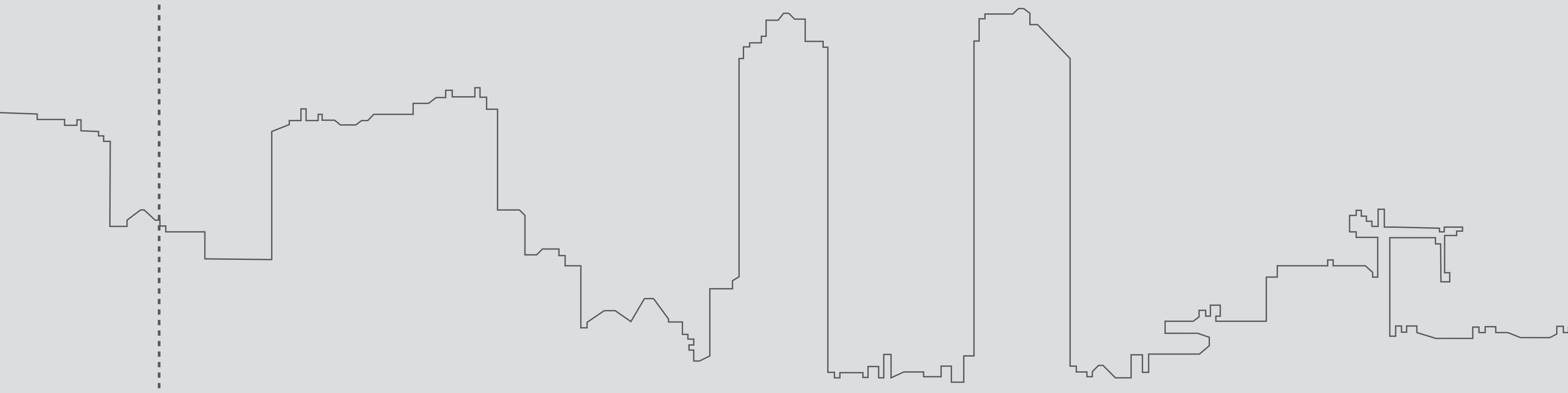
INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN
2015-2019



Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

INDONESIA
FINANCIAL SERVICES
AUTHORITY

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CHAIRMAN FOREWORD

Praise the Lord God Almighty for His blessings on the completion of the Indonesian Financial Services Sector Master Plan for 2015-2019 by the Indonesia Financial Services Authority (OJK).

Pursuant to Act Number 21 of 2011 concerning the Financial Services Authority, OJK was established in Indonesia to ensure all activities in the financial services sector are managed in an orderly, fair, transparent and accountable manner; to create a sustainable and stable financial system; and to protect the interests of consumers and the public alike.

Given the broad scope of OJK objectives as well as the authority mandated by the OJK Act, the public have naturally placed high expectations on the financial services sector in terms of enhancing its strategic role to bolster domestic economic activities. In addition, domestic financial services sector development will also be determined by OJK's success in regulating and supervising the sector. To support the execution of the OJK's duties and function, a clear direction is required to safeguard the future development of the national financial services sector.

However, we at OJK are also fully aware the recent global developments have exposed escalating headwinds and ubiquitous uncertainty that have blighted the domestic economy. The resultant economic downturn, which has been experienced by nearly all economies around the world, demands an unconventional response to prevent a further deterioration in economic conditions. As such, the development direction of the Indonesian financial services sector should address the onerous short-term challenges, in particular to back the national exit strategy from the lingering financial sector turbulence.

Against such as inauspicious backdrop, OJK prepared an integrated and comprehensive blueprint for the development of the national financial services sector through the 2015-2019 Indonesian Financial Services Sector Master Plan. The Master Plan consists of three primary focuses, namely optimizing the supporting role of the financial services sector in accelerating domestic economic growth (contributive), safeguarding financial system stability as a foundation of sustainable development (stable) as well as attaining public financial well-being and nurturing equitable development (inclusive).

The preparation of the Master Plan was also aligned with the national economic development programs set forth in the 2005-2025 National Long-Term Development Plan and the 2015-2019 National Medium-Term Development Plan. The development direction of the national financial services sector, according to the Master Plan, will be further elaborated through initiatives and programs contained in roadmaps for each respective financial sector.

OJK is avowedly committed to achieve the objectives and goals stipulated in the Master Plan. We are well aware that implementation will require effective coordination with all relevant stakeholders. Furthermore, the financial industry is also expected to participate in creating innovative and incremental breakthroughs to develop the financial services sector. The attainment of such worthy goals will not be easy but neither impossible.

In closing, on behalf of the Board of Commissioners, I would like to express my utmost appreciation to all those who participated in the preparation of the Master Plan. We sincerely hope that the Master Plan will be used as a reference for all industry players and other relevant parties in terms of advancing the financial sector, thereby allowing the sector to provide greater value added to the national economy and, in turn, improve public prosperity.

Chairman of the Board of Commissioners
The Indonesia Financial Services Authority (OJK)

Muliaman D. Hadad, Ph.D.

Rahmat Waluyanto, MBA, Ph.D.
Vice Chairman of the Board Commissioners

The presence and strategic role of the Financial Services Authority (OJK), as the sole authority mandated to supervise and regulate the financial services sector has exposed an inevitable requirement for a comprehensive Master Plan to develop the financial services sector for the upcoming five years. Fundamentally, the substance of the Master Plan is a reflection of thoughts, duties, functions and commitment of OJK to ensure the financial services sector directly and sustainably backs ongoing efforts to foster growth and boost prosperity.

The Master Plan specifically addresses the function of strategic management at OJK through the optimal development and utilization of resource potential, including human resources, the organizational framework as well as organizational infrastructures and suprastructures in order to support achievement of the organization's overarching goals.

Nelson Tampubolon, S.E., MSM.
Chief Executive of Banking Supervision

As the current backbone of the financial services sector, the banking industry is urged to play a more significant role not only in terms of underpinning financial system stability but also to help realign the structure of the national economy in a more sustainable and inclusive manner. To that end, integrated risk management should be enhanced in the banking industry through compliance with international standards in response to increasingly developed and complex conglomerates operating in the financial sector.

Furthermore, the banking industry is also expected to initiate sectoral shifting in favour of extending financing to productive sectors with a large multiplier effect through efforts to broaden access to banking services throughout the Indonesian archipelago based on information technology in order to help restructure the economy. The initiatives contained within the Master Plan require efforts to enhance the human resources employed in the banking industry to meet international standards, thus remaining competitive in the face of the ASEAN Economic Community 2020.

Ir. Nurhaida, MBA.
Chief Executive of Capital Market Supervision

The Indonesian Financial Services Sector Master Plan contains important initiatives and strategies as a basis for financial services sector development in the medium term. Pertaining to the capital market sector, the Master Plan also incorporates various breakthroughs intended to enhance the role of the capital market in fulfilling the financing requirements of the business community, including long-term financing. I believe that synergy between the capital market and other sectors, coupled with financial market deepening, would enhance funding capacity to support national development.

DR. Firdaus Djaelani, M.A.
Chief Executive of Nonbank Financial Industry Supervision

The nonbank financial industry (NBFI) plays a critical role in the national economy as a source of financing, provider of risk protection and provider of pension programs, amongst others. The increased rapidity of globalization, including the imminent ASEAN Economic Community, more complex risk exposures and the emergence of financial conglomerates have prompted OJK to prepare a Master Plan for the development of the national financial industry. Consequently, the financial industry is expected to contribute more to economic growth, create stability and promote social justice in the national economy.

The Indonesian Financial Services Sector Master Plan functions as guidelines and targets for the development of the financial services sector. Therefore, it is the responsibility of all stakeholders to assure its success. Supported by the determined confidence and avowed commitment of OJK and all industry players, I believe that we can achieve the stated objectives.

Prof. DR. Ilya Avianti, S.E., M.Si., Ak., CPA.
Chairman of the Audit Board

The 'impossible trinity' is applicable when formulating economic policies, namely that no particular policy can simultaneously improve growth, stability and equality, thereby requiring the three objectives to be prioritized. There is, however, a common thread that unifies the three objectives, namely governance. Robust growth could be achieved, for example, through a relaxation of policies. Through good governance, mounting incompliance risks from relaxed policies could be controllable, hence maintaining stability. Well-governed robust growth would also precipitate equality in line with the main principle of governance, namely fairness.

Governance is the main pillar of the Indonesian Financial Services Sector Master Plan. Consequently, I am convinced that the growth we are seeking through the Master Plan is high-quality, bringing with it stability and equality.

DR. Kusumaningtuti Sandriharmy Soetiono, S.H., LLM.
Member of the Board of Commissioners, Consumer Education and Protection

In the current era of globalization, accompanied by rapid information technology advancement, consumer education and protection appears inevitable for the financial services industry. This paradigm shift would strengthen measures towards financial inclusion and financial market deepening, thereby maintaining financial system stability and catalyzing economic growth. A broad spectrum of initiatives and strategies are unambiguously set forth in the Indonesian Financial Services Sector Master Plan, the presence of which is expected to provide measured directions to all relevant parties, as well as garner confidence in domestic financial markets.

Mirza Adityaswara, S.E., M.App.Fin.
Ex-Officio Member of the Board of Commissioners from Bank Indonesia

The Indonesian financial services sector has demonstrated tenacious resilience over the past decade. Therefore, the Master Plan is expected to provide a solid foundation along with strategic measures to create a stable financial services sector, thereby increasing the sector's contribution to sustainable economic growth.

Prof. DR. Mardiasmo, MBA., Ak.
Ex-Officio Member of the Board of Commissioners from Ministry of Finance

The Government has placed strong emphasis on the role of the financial sector in terms of boosting economic activities as well as supporting priority economic sectors. Such pivotal aspects have been thoroughly addressed in the Indonesian Financial Services Sector Master Plan. Through synergy between OJK and Government, as well as other relevant agencies, the strategic role of the financial services sector will be optimised and further enhanced in the future.

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INDONESIAN
FINANCIAL SERVICES SECTOR
MASTER PLAN
2015-2019

Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

CHAPTER I
INTRODUCTION

I. BACKGROUND

The financial services sector (FSS) is one of the primary determinants of economic dynamics in a country. Not only does it serve to provide funds for production and consumption, the sector also acts as a medium for the public to save. With its dominant role, FSS performance determines the undulations of economic activity in any given jurisdiction due to increasingly innovative financial products.

The role of the FSS in the Indonesian economy has a storied history. In the context of the modern Indonesian economy, however, the role of the FSS increased significantly in the wake of financial sector deregulation in 1983. Deregulation intended to create a more competitive financial sector to support economic growth, which tended to moderate after the first oil bonanza. Furthermore, Indonesia deregulated the FSS several times thereafter in order to enhance its role in terms of supporting growth.

Experience from a number of financial crises occurring over the past two or three decades has shown a more fragile side of rapid FSS growth, namely its vulnerability to external and domestic economic shocks. Such shocks commonly occurred during periods of rapid FSS growth, surpassing that of the real sector. The impact of instability is significant, however, and could even spur a recession similar to that experienced by the global economy for nearly the past decade.

Therefore, FSS development should be consistent with real sector development. More importantly, FSS development should be in accordance with macroeconomic fundamentals. Indonesia with all of its advantages, including a vast geographic area, large population and abundant natural resources, holds great potential to grow prodigiously. Naturally, the FSS will play a pivotal role in the realisation of optimising such potential and establishing higher quality, sustainable economic development. Such a process should be maintained without significant fluctuations in the economic cycle.

The Financial Services Authority (OJK), as an independent body mandated to regulate and supervise the domestic FSS, has a vested interest in measured FSS development to meet the needs of the public, while catalysing economic development. Furthermore, this process should avoid triggering undue ripples. Given its importance, there is an urgent need to prepare a master plan to lay out the strategies and direction of FSS development in Indonesia. Consequently, the FSS should expand in a measured manner to the benefit of industry players, while simultaneously ameliorating public welfare.

The Master Plan has gained prominence recently in light of domestic economic rebalancing and global financial sector reforms. The process will influence the national development direction of the FSS. In addition, the master plan will utilise an integrated approach taking into account the intersectoral linkages between different sectors of the financial industry[1] in order to significantly boost FSS capacity. Furthermore, the master plan will be required to anticipate various changes in the form, transaction method and operation of the FSS in the future, including exploiting information technology in the era of digitalisation.

II. CHANGES IN GLOBAL ECONOMIC ORDERS AND FINANCIAL REFORMS

During the past decade, the global economy has confronted several onerous challenges, comparable to that of the Great Depression in the 1930s. Triggered by the US subprime mortgage debacle, the snowball effect of modified financial products caused unimaginable catastrophes, which impacted not only the FSS but also spread through contagion to economic activities in all corners of the globe.

Learning from the crisis, many jurisdictions undertook the necessary steps jointly to overcome the global recession as championed by G20 members. Nearly all countries undertook easing measures, mainly in the form of monetary stimuli to boost economic activities. Of no less importance were global financial reforms to tighten FSS regulations that intended to prevent excessive risk taking as well as to enhance the structure and fundamentals of the FSS. If profit appeared to be the primary objective in previous eras of economic boom, financial system stability is now the mantra.

The G-20 forum also raised the issues of balanced growth and strengthening micro and small enterprises as a solid basis to create a sound financial system. Experience from the Asian financial crisis demonstrated that micro, small and medium enterprises (MSMEs) exhibited greater resilience to shocks. Attention to MSME activities requires the backing of financial inclusion programs to expand public participation in the FSS. For emerging economies, financial inclusion programs are as important as financial market deepening.

[1] *The FSS development strategy was previously formulated by institutions that performed the regulatory and supervisory function. Bank Indonesia compiled the 2004-2013 Indonesian Banking Architecture, while the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) released the 2009-2014 Capital Market and NBFI Master Plan.*

Upon closer inspection, the measures introduced by global economic authorities seem similar to what Indonesia went through almost twenty years ago. The preliminary measure was to bailout the economy by rescuing the systemically important financial institutions. Economic authorities in many jurisdictions also introduced stimulus packages to restore the confidence of the financial industry and economy.

Such measures initially seemed quite promising. The global economic recovery process gained momentum, albeit unevenly, and Asia emerged as the engine of the world economy. A growing number of cases and frauds detected in the financial industry, however, exacerbated by the contagion effect of growth imbalances, ultimately trapped the global economy in a labyrinth of crises.

It is also interesting to note that, even though the global reforms pioneered by G-20 countries and translated by the various financial regulatory standard setting bodies are binding to all members, their implementation depends significantly on the national interests of each jurisdiction. This contradicts the rapid surge of globalisation and technological advancement, which have made it impossible to isolate domestic economic activities from global economic dynamics.

Experiences gleaned from previous crises have emphasised the importance of quick and effective resolution measures to prevent dwindling public confidence. In addition, effective coordination among the relevant authorities is critical. Within a global context, the speed at which recovery measures were undertaken appeared to be a differentiating factor of recovery in each jurisdiction. In addition, excessive consideration of domestic interests also slowed the global economic recovery. Therefore, on top of political will, volition was also required from the various authorities in different nations to jointly overcome the recession globally.

From the lessons learned, within the Indonesian context, good coordination among the relevant authorities, including legal and political entities, is a necessary prerequisite to accelerate growth and improve financial system stability. It is for this reason that a master plan needs to be prepared and compiled by all relevant parties, referring to the government's medium and long-term development plans as contained in the 2015-2019 National Medium-Term Development Plan (RPJMN) and the 2005-2025 National Long-Term Development Plan (RPJPN).

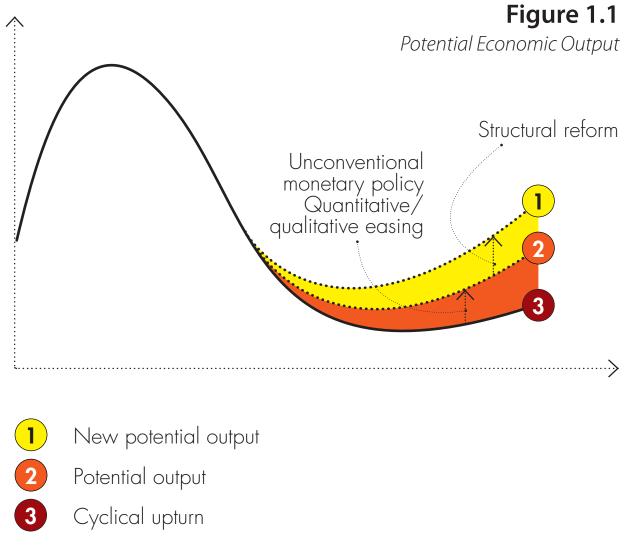
As a state institution that regulates and supervises the national FSS, OJK also requires a master plan detailing the development direction of the FSS, which is also aligned with medium and long-term development programs. In addition to strengthening of the structure of the national FSS in line with global financial reforms, the master plan was also compiled to enhance FSS preparedness for global and regional competition

III. OPTIMIZING THE ROLE OF THE NATIONAL FINANCIAL SERVICES SECTOR BY EXPLOITING ECONOMIC POTENTIAL AND ADDRESSING THE CHALLENGES

The FSS is urged to optimize its role in line with ongoing national economic transformation towards stronger and more sustainable growth. The FSS must become a catalyst of change from cyclical upturn to output potential, perhaps even realizing a higher output potential **(Figure 1.1)**.

Figure 1.1

Potential Economic Output

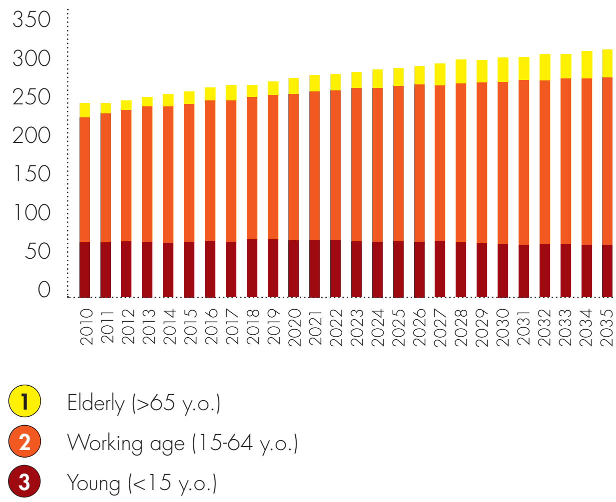


Exploiting Indonesia's potential could be considered invaluable capital to establish the country's position as a future economic powerhouse. Such optimism is warranted due to relatively robust economic growth despite the devastation wrought by the crisis on the global economy. Based on GDP at current prices, Indonesia is the 16th-largest economic power in the world and ranked 8th using the GDP purchasing power parity[2] approach. In addition to robust growth, Indonesia has a number of other economic potentials and advantages as follows:

- **Geographic Location.** Indonesia benefits from a geographic advantage, namely by occupying a vast and strategic area between two continents, Asia and Australia, as well as two great oceans, the Pacific Ocean and the Indian Ocean. Indonesia is also located on one of the world's busiest and most important shipping lanes, the Southern Route that links Asia and Europe.
- **Natural Resources.** Indonesia is blessed with abundant natural resources, consisting of minerals as well as agricultural produce and rich ocean fisheries that represent a valuable asset for the development of the manufacturing industry, which could provide greater productivity and value added. Furthermore, the existing natural resources are also an asset for the development of renewable energy.
- **Demographic Bonus.** The population of Indonesia is the fourth largest in the world and the largest in ASEAN. Over the upcoming two decades, Indonesia will benefit from a dominant working-age population, accounting for 70% of the total n **(Figure 1.2)**. The large, educated and technical-savvy productive-age population is a valuable asset in the realization of stronger and more sustainable economic growth..

Figure 1.2

Composition of Indonesian Population By Age



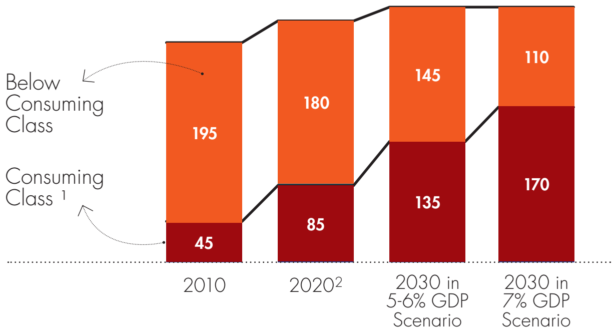
Source: National Development Planning Agency, Statistics Indonesia (2013)

- **Flourishing Middle Class.** During the decade from 2010-2020, as many as 40 million Indonesians are predicted to join the middle class, thereby totaling 135 million people in 2020 and accounting for one-third of the total population. The nascent middle class is denoted by an income level beyond that required to meet the basic necessities, which therefore boosts public purchasing power. Consequently, the need for financial services and products for the purposes of consumption, production and investment is projected to spiral in line with the thriving middle class **(Figure 1.3)**.

[2] *GDP used to calculate the standard cost of living.*

Figure 1.3

Middle-Class Growth in Indonesia



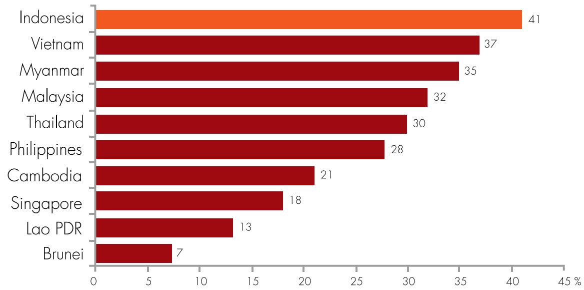
[1] Consuming class defined as individuals with an annual net income of above $3,600 at 2005 PPP
[2] Based on annual GDP growth between 5 and 6%

Source: McKinsey Global Institute (2012)

- **Investment Prospects** With such abundant potential, Indonesia is considered one of the most prospective foreign investment destinations. A 2014 survey conducted by the Economist Intelligence Unit (EIU) of global industry players revealed that other than Brazil, Russia, India, China and South Africa (BRICS), Indonesia also has the most promising growth potential. Although Indonesia remains slightly behind a couple of neighbouring ASEAN countries, optimising the existing potential would catapult the economy onto a faster growth trajectory. Another survey, this time performed by the American Chamber of Commerce in 2015, found that Indonesia is the leading investment destination in ASEAN **(Figure 1.4)**. Foreign investment data for the ASEAN region showed that since 2008, Indonesia has been the recipient of the second largest deluge of foreign capital inflows after Singapore **(Figure 1.5)**.

Figure 1.4

Preferred Location in ASEAN for Business Expansion by US Firms

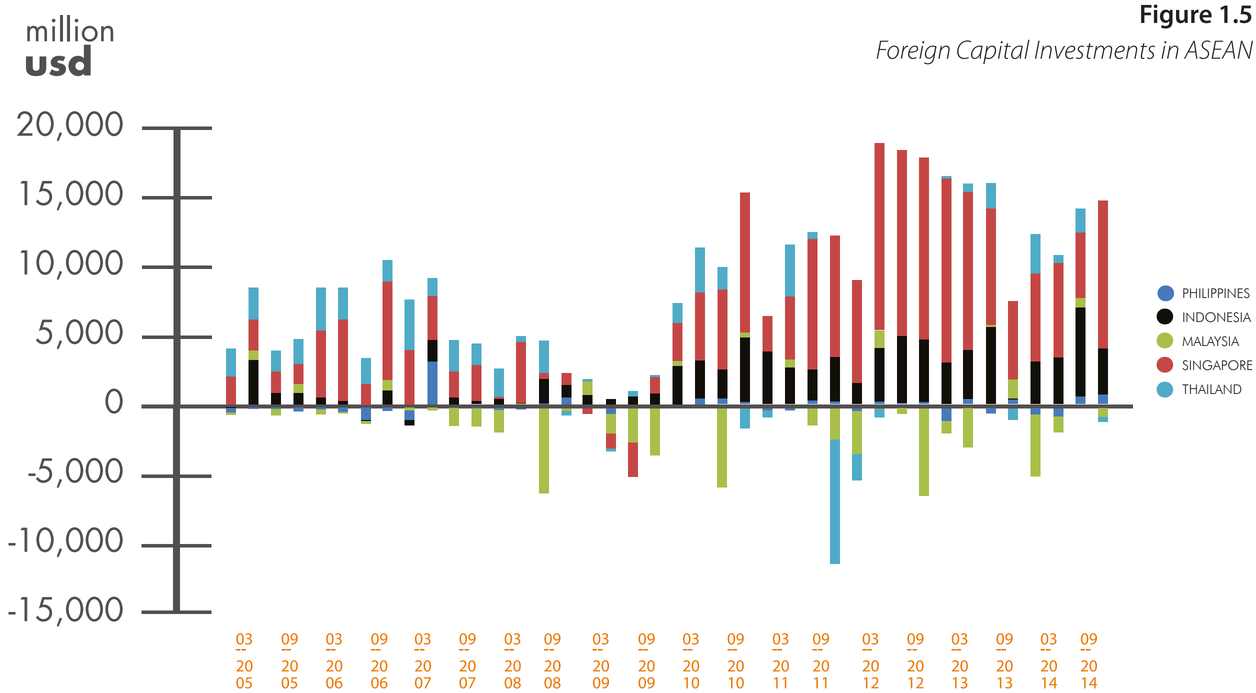


Source: ASEAN Business Outlook Survey 2015, American Chamber of Commerce

- **Sharia FSS Potential.** Potential sharia financing growth is almost boundless in Indonesia, with Muslims accounting for 88.1% of the total population, which represents the largest Muslim population in the world, accommodating 12.7% of the world's Muslims. According to the Islamic Finance Index, Indonesia is amongst the top ten most conducive environments to sharia FSS development **(Figure 1.6)**.

Figure 1.5

Foreign Capital Investments in ASEAN



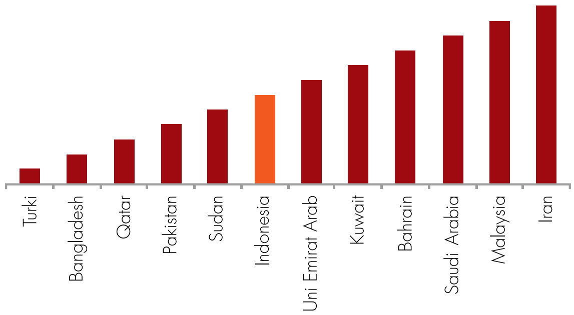
Sumber: CEIC Database

Table 1.1
Ease of Doing Business Index, 2015

COUNTRY	RANK OF Doing Business
Singapore	1
Malaysia	18
Thailand	26
Vietnam	78
Philippines	95
Brunei Darussalam	101
Indonesia	114
Cambodia	135
Lao PDR	148
Myanmar	177

Source: World Bank

Figure 1.6
Islamic Finance Index

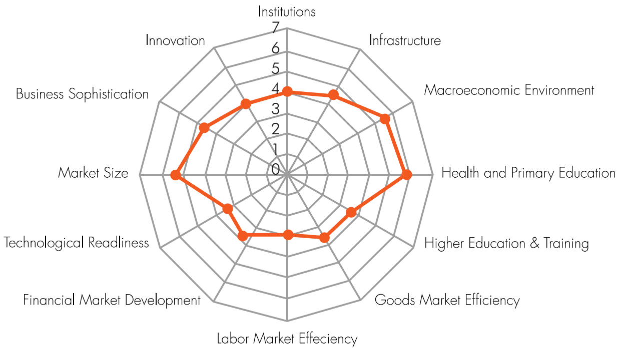


Source: Global Islamic Finance Report 2014

Despite the generous domestic potentials and advantages, Indonesia must also anticipate the panoply of challenges faced in order to create a more solid economy. The salient challenges include the following:

- **Global Competitiveness.** According to The Global Competitiveness Report, Indonesia ranked 34th out of 144 countries, placing Indonesia fourth in ASEAN. Rampant corruption, limited access to financing and relatively high inflation are undermining the competitiveness of Indonesia **(Figure 1.7)**. In the context of ease of doing business, the World Bank placed Indonesia 114th in the world and sixth in ASEAN, citing the ease of doing business and construction permits as the key impediments **(Table 1.1 and Figure 1.8)**.

Figure 1.7
Global Competitiveness of Indonesia



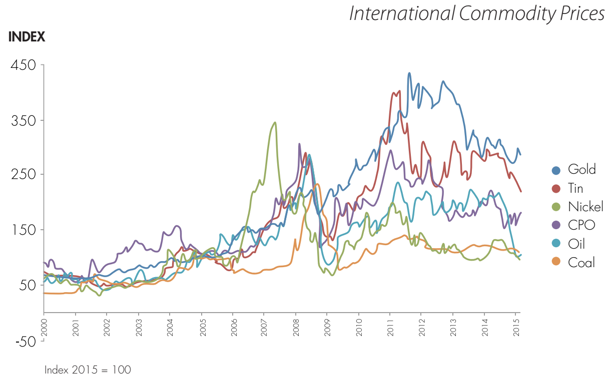
Source: The Global Competitiveness Report 2014-2015

Figure 1.8
Ease of Doing Business Index in Indonesia by Component, 2015

Source: World Bank

- **The Protracted International Commodity Price Slide.**
  Since 2011, the majority of international commodity prices have followed a prolonged downward trend **(Figure 1.9)**, which has adversely impacted the trade balance of Indonesia. Consequently, Indonesia must move away from exporting primary products in favour of processing that provides greater value added.

