OTORITAS
JASA
KEUANGAN

THE INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN

to Recover the National Economy and
Enhance the Financial Services Sector Resiliency and Competitiveness

2021
2025

THE INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN

to Recover the National Economy and Enhance the Financial Services Sector Resiliency and Competitiveness

2021-2025

Publisher:
Indonesia Financial Services Authority (OJK)
Gedung Soemitro Djojohadikusumo
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710
(021) 29600 000

This publication is available on the OJK website
www.ojk.go.id

December 2020

THE INDONESIAN FINANCIAL SERVICES SECTOR MASTER PLAN

to Recover the National Economy and Enhance the Financial Services Sector Resiliency and Competitiveness

2021
2025

Foreword

Praise the Lord God Almighty, for the abundance of His blessings and grace on the completion of the Indonesian Financial Services Sector Master Plan (MPSJKI) 2021-2025, "To Recover the National Economy and Enhance the Financial Services Sector Resiliency and Competitiveness" by the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan*-OJK). The theme was chosen to portray the direction in terms of advancing the financial services sector (FSS) as well as OJK's future commitments which focuses on the national economic recovery in the context of handling the impact from the Covid-19 pandemic as well as building confidence to develop resilience and preparing the FSS to regional and global competition.

Following on Act No. 21 of 2011 concerning the Financial Services Authority, OJK was established to ensure all activities in the FSS are managed in an orderly, fair, transparent and accountable manner; to create a sustainable and stable financial system; and to protect the interests of consumers and public alike. As a manifestation of this goal, OJK needs to set a future policy direction that is in harmony with the latest dynamics of the FSS.

The endeavours to develop the FSS are exposed with various challenges, both from global and domestic economic uncertainties. Global challenges derived from the slowing down of the economy, ongoing trade war, increasing signs of protectionism and uncertainty in the global financial markets. Meanwhile, domestic challenges emerge from the ongoing current account deficit; limited long-term economic financing sources; economic and income inequality; low levels of productivity and competitiveness nationally; inadequate sustainable economic financing; inconsistency in the regulation and supervision of FSS; low financial literacy and inclusion; as well as the current revolution because of the disruption in the digital economy era. At the same time, stakeholders' expectations of the future role of the FSS have also increased as the Indonesian economy has reached the welfare level which is equivalent to that of upper Middle Income Countries.

Considering that, OJK has prepared the MPSJKI as a basis framework for the strategic direction of the FSS that is align with the main national development framework as set out in the 2020-2024 Medium Term National Development Plan (RPJMN). MPSJKI is planned to be published in the first quarter of 2020. However, considering the impact of the Covid-19 pandemic on the condition of the FSS and the economy, a revision was carried out so that the structure of the MPSJKI consisted of the Short-Term FSS Policy Direction (2020-2021) - FSS Support for the National Economic Recovery Program (PEN) and the 2021-2025 Structural Framework which focuses on three areas, namely: (1) Strengthening Resilience and Competitiveness ; (2) Financial Services Ecosystem Development; and (3) Digital Transformation Acceleration. Additionally, the 2021-2025 MPSJKI focuses on collaboration and cooperation among stakeholders as the main enablers for its targets.

Lastly, on behalf of the Board of Commissioners of OJK, we would like to express our appreciation to all parties who participated in the preparation of this MPSJKI. We sincerely hope that the 2021-2025 MPSJKI will be used as a reference for all industry players and stakeholders in terms of advancing the FSS in Indonesia, thereby allowing the sectors to provide greater value added to the national economy in order to improve public and economic welfare while maintaining financial system stability.

Prof. Wimboh Santoso, SE., Msc., Ph.D
Chairman of the Board of Commissioner
Indonesia Financial Services Authority

Table of Contents

Executive Summary

Indonesia's financial services sector (FSS) continues to experience positive developments despite the downturn in global and domestic economic growth over the past five years and the impact of the Covid-19 pandemic in 2020. However, this positive achievement should not lead to complacency. Moving forward, the FSS will continue to face various challenges arising from economic uncertainty and developments in the digital economy that are disrupting business models. Additionally, the FSS as the mainstay of the economy is increasingly required to maintain financial system stability and to be able to increase competitiveness, so that it will make an optimal contribution to support a sustainable and inclusive national economic growth. To face these challenges, a strategic policy direction for the development of the FSS is required as a reference for all stakeholders.

The Indonesia Financial Services Authority (Otoritas Jasa Keuangan or OJK) has a strong commitment in enhancing the role of the FSS in spurring economic growth, while maintaining stability of the financial system. From the Act No. 21 of 2011 concerning the Financial Services Authority, OJK was formed with the vision that all activities within the monitoring of the FSS industry are carried out regularly, fairly, transparently and accountable; able to develop a financial system that grows in a sustainable and stable manner; and upholding the principles of customer and public pretection. As one manifestation of these goals, OJK sets a future policy direction that is consistent with the latest FSS dynamics.

The future policy direction is outlined in The Indonesian Financial Services Sector Master Plan (MPSJKI). The MPSJKI consists of the basic framework for the strategic direction of fostering integrated and comprehensive FSS. MPSJKI serves as a guideline for the development of the FSS to create a stable, contributive and inclusive financial industry to support Indonesia's economic growth.

In 2015, OJK issued the 2015-2019 MPSJKI which aims to strengthen the role of FSS in national economic activities, both in the context of providing financing for the development and making Indonesia one of the main investment destination countries. The 2015-2019 MPSJKI version contains three strategic directions for the development of the FSS, which are (1) optimizing the role of the FSS in supporting the acceleration of national economic growth (contributive); (2) maintaining financial system stability as a foundation for sustainable (stable) development; and (3) developing financial independence for the people and supporting efforts in decreasing inequality in country's economic development development (inclusive).

The 2015-2019 MPSJKI

The Goals and Directions of The Indonesia Financial Services Sector Development

The Realization of a Stable FSS that Contributes Significantly to Sustainable Economic Growth to Improve the Welfare of the Indonesian People

Three Directions of Development in the MPSJKI

CONTRIBUTIVE | **STABLE** | **INCLUSIVE**

ENABLER

Fulfillment of the Quantity and Quality of Human Capital | **Utilization of technology in FSS Activities**

CONTRIBUTIVE
- Financing for infrastructure and priority economic sectors
- Strengthening the capacity of the FSS
- Development of FSS products and services as well as increasing financial literacy
- Strengthening the role of Sharia FSS

STABLE
- Strengthening FSS supervision
- Strengthening and structuring the FSS according to standards

INCLUSIVE
- Developing regional economic potential
- Expanding financial access and strengthening consumer protection

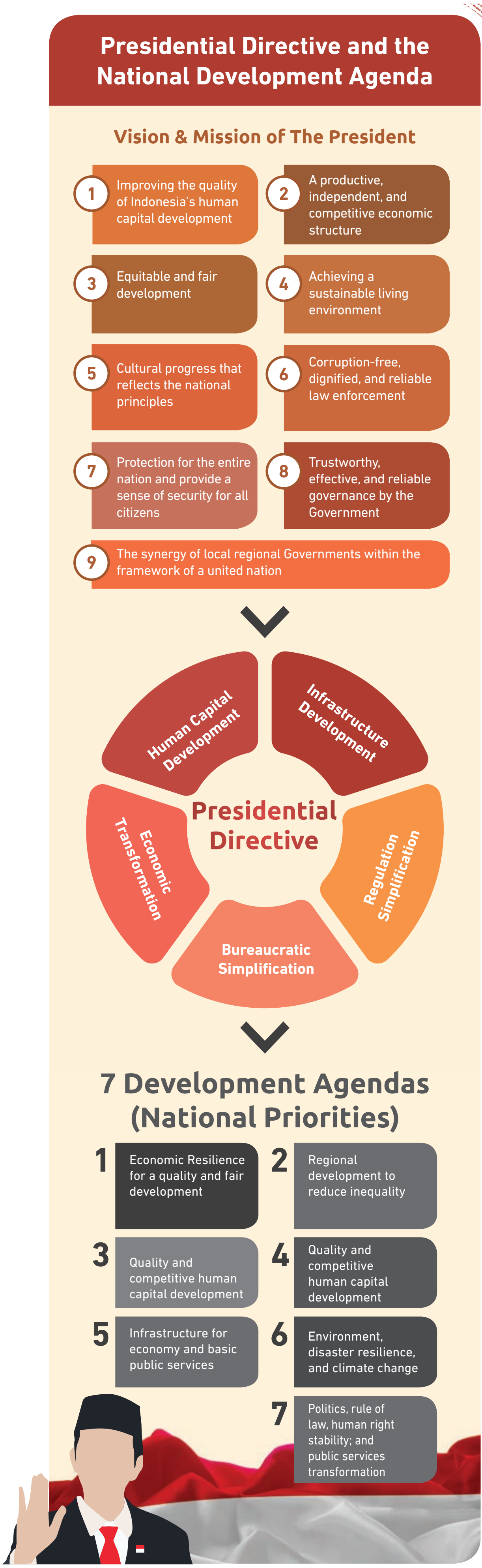
ENABLER
- Fulfillment of the quantity and quality of human resources in the FSS and the supervision of FSS
- Utilization of information in FSS economic activities

Generally, the contributive pillar will be implemented through financing towards the infrastructure sector and priority economic sectors, including tourism, housing, oil palm plantations, export-oriented industries and the creative economy; increasing the role of the FSS in supporting economic activities by way of strengthening capital capacity and empowering the role of industry association; development of FSS products and services as well as increasing of financial inclusion and literation; and strengthening the Sharia FSS, which include establishing Micro Waqf Bank (*Bank Wakaf Mikro* or BWM) to encourage greater equitable access to finance and public welfare, especially in the area around Islamic boarding schools (*pondok pesantren*). The stable pillar will be carried out by strengthening the supervision of the FSS, including through integrated supervision, law enforcement, implementation of crisis management protocols and structuring the FSS in accordance with international standards. The inclusion pillar will be realized by fostering regional economic potential, among others by issuing regulations on Regional Securities Company; expanding financial access, among others, by regulating and monitoring Peer-To-Peer (P2P) Lending (fintech) industry, Branchless Banking (Laku Pandai), Digital Financial Innovation (*Inovasi Keuangan* Digital or DFI) and Equity Crowdfunding (ECF); and increasing consumer protection principles.

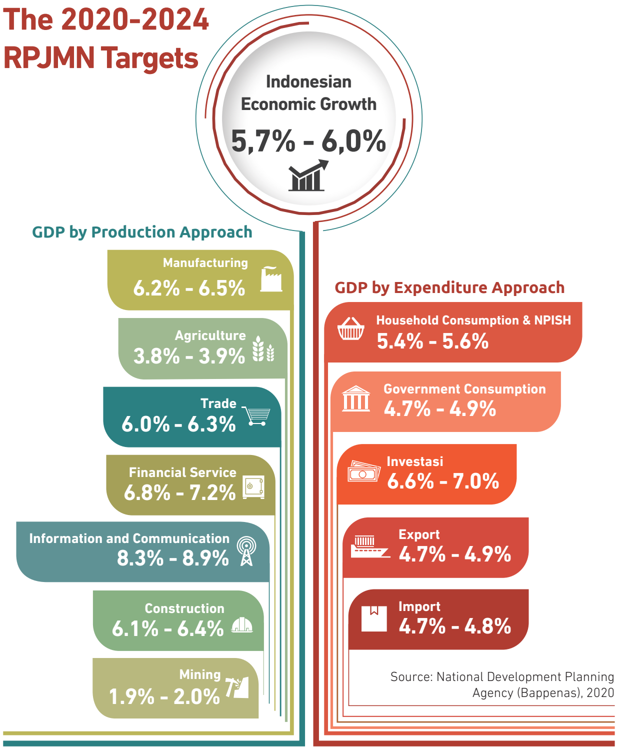
The various strategic directions outlined in the 2015-2019 MPSJKI have been implemented and well accomplished. This achievement has been reflected in the continued state of financial system stability, increasing assets of Financial Service Institutions (FSIs) and their role in the development of the national economic growth, as well as increasing levels of financial inclusion in supporting the endeavours to lessen the economic inequality gap and support equitable distribution of public welfare.

However, the actions to develop the FSS remain exposed to various challenges, both in short term as well as structural longer term challenges. Short term challenges derives from the uncertainty from the Covid-19 pandemic that will influence the capacity on demand and purchasing power of the consumers, as well as the production and distribution of goods and servides; financing support in the medium and long term for the National Economic Recovery Programs (*Pemulihan Ekonomi Nasional*-PEN); financial market conditions that still have the potential to experience high volatility; as well as the sustainability of the Government's (PEN) policy incentives and the normalization stages after the pandemic.

Structural longer term challenges globally derives from the downturn in global economic growth, the ongoing trade war, increasing signs of protectionism and uncertainty in global financial markets.

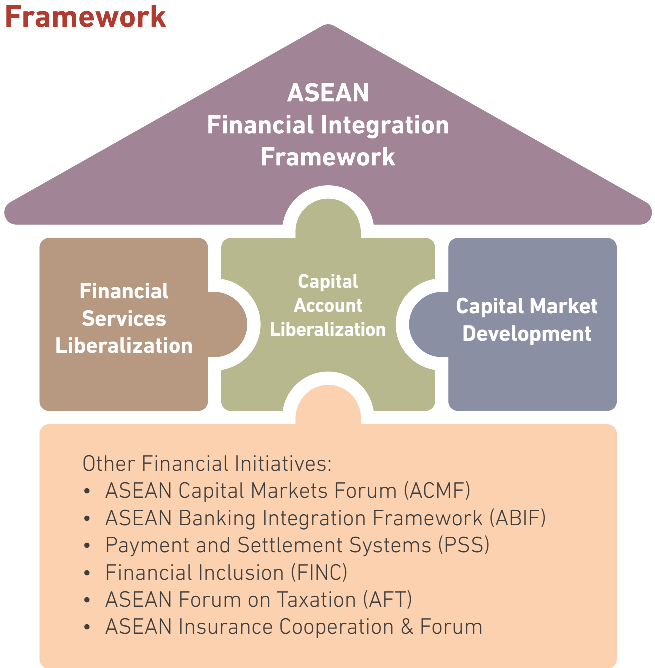


The 2020-2024 RPJMN Targets



Source: National Development Planning Agency (Bappenas), 2020

ASEAN Financial Integration Framework



Source: ASEAN Secretariat, 2020

Meanwhile, domestic challenges emerge from the ongoing current account deficit, limited long-term sources of economic financing, economic inequality and income disparity, low levels of productivity and competitiveness, inadequate sustainable economic financing, and regulatory and supervisory gaps across the FSS, low financial literacy and inclusion, and disruption of the revolution in the digital economy era.

At the same time, stakeholders' expectations of the role of FSS in the future have also increased with the growing Indonesian economy which has reached the level of welfare equivalent to those of upper Middle Income Countries. In this case, the Government has established the 2020-2024 Medium Term National Development Plan (*Rencana Pembangunan Jangka Menengah Nasional* or RPJMN) which contains national development targets for the next five years. This RPJMN requires substantial financial support including from the FSS so that national economic development targets can be achieved.

Additionally, economic and financial activities in the region are increasingly integrated with the initiative of the ASEAN Economic Community. On the one hand, this integration brings opportunities by opening up market share in the region. On the other hand, this integration will further increase the competition. As a consequence, high competitiveness in the domestic FSS is an inevitable demand for market players so that in the end Indonesia can take advantage of this economic integration. Consequently, the national FSS must improve in efficiency, variety of products and services introduced, and excellent service, including taking advantage of technological developments. Adequate capacity and capability are also keys to increasing the contribution and competitiveness of the FSS.

To face various conditions and challenges outlined above, OJK considers it necessary to formulate the 2021-2025 MPSJKI as a basis framework for the strategic direction of the FSS's strategic policies. The MPSJKI is a response to the dynamic global and domestic economy challenges, public expectations towards the FSS, and is aligned with the main national development agenda as stated in the 2020-2024 RPJMN.

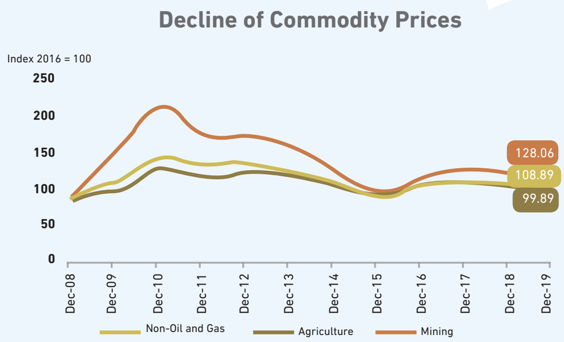
MPSJKI is planned to be published in the first quarter of 2020. However, considering the impact of the Covid-19 pandemic on the condition of the FSS and the economy, a revision was carried out so that the structure of the MPSJKI consisted of the Short-Term FSS Policy Direction (2020-2021) - FSS Support for the National Economic Recovery Program (PEN) and the 2021-2025 Structural Framework which focuses on three areas, namely: (1) Strengthening Resilience and Competitiveness; (2) Development of Financial Services Ecosystem; and (3) Digital Transformation Acceleration. In addition, MPSJKI 2021-2025 will mainstream the collaboration and cooperation among stakeholders as the main enablers for its achievements.

