

PRESS RELEASE

OJK URGES FINANCIAL SERVICES INDUSTRY TO CONTRIBUTE TO ECONOMIC GROWTH AND EQUALITY

Financial Executive Gathering 2017

Jakarta, January 13, 2017 — The Financial Services Authority (OJK) has asked the financial services industry to contribute more to drive economic growth, boost consumer buying power and create income equality among the general public, in order to help the Government in its efforts to raise public welfare, which focus on alleviating poverty and reducing unemployment.

Chairman of OJK's Board of Commissioners, Muliaman D. Hadad, made the statement at Financial Executive Gathering 2017 held on Friday (Jan. 13) in Jakarta.

"The Financial Services Industry should be encouraged to contribute more to economic growth and income equality. To support these goals, the industry should maintain the financial system's resilience and stability, in accordance with the regulations set in place," he said.

Muliaman believed that the financial sector's higher contribution and enduring stability were keys to achieving economic development and public welfare in this year and the following years.

"We should reinforce the role of domestic economy to anticipate the sluggish global recovery. Also, distribution of growth centers should be accelerated in order to ensure more equal distribution of development outcome. On the other hand, the financial system's resilience and stability are vital to promote trust in Indonesia economy's potentials and fundamentals," he said.

To urge the financial services sector on contributing to economic equality and public welfare, the OJK has produced seven strategic initiatives to give wider financial access to local communities and MSMEs, as follows:

1. Optimizing the working programs designed together with the financial services industry, the government and Bank Indonesia (the central bank), including *Laku Pandai* (branchless banking program), *Simpanan Pelajar* (Student Savings Accounts), *Jaring* (Reach, Synergy and Guideline), agricultural and cattle insurance, fishermen insurance, and MSME credit insurance, and financing programs offered by other financing companies.
2. Expanding People's Business Loans (KUR), which have been channeled mostly to trading sectors (66.8 percent) and focused on the Java Island. The expansion targets productive sectors and eyes more areas, and to be implemented in partnership with more parties that are able to distribute the loans.
3. Expanding and optimizing further the role of the Team for Acceleration of Regional Financial Access (TPAKD). So far, 45 TPAKDs have been set up across Indonesia, both at district/city and provincial levels. This year, the OJK will inaugurate 41 TPAKDs, which consist of 6 TPAKDs at provincial level and 35 TPAKDs at district/city level.
4. Developing **financial-technology** financing model to open wider financial access. The OJK has issued a regulation on information-technology based lending services or **peer-to-peer lending**.

5. Pushing banks for channeling loans to productive sectors and exploring potentials of distributing loans to various promising areas with limited financial access. The OJK has projected that in 2017, credits will grow between 9 percent and 12 percent. Some economic sectors, including trading, processing industries, agriculture, and real estate, are expected to drive the growth.
6. Optimizing the role of Regional Development Banks (BPD) in local development. Most of BPDs' credit exposure is still dominated by consumer loans. Given that total assets of all BPDs amounted to IDR 525 trillion, these banks play a critical role in fostering local economic development. The OJK will promote cooperation among the BPDs, state-owned banks, and local guarantee companies, for the purpose of building the BPDs' capacity.
7. Enhancing the role of capital market as the economy's long-term financing resources. The OJK has targeted that 21 new issuers will launch initial public offerings (IPO) and 60 existing issuers will carry out fundraising, and total value of the public offerings is expected to be higher than that of last year. The supervisory agency has prepared a range of policies to support the targets, including simpler and easier public offering process through **electronic registration**, so it will be easier for different types of companies, especially those operating in regional areas and SMEs, to receive financing from the capital market.

This year, the OJK will also initiate a financial inclusion support program to build the public's capacity in financial and business management. The program will involve the general public, including local universities.

Results from OJK's National Survey on Financial Literacy and Inclusion (SNLIK) 2016 show a trend of higher financial literacy and inclusion. National financial literacy index went up to 29.7 percent in 2016 from 21.8 percent in 2013. Meanwhile, national financial inclusion index increased to 67.8 percent last year from 59.7 percent.

Having launched the different initiatives, the OJK is optimistic that the public's financial literacy and inclusion levels will improve and achieve the Government's financial inclusion index target of 75 percent by 2019.

Meanwhile, to sustain the financial system's resilience and stability, Muliaman revealed that the OJK would issue four main policies designed to bolster integrated supervision, risk management regulations and build the capacity of national financial services industry.

1. Issuing regulations on liquidity risk management of financial conglomerates, their capital management, and **intra-group transaction exposures**, to complement regulations on capital adequacy, risk management and corporate governance of financial conglomerates, which have already been in force. Revamping the framework of regulation and supervision on financial conglomerates is critical, as the financial services sector's strength and resilience are deeply influenced by the condition of financial conglomerates that control around three quarters of Indonesia's financial markets.
2. Providing sufficient liquidity for development financing and monitoring it by means of several efforts, including optimizing the use of **Global Master Repo Agreement (GMRA)** by financial services institutions, initiating establishment of a **Securities Financing Institution** that aims to increase liquidity and efficiency of securities transaction settlements, and continue promoting bonds issuance by corporations and their purchase by insurance companies and pension funds. The OJK will also ensure

that implementation of provisions on **Liquidity Coverage Ratio** (LCR) can run well and effective this year, so the monitoring of banking liquidity will become more accurate and the supervisory actions to be taken will be more appropriate. In addition, the OJK will issue a regulation on **Net Stable Funding Ratio** (NSFR) to be applied on banks under BUKU 3 and 4 categories and foreign banks.

3. In order to comply with the mandate from Law on Prevention and Management of Financial System Crisis (PPKSK), the OJK will issue some relevant regulations, especially those concerning **recovery plans** for systemic banks. They will give further explanation about the **bail-in** concept, which is in line with practices in Indonesia, and the concept's implications on the formulation of other banking resolution mechanisms, including Banking Restructuring Programs (PRP). To supplement these regulations, another regulation concerning improvement over follow-ups to banking supervision (**exit policy**) and establishment of **bridge banks**, will be adopted .
4. Preparing regulations that will drive the non-bank financial industry towards sound and sustainable growth. Thus, as part of the Insurance Law enforcement, this year the OJK will conclude drafting derivative regulations of the Law, in relation to insurance joint venture, insurance for policyholders and foreign ownership.

In Sharia finance field, the OJK will encourage the establishment of new Sharia financial institutions or units in the capital market, namely Sharia Investment Management Units or Sharia Investment Managers. They will run separately from conventional Investment Managers and only manage Sharia Mutual Funds products.

Also this year, the OJK will urge for the founding of **Jakarta International Islamic Financial Center** (JI-IFC), a Sharia business and investment center in the form of Special Economic Zone (KEK). The establishment of such center represents the first step to make Indonesia become the global center of Sharia finance.

The annual meeting of financial services industry players—that is always held at the beginning of the year—took place at two venues this year. The one at the State Palace was attended by the President of the Republic of Indonesia, and the other one, at the Fairmont Hotel in Senayan, was attended by the Vice President.

At the State Palace, President Jokowi presented trophies to 11 award winners, which consisted of institutions and individuals whose contribution have supported the programs implemented by the Government and the OJK in the financial services sector.

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