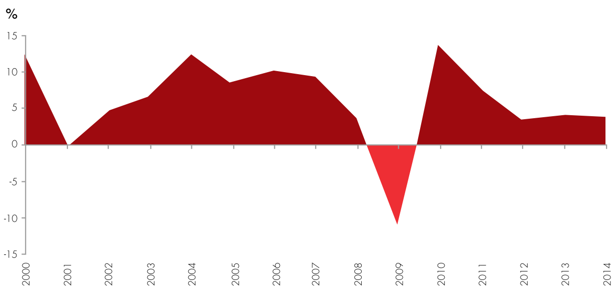
Figure 1.9
International Commodity Prices



Source: Bloomberg

- **Economic Moderation in Trading Partner Countries.** The global financial crisis that has endured since 2008 significantly undermined world trade volume (Figure 1.10). For Indonesia, the spillover has been even more pronounced, considering the deep economic downswing affecting China as a key export destination for Indonesian goods.

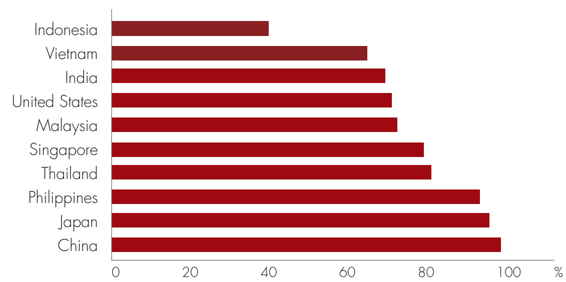
Figure 1.10
World Trade Volume



Source: Bloomberg, IMF

- **A Production Structure based on Primary Products.** According to the World Development Index published by the World Bank in 2012, domestic production in Indonesia still depends on primary products and non-renewable natural resources, accounting for 63% of total exports. Unfortunately, such products provide low added value and are heavily influenced by fluctuations of international commodity prices, which are currently tracking a prolonged downward trend. In contrast, the share of high-tech manufacturing exports accounted for just 7% of total exports in 2013 **(Figure 1.11)**.

Figure 1.11
Proportion of Manufacturing Exports

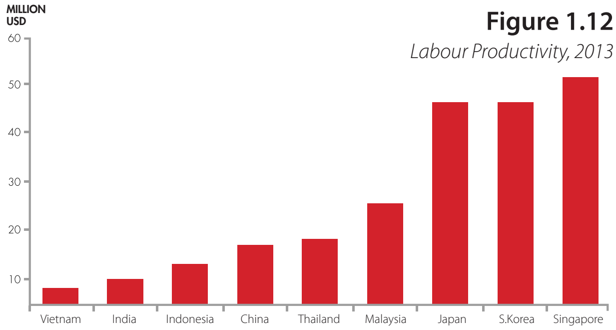


Source: World Bank

- **Low Productivity.** The domestic production structure is also confronting the undesirable reality of low productivity. Based on value added per worker, labour productivity in Indonesia is below a number of neighbouring countries **(Figure 1.12)**.

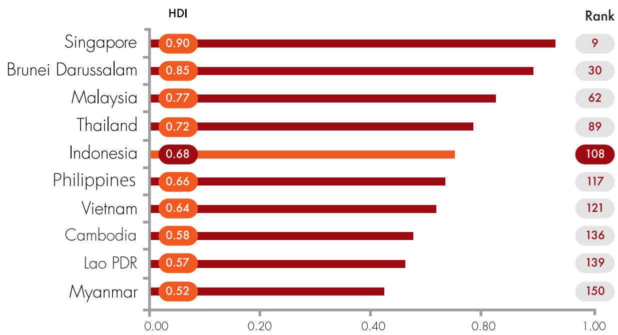
Three important factors influence domestic productivity. The first is the limited quality of human resources. Indonesia's ranking according to the Human Development Index (HDI) is below that of several neighbouring countries **(Figure 1.13)**. The lack of quality human resources does not merely stem from formal education but also vocational programs, including those offered directly in the workplace. The second is the low level of production technology application **(Table 1.2)**. The final factor is limited capital that stifles meaningful gains in production capacity to expand, while also undermining the first two factors mentioned previously.

Figure 1.12
Labour Productivity, 2013



Source: Malaysia Productivity Corporation (MPC), an autonomous entity of the Malaysian government

Figure 1.13
ASEAN Human Development Index 2013



Source: United Nations Development Programme (UNDP)

Table 1.2
Technology Readiness Level in 2014

	Rank	Score
Singapore	7	6.09
Japan	20	5.61
South Korea	25	5.42
Malaysia	60	4.18
Thailand	65	3.94
Philippines	69	3.78
Indonesia	77	3.58
China	83	3.53
Vietnam	99	3.12
India	121	2.75

Source: World Bank

- **Infrastructure Constraints.** Indonesia continues to confront an infrastructure deficit that subsequently determines domestic production capacity. Infrastructure constraints are primarily found in the energy sector (electrification) and transportation sector. The supply of energy in Indonesia is not only inadequate but also unevenly distributed **(Figure 1.14 and Table 1.3)**. Similarly, electricity consumption per capita is also low **(Table 1.4)**. Meanwhile, the road and interisland transportation networks also demand significant improvements in order to overcome distribution constraints and population mobility issues **(Figure 1.15)**. The growth of tarmacked roads from 2008-2012 averaged just 2.7%, compared to vehicle growth of 11.5% (including passenger vehicles, buses, trucks and motorcycles). Consequently, Indonesia has again fallen behind other ASEAN countries in terms of transportation infrastructure availability **(Table 1.5)**.

Table 1.4

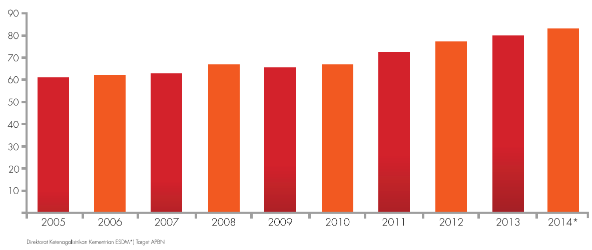
Per Capita Electricity Consumption

Country	Per Capita Consumption (Kwh)
Myanmar	110
Cambodia	164
Philippines	647
Indonesia	680
Vietnam	1,073
Thailand	2,316
Malaysia	4,246
Singapore	8,404
Brunei Darussalam	8,507

Sumber: World Development Indicators, 2015

Figure 1.14

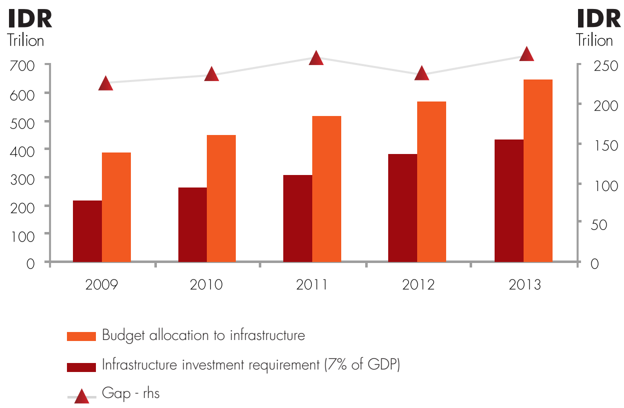
Electrification Ratio of Indonesia



Source: Ministry of Energy and Mineral Resources
**) Target stated in the State Budget*

Figure 1.15

Infrastructure Budget



Source: National Development Planning Agency

Table 1.3

Electrification Comparison Among ASEAN Countries

Region/ Country	Population without Electricity (million)	National Electrification Rate (%)	Urban Electrification Rate (%)	Rural Electrification Rate (%)
Southeast Asia	140	77	92	65
Brunei Darussalam	0	100	100	99
Singapore	0	100	100	100
Malaysia	0	100	100	99
Thailand	1	99	100	99
Lao PDR	1	78	93	70
Vietnam	4	96	100	94
Cambodia	10	34	97	18
Philippines	29	70	89	52
Myanmar	36	32	60	18
Indonesia	60	81	92	59

Source: World Energy Outlook – International Energy Agency (IEA), 2014

Table 1.5

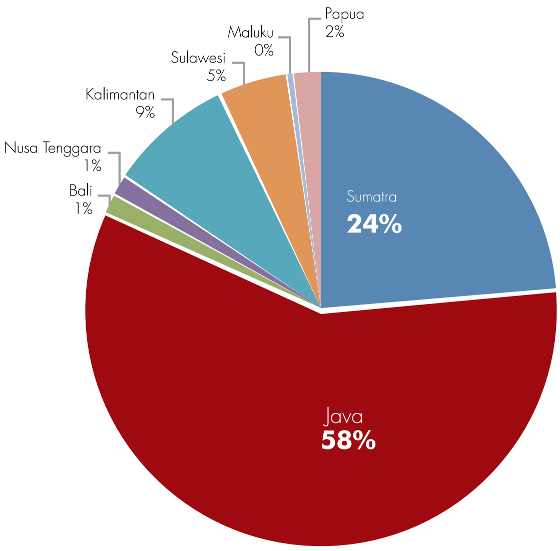
A Comparison of Transportation Infrastructure ASEAN Countries in 2012

	Length of Asphalt Roads Per 1,000 Km2	Number of Vehicles Per 1,000 People
Lao PDR	27.4	202.0
Cambodia	30.2	17.8
Myanmar	48.0	56.8
Philippines	84.9	77.9
Indonesia	148.6	386.0
Thailand	354.8	488.0
Malaysia	432.3	770.0
Brunei Darussalam	446.7	377.1
Vietnam	651.2	17.6
Singapore	4,825.4	179.5

Source: ASEAN-Japan Transport Partnership

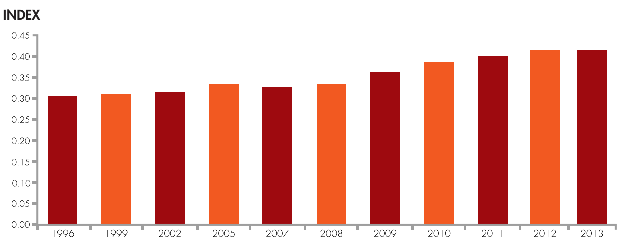
- **Interregional Economic and Income Inequality.** Interregional economic and income inequality represents a classic national economic issue. The island of Java, accounting for just 6.8% of the total land area of Indonesia, is the economic epicentre of the archipelago, generating 58% of domestic GDP **(Figure 1.16).** Another key problem is income inequality. The Gini coefficient of Indonesia **(Figure 1.17)**, which measures income distribution, has increased over the past several years, indicating greater income inequality and a broader income gap.

Figure 1.16
GDRP by Region 2013



Source: BPS

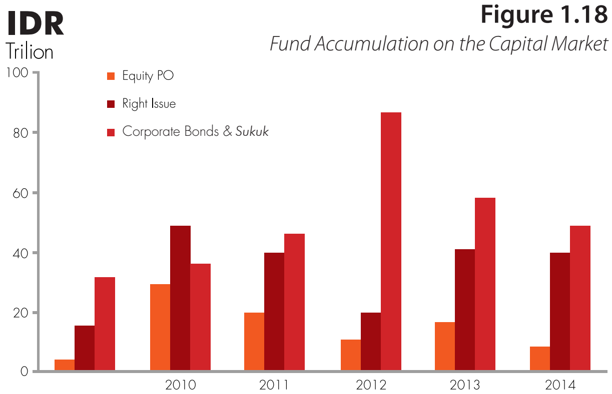
Figure 1.17
Gini Coefficient of Indonesia



Source: Statistics Indonesia

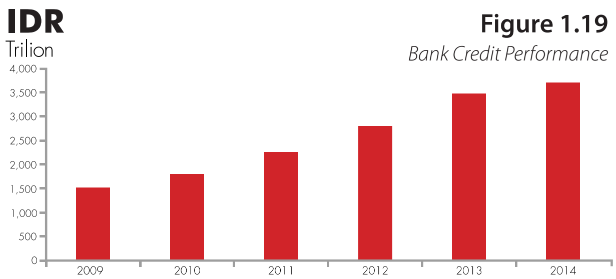
- **Limited Long-Term Sources of Financing.** The banking industry continues to dominate the FSS in Indonesia, which inherently has short-term sources of funds that exposes the industry to mismatch risk. Furthermore, the corporate sector has hitherto failed to exploit the capital market, which offers great potential as an alternative source of infrastructure development funding to bank credit **(Figures 1.18 and 1.19)**.

Figure 1.18
Fund Accumulation on the Capital Market



Source: Statistics Indonesia

Figure 1.19
Bank Credit Performance



- **Shallow Domestic Financial Market.** Financial product and service innovation will become increasingly sophisticated to meet the requirement for economic financing, which could also trigger instability risks, in particular on shallow markets where available liquidity and fair product prices are hard to come by. Consequently, the financial market deepening program must be enhanced constantly in synergy with FSS development. Notwithstanding, financial market deepening must also be aligned with the competence of market players and market preparedness in order to avoid other problems that are no less complex to overcome.

INDONESIAN
FINANCIAL SERVICES SECTOR
MASTER PLAN
2015-2019

Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

CHAPTER II
THE FINANCIAL SERVICES SECTOR IN INDONESIA

I. FINANCIAL SERVICES SECTOR DEVELOPMENT IN INDONESIA

The history of the financial services sector (FSS) can be traced back to colonial days. During that extended period, the FSS not only established its role in economic development, the sector also often experienced undulations that led to instability. Upon closer inspection, shocks in the FSS have become increasingly frequent and of greater magnitude. The majority of shocks could be explained by self-complacency, especially in the pursuit of profit, thereby overlooking intrinsic ability. Economic boom periods tended to be accompanied by procyclicality in the FSS, with the sector oftentimes operating well beyond economic fundamentals. The peak came towards the end of the 1990s, culminating in a crisis that brought Indonesia to its knees.

In response to the 1997/98 crisis, the FSS underwent an all-encompassing restructuring process, focusing primarily on strengthening the supervision function and applying good governance to the industry. The restructuring process also paid due attention to the intermediation role of the FSS in order to support sounder economic growth. Thereafter, from 2001-2008, Indonesia enjoyed average annual growth of 5.2%.

The restructuring process ultimately ensured the FSS's survival in the face of the more recent global financial crisis that struck in 2008. Asset growth of the national FSS from 2010-2014, despite moderating, averaged 17.5% per annum (Figure 2.1).

Solid FSS fundamentals, coupled with the economic potential of Indonesia, have garnered high aspirations for sounder economic development. Nonetheless, the domestic production structure requires much needed revitalization as part of the transformation process to a high added-value economy.

1. Profile of the Financial Services Sector in Indonesia

The FSS in Indonesia is split into three main subsectors, namely the banking industry, capital market and the nonbank financial industry (NBFI). The banking sector continues to dominate the national FSS with an asset share of around 74% of the total. Meanwhile, the respective shares of the mutual funds industry, insurance companies, pension funds and multifinance companies remain comparatively small **(Figure 2.2).**

Figure 2.2
Asset Composition of the Indonesian Financial Services Sector 2014

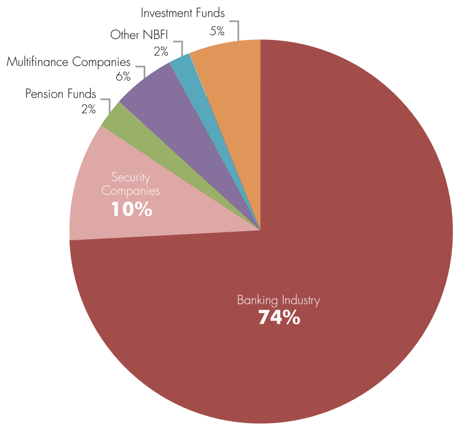
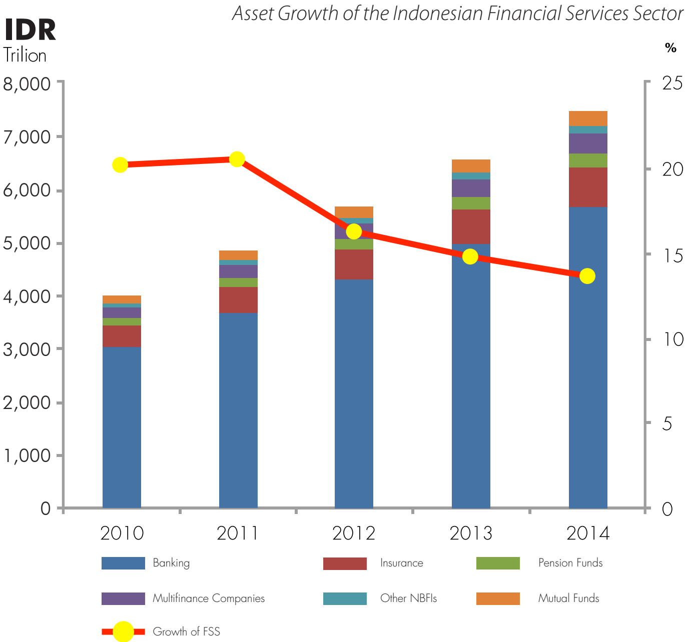


Figure 2.1
Asset Growth of the Indonesian Financial Services Sector



The ratio of FSS assets to the national economy has continued to expand, rising from 57% in 2009 to 73% in 2014. Notwithstanding the expansion, in comparison to other ASEAN countries, the ratio of FSS assets to GDP is relatively low in Indonesia. For instance, the ratio of banking industry assets to national GDP accounts for just 54%, the lowest in ASEAN-5, while the ratio of equity market capitalization has only just reached 53% of GDP **(Table 2.1)**. Similarly, financial intermediation activity to GDP in Indonesia is also comparatively low to other ASEAN signatories. At yearend 2014, the ratio of bank credit to GDP was recorded at 35% in Indonesia, while a number of other ASEAN countries have already achieved levels in excess of 100% **(Figure 2.3)**.

Table2.1

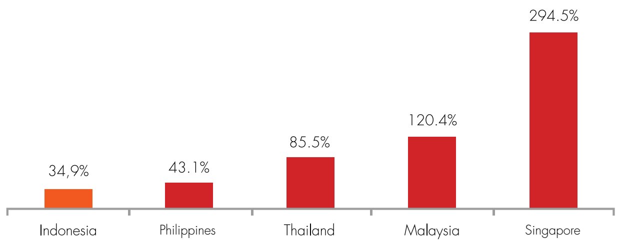
Ratios of the FSS Assets to GDP of ASEAN-5 Countries

	Indonesia	Philippines	Thailand	Malaysia	Singapore
Banking Assets to GDP	54%	88%	142%	208%	359%
Insurance Assets to GDP	8%	8%	23%	23%	46%
Equity Market Capitalization to GDP	50%	113%	105%	149%	256%
Outstanding Government Debt Securities to GDP	12%	49%	33%	55%	25%
Outstanding Corporate Debt Securities to GDP	2%	6%	19%	44%	32%

Source: Indonesia Financial Services Authority, IMF, CEIC Database (2014 data)

Figure 2.3

Ratio of Bank Credit to GDP of ASEAN-5 Countries



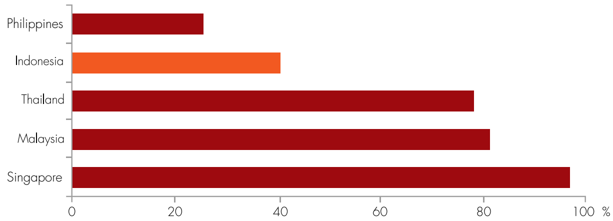
Source: CEIC Data Base, Monetary Authority of Singapore, Bank Negara Malaysia, Bangko Sentral ng Pilipinas, Bank of Thailand, Indonesia FSA (2014 data)

Low financial sector utilization to GDP is principally the result of several factors, namely access to financial products and services, financial literacy and sociocultural characteristics. In the case of Indonesia, the low ratios to GDP also confirm a profound opportunity for future growth.

In terms of public access to formal financial products and services, Indonesia has fallen behind a number of other ASEAN members **(Figure 2.4)**. Such inauspicious findings were further corroborated by the Household Survey conducted by Bank Indonesia, which revealed that a portion of households in the country continue to rely on informal lenders as a source of funds **(Figure 2.5)**.

Figure 2.4

Public Access to Formal Financial Services



Source: Global Financial Inclusion Index 2015, World Bank

Figure 2.5a

Percentage of Households, Inclined to Save by Type of Institutions

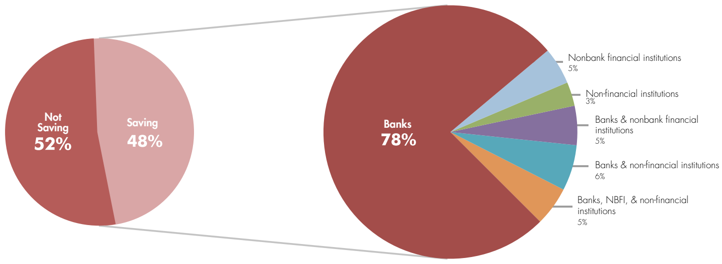
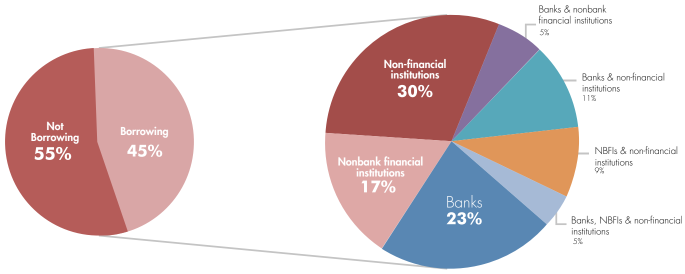


Figure 2.5b

Percentage of Households, Inclined to Borrow by Type of Institution



Source: Bank Indonesia, 2011

The results of a national financial literacy survey conducted by the Financial Services Authority (OJK) in 2013 revealed that public utilization of financial products and services is relatively low in Indonesia. Furthermore, utilization disparities were also evident between sectors, with the banking sector most utilized at 57.3% but pension fund products and the capital market least utilized at just 1.5% and 0.1% respectively **(Table 2.2)**.

Table 2.2

Result of the National Financial Literacy Survey 2013

Sector	Literacy				
	Well Literate	Sufficienty Literate	Less Literate	Not Literate	Utilitasi
Banking	21,80%	75,44%	2,04%	0,73%	57,28%
Insurance	17,84%	41,69%	0,68%	39,80%	11,81%
Multifinance Companies	9,80%	17,89%	0,21%	72,10%	6,33%
Pension Funds	7,13%	11,74%	0,11%	81,03%	1,53%
Capital Market	3,79%	2,40%	0,03%	93,79%	0,11%
Pawnshop	14,85%	38,89%	0,83%	45,44%	5,04%

II. BANKING SECTOR, CAPITAL MARKET AND NBFI PERFORMANCE

As mentioned previously, FSS fundamentals have been sufficiently resilient to the detrimental effects of the ongoing global economic downturn. Institutions operating in the national FSS are currently consolidating to maintain capital, while intermediation capacity continues to improve.

Financial services institutions operating in the banking sector and NBFI in Indonesia continue to consolidate. For example, the number of commercial banks declined from 133 at the end of 2004 to 119 at the end of 2014. Similarly, the number of insurance companies also decreased, from 167 to 141, while multifinance companies have also seen a reduction from 237 to 201 over the same period **(Table 2.3)**. The consolidation process has reinforced the institutional structure of the national FSS, as indicated by a consistent increase in asset value and the intermediation function during the same period.

Table 2.3

Number of Domestic Financial Services Institutions

Financial Services Institutions	2004	2009	2014
Commercial Banks	133	121	119
Rural Banks	2,158	1,733	1,643
Insurance Companies	167	144	141
Pension Funds	321	276	267
Multifinance Companies	237	198	201
Securities Companies	173	157	140
Investment Managers	100	93	78

The intermediation function of financial services institutions in Indonesia also continued to expand as the global crisis unfolded. Bank credit and financing recorded strong growth in 2011 **(Figure 2.6 and Figure 2.7)**, even triggering fears of economic overheating and prompting Bank Indonesia to regulate the loan-to-value (LTV) ratio in order to dampen excessive lending, especially in the property sector. Thereafter, as the global economy deteriorated, the domestic economy also moderated, which undermined the intermediation function of domestic financial services institutions.

Figure 2.6

Bank Credit Growth and Performance

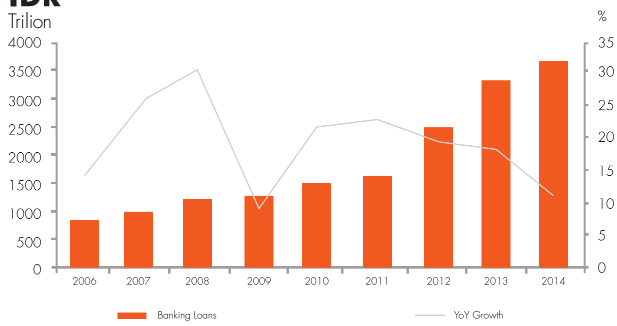
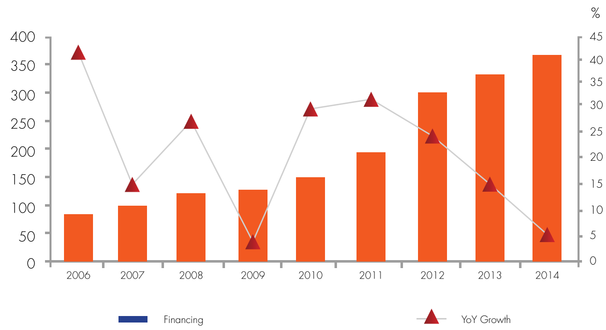


Figure 2. 7

Financing Growth and Performance

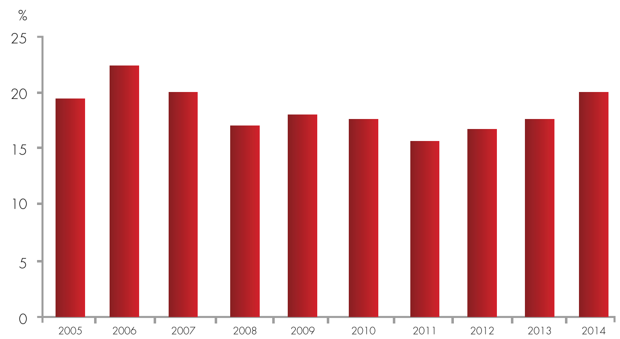


1. Banking Sector Development

In terms of capital capacity, banks have maintained a high and increasing level of capital, with the corresponding Capital Adequacy Ratio (CAR) consistently in excess of 15% **(Figure 2.8)**. Not only have banks maintained a solid level of capital, the composition has remained sound with core capital accounting for 18.01%.

Figure 2.8

Capital Adequacy Ratio (CAR) of the Banking Industry



Non-performing loans (NPL) are yet another indicator of sound banking industry performance, which have remained low and stable **(Figure 2.9)**. From a market risk perspective, the net open position of banks has also been maintained well below the 20% threshold **(Figure 2.10)**.

Figure 2.9
Bank Non-Performing Loans (NPL)

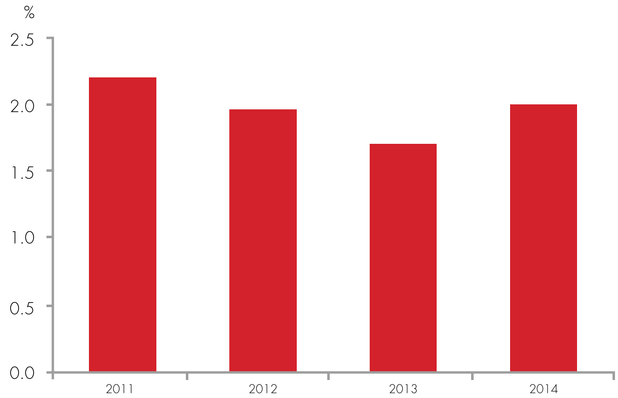


Figure 2.10
Bank Net Open Position (NOP)

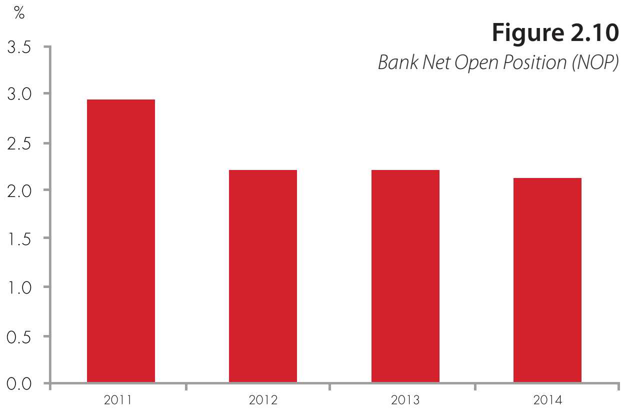


Figure 2.11
IDX Composite Index

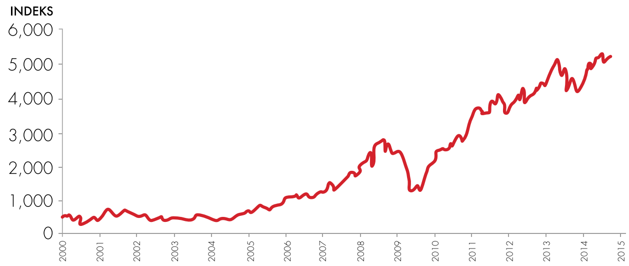
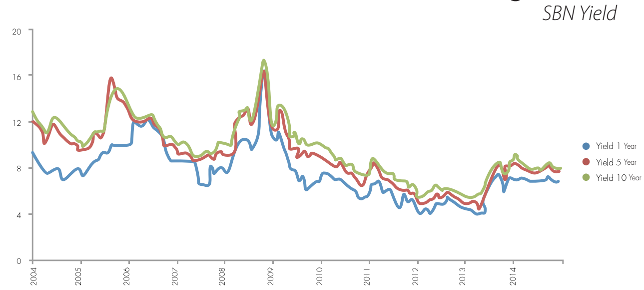


Figure 2.12
IDMA Bond Index

Figure 2.13
SBN Yield



2. Capital Markets Development

The domestic capital market has also performed well, with the IDX Composite Index (Jakarta Composite Index – JCI) tracking an upward tend despite a number of external and domestic shocks. During the period from 2004-2014, the IDX Composite rallied 423% **(Figure 2.11)**. Similarly, the IDMA Bond Index, indicating market prices of tradeable government securities (SBN), also gained during the same period with attractive SBN yields offered to investors **(Figures 2.12 and 2.13)**.

