

PT Summit Oto Finance

COMPANY BACKGROUND

Based in Jakarta, PT Summit Oto Finance (OTO) is one of the largest motorcycle financing companies in Indonesia. OTO was initially established in 1990 as PT Summit Sinar Mas Finance, a joint venture between PT Sinar Mas Multiartha and Sumitomo Corporation. Sumitomo Corporation, an integrated trading company based in Japan, owns 99.53% of OTO directly and indirectly through Summit Auto Group and PT Sumitomo Indonesia. As the majority shareholder, Sumitomo Corporation provides support to and controls all aspects of the business, from management and treasury to financial and operational needs.

In 2003, OTO shifted its focus from corporate leasing to motorcycle financing exclusively, and changed its name to PT Summit Oto Finance. OTO provides financing to

Country: Indonesia

Sector: Finance

IFC's Investment: \$120 million in long-term debt financing

low- and middle-income consumers primarily in Java and Sumatra, and is currently expanding to rural regions. With over 10,000 employees and 8% market share, OTO has capitalized on the strong growth of the Indonesian domestic motorcycle market, and maintains its position as one of the leading players in the motorcycle financing business.

DRIVERS FOR OTO'S INCLUSIVE BUSINESS MODEL

- Strong demand for motorcycles
- Gap in access to motorcycle finance, especially among low-income groups
- Opportunity to capture first-mover advantage in rural areas

In many emerging markets such as Indonesia, motorcycles are the primary family and work vehicles and a principal means of transport for low-income groups. The Indonesian motorcycle market is the world's third largest after China and India, accounting for about 10% of global demand. Since 2004, national motorcycle sales have increased at an 11.5% compounded annual growth rate. Upgrades (e.g. from two-stroke to four-stroke engines) and business applications (like two-wheeler taxis) are expected to fuel even greater demand.

Nevertheless, market penetration in Indonesia remains low compared to neighboring countries. One reason for the

difference is a lack of access to financing in the country, as the main customer groups generally have insufficient savings to purchase motorcycles in cash.

Demand for motorcycles and a lack of access to financing to buy them have created a market opportunity for OTO, particularly in Java and Sumatra. Now, the company is seeking first mover advantage by expanding into rural areas in Kalimantan, Sulawesi, and Aceh, which are not yet served by many financial institutions. In these areas, roads tend to be less developed than in cities like Jakarta, making motorcycles an even more effective means of transportation than other vehicles.

OTO'S INCLUSIVE BUSINESS MODEL

With good fuel efficiency and low acquisition and maintenance costs, motorcycles are widely used by low-income groups in Indonesia for both personal and business transportation. OTO focuses exclusively on new motorcycle financing through small loans to low- and middle-income borrowers.

Nearly 99% of its more than 1.5 million active borrowers are individuals. The vast majority earn \$150 to \$300 per month and do not have bank accounts. Approximately 99% of them have only primary education and typically run micro-enterprises, or work as low-level employees. The average initial loan amount per customer is \$1,315.

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OTO has successfully engaged a large pool of unbanked borrowers in a viable way by basing its business strategy on the microfinance model. Its approach relies on an effective understanding of its borrowers and close, continuous customer contact, rather than formal underwriting processes. Because its borrowers are typically the owners or employees of micro enterprises, they often do not have good records and are unable to produce salary slips or other documentation to validate their incomes. As a result, client due diligence includes a mandatory visit before each credit decision is made—usually within 24 hours of receiving an

application. OTO Credit Marketing Officers (CMOs) also talk to people in the applicant's neighborhood. To maintain a structured appraisal process, CMOs are required to complete a standardized form for each applicant, verifying that he or she has a credible and stable revenue source and a permanent residence. The form also tracks the size of the down payment made to the dealer (the minimum should be 20% of the total net motorcycle price per regulation from the Ministry of Finance) and the size of the monthly loan



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repayment relative to the applicant's income (preferably less than 30%). In an effort to reduce the risk of fraud prior to final loan approval, OTO has equipped each of its CMOs with mobile devices to ensure that the information collected by them is correct.

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Upon approval, loan proceeds are disbursed directly to the dealer following delivery of the motorcycle to the customer. The loan repayment period is typically 36 months, during which time OTO retains the title as collateral.

OTO has a national market penetration strategy built on a robust distribution network and strong partnerships. The company has 173 branches spread across the country, and cooperates with more than 4,000 authorized dealers of leading motorcycle brands—it is not captive to any particular manufacturer. OTO has entered into additional partnerships to support its collection efforts. For example, it has established payment and collection arrangements with the country's largest microfinance institution, Bank Rakyat Indonesia; the commercial banking system's ATM network; and the Indonesian Post Office network.

RESULTS OF OTO'S INCLUSIVE BUSINESS MODEL

- Increased mobility of people and goods, enabling greater access to markets and services
- Significant job creation along the motorcycle value chain, from manufacturing to sales to service
- Sustained improvement in OTO's business performance

In Indonesia, motorcycle finance has done more than enable consumption. First, it has helped develop a credit culture among large numbers of low-income customers with little to no previous exposure to the formal financial system. In the process of repaying motorcycle loans, these customers have built credit histories that will enable them to access other formal financial services in the future, moving closer to full financial inclusion. Second, motorcycle finance has increased mobility among low-income groups. Mobility is an essential component of economic opportunity, as it increases productivity and may enable people to take higher paying jobs located farther from where they live. It also expands access to goods and services that may be available more cheaply, or at a higher level of quality, farther away. Compared with other mobility solutions, motorcycles are

relatively inexpensive to purchase, operate, and maintain, making them especially well-suited for individuals with limited incomes. Motorcycles can also be used to generate income, by working or trading.

Motorcycle financing has also played a critical role in enabling the motorcycle industry to grow and create jobs along the value chain, from manufacturing to distribution to sales, and finally to after-sales service.

As a reflection of the value it has created for Indonesian society, OTO has maintained sustainable growth. From 2004 to 2011, OTO's consumer financing receivables grew at a compound annual rate of 39.5%, and in terms of asset quality, OTO's accounts more than 90 days past due stood at 1.87% at the end of 2011. Currently, OTO's rating assigned by the local rating agency Pefindo is at the level idAA flat.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$120 million in long-term debt financing

Investment Year: 2009 to 2011

- Unlike many other financial institutions, which are majority-owned by banks, OTO has no easy access to low-cost financing or to fixed long-term rupiah loans. IFC's funding is designed to match the repayment and interest rate profile of OTO's loan portfolio, helping improve its asset-liability structure and reduce its market risks
- IFC is facilitating expansion of OTO's motorcycle lending especially in underserved locations
- With this investment, IFC is strengthening Indonesia's limited Non-Banking Financial Institution (NBFI) sector. With lower operational costs than most banks, NBFIs can more efficiently finance low-income individuals and SMEs, making them critical to financial inclusion

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For more information, visit ifc.org/inclusivebusiness and otofinance.co.id