Global and Domestic Economic Review

Global Economic Conditions and Domestic Before the Covid-19 Pandemic

EXTERNAL FACTORS

- Trade War
- Global Trade Downturn
- Geopolitical Dynamics



GLOBAL ECONOMIC GROWTH

2015	2019
3.5%	3.3%

External factors affect the economy and domestic financial (vice versa)

FINANCIAL SECTOR

FISCAL POLICY

- Issuance of Government Securities
- State Spending
- Tax

MONETARY POLICY

- Interest Rate
- Monetary and Macroprudential Policy Transmission

REAL SECTOR

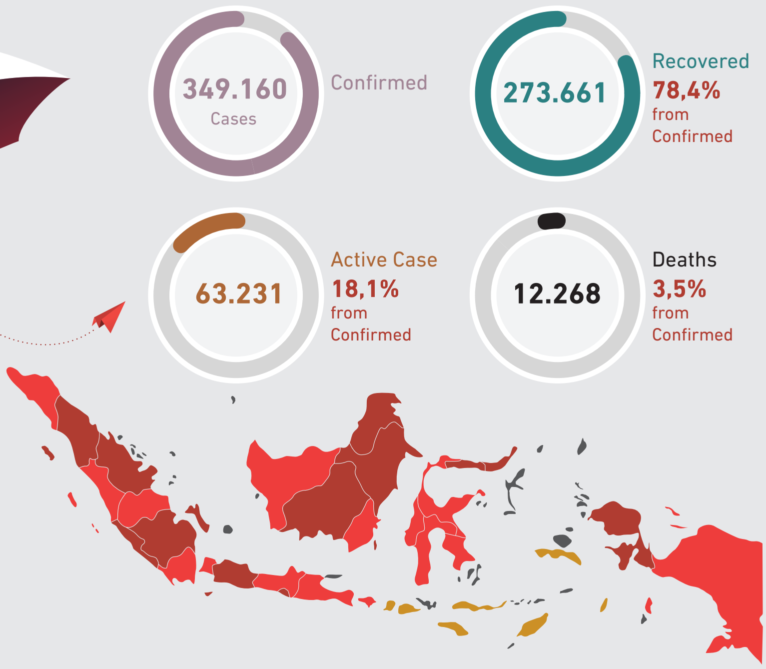
- Household Consumption Balance
- Inflation
- Credit and NPL
- Market Price

The Impact of The Covid-19 Pandemic on The Global and Domestic Economy

Covid-19 and Public Health Emergency

At the end of 2019, the Covid-19 virus began to infect China and then spread to various countries in the world. On March 11, 2020, WHO declared Covid-19 a global pandemic. Until now, the Covid-19 pandemic is still unknown when it will end.

Map of the Covid-19 Spread in Indonesia



Source: covid19.go.id (14 October 2020)

Various countries including Indonesia have adopted strict social restriction policies in order to mitigate the spread of Covid-19.

Covid-19 Encumbers the Economy

The Covid -19 pandemic pressured the economy both in terms of demand and supply. The decline in demand and supply stemmed from problems with medical, businesses performance, and expectations.

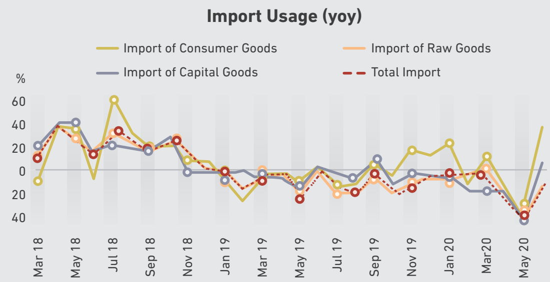
Economic Sectors Affected by Covid-19

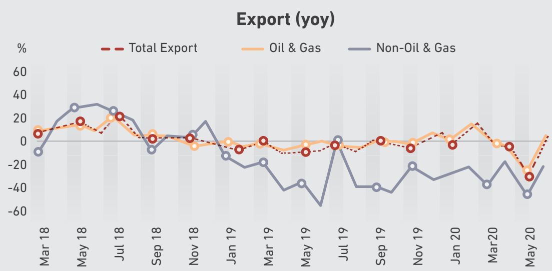
IMPACT LEVELS	AFFECTED SECTORS
HIGH IMPACT (Turnover decreased by > 30%)	• Tourism • Manufacture • Building materials, heavy equipment • Property and construction • Pharmacy
MEDIUM IMPACT (Turnover decreased by 10-30%)	• Multifinance • Automotive • Shopping center • Animal husbandry, fisheries • Distribution/retailler of non-essential goods • Commodities (plantation, mining)
LOW IMPACT (Turnover decreased by <10%)	• Packaging • E-commerce • Power plants • Medical devices • Staple food • Distribution/retailler of essential goods • Tobacco/cigarettes • IT/communication

Source: BCA Economic Research, 2020

The significance of the impact of Covid-19 is generally reflected in the decline in national economic growth (both in the form of pressure on the inflation rate, disruption to the supply chain due to reduced imports of raw materials from affected countries, the potential for rising balance of payments, undermined consumer confidence, upsurge of unemployment, and low foreign investment).

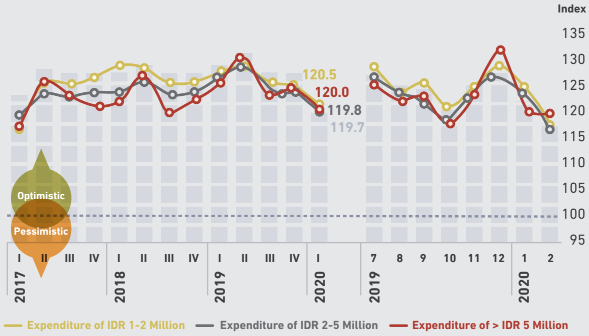
Import and Export Growth





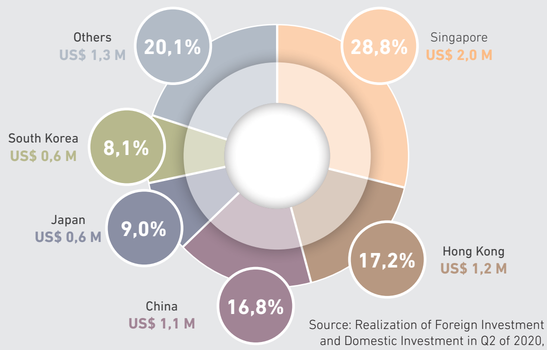
Source: Statistics Indonesia (BPS)

Consumer Confidence Index



Source: Bank Indonesia

Foreign Investment



Source: Realization of Foreign Investment and Domestic Investment in Q2 of 2020, BKPM

Indonesian 2021 Macro Economy Indicator Outlook

Economic growth
4.5-5.5%

Inflation **2.0-4.0%**

SBN interest rate 10 years **6.67-9.56%**

IDR exchange rate **IDR14,900-IDR15,300** per US$

Crude oil prices **US$40-US$50** per barel

Lifting petroleum
677-737 thousand
barrels per day

Lifting natural gas
1,085-1,173 thousand
barrels per day

Source: Ministry of Finance

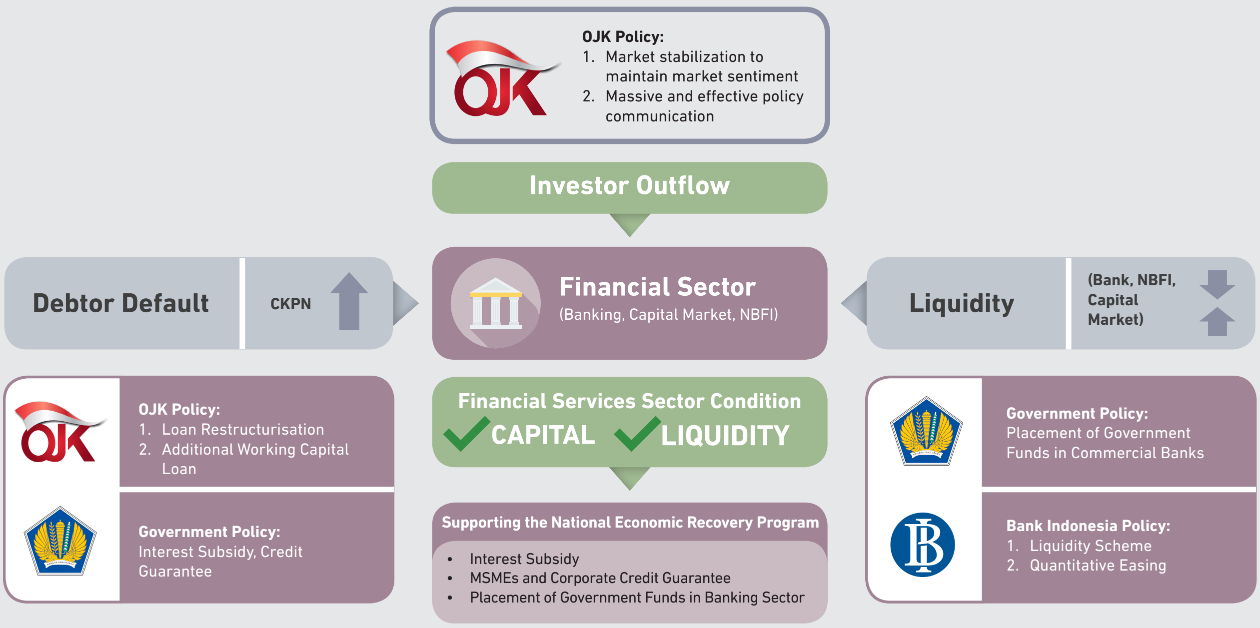
Response to The Impact of Covid-19

Since the announcement of Covid-19 as a pandemic by WHO on March 11, 2020, the Government has issued a series of policies to prevent the spread of the impact of the Covid-19 pandemic. A number of stimuli have been issued, including fiscal, monetary, and FSS stimuli. An effective policy mix is essential to prevent the augmentation in casualties and the spread of dredging negative impacts, particularly on the economy.

As a basis for handling the humanitarian and economic crisis, the Government established a legal umbrella to take extraordinary steps in handling Covid-19, namely Act Number 2 of 2020 concerning Stipulation of Government Regulations in Lieu of Act Number 1 of 2020 concerning State Financial Policy and Financial System Stability for the Mitigation the Corona Virus Disease 2019 (Covid-19) Pandemic and/or in the Context of Facing Threats Endangering the National Economy and/or Financial System Stability (Act 2/2020).

In order to follow up Article 11 of Act 2/2020, the Government implemented the National Economic Recovery Program (PEN) as a measure to protect, maintain and improve the economic capacity of business actors from the real sector and the financial sector in carrying out their business during the Covid-19 pandemic. The PEN program has four principles in its implementation, namely not causing moral hazard, priority scale, risk sharing, and good governance.

Furthermore, the Act 2/2020 also stipulates policies in order to maintain financial system stability in the face of the threat of an economic or financial crisis amid the Covid-19 pandemic. Policies for maintaining financial system stability include providing a support scheme in exercising the authority of the KSSK in addressing problems of financial system stability.



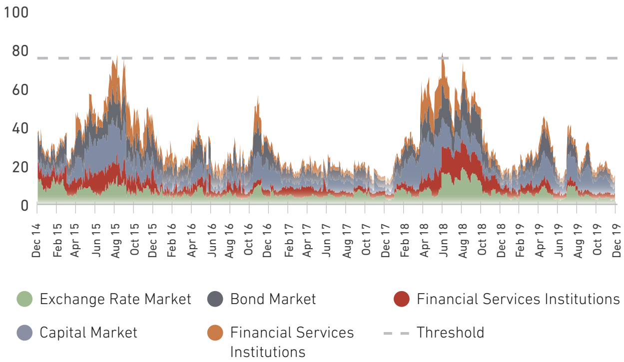
Condition of The Financial Services Sector

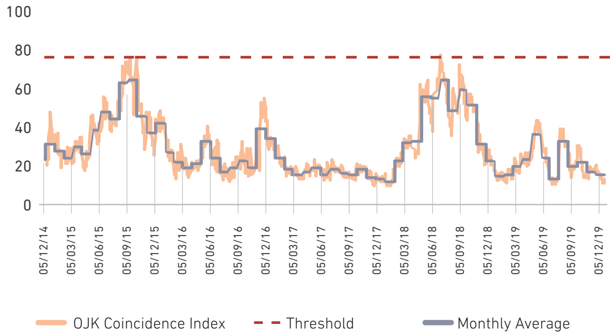
OJK Coincidence Index

The national FSS still shows maintained stability and growth with improved efficiency and increased financial inclusion over the last five years, amidst slowing global economic growth and stagnant national economic growth. Financial system stability is maintained as reflected in the OJK Coincidence Index indicator which is below the threshold. Although the OJK Coincidence Index experienced slight upturn in the second semester of 2015 and the first semester of 2018 due to optimized volatility in the rupiah exchange rate, it is still maintained in a normal area. The OJK Coincidence Index also accrued and touched the threshold at the beginning of the Covid-19 pandemic entering Indonesia.

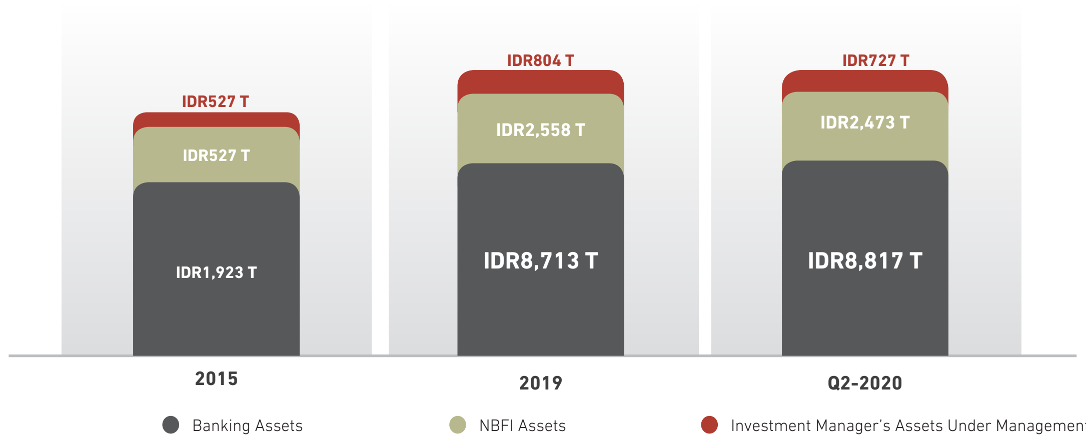
The national FSS market condition is still very segmented. The Banking sector dominates the financial market on the basis of short-term sources of funds. Meanwhile, although the Capital Market continues to grow, it is still not optimal for long-term financing. NBFI is still relatively small although it keeps growing.

OJK Coincidence Index





Indonesia's Financial Services Sector Structure



Snapshot of The Development of Indonesia's Financial Services Sector for 2015-2019 and Quarter 2 of 2020

BANKING

TPF
↑ 24.02%
- 2015: IDR4,836.76 T
- 2019: IDR5,998.65 T
- Q2-2020: IDR6,260.46 T

CREDIT
↑ 38.89%
- 2015: IDR4,092.10 T
- 2019: IDR5,683.76 T
- Q2-2020: IDR5,617.71 T

CAR
↑ 2.01%
- 2015: 21.39%
- 2019: 23.40%
- Q2-2020: 22.50%

LDR
↑ 1.69%
- 2015: 91.95%
- 2019: 93.64%
- Q2-2020: 88.64%

ASSET
↑ 38.74%
- 2015: IDR5,919.39 T
- 2019: IDR8,212.58 T
- Q2-2020: IDR8,313.96 T

NPL (GROSS)
↑ 0.04%
- 2015: 2.49%
- 2019: 2.53%
- Q2-2020: 3.15%

CAPITAL MARKET

JCI
↑ 37.15%
- 2015: IDR4,593.01
- 2019: IDR6,299.54
- Q2-2020: IDR4,905.4

MUTUAL FUND NAV
↑ 99.37%
- 2015: IDR271.97 T
- 2019: IDR542.24 T
- Q2-2020: IDR482.58 T

OUTSTANDING CORPORATE BONDS
↑ 78.16%
- 2015: IDR249.88 T
- 2019: IDR445.20 T
- Q2-2020: IDR429.71 T

NUMBER OF NEW ISSUERS
↑ 185.71%
- 2015: 21
- 2019: 60
- Q2-2020: 25

ISSUANCE VALUE
↑ 42.81%
- 2015: IDR116.83 T
- 2019: IDR166.85 T
- Q2-2020: IDR42.92 T

NBFI

NBFI ASSET
Insurance, Pension Fund, Financing Companies, dan other NBFI

↑ 54.57%
- 2015: IDR1,654.74 T
- 2019: IDR2,557.78 T
- Q2-2020: IDR2,472.86 T

INSURANCE ASSETS
↑ 65.15%
- 2015: IDR830.23 T
- 2019: IDR1,371.20 T
- Q2-2020: IDR1,325.78 T

INSURANCE RBC
- 2015: PAJ: 535.00%
- 2019: PAJ: 789.37%

↑ 254.37%

- PAU: 283.00%
- PAU: 345.35%

↑ 62.35%

- Q2-2020: PAU: 688.00% PAU: 319.35%

ACCOUNTS RECEIVABLE FINANCING
↑ 24.49%
- 2015: IDR363.27 T
- 2019: IDR452.22 T
- Q2-2020: IDR413.20 T

GEARING RATIO
↓ 0.90 times
- 2015: 3.59 times
- 2019: 2.61 times
- Q2-2020: 2.48 times

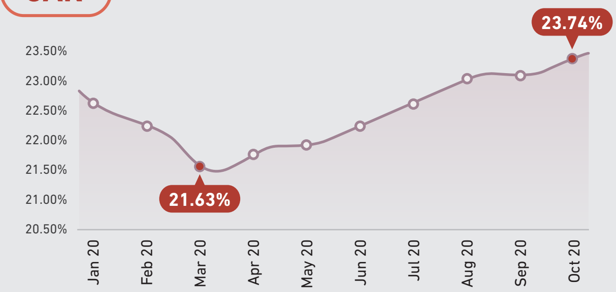
PENSION FUND ASSET
↑ 41.17%
- 2015: IDR206.59 T
- 2019: IDR291.65 T
- Q2-2020: IDR288.70 T

Subsequent Events of Financial Services Sector Conditions

Banking Sector

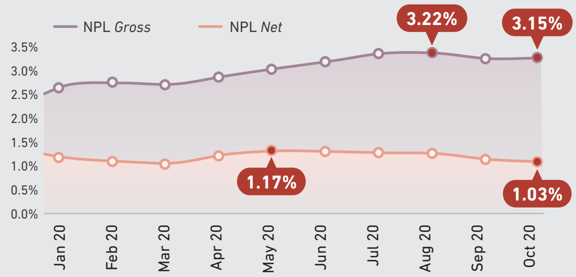
The resilience of the FSS, particularly Banking, is still in sound and controlled condition, demonstrated by adequate capital and liquidity as well as a maintained risk profile.