The number of corporations turning to the capital market as an alternative source of funds has also continued to rise, with a growing capitalization value on the stock market. Likewise, the value of outstanding corporate bonds has also followed an upward trend.

Figure 2.14

Number of Stock and Corporate Bond Issuances in Indonesia

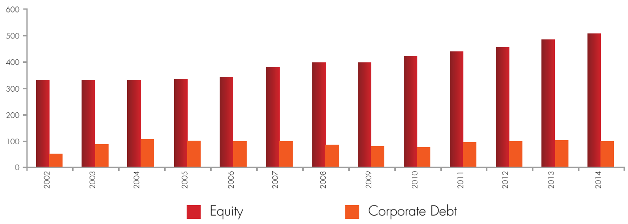
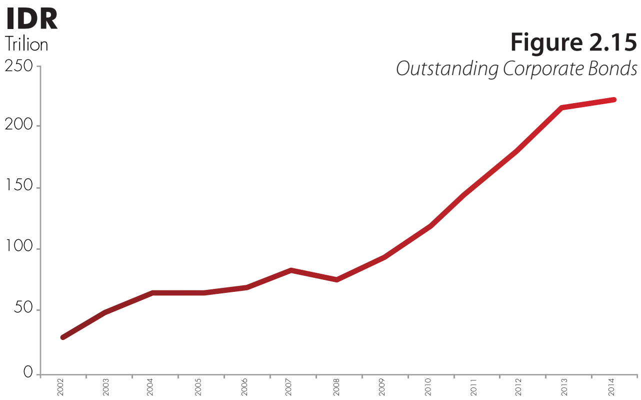


Figure 2.15

Outstanding Corporate Bonds

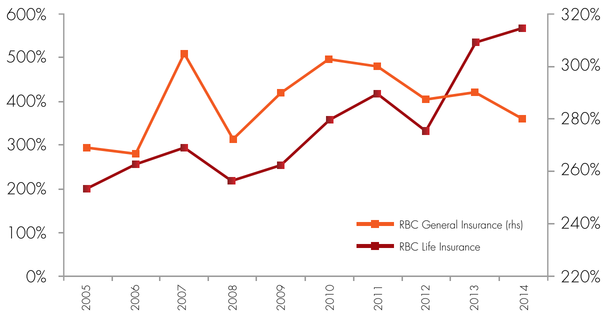


3. Nonbank Financial Industry Performance

The insurance industry has maintained risk-based capital (RBC) at a level beyond the minimum threshold **(Figure 2.16)**.

Figure 2.16

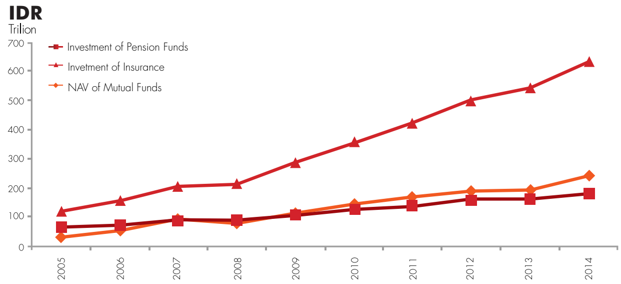
Risk-Based Capital (RBC) of the Insurance Industry



Domestic investment institutions (mutual funds, insurance companies and pension funds) have continued to invest soundly despite facing market fluctuations, as indicated by the rising trend of investment value in the insurance and pension funds industries as well as the net asset value (NAV) of mutual funds **(Figure 2.17)**.

Figure 2.17

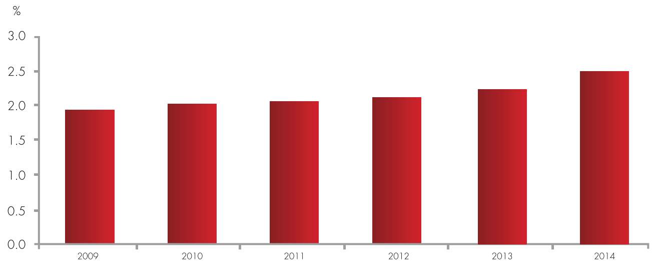
Investment Value of Domestic Investment Institutions



Insurance industry penetration has increased year on year, backed by greater public awareness of insurance products **(Figure 2.18)**.[3] In 2014, insurance industry penetration spiked significantly as the Government rolled out social security programs.

Figure 2.18

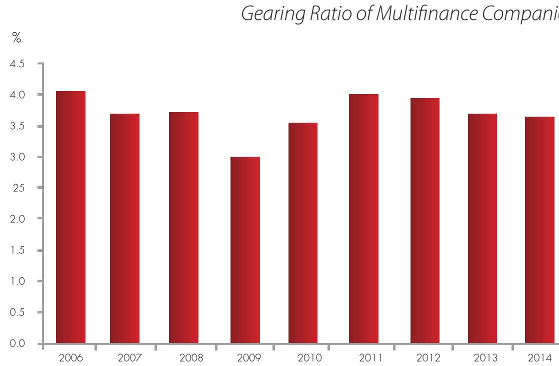
Insurance Industry Penetration



The gearing ratio of multifinance companies at the end of 2014 was 3.60%, which is well below the threshold of 10% **(Figure 2.19)**. indicating generous growth potential for multifinance companies. Furthermore, the non-performing financing (NPF) of multifinance companies has been maintained at a low and stable level **(Figure 2.20)**.

Figure 2.19

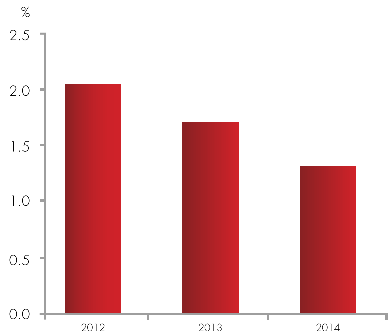
Gearing Ratio of Multifinance Companies



[3] *Insurance penetration in gross premium divided by Gross Domestic Product*

Figure 2.20

Non-Performing Finance (NPF) of Multifinance Companies



III. THE INDONESIA FINANCIAL SERVICES SECTOR MOVING FORWARD

Propitious FSS development must not give rise to complacency, especially considering the growing calls to expand the sector's role in terms of catalysing economic growth against a backdrop of more stringent global financial regulations. A number of innovative breakthroughs are required in terms of FSS development in order to strike an optimal balance between supporting growth and more stringent regulations.

The desired breakthroughs should cover six salient aspects as follows:

First, under the current climate, development should focus on strengthening countercyclical policy to overcome economic moderation. Although the current domestic economic slump is partially the result of the ongoing global slowdown, the contractionary cycle must be broken. To that end, the FSS is a catalyst to reverse the cycle. Furthermore, the FSS must also serve to expand economic capacity, particularly in terms of providing infrastructure to support growth.

The role of the capital market as an alternative source of financing must be prioritised in order to bridge the development funding gap, considering bank financing is short-term in nature and banking industry flexibility has been somewhat stifled by global financial reforms.

Nonetheless, with such a dominant share, the role of the banking industry will remain significant for the foreseeable future in terms of financing economic activity. Consequently, bank capacity must also be expanded in terms of capital, both organically and by increasing shareholder participation. Considering the limited domestic sources of capital, however, foreign participation would be a viable alternative solution. Therefore, an appropriate strategy is required to allow foreign participation in the banking industry and domestic financial markets in order to provide the greatest benefits in the national interest.

Second, FSS development must be aligned with international regulatory reforms in order to maintain financial system stability. At the global level, financial reforms aim to rein in excessive risk-taking behavior, while strengthening the capital structure of financial services institutions through, amongst others, application of the Dodd-Frank Act, Basel III to strengthen bank capital, and the recommendations of the International Organization of Securities Commissions (IOSCO) to strengthen capital market infrastructure and risk management.

The growing presence of financial conglomerates is unavoidable in light of increasingly diverse funding requirements and increasingly complex financial products. Furthermore, an integrated supervisory framework is necessary considering the potential systemic risk that could emerge from the failure of financial conglomerates. The application of integrated supervision is expected to identify the interaction of risks among conglomerate members as well as between different financial conglomerates.

Financial sector reforms also demand improvements to the crisis management protocol. Exorbitant crisis resolution costs forced regulators in various jurisdictions to restrict the use of public funds to bailout troubled financial services institutions. Consequently, financial services institutions are urged to implement bail-in schemes in the event of financial difficulties. Many countries, including Indonesia, have also refined their resolution plans through the application of a recovery and resolution plan (RRP).

The **Third** aspect involves overcoming the issues associated with shallow domestic financial markets, especially in terms of limited liquidity, a narrow selection of products and excessive price volatility, which undermine the utilization of the capital market as an alternative source of economic financing. Such conditions are substantiated by the low number of issuers in Indonesia as well as high market vulnerability compared to other countries in the region. Reforms are therefore required through improvements to market infrastructure, greater investment product development as well as education provided to the public and business community. Through such endeavours, it is hoped that the domestic capital market will play a greater role in the economy as well as build resilience to external and domestic shocks.

Fourth, financial system stability requires support from greater utilization of financial products and services through financial inclusion. Furthermore, the optimization of domestic economic growth must also be backed by adequate sources of funds. The comparatively low ratio of domestic funding to GDP is indicative of potential funding sources yet to be utilized by the domestic FSS. Therefore, the financial inclusion program must permeate all FSS activities both in terms of supply and demand, which will extend broader benefits to nurture economic growth, including the micro, small and medium enterprises (MSMEs) sector. It is also imperative to accompany the financial inclusion program with a public education program that teaches informed financial decisions, while reducing herding behavior that exacerbates volatility on domestic financial markets.

Fifth, as globalization and financial sector integration continue to gain momentum, the domestic FSS must fully exploit the opportunities presented. To that end, the domestic FSS is required to boost its competitiveness by enhancing the competence of human resources, boosting efficiency and so on. From an eternal standpoint, unilateral moves to ensure more stringent regulations, infrastructure improvements and greater foreign market penetration through the principles of reciprocity will help create a fair playing field.

Finally, in line with increasingly rapid digitalization of transactions and operating activity in the FSS, the physical presence of financial services institutions could be diluted without reducing products and services. In contrast, products and services will, in fact, grow increasingly diverse and complex, which will spur new challenges to maintain financial system stability. Consequently, a change is required in terms of the supervisory framework, regulations must be refined and consumer protection enhanced.

The aforementioned issues constitute the basis of FSS development in Indonesia.

INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN 2015-2019

Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

CHAPTER III
BUILDING THE DEVELOPMENT DIRECTION OF THE FINANCIAL SERVICES SECTOR IN INDONESIA

I. BASIC PRINCIPLES OF FINANCIAL SERVICES SECTOR DEVELOPMENT IN INDONESIA

A master plan to direct future development of the financial services sector (FSS) in Indonesia is required based on the description of challenges and potentials facing the sector.

The master plan is compiled in accordance with a number of considerations as follows:

1. **The mandate of the Act Number 21 of 2011 concerning the Financial Services Authority, which stipulates integrated regulation and supervision of all FSS activities.**

   The Financial Services Authority (OJK) is expected to ensure sustainable and stable national FSS growth that can protect the interests of consumers and the public alike. To effectively execute its mandate, OJK requires a comprehensive plan that priorities cross-sectoral interconnectedness when developing the domestic FSS moving forward.
2. **Aligning FSS development with government work programs, in particular the National Long-Term Development Plan and National Medium-Term Development Plan.**

   FSS development, as an intrinsic part of national economic development, must be implemented in synergy with existing development plans in order to realise quality and sustainable growth, while significantly contributing to the national economy.
3. **FSS challenges in terms of supporting the economy, including overcoming the proliferation of financial conglomerates and financial product innovation, while simultaneously minimizing regulatory arbitrage and loopholes.**

   A comprehensive master plan is required, containing the OJK strategy, in response to national FSS development. The master plan is expected to effectively anticipate the variety of existing challenges in a controlled manner, thereby ensuring the FSS can play an optimal role in catalyzing economic activity.
4. **The requirement to strengthen national financial industry competitiveness in order to exploit the opportunities afforded by regional and global financial sector integration.**

   An effective strategy is required to ensure the domestic FSS can fully exploit the opportunities afforded by regional and global financial sector integration. Furthermore, the master plan will serve as a reference for close coordination among relevant authorities in the region, therefore achieving reciprocity that will bridge the gaps that emerge through financial sector integration.

II. FINANCIAL SERVICES SECTOR DEVELOPMENT OBJECTIVES AND DIRECTION

1. Financial Services Sector Development as a Catalyst of Growth

The master plan aims to strengthen the role of the FSS in the national economy, in terms of providing development funding as well as firmly establishing Indonesia's position as a prominent investment destination.

The stated aims could enhance FSS capacity but, conversely, could also expose the financial system to shocks. Consequently, the role of the FSS in the national economy should be expended in harmony with maintained financial system stability.

The master plan will serve as a reference for national FSS development, compiled through an integrated approach. Therefore, the master plan is expected to have a multiplier effect on national economic development, while simultaneously providing a more holistic platform to enhance consumer protection.

The master plan is also expected to create a stable FSS that contributes significantly to sustainable economic growth and, therefore, public prosperity in Indonesia.

The FSS is an intrinsic element of the national economy, therefore the master plan must be aligned with the direction of existing economic development plans, as contained in the National Long-Term and National Medium-Term Development Plans.

Pursuant to the National Long-Term Development Plan 2005-2025, the long-term vision for economic development in Indonesia is to establish an independent, advanced, fair and prosperous country. In the context of the FSS, that vision translates into providing domestic sources of development financing; equitable access to finance; sound and sustainable FSS growth; and adequate human resources that are productive and competent.

The National Medium-Term Development Plan 2015-2019, on the other hand, priorities national transformation to a productive, high value-added economy, which requires large-scale development financing from various sources, including the Government, foreign investment, the FSS and internal funds from the public.

Departing from the development vision of the National Medium-Term Development Plan 2015-2019, there are a number of salient core points of FSS development as follows:

1. Large-scale development funds are required, particularly long-term funds, including infrastructure development financing. Addressing that requirement, future FSS development will priorities the significant provision of development funding.

2. The flourishing middle class will require more financial products and services to fund consumption, production and investment activities. Accordingly, the FSS must adapt to the broader requirement by providing financial products and services tailored to the characteristics of the nascent middle class.

3. Efforts to reduce income inequality will require greater public access to financial products, especially among low-income earners and the unbanked. Expanding the range of affordable products is a must. To that end, initiatives should be encouraged that expand access to financing for micro and small enterprises as well as start-ups by strengthening the role of venture capital and credit guarantee companies, amongst others.

4. Effective inter-authority coordination is necessary along with synergising prevailing regulations in order to create a domestic climate conducive to investment. Consequently, a number of national FSS development initiatives are required to support the corresponding development targets through appropriate regulations and greater policy synergy between the relevant authorities.

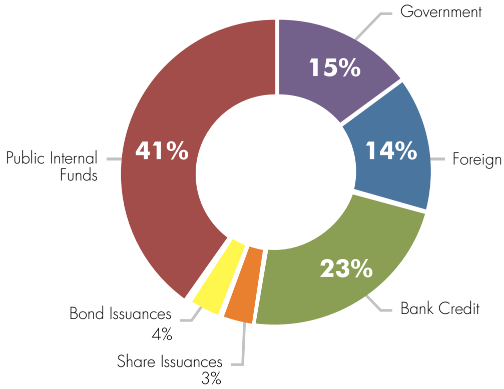
Addressing the aforementioned considerations, FSS development is expected to support the attainment of the national development target set forth in the National Medium-Term Development Plan (RPJMN) 2015-2019. Through transformation of the national economy pursuant to the RPJMN, the economy is expected to grow sustainably on average by 6%-8% per annum, with annual per capita income rising in the country to above USD12,000 by around 2025-2030. The attainment of such lofty targets requires controlling inflation in line with the long-term inflation target as well as bridging the development financing gap as prerequisites.

The requirement for development financing to be met by the FSS as contained in the RPJMN is considerably larg **(Figure 3.1)**. Consequently, the contribution of the intermediation function must be expanded substantially, not solely through the banking industry but also the capital market as an alternative source of corporate financing through bond and share issuances.

A shift in the paradigm when formulating and implementing the FSS development strategy is therefore required. The strategy must acknowledge that it is not 'business as usual' due to unsupportive global economic conditions. Innovative new breakthroughs, in terms of FSS development, are required for the sector to become a catalyst of growth.

Figure 3.1

Composition of Development Funding Needs, 2015-2019



Source: Technocratic Design of the National Medium-Term Development Plan, National Development Planning Agency

Paying due respect to the considerations mentioned previously, OJK compiled a comprehensive master plan for national FSS development that supports efforts to stimulate growth and addresses the current and future economic challenges **(Figure 3.2)**. The master plan is known as the **"Indonesian Financial Services Sector Master Plan 2015-2019"**.

The FSS master plan aims to provide an umbrella for the development of roadmaps in each respective sector of the financial services industry as follows:

- Roadmap to Sustainable Finance in Indonesia 2015-2019;
- Sharia Capital Market Roadmap 2015-2019;
- Roadmap to Sharia Banking in Indonesia 2015-2019;
- Roadmap to Banking Development in Indonesia 2015-2019;
- Roadmap to Good Corporate Governance in Indonesia 2015-2019;
- The National Strategy on Financial Literacy; and
- other roadmaps.

2. The Development Direction of the National Financial Services Sector

Based on the previous analysis, FSS development is directed towards the following:

1. Optimizing the role of the FSS to expedite national economic growth

Moving forward, the national FSS will be directed towards contributing more in terms of catalysing economic activities, while boosting economic capacity in order to accelerate higher quality growth.

2. Maintaining financial system stability as the basis for sustainable development

Efforts to expedite economic growth must be implemented without disrupting overall financial system stability. To that end, the FSS should ensure adequate resilience to external and domestic shocks. Furthermore, financial system stability also represents a solid foundation for sound and sustainable growth.

3. Enhancing public financial independence and supporting equitable economic development

The ultimate goal of national economic development is public prosperity, while overcoming inequality. To that end, the FSS should play a role in realizing public financial independence through financial inclusion.

The development direction of the FSS requires adequate support from human resources and information technology **(Figure 3.3)**. Therefore, a number of initiatives and programs are required that aim to meet the requirement for competent human resources in the FSS in terms of quality and quantity, while optimizing the utilization of information technology.

Figure 3.2

The Role of the Financial Services Sector in National Economic Transformation

Figure 3.3

Directions of Financial Services Sector Development In Indonesia

INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN 2015-2019

Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

CHAPTER IV
INDONESIAN FINANCIAL SERVICES SECTOR DEVELOPMENT DIRECTION 2015-2019

Against the backdrop described in previous sections and paying due consideration to the economic potentials and challenges faced in Indonesia, the Financial Services Authority (OJK) determined three development directions as the overarching focus for the upcoming five years. The new directives were compiled to ensure the financial services sector (FSS) addresses the current economic development requirement, while simultaneously providing a solid platform for future growth. A number of enablers are required, however, to ensure optimal FSS development.

I. OPTIMIZING THE ROLE OF THE FINANCIAL SERVICES SECTOR TO ACCELERATE NATIONAL ECONOMIC GROWTH

At a time of domestic economic moderation and inauspicious global conditions, the FSS is required to play an important role in terms of expediting economic growth. The sector could boost economic capacity and, thus, achieve stronger and higher quality growth, which is essential to absorb the burgeoning labour force and raise the standard of living.

To that end, OJK consistently strives to expand the roll of the FSS in terms of catalyzing national economic growth. The proposed initiative covers a broad spectrum of objectives, including institutional strengthening and amending regulations in order to create a climate conducive to expanding the intermediation function. The initiative will naturally synergise with existing government programs, in particular to provide infrastructure and bolster priority sectors, while propping up the balance of payments. In addition, pursuant to the 2015-2019 National Medium-Term Development Plan (RPJMN), the FSS will also be directed to support the economic transformation process from an economy based on natural resources to one with competitive advantage and high value added.

Optimising the contribution of the FSS to growth will also prevent Indonesia from falling into the middle-income trap, which has been experienced by a number of other developing countries.

1. Funding of Infrastructure and Priority Economic Sectors

a. Optimise the role of financial services institutions (FSI) to ensure food and energy security as well as support other priority sectors

Food and energy security, coupled with infrastructure availability, are prerequisites to robust and sustainable economic growth. Furthermore, food and energy security are always at the forefront of national economic growth because a lack thereof would undermine economic independence and lead to possible social unrest.

Additionally, a lack of infrastructure would make stronger economic growth harder to achieve. The economy of Indonesia requires additional capacity in order to accelerate growth, which is attainable through the provision of new infrastructure. Consequently, food and energy security, together with infrastructure availability, are the overarching priorities.

OJK has placed programs that boost food and energy security as well as provide infrastructure, and those that target other priority sectors determined by the Government, as the main work focus for the upcoming five years.

1. Expand financial products and services to support the agricultural sector

Food security requires all parties to support the agricultural sector. The sector desperately needs financing, for which appropriate financial products and services are vital.

Agricultural financing schemes must be expanded, including measured deregulation. In that context, OJK will develop bespoke insurance products tailored to the agricultural sector to mitigate credit risk.

The proposed insurance scheme will involve the participation of relevant government ministries and industry associations in order to ensure that the needs of the farmers are met, while simultaneously supporting existing government programs pursuant to Act No. 19 of 2013 concerning Farmer Protection and Empowerment.

2. Support funding of the energy and infrastructure sectors

OJK will establish working groups of relevant parties, create expert groups in priority economic sectors as partners of bank supervisors as well as develop an information system for priority sectors in order to expand the financing portfolios of FSI in the energy and infrastructure sectors. In addition, OJK will also establish coordination forums at the central and local levels in order to meet the financing requirements of priority sectors through the provision of fiscal and non-fiscal incentives.

Sources of financing will also be diversified by optimizing the use of private equity funds through investment managers in order to develop infrastructure. In addition, OJK will actively coordinate with the Ministry of Finance, Ministry of Home Affairs and the Audit Board of the Republic of Indonesia in order to promptly issue municipal bonds.

Prevailing regulations permit pension funds to invest in infrastructure financing through asset-backed securities, which will be facilitated by the proposed establishment of an Investors Club to share information and knowledge as well as create synergy in the FSS in terms of investment, particularly in the infrastructure sector.

3. Promulgate prudential policies for priority economic sectors

OJK will encourage the development of financial products and services that support growth in priority sectors in order to optimize the role of FSI over the next five years. To that end, the role of supervisory actions will be expanded to facilitate financing extended by FSI to priority sectors in accordance with the capacity and characteristics of each respective institution.

The vision of each individual financial services institution (FSI) will also determine the development of priority economic sectors. Consequently, OJK will ensure the avowed commitment of FSI management, through fit and proper tests, in terms of financing priority economic sectors.

4. Expand the role of guarantee companies nationally and locally

OJK will continue to expand the role of guarantee companies nationally and locally in order to support FSI financing to priority sectors, especially micro, small and medium enterprises (MSMEs). OJK advocates the establishment of local credit guarantee companies (PPKD) in each province, which are tasked with developing products tailored to priority sectors.

Additionally, OJK will strive to ensure that guarantee companies optimally fulfill their role in terms of mitigating financing risk, which demands coordination and agreement among the relevant parties, especially the central and local governments. Through coordination, products will be expanded to support food and energy security as well as infrastructure availability, while improving synergy between credit guarantee companies nationally and locally.

5. Develop a guarantee scheme to support priority sector development

OJK, in conjunction with the Association of Indonesian Guarantee Companies (Asippindo), has already developed a guarantee scheme for the maritime sector and plans to develop more for other priority sectors. The schemes are refined through inputs from relevant parties, including identifying guarantee objects, guarantee terms, guarantee procedures, guarantee periods, returns on guarantee services, the value and coverage of guarantees as well as the procedure for filing a claim.

b. Optimise the role of FSI in terms of financing specific sectors

In addition to priority economic sectors, the performance of certain other sectors will also determine the success of accelerating national economic growth, for instance sectors linked to exports and housing.

1. Expand the role of export financing to stimulate national exports

An ongoing challenge currently blighting the structure of the national economy is the twin deficit, namely the budget deficit and the current account deficit. Such conditions could be overcome by expanding exports from sectors with high value added. Consequently, it is imperative that the FSS also supports export-oriented activities. One way to achieve this is by optimising the role of the Indonesian Export Financing Agency (LPEI) in terms of both supply and demand as follows:

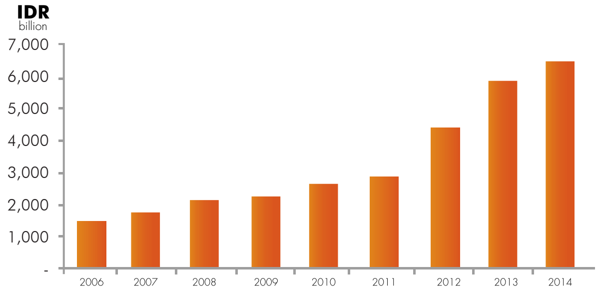
- mapping export-oriented sectors with high value added, while developing import substitution industries that require export financing from LPEI;
- encouraging LPEI to optimize its infrastructure network to cover export-oriented MSMEs throughout the archipelago in order to expand the share of financing allocated to leading industries in each respective region;
- strengthening the role of LPEI in terms of extending export financing, guarantees and insurance as well as providing consultancy services to export-oriented start-ups; and
- monitoring LPEI financing to leading export-oriented sectors determined by provincial governments and ministries.

2. Promote secondary mortgages

In harmony with the government's program to provide housing, OJK has issued a regulation concerning Issuance and Reporting Guidelines for Asset-Backed Securities in the form of Participatory Notes for Secondary Mortgages (EBA-SP). The regulation represents a great opportunity for PT Sarana Multigriya Finansial (SMF), a state-owned enterprise operating in the area of secondary mortgage financing, to channel funds from the capital market to mortgage providers **(Figure 4.1).**

OJK will monitor SMF's efforts to utilise the regulation, including preparation of a business plan, products, marketing and business plan execution. OJK will also simultaneously conduct socialisation activities to expand the utilisation of such products.

Figure 4.1
Secondary Mortgage Financing by SMF



3. Promote maritime sector financing

Congruous with government commitment to grow the maritime sector, OJK urges the FSS to allocate more financing to the maritime sector.

As a preliminary step, coordination is required with the Ministry of Marine Affairs and Fisheries to identify the financing requirement of the maritime sector. Thereafter, understanding of the most pertinent financial products and services for those operating in the maritime sector will be enhanced through working groups in partnership with banks and the fisheries counsellor.

OJK will also encourage bank managers to pay special attention to developing the capacity and understanding of human resources at FSI concerning the maritime sector. Consequently, credit extension to the maritime sector is expected to surge. Furthermore, financing downstream industries to boost added value is also vital. Finally, OJK will also foster the growth of maritime microfinance institutions in collaboration with the Ministry of Marine Affairs and Fisheries.

2. Capacity Building at FSI

a. Strengthen the capital and institutional structure of FSI in order to enhance their role in supporting economic activities

Efforts to expand financing extended by the FSS are determined by the amount of capital and institutional structure of the sector.

