

## PRESS RELEASE

### **CALL FOR PAPERS ON NON-BANK FINANCIAL INDUSTRY (IKNB) “BOOSTING IKNB ON THE BACK OF BETTER CORPORATE GOVERNANCE AND RISK MANAGEMENT TO SEIZE BUSINESS EXPANSION OPPORTUNITIES”**

**Jakarta, March 14, 2017** — The Financial Services Authority (OJK) has called for papers about the non-bank financial industry (IKNB) this year. The Authority regularly holds the Call for Papers activity. This year’s theme is “Boosting IKNB on the back of Better Corporate Governance and Risk Management to Seize Business Expansion Opportunities.” Desired subjects are as follows: i) developing creative economy industries, ii) developing micro, small and medium enterprises (MSMEs), iii) developing startups, and iv) developing financing for the infrastructure sector. Participants may choose one of the four subjects above.

By holding the Call for Papers activity, the OJK once again invites the general public, practitioners, researchers, lecturers, and students, to submit their papers. The activity aims to seek input from the public. The submitted papers are expected to generate new ideas on how to boost IKNB’s roles. The panel of judges composed of representatives from the IKNB and ministries/government agencies, and practitioners and scholars. The judges will assess the ideas presented in the submitted papers, whether they are original, innovative, clearly expressed, beneficial, and applicable. Submission deadline for the papers is May 28, 2017.

The OJK has been making efforts to increase IKNB’s roles as the industry is an important component of the financial system. The industry runs intermediary functions for productive activities in national economy, as it offers alternative funding sources as well as protection against business risks, especially to creative industries, MSMEs, the infrastructure sector and startups. The IKNB had seen its assets growing between 2014 and 2016. Last year, the industry recorded a total asset of IDR 1,919.51 trillion, soaring 25.3 percent from IDR 1,531.67 trillion in 2014. Some non-bank companies run risk-management business; they receive premiums/subscriptions/guarantee fees and invest their revenue so later they can settle their liabilities. They include insurance companies, pension funds, and guarantee companies. In addition, there are non-bank companies that channel loans or financing, such as financing and venture capital firms, pawnshops, and microfinance institutions.

Until now business players in Indonesia still rely on funding sources from the banking sector. In 2016, the amount of loans channeled by the sector stood at IDR 4,413.4 trillion, while financing from the IKNB reached IDR 571.62 trillion. Total bank loans distributed to the MSME sector amounted to IDR 802.1 trillion, making up 18.2 percent from the total credit channeled. On the other hand, financing firms distributed a total of IDR 5.1 trillion in financing to creative industries last year, up 18.6 percent compared to that in 2015 that amounted to IDR 4.3 trillion.

Alternative funding from the IKNB is made possible by utilizing assets under management, the assets of which belong to insurance companies and pension funds. In December 2016, their total funds/assets under management stood at IDR 1,048.96 trillion. These funds can be used for financing infrastructure projects, MSMEs, creative-economy companies, and startups.

As part of its efforts to see MSMEs, creative economy industries, startups and infrastructure project financing grow further, the OJK has issued regulations in relation to the IKNB, concerning, among others, revitalization of venture companies, expansion of financing companies' activities, private pawn shops, and more roles for Indonesian Export Financing Agency (LPEI).

The increased roles of the IKNB through its financing for those sectors above should be supported by good governance and risk management. Non-bank companies, among others, should manage the quality of their financing receivables in order to maintain non-performing financing ratios, and transfer financing risks through credit insurance or credit guarantee mechanisms, to avoid any problems that could hurt their financial soundness.

When insurance companies and pension funds are ready to finance infrastructure projects, there are several factors that they need to consider when appraising a company that applies for such financing, including the company's financial condition, prudential risk assessment, whether the applicant has sufficient capital adequacy ratio and liquidity, whether it has optimized the functions of its committees, and its internal control.

In addition, insurance and guarantee companies can support the growth of creative industries, MSMEs, and startups, by providing them with protection against credit risks that may threaten the business survival of companies in those sectors. Such partnership would enable the IKNB to flourish together with the development of creative industries, MSMEs, startups and the infrastructure sector, and ultimately this collaboration would spur national economy's growth.

For more information:

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