CAR



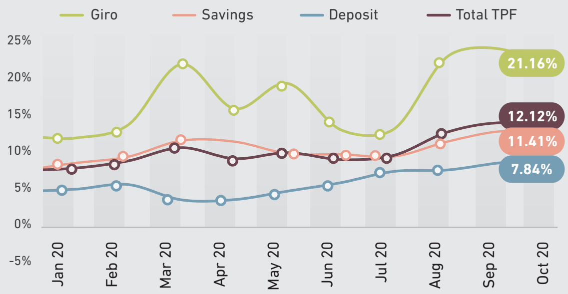
The capital adequacy ratio is still maintained at a fairly high level at 23.74% (October 2020), although in March 2020 it had dropped to 21.63%.

NPL



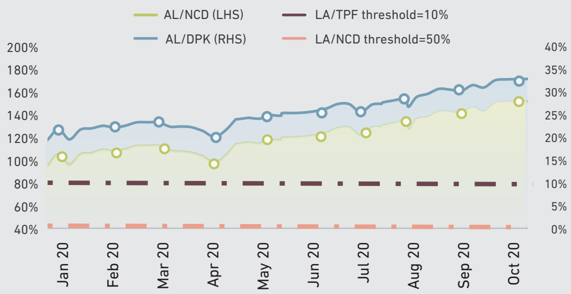
Banking credit risk was maintained at a manageable level as of October 2020 at 3.15% (gross NPL) and 1.03% (nett NPL) and indicating an improvement position from July 2020 for gross NPL (3.22%) and May 2020 for net NPL (1.17%).

TPF Growth (yoy)



Strengthening liquidity conditions due to high growth in bank deposits amid a credit slowdown. DPK growth since August has reached double digits, continuing in October 2020 to grow 12.12% yoy, in line with the placement of Government funds in banks.

Liquidity



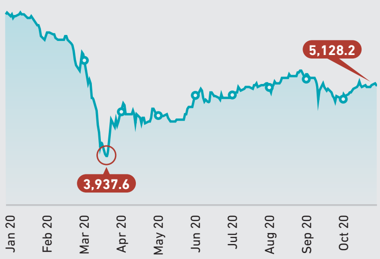
Bank liquidity was adequate with an increasing trend and ample. As of October 26, 2020, the LA/NCD and LA/TPF ratios were monitored at the 153.98% and 32.96% levels, well above the threshold.

Subsequent Events of Financial Services Sector Conditions

Capital Market

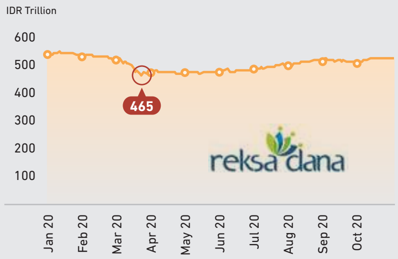
The condition of the Capital Market sector has gradually improved after passing through several lows, including:

Jakarta Composite Index



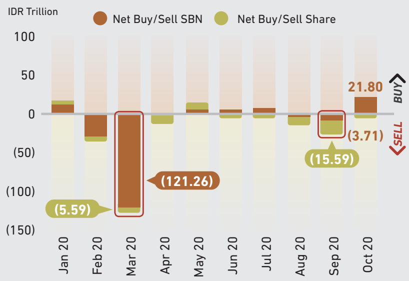
The stock market was well maintained and the JCI strengthened on October 30, 2020 it closed at 5,128.2 levels, although it had touched its lowest point on March 24, 2020 (3,937.6).

NAV for Mutual Fund



The increase in the JCI also boosted Mutual Fund performance. In the period of October 2020, the Net Asset Value (NAV) was present at the level of IDR529 trillion, previously the NAV of Mutual Funds had reached the lowest point of IDR465 Trillion.

Non-Resident Net Buy/Sell

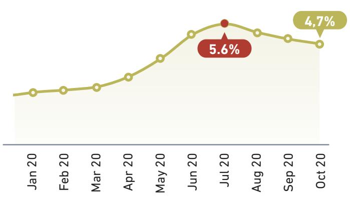


In line with the entry of non-resident investors to other emerging markets, non-resident investors began to take action on the SBN Market, which in October recorded a net buy of IDR21.8 Trillion (March position was the largest net sell at IDR121.26 Trillion). The strengthening of the SBN market was supported by increased participation of the Banking sector in the SBN market.

NBFI

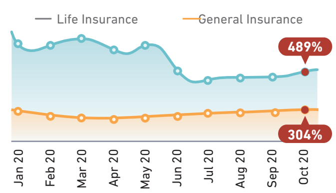
The change in the value of the NBFIs assets as a result of weakening yields of financial instruments and progressing toward the year end.

NPF



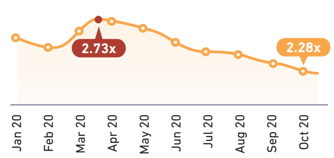
The risk profile of finance companies is maintained at a manageable level with an NPF ratio of 4.7% for the position in October 2020 or has decreased from the July position which reached the highest point of 5.6%.

Insurance RBC



The insurance industry's capital is maintained stable at an adequate level, Risk-Based Capital (RBC) of the life and general insurance industry is 538.8% and 337.2%, respectively, well above the regulatory threshold of 120%.

Gearing Ratio



Gearing Ratio is also in trend decreased at 2.28 times (October 2020).

Micro Finance Institution, Other Specialized Financial Services Institutions and Peer-to-Peer Lending Fintech Development

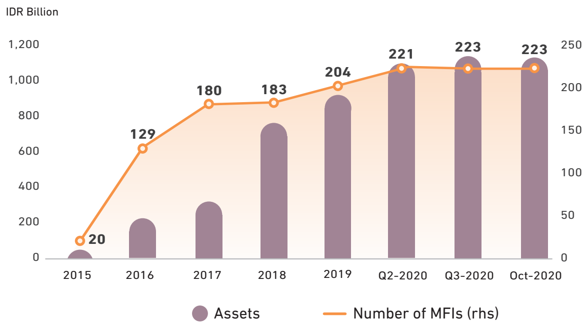
Micro Finance Institution

Since the enactment of Act Number 1 of 2013 concerning Micro Financial Institutions, the number of microfinance institutions that have obtained permits from OJK has been increasing every year. The assets of microfinance institutions also continue to experience an increasing trend. As of October 2020, there were 223 MFIs with total assets of IDR1.13 Trillion.

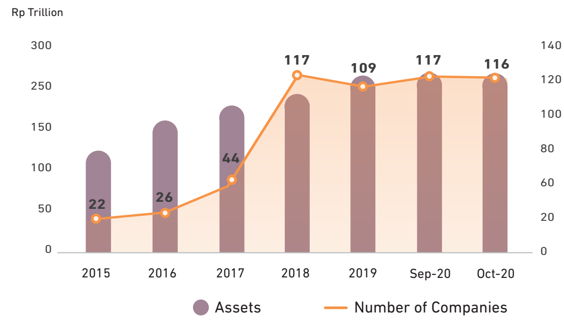
Other Specialized Financial Services Institutions

OJK also supervises a variety of other specialized FSIs, which include guarantee companies, pawnbrokers, *Permodalan Nasional Madani* (PNM), Indonesian Export Financing Institution (*Lembaga Pembiayaan Ekspor Indonesia* or LPEI/Eximbank), *Sarana Multi* Finance (SMF), and Danareksa. As of October 2020, there were 116 other specialized financial service institutions with total assets reaching IDR252.74 Trillion.

Number of Microfinance Institution Entities and Total Assets



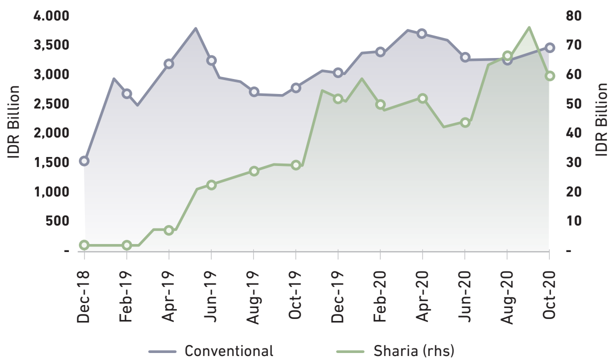
Number of Companies and Asset Development of Other Specialized Financial Services Institutions



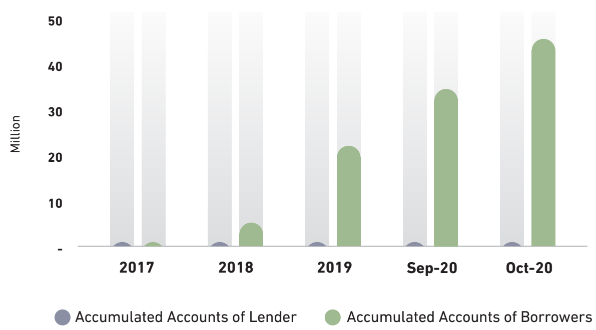
Peer-to-Peer Lending Fintech

As of October 2020, there were 119 registered Peer-to-Peer Lending Fintech operators and 36 licensed (a total of 155: 144 conventional and 11 sharia; 102 local and 53 foreign investments). The total assets of Peer-to-Peer Lending Fintech operators reached IDR3.42 Trillion.

Asset Growth of Fintech Peer to Peer Lending



Growth in the Number of Fintech Peer to Peer Lending Accounts of Lenders and Borrowers

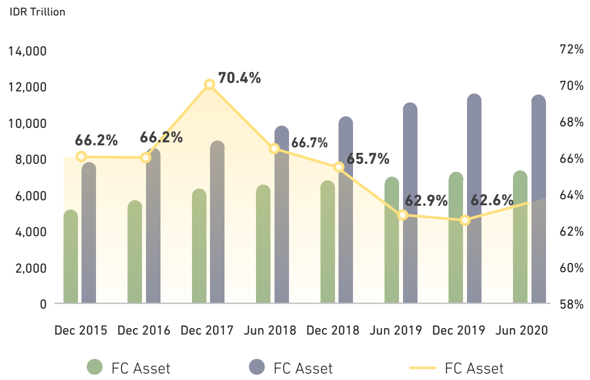


Financial Conglomerates and Digital Financial Innovation Development

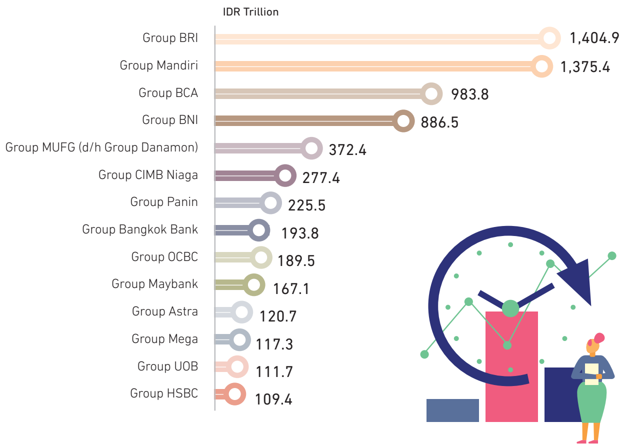
Financial Conglomerates

As of Quarter 2 of 2020, the total assets of the Financial Conglomerates (FCs) reached IDR7,486 T or 63.6% of the total assets of the FSS. This shows the significant influence of the Financial Conglomerates on the FSS in Indonesia. Of the total assets, the financial conglomerates were dominated by Banking as the lead entity at 95.70%.

Trend of FCs Assets and Share towards FSS (SJK) Assets



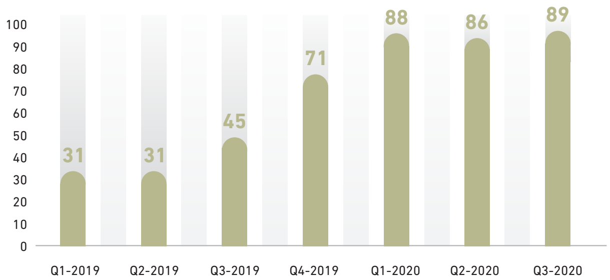
Financial Conglomerate with >IDR100 Trillion Assets



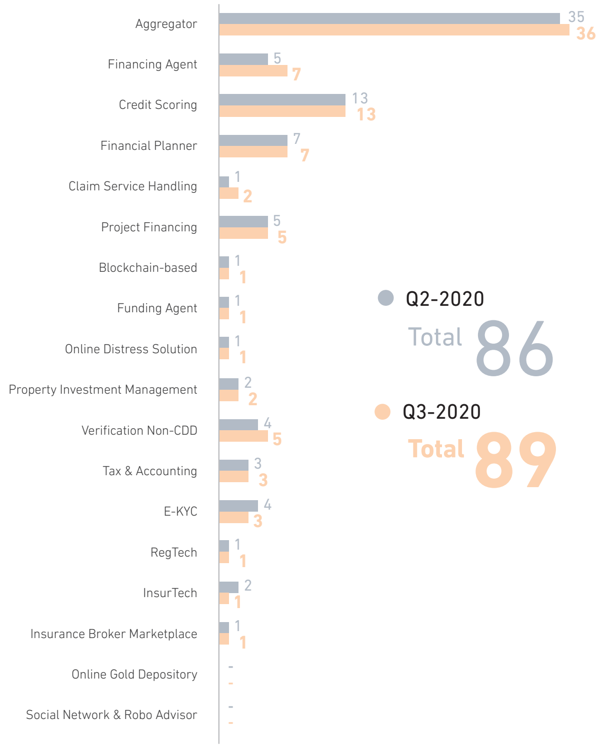
The Development of Digital Financial Innovation

As of Quarter 3 of 2020, OJK recorded a number of 89 Digital Financial Innovation (DFI) companies which are classified into 16 clusters.

Number of Registered DFI Operators at OJK



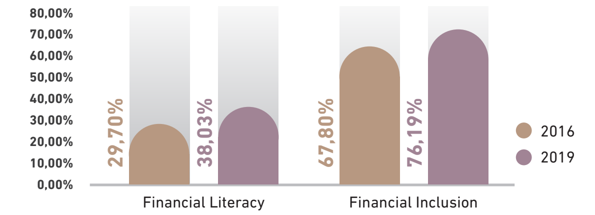
DFI Cluster



Level of Financial Literacy and Inclusion

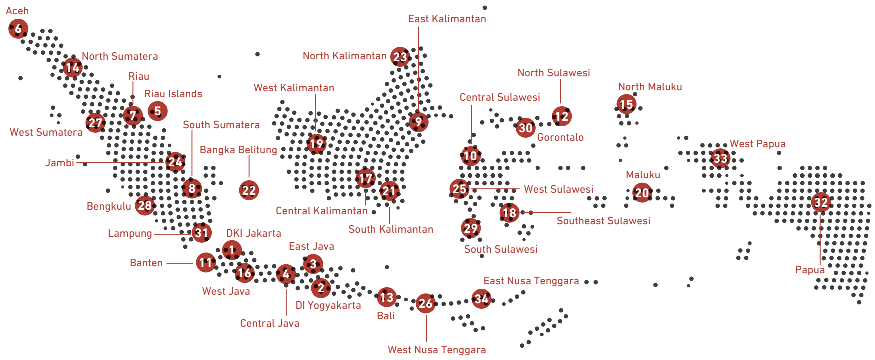
The level of financial literacy and inclusion has continued to move positively over the past five years. Based on the results of the National Financial Literacy Survey conducted by OJK in 2019, the financial inclusion index reached 76.19% and the financial literacy index reached 38.03%. This augmentation was the result of the implementation of 3 National Strategic Initiative programs for Indonesian Financial Literacy (Revisit 2017).