1. Increase capital through organic and inorganic growth as well as mergers and acquisitions

Capital is undoubtedly a crucial factor of safeguarding the capacity and sustainability of the intermediation function at FSI. For the banking industry, OJK released policy incentives for conventional commercial banks seeking to consolidate. Furthermore, a special spin-off roadmap will be prepared for sharia business units and the minimum core capital of conventional commercial banks will be raised in line with the reclassification of bank business activities. Capital policy for Qualified ASEAN Banks (QAB) is also forthcoming. For rural banks, however, OJK will formulate policy concerning minimum core capital pursuant to the reclassification of banks according to business activity. OJK will also increase the amount of paid up capital required to establish a rural bank based on the underbanked in the environs as well as refine dividend payout ratio policy to organically raise capital.

Meanwhile, capital will be strengthened at multifinance companies in two stages as follows:

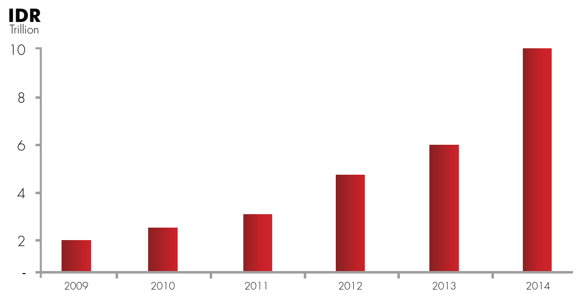
stage 1: raise the minimum capital of multifinance companies to Rp40 billion for corporation-type and Rp30 billion for cooperatives-type in 2016; and

stage 2: raise the minimum capital of multifinance companies to Rp100 billion for corporation-type and Rp50 billion for cooperatives-type in 2019.

OJK will also ensure that insurance companies meet prevailing capital standards. The national reinsurance industry will also be improved through mergers to form national reinsurance companies with a larger capacity **(Figure 4.2)**, in a move that will also enhance the structure of the services account in the national balance of payments.

Besides conventional measures, OJK will also continue efforts to position the capital market as an alternative source of capital by deregulating public offerings.

Figure 4.2
Assets of the Reinsurance Industry in Indonesia



2. Improve the quality and function of FSI, professions and supporting institutions

Efforts to optimise the role of the FSS must coincide with improvements to the function and capacity of FSI, professions and supporting institutions. A number of initiatives will be introduced as follows:

- strengthen the role of legal consultants, notaries and appraisers in public offerings through greater compliance to quality control standards and prevailing codes of ethics;
- enhancing the functions and competitiveness strengthen the function and competitiveness of investment managers by ensuring compliance

to international standards, expanding activities, reclassifying investment managers based on investment management capacity as well as amending the requirements for foreign investment managers to market and/or manage funds in Indonesia;

- strengthen the function of supporting institutions through greater compliance. In the case of custodian banks, in addition to improving compliance, business activities will also be broadened;
- enhance the quality and compliance of mutual fund selling agents by improving product knowledge, while ensuring buyers of mutual funds receive complete information. Compliance to prevailing regulations and reporting policy will also be improved;
- enhance the service quality of securities companies, in particular underwriters, by formulating regulations concerned with internal control, covering the mandatory functions and procedures. This is expected to create a capacity balance and lead to healthy competition between underwriters;
- issue regulations for financial planners, considering the thriving middle class in Indonesia will require financial planning services. There are currently around 12,000 registered financial planners. Consequently, a regulation is required to guide the profession that emphasises consumer protection and greater financial literacy; and
- require risk management and/or investment management certification for pension fund managers along with certification for specific positions and/or functions at multifinance companies. In addition, expertise standards, practice standards that refer to international standards, the code of ethics and the registration mechanism as a supporting industry in the FSS will be refined, including sanctions for violations.

b. Empower associations in the FSS

OJK perceives industry associations as having a strategic role as partners of regulators and other stakeholders in terms of refining regulations, developing business activities, boosting capacity building and discussing emerging issues. The role would be optimal if the associations could represent the interests of all members.

1. Require mandatory FSS membership of related associations

OJK will require industry players in the FSS to join related associations, thereby allowing the associations to optimally build the capacity of their members, while becoming a trusted partner of the regulators in terms of financial services industry development. This policy will affect investment managers, broker-dealer representatives, underwriter representatives and multifinance companies. In the case of multifinance companies, the requirement to join an association will come into effect commencing 2016.

2. Empower associations to prepare codes of ethics as well as enhance the quality and competence of their members

OJK will require all associations of investment managers, broker-dealer representatives and underwriter representatives to have a code of ethics as well as offer ongoing programs to enhance the professional capabilities of their members in order to help expand the role of associations in the FSS. OJK will also coordinate and cooperate with associations and the Government to enhance the quality and competence of banking and banker association members, while identifying specific roles for the banking association in terms of enhancing the quality of human resources in the banking industry as well as establishing an information technology and communication platform.

3. Expand the role of associations in terms of coordinating with stakeholders

The role of associations to enhance the professionalism of members is attainable through cooperation and coordination with stakeholders. Moving forward, OJK will request associations to actively engage the government and other relevant parties. Consequently, the presence of associations will contribute to optimally enhance the role, capacity and competitiveness of the national FSS.

On the other hand, associations are also required to formulate policies and regulations. To that end, OJK will intensify synergy with associations in the FSS in order to formulate more effective policies and regulations.

4. Engage associations with financial literacy programs in the FSS

The financial literacy program initiated by OJK requires the support and active participation of various parties, including associations in the FSS. Referring to the National Strategy Blueprint for Financial Literacy, associations will participate in the financial literacy strategy through individual programs to raise financial literacy or through collaboration with relevant parties as follows:

- conduct educational activities to enhance public financial literacy; and
- strengthen association capacity as a supporting organization of the National Strategy for Financial

Literacy.

Associations are expected to collaborate with various stakeholders, including those in the financial services industry, when implementing both roles.

The ongoing capital market deepening program also requires an accompanying financial literacy program. As more people understand the capital market, more will exploit the various options on offer. OJK will nurture association involvement.

5. Encourage and empower associations to settle consumer disputes

Technological advancements and FSS development have led to increasingly diverse and complex products and services, which occasionally spark problems between consumers and FSI that lead to disputes and require various endeavours to settle without triggering risks at the financial services institution involved. Consequently, industry associations are expected to help settle disputes between consumers and the FSS through establishment of an Alternative Dispute Settlement Institution (LAPS).

3. FSS Product and Service Development as Well as Increased Financial Literacy

a. Develop financial and investment products in the FSS

Financial and investment product development is required to ensure the FSS plays a more optimal role in the economy. Product development is necessary to increase the attractiveness of national financial products, while maintaining national FSS stability. In general, product development is divided into three main policies.

1. Develop investment products, including retail financial products

Concerning the development of investment products, OJK will develop mutual funds with a public offering in the form of a majority investment in foreign securities. OJK will also facilitate application of the ASEAN Economic Community Blueprint through possible foreign Collective Investment Schemes (CIS) in Indonesia. Furthermore, OJK will regulate hedge funds, as an investment product in accordance with the recommendations proposed by the International Organisation of Securities Commissions (IOSCO).

OJK will also develop investment management products using derivative products as the underlying asset. Securities portfolio management services for individuals tailored to the characteristics of each respective individual will also be developed.

Regarding securitisation products, development of other types of underlying assets are required to provide additional asset-back securities on the market. To foster issuances of participatory notes, coordination with the government is required in order to provide incentives and listing regulations on the stock exchange. Socialisation activities will target originators and investors to ensure the success of participatory notes on the market.

2. Develop hybrid products

OJK will regulate the development of hybrid products in the pension funds industry as well as combined financial products from various industries, including insurance, the capital market, banking and pawnbrokers and incorporating retail investment products.

3. Develop derivatives products

With an aim to deepen the capital market and broaden investment alternatives in Indonesia, OJK will intensify efforts to develop derivatives. Derivative products will include index futures, options, derivative instruments with underlying debt securities and structured warrants. In addition, regulations will cover aspects of education and consumer protection as well as optimising the index and developing new indexes due to the sophisticated nature of derivative products.

OJK will also coordinate with the Ministry of Finance to expedite derivative product development as required to expand the tradable government debt market.

b. Develop schemes for FSS products, services and activities

The demand for financial products and services will grow in line with flourishing public prosperity. Therefore, the FSS must continue to diversify the products and services offered, while simultaneously enhancing FSS competitiveness and maintaining service efficiency and reliability.

Development aims to overcome income inequality and limited public access to formal financial services due to the national topography as an archipelago, which is inaccessible to formal financial institutions. Therefore, the capacity of the FSS must expand to stimulate economic activity throughout the country.

1. Diversify FSS services

The rapid advance of technology is a benefit and an opportunity for the FSS to maintain pace with the requirements of financial services users. OJK will always urge FSI to develop and upgrade their information technology systems in order to bolster consumer services. This can be achieved through expansion of the marketing network for securities products by segmenting the broker-dealer function and directing information technology towards collaborative interbank financing and marketing activities. OJK will also encourage banks to develop schemes through research and cooperation with strategic partners.

Securities companies will also encourage the expansion of services, with OJK formulating regulations concerning one-day trade, covering the terms and requirements for securities, securities companies and customers. In addition, cooperation between securities companies and other FSI, such as banks and insurers, will evolve through one-stop services for customer wealth management as well as micro and small customers.

OJK will permit financial institution-type pension funds (DPLK) to manage pension program for severance compensation (PPUKP) pursuant to prevailing tax regulations and will start developing DPLK brokers. Similar endeavours will take place in the insurance industry though the development of traditional insurance markets, disaster insurance and compulsory motor insurance.

2. Develop transaction settlement in the FSS

A transaction settlement scheme will be developed in the FSS, specifically the capital market, in order to boost efficiency. Therefore, OJK urges custodian banks to function as settlement agents through automated clearing confirmation/affirmation (institutional delivery).

In addition, General Clearing Members (GCM) will be developed from large securities companies and custodian banks. Smaller securities companies will be directed towards broker-dealer activities with more limited exposure.

c. Develop and apply sustainable funding principles for the FSS

OJK recently launched the 2014 Roadmap to Sustainable Finance that contains sustainable financial work programs for FSI under the supervision of OJK. The goal of the program is to boost the resilience and competitiveness of FSI in order to grow and provide the funding required by the public, while simultaneously protecting the environment.

The development direction of the FSS must align with the National Medium-Term and National Long-term Development Plans (RPJMN and RPJPN), characterised by pro-growth, pro-job, pro-poor and pro-environment elements. Furthermore, FSS development must contribute to the national commitment to reduce greenhouse gas emissions through preventative and mitigative business activities as well as adaptation to climate change towards a competitive, low-carbon economy.

Following the variety of initiatives contained within the roadmap, OJK will formulate regulations to support sustainable financial development, while providing incentives to FSI that apply sustainable and environmentally friendly business activities.

1. Formulate regulations that support sustainable funding development

Contained within the Roadmap to Sustainable Finance in Indonesia, OJK has a work program to promulgate regulations as an umbrella policy for sustainable finance at FSI. The regulations cover aspects of sustainable funding development, refining the supervision guidelines when implementing sustainable finance as well as the mandatory submission of sustainability reports by FSI.

OJK will also develop green bonds and a green index. In addition, the requirements for companies seeking funding through the capital market will consider environmental aspects, including compliance to Environmental Impact Assessment (EIA), land disturbance permits as well as clean and clear certification for mines and quarries.

OJK also plans to develop green products for insurance and multifinance companies. For the financing industry, green products will provide financing to environmentally friendly businesses. In the insurance industry, however, green products are environmental insurance products.

2. Incentivise sustainable, environmentally friendly business activities at FSI

OJK will provide incentives to FSI that implement sustainable, environmentally friendly business activities in order to encourage such practices. The incentives include supporting sustainable finance, formulating a green lending model, developing a sustainable finance information hub and establishing sustainable finance coordination forums nationally and locally. Incentives for multifinance companies include a reduction in the portion of productive financing.

OJK, in conjunction with the Government, will review the possibility of providing fiscal incentives for sustainable financial activities. OJK will also organize workshops and training on sustainable finance in order to enhance understanding of the subject as well as routinely present awards to FSI that run sustainable finance programs.

d. Expand the consumer base

The results of a national financial literacy survey conducted by OJK in 2013 revealed that financial product and service utilisation is comparatively low in

Indonesia.

The level of utilisation should play an important role in terms of supporting economic growth, while simultaneously bolstering market resilience to external and domestic shocks. To that end, OJK will prioritise a number of initiatives that aim to expand the investor base and build the number of domestic consumers

1. Encourage domestic investor and consumer participation

Investor and consumer participation in all facets of the FSS, including the banking industry, capital market and nonbank financial industry (NBFI), is a critical element of supporting economic growth. To expand the consumer base, in terms of both the total and the coverage, OJK will map financial service coverage to catalyze local economic growth as well as optimise office networks and banking services to expand the investor base and add domestic consumers.

In addition, OJK will also promote insurance and pension fund growth through introductory education programs concerning insurance and pension fund products and services, as well as by refining regulations to expand the role of insurance and pension funds and optimising the capacity of insurance companies and pension funds.

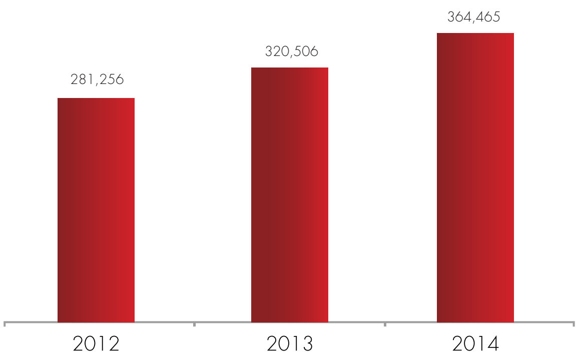
The domestic investor base (Figure 4.3) for the capital market will be expanded through the following actions:

- facilitating the transfer of ownership of mutual fund units without the subscription and redemption process for grants and inheritances;
- permitting the purchase of investment products using the funds of the prospective buyer's family or place of work as well as a loan or credit card;
- encouraging shareholdings by employees, directors and members of the board of public companies and issuers in order to expand the number of investors, while increasing employee motivation and commitment to the company; and
- encouraging securities companies and investment managers to optimise their use of information technology when marketing their products to areas that lack the corresponding representatives of securities companies and investment managers.

FSI must also play an active role in terms of developing financial inclusion models to expand the customer/consumer base, while simultaneously broadening the investor base through financial product and service schemes as part of the National Strategy for Financial Literacy.

By increasing the number of bank, insurance and pension fund customers, the capacity of such institutions to extend financing and investment will also increase.

Figure 4.3
Number of Capital Market Investors



2. Simplify investor and consumer requirements

OJK will continue to simplify investor and consumer requirements in the FSS. In addition, OJK will encourage banks to utilise basic savings accounts as well as develop other financial product schemes and programs to significantly expand the consumer base. In terms of the capital market, Know Your Customer (KYC) principles will be implemented for prospective investors based on risk, which may be expanded to third parties and other FSI.

e. Facilitate access to the capital market as an alternative source of funds

The capital market offers an advantage in terms of long-term financing, thus avoiding potential mismatch risk between the source and user of the funds. Various initiatives will be rolled out to facilitate access to the domestic capital market as an alternative source of funds, while simultaneously deepening the market and increasing resilience.

1. Simplify public offering procedures

OJK will continue to simplify the public offering process in order to mobilise funds through the capital market, while maintaining the quality of information disclosure to the public.

The initiatives to broaden access include refining regulations related to the registration process, deregulating IPOs and rights issues as well as implementing electronic registration.

OJK will also develop electronic book building on the primary market in order to boost efficiency and effectiveness. The scheme is expected to help firms maximise the funds accumulated from the public, while providing added convenience for the public to participate in public offerings.

2. Simplify information disclosure policy

Information disclosure is an integral part of issuers and public companies in order to help investors make investment decisions. Simplifying the information disclosure policy is expected to facilitate issuers and public companies when taking corporate actions, while maintaining the quality and scope of information disclosure to the public.

A number of amendments are being made regarding information disclosure, namely by reducing the number of documents that must be submitted to OJK for business mergers and consolidation of businesses with near 100% ownership, by reducing the frequency of reporting the proceeds of public offerings and providing reporting exemptions for issuers and public companies under certain conditions.

3. Develop securities listing on the stock exchange

Electronic registration to list securities on the stock exchange will be developed. OJK, in conjunction with the Indonesia Stock Exchange, plan to formulate regulations that facilitate companies operating in strategic capital-intensive sectors, such as upstream oil and gas companies, plantations, renewable energy, infrastructure and so on, to list their securities on the stock exchange, thereby securing funding from the capital market.

In addition, OJK will facilitate the stock exchange in terms of refining regulations to list debt securities and sukuk, including simplifying the documentation process and requirements as well as incentivizing the listing of *sukuk*.

4. Optimise the financing role of corporate debt securities and *sukuk*

The financing potential of debt securities has hitherto not been realised, especially by the corporate sector. Consequently, OJK will continue to foster issuances of corporate debt securities and *sukuk*. To that end, OJK will map the main issues and coordinate with related parties to nurture issuances of corporate debt securities and *sukuk*.

Thereafter, public offering regulations will be amended and other products will be developed, such as medium-term notes (MTN), to accelerate utilisation of the debt market as an alternative source of corporate funding.

In addition, OJK will also work with self-regulatory organizations (SRO), Bank Indonesia and the Ministry of Finance to develop the debt securities and *sukuk* market from a variety of aspects, including trading and reporting infrastructure, regulation and supervision, regional debt market development and tax policy.

f. Conduct massive, synergic, structured and comprehensive education throughout the FSS

Efforts to enlarge the contribution of the FSS in terms of expediting national economic growth require a complementary education program to enhance product understanding and utilisation as well as financial services and public investment. For the best results, the education program will need to be massive in scale, synergic, structured as well as comprehensive and encompass all elements of the FSS, including conventional and sharia-based institutions. Educational activities will also optimise the use of information and communications technology (ICT) in order to expedite the dissemination of information on financial products and services.

1. Conduct consumer awareness campaigns to publicise the features, benefits, risks and costs of products and services as well as the rights and obligations of consumers

Public Service Announcements (PSA) will be released to build understanding of financial products and services. The PSA will focus on the benefits, risks and costs of financial products and services as well as the rights and obligations of consumers. The materials will be compiled with the involvement of FSI and FSS associations and disseminated through various media, targeting specific uninformed regions or groups. Furthermore, the awareness campaign will also utilise information and communications technology.

2. Conduct education and socialisation activities that reach all regions of the archipelago and touch all social strata

Formal and non-formal financial education and socialisation will be provided. Non-formal education will target various communities, including housewives, fishermen, MSMEs, migrant workers and so on.

OJK, in conjunction with various FSI, is operating a fleet of financial literacy cars, known as SiMOLEK, in various cities throughout Indonesia in order to reach remote and secluded areas. In the long term, the number of SiMOLEK cars will be expanded to reach a broader coverage area. The education materials will also be developed further in line with the needs of local communities.

OJK, along with other institutions, will also utilise seafaring transportation to provided financial education on remote islands and inland waterways.

Formal financial education will also be provided to primary and secondary schools concerning OJK and FSIs through the national curriculum under the auspices of the Ministry of Education. In the case of sharia finance, education materials will be developed for those attending higher education.

Looking forward, OJK will develop a variety of high-impact financial education models, seeking optimal and measurable results through various delivery channels, including e-learning. The educational program will also be inclusive in order to ensure that all social strata and communities have an equal opportunity to receive financial education.

g. Improve financial management skills

Improving family financial management skills, for instance saving or investing, primarily targets the middle class and low-income earners through outreach programs and training of trainers (ToT).

Outreach programs are a community-based financial education model with system monitoring. The outreach programs target fishing communities, weavers, carvers, farmers and their families. Meanwhile, training of trainers (ToT) targets certain groups, for example teachers, who will go on to educate others. ToT will also be expanded through cooperation with various government and private institutions to utilise their instructors and networks.

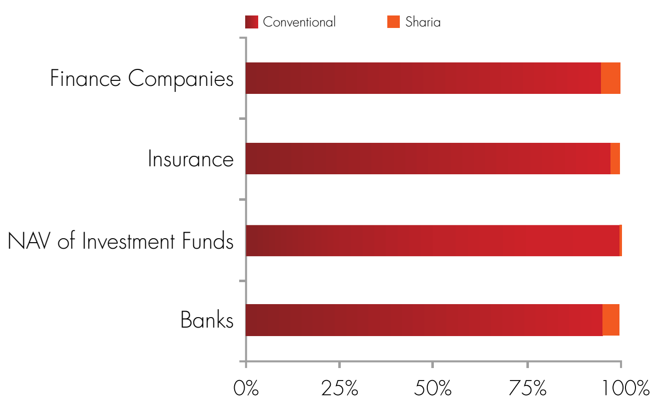
4. Strengthening the Role of the Sharia FSS

a. Enhance business and network expansion as well as sharia financial products

The role of the sharia FSS will be expanded by strengthening capital at sharia FSI, boosting supply and demand for sharia financial products as well as developing new sharia financial products. Therefore, sharia development is expected to expand the share of sharia finance moving forward **(Figure 4.4).**

Figure 4.4

Market Share of the Sharia Financial Services Sector



1. Strengthen capital at sharia FSI

Capital will be strengthened at sharia FSI by amending the statutory core capital requirement, which can be met through IPOs, additional capital from the owners or strategic partners. For sharia rural banks, the capital requirements will be linked to the corresponding operational area.

OJK will coordinate with the Government to review the possible formation of state-owned sharia banks in order to attain the market share growth target.

In terms of NBFI, OJK will regulate the minimum capital requirements for sharia insurance companies, (full fledge) sharia reinsurance companies and sharia multifinance companies as well as set the minimum working capital for sharia windows at sharia insurance companies, sharia reinsurance companies and sharia units.

The strategy to strengthen capital at sharia FSI will also involve regulations for sharia business unit spin-offs, which will be effective no later than 2024 for sharia insurance and reinsurance companies and no later than 2019 for sharia multifinance companies. Furthermore, spin-offs will be permitted for sharia business units at banks no later than 2023.

2. Strengthen regulations for sharia products, institutions and professions in the FSS

Sharia financial and economic product and service innovation will be facilitated by regulations for products, institutions and professions in accordance with prevailing public requirements and characteristics. This will be achieved through working groups to develop sharia financial products and cooperation with the relevant authorities and institutions. Consequently, regulations along with a solid legal foundation will be formulated that better accommodate sharia principles.

OJK will refine sharia insurance product license approval regulations and formulate provisions that require companies to monitor product performance as well as further regulating the policies of the Sharia Supervisory Board. OJK will also develop a publicly-accessible sharia insurance product database to meet the public requirement for such products.

OJK is set to develop regulations concerning good governance and institutional risk management at sharia banks, as well as improve the efficacy of sharia governance in line with best practices and referring to international standards, while simultaneously developing an early warning system application for sharia banks and sharia business units in order to ensure operating activity grows sustainably in an environment of good governance free from excessive risk.

In terms of developing the sharia nonbank financial industry, OJK must institute policy that provides incentives to industry players, including incentives to meet the minimum capital requirements.

OJK will also formulate policy that provides incentives for the development of sharia products and services in order to grow the sharia capital market. The incentives include the following:

- lower fees, for instance licensing fees, registration fees and annual fees;
- deregulate the limits on portfolio placements of specific securities; and
- extend the offering period in order to meet the minimum amount required of managed funds.

For *sukuk* instruments, OJK will draft a sharia securities bill and regulate the rights and obligations of *sukuk* issuers and holders on the underlying asset.

OJK will encourage the market to issue *sukuk*-based sharia mutual funds, foreign sharia-compliant security-based mutual funds, sharia real estate investment trusts (REITs), sharia project-based mutual funds and sharia financial bundling products in order to develop innovative new sharia-compliant investment instruments. OJK will also regulate the sharia trading margin, sharia repurchase agreements (repo) and sharia hedging.

3. Boost the supply and demand of sharia-compliant products

Stimulating demand for sharia products will be achieved through socialisation activities along with a campaign to introduce sharia products and institutions to the public.

On the other hand, the supply of sharia products will be increased through the development of new products. To that end, OJK will develop funding/investment instruments based on profit sharing in accordance with the lifecycle of the customer, sharia savings products for students, sharia liquidity and risk-management (including hedging) instruments as well as introduce policy to foster domestic sharia banking services abroad in countries with strong economic links to Indonesia.

OJK has already encouraged the gradual development of sharia NBFI products, including the expansion of sharia financing industry products, which is directed towards the buying and selling financial model as well as investment financing and service financing. OJK has also collaborated with strategic business partners in the sharia nonbank financial industry to create broad synergic access for the public in order to develop sharia NBFI products. Consequently, OJK will create more diverse distribution channels that are convenient and easily recognisable to the public.

The sharia capital market products to be developed include corporate *sukuk*, municipal *sukuk*, sharia mutual funds and other sharia investment products that will be backed by supporting tax policy. Furthermore, access to the sharia capital market will be extended through banks with existing local branches as well as by fostering the growth of local agents to sell sharia capital market products. In addition, OJK will urge stock exchange members to provide a sharia online trading system (SOTS). OJK will also develop supporting infrastructure to stimulate *sukuk* liquidity on the secondary market. A sharia capital market survey will also be conducted to provide a more comprehensive illustration of perceptions, literacy, utility and public preferences towards sharia capital market products.

b. Create a fair playing field for the sharia FSS

Initiatives to create a fair playing field for the sharia FSS will include pro-growth regulations in line with business characteristics and/or industry preparedness.

1. Formulate pro-growth regulations for the sharia FSS

OJK will reclassify the business activities of sharia banks, promulgate policies required to catalyse growth and bolster the competitiveness of sharia rural banks in terms of the micro segment as well as reconcile risk-management requirements. In addition, the financing-to-value (FTV) policy will be assessed and refined.

OJK will issue regulations concerning the sharia pension funds industry as a legal foundation for sharia pension programs, thereby fulfilling the public requirement for sharia-compliant pension programs. Moreover, OJK will also issue regulations for the sharia venture capital industry and the sharia pawnbroker industry.

With the expected proliferation of sharia securities to develop the sharia capital market, OJK will promulgate regulations concerning the application of sharia principles on the capital market for all parties involved with issuances of sharia securities, including trustees *(wali amanat)*.

OJK will also issue regulations regarding licensing and the application of sharia principles to sharia investment managers in order to strengthen the role of market players. OJK will encourage market players to participate with education and training on the sharia capital market and sharia nonbank financial industry.

2. Issue pro-growth sharia FSS regulations in line with the business characteristics and level of industry preparedness

OJK will develop and refine sharia banking product standards, amend regulations concerning new products and activities, develop sharia financing products that meet the needs of the public, enhance service standards at sharia FSI and adapt products as consumer preferences mature.

Contract schemes for the business activities of all types of sharia financial services institution will also be developed. Supporting the initiative, OJK will actively engage sharia stakeholders, including the National Sharia Board of the Indonesian Ulema Council (DSN-MUI), academics and industry players when formulating the regulations.

c. Strengthen cooperation to develop the sharia FSS through policy synergy with the Government as well as relevant authorities and stakeholders

OJK is acutely aware that sharia FSS development must involve the active participation of related parties, in this case the Government along with relevant authorities and other stakeholders in order to expedite more comprehensive sectoral development.

1. Encourage the application of sharia finance development policies and targets stipulated in the National Medium-Term Development Plan (RPJMN)

As the authority mandated to oversee the sharia FSS, OJK plays an active role in terms of preparing the sharia financial industry development strategy in Indonesia, for instance the Indonesian Sharia Financial Architecture Master Plan developed in collaboration with the Government of Indonesia and the Islamic Development Bank (IDB). The overarching goal of the sharia finance program contained in the RPJMN is to establish a National Sharia Finance Committee (KNKS). The Committee is expected to urge all stakeholders to execute the measures contained within the Master Plan.

Furthermore, OJK will foster the establishment of education centers, research centers and development centers for sharia finance with the involvement of the Government, authorities and universities as well as industry players and other stakeholders. The presence of such centers is expected to catalyse the development of sharia finance, including human resources as well as product and service innovation.

2. Encourage the utilisation of the sharia FSS as an alternative source of financing for state-owned enterprises and national development programs

OJK will continue to optimise the utilisation of the sharia FSS as a provider of development funding, especially through the capital market. OJK will encourage issuances of *sukuk* by state-owned enterprises and their subsidiaries.

OJK will also coordinate with the Government to develop infrastructure through the utilisation of sharia capital market instruments, which will provide two advantages, namely to meet the requirement for national infrastructure development funds, while simultaneously expanding the market share of sharia capital market products significantly.

Coordination with the government is also essential to increase the allotment of government *sukuk* on the primary market, which will be placed in the sharia mutual funds portfolio.

Meanwhile, the sharia banking industry must broaden its role as a provider of development funds by preparing an incentive framework to expand productive corporate and infrastructure financing; to promote consolidation amongst state-owned sharia banks and encourage sharia bank involvement in managing government funds; and to initiate and develop sharia investment banks, primarily to finance government projects.

OJK will initiate coordination amongst institutions to combine the funding requirement for national development programs by utilising sharia multifinance companies, sharia venture capital firms, sharia pawnbrokers and sharia FSI.

