Public-Friendly Levy

The issue on obligatory levy for all financial practitioners to be paid to the Financial Services Authority (OJK) still remains a discussed topic. As a way to add more considerations, we need to see the levy from its philosophical point of view. Nowadays, public necessities on financial institutions have penetrated into daily life.

Public necessities on financial institutions currently come in many types: as a deposit and a way to increase wealth, as a payment specialist, as a protection against business or individual risks, and as institution that helps asset acquisition process. Level of utilization of financial services remains low in Indonesia. However, as people's income is rising, the intensity of financial service utilization continues to increase as well.

This increase of intensity is indeed positive, but it will raise the risks of malignant impacts if financial services institutions fail to serve. Market mechanism is not enough to realize dependable and sound financial institutions. The existence of supervisory institution is a must so as to keep financial institutional trustworthy. That is because the nature of financial industry is highly regulated since it is a business of deposit or a business of trust.

Guideline on management and business results needs to be set clearly. Unfortunately, many financial institutions consider regulation as burdening, while actually regulation gives business benefits to the industry. In fact, there is a phenomenon where the bigger the role of regulator, the more acknowledgments it gets from business partners and market players. The global current in setting international standard on the quality of assessment for financial institutions is now getting faster. Through implementation of international standard, financial institutions in Indonesia will be easy to interact and transact globally under the same protocol. And this role may run under a well regulator.

The role of a regulator is also needed because financial crisis now becomes inevitable. The impacts on financial institutions can only be minimized by limiting the costs and accelerating recovery process. Those affected by the crisis are not only members of society, but also practitioners of financial industry. It's hard to imagine dealing with crisis without the existence of an authority or regulator. A regulator operates using policies, which will be produced through research and studies. An authority must have at least three kinds of power, namely power to license, power to regulate, and power to impose sanctions.

What must be avoided is a regulatory fatigue, which is indicated by a sluggish industrial growth. Dosage of regulation must be adequate and balanced. A good regulation must be effective and holds legitimacy. Effective means that it is in accordance with the goal of the issued regulation. Legitimacy refers to the authority of issuing regulations, and generally based on the needs and interests of economy. Supervision must also be adequate, not overkill, otherwise it will create high costs for the industry, including costs for reporting and fulfilling audit demands.

Regulator can operate optimally if it has a good system, qualified infrastructures, and supported with highly skilled human resources both in terms of knowledge and integrity (as center of excellence). In order to realize this expectation, investments and operational costs are required. There is a saying which goes “cheap money will be expensive in the long run”. Half-hearted investments are light and easy, but in the long run disadvantages may appear and require much bigger cost than the economized investments put in the first place.

The ‘Who Gains, Pays’ Principle

The presence of authority is needed by all parties utilizing financial services, both the customers and the industry. The authority will help securing transactions and at the same time parties may ask for protection to the authority for their transactions. It is even included as one of components of transaction costs. The existence of authority is also needed by all Indonesian societies. That’s because profit of a financial institution is usually used internally or only for the institution’s shareholders. But on the other side, if this financial institution has problems, it can use public fund by receiving state budget support (bailout), which burdens the public.

By using the ‘who gains, pays’ principle, operational costs of the authority are paid jointly and severally by parties doing transactions. However, the implementation must be selective. It is certainly not fair for consumers classified as productive poor if they are to be imposed with this kind of costs. On the other side, huge systemic financial institutions surely have bigger interests on financial system stability.

Systemic financial institutions are considered too big to fail, and they have bigger possibility to be saved by state budget. These financial institutions should appropriately give bigger contributions than smaller financial institutions. Other thing that is no less important is the quality of services of the authority receiving operational costs from the industry; the quality has to be very well. The authority must be able to give excellence services. It must also be able to realize the expectations of the industry and public, that with the existence of highly qualified authority, the financial industry will grow well and contribute to the economy.

Public and the industry must take benefits directly so that their contributions become more meaningful. This is what we call as public-friendly levy.

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