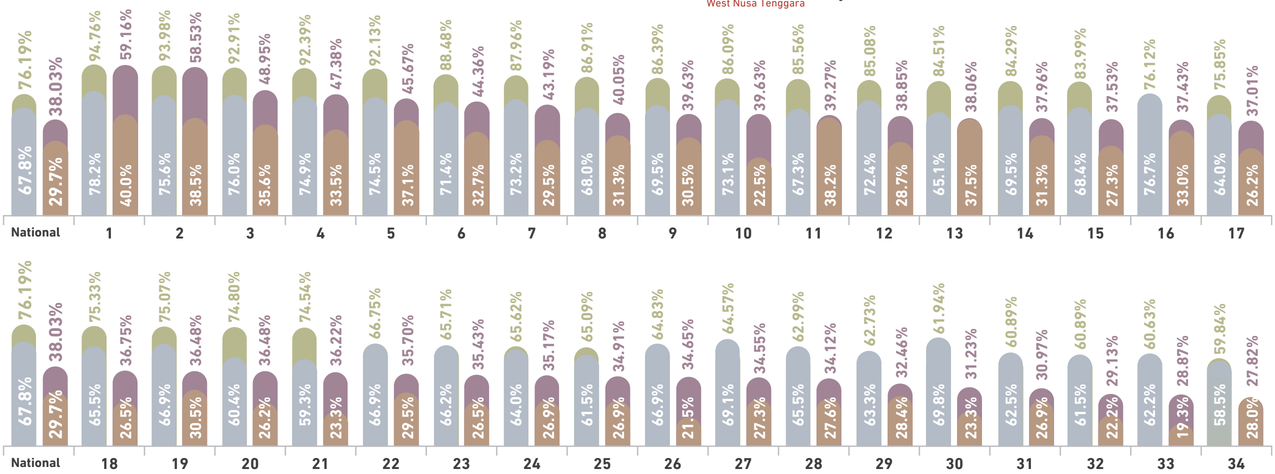
Improved Financial Literacy and Inclusion



Distribution of Financial Literacy and Inclusion in Indonesia

- Inclusion 2016
- Inclusion 2019
- Literacy 2016
- Literacy 2019

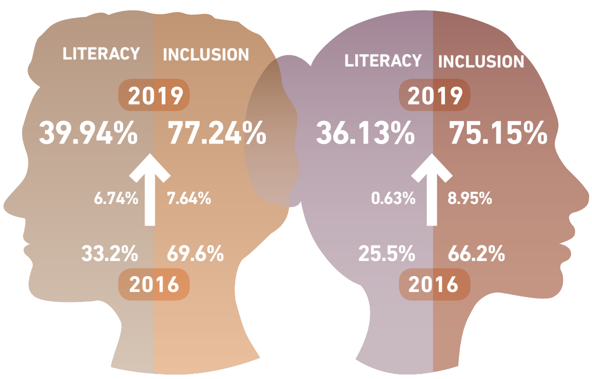




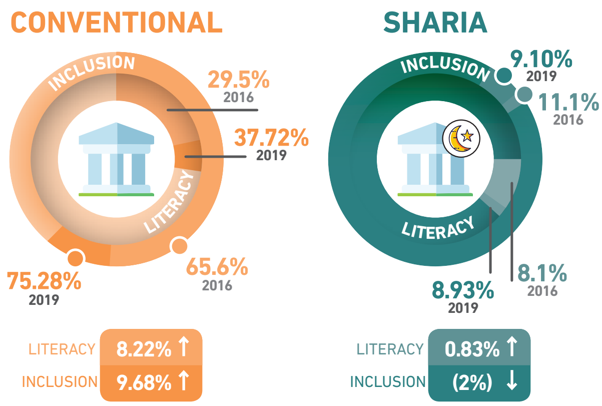
By gender, the literacy index and financial inclusion improved equally for men and women.

The sharia financial literacy index also upsurged from 8.1% in 2016 to 8.93% in 2019, although it is still below the rise in conventional financial literacy.

Level of Financial Literacy and Inclusion



Financial Literacy and Inclusion Based on Gender



Challenges Ahead

Short-Term Challenges

1. **Economic uncertainties due to Covid-19 pandemic** affecting the demand recovery and public purchasing power strength as well as goods and services production and distribution.

2. **Mid and long-term financing support for National Economy Recovery Program.**

3. Financial market condition still **has the potential to be exposed to high volatility influenced by the sentiment of market players.**

4. **Stimulus policy continuity to reinforce** the National Economy Recovery and normalization phase.

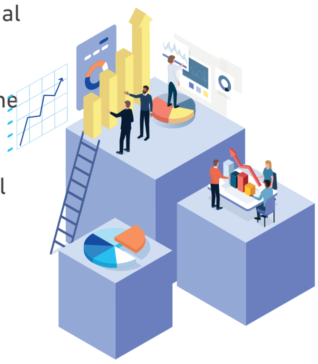
Structural Challenges

Global and Domestic Economic Uncertainty

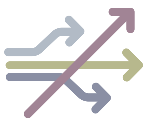
- Increases downside risk to the national financial economic system
- Relatively low competitiveness with small capital and economies of scale compare to ASEAN
- More complex FSS risks and regulatory arbitrage practices due to regulatory and supervisory gaps

Financial Literacy and Inclusion Gap

- The raise in the financial inclusion index has not been followed by a balanced increase in the financial literacy index
- The need for equitable distribution of financial literacy and inclusion, especially towards priority targets
- Rampant illegal investment



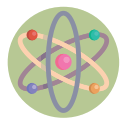
Digital Economy Revolution



Disruption of FSS business patterns and consumer behaviors

Shortage of high quality talent in digital era

The role of regulation to encourage responsible innovation



The importance of appropriate research-based approaches and policies

The Need for Improved Effective FSS Supervision

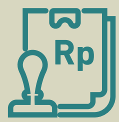
A supervisory approach that must be complemented by quick access to most recent data, analyze data precisely and accurately

Limited capacity and expertise of OJK human resources to supervise, including the application of information technology-based supervision

The Need for Financing The National Economy

Investment needs to support economic growth throughout 2020-2024

Financing for MSMEs is still limited



Limited sustainable finance instruments including its incentives

The efficiency level of the national FSS is not yet competitive

The development of the sharia financial industry is still not optimal (8.87% of the total assets of the FSS as of September 2019)

The financial market is still relatively shallow with limited medium and long term financing instruments

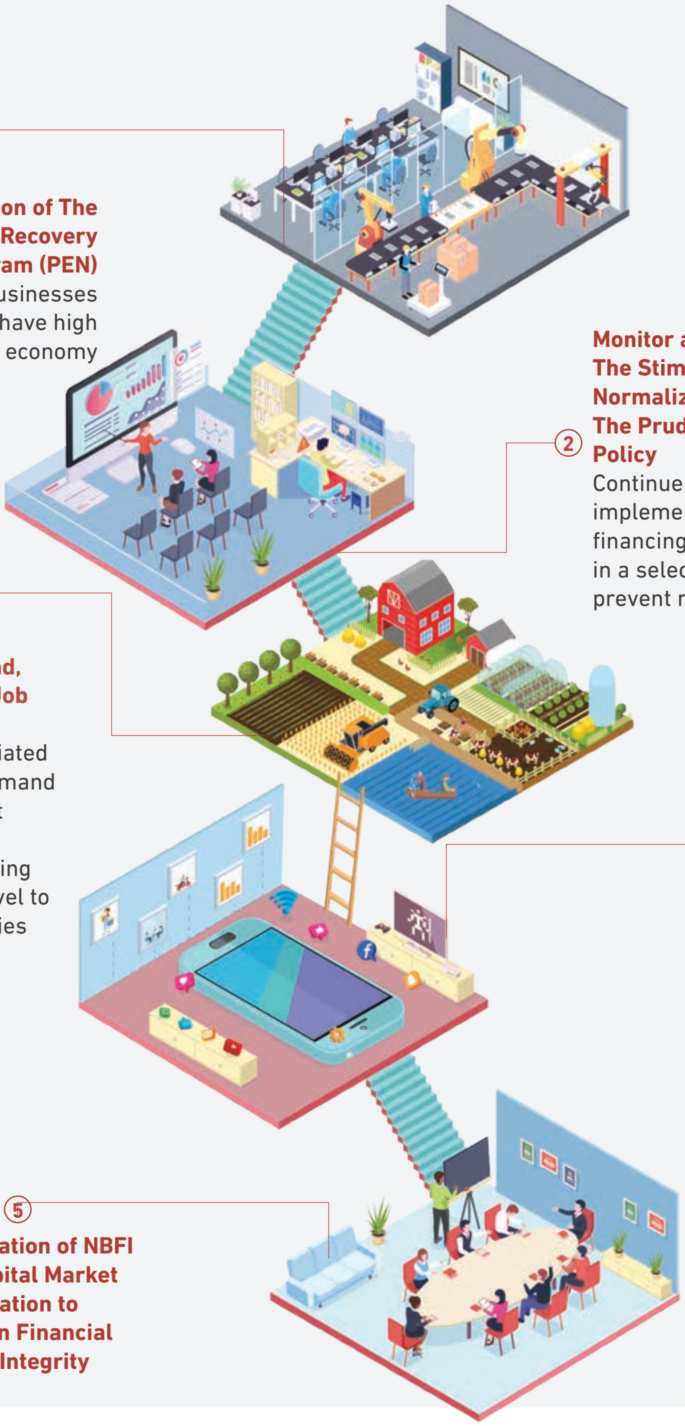
Changing needs of consumers who are looking for a one stop shop for financial products

2021-2025 Indonesian Financial

TO RECOVER NATIONAL ECONOMY AND REINFORCE FINANCIAL SERVICES SECTOR

2020-2021 Short-Term Policy Direction

Financial Services Sector Supports for National Economy Recovery Program



1. **To Accelerate Implementation of The Government's National Economic Recovery Program (PEN)**
   Through funding support for businesses that are labor intensive and/or have high multiplier effect for the economy

2. **Monitor and Evaluate The Stimulus Policy and Normalization Transition of The Prudential Relaxation Policy**
   Continue the relaxation implementation of loan/ financing restructuring policy in a selective manner to prevent moral hazard

3. **Increase Consumer Demand, MSMEs Development and Job Creation**
   - Support Government-initiated programs to reinforce demand creation and employment creation
   - Accelerate economic driving wheels at the regional level to improve economic activities

4. **Accelerating The Development of an Integrated Digital Economic and Financial Ecosystem**
   Reinforce digitalization among MSMEs, Micro Waqf, and so on and put forward IT-based supervision

5. **Reformation of NBFI and Capital Market Acceleration to Maintain Financial Market Integrity**

Services Sector Master Plan

RESILIENCE AND COMPETITIVENESS

2021-2025 Structural Framework

Enhancing Financial Services Sector Resilience and Competitiveness

The 2021-2025 MPSJKI

STRENGTHENING RESILIENCE AND COMPETITIVENESS

- Strengthening **capital and accelerating consolidation** of FSI
- Strengthening **governance, risk management** and **market conduct**
- Synchronize FSS regulations and supervision by referring to the best practices and/or **international standards**
- Strengthening **Integrated Supervision** of Financial Conglomerates and Cross Cutting Issues

DEVELOPMENT OF FINANCIAL SERVICES SECTOR ECOSYSTEM

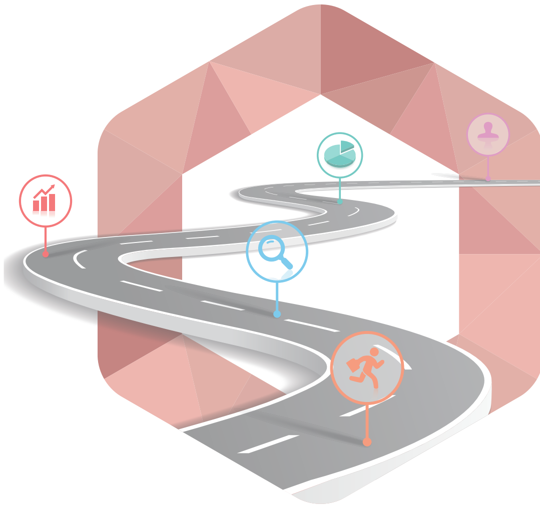
- Increasing the role of the FSS in supporting **priority economic sectors, MSMEs, job creation and regional development**
- Establish FSS integration to add value of **Sharia Finance** in the development of halal industry and sharia economic ecosystem
- Expand the **financial access** and foster public **financial literacy**
- **Strengthening consumer protection** in the FSS
- Accelerating **financial market deepening**
- Supporting FSI business expansion to carry out **multi-activities business**
- Increase the role of financial services in the **sustainable finance** to achieve the SDGs

DIGITAL TRANSFORMATION ACCELERATION

- Support FSS **digital transformation** innovation and acceleration
- Developing **regulatory framework** which supports digital financial sector ecosystem
- Improving **human capital capacity** in the financial services sector in line with the development of the digital industry
- Strengthening the **role of research** to support FSS digital innovation and transformation
- Accelerate the implementation of IT-based supervision (**Suptech**) in OJK and use of **Regtech** by FSS
- Perform **Business Process Reengineering** to increase the quality of licensing, regulation and supervision

COLLABORATION AND COOPERATION AMONG STAKEHOLDERS (ENABLER)

The Indonesian Financial Services Sector Master Plan 2021-2025



The FSS should be developed with the goal to make it highly competitive, able to play an optimal role in the national economy, and able to face various challenges amid the dynamics of the national and global economy. As described above, the challenges are divided into 2 (two) categories, namely short-term and structural longer term challenges that may come from domestic or globally. In the Short-Term, economic conditions and the FSS as a result of the Covid-19 pandemic; speed of discovery and distribution of the Covid-19 vaccine; Government policy response for health management and implementation of the National Economic Recovery programs (PEN) and the impact of the Large-Scale Social Restrictions (*Pembatasan sosial Berskala Besar* or PSBB) need to be considered. Meanwhile, in the medium term from the domestic side, the FSS is still very segmented with a large number and relatively low capital capacity as well improvemenet in governance and risk management. Cross-sectoral regulation and supervision still also needs to be harmonized. Globally, the FSS faces rapid development of the digital economy along with the changes in consumer behaviors, relatively large national development financing needs, and high volatility in global financial markets.

To face these challenges, the national FSS must be developed so that it is highly resilient to various shocks, competitive and adaptive to an ever-changing environment, efficient and contributes optimally towards economic development, and able to provide consumer-oriented financial products and services.

MPSJKI 2021-2025 is aimed to recover national economy as well as improving resilience and competitiveness of the financial services sector through innovation and digitization, as well as preparing National FSS in facing regional and global competition. The structure of the MPSJKI consists of:

a. Short-term FSS Policy Direction (2020-2021) - Financial Services Sector Support for the National Economic Recovery Program (PEN).

b. Structural Framework 2021-2025: Enhancing Resilience and Competitiveness of the Financial Services Sector.
   1. Strengthening Resilience and Competitiveness.
   2. Financial Services Ecosystem Development.
   3. Digital Transformation Acceleration.

Short-Term Financial Services Sector Policy Direction (2020-2021) - Financial Services Sector Support for the National Economic Recovery Program (PEN)

The pandemic which is still overshadowing the short-term outlook increases the urgency of formulating short-term strategies to accelerate national economic recovery (PEN).

1. To accelerate implementation of the PEN

One of the biggest challenges faced by many policymakers to respond to the impact of Covid-19 pandemic is in terms of the speed and accuracy of beneficiaries. This also occurs in the formulation and implementation of stimulus policies at the FSS. Therefore, the support and cooperation of all parties, both from the policy makers and the policy intermediaries, is very important.

To accelerate implementation of Government stimulus, OJK supports Government programs in PEN and optimizes the role of the FSS both in keeping the economy rolling through financing support for labor-intensive businesses or those with a larger multiplier effect on the economy. OJK has issued various stimulus policies during the Covid-19 pandemic in line with the Government's efforts to promote national economic recovery.

