

Client Update: Indonesia

04 November 2021

OJK Embraces Digital Bank with New Regulations



From 30 October 2021, digital banks in Indonesia will be regulated under two new regulations issued by the OJK, Indonesia's Financial Services Authority. The two regulations, OJK Regulation No. 12/POJK.03/2021 on Commercial Banks ("**Regulation 12**") and OJK Regulation No. 13/POJK.03/2021 on Administration of Commercial Bank Products ("**Regulation 13**"), revoke several regulations, including Bank Indonesia Regulation No. 11/1/PBI/2009, as amended by Bank Indonesia Regulation No. 13/27/PBI/2011 and OJK Regulation No. 6/POJK.03/2016, as amended by OJK Regulation No. 17/POJK.03/2018.

Regulation 12 and Regulation 13 signals the government's wholehearted support in facilitating growth and innovation in the digital banking sector. The regulations govern establishment, activities, and reporting requirements, among others, which we will discuss in more detail below.

Establishment

Companies keen to jump into the digital bank bandwagon can either establish a new digital bank or acquire and then transform an existing licensed conventional bank. Under Regulation 12, a digital bank is a bank that operates and offer products mainly through electronic channels without having a physical office apart from its head office.

In general, the requirements to establish a new digital bank is the same to that of a conventional bank, save for the following:

- (1) Regulation 12 increases the amount of the issued and paid-up capital of a new bank, whether digital or conventional, to at least IDR 10 trillion in cash;
- (2) At least 30% or 40% of the issued and paid-up capital of a digital bank or a conventional bank, respectively, must be deposited before applying for a principal license;
- (3) A digital bank's business plan must evidence that it:
 - (a) Has adopted a business model utilising innovative and safe technology to serve its customers;

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- (b) Has the ability to manage a prudent and sustainable digital banking business;
- (c) Has a proper risk management capability;
- (d) Has implemented a structure to ensure good corporate governance, which includes a board of directors with competence in the information technology sector and other competencies in accordance to the requirements set by the OJK under the fit and proper test for the main parties in a financial services institution;
- (e) Will maintain the security of customer data; and
- (f) Agrees to contribute to developing a digital finance ecosystem and/or financial inclusion.

Meanwhile, transforming a conventional bank into a digital bank can be initiated by including the requirements in point (3) above in the bank's business plan. However, no further details are provided in Regulation 12 and Regulation 13, and we expect that such a transformation will be regulated separately by the OJK.

Classification of Activities and Switch from BUKU to KBMI

Previously, a commercial bank's activities and products are restricted to its BUKU (*Bank Umum berdasarkan Kegiatan Usaha* or Commercial Bank based on Business Activities) classification. Regulation 12 and Regulation 13 introduce a new classification of a commercial bank's activities and the requirements to undertake such activities. The BUKU classification is replaced with the Bank Grouping based on Core Capital (*Kelompok Bank berdasarkan Modal Inti* or KBMI) classification, which is as follows:

- (1) KBMI 1, which are banks with a core capital of up to IDR 6 trillion;
- (2) KBMI 2, which are banks with a core capital of between IDR 6 trillion to IDR 14 trillion;
- (3) KBMI 3, which are banks with a core capital of between IDR 14 trillion to IDR 70 trillion; and
- (4) KBMI 4, which are banks with a core capital of more than IDR 70 trillion.

Under Regulation 12, a BUKU 1 or BUKU 2 bank can be deemed as a KBMI 1 bank, a BUKU 3 bank can be deemed as a KBMI 2 or KBMI 3 bank, and a BUKU 4 bank can be deemed as a KBMI 3 or KBMI 4 bank.

Banking Products

Essentially, a commercial bank can now offer various banking products from basic to advanced regardless of its core capital.

Types

A commercial bank's activities are further classified in Regulation 13, which divides such activities into activities in providing banking products for the customers' interest, which are further classified into basic and advanced products, and activities for the bank's own interest.

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Basic banking products are products and/or services that include:

- (1) Fund collection, among others, demand deposit, savings account, and time deposit;
- (2) Fund distribution, among others, loan or financing, receivables factoring, issuance of a guarantee, and trade financing; and
- (3) Other basic activities, among others, fund transfer, electronic money, digital finance service, card payment, traveller's cheque, cash management, safe deposit box, trade of foreign exchange banknotes, simple or standard derivative transactions (plain vanilla), selling agent of sovereign bonds, reference business modelled bancassurance, and prime customer service.

On the other hand, advanced banking products are products other than basic banking products that:

- (1) Are Information technology-based;
- (2) Relate to the products of a financial services institution other than banks;
- (3) Must be approved by a relevant authority; and/or
- (4) Is considered complex.

