowering the operating core of the human resources in the banking sector. One study in Australia, analyze that the role of human resources managment strategies from the two banks in Australia try to accommodate the changes in customer service operation. The banks changed their strategic human resource management and have been implementing the internet technology with their overall business strategy, and the extent to which corporate strategy using information technology so that it remains to achieve a sustainable competitive advantage (Blunt, et.al, 2005, Wright, 2002). Strategic Human Resource Management defined as a pattern of planned human

resource deployments and activities intended to enable an organization to achieve its goals (Noe, et.al 2007).

2 Research Methodology

The research was conducted using positivism approach, which is the combination of deductive reasoning and empirical observation that the right of individual behavior and / or groups to trace and confirm a set of concepts that can be used to predict general patterns in human behaviour (Neuman: 2006, 82).

The method of this research uses qualitative method through in-depth interview and observation. The implementation of in-depth interviews carried out to the key informant from various banks which have the largest market capitalization in the banking industry in Indonesia, which is expected as representation of the banking industry in general. Table 3 indicates the player in the banking industry in Indonesia.

Table 3: Top Ten Largest Bank in Indonesia Based on Assets
(until Desember 2010)

No	Company	Asset	Percentage
1	PT. Bank Mandiri Tbk	Rp. 410,619 triliun	13,65%
2	PT. Bank Rakyat Indonesia Tbk (BRI)	Rp. 395,396 triliun	13,14%
3	PT. Bank Central Asia Tbk (BCA)	Rp. 323,345 triliun	10,75%
4	PT. Bank Negara Indonesia Tbk (BNI)	Rp. 241.169 triliun	8,02%
5	PT. Bank CIMB Niaga Tbk	Rp. 142,932 triliun	4,75%
6	PT. Bank Danamon Indonesia Tbk	Rp. 113,861 triliun	3,78%
7	PT. Pan Indonesia Bank	Rp. 106,508 triliun	3,545
8	PT. Bank Permata Tbk	Rp 74,04 triliun	2,46%
9	PT. Bank Internasional Indonesia Tbk (BII)	Rp 72,03 triliun	2,39%
10	PT. Bank Tabungan Negara Tbk (BTN)	Rp 68,334 triliun	2,27%

Source : Central Bank of Indonesia (BI), 2011.

In addition, researcher also interview key informant from the Central Bank of Indonesia, especially from the Directorate of Banking Research and Regulation (DPNP) and educational institutions that provide banking program to explore more in-depth information about the readiness of educational institutions in preparing graduate for fulfilling human resources in banking industry.

Other method uses secondary data obtained from Bank Indonesia, comScore research institutes, other literature studies either through books, journals and

articles in magazines and newspapers that discussed the development of Electronic Banking service. The use of various techniques of data collection and research subjects is a research effort to achieve objectivity and accuracy of research.

3 Main Results

3.1 Strategic Human Resource Management in Modern Banking Industry

Most of banks try to meet the demand of their customer. Because of the changing its lifestyle, and also the facilitation of information technology, the banks must suit their banking operational services to the customer. Thus, it brings the changing the direction of business development strategy of its banking operations. The main allocation of corporate capital spending is directed to open a new branches, although this requires a greater cost than the use of Electronic Banking service. From the results of in-depth interviews with keypersons from the BI, Agusman, stating that advances in information technology (IT) could be beneficial for banking industry to enhance their services and reduces operational costs. The development of banking services technology-based in the form of e-banking will allows customers to perform banking transactions on a non-cash at any time via electronic networks.