3. Create synergy in terms of tax neutrality and/or tax incentives

Sharia FSS development requires supportive tax policy in the form of tax neutrality and/or tax incentives for sharia products. To that end, OJK will cooperate with the Government on the issue of tax to incentivise sharia FSS development.

4. Synergise sharia and conventional FSS policies

The sharia FSS development program must be synergised with conventional FSS policy. A number of programs will be implemented to optimise the role and build commitment of conventional commercial banks with sharia banks or business units to develop sharia financial services, accounting for a minimum 10% of the parent bank's assets; and to apply business process leveraging that allows the sharia bank or business unit access to the facilities/infrastructure of the parent bank.

5. Encourage interconnection between the sharia FSS and sharia instruments

Other measure to promote the development of the shaAnother effort to develop the sharia FSS involves promoting interconnection between the sector and sharia instruments by, amongst others, harmonising the sharia FSS regulatory framework. In addition, OJK encourages placements of funds earned from *sukuk* issuances, Islamic alms and charity as well as hajj fund management through sharia banks.

Sharia financial institutions, such as sharia banks, sharia insurance companies, sharia multifinance companies and other sharia financial institutions could supplement the funding requirement through issuances of sharia securities in the form of public offerings and *sukuk*. OJK will also urge sharia financial institutions to undertake securitisation through issuances of sharia asset-backed securities, amongst others.

OJK will consider deregulating restrictions on investment and sharia instrument ratings for insurance companies and pension funds on the capital market.

Coordination with Bank Indonesia will also be strengthened in terms of *sukuk* market development as a financial system liquidity instrument as well as sharia securities repo market development.

6. Endorse cooperation with relevant parties to support sharia FSS development

OJK endorses cooperation with relevant authorities, including the National Sharia Board of the Indonesian Ulema Council (DSN-MUI), in terms of reviewing and formulating regulations, preparing a fatwa, compiling competence standards and a curriculum for experts as well as promoting sharia financial product and service innovation.

Furthermore, greater cooperation and collaboration with universities as well as domestic and international research institutions is required to create research-based policy synergy. Such cooperation extends to research/reviews that support the formulation and operationalisation of sharia principles, for instance a fatwa, through sharia financial and economic research forums as well as coordination forums to enhance the quality of teaching and research on sharia finance.

d. Enhance the quality of industry players in the sharia FSS

Higher-quality industry players in the FSS are expected to drive further FSS development. Several OJK initiatives aspire to develop the quality of players in the sharia FSS and increase the number of experts/employees in sharia finance to underpin growth at sharia FSI.

1. Build the capacity of human resources

Programs to enhance the capacity building of human resources in the FSS involve mapping competence and reviewing competence standards. Thereafter, OJK will regulate the minimum requirements of certification as well as advanced professional training that must be completed by all key persons employed in the sharia financial sector. The programs include developing a certification program for professions in the sharia banking sector and sharia nonbank financial industry, compiling regulations for Sharia Capital Market Experts (ASPM) along with the certification of such experts.

OJK will cooperate closely with relevant parties to facilitate greater market participation in training and education activities for the sharia capital market in order to boost the quality and quantity of corresponding market players.

2. Increase the number of employees/experts in sharia finance to support growth

Sharia financial industry development requires the support of adequate human resources with applicable expertise. The number of sharia finance experts, however, is currently relatively limited. In addition, the limited number of members on the National Sharia Board (DSN-MUI), as the sharia supervisory body, has precipitated the need for additional expertise.

OJK will cooperate with business players to expand the human resources employed in the sharia financial sector through education and training by formal and non-formal institutions, career socialisation activities and bridge programs.

e. Conduct promotional campaigns and education concerning sharia finance

Sharia FSS development requires promotional campaigns and education about sharia finance through various media to reach all social strata. Promotional and educational activities must be planned and involve all stakeholders.

1. Offer socialisation activities to the public and market players to build understanding and utilisation of financial products

OJK cooperates with relevant parties to expand socialisation activities and promotional campaigns for sharia financial products and institutions. One successful program in that regards is the Islamic Banking (iB) campaign. Moving forward, OJK will broaden the scope of branding, positioning and product differentiation in the education and socialisation programs offered to the public and market players by targeting specific communities at teachable moments.

2. Cooperate with relevant parties in terms of sharia financial education and promotion

OJK cooperates with universities, domestic and international research institutions, industry associations, professional associations, the Sharia Economic Community (MES), the Sharia Economic Communication Centre (PKES) and other related communities in order to introduce and build broader public understanding of sharia finance.

The overarching goal is to create synergy amongst regulators, associations, the public and other parties to introduce and build broader public understanding of sharia finance.

The collaboration has yielded several products, including a curriculum on the sharia FSS as well as joint research conducted by educational institutions. OJK also organises domestic and international events, for instance the community sharia market and regular international seminars on sharia finance to promote and advance the sharia FSS.

II. MAINTAINING FINANCIAL SYSTEM STABILITY AS A FOUNDATION OF SUSTAINABLE DEVELOPMENT

Moves to accelerate economic growth must not create instability in the financial system. Therefore, the FSS must be sufficiently resilient to domestic and external shocks.

Experience shows that shocks in the economy and financial system could occur at any time. Problems at one financial services institution can develop with rapidity to become systemic and endanger overall economic development. Consequently, the FSS regulator must direct adequate attention to prioritise stability in the FSS. Financial system stability is, therefore, a solid foundation of sound and sustainable economic growth.

In that context, OJK takes measures that aim to enhance resilience. To that end, supervision of the FSS is continuously improved through integrated risk-based supervision. The most salient aspects of the FSS, for example risk management, corporate governance and capital, are also consistently aligned with international standards. As a result, the national FSS is highly competitive and optimally utilised in line with national financial market integration with regional and global financial markets.

1. Strengthening FSS supervision

a. Implement integrated risk-based supervision of the FSS

OJK was established to more effectively supervise and coordinate the FSS, which was previously undertaken by separate institutions, through the integrated supervision and regulation of all financial services activities, including the banking sector, capital market and nonbank financial industry in order to minimise regulatory arbitrage.

1. Supervise conglomerates to detect risks in the financial system early

Integrated risk-based supervision of FSS conglomerates in Indonesia represents a priority OJK initiative. Through integrated supervision, the inherent risks of conglomerates that could undermine the financial services system can be detected early using an Early Warning System (EWS).

OJK maps financial conglomerates in Indonesia to reinforce integrated supervision. Furthermore, OJK also refines integrated supervision regulations and guidelines as necessary, which cover risk management, good governance, capital and other critical aspects. OJK will presently develop an expert system to assess risk at sharia banks.

OJK will also amend regulations concerning risk assessment and corporate governance at securities companies, including risk-based supervision of securities companies.

2. Develop and implement risk-based supervision mechanisms at FSI

Congruous with increasing complexity and risky business activities at FSI, OJK will unambiguously apply risk-based supervision to sharia banks, securities companies and special financial institutions such as guarantee companies, the National Social Security Agency (BPJS) and the Indonesian Export Financing Agency (LPEI).

Risk-based supervision will be implemented gradually over the upcoming five years to ensure harmonisation across sectors, while paying attention to the characteristics of each type of financial institution.

To guarantee its effectiveness, risk-based supervision will be supplemented by law enforcement to maintain regulator creditability as well as uphold confidence and ensure legal assurance in the FSS. In addition, OJK will prepare risk-based review guidelines and refine standard operating procedures (SOP) to improve the quality of monitoring and thus execute more effective supervision.

3. Increase compliance audits of professions and supporting institutions in the FSS

The compliance of professions and supporting institutions operating in the FSS to prevailing regulations is vital to maintain confidence in the sector. Therefore, OJK will prepare programs to increase the quantity and improve the quality of compliance audits of professions and supporting institutions operating in the FSS through general guidelines as well as coordination with other regulators. OJK coordination with other regulators will be actualised through joint guidelines to improve the quality of compliance audits and quality of prudent policymaking.

4. Optimise the utilisation of an integrated data warehouse, including development of a one-reporting system for supervision and monitoring

To enhance information and data quality in the FSS, OJK will review and refine all regulations concerning the format and procedures for FSI to submit reports to OJK.

This will form the basis for OJK to develop an integrated data warehouse, including a one-reporting system and a dashboard that provides data quickly, accurately and reliably regarding FSI performance.

Data held at the warehouse will be available to supervisors to meet their supervising and monitoring requirements for information.

5. Develop and enhance the efficacy of the FSS early warning system (EWS)

The application of risk-based supervision will be complemented by an early warning system (EWS) for all facets of the FSS.

OJK will require the FSS to conduct comprehensive self-assessments of business activities based on risk. In addition, OJK will also perform thematic surveillance of consumer protection. Moving forward, OJK will develop an integrated FSS early warning system (EWS) through a universal platform and data/information sources.

On the capital market, OJK will cooperate with self-regulatory organisations (SRO) to develop a monitoring system for customer securities accounts, an automated and integrated securities transaction oversight system as well as an early warning system (EWS) for adjusted net working capital at securities companies

6. Develop an oversight system for the debt market

To improve oversight effectiveness of trade data for tradeable government securities (SBN), *sukuk* and corporate bonds, OJK will refine regulations by broadening the scope of entities and securities that must be reported for securities transactions settled outside of the stock exchange, including development of a transaction system as well as the settlement and reporting of securities transactions.

In terms of self-regulatory organisations (SRO), debt market supervision and reporting policy will be followed up by the Indonesia Stock Exchange, which has been mandated with receiving securities transaction reports (PLTE).

As settlement instructions increase through the securities transfer mechanism of the Indonesian Central Securities Depository (KSEI), more supervision and analysis are required to detect possible suspicious activities. Due to such conditions, a debt security transfer and transaction settlement oversight system will be developed involving PLTE data, market price information from the Indonesia Bond Pricing Agency (PHEI) and data on debt securities holdings from the Indonesian Central Securities Depository (KSEI).

7. Develop an integrated licensing system

OJK will prepare an integrated licensing grand design that contains a supporting information system and regulations.

b. Develop appropriate methods to supervise rural banks and microfinance institutions

OJK, as supervisor of the FSS, will continue to develop methods to supervise rural banks and microfinance institutions in accordance with their unique characteristics in order to ensure effective supervision.

1. Compile financial accounting standards for microfinance institutions

OJK will prepare accounting standards for micro-entities, including microfinance institutions, to ensure their presence benefits the public. OJK will coordinate with the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK IAI) to determine the accounting standards for microfinance institutions.

2. Build understanding of risk management at rural banks and microfinance institutions

Congruous with the application of risk-based supervision, efforts to build understanding of risk management at rural banks and microfinance institutions will be achieved through various activities, including reviews, socialisation activities, training and focus group discussions.

3. Apply risk-based supervision for rural banks by class

OJK will amend supervision regulations for rural banks, including soundness assessments in the Rural Bank Supervision Management Information System (SIMWAS BPR), in order to ensure the implementation of risk-based supervision at rural banks.

4. Prepare a supervisory framework for microfinance institutions

OJK will assess the counselling and supervision of microfinance institutions performed by local government at the regency and city level as well as assess the counselling and supervision of microfinance institutions conducted by other parties appointed by OJK.

c. Consistently strengthen law enforcement in the implementation of the supervision function

When supervising the FSS, OJK must ensure consistent law enforcement in order to enhance compliance.

1. Refine regulations on capital market inspections

OJK will continuously refine regulations on capital market inspections in line with efforts to improve the organisational and institutional structure of OJK in order to enhance inspection credibility.

2. Strengthen the investigative function against industry players in the FSS

Strengthening the investigative function requires a solid legal foundation for the implementation of criminal investigations in the FSS, covering the following:

- Prepare a model to handle allegations of criminal activity with respect to law enforcement, financial services institution stability and in the national interest;
- Formulate regulations concerning criminal activity and the threat of criminal activity that reflect the characteristic of the FSS;
- Formulate regulations stipulating the authority of OJK in determining administrative actions for criminal activities committed in the FSS with or without blocking criminal proceedings.
- Prepare coordination protocol between OJK and other law enforcement agencies to handle criminal activity in the FSS.

In addition, the investigative function will be expanded to regional and other OJK offices.

3. Develop an effective and credible mechanism to determine administrative sanctions and handle objections

OJK will develop an effective and credible mechanism to determine administrative sanctions and handle objections in order to create good governance when enforcing prevailing regulations. The mechanism should act as a deterrent as well as encourage corrective actions for violators based on legal assurance, justice and equality amongst all players in the FSS.

4. Develop an effective coordination mechanism with law enforcement agencies

In accordance to its investigative function, OJK will develop an effective coordination mechanism with law enforcement agencies through the establishment of a joint forum at the national and local levels.

d. Supervise market conduct within a consumer protection framework

Complementing existing risk-based supervision, OJK will supervise market conduct that encompasses the behaviour of financial services industry players in terms of the design, preparation and information delivery; create product and/or service agreements as well as dispute resolution and the handling of complaints.

Several initiatives of market conduct supervision will be contained in two main programs.

1. Perform market conduct supervision to create fairness and non-discriminatory conditions for consumers

OJK will institute policies in the form of self-assessment and thematic surveillance in order to supervise market conduct.

Looking ahead, market conduct supervision throughout the FSS will be aligned with international best practices, emphasising three disciplines, namely market discipline, regulatory discipline and self-discipline.

On the capital market, the expansion of trade services and products as well as the increase in investors and advancements in technology will necessitate greater market conduct supervision of financial services providers and players. This will be achieved by ameliorating the behaviour of securities companies and securities company representatives as well as increasing the supervision and compliance of securities companies in line the risk-based approach.

2. Perform market intelligence concerning financial products and/or services as well as consumer behaviour

Protecting the interests of consumers and the public, in addition to developing an integrated financial consumer protection system, OJK will also evolve a market intelligence system for products and services in the public eye.

OJK thematic surveillance and intelligence will be implemented in conjunction with related institutions and supplemented with procedures to escalate findings for further actions, while developing sources of information in terms of capital market player and product supervision, including the development of a market surveillance system that is connected to the mass media, social media and other news sources.

e. Strengthen crisis management protocol and inter-institutional coordination

Risk management is an important factor in terms of maintaining and strengthening industry resilience.

At the industry level, managing risk must be clarified further through refinements to existing procedures that ensure business continuity in the event of disruptions.

In addition, a crisis management protocol is required that includes various institutions in order to minimise the impact of turbulence or a crisis in the FSS on the financial markets or economy.

1. Improve the crisis prevention and resolution mechanism

OJK has instituted regulations concerning a crisis management protocol that contains preventative and/or resolution measures effective internally at OJK as well as nationally.

2. Improve recovery and resolution planning at FSI

As part of the resolution measures for the FSS, OJK will request FSI to prepare recovery and resolution measures for existing issues, including the appointment of statutory managers as well as the liquidation of a financial services institution.

3. Enhance coordination with relevant institutions in terms of financial crisis resolution

OJK actively coordinates with the Government and/or other relevant institutions to prevent and/or resolve a crisis in the FSS. Coordination also covers information and data exchange while adhering to prevailing regulations.

f. Formulate market conduct regulations in terms of consumer protection

Pursuant to the OJK Act, OJK provides consumer protection in the FSS through market conduct, amongst others.

1. Regulate market conduct in order to protect consumers with due regard to financial industry growth

OJK regulates market conduct throughout the FSS in order to encourage sound market behaviour through discipline at financial services providers. Market conduct must also strike an optimal balance with aspects of consumer protection without stifling financial industry growth.

2. Direct financial services providers to educate their human resources as part of the efforts to enhance service quality

OJK will monitor compliance to consumer protection regulations that require financial services providers to deliver at least one educational activity during each reporting period (one year) in order to raise financial literacy.

3. Require financial services providers to offer a function that handles complaints through a simple and easily-accessible mechanism

OJK will monitor financial services providers in terms of offering an optimal complaint handling mechanism for consumers through Internal Dispute Resolution (IDR).

2. Strengthening and Structuring the FSS in Accordance with International Standards

a. Structure FSI ownership to support sustainable economic development

The ownership structure of FSI is a primary factor in determining development direction and competitiveness. Therefore, OJK must ensure that the owners of FSI are aligned with the vision and mission of OJK.

OJK will also ensure that owners of FSI have sufficient knowledge, management skills and a sound strategy to lead. Furthermore, FSI are expected to be resilient and competitive in the presence of international FSI.

1. Refine ownership requirements and fit and proper tests for owners of FSI

OJK is concerned with ensuring that FSI are owned and managed by competent parties. Therefore, OJK will continue to refine ownership requirements for FSI and legal entities, while reviewing consolidation and exit policy.

In addition, OJK will also improve fit and proper tests to ensure the owners of FSI are committed, sufficiently knowledgeable and in line with the vision and mission of OJK.

To support the aforementioned processes, OJK will build a database of FSS players.

2. Improve capital requirements and limitations on FSI ownership

Adequate capital provides assurance concerning FSI sustainability and funding capacity, including for priority economic sectors. Furthermore, OJK will regulate foreign ownership of FSI in order to provide greater opportunities to domestic investors as shareholders of such institutions, thereby contributing to national economic growth.

3. Satisfy best practices in terms of capital requirements

Congruous with the complexity and escalating risk of financial products, OJK will amend the capital requirements for FSI through harmonisation with best practices and international standards.

b. Strengthen the application of international practices to FSS regulations, reporting and supervision

OJK will adopt international best practices as guidelines when refining FSS regulations, reporting and supervision in order to support the implementation of risk-based supervision.

1. Promote the use of Extensible Business Reporting Language (XBRL) for the submission of reports

OJK, in conjunction with the Indonesia Stock Exchange, will expand the use of XBRL as a means of financial reporting for issuers and public companies in order to raise the quality of supervision higher. After preparing the taxonomy, financial reporting in XBRL format will commence with the support of a socialisation program for XBRL coupled with capacity building among the supervisors. Thereafter, the use of XBRL will be extended to securities companies and the format will be developed further to include non-quantitate reporting.

2. Support the convergence of financial accounting standards and improve accounting regulations in line with international standards

OJK is avowedly committed to convergence between the Statement of Accounting Standards (PSAK) and the International Accounting Standard (IAS)/International Financial Reporting Standard (IFRS).

OJK support is provided through reviews of international standards and their impact on the industry; socialisation of PSAK based on IAS/IFRS; amending accounting and auditing regulations; releasing accounting guidelines and guidance on the application of accounting standards in line with the characteristics of the FSS in Indonesia.

3. Adopt international standards and principles of FSS regulation tailored to the national interest

Adopt international standards and principles of FSS regulation, while paying due consideration to the capacity of the domestic FSS and tailored to the national interest, while simultaneously preparing to face global competition.

This will be achieved, amongst others, by formulating regulations on risk-based supervision as it is applied to securities companies as well as regulations concerning good governance at securities companies.

c. Develop governance and risk management in line with best practices

Developing governance and risk management in line with best practices is an important factor of FSS development. Good governance and risk management are expected to bolster resilience and ensure the sustainability of FSI when confronting internal and external challenges and risks.

1. Draw up and develop guidelines for good governance at FSI in line with best practices

OJK perceives that efforts to enhance and expand good governance practices and regulations are required by FSI through harmonisation between governance as well as environmental and social risk management. OJK will develop good governance guidelines for issuers and public companies, securities companies and investment managers to be used as a reference in the adoption of good governance in line with international standards and best practices, while striking an optimal balance between protecting the public interest and creating a sound business climate; checks and balances; preventing corruption, collusion and nepotism; as well as ensuring FSI do their best in the interest of consumers..

2. Encourage information disclosure at FSI

OJK compels FSI to prioritise information disclosure by submitting information through electronic media in the form of the OJK Electronic Reporting System and corporate websites in order to build consumer confidence in the FSS. Furthermore, OJK will amend regulations in line with industry dynamics, requirements and best practices to improve the quality of the annual reports of issuers and public companies.

3. Improve the quality of risk management at FSI

OJK will enhance the quality of risk management at FSI by, amongst others, issuing a regulation concerning risk management at securities companies and requiring periodic risk assessments and risk mitigation, while reporting the results to the regulator. This is expected to provide legal assurance and apply a level of risk management that is equal across the entire FSS. Furthermore, the regulation will be used as guidelines for the FSS when implementing risk management and used as a reference for supervisors to assess the application of risk management at FSI.

d. Strengthen preparations towards ASEAN financial market integration

Financial market integration under ASEAN represents both a challenge and an opportunity for the FSS in Indonesia. Consequently, the sector is urged to strengthen preparations in the form of regulations and institutional arrangements in order to confront the competition on integrated financial markets.

1. Harmonise the regulations and dispute resolution mechanism and apply the principles of reciprocity for FSI operating across borders in the ASEAN region

OJK is required to amend regulations concerning the preparation of public offering prospectuses in accordance with ASEAN disclosure standards set by the ASEAN Capital Market Forum (ACMF), which is the capital market regulator association in the ASEAN region, in order to facilitate cross-border offerings. In anticipation of cross-border disputes in ASEAN countries, OJK is actively participating in discussions regarding the dispute resolution mechanism and the principles of reciprocity for the FSS in Indonesia in order to expand the network in ASEAN.

Regulatory amendments and debt market infrastructure are also required if OJK aspires to issue cross-border debt securities in the local currency, which is part of the ASEAN+3 Bond Market Initiative.

2. Strengthen institutional preparations in the domestic FSS in anticipation of ASEAN financial market integration

OJK encourages national FSI to expand capital capacity and infrastructure through consolidation in order to compete on ASEAN financial markets and face the competition of FSI from other ASEAN countries with more capital and better infrastructure.

Market intermediaries, specifically securities companies, will be prepared through back office standardisation and more online trading. Preparations are also required at related capital market players in the face of collective investment scheme implementation.

e. Formulate effective regulations to create fair competition and prevent regulatory arbitrage

The organic growth of activities in the FSS will create competition amongst FSI. Consequently, OJK will issue regulations that create healthy competition and prevent regulatory arbitrage.

1. Amend regulations concerning banking operations in order to broaden access to banking services for small and medium enterprises (SMEs) and the underbanked with respect to healthy competition and prioritising synergy between the different types of bank

OJK will provide incentives to open bank branches in underbanked areas in order to expand access to banking services. OJK will also cooperate with related parties to organise a coordination forum to monitor competition locally and nationally.

2. Improve regulations concerning restrictions on commission fees and premiums in the FSS

Cost efficiency is a determinant of FSI survivability and competitiveness. Affordable costs provide investors and consumers greater discretion in terms of their transactions. Nonetheless, a balance must be struck between cost efficiency and good governance as well as FSI soundness level and business sustainability.

Therefore, OJK will amend regulations concerning restrictions on commission fees at FSI, including broker-dealers, focusing on determining commissions. For the insurance industry, another factor that affects competition is the premium rate. Therefore, OJK will amend the regulations on insurance premium rates in line with preparations for an insurance risk database developed by OJK.

3. Regulate the over-the-counter (OTC) market

OJK will improve the regulation and supervision of the OTC market in terms of the securities traded, the market intermediaries as well as the organised trading platform in order to create a sound and efficient OTC market.

f. Regulate remuneration in the FSS

OJK will promulgate regulations concerning remuneration in the FSS that must consider the accompanying risks in order to improve accountability. The factors that are considered by OJK in terms of remuneration include fair business competition, a balance between business activities and risk as well as reducing moral hazard.

g. Improve efficiency and stability in the FSS

Greater efficiency and stability is required in the FSS as a determinant of business continuity.

1. Enhance the efficiency of securities transaction settlement through securities financing

One risk faced by FSI is exposure to transaction settlement, which is currently undertaken directly by the customer. Securities financing, such as securities lending and borrowing (SLB), repo and margin financing, is an alternative mitigation mechanism for transaction settlement risk. Through bilateral SLB, securities companies can borrow securities to settle transactions.

2. Expand debt market securities through market deepening

One effort to deepen the market is to develop a bond index as a benchmark of market performance used by investors to unravel potential risk and gauge the return on the investment portfolio.

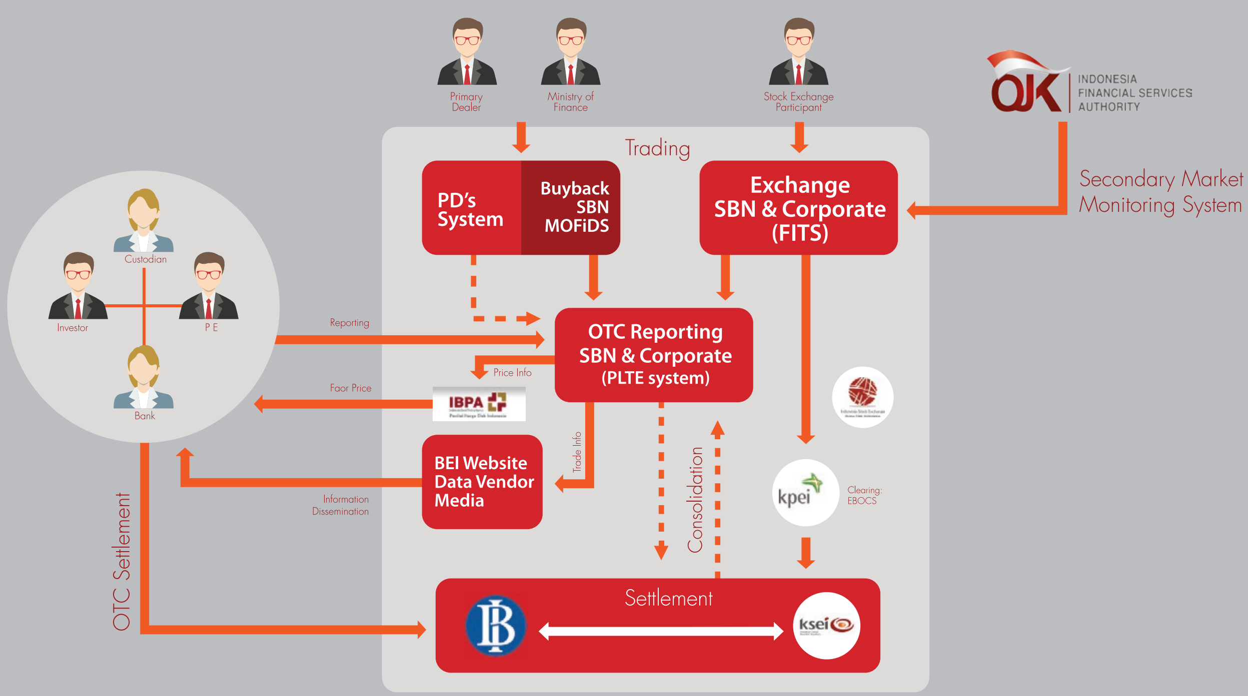
DEVELOPMENT OF THE ELECTRONIC TRADING PLATFORM IN THE DEBT MARKET

The capital market is directed to play an increasingly important role in the provision of financing for development, particularly for the needs of long-term finance. Hence, the domestic capital market, including the debt market, will be continuously strengthened. To support the efforts, adequate market infrastructure appears to be an important prerequisite, so that transactions in the debt market could be performed in an orderly and efficient manner.

Currently, debt securities transactions are being performed through a number of platforms, including Fixed Income Trading System (FITS) at the stocks exchange, Ministry of Finance Dealing System (MOFiDS) for government bonds buyback transactions of primary dealers (PDs) and auction participants, and quotation system for PDs that have quotation obligations for government bonds of benchmark series. In addition, market participants could trade directly through a chatting facility provided by Bloomberg and Reuters. PDs, members of the stocks exchange, and other relevant parties then report their transactions to the Receiver of Securities Transactions Report (PLTE).

Description on the mechanism of debt securities trading in the Indonesian secondary market is illustrated in the figure.

Mechanism of Debt Securities Trading in the Secondary Market



Since most debt securities transactions are performed through over-the-counter (OTC), the Indonesian regulators (Indonesia FSA, Ministry of Finance, and Bank Indonesia) cooperate with self-regulatory organizations to develop an Electronic Trading Platform (ETP) for debt securities transactions through quotation and chatting systems. An ETP is a trading system which facilitates the meeting between demands to buy and offers to sell through an electronic platform. Market participants could minimize costs and risks, as well as increasing their transactions. Through such a platform, the regulator could improve the effectiveness of supervision and monitoring in the debt secondary market in an electronic and integrated manner. Relevant authorities could also enhance the effectiveness of either fiscal or monetary policymaking, expand the retail and institutional investor base, and secure tax revenues from debt securities transactions.

The development and implementation of the ETP will be performed gradually (see table). In the initial phase, the ETP will be developed for retail government bonds. Transactions will be conducted through a quote-driven mechanism. Clearing process is to be performed by the Clearing and Guarantee Corporation (KPEI), and the settlement process to be held by Bank Indonesia and the Securities Central Custodian (KSEI). In the second phase, development will be conducted by broadening the scope of instruments, namely retail sharia debt securities, government bonds of benchmark series, and corporate debt securities.

In the third phase, the development will include the expansion of instrument coverage, as well the development of transaction mechanisms, clearing, guarantee, and settlement. In addition to the quote-driven mechanism, transaction mechanisms could be conducted through periodical auctions and continuous auction mechanisms. For transactions in the debt market, settlement in Bank Indonesia and KSEI will also employ Single Investor Identification (SID).

