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PRESS RELEASE

THE FINANCIAL SERVICES SECTOR WAS STABLE AND GREW POSITIVELY AS THE YEAR BEGINS

Jakarta, 27 February 2023. The Indonesian Financial Services Authority (OJK) Board of Commissioners' monthly meeting on 22 February 2023 assessed that the financial services sector stability was maintained and the intermediation of Financial Institutions (FIs) continued to grow strongly, contributing to maintaining the performance of the national economy amidst high global uncertainties.

In general, the global economic performance in early 2023 was beyond the expected, particularly in the US and Europe, specifically due to the persistently strong labor market and positive movement in other real sector indicators. In addition, the reopening of the Chinese economy has also increased optimism that a global recession can be avoided. Nevertheless, the tightening of global monetary policies is expected to continue as inflation slows down. Apart from that, declining commodity prices must be carefully observed.

Amidst such dynamics of the global economy, indicators of the domestic economy remained solid. The trade balance continued its surplus in January 2023, and the Purchasing Managers' Index (PMI) of the manufacturing sector continued to be in the expansion zone within the last 17 months. Public consumption and optimism also showed some improvements, as confirmed by the increase in the Consumer Confidence Index and the Retail Sales Index.

Developments in the Capital Market Sector

In the stock exchange, the Jakarta Composite Index (JCI) as of 24 February 2023 strengthened by 0.25 percent mtd as non-resident investors posted an inflow of IDR3.38 trillion. On a year-to-date basis, the JCI increased slightly by 0.09 percent with a non-resident investors inflow of IDR162.8 billion.

Meanwhile, in the bond market, the Indonesian Composite Bond Index (ICBI) increased by 0.04 percent mtd (1.53 percent ytd) to 350.07. In the corporate bond market, the outflow of non-resident investors reached IDR84.2 billion mtd and IDR177.2 billion ytd.

In the Government Securities market (SBN)[1], non-residents recorded an outflow of IDR5.82 trillion (mtd) while the inflow (ytd) was recorded at IDR43.88 trillion. The average SBN yield across all tenors increased by 6.20 bps (mtd) but decreased (stronger) by 12.66 bps on a year-to-date basis.

Further, the Net Asset Value (NAV) of mutual funds[1] was recorded at IDR509.18 trillion or decreased by 0.05 percent (mtd). However, investors posted a net subscription of IDR3.96 trillion (mtd) and on a year-to-date basis, the NAV grew by 0.85 percent with a net subscription reaching IDR7.88 trillion.

[1] As of 23 February 2023

Fundraising by corporations through the capital market as of 24 February 2023 reached IDR35.8 trillion with 17 new issuers recorded. As many as 73 Public Offerings are in the pipeline with a total value of IDR108.4 trillion, some of which are IPOs to be held by 45 prospective New Issuers.

Whereas, fundraising in Securities Crowdfunding (SCF) as an alternative funding for MSMEs, 16 providers have obtained permits from OJK, with 360 issuers, 142,474 investors, and a total amount of IDR778.5 billion raised funds.

The uptrend of investors continued, as the number of capital market investors reached 10.60 million investors as of 23 February 2023.

Developments in the Banking Sector

Banking loans in January 2023 grew by 10.53 percent yoy (December 2022: 11.35 percent yoy) to IDR6,310.88 trillion. This increased loan was mainly supported by investment loans and working capital loans, which grew by 12.61 percent yoy and 10.03 percent yoy, respectively. On a month-to-month basis, the value of banking loans in January 2023 decreased by IDR112.68 trillion or 1.75 percent mtm, a cyclical pattern at the beginning of the year. Meanwhile, Third-Party Funds (DPK) in January 2023 grew by 8.03 percent yoy (December 2022: 9.01 percent yoy) to IDR7,953.8 trillion, with current accounts as the main driver. Third-Party Funds (DPK) in January 2023 fell 2.45 percent mtm or down by IDR199.77 trillion.

Banking liquidity in early 2023 remained above the threshold and liquidity ratios were well maintained. The ratios of Liquid Assets/Non-Core Deposits (AL/NCD) and Liquid Assets/Third-Party Deposits (AL/DPK) in January 2023 were 129.64 percent (December 2022: 137.67 percent) and 29.13 percent (December 2022: 31.20 percent), respectively, well above the regulatory threshold of 50 percent and 10 percent.