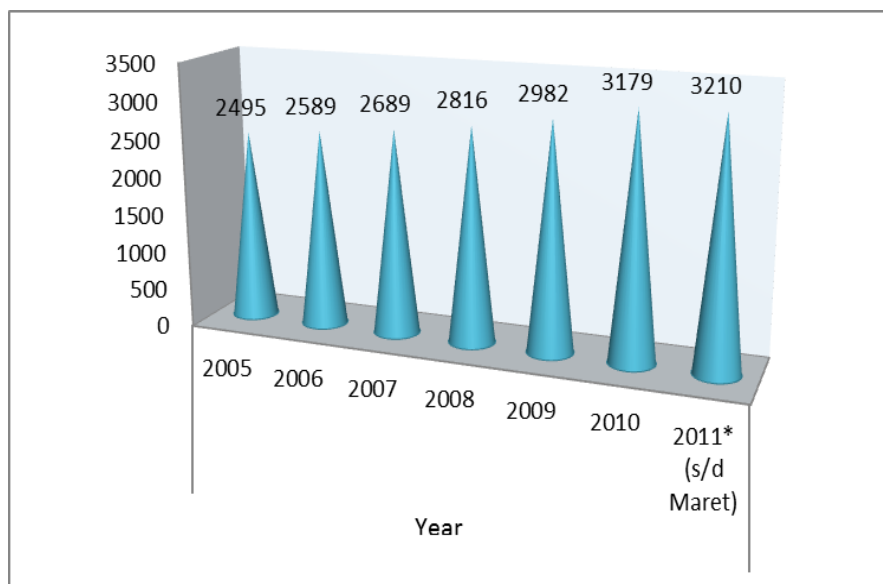
The Bank Central Asia (BCA) which is one of the largest national private retail banking already adopt ICT to support their banking products. Through electronic banking service known as the e-channel BCA, the bank is trying to change the pattern of financial transactions from conventional services in its branches to automation by the customers. To pursue its goal, BCA management giving gifts or reward to their customers who activate the service of sms banking, internet banking and phone banking. However, there are some problems that eventhough BCA already equipped most of their banking services by ICT, the utilization still remain low. BCA management always campaign to the customer for activating of Electronic Banking services, BCA also continue to promote the use of such services. It was taken by the BCA to minimize the number of transactions in the branches of conventional BCA. In addition, by conducting its own transaction either transfer or bill payment, the bank will also reduce operational costs. BCA is expected to minimize the daily transactions of customers in the branches and "move" the activity on the part of clients own. Another incentive to do BCA in addition to gifts, are also given a free tool called "token BCA" to facilitate electronic banking transactions. Furthermore, the BCA management is expected to minimize the daily transactions of customers in the branches and "move" the activity to its customer. The management also give a free tool called "token BCA" to facilitate electronic banking transactions.

As described in BCA's business review, the bank offers BCA Individuals Click for individual customers and Click BCA Business for business customers,

where in 2007 the number of customers who use these services continues to grow and become more than 790,000 customers, or increase 61.9% with a transaction value growth of 88.7%. While mobile banking services, m-BCA increased 110, 6% with a total transaction value reached Rp 51.8 trillion. From the results of in-depth interviews they argues that the use of electronic banking by customers at the Pondok Indah branch offices BCA nearly reached 80 percent.

Similarly, the strategic steps undertaken by the management of Bank Danamon. In order to strengthening the network of micro-service banking through Danamon Savings and Loans, Bank Danamon is also working to provide electronic banking services to its customers. The results of in-depth interview with Ahmad A. Rifqi Jamil, the Human Resource Strategic Business Unit (HRSBU) Micro Banking Manager pointed out that internet banking is not only intended for retail customers, but also given priority to the micro-entrepreneurs.

The strategy of the banking industry to strengthen the electronic banking infrastructure is to improve the efficiency and effectiveness of enterprise performance. The use of electronic banking can reduce the transaction costs of banking operations and made the customer more comfort to transact their own without having to queue at the branch office. There is a mutualisma principle between customers and banks. Customer benefit in terms of time efficiency when using electronic banking services. The bank also benefited because it can reduce the operational costs of banking transactions.