ETP Development

	Instruments	Timeline	Participants	Mechanisms	Clearing and Guarantee	Settlement
FIRST STAGE	Retail government bonds	Q4-2015	• Banks • Securities companies • Money brokers	Quote-driven	Clearing	BI and KSEI
SECOND STAGE	• Stage I • Retail sharia debt securities • Government bonds of benchmark series • Corporate debt securities	Q4-2016	• Banks • Securities companies • Money brokers	Quote-driven	Clearing	BI and KSEI
THIRD STAGE	• Stage II • Government bonds other than retail and benchmark series	Q4-2017	• Banks • Securities companies • Money brokers	• Quote-driven • Periodical auction • Continuous auction	Clearing and Guarantee	BI and KSEI (SID)

Another measure is to expand the Price Discovery Mechanism through an Electronic Trading Platform (ETP), which increases transparency and liquidity on the secondary market. Furthermore, OJK will expand pricing products to ensure fair market value of debt securities, *sukuk* and other securities.

3. Develop the repurchase agreement market

OJK will strive to expand the role played by sharia financial institutions through business process outsourcing as well as mapping the components of base financing and sharia bank efficiency in order to enhance the standard of sharia bank competitiveness.

4. Develop competitiveness standards and components for base financing/funding in sharia banking

OJK will endeavour to expand the role played by sharia financial institutions through business process outsourcing as well as mapping the components of base financing and sharia bank efficiency in order to enhance the standards of sharia bank competitiveness.

h. Strengthen the handling of infractions in the accumulation of public funds and investment management

Pursuant to prevailing laws, OJK will undertake comprehensive efforts to handle infractions in the accumulation of public funds and investment management in order to maintain the reputation of the FSS.

1. Expand the role of the Investment Watchdog

The role of the investment watchdog will be expanded by strengthening the legal foundation for handling grey areas of public fund accumulation, including the institutional arrangements of the taskforce. OJK will also seek to utilise FSI broadcasters to build understanding of what constitutes criminal activity in the FSS.

2. Enhance coordination with other institutions to handle legal infractions

Through integrated consumer services, OJK receives information and complaints from members of the public concerning illegal investment practices, upon which OJK acts through coordination with relevant institutions.

III. ACCOMPLISHING FINANCIAL WELL-BEING AND SUPPORTING EQUITABLE DEVELOPMENT

The ultimate result of economic development is greater prosperity and overcoming national development imbalances. Throughout the process, FSI play a key role in terms of accomplishing financial independence through financial inclusion.

OJK continuously strives to expand financial products and services for all social strata, including microfinance products and services, branchless banking and comprehensive financial education. In addition, OJK also seeks to engage the FSS in developing local economic potential. Furthermore, OJK is mandated with consumer protection and creating a fair and credible FSS.

1. Development of Local Economic Potential

a. Strengthen the function and role of regional banks, rural banks and microfinance institutions to support local economies

Regional banks, rural banks and microfinance institutions are the backbone of local economic development. Therefore, expanding the role and capacity of such financial institutions is a key priority in terms of broadening public access to formal financial services in local areas in order to strengthen local economic growth.

1. Improve the capacity and governance of regional banks, rural banks and microfinance institutions

The role of regional banks, rural banks and microfinance institutions is vital in terms of mobilising local economies. The capacity of such financial institutions must be improved, however, in order to play an optimal role. The advantages of regional banks, rural banks and microfinance institutions, concerning their understanding of local economic potential, must be synergised with the financial advantages of commercial banks.

With the support of local government, regional banks are the engine of growth of fundable economic sectors. Therefore, OJK will continue with the second phase of its Regional Bank Champion Program as well as initiate a coordination forum for regional bank development with relevant parties.

OJK will also cooperate with Commercial Banks and Rural Banks by strengthening the linkage program business model along with a monitoring mechanism and the development of APEX rural banks.

Boosting the capacity of regional banks, rural banks and microfinance institutions also requires a corresponding improvement in governance to ensure business continuity.

2. Build owner commitment to help expand the role of regional banks, rural banks and microfinance institutions

Efforts to increase the capacity of regional banks, rural banks and microfinance institutions require the solemn commitment of the owners to grow capital and build the capacity of human resources. In the case of microfinance institutions, OJK will seek owner/shareholder commitment to increase capital as necessary, specifically at microfinance institutions with a solvency ratio of less than 110%.

b. Promote the capital market for local economic development and extend the guarantee program for local economic funding

The large potential of local areas has not been developed optimally, due in part to limited sources of funding. Moving forward, in addition to expanding bank financing, the capital market will offer an alternative source of development funding. Efforts to expand funding in local areas also require risk-mitigation measures.

1. Urge local governments and businesses to utilise the capital market

Although local governments are authorised to accumulate development funding through the issuance of municipal bonds, utilisation remains extremely limited.

OJK will continue to play an active role in terms of encouraging local governments and stakeholders to issue municipal bonds.

2. Develop local funding guarantee schemes

One impediment to extending credit in local areas is the high perception of risk. Therefore, risk mitigation measures are urgently required. One OJK initiative, implemented in conjunction with local governments, is to nurture the establishment of local credit guarantee companies (PPKD) in each province, as well as develop guarantee products or schemes. OJK will also devote special attention to guarantee schemes for local development projects.

2. Expanding Financial Access and Strengthening Consumer Protection

a. Develop micro financial products and/or services

A survey conducted by OJK in 2013 revealed that financial product utilisation remains relatively low amongst the population in Indonesia due to a number of factors. One factor is the limited number of affordable micro financial products and services available to all social strata. Consequently, OJK will continue to encourage the FSS to develop micro financial products and services that are affordable to low-income earners and the nascent middle class.

1. Develop banking products tailored to the needs of micro enterprises

Innovative new financial products tailored to the needs of MSMEs are required in order to expand MSME funding access. OJK will urge the banking industry, including sharia banks, to develop micro financial products and services. OJK will also facilitate efforts to build sharia-compliant micro financial models that meet the needs of the government and priority economic sectors.

2. Develop microinsurance products

Currently, the majority of new insurance products can only be enjoyed by the middle and upper social classes. Conversely, insurance products that serve low-income earners remain minimal. Therefore, in line with socialisation activates that extol the benefits of insurance products, OJK will also request insurance companies to develop microinsurance products. Such products are expected to serve the protection needs of low-income earners, including health and accident coverage, property damage and business failure due to a force majeure.

3. Develop micro financial products based on pawning services

The demand for pawning services has increased recently, reflecting a sharp increase in the amount of loans extended based on pawning services offered by an institution or indeed individuals/households. Nonetheless, pawning services offered by the private sector, excluding PT Pegadaian (Persero), could give rise to inherent potential problems due to a lack of legal assurance and minimal consumer protection. Addressing the issues, OJK will prepare regulations for the pawn industry that cover licensing, institutional arrangements and business activities.

b. Expand funding/ financing access for MSMEs

Efforts to develop MSMEs require greater access and product innovation adapted to MSME characteristics. MSMEs are the backbone of the economy in terms of labour absorption and stimulating local economic activity. MSMEs have also been shown to be tenaciously resilient to shocks.

OJK prioritises greater financial access to micro, small and medium enterprises **(see Figures 4.5 and 4.6)**. Focusing on expanding the role of venture capital for start-ups as well as facilitating access to public offerings for MSMEs on the capital market.

Figure 4.5
MSMEs Financing

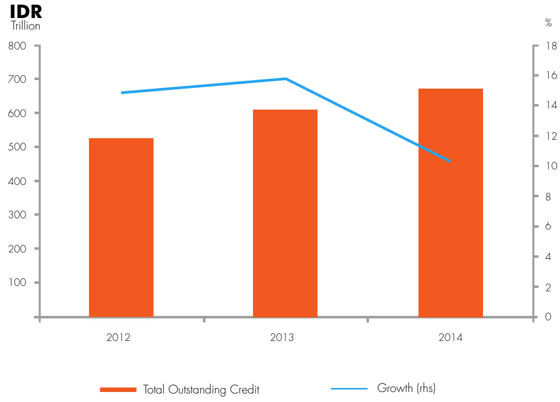
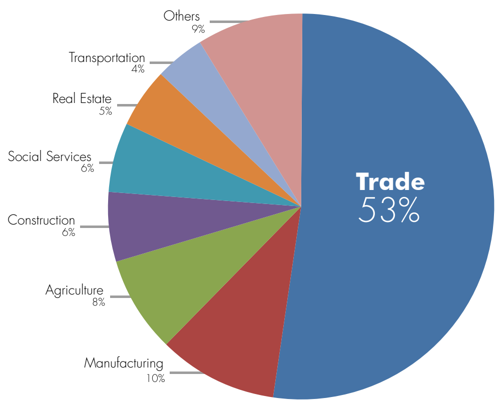


Figure 4.6
Composition of MSME Financing



1. **Expand the role of venture capital firms in funding start-ups**

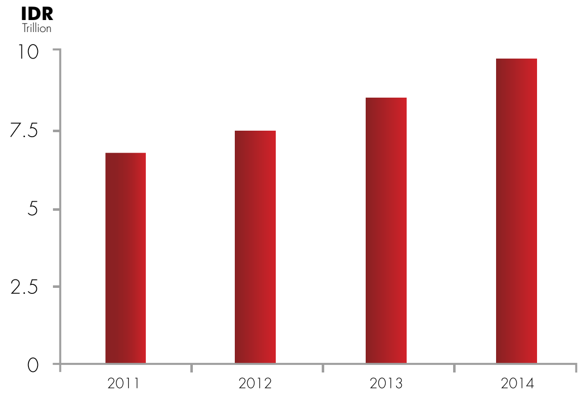
The role of venture capital firms in the economy is to provide funds, in particular to start-ups, and, thus, the capacity to develop. OJK will initiate a revitalisation program and optimise the role of venture capital firms **(see Figure 4.7)**.

In addition, OJK will also explore the possibility of providing incentives to venture capital firms that fund priority economic sectors. To that end, OJK will coordinate with the Government and other relevant stakeholders. Coordination will also aim to expand the sources of funding available to venture capital companies.

2. **Simplify the public offering requirements for small and medium enterprises (SMEs)**

OJK will simplify the public offering requirements by reducing the number and types of documents in order to promote the capital market as an alternative source of SME funding.

Figure 4.7
Assets of Venture Capital Firms



In addition, OJK plans to provide a special SME board at the stock exchange to stimulate SME growth and development.

3. **Develop micro-pension funds**

A review of micro pension funds that target individuals is required, which simplifies the licensing process, management and obligations in order to develop the pension funds industry.

c. Develop branchless financial services and expand distribution channels for financial products

One constraint to increasing the utilisation of financial products is a lack of physical FSI branches within close proximity to residential areas. In addition, the financial products offered are often unsuitable to the local communities.

1. **Develop branchless banking services as part of financial inclusion**

OJK has already implemented a branchless banking program in order to extend financial services to all social strata.

Branchless banking offers banking and other financial services through information and the use of technology, including third parties that work in conjunction with the banks to serve all social strata.

Branchless banking is an alternative method to extend the distribution channels of financial products, offering an integrated distribution model that facilitates consumer access to financial services at one location through one source.

OJK will expand the application of branchless banking for capital market and nonbank financial industry products through the establishment of agents of securities companies and to market insurance and finance company products in remote areas. In addition, OJK will continue to monitor and evaluate implementation to ensure branchless banking endures and can respond to the needs of the public.

OPTIMISING THE ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) BY BROADENING FINANCIAL ACCESS

Enhancing the role of micro, small, and medium enterprises (MSMEs) has become a prioritized agenda to foster in promoting a sustainable and equitable growth in Indonesia. MSMEs play an important role in the national economy as the sector constitutes 99.99% of the total number of business entities and 96.99% of the total labor force in the country. In terms of their share to national output, MSMEs contribute 60.34% of the total GDP **(see chart)**. With limited business exposures, Indonesia's MSMEs have generally demonstrated resilience to external shocks in the economy.

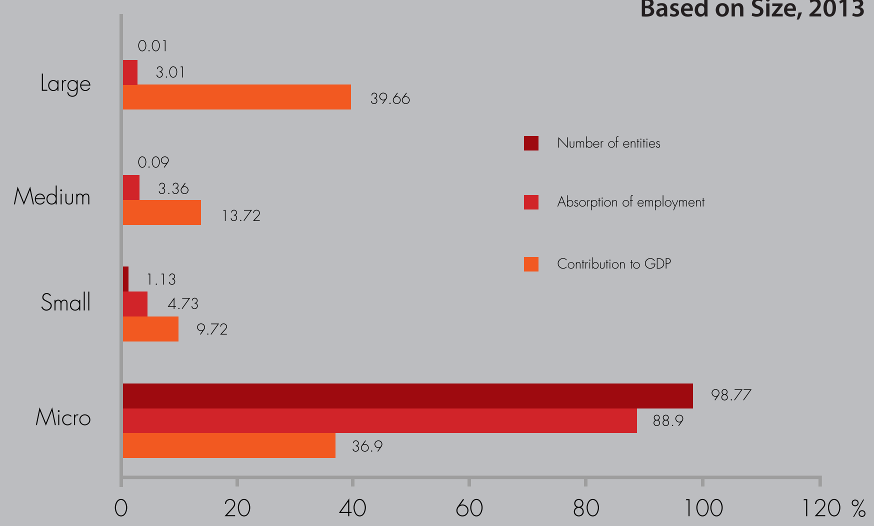
As a regulatory body in the financial services sector, the Indonesia Financial Services Authority (FSA) has placed greater emphasis in the improvement of MSME capacity, particularly in their access to financial products and services. Hence, broadening MSMEs' financial access will be an important part of the Indonesia FSA's financial inclusion programs. Higher utilization of financial products and services by MSMEs will enhance their capacity and contribution to economic development.

The Indonesia FSA will issue a number of initiatives to expand MSMEs' access to financial products and services, which include strengthening the role of venture capital entities particularly for start-up businesses, and expanding access of small and medium enterprises (SMEs) to public offerings in the capital market. In addition, the Indonesia FSA encourages financial services institutions (FSIs), including those of sharia-based, to develop micro-financial products and services. The Indonesia FSA will also facilitate the development of sharia micro-financing models, tailored to the needs of the Government and priority economic sectors.

In promoting financing guarantee schemes, the Indonesia FSA will continue to strengthen the role of guarantee corporations at both the national and local levels in order to expand financing options for MSMEs. The Indonesia FSA will also continue to strengthen financial education program to the MSME sector in order to boost the utilization of financial products and services.

In general, guarantee companies are exposed to asymmetric information in providing loans to MSMEs. Hence, one measure to mitigate such exposure is to use a MSME rating agency, which will assist guarantee companies to gain sufficient information in assessing the business risks a particular MSME. The Indonesia FSA and the Indonesia Guarantee Companies Association (Asippindo) have initiated an effort to establish a MSME rating agency to respond to the growing need for such entity.

Contribution of the Private Sector, Based on Size, 2013



Source: Ministry of Cooperatives and Small and Medium Enterprises

Branchless banking will be developed not only in the context of broadening public access to financial services but also to boost overall efficiency in the FSS.

2. Expand access and the distribution channels for financial products

OJK will open access by expanding the distribution channels of financial products through cooperation with companies or institutions that have broad network coverage. Such companies or institutions will be licensed as distributors, for example mutual fund selling agents, for products originating on the capital market. In addition, such companies or institutions could also function as insurance brokers or agents. The marketing and distribution channels for debt instruments and corporate *sukuk* will also be extended through the bank network.

Furthermore, OJK will also open the opportunity for other parties, excluding non-exchange member securities companies and banks, to become securities marketing agents in order to boost the number of investors on the capital market. A securities marketing agent is a legal entity or marketing agent that is licensed, registered and approved by OJK. OJK will also increase utilisation of the post office network and other distribution channels to market financial products. The current scope of banking products will also be expanded to also cover capital market products and other financial products.

3. Develop integrated micro financial services (Laku Mikro)

Laku Mikro are integrated micro financial services, covering affordable savings products along with investment and insurance products that are simple and quick to access, including consultation services. OJK will expand Laku Mikro to include capital market products by marketing mutual funds.

The distribution of Laku Mikro products will utilise web and application-based information technology. OJK will issue regulations concerning the development of transactions, product distribution and electronic reporting.

4. Develop community-based financial services and products

OJK will continue to develop the financial inclusion program in conjunction with FSI through community-based financial products and services, for example the SimPel model rolled out by conventional and sharia banks. The model is expected to reach targeted communities, such as housewives, MSMEs and various religious groups.

5. Increase electronic financial product distribution and transactions

In addition to broadening access, OJK will also boost transaction efficiency in the FSS through the use of increasingly sophisticated mobile and web-based information technology. OJK will promulgate regulations concerning the development of electronic transactions, product distribution and reporting. Mutual fund transactions on the capital market will be possible through the websites of investment managers, securities broker-dealers and mutual fund selling agents.

d. Expand financial inclusion to reach all social strata

Public awareness must be built through a comprehensive financial inclusion program in order to create a financially literate population that utilises financial products. The program is a tangible form of OJK commitment through implementation of the National Strategy for Financial Literacy (SNLKI). Financial literacy will advance financial independence and equitable national economic development.

1. Prepare and implement financial inclusion activities for all social strata

OJK will continue its financial inclusion program aimed at all social strata. A number of initiatives will be taken as follows:

- develop the concept of micro financial services (Laku Mikro), namely an affordable and fast integrated service with simple access;
- develop information technology based financial inclusion models or programs with the tagline 'Yuk SiKAPI'; and
- develop national savings product schemes for students with simple requirements and attractive features to promote a culture of saving form an early age. The product is known as SimPel. OJK will coordinate with the Ministry of Education and Culture as well as the Ministry of Religious Affairs to implement SimPel in the formal school curriculum.

2. Strengthen coordination with the government and other related institutions in terms of financial inclusion activity

Sustainable coordination between OJK and various institutions is required to expand financial inclusion, namely the Ministry of Finance, Bank Indonesia, the National Development Planning Agency (Bappenas) and the National Team for the Acceleration of Poverty Reduction (TNP2K). Coordination is required to:

- refine the material contained in the blueprint of the National Strategy for Financial Inclusion (SNKI); and
- prepare regulations for the effective implementation of the National Strategy for Financial Inclusion at each respective institution.

e. Enhance consumer protection

The role of OJK in terms of consumer protection follows two approaches, namely preventative actions and repressive actions. In general, preventative actions aim to provide clear understanding to consumers regarding the financial products and services offered by FSI. Repressive actions, however, include complaint resolution, dispute settlement, termination of activities or other corrective actions and legal defence. In addition, OJK will roll out a number of initiatives to optimise the management of investor protection funds and to create an insurance policy guarantee program.

1. Expand participation in the investor protection fund

An investor protection fund has been set up to protect investors' securities at a custodian bank, in particular from misuse by related parties. OJK requires all custodians, in the form of custodian banks and broker-dealers, to join the investor protection fund in order to increase the capacity and benefit of the fund. The regulation is expected to grow the investor protection fund over the next few years to Rp180 billion.

OJK will also broaden the scope of protection for investor assets, from previously just shares to all customer funds and securities as well as other securities-related assets.

2. Optimise management of the investor protection fund

A sufficient investor protection fund must be maintained in anticipation of potential claims. Therefore, the fund should be developed through contributions from participants or investment returns. Consequently, OJK will coordinate with the Government to provide incentives to optimise management of the fund.

3. Establish a policy guarantee program in conjunction with the government and relevant institutions

Pursuant to the Insurance Act (No. 40 of 2014), insurance companies are required to join a policy guarantee program. Program delivery will be regulated by a specific law drafted by the government. Therefore, OJK will actively participate in the formulation of that law through reviews and by providing recommendations.

4. Supervising the unclaimed assets of customers

Since implementation of scripless trading in 2000, more than 30 stocks have been delisted. Unclaimed assets represent an administrative cost for the Securities Administration Bureau (BAE) as the administrator. Looking ahead, OJK will formulate a new regulation concerning the handling of unclaimed assets in harmony with Capital Market Act, Limited Liability Company Act and the Indonesian Civil Code.

f. Strengthen consumer complaint handling in the FSS

In addition to providing a consumer compliant service and facilitating complaint resolution between consumers and FSI, OJK will also prepare a legal defence mechanism to settle disputes between consumers and FSI in order to strengthen consumer protection.

1. Strengthen the role of OJK in terms of consumer and public services

In terms of consumer protection, OJK provides OJK customer care consisting of three main services, namely a service to receive information (reporting), a service to provide information (queries) and a complaint service.

Moving ahead, OJK will institute the following initiatives:

- enhance consumer services to be more reliable and SIGAP (polite, informative, responsive and professional);
- provide consumer services and an education centre at all OJK regional and branch offices;
- Increase the number of new channels by utilising digital communications media, including SMS;
- continue development of Integrated Financial Customer Care (iFCC), specifically to optimise the tracking feature for consumers and the tracing feature for FSI;
- enhance cooperation with various institutions and play an active role at various domestic and international consumer protection forums; and
- apply international standards to the implementation of the OJK Consumer Services System (iFCC).

2. Strengthen complaint handling by financial services providers

OJK provides a tracing feature within its Consumer Services System in order to support FSI provide consumer services. Furthermore, OJK is committed as the leader of strengthening complaint handling at FSI. Hitherto, OJK has established working group to facilitate information exchange concerning complaint handling. In addition, to reinforce existing Internal Dispute Resolution (IDR), OJK will implement a number of policies and actions as follows:

- prepare standards for IDR implementation at FSI; and
- monitor IDR implementation by FSI, incorporating self-assessments as well as reporting consumer complaint resolution and services. To that end, OJK will develop a Consumer Protection and Education Reporting System (PEDULI).

3. Boost the efficacy of out-of-court dispute settlement through Alternative Dispute Settlement Institution (LAPS)

OJK is tasked with striking an optimal balance between a sustainable and stable financial industry and protecting the interests of the public and consumers alike.

OJK regulates dispute resolution in the FSS through two phases as follows:

- internal dispute resolution through discussions between the consumer and the FSI involved; and
- if the internal dispute resolution fails to reach a settlement, resolution is sought through the courts or an Alternative Dispute Settlement Institution (LAPS) determined by OJK (external dispute resolution).

In the case of external dispute resolution, OJK will request the financial services institution involved to join an independent Alternative Dispute Settlement Institution (LAPS).

g. Strengthen consumer protection and education regulations

When formulating regulations concerning consumer protection and education, OJK adheres to five principles, namely transparency, fair play, reliability, data security and confidentiality, as well as consumer complaint handling and dispute resolution.

1. Develop and refine regulations concerning consumer protection and education that refer to best practices and strike a balance between the interests of consumers and FSI

OJK will continue to conduct research in line with best practices and seek examples of sound practices from other countries, thereby striking an optimal balance between the interests of consumers and FSI in order to enhance the efficacy of regulations on consumer protection and education. The regulations will be accompanied by appropriate education for consumers and the public as well as socialisation activities for FSI.

IV. SUPPORTING FACTORS IN THE ACCOMPLISHMENT OF OBJECTIVES CONTAINED WITHIN THE INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN

The initiatives to be implemented in order to achieve the objectives contained within the Indonesia Financial Services Sector Master Plan 2015-2019 require the necessary support of human resources and information technology (IT). OJK will implement various programs that aim to meet the needs of human resources at FSI in terms of both quantity and quality, as well as optimise the utilisation of IT at FSI.

A. Fulfill the requirement for human resources in the FSS and as supervisors of FSI in terms of both quality and quantity

a. Improve competence standards in the FSS and for supervisors of FSI

The comprehensive development of human resources (HR) along with the support of adequate infrastructure will provide a significant contribution to FSS development. HR development shall be achieved through the application of competence standards in the FSS. To that end, OJK will continue to refine the supervisor and competence standards to be implemented in the FSS.

1. Prepare certification and licensing standards for professions in the FSS

OJK will refine regulations concerning the standards and certification mechanism at FSI, enabling the utilisation of online certification facilities. OJK will also encourage restructuring at institutions that administer examinations for professions in the FSS, while expanding the authority of the teaching standards committee to become a competence standards committee.

Enhancing the quality of supporting professions in the FSS also requires alignment with the latest challenges and requirements, including certification for all types of bank and developing specialised professions in the form of insurance and reinsurance brokers that specialise in the primary lines of business. Meanwhile, OJK will also refine the qualification standards for securities firm representatives as well as segment the licensing of broker-dealer representatives.

2. Require advanced professional education for players in the FSS

OJK will require industry players, including securities firm representatives, to attend advanced professional education in response to the emergent challenges in the FSS.

Furthermore, OJK will regulate and coordinate with associations that present awards to professions in terms of preparing codes of ethics and developing advanced professional education for their members. OJK will also actively oversee implementation of the Advanced Professional Education Program (PPL).

3. Enhance the competence of FSS supervisors to boost supervision effectiveness

OJK continuously enhances the competence of supervisors in order to support effective oversight, including through collaboration with relevant parties.

OJK must also improve the competence and ensure the availability of investigators at OJK. By improving the competence of supervisors, OJK could participate in supervisor exchange programs throughout ASEAN, thereby ensuring regional uniformity.

b. Expand educational methods for industry players through formal and informal educational institutions

In conjunction with the Government and financial industry, OJK will conduct socialisation activities for the educational material to be included in the national school curriculum as well as expand the educational methods through the involvement of formal and informal educational institutions. In addition, OJK will offer training, roll out a campaign as well as provide socialisation activities for informal institutions regarding the educational materials.

1. Establish the OJK Institute to enhance the capacity of human resources in the FSS

OJK established a training centre to improve the capacity and competence of human resources in the FSS, known as the OJK Institute, which is also expected to develop activities and services in the FSS.

OJK will also cooperate with educational institutions to expand the capacity of supervisors in terms of consumer protection and education at head office and regional offices.

Looking ahead, OJK will also set up a world-class research centre to facilitate greater competence and knowledge about the FSS amongst industry players and the public.

2. Build cooperation with educational institutions to meet the needs of the sharia FSS

Congruous with greater competition between FSI, each respective FSI, including sharia one, must prepare a strategy to meet the requirement for human resources with the involvement of related stakeholders.

To that end, OJK will coordinate and collaborate with the sharia FSS and educational institutions to provide highly competent work force through various programs and the utilisation of educational institution facilities in order to train suitable human capital.

B. Utilise information technology in the FSS

a. Develop information technology infrastructure in the FSS

OJK will develop reliable, high-quality infrastructure for the FSS to utilise information technology, thereby generating complete, accurate and up-to-date data to support integrated regulation and supervision.

1. Optimise the utilisation of information technology by the FSS

Entering the digitalisation era of financial products and services, the FSS is urged to optimise the secure use of information technology. Several initiatives in this area include:

- encourage the FSS to expand its utilisation of information technology to improve efficiency, productivity, consumer services and governance;
- encourage the FSS to prepare and anticipate security threats to information and IT applications;
- amend regulations concerning the use of information technology in the FSS;
- improve coordination with relevant institutions and companies to enhance cyber security; and
- expand information technology infrastructure that safeguards the security and reliability of application services and data/information.

2. Develop transaction infrastructure and transaction settlement on the capital market

In line with increasing trade value and volume, there is growing demand for reliable and efficient transaction infrastructure on the capital market. Consequently, OJK will implement a number of initiatives to expand infrastructure as follows:

- improve the national clearing system and capital market settlement through development of clearing system architecture, development of C-best Next-G and utilisation of the central bank to settle securities transactions;
- develop e-clears system architecture;
- implement guarantee participation through a new scheme and pre-emptive action mechanism to enhance transaction security;
- develop an integrated investment management system that amalgamates members of the investment management industry (investment

managers, mutual fund selling agents and custodian banks) into one system as a single platform;
- develop an integrated securities trading system, which combines the derivatives trading platform with the stock trading system (Next-G JATS System);
- expand the *sukuk* and debt trading infrastructure using the ETP system for trading debt securities; and
- develop repo market infrastructure.

3. Develop information systems to support FSS supervision

OJK plans to develop a number of information system applications that aim to support FSS supervision. The information systems to be developed over the upcoming five years are as follows:
- a human resources information system for industry players in the form of an integrated database, which OJK will use to monitor human resources in the FSS and to assist appraise the overall quality of human resources in the sector;
- an integrated supervisory information system to support integrated risk-based supervision by OJK through continuous upgrades to the existing systems and infrastructure;
- an integrated sustainable finance information system to support implementation of the Roadmap to Sustainable Finance in Indonesia prepared by OJK;
- an integrated registration and licensing information system to simplify and expedite the licensing process of financial institutions, supported by integrated business processes; and
- a financial services information system to expand the application of risk management and identify debtors (credit registry) as well as expedite the intermediary function of the FSS.

4. Develop information systems to support financial inclusion

The following information systems will also be developed by OJK to support the financial inclusion program:
- an information system to support the consumer decision-making process at FSI in terms of the financial services and products used; and
- an information system to broaden access to FSI for micro enterprises.

