

The CEO Interview

Pushing to build Asia's biggest bank

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CEO Budi Gunadi Sadikin wants Indonesia's Bank Mandiri to be the region's largest. In this interview, he discusses the consumer-banking explosion, the impact of digitization, and the grooming of future leaders.

Indonesia's Bank Mandiri was formed in the late 1990s in response to the financial crisis that had gripped much of East Asia. Today, the 60 percent government-owned institution is Indonesia's biggest bank, with much of that growth attributable to chief executive officer Budi Gunadi Sadikin, who joined Bank Mandiri in 2006 to head its retail-banking operations. Since becoming CEO, in 2013, he has continued to focus on digital consumer transactions, spearheading, among other things, efforts to make peer-to-peer money transfers as easy as sending a text message. In this interview, conducted by McKinsey's Rik Kirkland, Sadikin explains how he's preparing the next generation of banking leaders to manage the industry's evolution. An edited transcript of his remarks follows.

Indonesia's banking boom

When I joined the bank, in 2006, the market cap was around \$3 billion. It's now touching \$33 billion. Our ambition is to reach a market cap of around \$55 billion by 2020, making us the largest bank in Asia.

Between now and 2030, 50 million Indonesians will enter the middle class. That's slightly more than the population of South Korea and slightly below the population of Thailand. So, if you can imagine, from now until 2030, which is 15 years, a new Thailand will appear. The demand for banking services, savings, mortgages, car loans will be there. So that's why, back in 2006, when I joined the bank, the previous CEO asked me to develop the retail-banking, the consumer-banking business of the bank. And now, around 50 percent of the revenue of the bank comes from consumer banking, or retail banking.

Indonesia has always been very strong in natural resources. So we have lot of clients in plantations, coal. Indeed, our largest concentration of loans for corporations is in plantations. But recently, the government also issued a very strong mandate to do massive investment in infrastructure. The president needs to spend at least 8 percent of Indonesian GDP every year if he wants to make sure to reach a certain level of infrastructure to support our economic growth.

Because Indonesian GDP is now close to \$900 billion, that means that every year you have to spend \$72 billion to \$75 billion. And now, we are only spending \$20 billion. That creates an opportunity in the infrastructure sector.

Banking as easy as texting

I keep sharing to my team that in the next 20 years, it is not only opportunity that will come, but also a significant threat. Why? Because we know there is a massive change in consumer behavior because of digitization.

When I joined the bank, back in 2006, I think we only had around 400 branches. Now we have more than 2,000. But what's interesting is that while in 2006, 60 percent of transactions were done through branches and 40 percent through electronic channels, today 92 percent are done through electronic channels. That is a massive change. And I realize that in the next ten years, a new generation is coming in. So we have to revamp the way we are doing banking and how we are servicing our clients to do transactions, especially on the payments side. Otherwise, we will be killed. We have to keep disrupting ourselves, otherwise we will be disrupted by somebody else.

I'll give you example. We provide mobile banking to all of our clients, and they use it primarily for peer-to-peer transfers. I said to my team, "To do a transfer using our fancy iPhone-based mobile banking takes around six steps. That's too long. At the end of the day, people just want to send money like a text message." The application used the most by people is texting. They use WhatsApp, BlackBerry Messenger—I do it myself. So I said to them, "Instead of building our application, why don't you build an application inside WhatsApp, or inside BBM, or inside LINE?" Then press an emoticon—not the smiley face, you know, or the angry face. The money. In Indonesia, blue means 50,000 rupiah. Or, you know, red means 100,000 rupiah, because we have different colors of banknotes. Then instead of saying "I want to transfer 1,000 rupiah or 100,000 rupiah to you," you press the red emoticon and send. As simple as that.

The start-up mentality

Banking is not an industry where innovation always happens. It's totally different than the IT industry, and I'm fortunate that I spent the first six years of my career with IBM. I keep telling this to my fellow bankers, "Hey, friends, if the wind of change is coming, some people will build walls. But smart people will build a windmill." So we have to make sure we build windmills. We see change as an opportunity. And it is, but it's not easy.

One idea I would like to share is, I think, quite innovative. I stole this idea, actually! We came to a seminar in Hong Kong where the founder of Twitter, Jack Dorsey, was on the panel. And he was talking about the application Square. That's a device you plug into your handset, swipe a credit card, and do transactions. When I talked to Jack, it wasn't about the technology—it was about the *owner*. He said, "OK, this venture is a start-up. It's owned by a fund. And this fund is owned by JPMorgan bank."

There was a guy named Mike Duffy who owned it. He used to be the president and CEO of JPMorgan's Chase Paymentech. And on Google, he said, "You know, my company has a lot of money. But when I spend my money in my internal IT, it's too bureaucratic. It becomes very, very expensive and very, very slow. So I intentionally have my internal people compete with a young start-up." So he put some of his money into a private-equity fund and invested in several start-ups. And he could clearly see the speed and the cost was totally different. Six months after that, I went to Berkeley, took a private-equity class, and with one Indonesian entrepreneur and Kompas Gramedia, the largest media group in Indonesia, we created a start-up using a private-equity fund owned by our asset-management company.

In six months, we successfully established what we called "mobile-banking services for financial inclusions." That was in 2012. This is the platform now used by Mandiri. And last December, this platform was chosen by the president to distribute a government-to-people subsidy. Because our president wants to eliminate a product subsidy—gasoline, fertilizer, electricity—and have a people subsidy with conditional cash transfer. To do that, he needed a platform. And he's using ours.

Cultivating leadership

I will end my term in 2016 because, in a state-owned company, we can only stay in one company for ten years. I've been a board member for eight years already now, so that's the reason I'm scrambling. I try to promote and include as many people as possible so they can go with me and become even better than I. And now every week when we have a board meeting, I always bring in or give a specific task on a specific new project to one board member. And I closely monitor their activities. In the next annual general shareholder meetings, I plan to share my view with the state-owned companies' minister that we need to accelerate getting young

people onto the board. That way, they will be more ready to bring the bank to a new, different height when I step down. This is my passion. I love to teach, educate people.

My previous CEO, Pak Agus,¹ became a minister of finance of Indonesia, and now he is the governor of Bank Indonesia. He gave me some personal advice: “Budi, you need to make Indonesian banks and the profile of Indonesian bankers known in the world.” That is the reason I’m quite active in the World Economic Forum. I’m active also in the IMF and IIF,² G-20, and B-20. One thing that I’ve learned when you come into these sessions is first you establish contact, personal contact. Then you can execute things faster.

For example, last year, the first time I went to Davos, there was a guy I didn’t know: Oliver Samwer, a German. You know, very young. Sitting in the corner of Congress Centre, and he’s texting me because he wants to see me. And then I realize he knows me because he heard about our private-equity start-up. He is the one of the German brothers who built many successful start-ups in the world. And I’m very surprised that he already has more than five start-ups in Indonesia, the most famous ones are Lazada and Zalora.³ They are like Alibaba.

He needs a payment system, and no banks in Indonesia are providing payments for e-commerce at that time. So I see the opportunity. He gives me names, and we support his start-up. Now, his start-up sales volume last year already exceeded 1 trillion rupiah, or \$100 million. Amazing. In just two years. 

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¹ Agus Martowardojo was CEO of Bank Mandiri from 2005 to 2010, Indonesia’s Finance Minister from 2010 until 2013, and has been governor of Bank Indonesia, the country’s central bank, since then.

² International Monetary Fund and Institute of International Finance.

³ For more, see Ryan Mac, “Germany’s Samwer brothers to become billionaires with Rocket Internet IPO,” *Forbes*, July 31, 2014, forbes.com.