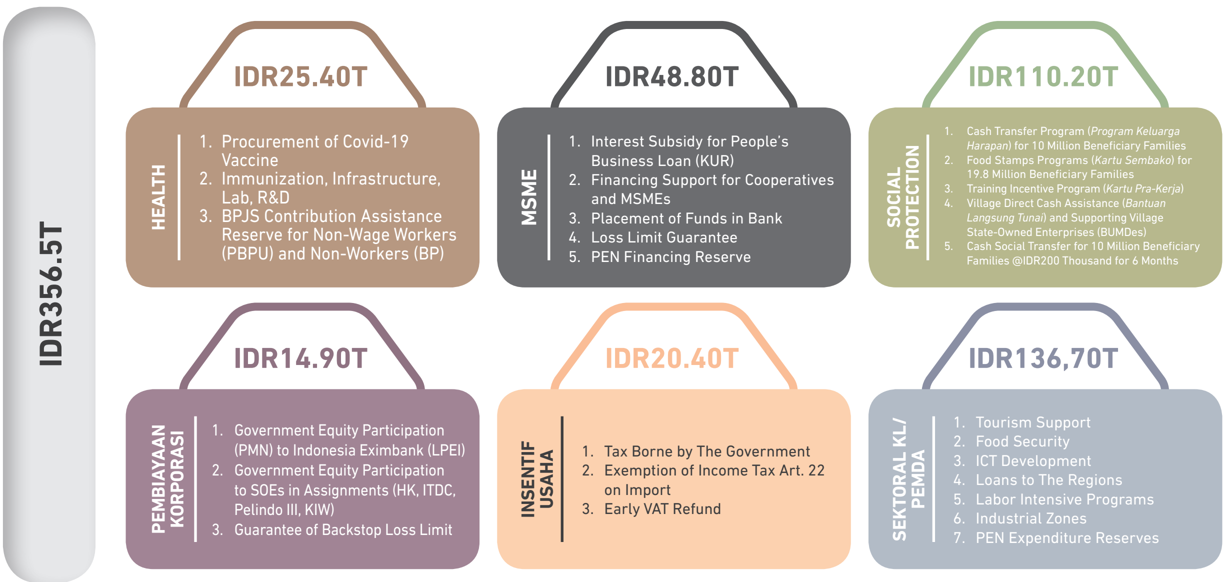
Furthermore, OJK will continue to periodically monitor the industry and try to find solutions to the problems that arise in the field that are often reported through OJK Call Center Contact 157 and Regional Office/OJK Office (KR/KOJK). In addition, if necessary, OJK will also issue supporting regulations for the implementation of the PEN programs, i.e if there will be new policies/programs issued by the Government in the future.

2. Monitoring and evaluation of the stimulus policies and the transition to normalization of the prudential relaxation policies

During the implementation period of the stimulus policy, OJK actively monitors and evaluates the implementation of these policies in order to ensure the smooth running of the program and provide input and policy improvements. Looking forward, monitoring will continue to be carried out proactively and evaluation of stimulus policies will also be carried out as one of the considerations for further policy formulation and policy normalization.

THE NATIONAL ECONOMIC RECOVERY (PEN) PROGRAM WILL CONTINUE IN 2021

In order to maintain the momentum of economic recovery



Source: Ministry of Finance, August 2020.
https://www.kemenkeu.go.id/publikasi/berita/6-arah-kelanjutan-pen-dalam-rapbn-2021/

OJK also proactively monitors and coordinates not only at the central level, but also at the regional level through the regional offices or OJK offices. This effort is made to accelerate the identification process as well as to overcome the various constraints specific to certain regions. OJK believes that a gradual and sustainable economic recovery in the regions will in turn support a more solid and faster national economic recovery.

After the evaluation of policy implementation and taking into account developments in the pandemic and the national economy, in the short-term, OJK will continue to implement relaxation to the credit/financing restructuring policy as a precautionary measure to support the decline in the quality of restructuring debtors due to Covid-19 pandemic conditions. Restructuring extensions are given selectively based on the assessment of FSIs to avoid moral hazard.

Furthermore, to ensure the sustainability of the stable and sound FSS business, the industry is directed to continue to look into the adequacy of Allowance for Impairment Losses (*Cadangan Kerugian Penurunan Nilai* or CKPN) in anticipation of deteriorating credit quality.

The industry must consider this aspect in managing capital stock according to the risk profile, including in determining the dividend/bonus to the shareholders.

3. Increase consumer demand, MSMEs development and job creation

As previously discussed, pandemic management policies have a direct impact on the economic downturn, especially from the demand side. Weak demand during a pandemic is an issue that requires policy intervention. In this case, OJK will always support programs initiated by the Government in order to support demand creation, MSME development and job creation through coordination; business link and match; and moral suasion with FSIs.

In addition, OJK will accelerate the economic growth in the regions in order to support economic activity, including by facilitating the acceleration of absorption of Government spending (State Budget/Regional Budget).

4. Accelerating the development of an integrated digital economic and financial ecosystem

Along with changes in consumer lifestyles and needs which prioritize non-physical/digital services, in addition by the new normal during the Covid-19 pandemic which has limited human physical activities, further emphasizes the urgency to accelerate the transformation and digital economic and financial ecosystem.

Improving services through digital channels is one of the development focuses carried out by several industries that are ready to adapt to consumer needs. As a regulator, OJK supports the acceleration of the transformation and development of the digital ecosystem in the FSS through accommodative policies.

Several policies in the Banking sector that will be taken in to account in the Short-Term are the Digital Banking Transformation Blueprint, the implementation of digitalization for all Sharia Banking business groups as well as provisions related to Banking synergy under single ownership for the development of Islamic Banking and providing incentives in fulfilling the required documents through optimizing the integrated role of the governance committee.

In the Capital Market, to support digital transformation, OJK continues to encourage the opening of wider access to MSMEs through equity/securities crowdfunding and opening access to finance by increasing the offering portion to the public through the e-IPO system. In addition, the implementation of the General Meeting of Shareholders electronically will also be continued. In the NBFI sector, OJK will encourage the digitization of Micro Waqf Banks and prepare regulation framework in relations to digital insurance and reinsurance brokerage services.

To accelerate licensing requirements, OJK continues to carry out Business Process Reengineering of the licensing processes that are running at OJK, both in terms of simplification of business processes and improvements of the information technology.

a. In terms of simplification of business processes, analysis and mapping of types of licensing in all sectors (Banking, Capital Market and NBFIs) is carried out, which will then be simplified to achieve optimal SLA.

b. In terms of information technology, the upcoming effort to recommend product licensing to be done automatically (using Bot Analysis technology, Optical Character Recognition, or the use of other technology), so that OJK can focus more on monitoring the performance of each FSI. In addition, OJK has implemented a digital signature function which is applied to several types of licenses in the OJK licensing application. This certainly have answered the challenges in the midst of the Covid-19 pandemic. In the future, OJK will continue to expand the application of digital signatures to all types of permits owned by OJK.

To encourage technology-based supervision, at an early stage, technology has been implemented for the surveillance needs of the FSS. Several technologies that will continue to be developed include Banking supervision through OBOX, enhancement of the Capital Market supervision information system, and development of a supervisory information system for the non-bank financial industry.

In addition, cross-sectorally, OJK also have integrated the database of entities in the FSS through an application that allows supervisors to obtain all profile data up to the history of FSI entities, both individuals and legal entities, only by entering the parameters that is similar to a search engine. In the future, OJK will expand the data on all entities and increase scalability on the application.

5. Accelerating the reforms of the NBFI and Capital Market in order to maintain financial market integrity

OJK will continue to reform the NBFI and the Capital Market by enhancing supervisory tools, including through the use of technology and enhancing market conduct and governance arrangements in the Capital Market as well as enhancing prudential and governance arrangements for NBFI. In addition, OJK will also implement risk-based supervision in the Capital Market sector, particularly in monitoring the Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT/APU-PPT) programs for Custodian Banks, Appraisers, and Public Accountants, as well as increasing integration of data exchange in the Capital Market sector and NBFI sector.

The efforts to improve market integrity will continue to be made through a policy mix and coordination with all relevant stakeholders. This is necessary to maintain positive sentiment within the national financial industry so as to improve resilience in the event of normalization of policies, that has shown in various other countries that tend to cause capital outflows.

The short-term policy direction above needs to be supported by several structural policies that must be implemented immediately, including strengthening the capital and consolidation of the FSS, accelerating the digital transformation of the FSS, providing funding to priority sectors, MSMEs and regional development supported by guarantee programs by the Government, acceleration of licensing processes and acceleration of suptech implementation, effective communication and synergy with stakeholders to accelerate the national economic recovery.

Structural Framework 2021-2025: Enhance the Financial Services Sector Resiliency and Competitiveness

PILLAR 1: Strengthening Resilience and Competitiveness

The resilience and competitiveness of the FSS still needs to be improved amidst the various challenges outlined above. Strong resilience is required so that FSIs are able to face various shocks that may arise from economic turmoil. High competitiveness is also needed to cope with the tighter competition as a result of the regional economic integration process as well as the increasing number of new players in the FSS, especially in line with the rapid development of information technology.

Strengthening the resilience and competitiveness of the FSS will be carried out through:

1.1 Strengthening capital and accelerating consolidation of financial services institutions

A strong capital is a main requirement in increasing resilience and competitiveness. Capital provides a source of financial support in the implementation of FSI activities, both for business expansion and provision of adequate infrastructure as well as a cushion to absorb unexpected risks and losses, and a safety net in a crisis. In addition, strong capital can also support the health and stability of the FSS. Therefore, FSIs must have adequate capital. In order to obtain strong capital, there are several ways that FSIs can take, including increasing capital and accelerating consolidation.

In line with strengthening capital stock, OJK will foster capital requirements, especially for the Banking sector and several types of FSIs in NBFI (i.e. insurance, financing institutions, and microfinance institutions), along with the provision of appropriate incentives and/or disincentives. In addition, policies are also directed at accelerating consolidation in the FSS. Meanwhile, in the Capital Market sector, there will be a stratification policy for business activities adjusted to the level of capital. OJK will also closely monitor compliance with capital requirements.

In addition, OJK will also accelerate the consolidation process of FSIs, especially in the Banking sector. Consolidation is intended to create a strong FSS structure, larger scale of business, competitiveness through the capacity to innovate, and thus able to make a significant contribution to the economy.

Through this policy direction, FSIs are expected to have strong capital to absorb risks arising from all their business activities and be able to increase their business scale. In the end, the FSS can have stronger resilience and maintained financial system stability.

1.2 Strengthening governance, risk management and market conduct

1.2.1 Strengthening governance and risk management

Strengthening the implementation of governance and risk management is an important aspect for the current situation and for the future, considering the increasing risks and challenges faced by the FSS. This is particularly necessary in order to mitigate various risks arising from economic uncertainty, developments in information technology that have disrupted business models, as well as the increasing complexity of products and services in the FSS.

The regulatory framework for governance and risk management in the FSS is currently in place for banks, insurance companies, financing companies, and pension funds. However, the regulatory framework and its implementation still need to be refined to ensure that new risks arising from both the development of financial activities and products and the adoption of information technology can be effectively anticipated. In addition, the regulatory framework for governance and risk management also needs to be applied to other FSIs.

To that end, OJK will refine the regulatory framework for governance and management throughout the FSS. OJK will encourage FSIs to prioritize information disclosure, implement risk management certification obligations for managers and employees of FSIs especially in NBFI, and refine skills standards, practice standards, and code of ethics.

In addition, OJK will carry out strict supervision of the implementation of governance and risk management in FSIs, both individually and in integrated manner through preventive and law enforcement measures. Preventive measures are implemented through various forms of assessment and surveillance methods to ensure effective governance and risk management at FSIs. Law enforcement actions are carried out, among others, through the imposition of administrative sanctions as well as investigation and coordination with relevant parties in the event that any indication of irregularities is found that is contrary to the applicable provisions or contains a criminal element.

The implementation of good governance is expected to improve the performance of FSIs, build consumer confidence, and protect the interests of stakeholders through transparency, accountability, responsibility, independence and fairness principles. Meanwhile, a robust risk management is expected to be able to detect early risks arising from FSIs activities so that appropriate actions can be taken so that these risks do not cause losses that could interfere with the FSIs business continuity. Overall, the implementation of both is expected to build business integrity, spur long-term investment, and financial system stability so that in the end it will support sustainable and inclusive growth.

1.2.2 Strengthening market conduct

Supervision of market conduct (or what is also called discipline enforcement of market players) is carried out with the aim of ensuring the integrity of Financial Service Business Actors (PUJK) through the application of consumer protection principles in the product and or service cycle stages so as to elevate consumer and public confidence in the service sector finance (market confidence) and increasing the same rules of the game (level playing field) among PUJK in order to create consumer and public protection in support of financial system stability.

Market conduct supervision is a supervision of the PUJK behaviour in designing, compiling and conveying information, offering, making agreements, providing services for the use of financial products and/or services as well as handling complaints and resolving disputes in an effort to realize consumer protection.

To strengthen market conduct supervision, OJK prepared a Market Conduct Supervision Road Map that contains work programs for establishing credible market conduct surveillance. In the road map design, OJK will strengthen the regulation of market conduct supervision, market conduct supervision infrastructure, including adjustments to the organizational structure, strengthening of tools and equipment in the form of supervisory tools, development of monitoring and supervision information systems, preparation of guidelines (including standard agreements, summary product information and services, guidelines for financial service advertisements in print/digital media), as well as strengthening the quantity and quality of Talent in monitoring market conduct. On the other hand, the development of supervisory methodologies towards best fit and best common practices has been implemented by authorities in various countries by adjusting their capabilities and needs. In addition, another strategy that needs to be put forward is the implementation of coordination, cooperation and empowerment with stakeholders,

including with associations, academics, practitioners in the FSS in implementing consumer protection, among others by using the code of ethics and conducts which prevails among professions in the financial technology sector.

1.3 Synchronize FSS regulations and supervision by referring to the best practices and/or international standards

As described above, the FSS is increasingly integrated in terms of ownership, products and distribution channels. However, the regulation and supervision at the FSS is still not synchronized between one sector and another. This has resulted in regulatory arbitrage practices that could harm consumers and the public and aggravate the vulnerability of FSS. To minimize the practice of regulatory arbitrage, it is necessary to harmonize policies in the FSS, especially in several sub-FSS that have similar characteristics of their nature of business (such as managing public funds).

To that end, OJK will align the regulatory framework between FSS so as to narrow the regulatory gap between sectors. This step will be taken, among others, through re-mapping of regulatory gaps in each sector, followed by strengthening the regulatory framework in certain sectors, and strengthening effective regulations to create fair competition in the FSS. In addition, OJK will also enhance the supervision methods throughout the FSS.

In synchronizing the provisions and supervisory approach, OJK will refer to applicable international best practices and standards by taking into account national interests and developments in the FSS in Indonesia (best fit). The implementation of these international standards will, among others, be carried out in terms of regulation, reporting and supervision at the FSS, including those related to the implementation of the AML-CFT regime in the FSS.

The efforts to narrow the regulatory and supervisory gaps in the FSS are expected to be able to minimize or mitigate risks arising from regulatory arbitrage practices, reinforce the level playing field and ensure fair business competition.

1.4 Strengthening integrated supervision of financial conglomerates and cross cutting issues

OJK considers it is necessary to strengthen cross-sector supervision and Financial Conglomerates by optimizing coordination of supervision of activities across financial sectors (cross cutting issues); encouraging supervision of technology-based financial conglomerates directed at using suptech and supported by enhancement of an integrated supervisory information system and use of big data; and adjusting the supervision methods of the Financial Conglomerates that focus on the FSI group that has a significant influence on the FSS.

In addition, to strengthen supervision of Financial Conglomerates, it is necessary to support the legal basis of the Financial Holding Company (FHC). In the future, OJK will encourage FHC regulation in the laws and regulations that will be prepared by the Government.

PILLAR 2: Financial Services Ecosystem Development

The FSS has a strategic role in the national economy, both as a source of development financing to safeguarding financial stability. In line with the efforts to transform the national economy to achieve high, inclusive and sustainable economic growth, it is expected that the FSS can further optimize its role. In this regard, the FSS must be able to become a catalyst that drives economic growth, among others by accelerating financial markets, providing alternative sources of financing and investment, boosting efficiency, and expanding market reach.

Therefore, the development of a financial services ecosystem that involves all FSIs, the real sector, and other related elements is urgently needed. The development of this financial ecosystem must be in line with the established development plans so as to create synergies in achieving the goals of national economic transformation. Of course, this ecosystem development covers all sectors, from Banking, Capital Market, to NBFI.

In line with this, OJK will encourage the development of the financial services ecosystem by:

2.1 Increasing the role of the FSS in supporting priority economic sectors, MSMEs, job creation and regional development

The FSS has a vital role in encouraging national economic growth. The linkage between the FSS and economic growth is demand-following, namely the economic growth situation encourages demand for the FSS to facilitate the allocation of financial resources (Bappenas, 2019).

In the 2020-2024 RPJMN, the Government emphasizes the importance of the FSS in supporting the financing of priority economic sectors, MSMEs, and regional development to achieve the economic growth target of an average of 5.7% per year (moderate scenario). In line with this, the Government has determined several priority economic sectors, including five priority economic sub-sectors which covers food and beverage industry, textiles and apparel, automotive, electronics, and chemicals and pharmaceuticals. The Government has also set a number of strategic projects (major investment projects) that will require substantial funding from the FSS. In addition, the MSME sector as the backbone of the economy shoud be developed further and this indeed requires financial support from the FSS. Regional development in the context of economic equality also requires substantial financing from the FSS.