Source: Indonesia Banking Statistic (2011)

Figure 2: The number of new branches in Indonesia

But the strategy to open new branches still on going. Although the optimization of electronic banking services can improve the cost efficiency of the bank operations, but the conventional transaction services also remain to be done by the banking industry. The extent of the territory of Indonesia makes this strategy still proclaimed by the banks. Agusman also stated that whatever the strategy chosen by the Bank, the BI as central bank to be indifference and submit to the consideration of cost benefit banks along the banks still consider the principle of prudence and risk management of banks.

Dadan Yonanda, Senior Manager of Human Resources Strategic Business Unit (HRSBU) Commercial Bank Mandiri, the largest state-owned enterprise also noted that although the bank's strategy is conducted e-banking services for the retail customers to use electronic banking services but also expansion of the new branches still needs to be done considering the vast geographical factors in Indonesia. This condition also done by BCA that still remain expanding their market through opening new branches. The opening of new branches is an absolute thing to attract customers. Based on the Indonesian Banking Statistics report released by the Central Bank of Indonesia in March 2011, the number of opening a branch is always increasing every year as can be seen in Figure 2.

From the picture above, there is a steady increase in the amount of new branch offices in Indonesia. In 2005 the number of branch offices of the banking industry from 2495 branches, increased approximately 27.4% in 2010 to 3179 branches. As of first quarter (March) of 2011, there is an increment of 9.7% or the opening of new branches as many as 31 branch offices throughout Indonesia.

Considering geographical location, the strategy is still focused on the banking industry opening branch offices - almost a new branch offices spread throughout Indonesia. As the function of the bank as an agent of development, the banking industry seeks to facilitate economic growth. The following table shows the development of the number of bank branches in all 33 provinces in Indonesia.

Based on the Table 4, it can be seen that the majority to open new branches is in the eastern region of Indonesia. The average growth of new branches from the year 2009 up to March 2011 is 8%. The growth of bank branches was highest in the Maluku Province increased by 28%, followed by the provinces of Papua and South Sumatra branch of the bank increased by 16% in the same period. While there is the smallest growth in the province of North Sulawesi and Bali, which only increased by 4%. For example, Bank Mandiri as a bank that has the largest assets in Indonesia currently has 954 branches in 234 cities and counties in the region of Indonesia. Bank CIMB Niaga lunge also in terms of branch expansion in new locations is quite intense. In 2010, CIMB Niaga has opened 18 new branches in Indonesia. The presence of 18 new branches has further expanded its range of services through 710 branches of CIMB Niaga owned, while keeping the position of CIMB Niaga as the fifth largest bank in Indonesia in the number of branch offices. (inilah.com, 2010).

Table 4: Development of Bank's Branches by Location/Province in Indonesia

Province	Year			% growth (2009-2011)
	2009	2010	2011*	
Jawa Barat	337	354	357	6%
Banten	66	73	75	14%
DKI Jakarta	506	534	541	7%
D.I Yogyakarta	51	53	54	6%
Jawa Tengah	271	285	289	7%
Jawa Timur	365	390	391	7%
Bengkulu	21	22	22	5%
Jambi	44	45	46	5%
NAD	65	70	70	8%
Sumatera Utara	161	174	173	7%
Sumatera Barat	71	74	75	6%
Riau	76	84	84	11%
Sumatera Selatan	67	76	78	16%
Kepulauan Riau	49	52	51	4%
Bangka Belitung	20	22	22	10%
Lampung	45	48	48	7%
Kalimantan Selatan	63	69	69	10%
Kalimantan Barat	62	66	66	6%
Kalimantan Timur	98	100	103	5%
Kalimantan Tengah	36	40	42	17%
Sulawesi Tengah	32	35	36	13%
Sulawesi Selatan	111	116	117	5%
Sulawesi Utara	52	54	54	4%
Sulawesi Barat	11	12	12	9%
Gorontalo	12	13	13	8%
Sulawesi Tenggara	25	27	29	16%
Nusa Tenggara Barat	35	39	39	11%
Bali	72	74	75	4%
Nusa Tenggara Timur	43	46	46	7%
Maluku	25	32	32	28%
Papua	41	47	48	17%
Maluku Utara	13	14	14	8%
Irian Jaya Barat	19	22	22	16%
Outside Indonesia	17	17	17	0%
TOTAL	2982	3179	3210	8%

