

PRESS RELEASE

POLICIES FOR REINFORCEMENT OF SUPERVISION OVER FINANCIAL SERVICES SECTOR, FINANCIAL MARKET DEEPENING AND EXPANDING FINANCIAL ACCESS FOR SOCIETY

Jakarta, November 19, 2014. Financial Services Authority (OJK) has released 20 policies comprising six OJK regulations in banking, seven OJK regulations in capital market and seven OJK regulations in non-bank financial industry.

The policies are issued as a part of OJK's series of policies for reinforcement of supervision over financial services sector, financial market deepening, and expanding financial access for society. All of those aims are expected to support the actualization of a strong financial services sector with quality economic growth that is prevalent and sustainable.

Chairman of OJK Board of Commissioners explained that OJK has been operating for almost two years. OJK ought to be grateful that, with the support from various parties, the transferring of regulation and supervision function could be conducted well without causing any vacuum of supervision. The transferring was also the beginning of a new era in the integrated regulation and supervision over financial services sector in Indonesia. OJK realizes that the function mandated by OJK Law cannot only be a fusion of roles, but must also be continually reinforced.

For more or less two years of existence, OJK have carried out quite many initiatives in implementing the mandate, especially in preparing integrated regulation and supervision over financial services sector, and in empowering education and consumer protection. Various progresses that have been achieved so far must be appreciated as they involved supports from a range of parties.

Within the period of January 2013 to August 2014, OJK has issued 16 (sixteen) OJK Regulations, among others are relating to consumer protection in financial services sector, stock buyback by issuers or public listed companies in significantly fluctuating market, alternative dispute resolution, evaluation on level of risk of non-bank financial institutions, evaluation on capability and appropriateness for main parties in insurance company, pension fund, financing firm and insurance corporate, and supervision over Social Security Management Agency (BPJS). Additionally, there are several regulations to perfect the regulations issued previously by Bank Indonesia and Finance Ministry.

Furthermore, Chairman of OJK Board of Commissioners also exposed that by paying attention to the development of global and domestic macro economy, national financial services sector is currently facing a number of risks. We need to keep cautious against the risks since they may bring impacts to financial services sector's capability in carrying out intermediation function. However, with existing capital, financial services sector is optimistic that it will be able to continue growing and show resilience in facing possible turmoil.

Global economic recovery in general still faces some challenges, mainly because recovery process is not prevalent. In the United States of America (U.S.), economic recovery was getting more solid that The Federal Reserve (The Fed) decided to stop monetary stimulus program, which supported the country's economy after global financial crisis in 2008. The Fed has also given indication that it would implement normalization of monetary policies by increasing interest rate in 2015, which is potential to create a creeping effect on global financial market. Meanwhile, economic growth in Europe, Japan and People's Republic of China tends to slow down. Economic condition in Europe and Japan still has not shown significant improvement.

As the global economy slowed down, domestic economy also experienced a moderate growth. In third quarter of 2014, domestic economic growth was recorded at 5.01% year-on-year, amidst twin deficit problems in state budget (APBN) and ongoing transactions.

Apart from that, there is a potential additional pressure on domestic economy in the form of inflation increase as an impact of the policy to raise subsidized fuel oil prices issued two days ago. In relation to adapting to subsidized fuel oil prices, OJK considers that the impact will be temporary. The policy will in fact create a healthy fiscal posture in particular and national economy in general through better allocation of resources. In financial sector, we believe that a raise in subsidized fuel oil prices has been anticipated by market players and will not significantly hinder financial sector performance.

Nevertheless, potential impacts of those domestic economy risks on the health and risk profile of financial services institutions must be studied. OJK, as the supervisor of financial services sector, will actively monitor the day-to-day development in order to make sure that financial system stability is maintained.

In relation to financial services industry, the main problems are about level of financial market depth, and level of financial access and financial literacy in Indonesian society, which remain low. The shallow domestic financial market has made Indonesia's financial market susceptible to turmoil.

However, besides those hindrances, Indonesia's economy still posses large potentials coming from availability of natural resources and composition of relatively young-aged citizens, and with the growing middle-class society.

Muliaman D. Hadad said that since the last several years, we have witnessed financial sector development that is getting faster. Financial sector is getting more complex and dynamic, with tighter inter-sector linkage both in the matters of product and institution. Apart from that, we have also witnessed financial conglomeration growth, which has added the complexity in transaction and interaction among financial services institutions in the financial system.

Global economic crisis, which originated from aggressive risk taking behavior, has given important lesson for regulator to reinforce the guiding regulation. The regulation reinforcement is basically intended to restore market structure so that it becomes stronger, efficient, and more transparent, in order to bring benefits for a sustainable economy.

Structure reinforcement and improvement in financial services sector cannot be conducted partially. Therefore, OJK is now formulating the blue print for financial services sector, which will be focusing on achieving 3 (three) main targets, namely:

- 1) Optimizing the role of financial services sector to support improvement in national economic growth;
- 2) Maintaining financial system stability as the groundwork for sustainable development; and
- 3) Realizing society's financial independency and supporting the efforts to enhance prevalence in development.

Taking the momentum of improvement in national economy structure after adapting to subsidized fuel oil prices, OJK has stipulated priority to reinforce several aspects that are needed in short-term period and actualize them into a series of policies to be issued on several occasions.

In this occasion, some policies issued by OJK are as follow:

Banking:

1. OJK Regulation on Implementation of Integrated Governance for Financial Conglomeration
2. OJK Regulation on Implementation of Integrated Risk Management for Financial Conglomeration
3. OJK Regulation on Financial Services Using Virtual Office in the Framework of Inclusive Finance (Laku Pandai)
4. OJK Regulation on Rural Banks (BPR)
5. OJK Regulation on Obligation to Provide Minimum Capital (KPMM) for Sharia Banking
6. OJK Regulation on Asset Quality of Sharia Commercial Banks and Sharia Business Units

Capital Market:

1. OJK Regulation on Knowing Your Customer Principle by Financial Services Providers in Capital Market Sector
2. OJK Regulation on Insurance for Transaction Settlement at Stock Exchange
3. OJK Regulation on Guidance for Issuing and Reporting Asset Backed Securities in Participatory Notes (EBA-SP) for Secondary Financing in Housing
4. OJK Regulation on Guidance for Implementation of Investment Manager's Functions
5. OJK Regulation on Licensing for Investment Manager Representative
6. OJK Regulation on Monthly Report for Asset Backed Securities in Collective Investment Contract (KIK-EBA)
7. OJK Regulation on Licensing for Underwriter Representative (WPEE) and Securities Broker-Dealer Representative (WPEE)

Non-Bank Financial Industry:

1. OJK Regulation on Business Management of Financing Companies
2. OJK Regulation on Business Management of Sharia Financing
3. OJK Regulation on Good Governance for Financing Companies
4. OJK Regulation on Licensing for Business and Institution of Financing Companies
5. OJK Regulation on Business Management of Microfinance Institutions

6. OJK Regulation on Licensing for Business and Institution of Microfinance Institutions
7. OJK Regulation on Fostering and Supervision over Microfinance Institutions

With the issuance of these regulations, it is expected that financial services sector can execute its functions well in facing various economic dynamics in the future, and at the same time improve its role in national development. OJK will always conduct periodic supervision and review the implementation of related stipulation.

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