

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

IN INDONESIA

Subject: Implementation of Anti-Fraud Strategy For Commercial Banks

In the framework of strengthening of Bank's internal control system and as follow up implementation of Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19 May 2003 concerning Application of Risk Management For Commercial Banks (State Gazette of the Republic of Indonesia Number 56 of 2003, Supplement to the State Gazette Number 4292) as already amended by Bank Indonesia Regulation Number 11/25/PBI/2009 dated 1 July 2009 (State Gazette of the Republic of Indonesia Number 103 of 2009, Supplement to the State Gazette Number 5029), as well as considering the findings of various fraud cases in the banking sector, which have caused losses to customers and/or Bank, it is necessary to stipulate a regulation concerning the implementation of anti-fraud strategy for Commercial Banks in a Bank Indonesia Circular Letter, with the following principal provisions:

I. GENERAL

1. In this Circular Letter, Commercial Bank, which hereinafter shall be referred to as Bank, is a Commercial Bank that undertakes business activities in a conventional manner and/or a Commercial Bank that undertakes business activities based on sharia principles.
2. In this regulation, fraud means a deviating act or a purposeful neglect undertaken in order to deceive, cheat, or manipulate Bank, customer, or another party, that occurs inside the Bank and/or using Bank's facility so as to cause the Bank, customer, or another party to suffer a loss and/or to cause the fraudster gain a financial benefit, both directly and indirectly.
3. In the framework of strengthening the internal control system, specifically in controlling frauds, Bank is obliged to have and implement an effective anti-fraud

- strategy, which at least should fulfill the minimum reference contained in the guideline as referred to in Attachment 1.
4. Anti-fraud strategy constitutes part of the strategic policies, which implementation is materialized in the fraud control system.
 5. In developing and implementing an effective anti-fraud strategy, Bank is obliged to take into consideration at least the following:
 - a. internal and external environment condition;
 - b. complexity of business activities;
 - c. potential, types, and risk of fraud; and
 - d. adequacy of required resources.
 6. Bank that already has an anti-fraud strategy, but has not fulfilled the minimum reference contained in the guideline as referred to in Attachment 1, is obliged to make adjustments and enhancement to its anti-fraud strategy.

II. APPLICATION OF RISK MANAGEMENT

In the framework of controlling risk of fraud from occurring, Bank is obliged to apply risk management as regulated in the stipulations concerning application of Risk Management for Commercial Banks by strengthening several aspects, among others as follows:

1. Management's active supervision

In applying Risk Management in general, the authorities, tasks, and responsibilities of Board of Commissioners and Board of Directors cover matters related to the control of frauds. Success of the overall implementation of the anti-fraud strategy very much depends on the directions and zeal of Bank's Board of Commissioners and Board of Directors. In this regard, Board of Commissioners and Board of Directors are obliged to nurture anti-fraud culture and awareness at all levels of Bank's organization.

2. Organization and Accountability Structures

In enhancing the effectiveness of the implementation of anti-fraud strategy, Bank is obliged to establish a unit or function that has the task of handling the implementation of anti-fraud strategy within the Bank's organization. The establishment of this unit or function should be supplemented with clear authorities and responsibilities. This unit or function shall be directly responsible to the

President Director as well as has direct communication and reporting lines to the Board of Commissioners.

3. Control and Monitoring

Fraud control and monitoring constitutes one of the important aspects of Bank's internal control system in the support of effective implementation of the anti-fraud strategy.

Fraud monitoring requires to be supplemented with adequate information system in accordance with the complexity and risk level of the occurrence of frauds at the Bank.

Further explanations concerning the application of risk management related to frauds are as referred to in Attachment 1.

III. ANTI-FRAUD STRATEGY

Anti-fraud strategy, which in its implementation is the fraud control system, has 4 (four) pillars as follows:

1. Prevention

The prevention pillar constitutes a part of the fraud control system, which shall contain steps for lessening the potential risk of the occurrence of frauds that cover at least anti-fraud awareness, identification of vulnerability, and know your employee principle.

2. Detection

The detection pillar constitutes a part of the fraud control system, which shall contain steps for the identification and finding of frauds in Bank's business activities that cover at least policies and mechanism for whistleblowing, surprise audit, and surveillance system.

3. Investigation, Reporting, and Sanction

The investigation, reporting, and sanction pillar constitutes a part of the fraud control system, which shall at least contain steps for investigation, reporting system, and imposition of sanctions on frauds in Bank business activities.

4. Monitoring, Evaluation, and Follow Up

The monitoring, evaluation, and follow up pillar constitutes a part of the fraud control system, which shall at least contain steps for monitoring and evaluating frauds, as well as follow up mechanism.

Further explanations on the 4 (four) pillars in the implementation of anti-fraud strategy are as referred to in Attachment 1.

IV. REPORTING AND SANCTION

1. In the framework of monitoring the implementation of anti-fraud strategy, Bank is obliged to submit to Bank Indonesia the following matters:
 - a. Anti-fraud strategy as referred to in number III, no later than 6 (six) months since this Bank Indonesia Circular Letter comes into force.
 - b. Report on implementation of anti-fraud strategy, each semester for the position of end of June and December, no later than 10 (ten) working days after the end of the reporting month, with the format and scope as referred to in Attachment 2. This report should be submitted starting report position as of end of June 2012.
 - c. Each fraud that is estimated to have significant negative impact on the Bank and/or customer, including those that have the potential to attract public attention, no later than 3 (three) working days since Bank becomes aware the occurrence of a fraud. The said report shall contain at least name of the fraudsters, form of deviation/type of fraud, location of incident, brief information concerning the modus, and indication of loss. This report shall not reduce Bank's obligation in undertaking steps in accordance with its anti-fraud strategy.
2. The anti-fraud strategy and reporting as referred to in number 1, are submitted to Bank Indonesia at the following address:
 - a. the related Directorate of Bank Supervision, Jl. M.H. Thamrin Number 2, Jakarta, 10350, for Banks whose head offices are within the work area of Bank Indonesia Head Office; or
 - b. local Bank Indonesia Office, for Banks whose head offices are outside the area of Bank Indonesia Head Office.
3. Violations against this regulation shall be imposed with administrative sanctions in accordance with Bank Indonesia Regulation Number 5/8/PBI/2003 dated 19 May 2003 concerning Application of Risk Management For Commercial Banks (State Gazette of the Republic of Indonesia Number 56 of 2003, Supplement to the State Gazette Number 4292) as already amended by Bank Indonesia Regulation Number

11/25/PBI/2009 dated 1 July 2009 (State Gazette of the Republic of Indonesia Number 103 of 2009, Supplement to the State Gazette Number 5029), namely:

- a. administrative sanction in accordance with Article 34, and
- b. violations in submission of strategy and reports as referred to in number 1 shall be imposed with a fine in accordance with Article 33.

Attachment 1 and attachment 2 constitute parts that are inseparable from this Bank Indonesia Circular Letter.

This Bank Indonesia Circular Letter shall come into force on 9 December 2011.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA

MULIAMAN D. HADAD

DEPUTY GOVERNOR

DPNP