Source: Indonesia Banking Statistic (2011)

The opening of new branches become crucial for banks to capture market / new customers. However, the economic aspect is also a consideration. By opening a bank in a new location, it is expected the economy would be better. Not only open up new jobs for local people, also to support economic transactions in the region. Opening of new branch is expected to become an agent for economic growth.

3.2 HR Banking Needs Analysis in the Era of Electronic Banking

The demand of the workforce is crucial for the strategy of the banking industry in the era of electronic banking. Companies should conduct human resource planning and analyze the number of people to recruit that aligned with the bank's strategy, as stated by Dadan Yonanda, Senior Manager of Human Resources Strategic Business Unit (HRSBU) Commercial Bank Mandiri.

As explained in the previous section that the banks still doing business expansion by opening new branches in certain locations both in the cities and districts in Indonesia. Although the current trend of the banking industry leads towards to a cashless society, but the need for conventional transactions in the branch remains high. This indicates that human resources division needs to empower banking operating core such as teller functions, customer service representatives, and sales representative. Banking management policy for opening new branches eliminate the assumption that the core-line banking business operations will be reduced.

Although the cost to open a bank branch at the new location requires a huge cost, the bank tried to anticipate operating costs by increasing fee-based income from the services. Observations made by the researchers, that at every bank is almost set the administrative fee for each opening a savings account that range between Rp. 5000 s / d Rp. 10.000 (approximately 1 USD), - per month depending on the amount of customer funds. The cost of transfer between banks also varied between Rp.4000 (0,5 USD), - for regular settlement, up to Rp. 25.000, - for the RTGS (real time gross settlement), settlement services that can be accepted instantly. Another thing that made by the banking industry is by hiring outsourcing for operational line positions.

From the information through interview, the outsource employee in the front-line positions such as tellers and customer service, the banking industry can make operational cost more efficient of the branch office. This is possible because the wages of the outsource workers are lower than permanent employees that doing the same function. However, different conditions occur in Bank Danamon. Jamil (2010) suggested that the Bank currently has 45,000 permanent employees. This is a Bank Danamon has the highest cost income ratio due to the large Danamon bank employee wage costs.

3.3 The competencies and specifications that required for the frontliners position

The competencies and employee specification for the frontline banking operations, in the era of electronic banking become more stringent. The candidates should has a computer liaterate and must be able to operate internet. Beside that, the candidate also must be a fast learner person. From interviews the employees are also required to have values such as honesty, integrity and customer service skills. While the results of interviews with Mr. Jamil from Bank Danamon, Bank Danamon management shall establish criteria for candidates for its workforce is as follows: having a high adaptive capacity, fast learner, oriented towards customer service, honest and caring.

4 Conclusion

Eventhough in the digital era, the main strategy of the banking industry in Indonesia still doing open some new branch offices to provide a conventional transaction services through teller or customer service at branch offices. However, along with IT development, strengthening of infrastructure and promotion of the optimization of electronic banking services in the banking industry in Indonesia is also the focus of bank management to improve the effectiveness and cost efficiency of banking operations.

The implementation of the opening of new bank branches in several places in Indonesia creates that the demand of front-line workforces remain necessary. The assumption that there will be changes in the banking business policy trend towards a cashless society has not been fully proven. This is due to geographical factors and IT infrastructure has not developed evenly in all parts of Indonesia.

While banks do both strategies through opening some new branches and developing e-banking services, enhancing the competencies of fron-line operational personnel in the era of electronic banking became more complex. Some conditions, such as: computer mastery, well known ICT, customer service excellent orientation of individuals and also capable of learning quickly becomes an absolute for any banking job seekers.

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