5. Provide sufficient infrastructure to conduct effective investigations in the FSS

OJK is required to develop facilities to strengthen verification techniques through scientific evidence and by integrating the intelligence function at OJK as well as building an integrated database system with restricted access of businesses and individuals operating in the FSS.

b. Develop the reporting and database infrastructure

OJK constantly strengthens the reporting and database infrastructure of FSS players and consumers to support supervision efforts.

1. Develop a single identification for consumers in the FSS

OJK will develop an information system for users of the FSS to support supervision and provide greater convenience and efficiency.

Application of the Single Investor Identification (SID) will help OJK monitor investor activities in real time. During the upcoming five years, OJK will develop SID for all investors on the capital market, with a focus of developing SID for customers of the Securities Administration Bureau (BAE) as well as investors in mutual funds, government debt securities and other investment products.

2. Develop an integrated e-reporting system

OJK will develop an integrated one-reporting system for the banking industry to support supervision. On the capital market, OJK will develop an integrated e-reporting system through amendments to reporting requirements for securities companies and develop a report analysis system to support risk-based supervision. Furthermore, OJK will also develop a branchless baking reporting information system.

3. Develop a data warehouse system in the FSS

Development of a data warehouse system in the FSS is a prerequisite considering the increasing complexity of business and intense use of information systems at FSI. The data warehouse will produce dynamic reports concerning financial services institution performance to bolster decision-making at OJK.

4. Develop transaction facilities and Securities Ownership Access (AKSes)

AKSes will be developed by utilising banking facilities, the public understanding and use of which is already widespread.

INTEGRATED INVESTMENT MANAGEMENT SYSTEM

Mutual funds appear to be one of capital market retail products with huge potentials to continuously grow in the future. As a retail product, investments in mutual funds do not require a large investment value, making it more affordable for the public, particularly from the middle-class. To optimize such potentials, there should be infrastructures to support the improvement in transaction efficiency.

Currently, the execution of mutual fund transactions is performed manually by investment managers. Consequently, investors who buy a mutual funds product from a number of investment managers should open accounts in each investment manager. Transaction process is conducted manually using papers, facsimile, and emails as main communication means. Additionally, there is no a consolidated information system on investors' ownership. Standardization in the management and administration of mutual funds is also absent.

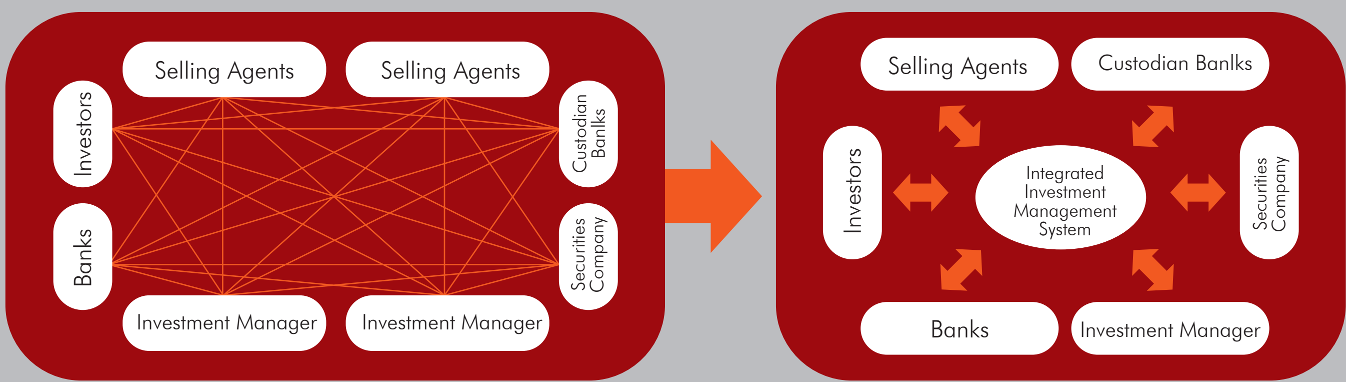
Considering the aforementioned backgrounds, and responding to increased transactions in the investment management industry, it becomes a necessity to have a system integrating the whole business process of mutual funds in an automated, efficient, and integrated manner.

The Indonesia FSA, Securities Central Custodian (KSEI), and associations in the industry develop an integrated investment management system. In developing such a system, cooperation is held with the Korea Securities Depository (KSD) from the Republic of Korea.

The integrated investment management system is intended to improve the efficiency of mutual fund transactions through electronic distribution channels, as well as integration of data in selling agents, investment managers, custodian banks, and securities companies. Additionally, the system also provides the same platform for the pre-matching, messaging hub, market monitoring, and reporting activities.

The development of the system started through the signing of a memorandum of understanding between KSEI and KSD on 22 September 2014. The scope of the development includes mutual fund transactions (subscription, redemption, and switching), post-trade processing, and reporting to the regulator and media. Currently, the development is in the stage of design study for the system and database specifications. It is planned that the development would be complete in the end of 2016.

Comparison between the Current and the Integrated Systems



INDONESIAN
FINANCIAL SERVICES SECTOR
MASTER PLAN
2015-2019

Fostering Growth and
Addressing Challenges in the Financial Services Sector,
Today and Tomorrow

SUMMARY OF PROGRAMS

INDONESIAN FINANCIAL SERVICES SECTOR DEVELOPMENT DIRECTION 2015-2019

CONTRIBUTIVE

1. Funding of infrastructure and priority economic sectors

a. Optimise the role of financial services institutions (FSI) to ensure food and energy security as well as support other priority sectors
b. Optimise the role of financial services institutions in terms financing specific sectors

2. Capacity building at financial services institutions

a. Strengthen the capital and institutional structure of financial services institutions in order to enhance their role in supporting economic activities
b. Empower associations in the financial services sector

3. Financial services sector product and service development as well as increased financial literacy

a. Develop financial and investment products in the financial services sector
b. Develop schemes for products, services and activities in the financial services sector
c. Develop and apply sustainable funding principles for the financial services sector
d. Expand the consumer base
e. Facilitate access to the capital market as an alternative source of funds
f. Conduct massive, synergic, structured and comprehensive education throughout the financial services sector
g. Improve financial management skills

4. Strengthening the role of the sharia financial services sector

a. Enhance business and network expansion as well as sharia financial products
b. Create a fair playing field for the sharia financial services sector
c. Strengthen cooperation to develop the sharia financial services sector through policy synergy with the government as well as relevant authorities and stakeholders
d. Enhance the quality of industry players in the sharia financial services sector
e. Conduct promotional campaigns and education concerning sharia finance

STABLE

1. Strengthening financial services sector supervision

a. Implement integrated risk-based supervision of the financial services sector
b. Develop appropriate methods to supervise rural banks and microfinance institutions
c. Consistently strengthen law enforcement in the implementation of the supervision function
d. Supervise market conduct within a consumer protection framework
e. Strengthen crisis management protocol and inter-institutional coordination
f. Formulate market conduct regulations in terms of consumer protection

2. Strengthening and structuring the financial services sector in accordance with international standards

a. Structure financial services institutions ownership to support sustainable economic development
b. Strengthen the application of international practices to financial services sector regulations, reporting and supervision
c. Develop governance and risk management in line with best practices
d. Strengthen preparations towards ASEAN financial market integration
e. Formulate effective regulations to create fair competition and prevent regulatory arbitrage
f. Regulate remuneration in the financial services sector
g. Improve efficiency and stability in the financial services sector
h. Strengthen the handling of infractions in the accumulation of public funds and investment management

INCLUSIVE

1. Development of local economic potential

a. Strengthen the function and role of regional banks, rural banks and microfinance institutions to support local economies
b. Promote the capital market for local economic development and extend the guarantee program for local economic funding

2. Expanding financial access and strengthening consumer protection

a. Develop micro-financial products and/or services
b. Expand funding/financing access to micro, small and medium enterprises (MSMEs)
c. Develop branchless banking services and expand the distribution channels for financial products
d. Expand financial inclusion to reach all social strata
e. Enhance consumer protection
f. Strengthen consumer complaint handling in the financial services sector
g. Strengthen consumer protection and education regulations

ENABLER

A. Fulfill the requirement for human resources in the financial services sector and as supervisors of financial services institutions in terms of both quality and quantity

a. Improve competence standards in the financial services sector and for supervisors of financial services institutions
b. Expand educational methods for industry players through formal and informal educational institutions

B. Utilise information technology in the financial services sector

a. Develop information technology infrastructure in the financial services sector
b. Develop the reporting and database infrastructure

SUMMARY OF PROGRAMS

CONTRIBUTIVE

1 Funding of infrastructure and priority economic sectors

a Optimise the role of financial services institutions (FSI) to ensure food and energy security as well as support other priority sectors

1) Expand financial products and services to support the agricultural sector
    - Map the financing needs of priority economic sectors and bank capacity to finance priority economic sectors
    - Develop agricultural insurance, commencing with a review of the regulatory framework and insurance product development that supports agriculture and livestock
    - Coordinate with relevant ministries and associations to produce an agricultural insurance scheme tailored to farmers and that supports government programs

2) Support funding for the energy and infrastructure sectors
    - Form working groups in the infrastructure sector involving OJK, the banking industry, the Government and others
    - Develop HR competence of bank supervisors to support the economic development of priority sectors in cooperation with educational institutions (formal and non-formal) and training institutes
    - Form expert groups in priority economic sectors as counterparts of bank supervisors
    - Create an information system for priority economic sectors in the interests of the banking industry and banks supervisors
    - Form coordination forums centrally and locally to support financing of priority economic sectors as well as to provide fiscal and non-fiscal incentives
    - Encourage the active role of investment managers to socialise the benefits of private equity funds
    - Coordinate with the Ministry of Finance, Ministry of Home Affairs and Audit Board of the Republic of Indonesia to assist local governments issue municipal bonds
    - Encourage pension funds to invest in instruments that support infrastructure development
    - Facilitate the proposal to establish an Investors Club as a means to disseminate information and knowledge in order to create synergy in the financial services sector (FSS) in terms of investment activity, particularly infrastructure
    - Encourage pension funds to invest in asset-backed securities (Collective Investment Scheme or Participatory Notes)

3) Promulgate prudential policies for priority economic sectors
    - Adjust prudential regulations to encourage FSI to increase funding to priority economic sectors
    - Expand the role of supervisors (supervisory actions) to assist FSI extend financing to priority economic sectors in line with the capacity and characteristics of each respective financial services institution
    - Ensure the avowed commitment of FSI management through fit and proper tests in terms of financing priority economic sectors

4) Expand the role of guarantee companies nationally and locally
    - Promote the establishment of a Regional Credit Guarantee Company (PPKD) in each province of Indonesia
    - Encourage guarantee companies to develop guarantee products that support priority economic sectors
    - Coordinate and build understanding with relevant parties, including the central and local governments, in order to expand guarantee products that support food and energy security as well as the provision of infrastructure
    - Initiate and coordinate development of integrated guarantee schemes centrally and locally and well as between regions

5) Develop a guarantee scheme to support priority sector development
    - Coordinate with the Association of Indonesian Guarantee Companies (Asippindo) to develop guarantee schemes for priority economic sectors
    - Refine the guarantee schemes through input from relevant parties, including the identification of guarantee objects, guarantee requirements, guarantee procedures, guarantee periods, guarantee returns, guarantee value and coverage as well as producers to file a claim

b Optimise the role of FSI in terms of financing specific sectors

1) Expand the role of export financing to stimulate national exportss
   - Optimise the role of the Indonesian Export Financing Agency (LPEI) in terms of both supply and demand as follows:
     - Map export-oriented sectors with high value added, while developing import substitution industries that require export financing from LPEI;
     - Encourage LPEI to optimize its infrastructure network to cover export-oriented MSMEs throughout the archipelago in order to expand the share of financing allocated to leading industries in each respective region;
     - Strengthen the role of LPEI in terms of extending export financing, guarantees and insurance as well as providing consultancy services to export-oriented start-ups; and
     - Monitor LPEI financing to leading export-oriented sectors determined by provincial governments and ministries.

2) Promote secondary mortgages
   - Monitor the efforts of PT Sarana Multigriya Finansial (SMF) to utilise the regulation, including preparation of a business plan, products, marketing and business plan execution
   - Conduct socialisation activities to expand the utilisation of Asset-Backed Securities in the form of Participatory Notes for Secondary Mortgages (EBA-SP)

3) Support maritime sector financing
   - Coordinate with with the Ministry of Marine Affairs and Fisheries to identify the financing requirement of the maritime sector
   - Enhance understanding of the most pertinent financial products and services for those operating in the maritime sector through working groups in partnership with banks and the fisheries counsellor
   - Encourage bank managers to pay special attention to developing the capacity and understanding of human resources at FSI concerning the maritime sector

2 Capacity building at FSI

a Strengthen the capital and institutional structure of FSI in order to enhance their role in supporting economic activities

1) Increase capital through organic and inorganic growth as well as mergers and acquisitions
   - Issue incentives for conventional commercial banks seeking to consolidate
   - Prepare a spin-off roadmap for for sharia business units
   - Raise the minimum core capital of conventional commercial banks in line with the classification of bank business activities
   - Issue capital policy for Qualified ASEAN Banks (QAB)
   - Formulate policy concerning minimum core capital for rural banks pursuant to the classification of banks according to business activity
   - Increase the amount of paid up capital required to establish a rural bank based on the underbanked in the environs
   - Refine the dividend payout ratio policy to organically raise capital at rural banks
   - Strengthen capital at multifinance companies in two stages as follows:
     - stage 1: raise the minimum capital of multifinance companies to Rp40 billion for corporation-type and Rp30 billion for cooperatives-type in 2016; and
     - stage 2: raise the minimum capital of multifinance companies to Rp100 billion for corporation-type and Rp50 billion for cooperatives-type in 2019.
   - Ensure that insurance companies meet prevailing capital standards
   - Increase the capital of the national reinsurance industry through mergers
   - Strengthen the role of the capital market as an alternative source of capital through more comprehensive socialisation activities concerning public offerings and deregulation of public offerings

2) Improve the quality and function of FSI, professions and supporting institutions
   - Strengthen the role of legal consultants, notaries and appraisers in public offerings through greater compliance to quality control standards and prevailing codes of ethics
   - Ensure compliance to international standards, expand activities, reclassify investment managers based on investment management capacity
   - Amend the requirements for foreign investment managers to market and/or manage funds in Indonesia
   - Strengthen the function of supporting institutions through greater compliance. The role of custodian banks will be strengthened by expanding business activities
   - Enhance the quality and compliance of mutual fund selling agents by improving product knowledge, while ensuring buyers of mutual funds receive complete information
   - Enhance mutual fund selling agents' compliance to prevailing regulations and require mandatory report submission
   - Enhance the service quality of securities companies, in particular underwriters, by formulating regulations concerned with internal control, covering the mandatory functions and procedures
   - Issue regulations for financial planners to guide the profession that emphasises consumer protection and greater financial literacy
   - Require risk management and/or investment management certification for pension fund managers
   - Require certification for specific positions and/or functions at multifinance companies
   - Refine expertise standards, practice standards that refer to international standards, the code of ethics and the registration mechanism for supporting industries in the FSS, including sanctions for violations

b Empower associations in the FSS

1) Require mandatory FSS membership of related associations
   - Require industry players in the FSS to join related associations, applicable to investment managers, broker-dealer representatives, underwriter representatives and multifinance companies

2) Empower associations to prepare codes of ethics as well as enhance the quality and competence of their members
   - Enhance the quality and competence of banking and banker association members through OJK coordination and cooperation with associations
   - Identify roles for the banking association in terms of enhancing the quality of human resources in the banking industry as well as establishing an information technology and communication platform with the authorities and government
   - Require associations associations of investment managers, broker-dealer representatives and underwriter representatives to have a code of ethics as well as offer ongoing programs to enhance the professional capabilities of their members

3) Expand the role of associations in terms of coordinating with stakeholders
   - Encourage associations to actively engage the government and other relevant parties
   - Intensify synergy with associations in the FSS in order to formulate more effective policies and regulations

4) Engage associations with financial literacy programs in the FSS
   - Encourage the participation of associations in educational and campaign activities to promote the use of financial products and services through collaboration with stakeholders
   - Encourage association participation in the capital market deepening program
   - Strengthen association capacity as a supporting organisation of the National Strategy for Financial Literacy

5) Encourage and empower associations to settle consumer disputes
   - Encourage associations to to help settle disputes between consumers and the FSS through establishment of an Alternative Dispute Settlement Institution (LAPS)

3 FSS product and service development as well as increased financial literacy

a Develop financial and investment products in the FSS

1) Develop investment products, including retail financial products
   - Develop mutual funds with a public offering in the form of a majority investment in foreign securities
   - Facilitate application of the ASEAN Economic Community Blueprint through possible foreign Collective Investment Schemes (CIS) in Indonesia
   - Develop investment management products using derivative products as the underlying asset
   - Expand the types of asset-backed securities through development of other underlying assets
   - Prepare hedge fund regulations to meet IOSCO standards
   - Coordinate with the government to provide fiscal incentives to parties engaged in asset securitisation
   - Issue listing regulations on the stock exchange for asset-backed securities
   - Expand socialisation activities for participatory notes targeting originators and investors

2) Develop hybrid products
   - Regulate the development of hybrid schemes/products in the pension funds industry
   - Develop combined financial products from various industries, including insurance, the capital market, banking industry and so on

3) Develop derivatives products
   - Intensify efforts to develop derivatives, such as index futures, options, derivative instruments with underlying debt securities and structured warrants
   - Coordinate with the Ministry of Finance to expedite derivative product development as required to expand the tradeable government securities (SBN) market
   - Optimise utilisation of the index and develop new indexes

b Develop schemes for FSS products, services and activities

1) Diversify FSS services
   - Encourage the expansion of securities companies' services by formulating regulations concerning one-day trade, covering the terms and requirements for securities, securities companies and customers
   - Develop cooperation between securities companies and other FSI, such as banks and insurers, in the form of one-stop services for customer wealth management as well as micro and small customers
   - Expand the marketing network for securities products by segmenting the broker-dealer function
   - Develop banking schemes through research and cooperation with strategic partners
   - Develop information technology in conjunction with the banking industry
   - Direct IT-based interbank financing and marketing work programs for banking products and services
   - Permit pension fund institutions (DPLK) to manage severance funds (PPUKP)
   - Start developing DPLK brokers
   - Develop insurance services in the economy through development of traditional insurance markets, disaster insurance and compulsory motor insurance

2) Develop transaction settlement in the FSS
   - Encourage custodian banks to function as settlement agents through automated clearing confirmation/affirmation (institutional delivery)
   - Develop General Clearing Members (GCM) from large securities companies and custodian banks. Smaller securities companies will be directed towards broker-dealer activities with more limited exposure

c Develop and apply sustainable funding principles for the FSS

1) Formulate regulations that support sustainable funding development
- Promulgate regulations as an umbrella policy for sustainable finance at FSI, covering aspects of sustainable funding development, refining the supervision guidelines when implementing sustainable finance as well as the mandatory submission of sustainability reports by FSI
- Develop green bonds and a green index
- Enforce requirements for companies seeking funding through the capital market to consider environmental aspects, including compliance to Environmental Impact Assessment (EIA), land disturbance permits as well as clean and clear certification for mines and quarries
- Develop green products for insurance companies, including environmental insurance products
- Develop green products for multifinance companies to provide financing to environmentally friendly businesses

2) Incentivise sustainable, environmentally friendly business activities at FSI
- Provide incentives to FSI that implement environmentally friendly business activities, including a reduction in the portion of productive financing
- Formulate a green lending model and other funding schemes
- Develop a sustainable finance information hub
- Establish sustainable finance coordination forums nationally and locally
- Work with the government to review the possibility of providing fiscal incentives for sustainable financial activities
- Present routine awards to FSI that run sustainable finance programs
- Organise workshops and training on sustainable finance

d Expand the consumer base

1) Encourage domestic investor and consumer participation
- Map banking service coverage to catalyse local economic growth
- Optimise office networks and banking services to expand the investor base and add domestic consumers to the capital market
- Promote insurance and pension fund growth through introductory education programs
- Refine regulations to expand the role of insurance and pension funds
- Optimise the capacity of insurance companies and pension funds
- Facilitate the transfer of ownership of mutual fund units without the subscription and redemption process for grants and inheritances
- Permit the purchase of investment products using the funds of the prospective buyer's family or place of work as well as a loan or credit card
- Encourage shareholdings by employees, directors and members of the board of public companies and issuers in order to expand the number of investors, while increasing employee motivation and commitment to the company
- Encourage securities companies and investment managers to optimise their use of information technology when marketing their products to areas that lack the corresponding representatives of securities companies and investment managers
- Develop financial inclusion models to expand the customer/consumer base
- Encourage FSI to play an active role in expanding the investor base by developing financial service and product schemes

2) Simplify investor and consumer requirements
- Arrange sharia financial education and training by formal and non-formal institutions, career socialisation activities and bridge programs
- Encourage the banking industry to utilise basic savings accounts as well as develop other financial product schemes and programs to significantly expand the consumer base
- Implement Know Your Customer (KYC) principles for prospective investors based on risk
- Expand Know Your Customer (KYC) principles to third parties and other FSI
- Develop financial products and scheme to improve consumer convenience

e Facilitate access to the capital market as an alternative source of funds

1) Simplify public offering procedures
   - Refine regulations related to the registration process
   - Deregulate IPOs and rights issues
   - Implement electronic registration
   - Develop electronic book building on the primary market

2) Simplify information disclosure policy
   - Reduce the number of documents that must be submitted to OJK for business mergers and consolidation of businesses with near 100% ownership
   - Reduce the frequency of reporting the proceeds of public offerings from four times to twice per annum
   - Provide reporting exemptions for issuers and public companies under certain conditions

3) Develop securities listing on the stock exchange
   - Develop electronic registration to list securities on the stock exchange
   - Develop special listings, in conjunction with the Indonesia Stock Exchange, that facilitate companies operating in strategic capital-intensive sectors
   - Refine regulations to list debt securities and *sukuk*, including simplifying the documentation process and requirements as well as incentivising the listing of *sukuk*

4) Optimise the financing role of corporate debt securities and *sukuk*
   - Map the main issues and coordinate with related parties to nurture issuances of corporate debt securities and *sukuk*
   - Amend public offering regulations and develop other products, such as medium-term notes (MTN)
   - Work with self-regulatory organisations (SRO), Bank Indonesia and the Ministry of Finance to develop the debt securities and *sukuk* market from a variety of aspects, including trading and reporting infrastructure, regulation and supervision, regional debt market development and tax policy

f Conduct massive, synergic, structured and comprehensive education throughout the FSS

1) Conduct consumer awareness campaigns to publicise FSI features, benefits, risks and costs of products and services as well as the rights and obligations of consumers
   - Synergise with FSI and associations to compile financial education material in the form of Public Service Announcements (PSA)
   - Build infrastructure in the form regulations concerning consumer protection education in conjunction with FSI
   - Roll out an awareness campaign utilising information and communications technology

2) Conduct education and socialisation activities that reach all regions of the archipelago and touch all social strata
   - Increase understanding and utilisation of financial and investment products and services amongst the public
   - Work with FSI in local areas to implement integrated and measured socialisation and education programs to reach all social strata
   - Optimise the operationalisation of financial literacy cars (SiMOLEK)
   - Develop high-impact education materials in line with the needs of local communities for optimal and measurable results
   - Utilise seafaring transportation to provide financial education on remote islands and inland waterways
   - Develop sharia education materials for those attending higher education

g Improve financial management skills

- Arrange outreach programs as community-based financial education models with system monitoring
- Arrange Training of Trainers (ToT) targeting certain groups who have potential as education agents for the broader community
- Work with various government and private institutions to conduct Training of Trainers (ToT) concerning financial management skills, utilising the instructors and networks of such institutions

4 Strengthening the role of the sharia FSS

a. Enhance business and network expansion as well as sharia financial products

1) Strengthen capital at sharia FSI
   - Strengthen capital at sharia FSI by amending the statutory core capital requirement, which can be met through IPOs, additional capital from the owners or strategic partners
   - Link the capital requirements of sharia rural banks to the corresponding operational area
   - Increase capital in the sharia nonbank financial industry to support sharia financial business development, including sharia insurance companies, (full fledge) sharia reinsurance companies and sharia multifinance companies
   - Encourage the sharia nonbank financial industry to create sharia business unit spin-offs

2) Strengthen regulations for sharia products, institutions and professions in the FSS
   - Expand the role of working groups to develop sharia financial products and cooperation with the relevant authorities and institutions
   - Refine sharia insurance product license approval regulations and formulate provisions that require companies to monitor product performance
   - Develop a publicly-accessible sharia insurance product database
   - Regulate the policies of the Sharia Supervisory Board, including mandatory attendance of regular programs to enhance knowledge
   - Develop regulations concerning good governance and institutional risk management at sharia banks and the sharia nonbank financial industry, as well as improve the efficacy of sharia governance in line with best practices and referring to international standards
   - Develop an early warning system application for sharia banks, sharia business units and the sharia nonbank financial industry
   - Formulate policy that provides incentives for the development of sharia products and services in order to grow the sharia capital market, including lower fees, deregulating the limits on portfolio placements and extending the offering period in order to meet the minimum amount required of managed funds
   - Prepare policy incentives for sharia nonbank financial industry development
   - Draft a sharia securities bill and regulate the rights and obligations of *sukuk* issuers and holders on the underlying asset
   - Encourage the market to issue *sukuk*-based sharia mutual funds, foreign sharia-compliant security-based mutual funds, sharia project-based mutual funds and sharia financial bundling products
   - Regulate the sharia trading margin, sharia Repurchase Agreements (REPO) and sharia hedging

3) Boost the supply and demand of sharia-compliant products
   - Develop new funding/investment instruments based on profit sharing in accordance with the lifecycle of the customer, sharia savings products for students, sharia liquidity and risk-management (including hedging) instruments
   - Develop new sharia financing products
   - Foster domestic sharia banking services abroad in countries with strong economic links to Indonesia
   - Develop sharia capital market products, including corporate *sukuk*, municipal *sukuk*, sharia mutual funds and other sharia investment products that will be backed by supporting tax policy
   - Extend access to sharia capital market products through banks with local branches to foster growth of local selling agents
   - Encourage stock exchange members to provide a sharia online trading system (SOTS)
   - Develop supporting infrastructure to stimulate *sukuk* liquidity on the secondary market
   - Conduct sharia capital market and sharia nonbank financial industry surveys

b. Create a fair playing field for the sharia FSS

1) Formulate pro-growth regulations for the sharia FSS
   - Reclassify the business activities of sharia banks
   - Promulgate policies required to catalyse growth and bolster the competitiveness of sharia rural banks in terms of the micro segment and other business activities
   - Reconcile sharia bank risk-management requirements
   - Asses and refine the financing-to-value (FTV) policy
   - Issue regulations concerning the sharia pension funds industry
   - Issue regulations for the sharia venture capital industry
   - Issue regulations for the sharia pawnbroker industry
   - Promulgate regulations concerning the application of sharia principles on the capital market for trustees *(wali amanat)*
   - Issue regulations regarding licensing and the application of sharia principles to sharia investment managers
   - Facilitate market players to participate with education and training on the sharia capital market and sharia nonbank financial industry

2) Issue pro-growth sharia FSS regulations in line with the business characteristics and level of industry preparedness
   - Develop and refine sharia banking product standards
   - Develop sharia financing products that meet the needs of the public
   - Amend regulations concerning new sharia banking products and activities
   - Enhance service standards at sharia FSI
   - Adapt products as consumer preferences mature
   - Develop contract schemes for the business activities of all types of sharia financial services institution with the involvement of sharia finance stakeholders

c. Strengthen cooperation to develop the sharia FSS through policy synergy with the government as well as relevant authorities and stakeholders

1) Encourage the application of sharia finance development policies and targets stipulated in the National Medium-Term Development Plan (RPJMN)
   - Play an active role in terms of preparing the sharia financial industry development strategy in Indonesia, for instance the Sharia Financial Architecture Master Plan
   - Encourage establishment of the National Sharia Financial Committee (KNKS) of the Republic of Indonesia
   - Foster the establishment of education centres, research centres and development centres for sharia finance with the involvement of the government and other relevant parties

2) Encourage the utilisation of the sharia FSS as an alternative source of financing for state-owned enterprises and national development programs
   - Prepare an incentive framework to expand productive corporate and infrastructure financing by the sharia banking industry
   - Promote consolidation amongst state-owned sharia banks and encourage sharia bank involvement in managing government funds
   - Initiate and develop sharia investment banks, primarily to finance government projects
   - Encourage issuances of *sukuk* by state-owned enterprises and their subsidiaries
   - Coordinate with the government to develop infrastructure through the utilisation of sharia capital market instruments
   - Coordinate with the government to increase the allotment of government *sukuk* on the primary market, which will be placed in the sharia mutual funds portfolio
   - Initiate coordination amongst institutions in an effort to expand the role of sharia multifinance companies, sharia venture capital firms, sharia pawnbrokers and sharia FSI in development funding

3) Create synergy in terms of tax neutrality and/or tax incentives
   - Cooperate with the government on the issue of tax to support sharia FSS development