Reporting and licensing

Regulation 13 also requires that any new banking product must be reported to and/or licensed by the OJK. A banking product will be considered as new if such product has never been offered by the relevant bank before or such product is developed from an existing product and the development materially changes such product.

Before offering a new basic banking product, a commercial bank must submit a realisation report to the OJK within five business days after launching the new product. A more stringent requirement applies for a new advanced product, which must undergo a limited trial and be licensed by the OJK before its launch.

In some instances, the OJK may exempt a bank from the limited trial requirement subject to specific considerations. Alternatively, a bank may apply for such an exemption if the new advanced product is an information technology-based and the bank has:

- (1) Obtained a tier 1 or tier 2 ranking for its most recent risk management assessment;
- (2) Obtained a tier 1 or tier 2 ranking for its most recent corporate governance recent assessment; and
- (3) Proper information technology infrastructure and management capabilities.

Key Takeaway

With the enactment of Regulation 12 and Regulation 13, we expect more parties will join the digital revolution, whether by establishing their own digital bank or transforming an existing bank. The COVID-19 outbreak also effectively bumped the Indonesian banking sector into the digital realm, as consumers

demand more efficient ways to conduct financial transactions outside the traditional brick-and-mortar model.

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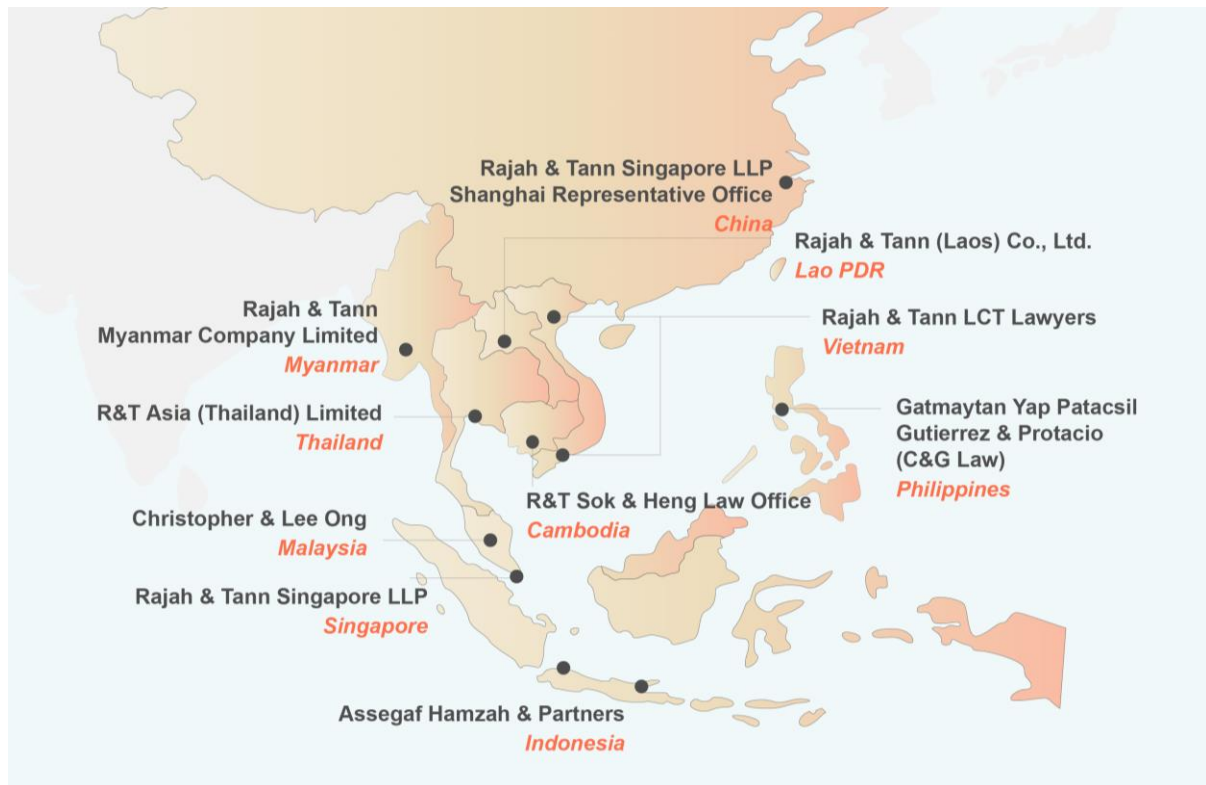
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