Credit risk in early 2023 was maintained, with banking ratios of net NPL of 0.76 percent (December 2022: 0.71 percent) and gross NPL of 2.59 percent (December 2022: 2.44 percent). On the other hand, loan restructuring related to Covid-19 in January 2023 continued to decrease to IDR435.74 trillion (December 2022: IDR469.15 trillion) and the number of debtors also decreased to 2.02 million customers (December 2022: 2.27 million customers).

The Net Open Position (NOP) was recorded at 1.51 percent (December 2022: 1.23 percent), far below the 20 percent threshold. Capital Adequacy Ratio (CAR) for the banking industry stood stronger at 25.93 percent (December 2022: 25.63 percent).

Developments in the NBFI Sector

In the NBFI sector, premium income in the insurance sector in January 2023 reached IDR30.55 trillion or grew by 5.22 percent yoy (December 2022: 1.09 percent yoy). The general insurance and reinsurance premiums stood at IDR14.53 trillion or grew by 19.80 percent yoy in January 2023. However, life insurance premiums in 2023 contracted by 5.25 percent yoy, or with a value of IDR16.02 trillion.

The value of outstanding receivables in January 2023 was recorded at IDR420.6 trillion, or growing by 14.57 percent yoy (December 2022: 14.18 percent yoy). This increase was mainly driven by financing for working capital and investment, which grew 33.7 percent yoy and 20.4 percent yoy, respectively. The risk profile of Financing Companies was maintained with the non-performing financing (NPF) ratio in January 2023 increased to 2.4 percent (December 2022: 2.32 percent). The pension fund sector recorded asset growth of 5.48 percent yoy (December 2022: 4.65 percent yoy), with asset value reaching IDR346.86 trillion.

FinTech peer-to-peer (P2P) lending in January 2023 recorded growth in the outstanding financing of 63.47 percent yoy, reaching IDR51.03 trillion (December 2022: IDR51.12 trillion or grew by 71.1 percent yoy). Meanwhile, the aggregated credit risk (TWP90/Loan Repayment Success Rate within 90 days after the date of maturity) was down to 2.75 percent yoy (December 2022: 2.78 percent yoy). OJK closely monitors the trend of increasing credit risk and declining performance in several FinTech P2P Lending providers.

Meanwhile, capital in the NBFI sector was maintained, as life insurance and general insurance recorded Risk-Based Capital (RBC) of 477.73 percent and 321.77 percent (December 2022: 484.22 percent and 326.99 percent). Although the RBC is on a downward trend and several insurance companies have been closely monitored for their RBC, the sector's aggregate RBC remains above the threshold of 120 percent. The gearing ratio of finance companies was recorded at 2.03 times (December 2022: 2.07 times), far below the maximum limit of 10 times.

Developments in the Consumer Protection and Education

OJK continued to accelerate the expansion of access to finance at the subnational level by optimizing the role of 487 TPAKDs (Regional Financial Access Acceleration Teams) in 34 provinces and 453 districts/municipalities, through One Account One Student (KEJAR) program, Saving Accounts for University Students and Young People (SIMUDA), Loans/Financing to Combat and Eradicate Illegal Money Lending (K/PMR) program, and other business matching programs.

Such measures to expand access to finance were also followed by massive financial education programs, delivered in-person (offline) and virtually (online) through the Learning Management System (LMS) and social media. In January 2023, OJK organized 23 financial education activities participated by 6,526 individuals. In addition, *Sikapi Uangmu,* a digital communication media providing information on financial education to the public through a mini-site and application, has published 33 educational content, reaching 220.657 viewers. OJK will continue to implement affirmative action by delivering more intensive financial education to vulnerable groups, among others, to the fisher folk community in Marunda public flats as well as people in the urban area.

From January to 17 February 2023, OJK received 41,963 inquiries, including 2,296 complaints, 34 complaints that were indicative of misconduct, and 129 disputes received by the Alternative Dispute Resolution Agency for the Financial Services Sector (LAPS SJK). Of these complaints, as many as 1,200 were complaints related to the banking sector, 1,081 complaints were related to the NBFI sector, and the rest were related to the capital market sector.