4) Synergise sharia and conventional FSS policies
   - Optimise the role and build commitment of conventional commercial banks with sharia banks or business units to develop sharia financial services, accounting for a minimum 10% of the parent bank's assets
   - Apply business process leveraging that allows the sharia bank or business unit access to the facilities/ infrastructure of the parent bank

5) Encourage interconnection between the sharia FSS and sharia instruments
   - Harmonise the sharia FSS regulatory framework
   - Encourage placements of funds earned from *sukuk* issuance at sharia banks
   - Optimise the management of *wakaf* funds, *zakat*, *infak* and *shadaqah*, while integrating the social function in sharia bank business activities
   - Optimise hajj fund management through sharia banks
   - Encourage sharia financial institutions (such as sharia banks, sharia insurance companies and sharia multifinance companies) to supplement the funding requirement through issuances of securities
   - Urge sharia financial institutions to undertake securitisation through issuances of sharia asset-backed securities
   - Consider deregulating restrictions on investment and sharia instrument ratings for insurance companies and pension funds on the capital market
   - Strengthen coordination with Bank Indonesia in terms of *sukuk* market development as a financial system liquidity instrument as well as sharia securities repo market development

6) Endorse cooperation with relevant parties to support sharia FSS development
   - Back cooperation with the National Sharia Board of the Indonesian Ulema Council (DSN-MUI) in terms of reviewing and formulating regulations, preparing a fatwa, compiling competence standards and a curriculum for experts as well as promoting sharia financial product and service innovation
   - Increase cooperation and collaboration with universities as well as domestic and international research institutions to support the formulation and operationalisation of sharia principles, for instance a fatwa

d Enhance the quality of industry players in the sharia FSS

1) Build the capacity of human resources
   - Map competence and reviewing competence standards of sharia FSS players
   - Regulate the minimum requirements of certification as well as advanced professional training that must be completed by all key persons employed in the sharia financial sector
   - Develop a certification program for professions in the sharia banking sector and sharia nonbank financial industry, compile regulations for Sharia Capital Market Experts (ASPM) along with the certification of such experts
   - Cooperate closely with relevant parties to facilitate greater market participation in training and education activities for the sharia capital market

2) Increase the number of employees/experts in sharia finance to support growth
   - Arrange sharia financial education and training by formal and non-formal institutions, career socialisation activities and bridge programs

e Conduct promotional campaigns and education concerning sharia finance

1) Offer socialisation activities to the public and market players to build understanding and utilisation of financial products
   - Expand the use of sharia financial products and services by continuing the iB Campaign
   - Broaden the scope of sharia product and service branding, positioning and differentiation
   - Conduct education and socialisation programs offered to the public and market players by targeting specific communities
   - Expand socialisation activities and promotional campaigns for sharia financial products and institutions

2) Cooperate with relevant parties in terms of sharia financial education and promotion
   - Cooperate with universities, domestic and international research institutions, industry associations, professional associations, the Sharia Economic Community, the Sharia Economic Communication Centre (PKES) and other related communities
   - Prepare a curriculum on the sharia FSS sector as well as joint research between OJK and educational institutions
   - Organise regular domestic and international events

STABLE

1 Strengthening FSS Supervision

a Implement integrated risk-based supervision of the FSS

1) Supervise conglomerates to detect risks in the financial system early
   - Map financial conglomerates in Indonesia
   - Refine integrated supervision regulations and guidelines, covering risk management, good governance, capital and other aspects
   - Develop an expert system to assess risk at sharia banks
   - Amend regulations concerning risk assessment and corporate governance at securities companies, including risk-based supervision of securities companies

2) Develop and implement risk-based supervision mechanisms at FSI
   - Apply risk-based supervision at FSI gradually over the upcoming five years, including sharia banks and securities companies
   - Supplement risk-based supervision with law enforcement
   - Prepare risk-based review guidelines and refine standard operating procedures (SOP) to improve the quality of monitoring

3) Increase compliance audits of professions and supporting institutions in the FSS
   - Prepare programs to increase the quantity and improve the quality of compliance audits through general guidelines as well as coordination with other regulators

4) Optimise the utilisation of an integrated data warehouse, including development of a one-reporting system for supervision and monitoring
   - Review and refine all regulations concerning the format and procedures for FSI to submit reports to OJK
   - Develop an integrated data warehouse, including a one-reporting system and a dashboard that provides data quickly, accurately and reliably regarding FSI performance

5) Develop and enhance the efficacy of the FSS early warning system (EWS)
   - Require the FSS to conduct comprehensive self-assessments of business activities based on risk
   - Perform thematic surveillance of consumer protection
   - Develop an integrated FSS early warning system (EWS) through a universal platform and data/information sources
   - Cooperate with self-regulatory organisations (SRO) to develop a monitoring system for customer securities accounts, an automated and integrated securities transaction oversight system as well as an early warning system (EWS) for adjusted net working capital at securities companies

6) Develop an oversight system for the debt market
   - Refine regulations by broadening the scope of entities and securities that must be reported for securities transactions settled over-the-counter (OTC), including development of a transaction system as well as the settlement and reporting of securities transactions
   - Develop a debt security transfer and transaction settlement oversight system involving PLTE data, market price information from the Indonesia Bond Pricing Agency (PHEI) and data on debt securities holdings from the Indonesian Central Securities Depository (KSEI)

7) Develop an integrated licensing system
   - Prepare an integrated licensing grand design
   - Prepare a supporting information system and regulations to develop integrated licensing

b Develop appropriate methods to supervise rural banks and microfinance institution

1) Compile financial accounting standards for microfinance institutions
   - Coordinate with the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK IAI) to determine the accounting standards for microfinance institutions

2) Build understanding of risk management at rural banks and microfinance institutions
   - Build understanding of risk management at rural banks and microfinance institutions through various activities, including reviews, socialisation activities, training and focus group discussions

3) Apply risk-based supervision for rural banks by class
   - Amend supervision regulations for rural banks, including soundness assessments in the Rural Bank Supervision Management Information System (SIMWAS BPR)

4) Prepare a supervisory framework for microfinance institutions
   - Assess the counselling and supervision of microfinance institutions performed by local government at the regency and city level as well as assess the counselling and supervision of microfinance institutions conducted by other parties appointed by OJK

c Consistently strengthen law enforcement in the implementation of the supervision function

1) Refine regulations on capital market inspections
   - Continuously refine regulations on capital market inspections in line with efforts to improve the organisational and institutional structure of OJK in order to enhance inspection credibility.

2) Strengthen the investigative function against industry players in the FSS
   - Prepare a model to handle allegations of criminal activity with respect to law enforcement, financial services institution stability and in the national interest
   - Formulate regulations concerning criminal activity and the threat of criminal activity that reflect the characteristics of the FSS
   - Formulate regulations stipulating the authority of OJK in determining administrative actions for criminal activities committed in the FSS with or without blocking criminal proceedings
   - Prepare coordination protocol between OJK and other law enforcement agencies to handle criminal activity in the FSS
   - Expand the investigative function to regional and other OJK offices

3) Develop an effective and credible mechanism to determine administrative sanctions and handle objections
   - Develop an effective and credible mechanism to determine administrative sanctions and handle objections in order to create good governance when enforcing prevailing regulations

4) Develop an effective coordination mechanism with law enforcement agencies
   - Develop an effective coordination mechanism with law enforcement agencies through the establishment of a joint forum at the central and local levels

d Supervise market conduct within a consumer protection framework

1) Perform market conduct supervision to create fairness and non-discriminatory conditions for consumers
   - Institute policies in the form of self-assessment and thematic surveillance
   - Implement market conduct supervision throughout the FSS in line with international best practices, emphasising three disciplines, namely market discipline, regulatory discipline and self-discipline
   - Expand market conduct supervision of financial services providers and players by ameliorating the behaviour of securities companies and securities company representatives as well as increasing the supervision and compliance of securities companies in line the risk-based approach

2) Perform market intelligence concerning financial products and/or services as well as consumer behaviour
   - Develop an integrated financial consumer protection system
   - Build a market intelligence system for products and services in the public eye
   - Work in conjunction with related institutions to implement OJK thematic surveillance and intelligence
   - Develop sources of information in terms of capital market player and product supervision, including the development of a market surveillance system that is connected to the mass media, social media and other news sources

e Strengthen crisis management protocol and inter-institutional coordination

1) Improve the crisis prevention and resolution mechanism
   - Institute regulations concerning a crisis management protocol that contains preventative and/or resolution measures effective internally at OJK as well as nationally

2) Improve recovery and resolution planning at FSI
   - Request FSI to prepare recovery and resolution measures for existing issues, including the appointment of statutory managers as well as the liquidation of a financial services institution

3) Enhance coordination with relevant institutions in terms of financial crisis resolution
    - Coordinate with the government and/or other relevant institutions to prevent and/or resolve a crisis in the financial services sector as well as cover information and data exchange while adhering to prevailing regulations

f Formulate market conduct regulations in terms of consumer protection

1) Regulate market conduct in order to protect consumers with due regard to financial industry growth
    - Regulate market conduct throughout the FSS in order to encourage sound market behaviour through discipline at financial services providers
    - Prepare market conduct regulations that strike an optimal balance with aspects of consumer protection without stifling financial industry growth

2) Direct financial services providers to implement education as part of the efforts to enhance service quality
    - Monitor compliance to consumer protection regulations that require financial services providers to deliver at least one educational activity during each reporting period (one year)

3) Require financial services providers to offer a function that handles complaints through a simple and easily-accessible mechanism
    - Monitor financial services providers in terms of preparing an optimal complaint handling mechanism for consumers through Internal Dispute Resolution (IDR)

2 Strengthening and structuring the FSS in accordance with international standards

a Structure FSI ownership to support sustainable economic development

1) Refine ownership requirements and fit and proper tests for owners of FSI
    - Ensure that FSI are owned and managed by competent parties
    - Refine ownership requirements for FSI and legal entities, while reviewing consolidation and exit policy
    - Improve fit and proper tests to ensure the owners of FSI are committed, sufficiently knowledgeable and in line with the vision and mission of OJK
    - Build a database of FSS players

2) Improve capital requirements and limitations on FSI ownership
    - Regulate foreign ownership of FSI in order to provide greater opportunities to domestic investors as shareholders of such institutions, thereby contributing to national economic growth

3) Satisfy best practices in terms of capital requirements
    - Amend the capital requirements for FSI through harmonisation with best practices and international standards

b Strengthen the application of international practices to FSS regulations, reporting and supervision

1) Promote the use of Extensible Business Reporting Language (XBRL) for the submission of reports
    - Expand the use of Extensible Business Reporting Language (XBRL) as a means of financial reporting for issuers and public companies in conjunction with the Indonesia Stock Exchange
    - Prepare the taxonomy and implement financial reporting in XBRL format with the support of a socialisation program for XBRL coupled with capacity building among the supervisors
    - Extend the use of XBRL to securities companies and the format will be developed further to include non-quantitate reporting

2) Support the convergence of financial accounting standards and improve accounting regulations in line with international standards
    - Facilitate convergence between the Statement of Accounting Standards (PSAK) and the International Accounting Standard (IAS)/International Financial Reporting Standard (IFRS)
    - Compile reviews of international standards and their impact on the industry; socialisation of PSAK based on IAS/IFRS; amend accounting and auditing regulations; release accounting guidelines and guidance on the application of accounting standards in line with the characteristics of the FSS in Indonesia

3) Adopt international standards and principles of FSS regulation tailored to the national interest
   - Adopt international standards and principles of FSS regulation, while paying due consideration to the capacity of the domestic FSS and tailored to the national interest, while simultaneously preparing to face global competition
   - Formulate regulations on risk-based supervision as it is applied to securities companies as well as regulations concerning good governance at securities companies

c Develop governance and risk management in line with best practices

1) Draw up and develop guidelines for good governance at FSI in line with best practices
   - Develop good governance guidelines for issuers and public companies, securities companies and investment managers
   - Harmonise aspects governance as well as environmental and social risk management

2) Encourage information disclosure at FSI
   - Encourage FSI to prioritise information disclosure by submitting information through electronic media in the form of the OJK Electronic Reporting System and corporate websites
   - Improve the quality of the annual reports of issuers and public companies by amending regulations in line with industry dynamics, requirements and best practices

3) Improve the quality of risk management at FSI
   - Enhance the quality of risk management at FSI by, amongst others, issuing a regulation concerning risk management at securities companies and requiring periodic risk assessments and risk mitigation, while reporting the results to the regulator
   - Provide legal assurance and apply a level of risk management that is equal across the entire FSS

d Strengthen preparations towards ASEAN financial market integration

1) Harmonise the regulations and dispute resolution mechanism and apply the principles of reciprocity for FSI operating across borders in the ASEAN region
   - Amend regulations concerning the preparation of public offering prospectuses in accordance with ASEAN disclosure standards set by the ASEAN Capital Market Forum (ACMF), which is the capital market regulator association in the ASEAN region
   - Participate in discussions regarding the dispute resolution mechanism and the principles of reciprocity for the FSS in Indonesia in order to expand the network in ASEAN in anticipation of cross-border disputes between ASEAN members
   - Amend regulations and prepare debt market infrastructure if OJK aspires to issue cross-border debt securities in the local currency, which is part of the ASEAN+3 Bond Market Initiative

2) Strengthen institutional preparations in the domestic FSS in anticipation of ASEAN financial market integration
   - Encourage national FSI to expand capital capacity and infrastructure through consolidation in order to compete on ASEAN financial markets
   - Standardise back office and promote online trading to strengthen market intermediaries, specifically securities companies
   - Prepare capital market players in the face of collective investment scheme implementation

e Formulate effective regulations to create fair competition and prevent regulatory arbitrage

1) Amend regulations concerning banking operations in order to broaden access to banking services for small and medium enterprises (SMEs) and the underbanked with respect to healthy competition and prioritising synergy between the different types of bank
   - Provide incentives to open bank branches in underbanked areas in order to expand access to banking services
   - Cooperate with related parties to organise a coordination forum to monitor competition locally and nationally

2) Improve regulations concerning restrictions on commission fees and premiums in the FSS
   - Amend regulations concerning restrictions on commission fees at FSI, including broker-dealers, focusing on determining commissions and premiums
   - Amend the regulations on insurance premium rates in line with preparations for an insurance risk database developed by OJK

3) Regulate the over-the-counter (OTC) market
- Regulate and supervise the OTC market in terms of the securities traded and the market intermediaries in order to create a sound and efficient OTC market

f Regulate remuneration in the FSS

- Promulgate regulations concerning remuneration in the FSS that must consider the accompanying risks in order to improve FSI accountability and activities
- Refine remuneration regulations, including fair business competition, a balance between business activities and risk as well as reducing moral hazard

g Improve efficiency and stability in the FSS

1) Enhance the efficiency of securities transaction settlement through securities financing
- Provide alternative transaction settlement through securities financing, such as securities lending and borrowing (SLB), repo and margin financing, as a mitigation mechanism for transaction settlement risk

2) Expand debt market securities through market deepening
- Develop a bond index as a benchmark of market performance used by investors to unravel potential risk and gauge the return on the investment portfolio in line with the investment objectives
- Expand the Price Discovery Mechanism through an Electronic Trading Platform (ETP), which increases transparency and liquidity on the secondary market and expand pricing products to ensure fair market value of debt securities, sukuk and other securities

3) Develop the repurchase agreement market
- Supplement domestic repo market infrastructure through regulations that contain standard repo transaction agreements referring to the Global Master Repurchase Agreement (GMRA) in order to create uniformity in terms of repo transaction practices, including the rights and obligations during the transaction

4) Develop competitiveness standards and components for base financing/funding at sharia banks
- Expand the role played by sharia financial institutions through business process outsourcing as well as mapping the components of base financing and sharia bank efficiency in order to enhance the standard of sharia bank competitiveness

h Strengthen the handling of infractions in the accumulation of public funds and investment management

1) Expand the role of the Investment Watchdog
- Strengthen the legal foundation for handling grey areas of public fund accumulation, including the institutional arrangements of the taskforce
- Utilise FSI broadcasters to build understanding of what constitutes criminal activity in the FSS

2) Enhance coordination with other institutions to handle legal infractions
- Receive information and complaints from members of the public concerning illegal investment practices through Integrated Customer Care
- Coordinate with relevant institutions to resolve complaints about illegal investments

INCLUSIVE

1 Development of local economic potential

a Strengthen the function and role of regional banks, rural banks and microfinance institutions to support local economies

1) Enhance the capacity and governance of regional banks, rural banks and microfinance institutions
   - Continue with the second phase of the Regional Bank Champion Program as well as initiate a coordination forum for regional bank development with relevant parties
   - Cooperate with Commercial Banks and Rural Banks by strengthening the linkage program business model along with a monitoring mechanism and the development of APEX rural banks
   - Boost the capacity of regional banks, rural banks and microfinance institutions through a corresponding improvement in governance to ensure business continuity

2) Build owner commitment to help expand the role of regional banks, rural banks and microfinance institutions
   - Increase the capacity of regional banks, rural banks and microfinance institutions through the solemn commitment of the owners to grow capital and build the capacity of human resources
   - Request owner/shareholder commitment to increase capital as necessary, specifically at microfinance institutions with a solvency ratio of less than 110%

b Promote the capital market for local economic development and extend the guarantee program for local economic funding

1) Urge local governments and businesses to utilise the capital market
   - Continue to play an active role in terms of encouraging local governments and stakeholders to issue municipal bonds

2) Develop local funding guarantee schemes
   - Expedite risk mitigation measures to dilute the high perception of risk inherent with extending credit in local areas
   - Nurture the establishment of local training centres (PPKD) in each province and develop guarantee products or schemes in conjunction with local governments
   - Devote special attention to guarantee schemes for local development projects

2 Expanding financial access and strengthening consumer protection

a Develop micro financial products and/or services

1) Develop banking products tailored to the needs of micro enterprises
   - Expand funding access tailored to the needs of micro, small and medium enterprises (MSMEs)
   - Urge the banking industry, including sharia banks, to develop micro financial products and services
   - Facilitate efforts to build sharia-compliant micro financial models that meet the needs of the government and priority economic sectors

2) Develop microinsurance products
   - Socialise the benefits of insurance products to the public and request insurance companies to develop microinsurance products

3) Develop micro financial products based on pawning services
   - Prepare regulations for the pawn industry that cover licensing, institutional arrangements and business activities

b Expand funding/financing access to MSMEs

1) Expand the role of venture capital firms in funding start-ups
   - Initiate a revitalisation program and optimise the role of venture capital firms
   - Explore the possibility of providing incentives to venture capital firms that fund priority economic sectors
   - Coordinate with the Government and other relevant stakeholders to expand the sources of funding available to venture capital firms

2) Simplify the public offering requirements for small and medium enterprises (SMEs)
   - Simplify the public offering requirements by reducing the number and types of documents in order to promote the capital market as an alternative source of SME funding
   - Provide a special SME board at the stock exchange to stimulate SME growth and development

3) Develop micro pension funds
   - Develop the pension funds industry through a review of micro pension funds that target individuals by simplifying the licensing process, management and obligations

c Develop branchless banking services and expand the distribution channels for financial products

1) Develop branchless banking services as part of financial inclusion
   - Implement a branchless banking program
   - Expand the application of branchless banking for capital market and nonbank financial industry products through the establishment of agents of securities companies and to market insurance and finance company products in remote areas
   - Continue to monitor and evaluate implementation to ensure branchless banking endures and can respond to the needs of the public
   - Develop a branchless banking platform not only in the context of broadening public access to financial services but also to boost overall efficiency in the FSS

2) Expand access and the distribution channels for financial products
   - Open access by expanding the distribution channels of financial products through cooperation with companies or institutions that have broad network coverage
   - Open the opportunity for other parties, excluding non-exchange member securities companies and banks, to become securities marketing agents in order to boost the number of investors on the capital market
   - Expand utilisation of the post office network and other distribution channels to market financial products

3) Develop integrated micro financial services (Laku Mikro)
   - Expand Laku Mikro to include capital market products by marketing mutual funds
   - Distribute Laku Mikro products utilising web and application-based information technology

4) Develop community-based financial services and products
   - Promote a culture of saving from an early age through student savings products known as SimPeL

5) Increase electronic financial product distribution and transactions
   - Boost transaction efficiency in the FSS through the use of increasingly sophisticated mobile and web-based information technology
   - Promulgate regulations concerning the development of electronic transactions, product distribution and reporting
   - Facilitate mutual fund transactions on the capital market through the websites of investment managers, broker-dealers and mutual fund selling agents

d Expand financial inclusion to reach all social strata

1) Prepare and implement financial inclusion activities for all social strata
   - Continue the financial inclusion program aimed at all social strata as follows:
     - Develop the concept of micro financial services (Laku Mikro), namely an affordable and fast integrated service with simple access;
     - Develop information technology based financial inclusion models or programs with the tagline 'Yuk SiKAPI'; and
     - Develop national savings product schemes for students with simple requirements and attractive features to promote a culture of saving form an early age known as SimPel
   - Coordinate with the Ministry of Education and Culture, the Ministry of Religious Affairs as well as the National Development Planning Agency to implement SimPel as a national program

2) Strengthen coordination with the government and other related institutions in terms of financial inclusion activity
   - Coordinate with various institutions, namely the Ministry of Finance, Bank Indonesia, OJK, the National Development Planning Agency and the National Team for the Acceleration of Poverty Reduction in order to:
     - Refine the material contained in the blueprint of the National Strategy for Financial Inclusion (SNKI); and
     - Prepare regulations for the effective implementation of the National Strategy for Financial Inclusion at each respective institution

e Enhance consumer protection

1) Expand participation in the investor protection fund
   - Require all custodians, in the form of custodian banks and broker-dealers, to join the investor protection fund in order to increase the capacity and benefit of the fund
   - Broaden the scope of protection for investor assets, from previously just shares to all customer funds and securities as well as other securities-related assets

2) Optimise management of the investor protection fund
   - Develop the investor protection fund through contributions from participants and investment returns
   - Coordinate with the Government to provide incentives to optimise management of the fund

3) Establish a policy guarantee program in conjunction with the government and relevant institutions
   - Participate actively in the formulation of the necessary law through reviews and by providing recommendations concerning the concept of the policy guarantee program

4) Supervise the unclaimed assets of customers
   - Formulate a new regulation concerning the handling of unclaimed assets in harmony with Capital Market Act, Limited Liability Company Act and the Indonesian Civil Code

f Strengthen consumer complaint handling in the FSS

1) Strengthen the role of OJK in terms of consumer and public services
   - Enhance consumer services to be more reliable and SIGAP (polite, informative, responsive and professional);
   - Provide consumer services and an education centre at all OJK regional and branch offices;
   - Increase the number of new channels by utilising digital communications media, including SMS;
   - Continue development of integrated Financial Customer Care (iFCC), specifically to optimise the tracking feature for consumers and the tracing feature for FSI;
   - Enhance cooperation with various institutions and play an active role at various domestic and international consumer protection forums; and
   - Apply international standards to the implementation of the OJK Consumer Services System (iFCC)

2) Strengthen complaint handling by financial services providers
   - Establish a working group to facilitate information exchange concerning complaint handling
   - Prepare standardised IDR implementation at FSI
   - Develop a Consumer Protection and Education Reporting System (PEDULI) to monitor IDR implementation at FSI

3) Boost the efficacy of out-of-court dispute settlement through Alternative Dispute Settlement Institution (LAPS)
    - Regulate dispute resolution in the FSS through two phases as follows:
        - Internal dispute resolution through discussions between the consumer and the financial services institution involved; and
        - Resolution is sought through the courts or a LAPS determined by OJK (external dispute resolution)
    - Request FSI join an independent LAPS

g Strengthen consumer protection and education regulations

1) Develop and refine regulations concerning consumer protection and education that refer to best practices and strike a balance between the interests of consumers and FSI

    - Refine regulations concerning consumer protection and education that reflect practices in other countries as best practices

ENABLER

A Fulfill the requirement for human resources in the FSS and as supervisors of FSI in terms of both quality and quantity

a Improve competence standards in the FSS and for supervisors of FSI

1) Prepare certification and licensing standards for professions in the FSS
   - Refine regulations concerning the standards and certification mechanism at FSI, enabling the utilisation of online certification facilities
   - Encourage restructuring at institutions that administer examinations for professions in the FSS, while expanding the authority of the teaching standards committee to become a competence standards committee
   - Enhance the quality of supporting professions in the FSS in harmony with the latest challenges and requirements, including certification for all types of bank and developing specialised professions in the form of insurance and reinsurance brokers that specialise in the primary lines of business
   - Refine the qualification standards for securities firm representatives as well as segment the licensing of broker-dealer representatives

2) Require advanced professional education for players in the FSS
   - Require industry players, including securities firm representatives as well as the directors and commissioners of securities companies, to attend advanced professional education in response to the emergent challenges in the FSS
   - Regulate and coordinate with associations that present awards to professions in terms of preparing codes of ethics and developing advanced professional education for their members
   - Oversee implementation of the Advanced Professional Education Program (PPL)

3) Enhance the competence of FSS supervisors to boost supervision effectiveness
   - Enhance the competence of supervisors in order to support effective oversight, including through collaboration with relevant parties
   - Improve the competence and ensure the availability of investigators at OJK

b Expand educational methods for industry players through formal and informal educational institutions

1) Establish the OJK Institute to enhance the capacity of human resources in the FSS
   - Establish a training centre to improve the capacity and competence of human resources in the FSS, known as the OJK Institute, which is also expected to develop activities and services in the FSS
   - Expand the capacity of supervisors in terms of consumer protection and education at head office and regional offices through cooperation with educational institutions
   - Establish a world-class research centre to facilitate greater competence and knowledge about the FSS amongst industry players and the public

2) Build cooperation with educational institutions to meet the needs of the sharia FSS
   - Coordinate and collaborate with the sharia FSS and educational institutions to provide highly competent work force through various programs and the utilisation of educational institution facilities in order to train suitable human capital

B Utilise information technology in the FSS

a Develop information technology infrastructure in the FSS

1) Optimise the utilisation of information technology by the FSS
   - Encourage the FSS to expand its utilisation of information technology to improve efficiency, productivity, consumer services and governance
   - Encourage the FSS to prepare and anticipate security threats to information and IT applications
   - Amend regulations concerning the use of information technology in the FSS
   - Improve coordination with relevant institutions and companies to enhance cyber security
   - Expand information technology infrastructure that safeguards the security and reliability of application services and data/information

2) Develop transaction infrastructure and transaction settlement on the capital market
   - Implement a number of initiatives to expand infrastructure as follows:
     - Develop C-best Next-G;
     - Utilise the central bank to settle securities transactions;
     - Develop e-clears system architecture;
     - Implement guarantee participation through a new scheme and pre-emptive action mechanism to enhance transaction security;
     - Develop an integrated investment management system that amalgamates members of the investment management industry (investment managers, mutual fund selling agents and custodian banks) into one system as a single platform;
     - Develop an integrated securities trading system, which combines the derivatives trading platform with the stock trading system (JATS System Next-G);
     - Expand the *sukuk* and debt trading infrastructure using the ETP system for trading debt securities; and
     - Develop repo market infrastructure

3) Develop an information system to support FSS supervision
   - Develop a human resources information system for industry players in the form of an integrated database
   - Develop an integrated supervisory information system
   - Develop an integrated sustainable finance information system
   - Develop integrated registration and licensing information system
   - Develop a financial services information system to expand the application of risk management and identify debtors (credit registry) as well as expedite the intermediary function of the FSS

4) Develop information systems to support financial inclusion
   - Develop an information system to support the consumer decision-making process at FSI in terms of the financial services and products used
   - Develop an information system to broaden access to FSS for micro enterprises

5) Provide sufficient infrastructure to conduct effective investigations in the FSS
   - Develop facilities to strengthen verification techniques through scientific evidence and by integrating the intelligence function at OJK as well as building an integrated database system with restricted access of businesses and individuals operating in the FSS

b Develop the reporting and database infrastructure

1) Develop a single identification for consumers in the FSS
   - Develop an information system for users of the FSS to support supervision and provide greater convenience and efficiency
   - Develop a debtor information system in the interest of the banks involved, bank supervisors and the branchless banking program in the banking sector
   - Develop SID for all investors on the capital market, with a focus of developing SID for customers of the Securities Administration Bureau (BAE) as well as investors in mutual funds, debt securities including tradable government securities (SBN) and government bonds (SUN) and other investment products during the upcoming five years

2) Develop an integrated e-reporting system
   - Develop an integrated one-reporting information system for the banking industry
   - Develop an integrated e-reporting system through amendments to reporting requirements for securities companies and develop a report analysis system to support risk-based supervision of the capital market

3) Develop a data warehouse system in the FSS
   - Develop a data warehouse system in the FSS as a prerequisite considering the increasing complexity of business and intense use of information systems at FSI
   - Develop a data warehouse system for the capital market through a standardised reporting language using XBRL

4) Develop transaction facilities and Securities Ownership Access (AKSes)
   - Develop AKSes facilities utilising banking facilities, the public understanding and use of which is already widespread