To that end, OJK directs all market players in the FSS to take an optimal role in financing priority economic sectors and strategic projects. OJK through TPAKD will coordinate to provide fiscal and non-fiscal incentives in the regions. OJK will also continue the Capital Market development policy to finance long-term development programs, including encouraging and facilitating the issuance of debt/sharia-based securities, Limited Participation Mutual Funds (RDPT), Asset Backed Securities (EBA), Real Estate Investment Funds (DIRE), Infrastructure Investment Fund (DINFRA), derivative instruments in the form of Indonesia Government Bond Futures (IGBF), and Non-Public Offering Debt Securities such as Medium-Term-Notes (MTN).

In addition, OJK will reinforce its supervisory action role to encourage the distribution of financing by FSIs to priority economic sectors and strategic projects that are tailored to the capacities and characteristics of each FSI.

In order to encourage the development of MSMEs, OJK will take several policies. First, OJK directs all FSIs to expand services to MSMEs, especially in remote rural areas. Second, OJK continues to support the distribution of People's Business Loan (KUR) with various schemes. Third, OJK and the Indonesia Stock Exchange will improve access to MSME financing through the Capital Market, especially by listing them on Acceleration Boards, business incubators programs and accelerating the process of Electronic Registration of Public Offerings for Issuers with small or medium scale assets (E-Registration). Fourth, OJK will continue to optimize special MSME programs such as Micro Waqf Bank and Micro Insurance. OJK also continues to encourage financing for social assistance beneficiaries (*Program Keluarga Harapan*) through the Mekaar program by PNM, credit guarantees by guarantee institutions, financing for housing development for low-income communities by SMF, financing through mortgages and financing for export-oriented MSMEs by the Indonesia Exim Bank (*Lembaga Pembiayaan Ekspor Indonesia* or LPEI). Fifth, OJK supports the formation of a financial ecosystem that involves cooperation between FSIs in serving the financial needs of MSMEs.

Sixth, OJK will strive to strengthen the role of guarantee institutions at the central and regional levels to support FSI financing to MSMEs. Finally, OJK will also coordinate with related ministries and agencies to improve the empowerment of MSMEs, especially those that are export-oriented and import substitution.

As an effort to foster regional economic development, OJK will adopt several policies. First, OJK encourages and facilitates the issuance of Regional Bonds to fund projects in regions that have a multiplier effect. Second, OJK will pay special attention to the efforts of the guarantee scheme for development projects in the regions. Finally, OJK will encourage the optimization of the role of Village State Own Enterprises (BUMDes), especially through the BUMDes center which is strengthened by three pillars, namely the institutional and business pillars (BUMDes that already have legal entity legality are encouraged to establish village potential-based business units through business matching facilitation to be able to be the drivers the village economy); pillars of financial access (optimization of economic activities of rural communities through the availability of financial access at BUMDes) and pillars of digitization (in addition to acting as an offtaker for village community production, BUMDes also facilitates village communities to access markets through a market place platform developed through the BUMDes ecosystem, namely BUM-desa online).

2.2 Establish FSS integration to add value of Sharia Finance in the development of halal industry and sharia economic ecosystem

The Indonesian Sharia Finance industry continues to experience relatively stable growth, both in the Sharia Banking sector, the Sharia Non-Bank Industry and the Sharia Capital Market. The Indonesian Sharia Finance industry has great potential to grow and expand its services and reach to serve the wider community, both muslims and non-muslims.

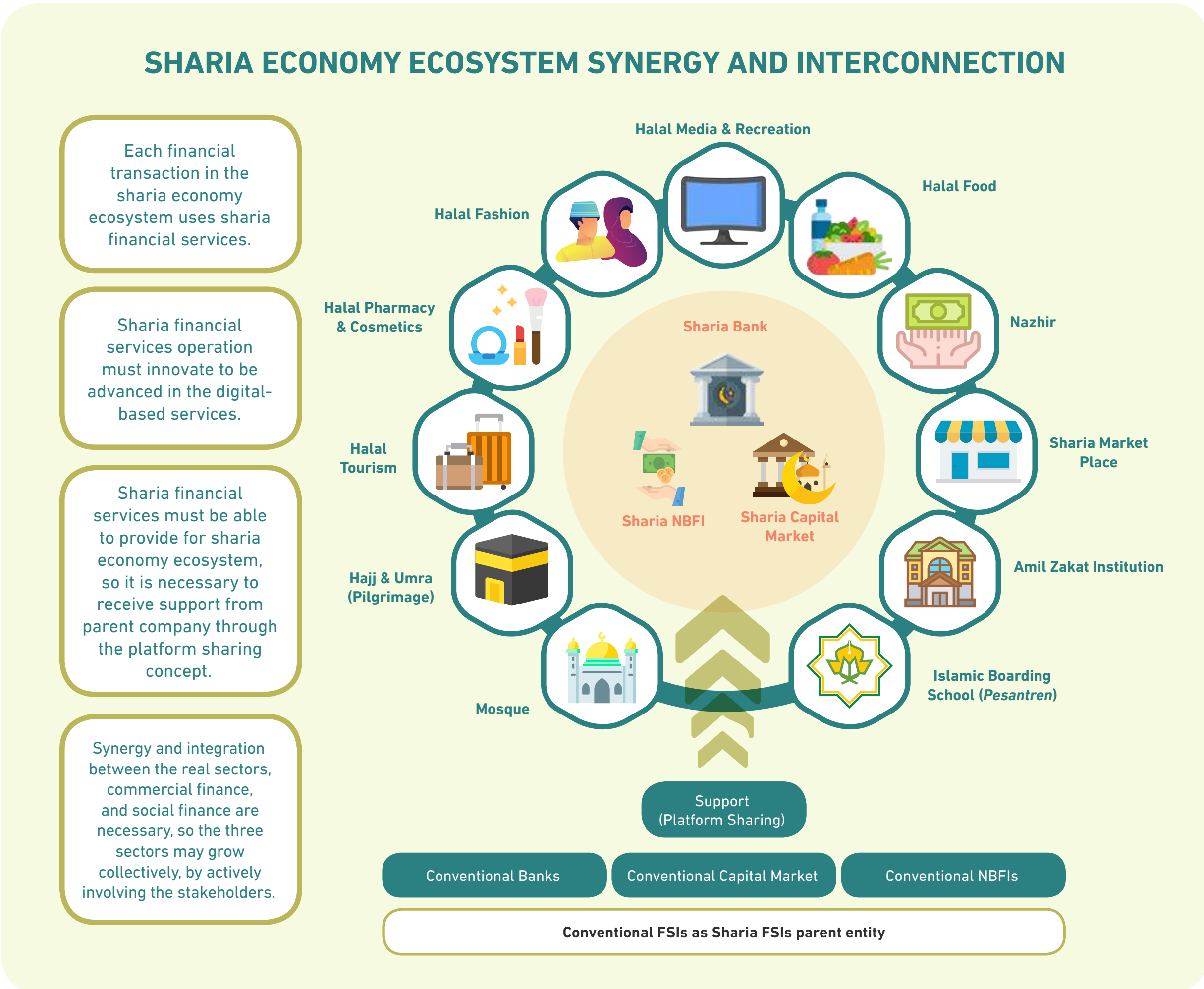
The development of the Indonesian Sharia Finance industry focuses on 3 main things, namely strengthening sharia financial institutions, creating sustainable sharia financial demand, and establishing an integrated sharia financial ecosystem with the halal industry.

To encourage Islamic financial institutions to be highly competitive, OJK will continue to strengthen sharia financial institutions by prioritizing product excellence and differentiation as well as strengthening capital, talent and cutting-edge IT. The limited growth of the Sharia FSS may indicate the need for relaxation of regulations to support the competitiveness of market players in the Sharia FSS in competing at the international level. This requires improving customer-oriented service excellence so that Islamic FSS can grow and compete with conventional FSS.

Sharia economic and financial growth must be supported by strengthening the halal ecosystem, through infrastructure support and upstream to downstream Sharia financing. OJK encourages the growth of Sharia FSIs to be able to serve people with a wide spectrum of needs, ranging from sharia microfinance institutions (BMT), Sharia Rural Banks, Sharia Fintechs, Sharia Commercial Banks, Non-Bank Financial Institutions (insurance companies, financing institutions, pension funds, and Sharia-specific FSIs), as well as various Islamic Capital Market instruments (stocks, sukuk, sharia mutual funds, sharia ABS, sharia DIRE, syariah DINFRA, sharia crowdfunding). The distribution of funds will be used to finance the development of the halal industry, including tourism, renewable energy and food and beverage, as well as long-term infrastructure projects.

To support the growth of Sharia Finance broadly, OJK continues to support the Micro Waqf Bank initiative which aims to provide access to Sharia Finance to MSMEs and in the long run to empower MSMEs to be independent and grow sustainably. OJK invites sharia financial market players to carry out promotions to the wider community on an ongoing basis. Furthermore, OJK supports the efforts to reinforce the role of sharia financial products and services, both from the sharia Banking sector, the Syariah NBFI, and the Sharia Capital Market in fulfilling public financing needs, such as public housing development, education, health, procurement of Hajj needs, and financing infrastructure. In addition, OJK will take several policies in order to encourage sharia FSIs to support the development of halal industrial estates.

The policy mix is carried out to achieve Indonesia's target of becoming the world's center of Sharia Finance, by optimizing the opportunities for Indonesian Sharia Finance with its large Muslim population.



2.3 Expand the financial access and foster public financial literacy

2.3.1 Expansion of financial access

Access to finance still needs to be improved, especially in some areas with low levels of financial inclusion. Consequently, OJK will collaborate with relevant stakeholders through several main programs such as KEJAR (*Satu Rekening Satu Pelajar*/One Student One Account) program; Regional Financial Access Acceleration Team (*Tim Percepatan Akses Keuangan Daerah* or TPAKD) program; sharia financial inclusion program; and expansion of distribution channels for Capital Market and NBFI products.

KEJAR Program
Currently there are still limitations in which not all students are interested in having SimPel (*Simpanan Pelajar*), and not all student age children receive formal education at school. In the future, KEJAR program will be strengthened through product development, such as the transformation of the regular SimPel into a savings product with the same characteristics as regular savings. It is even possible to develop it into a digital platform, but with requirements that are still facilitated as SimPel savings products, so that students who have regular savings will eventually be interested in using SimPel. To reach students in the pesantren, SimPel was transformed into *Simpanan Santri*.

TPAKD Program
OJK will also strengthen the coordination with local Governments in facilitating the formation of TPAKD in all Provinces and Districts/Cities. TPAKD will focus more on financial inclusion in terms of funding and lending. In terms of funding, saving is defined as more than just saving in a bank but can also be optimized to carry out Capital Market transaction activities, such as buying stocks, bonds, mutual funds and pension funds. From the lending side, the TPAKD is focused on exploring the potential of the regional economy, micro and small enterprises, as well as facilitating business matching. The TPAKD is expected to also function as a medium for the community in accessing various financial products/services, including facilitating Government programs such as Mekaar and UMii.

In addition to accelerating its formation, OJK launched a TPAKD Roadmap which will serve as a guideline for implementing the TPAKD program in 2021-2025. The roadmap will contain quantitative parameters that will function as key success indicators for the TPAKD that serve as the basis for monitoring and evaluation. The TPAKD 2021-2025 roadmap will be thematic in nature, adjusted to the characteristics, local wisdom and needs of each region.

Sharia Financial Inclusion Program
In order to realize the vision of Indonesia as a World Center for Sharia Finance, it is necessary to strive for the improvement of sharia financial inclusion index in Indonesia. As a first step, it requires optimization of development, both the development of unique sharia products that are highly competitive and able to meet the needs of the community, as well as strengthening the talent capacity of Sharia Financial Services Institutions in marketing sharia financial products and providing excellent service to consumers.

The introduction of sharia financial products needs to be continuously carried out massively and periodically in order to strengthen public awareness. For this reason, one strategy that is encouraged to be carried out by all stakeholders of Sharia Economics and Finance is to carry out the National Campaign for Sharia Economics and Finance. OJK also encourages sharia financial market players to continue to promote Islamic financial products and services through various media and activities besides the National Campaign program.

In addition, various efforts to improve access to financial products and services should be continuously improved. Distribution channels for sharia financial product offerings need to be expanded by utilizing information technology, including through synergies with fintech and e-commerce.

Expansion of Distribution Channels
In order to improve financial inclusion, OJK will encourage market players to use digital platforms to provide their financial products and services so that they can reach all people in Indonesia.

Taking into account the low level of financial inclusion in the Capital Market, OJK will accelerate the improvement of access to finance in the Capital Market. This will be done by encouraging the formation of Regional Securities Companies and expanding the distribution channels for micro investment products through the *Laku Pandai* (Branchless Banking) operating bank.

2.3.2 Increasing public financial literacy level

Accelerating public financial literacy needs to be directed not only to enrich public understanding of various financial products and services, but also to raise awareness of the importance of seeking complete information about these financial products and services. This improvement in financial literacy also includes improving financial management skills. A more massive acceleration strategy for financial literacy requires collaboration of all parties, not only OJK and FSIs, but also all stakeholders including related institutions and agencies.

Accelerating financial literacy needs to be focused on its implementation in areas with low levels of financial literacy, and a target approach to groups of women/housewives, MSMEs, including professions that receive cluster KUR distribution, such as farmers and fishermen. Financial literacy material is emphasized related to the financial industry with low financial literacy, the risk of financial products that are relatively complex/hybrid, financial management and investment vigilance.

Accelerating educational activities also need to be supported by adequate financial literacy infrastructure. To that end, OJK will develop a national database platform for financial literacy and inclusion data centers. The platform will contain complete, comprehensive financial literacy material and provide simple financial management guidelines for individuals, families and MSMEs. This platform will be able to make it easier for the public to access various financial information, as well as being a reference for Financial Service Business Providers (*Pelaku Usaha Jasa Keuangan* or PUJK) and other institutions in advancing strategies to improve financial literacy and inclusion in various regions. Thus, the platform is expected to encourage equal distribution of financial literacy in various regions.

2.4 Strengthening consumer protection in the financial services sector

OJK will strengthen consumer protection in the FSS. This is carried out, among others, through the development of an integrated Consumer Protection Portal Application (*Aplikasi Portal Perlindungan Konsumen* or APPK); arrangements regarding the establishment of an unauthorized return of profits mechanism (*Pengembalian Keuntungan Tidak Sah* or PKTS) and disgorgement fund (*Dana Kompensasi Kerugian Investor* or DKKI) aimed at minimizing investor losses in the Capital Market; ensuring the implementation of disgorgement funds aimed at minimizing investor losses in the Capital Market; encouraging the establishment of a policy guarantee program as part of the reform of the NBFI; and establish an Integrated Alternative Integrated Dispute Resolution Institution (*Lembaga Alternatif Penyelesaian Sengketa Terintegrasi* or LAPS *Terintegrasi*).

As part of the efforts to protect consumers and the public, OJK will strengthen the Investment Alert Task Force (*Satgas Waspada Investasi* or SWI) to address illegal activities in the FSS. This strengthening is done by utilizing information technology.

2.5 Accelerating financial market deepening

A deep financial market is indispensable to promote high growth, inclusive and sustainable economic development. However, currently, the national financial market is still relatively shallow, thus affecting the achievement of the national economic growth target.

To meet development financing needs, the national FSS is still facing challenges in increasing the availability and diversification of financial instruments at competitive prices. Limited financial instruments, especially long-term instruments, cause mismatch and reducing the issuer's flexibility to obtain funding that is in accordance with the character and tenure of the assets to be financed. Limited supply of funds and the tendency to buy and hold by institutional investors have resulted in low market liquidity. Limited supply of the FSS instruments also cause the high cost of capital.

In order to overcome these challenges and in line with the National Strategy for Financial Market Development and Deepening 2018–2024, OJK will accelerate financial market deepening through a policy mix with the development of the following main areas:

First, OJK will accelerate the development of market infrastructure. Primary market efficiency through an electronic Initial Public Offering (e-IPO) process and market makers in the secondary market will be carried out in parallel with the simplification of business processes (streamlining) which will speed up the IPO process. E-IPO is expected to accelerate the IPO process, open up wider access to investors and address the issue of transparency in price formation in public offerings. To improve the distribution channel of securities, OJK will issue regulations to enable market players to act as channeling agents of Securities Companies with due regard to the characteristics of these market players.

To develop derivative transactions by increasing transaction efficiency, the Capital Market infrastructure will be encouraged to function as the Central Counterparty Clearing (CCP) for Over The Counter (OTC) money market derivatives. This is an effort to mitigate risks to maintain financial market stability by increasing market transparency. To encourage mutual fund growth, OJK will make use of the Investor Fund Unit Account (IFUA) in S-INVEST as a means of payment for Mutual Fund subscription/ redemption transactions.

Second, OJK will encourage the development of a deep and broad domestic investor base. A broad and diverse investor base drives financial market liquidity, depth and stability. To amplify market liquidity, OJK supports increased participation of institutional investors to invest in equity and EBUS instruments, particularly long-term instruments such as DINFRA. Collective investment contracts (CIC) such as mutual funds can lower the cost of risk diversification, and allow retail investors to have a more diversified investment portfolio. The expansion of the investor base will be carried out, among others, through the establishment of Regional Securities Companies, which will improve the diversification of retail investors base.