Policy Direction

To maintain the stability of the financial services sector and to address future challenges while keeping the national economic growth, OJK implements the following strategies:

A. Policies to Maintain Financial System Stability

1. OJK is currently assessing the risk management of FIs in anticipating the potential future decline of commodity prices, which have always supported the national economic performance, including improved performance of financial intermediation.
2. Toward the end of the credit restructuring policy for certain segments and sectors, OJK always requires the FIs to establish adequate reserves and to evaluate them, including constantly requires the FIs to re-assess the debtors being restructured as well as the possibility of any decrease and further pressures on those debtors.
3. OJK monitors the liquidity adequacy of individual banks, particularly for Conventional Commercial Banks (BUK) in the small bank category (KBMI 1), by requiring those Banks to monitor and meet the minimum ratios as well as to submit reports through the OJK reporting system on their liquidity ratios that are comparable and refer to the international standards, i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), for March 2023.
4. In the capital market, as the Covid-19 pandemic has improved and the public activity restriction policy (PPKM) has been lifted by the government, OJK in coordination with Self Regulatory Organization (SRO) is considering to undertake policy normalization that was issued under OJK Regulation (POJK) on Policies in Maintaining Performance and Stability of the Capital Market in Significantly Fluctuating Market Conditions, by continuing to take heed of the assessment of market conditions and the interconnection with policies in other sectors.
5. OJK will strengthen the regulations and supervision of business conglomerates that raise funds in the capital market, requiring them to improve their governance and transparency to ensure that the integrity of the Indonesian capital market is maintained and can be further improved.

B. Policy to Strengthen the Financial Services Sector and Market Infrastructure

1. OJK is currently drafting regulations regarding the spin-off of Sharia Business Units (UUS) as mandated in the Law on Financial Sector Development and Strengthening (UU P2SK) by putting forward measures to advance the Sharia financial services industry.

   In banking, criteria and conditions for the spin-off requirement will be regulated by taking into account the banking consolidation strategy, thus the spin-off can produce strong Sharia Commercial Banks that can optimally contribute to the economy while adhering to the Sharia principles. In addition, for institutional strengthening, regulations will be made regarding enhanced management and supporting infrastructure of the Sharia Business Units, including, among others, business capital and plans and strategies for further development.

In the NBFI sector, OJK immediately follows through the mandate as stipulated in the P2SK Law regarding spin-off in the insurance and guarantee sector by formulating an OJK Regulation (POJK) of Sharia Business Units (UUS) spin-off which include substantive provisions for indicators that are clearer, measurable, and feasible in implementing the spin-off.

In addition, OJK also encourages that the spin-off is implemented not simply based on regulatory requirements, but also based on the readiness of the Sharia Business Units to grow sustainably and contribute more optimally to support national economic growth.

Therefore, in line with the spirit of the P2SK Law, OJK is also exploring various policy options that can support Sharia Business Units, that will eventually be subjected to a spin-off, to transform into strong and sound sharia insurance/guarantee company, including policies related to consolidation and/or collaborative synergy between the new, independent company and the affiliated insurance/guarantee company in the use of infrastructure (IT system and/or office network).

2. To reorganize the investment management industry, OJK is currently revising provisions regarding Mutual Funds in the form of Collective Investment Contracts (KIK), among others, the redemption settlement using assets (in-kind settlement) and liquidation of mutual funds, as part of the P2SK Law implementation, ensuring that investors will get optimal protection if a mutual fund is closed down. Other provisions include the calculation of NAV for Foreign Securities, mutual funds liquidation and restructuring, implementation of multiple classes in mutual funds, and the use of digital payment in mutual fund transactions.
3. OJK is currently preparing revisions regarding prudential requirements of the financial soundness of insurance and reinsurance companies, both conventional and sharia, which include, among others, provisions regarding limitations for insurance companies' investment in related parties and non-related parties.
4. In addition, in line with the mandate of the P2SK Law, OJK is preparing technical regulations on the implementation of business activities by joint-venture insurance companies, including, among others: articles of association, governance, risk management, and internal control, and dissolution and liquidation.
5. To support OJK's function to better supervise the *sui generis* institutions, OJK is currently revising regulations on the supervision of the Social Security Administration Agency (BPJS).

C. <u>OJK Governance Strengthening</u>

1. OJK has submitted its 2022 Financial Statement to the Supreme Audit Institution (BPK) within a faster deadline in line with the provisions under the new P2SK Law.

Faster issuance and more accurate Financial Statements are an expected reflection of a stronger and more accountable financial management system and governance. In addition, in line with the mandate of the new P2SK Law to strengthen governance, OJK's Audit Committee membership for 2023-2025 tenure is now includes external members.

