

# Macro results from micro finance



**Twenty-one months ago, Djemi Suhenda, Executive Vice President of DSP, had a tested business model and an ambitious plan. Since then a staggering 739 DSP operations have been opened in less than two years and over 6,600 DSP employees hired. Today DSP is responsible for 10 per cent of Bank Danamon's total lending activity and a major source of earnings.**



#### **How has this phenomenal growth been possible?**

"Our research showed there was a massive need for working capital finance among traditional market traders, as well as a need for secure deposit taking facilities. Before DSP came along traders were borrowing from relatives, friends and moneylenders. We offered speed, simplicity and convenience. And the market has responded."

#### **What about the risks involved?**

"This is community banking - and the first step in sound risk management is 'get to know your customer'. DSP employees are recruited from the community and understand their market very well. We lend to established traders who are part of the market, and have a reliable and sustainable business. We focus on those living and working within a few kilometres of our units. As part of our community role we are continuing with our campaign to clean up markets; a great way to build customer relationships as everyone benefits from working together to build an attractive market place."

We are well equipped so we can keep track of every account, through every relationship officer, at every unit, every day. We conduct regular detailed evaluations and quality assessments. The best measure of our effectiveness is evident in the level of non-performing loans at DSP which at the end of 2005 was just 2 per cent."

#### **How many more markets are there left to serve - can you continue to grow at this pace?**

"We certainly have the technology and organisational capability to expand further and we proved our ability to attract and train good people to run this business. There are thousands of traditional markets and we already serve most of the major ones across Indonesia. Now we can consolidate and build. We have plenty of opportunity to grow the existing relationships. We can help the market stall trader to realise their plans to expand to SME status (small and medium enterprise). That's the value of the Bank Danamon universal banking approach. There is plenty of opportunity to grow further."

#### **Has high inflation, high interest rates and economic slowdown affected your business model?**

"Our existing business model is still relevant - the need has not changed. We have adapted and evolved and will continue to do so where we identify sufficient needs. Most of our customers are supplying day to day essentials to their markets, and these do not change."

#### **Rising interest rates in 2005 pushed up the cost of funds. How are you managing this?**

"Funding costs did increase in 2005. Remember we were investing in a new business during the year and adjusting our lending rates accordingly. With a large proportion of our assets at high yields the cost of funding is not the issue. If forecasts for a reduction in SBI interest rates are correct for 2006, our funding costs will decrease and the process will work in reverse. As our customers' businesses grow there will be opportunities to sell them more products, to increase the value of each relationship and over time to build higher average balances with us which will contribute to the stability of the funding base for the entire Bank."

**So, what's next?**

"The important thing for us is to remain customer-focused. Our vision "We care and enable millions to prosper" says it all. At the moment we have opened up access to banking service for a particular group with its own needs. We have other business models for other groups that are equally "needs-driven" and scaleable. Looking beyond local markets we are increasing our mobility to give us regular contact with the wider business community. We are also helping to develop the value chain between the trader and the farmer or fisherman.

As a universal bank we are increasingly able to leverage our connection with corporate and commercial customers and link them with market trader and retailer customers by making finance available throughout the distribution chain. And we will be working more closely with Adira Finance and their substantial network on cross promoting one another's services."

**How would you describe DSP today?**

"We are first and foremost a provider of fast, easy-to-access financial solutions and as such we believe we are the first point of contact for a large market that is still under-

served. We have a role in providing both convenience and financial advice. But we are also the first floor of a bigger store: Bank Danamon is a universal full service bank. The first floor is a great opportunity to impress and engage the customer and it leads to many more good things on other floors. We offer our customers the chance to visit those other floors as their needs change and grow. It's good for them and it's good for us."



**"We are there for you."**