Third, OJK will support the diversification and quality improvement of financial instruments. To channel the capital supply that has been funded in the Capital Market, OJK will actively strive to augment the number and quality of issuers, particularly in the real sector and long-term projects.

Fourth, in order to expand the scope of Capital Market products and activities, OJK will encourage the use of a joint funding platform, including the development of existing Equity Crowd Funding and Project Crowd Funding. Furthermore, to improve product competitiveness on a global scale, OJK will strive to promote equalization of tax treatment for Collective Investment Contract products listed on the stock exchange, as well as other instruments including CIC-ABS, RDPT, DIRE, and DINFRA. In addition, OJK will also optimize investment management products in the form of Collective Investment Contract for Public Housing Savings (KIK-Tapera) to collect and provide long-term, sustainable low-cost funds for housing finance in order to meet the needs of decent and affordable housing.

Finally, OJK will continue to increase financial market liquidity, by encouraging price transparency in both the primary and secondary markets through information disclosure. In addition, OJK will continue to strive to improve market integrity by enforcing market discipline by taking into account investor protection.

2.6 Supporting FSI business expansion to carry out multi-activities business

The demands for financial products along with the development of the industry have encouraged FSIs to seize opportunities and adapt to multi-business activities. One example of this multi-activities business is universal Banking and investment Banking.

The characteristics of universal banks are generally reflected in the activities of banks that offer not only Banking products (such as savings, deposits, credit) but also other comprehensive financial products and services. These various financial products and services can then be tailored to the needs of retail and commercial consumers, as well as the needs of investment services such as asset management, investment advisory and securities transactions. In this form, banks can also offer underwriting and financial analysis services.

Currently, the operations of each FSI are limited according to the scope of certain activities. Meanwhile, several FSIs already have subsidiaries that provide other financial services under one ownership group. This shows the tendency of FSIs to provide services like universal Banking, such as selling insurance and mutual funds through banks and the emergence of hybrid products in the market. The absence of a clear legal umbrella framework has led to regulatory arbitrage which is used by the FSI to market these products.

In line with this, OJK will support the needs of FSI to continue to grow, including carrying out various business activities in accordance with the corridors of applicable laws and regulations. To that end, OJK will explore the prospect of implementing multi-activities business in the FSS, including the prospect of implementing investment Banking for Islamic Banking as an effort to attract investment from abroad and improve the competitiveness of Islamic Banking.

It is hoped that the exploration of the implementation of multi-activities by FSI will provide a broader alternative business model. These business model alternatives are expected to answer the needs of more varied and comprehensive financial products and services from the Government, retail, commercial consumers, and domestic and foreign investors, as well as improving the competitiveness of Indonesian FSS.

2.7 Increase the role of financial services in the sustainable finance to achieve the SDGs

The FSS cannot be separated from the demands to support sustainable development which is also in line with the achievement of the Sustainable Development Goals (SDGs).

Therefore, regulators always encourage the FSS to adapt to these demands by striving to reinforce the implementation of sustainable finance principles and facilitate sustainable economic activities. FSIs are expected to be able to implement environmentally friendly and sustainability principles in every decision-making process and in every business activity. Thus, in the long term it is expected that all financial service transactions in Indonesia will follow the principles of sustainable development.

In order to achieve this goal, a supportive ecosystem is needed. OJK is currently preparing an initiative to create a Sustainable Finance Ecosystem in Indonesia in collaboration with relevant ministries and agencies, as well as foreign donor agencies and international organizations. This ecosystem is expected to encourage the implementation of sustainable finance principles in order to reduce the impact of climate change and the achievement of other goals contained in the SDGs.

In this ecosystem, the role and contribution of the FSS is vital in accelerating the achievement of the expected goals. The FSS can, among other things, create the instruments or tools needed to improve green financing activities.

In addition, in order to create an effective ecosystem, the taxonomy of sustainable finance is an important aspect of the ecosystem. This taxonomy includes: i) a "green" definition of a project; ii) tools needed, such as certification bodies and rating that can assess environmental aspects and impacts of a project to be financed or bonds to be issued by the FSS; and iii) business activities that meet the minimum environmental requirements (safeguards). This taxonomy will also be drawn up together with relevant Ministries/Instutions in Indonesia, as well as other foreign and international institutions.

Furthermore, the social and governance aspects will also be encouraged to be implemented by the FSS, so as to create a comprehensive sustainable aspect, namely Environment, Social and Governance (ESG). As with the environmental aspect, it is also expected that in the future the Social and Governance aspects will be integrated in every business activity of the financial services industry in Indonesia.

As the regulator and supervisor of the FSS in Indonesia, OJK has begun to accommodate the principles of sustainable finance in its Roadmap and several regulations. OJK will soon launch the Sustainable Finance Roadmap Phase 2 which lays out important frameworks such as strengthening supervisory capacity related to aspects of sustainable finance implementation, incentive and disincentive mechanisms for FSIs, and other regulations that are expected to accelerate the achievement of the expected sustainable goals. In this regard, OJK will do several things, including issuing guidelines on ESG for FSIs and supervisors, building a reporting system and transparency of ESG implementation, and carrying out capacity building and institutional development.
In addition, OJK will continue to optimize international forums such as the Sustainable Banking Network and the OECD-Tri Hita Karana Forum as part of the efforts to establish a sustainable finance ecosystem.

PILLAR 3: Digital Transformation Acceleration

Digital transformation is something that cannot be avoided in this digital economy era. To that end, regulators and Governments continue to support and facilitate the development of an ecosystem that supports digital innovation and transformation. This is stated in the Government's strategic target to develop the digital economy as one of Indonesia's competitive advantages.

Along with the development of the digital economy, FSIs must be able to adapt to changes in the business environment in order to continue to compete and be able to answer market needs for fast, easy, affordable, and reliable financial services (consumer oriented) and improve their efficiency.

Consequently, FSIs need to immediately initiate and accelerate digital transformation within their companies as part of their business strategy or even their core values. This transformation certainly needs to pay attention to the suitability of the characteristics of the business. The transformation needs to be carried out in terms of products, processes and business models as well as human capital and leadership within FSIs. Cooperation and collaboration with new players and technology service providers who have the expertise and are able to innovate are also important to consider as a future business strategy.

The technological transformation that will occur by the FSS will have an impact on changes in the world of work. On the one hand, there will be manual and cognitive work being replaced by machines and algorithms, or even fully automated. On the other hand, the adoption of this technology creates new jobs and redefines various tasks. These two phenomena ultimately lead to a substantial transformation of the future labor market.

Indonesia currently faces major challenges in terms of the quality and expertise of the workforce. Research by McKinsey (2018) shows that Indonesia is still experiencing a shortage of high quality talent which is much needed in the development of the digital economy. The high quality talents include digital professionals, digital facilitators, and digital savvy leaders. The four highest talent shortages needed to support digital transformation in the FSS (including fintech) are tech and software, product management, design and marketing (E&Y, 2018).

On the other hand, the development of increasingly complex financial products and services is inevitable and demands more talent in the FSS who have expertise related to financial businesses such as risk management, and adequate understanding of the products and services offered, especially complex and hybrid products.

The challenges faced in carrying out digital transformation above are certainly not limited to the matter that have been mentioned and are not only felt by Indonesia. Therefore, regulators need collaborative research with experts and practitioners. Thus, regulators can respond to market developments with the right approach and policy (research based policy).

Thus, several policies to accelerate digital transformation will be carried out by:

3.1 Support FSS digital transformation innovation and acceleration

Balanced policies are needed to encourage innovation and use of advanced technology in transforming the business and services of FSIs. This policy will open wide opportunities for FSIs including fintech to innovate and carry out digital transformation by taking into account healthy competition and consumer protection.

A holistic and balanced strategy has been implemented to create an environment conducive to innovation while ensuring the resilience of new players offering new and innovative products, services and business models at the FSS. This is implemented through the regulatory sandbox, a principle-based regulatory framework so that it is agile to business dynamics and innovation, monitoring of market conduct in collaboration with associations, OJK Infinity (OJK Innovation Center for Digital Financial Technology) which functions as a center for learning and innovation for fintech, a means of coordination and collaboration with key stakeholders, and a regulatory sandbox laboratory.

In an effort to balance the benefits of innovation and the various potential risks, OJK has begun to review the rapid development of the information technology-based lending and borrowing service business, "peer to peer lending". Therefore, OJK in early 2020, temporarily suspended new peer-to-peer lending fintech registrations in order to allow time for improving the supervisory system and improving the quality of the peer-to-peer lending industry, including from a prudential side (risk management, governance), business competition, and its contribution to increasing financial inclusion, especially for regions with low financial inclusion.

Several policies that will be carried out in the future, including optimization of the regulatory sandbox and OJK Infinity, as well as supporting product, service and business model innovation by FSIs, including through digital transformation. In addition, OJK also encourages collaboration of actors in the FSS to make innovations that can improve efficiency and expand service coverage for the public.

The regulatory sandbox will continue to be emphasized as a trial mechanism to assess the reliability of products, services, processes and business models as well as risk management and governance applied by innovators based on predetermined criteria. These innovators are not limited to new unregulated players but also (regulated) FSIs. In addition, the regulatory sandbox will also be revitalized in order to have a clear exit policy/follow-up policy for registered entities and to ensure that product, service and business model innovation provide added value to consumers (consumer benefits) while still observing the principles of consumer protection. This, among others, can be done through testing which is not only analyzed by regulators and experts, but also measured by the response/feedback from consumers using the specified criteria.

OJK Infinity as an innovation hub will continue to be optimized its use as a means of exchanging ideas, building networks, and encouraging cooperation and collaboration between stakeholders in the digital financial ecosystem. Some of these stakeholders include regulators, FSIs (incumbent), new players (fintech start-up), technology service providers/enablers (such as aggregators, e-KYC providers), other business actors (entrepreneurs), and potential investors, both domestic and foreign investors.

In addition, OJK will continue to support accelerators and the private sector in providing incubators for fintech start-up companies. In order to increase competitiveness and maintain the resilience, FSI are encouraged to increase efficiency by using technology intensively in their business processes. Technological support enables the financial services industry to serve consumers more broadly, and is cost efficient. The digital financial era requires the FSS to be more adaptive and innovative by optimizing technologies such as blockchain, cloud computing, and Artificial Intelligence (AI).

FSIs will be encouraged to enhance innovation in the digital transformation process, including in this case encouraging Rural Banks to provide digital financial services. To achieve this, a close collaboration will be built between the authorities and FSIs, and FSIs with stakeholders in the digital financial ecosystem. In addition to providing accommodative policies for innovation and digital transformation, the authorities will also pay attention to the balance between positive impacts and risks arising from these innovations to ensure that the risks are well managed with appropriate and adequate supervision and provide added value to consumers, the economy and national financial system.

The implementation of these policies is expected to create a conducive environment for FSIs and new players to innovate and compete in a healthy manner, while still paying attention to the corridors of the principles of consumer protection.

3.2 Developing regulatory framework which supports digital financial sector ecosystem

The role of regulators will be strengthened to maintain fair competition and ensure that new risks arising from developments in information technology can be properly mitigated and managed. The regulatory framework is expected to be able to create a level playing field for both FSIs and new players offering or marketing financial products and services.

The flow of digitalization requires the support of a regulatory framework so that it is not counterproductive to financial stability and economic growth. A policy response that can view the digital financial ecosystem holistically is very important. In addition, collaboration with competition authorities, data regulatory authorities and other legal authorities in the context of fostering and refining regulatory frameworks is essential. Several regulatory frameworks that are important to build in digital finance are related to information technology risk management and risk management standards (including cyber risk), cooperation between parties in digital finance (for example in the application of APIs), as well as the forms and methods of supervision applied, specifically in digital financial system (including prudential supervision/market conduct, and utilization of Supervisory Technology and Regulatory Technology).

The published provisions will be monitored regularly for their impact on innovation and supporting instruments in order to create adaptive and forward-looking provisions on the implications of technological developments and innovations that are currently developing and in the future. New risks that are likely to emerge will continue to be mitigated, potential development of new products, services, business models and forms of cooperation will be explored for improvements or amendments to future regulations (including open Banking, virtual Banking, insurtech, robo advisor, and project based crowdfunding).

Collaboration with relevant regulators, the FSIs associations and the fintech associations will also be strengthened. This will be done through coordination and synchronization of licensing policies, institutional arrangements and business activities, reporting, supervision, taxation, and accounting standards with regulatory authorities and the Government. Meanwhile, cooperation with associations will be directed towards ensuring that each actor upholds and implements the code of ethics and governance at the highest governance and ethical standards.

It is expected that this adequate regulatory framework will create a level playing field for the digital financial business with the FSS as a whole. In addition, an agile regulatory framework for the development of innovation in the FSS is also expected to direct responsible innovation and reinforce the competitiveness of FSIs in the digital era.

3.3 Improving human capital capacity in the financial services sector in line with the development of the digital industry

There is disruption to the need for skilled workforce in the digital era, increasing the need for improved capacity and quality of the workforce capable of creating, managing information technology devices, and utilizing information so that they can support the success of digital transformation at the FSS.

On the other hand, the increasingly complex and interconnected financial business requires adequate expertise of employees/leaders in FSIs. Meanwhile, there are still several FSS that still do not have a certification program. Therefore, certification of expertise for all FSS needs to be improved in the quality and quantity of certified experts.

Some of OJK's efforts include providing certification and various capacity building programs for employees and leaders of FSIs. In addition, OJK will also continue to encourage in-house capacity building and international certification carried out by each FSI.

In terms of certification, OJK will refine the design of the Development Master Plan (DMP) for certification of expertise related to the financial business, including information technology risk management at the FSS. The certification will be tailored to the needs of each function in each function, managerial level and the needs of each sector.

Meanwhile, the capacity building program for the FSS will be directed at encouraging FSIs to prepare their workforce in the digital era.

These programs will be designed collaboratively with experts from within and outside the country (universities, international institutions, industry associations) and adapted to the results of the mapping study of hard and soft skills needed in the digital era and various international best practices. Going forward, such programs will be launched on the Human Capital Development Roadmap which aims to raise awareness and change the human capital mindset in line with the use of digital technology in the dynamic FSI business; creating agile, competent, leading human capital with national and global competitiveness; and meet the skills demand and talent gap for human capital in the FSS which may be fulfilled from higher education background, training, association, institution, and market player.

The efforts to improve the capacity of the workforce at the FSS are expected to amplify the number of experts relevant to the development of information technology in FSIs, improve the quality of the ability of employees, managers and leaders in FSIs to run the financial business and manage risks well, and build digital savvy leaders of FSIs to support the acceleration of digital transformation.

3.4 Strengthening the role of research to support FSS digital innovation and transformation

New products, services and business models that emerge as a result of technological and business developments can have significant implications for regulatory, supervisory and governance mechanisms. An important lesson from innovation is the need to manage new risks that arise so that innovation can develop while still making a positive contribution to the economy and community and having a sustainable business.

Currently, research to support policies that drive digital transformation and innovation in products, services and financial models is still very limited. Meanwhile, in-depth research needs to be conducted to support the policies issued by regulators (research based policy) so as to reduce the potential for misapproachments that can lead to market distortions or unfair competition.

The research being carried out is expected to be directed at accelerating the digital transformation and encouraging innovation in the FSS. This will, among other things, be done by exploring the use of new technologies in financial products, services and business models as well as in evolving FSS supervision methods (development of suptech and regtech) and exploring key success factors in carrying out digital transformation of FSIs and regulators. Some of the research includes analyzing prospects for new products, services and business models (including the application of open Banking, virtual Banking, robo advisor, project based crowdfunding and insurtech), as well as providing infrastructure that can accelerate licensing and simplify various processes in the FSS (eg e-voting, e-IPO, etc.).

The improvement in research is expected to support the formulation of approaches and formulation of policies that will be taken by OJK to be able to support innovation and digital transformation in the FSS in order to create a highly competitive FSS.

In line with the acceleration of the digital transformation of the FSS, OJK will also strengthen supervision of the FSS to improve effectiveness and efficiency. The efforts to strengthen supervision need to be directed by utilizing information technology, which is also known as technology-based or suptech supervision. In line with this, strengthening supervision also needs to be done through business process reengineering and development of superior workforce in the digital era.

3.5 Accelerate the implementation of IT-based supervision (suptech) in OJK and use of regtech by FSS

3.5.1 Implementation of information technology-based supervision

Suptech is the use of innovative technology to support the performance of the authorities. Suptech encourages the performance of the authority to be data-driven while taking into account the complexity, size and readiness and development of the financial services industry that is supervised. The tools applied are very diverse, ranging from advanced data collection and data analytical tools such as Artificial Intelligence (AI)/Machine Learning (ML) to virtual assistance such as Chatbot.