2. OJK has undertaken internal transformation both in terms of organizational structure and governance as part of OJK's measures to carry out its mandate more effectively to continuously increase supervision and services to the public and financial services industry. Such transformation and support for information system development are expected to create better supervision of the financial services sector, harmonized and adaptive regulation of the sector, integrated licensing services, centralized and digitalized reporting from industry, integrated management of financial sector data and information, enforcement of law and integrity of the financial system, and better-coordinated consumer complaints system.

D. Policy for financial literacy and inclusion as well as stronger consumer protection

1. OJK is committed to continuously bringing consumers and the public closer to financial products through education programs and expanded access to finance to reach 90 percent financial inclusion by 2024 as directed by the President of the Republic of Indonesia.

   One of OJK's flagship programs is the Generic Model (GM) of Inclusive Financial Ecosystem (EKI) in Rural Areas. Through GM EKI, OJK supports the establishment of an inclusive financial ecosystem for rural communities by strengthening synergy and collaboration between stakeholders at the local level through forums held by TPAKD (Regional Financial Access Acceleration Teams). Under this program, OJK is also committed to optimizing Credits/Financing (K/P) for Productive Businesses in Rural Areas for MSMEs or rural communities in collaboration with formal FIs and relevant stakeholders. GM EKI implementation can be adjusted to the characteristics of each village and rural element.

   OJK expects all relevant stakeholders to take part in stimulating developments and in developing inclusive finance massively in the villages to improve people's economy.

2. In line with the mandate outlined by the President of the Republic of Indonesia at the 2023 Annual Meeting of Financial Services Industry, OJK continued to strengthen a balanced consumer protection by enforcing the provisions in OJK Regulation (POJK) No. 6 of 2022 on Protection of Consumers and Public in the Financial Services Sector.

   In this regard, OJK also continues to strengthen market conduct supervision, both directly and indirectly. The objects under market conduct supervision in the financial sector include the behaviors of Financial Businesses in designing; developing and communicating information; offering products and/or services in the financial sector; entering into agreements; providing services for users of products and/or services in the financial sector; and handling complaints.

To increase consumer confidence and public trust, OJK will accelerate the process of civil lawsuits initiated by OJK, in collaboration with the Indonesian Supreme Court, Attorney General's Office, Indonesian Financial Transaction Reports and Analysis (Financial Intelligence Unit), and National Police.

3. In combating illegal online lending and illegal investment, OJK and all members of the Investment Alert Task Force (SWI) from 12 Ministries/Agencies have taken proceedings in handling illegal online loans and investments. In January 2023, the SWI Task Force managed to stop 10 entities from making investment offers that were unlicensed as well as took follow-up actions on the identified 50 illegal online lending platforms. The Task Force has instructed all illegal entities to recover the losses.

E. Policy in Handling FIs Under Special Mention

1. OJK required troubled NBFIs, including PT Asuransi Jiwa Kresna, to submit a comprehensive and feasible Financial Restructuring Plan (RPK) to address problems faced by the company, along with relevant supporting documents. If the company is unable to submit a plan that meets the criteria within the time limit, OJK will take firm supervisory actions in accordance with the applicable laws and regulations.
2. OJK has issued a No Objection Letter for the Financial Restructuring Plan (RPK) submitted by Asuransi Jiwa Bersama Bumiputera 1912 (AJBB) and requires AJBB to take some measures to ensure that the plan is well implemented, including by communicating the plan to policyholders who own insurance at AJBB. As the supervisory agency, OJK will also monitor the implementation of the plan by intensively monitoring AJBB to ensure that the plan and its programs can be implemented within the specified timeframe. In addition, OJK has also required AJBB to implement the provisions under Law No. 4 of 2023 (UU P2SK), particularly on insurance companies in the form of joint ventures.
3. In the case of PT Asuransi Jiwa Adisarana Wanaartha (WAL) whose business license has been revoked, OJK continues to monitor the work of the Liquidation Team in implementing work programs that were proposed by the Shareholders at the General Meeting of Shareholders.

   OJK supports the ongoing legal process taken by the Indonesian Police against parties related to WAL and encourages the Police to confiscate the assets of the Controlling Shareholders (PSP) to fund the settlement of obligations to policyholders. OJK also requires the controlling shareholders to immediately return to Indonesia to be held accountable for problems at WAL.

   Further, OJK will take firm actions against Public Accountants, Public Accounting Firms, appointed actuaries, and actuarial consultants who provided their services and are also responsible for problems at WAL.

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