Technology Generations Adopted by Financial Authorities

Basic → Advanced

	1G Technology	**2G** Data Architecture	**3G** Big Data Architecture	**4G** Big Data Architecture with AI-Enabled Solutions
Visualization	Static Report	Dynamic Dashboard	Business Intelligence	Business Intelligence + Action Plans
Analytics	Descriptive	Descriptive, Diagnostic,	Descriptive, Diagnostic, Predictive	Descriptive, Diagnostic, Predictive, Prescriptive
Storage	Spreadsheets, Desktop, Databases, Paper Records	Standalone Relational Databases, Data Warehouses	Cloud Computing, Data Lake	Cloud Computing, Data Lake
Processing	Manual Spot Checks, Statically Automated Checks	Automated Validation Checks Encoded in Web Portal	Straight Through processing Using Robotic Process Automation (RPA)	Straight Through processing Using RPA and AI Based Validation
Collections	Manual Submission (Email, Courier, Fax, etc)	Bulk (Web) Uploads	Automated Reporting (eg. Application Programming Interface)	Automated Reporting + Real Time Monitoring (eg. Chatbots)

Source: Bank for International Settlements, 2019

In general, the current OJK Suptech can be considered as at the 2G Architecture level or the early development stages in the terms of licensing, reporting, and supervision.

In terms of licensing, OJK has developed the SPRINT application to improve efficiency and transparency in the form of information on the licensing process in the FSS.

From the reporting side, OJK has developed OBOX and APOLO which utilize Host-to-Host mechanisms through File Transfer Protocol (FTP) and automated validation. Through this mechanism, OJK can automate data collection. In addition, OJK has also started to utilize Application Programming Interface (API) based reporting for Peer-to-Peer Lending Fintech reporting.

Meanwhile, in terms of supervision, OJK has developed a supervisory information system that automatically processes data reported electronically by FSIs. In addition, OJK has also utilized big data analytics in the context of identifying illegal investments through analysis of email complaints sent by the public and enforcing discipline by market players through monitoring FSS advertisements in various media using text mining and text analysis methods.

Looking forward, OJK will continue to develop suptech applications by using the latest technology in stages for licensing, reporting, and supervision.

Regarding licensing, suptech development will focus on SPRINT application by implementing digital certification and electronic signatures in collaboration with relevant authorities. The SPRINT application will be the only entry point for licensing of FSS market players at OJK.

Regarding reporting, SupTech development will be carried out by improving data collection using data pulling approach and real-time monitoring. The data pulling mechanism allows OJK to withdraw transactional data directly from the system of FSIs. For massive and bulk data, OJK will conduct a study on the methods and technology that can be used. In addition, OJK will coordinate with related institutions to support the automated reporting mechanism.

Regarding supervision, OJK will develop a supervisory information system by adopting advanced analytical tools such as Artificial Intelligence (AI)/Machine Learning (ML) to improve the efficiency and effectiveness of the supervision carried out. In addition, OJK will also develop a business intelligence dashboard in order to support supervisory decision making.

The implementation of the suptech requires several preparations that must be conducted simultaneously, including:

First, the application of Suptech requires technology compatibility from the financial services industry side in the form of Regulatory Technology (regtech). In encouraging the readiness of interoperability of regtech and suptech, OJK will encourage the financial services industry to prepare adequate technology infrastructure to support the plan. In addition, OJK will prepare appropriate provisions as the basis for utilizing regtech and automatic reporting.

Second, suptech implementation requires quality data (accurate, sufficient, and timely) so that it can run optimally. Based on this, OJK will develop an Enterprise Data Warehouse (EDW) and standardize taxonomy and metadata. EDW will integrate reporting data from the Banking, Capital Market, NBFI, and Consumer Education and Protection (*Edukasi dan Perlindungan Konsumen* or EPK) sectors to facilitate data exchange across sectors and across institutions. In its application, EDW will utilize Master Data Management (MDM) to ensure data governance and data validity. Taxonomic and metadata standardization is needed to create uniform definition and coverage of data in FSIs and OJK as a basis for integration and exchange of data/information. This standardization is expected to eliminate the inconsistencies and redundancy of data submitted by market players in the FSS to OJK. In addition, taxonomic and metadata standardization is expected to support data interoperability, integration of reporting across financial sectors, and simplification of the reporting process.

Finally, suptech implementation needs to be supported by adequate infrastructure, especially servers, storage, network and security with a very large capacity so that it is able to accommodate the data transmission process (both in terms of volume, variety, and velocity) from market players in the FSS.

3.5.2 Building excellent supervisory talent in the digital era

OJK believes digital transformation requires digital competency due to the significance of human aspect in FSS supervisory role. In the future, the focus of strengthening digital expertise is to build supervisors who are adaptive, risk-based mindset, agile, and diverse in skill sets. This focus is constructed to answer the challenges of limited digital expertise, especially data analytic skills.

Talent development collaboration with tech-companies is a supporting factor for the success of strengthening the workforce in the digital era. In addition, collaboration between OJK and international organizations is the main program in terms of talent capacity building in OJK and the financial services industry. Development materials and programs will be directed to technology issues in the FSS. This competency development is expected to create best-fit talent in accordance with the digital culture that will be built in the industry and by the regulators.

3.6 Perform business process reengineering to increase the quality of licensing, regulation and supervision

In principle, Business Process Reengineering (BPR) is a process carried out in order to improve work efficiency and create business processes that are in accordance with environmental conditions. The focus of change in business processes is to create strategies that are innovative and oriented towards the interests of the supervised industry so that performance parameters such as cost, quality, service and speed are improvised. Accelerating business processes and strengthening OJK's resilience will encourage the creation of a stable, more contributive and competitive, and inclusive financial services industry. In addition, accelerating the Business Process Reengineering will improve the organizational capacity towards a reliable organization to improve the quality of OJK's technology, organization and talent.

Against this background, OJK has formulated BPR initiatives in the spectrum of technology-based integrated licensing, reporting automation, and improving the quality of supervision by using integrated FSI data. This initiative is carried out in response to industry needs related to accelerating licensing and reporting efficiency as well as adjusting to technological developments. First, technology-based integrated licensing will be developed towards accelerating the unification of the FSI licensing process through one door using the system that has been built, namely SPRINT. In encouraging this, OJK promptly issued regulations related to electronic licensing as the initial basis for accelerating technology-based integrated licensing. Apart from accelerating integration, development will also be focused on accelerating the expansion of the scope of the licensing module opened in SPRINT. For optimal potential, the use of cross-FSIs integrated data combined with cross-agency data will be the main supporting source. The database for the Banking, Capital Market, NBFI and EPK sectors that have been integrated in the EDW has been designed to facilitate cross-sector and cross-institutional data exchange supported by analytical tools.

Second, the integration of reporting applications and accelerated data collection will be directed at the use of one-stop institutional reporting integration through APOLO. The purpose of this development is to simplify the various reporting applications currently available in OJK so that the provision of FSS data can be easier and faster to support the decision-making process at OJK.

Third, the formulation of a framework for improving the quality of supervision is motivated by the changing market environment that is increasingly digital-oriented. Improving the quality of supervision will focus on the depth of supervision of FSIs. Supervision will be directed to a specific, forward-looking, and risk-based-minded supervisory system to accommodate the increasingly complex and interrelated business model of FSIs. To accommodate the intended direction of supervision, tje OJK will also develop an integrated surveillance application. Through this system, the quality of supervision is expected to improve by taking into account the information/data and conditions across the FSS.

Collaboration and Cooperation between Stakeholders as Enablers

To achieve the main strategies outlined, OJK requires good collaboration and cooperation with all stakeholders, especially FSIs and relevant ministries and institutions.

To that end, OJK will strive to increase collaboration and cooperation among stakeholders, among others:

Harmonizing monetary, fiscal, macroprudential and national development policies

The FSS is closely related to fiscal, monetary, macroprudential policies and the payment system issued by the Ministry of Finance and BI within the framework of the Financial System Stability Committee (Komite Stabilitas Sistem Keuangan or KSSK). Therefore, coordination and harmonization of policies with the two authorities is highly important to ensure that the policies of each authority, whether stimulus or contractive in nature, can work effectively in the market and consistently.

In order to recover from the impact of the Covid-19 pandemic, OJK together with the KSSK members have issued various policies for national economic recovery. Going forward, OJK together with KSSK members will strengthen coordination and implementation of a policy mix to maintain economic stability.

In addition, collaboration and synergy between authorities are also needed to achieve the goal of inclusive and comprehensive economic development. This is particularly concerned with the high financing needs to support economic growth in the next five years, the Government's vision of creating an integrated sharia economic and financial ecosystem and creating a financially literate society and inclusive FSS.

Harmonization of regulations between authorities is primarily aimed at simplifying the compliance process (licensing and reporting), reducing the possibility of double taxation, and ensuring a business environment with fair business competition.

To that end, OJK will carry out intensive coordination and collaboration with BI to harmonize and simplify the licensing process and reporting mechanisms of FSIs (particularly regarding payment systems) so as to reduce redundancy of information submitted.

In addition, synergy and harmonization of policies with BI will also be implemented in the monetary context (Required Reserve and interest rates), coordination of supervision and the payment system. Policy coordination and microprudential and macroprudential monitoring will continue to be optimized and synergized. In the framework of digital economy and finance, OJK and BI will also synergize policy responses to new players (fintech start-ups) and FSIs that provide financial products and carry out payment system activities.

In terms of fiscal policy, OJK and the Ministry of Finance will intensify coordination regarding the alignment of tax rate provisions for tax subjects on similar financial instruments, tax imposition and regulatory harmonization for new financial products and services, including those without a clear tax scheme. In addition, coordination will also be carried out within the framework of implementing OJK policies that require fiscal incentives such as relaxation of corporate action for FSIs consolidation taxes.

Furthermore, to support national development, OJK will collaborate with relevant ministries to harmonize policies that will be enforced for the FSS. Some of these policies are related to funding major Government projects, credit to MSMEs, the efforts to build sharia economic ecosystem and finance, and implementing strategies to impprove public financial literacy and inclusion. Furthermore, OJK will also work together and facilitate FSIs in implementing the said policy.

Harmonization of regulations and policies with relevant authorities is expected to reduce compliance costs for FSIs, increase the efficiency of financial transactions on the market, provide consistency and legal certainty and improve the effectiveness of policies of each authority. In addition, good collaboration between OJK and related ministries/ institutions is also expected to be able to support and accelerate the achievement of national development targets.

Strengthening The Cooperation Between Stakeholders in Maintaining Financial System Stability at The National, Regional and International Levels

In order to maintain economic growth and financial system stability, cooperation and integration between OJK and institutions in Indonesia and cooperation between OJK and international institutions is required. The results expected by OJK from this cooperation are to reduce global economic uncertainty due to external shocks and spill-over effects that are influenced by world geopolitical conditions, fluctuations in commodity prices, and other external factors.

Considering that OJK and other counterparts such as BI and relevant Ministries/Institutions have cross-cutting issues in terms of financial system stability, cooperation at the national level is very important in preventing matters that could affect the stability of Indonesia's financial system. Prevention can be carried out by building common perceptions related to financial stability, adjustments to provisions in the financial sector, and schemes for providing economic stimulus. In addition, adjustments to domestic regulations with applicable international standards in the FSS must also be considered. Consequently, OJK will coordinate with the Ministry of Finance, BI, and IDIC in the KSSK to carry out prevention and resolution of financial system crisis to ensure state's interests and resilience in the economic sector.

Considering that Indonesia is part of the global financial community where the nature of its challenges faces are similar with those of other countries, OJK needs to collaborate with international standard setting bodies such as Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and other institutions. In addition, OJK will also cooperate with state financial authorities that are the world's financial centers, such as authorities in the United States, England, Singapore, Hong Kong, Japan and other countries. The advantage of this cooperation is that OJK will get a complete picture regarding the regulatory framework of the countries which can affect the economies of emerging countries such as Indonesia. Therefore, OJK can mitigate risks if there are high-impact policies issued from the relevant country.

Looking forward, increasing domestic, regional and global cooperation on the issue of financial system stability is needed to support the creation of a stable and resilient financial system in order to develop an effective and efficient financial services industry. At the domestic level, increased cooperation by KSSK is expected to maintain the stability of Indonesia's financial system. At the bilateral level, increasing bilateral cooperation with foreign financial service regulators (on a reciprocal basis) is expected to strengthen cross-border FSS supervision, regulation and licensing tools. On an international scale, regulations are expected to be the implementation of international standards based on best fit.

Abbreviation

API	Application Programming Interface
APOLO	*Aplikasi Pelaporan* Online OJK
APPK	*Aplikasi Portal Perlindungan Konsumen*/ Consumer Protection Portal Application
AML-CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASEAN	Association of Southeast Asian Nations
AUM	Asset Under Management
Bappenas	*Badan Perencanaan Pembangunan Nasional*
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BKPM	*Badan Koordinasi Penanaman Modal*
BLT	*Bantuan Langsung Tunai*
BP	*Bukan Pekerja*
BPR	Business Process Reengineering
BPS	*Badan Pusat Statistik*
BUMDes	*Badan Usaha Milik Desa*
BUMN	*Badan Usaha Milik Negara*
BWM	*Bank Wakaf Mikro*
CAR	Capital Adequacy Ratio
CCP OTC	Central Counterparty Clearing Over The Counter
CKPN	*Cadangan Kerugian Penurunan Nilai*
Covid-19	Corona Virus Disease 2019
DFI	Digital Financial Innovation
DINFRA	*Dana Investasi Infrastruktur*
DIRE	*Dana Investasi Real Estate*
DKKI	*Dana Kompensasi Kerugian Investor*
EBA	*Efek Beragun Aset*
EBUS	*Efek Bersifat Utang dan Sukuk*
ECF	Equity Crowdfunding
EDW	Enterprise Data Warehouse
ESG	Environment, Social and Governance
EWS	Early Warning System
FHC	Financial Holding Company
FSB	Financial Stability Boards
FSI	Financial Service Institutions
FSS	Financial Services Sector
FTP	File Transfer Protocol
GDP	Gross Domestic Product
JCI	Jakarta Composite Index
IAIS	International Association of Insurance Supervisors
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
KEJAR	*Satu Rekening Satu Pelajar*
KIK-Tapera	*Kontrak Investasi Kolektif Tabungan Perumahan Rakyat*
KOJK	*Kantor* OJK/OJK Office
KR	*Kantor Regional*/ Regional Office
KSSK	*Komite Stabilitas Sistem Keuangan*
KUR	*Kredit Usaha Rakyat*
KYC	Know Your Customer
Laku Pandai	*Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif*
LAPST	*Lembaga Alternatif Penyelesaian Sengketa Terintegrasi*
LA/NCD	Liquid Assets/Non-Core Deposits
LDR	Loan to Deposit Ratio
LPEI	*Lembaga Pembiayaan Ekspor Indonesia*
LPS	*Lembaga Penjamin Simpanan*
MDM	Master Data Management
MIC	Middle Income Countries
ML	Machine Learning

MPSJKI	Master Plan *Sektor Jasa Keuangan Indonesia*/ Indonesia Financial Services Sector Master Plan
MSME	Micro, Small & Medium Enterprises
MTN	Medium-Term-Notes
NAB	*Nilai Aktiva Bersih*
NIM	Net Interest Margin
NPF	Non Performing Financing
NPL	Non Performing Loan
OBOX	OJK-Box
OECD	Organization for Economic Co-Operation and Development
OJK	*Otoritas Jasa Keuangan*
OJK Infinity	OJK Innovation Centre for Digital Financial Technology
P2P	Peer-To-Peer
Pajak DTP	*Pajak Ditanggung Pemerintah*
PAJ	*Perusahaan Asuransi Jiwa*
PAU	*Perusahaan Asuransi Umum*
PBPU	*Pekerja Bukan Penerima Upah*
PEN	*Pemulihan Ekonomi Nasional*/ National Economic Recovery Program
PKH	*Program Keluarga Harapan*
PKTS	*Pengembalian Keuntungan Tidak Sah*
PMA	*Penanaman Modal Asing*
PMN	*Penanaman Modal Negara*
PNM	*PT Permodalan Nasional Madani*
PSBB	*Pembatasan Sosial Berskala Besar*
PUJK	*Pelaku Usaha Jasa Keuangan*
RBC	Risk Based Capital
RDPT	*Reksa Dana Penyertaan Terbatas*
Regtech	Regulatory Technology
RIM	*Rasio Intermediasi Makroprudensial*
RIP	*Rencana Induk Pengembangan*
ROA	Return On Assets
RPJMN	*Rencana Pembangunan Jangka Menengah Nasional*/National Medium Term Development Plan
SBN	*Surat Berharga Negara*
SDGs	Sustainable Development Goals
SDM	*Sumber Daya Manusia*
SimPel	*Simpanan Pelajar*
SLA	Service Level Agreement
SMF	*Sarana Multigriya Finansial*
SNKI	*Strategi Nasional Keuangan Inklusif*
SNLKI	*Strategi Nasional Literasi Keuangan Indonesia*
SPRINT	*Sistem Informasi Perizinan dan Registrasi Terintegrasi*
SJK	*Sektor Jasa Keuangan*
SRO	Self-Regulatory Organization
Suptech	Supervisory Technology
SWI	*Satgas Waspada Investasi*
TPAKD	*Tim Percepatan Akses Keuangan Daerah*
TPF	Third Party Fund
UN	United Nations
VAT	Value Added Tax
WHO	World Health Organization
yoy	Year-On-Year

OTORITAS
JASA
KEUANGAN

Gedung Soemitro Djojohadikusumo
Jalan Lapangan Banteng Timur 2-4 Jakarta 10710
(021) 29600 000

www.ojk.go.id