

# Indonesia's Financial Sector Policy Package

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# Indonesia's Financial Sector: Overview

- Indonesia had a banking crisis started in 1998. Total cost of crisis was estimated at US\$65 billions (50% of GDP 2000), of which US\$43 billions was used to recapitalize banks (33% GDP).
- Recapitalization process finished in 2000, from 2001 the banking sector has started growing again.
- By end 2004, all legacy of the crisis has pretty much disappeared. The Government has moved its policy focus from banking crisis management to sustainable development of financial sector.
- Indonesia's financial sector is still dominated by the banking sector.
- Non Bank Financial Institutions is still small and under-developed.

# Structure of Indonesia's Financial Sector

Financial Institutions	# of Institution	Asset (Rp trillion)	% of Asset	% of GDP (2005)
<b>Banks (2005)</b>		<b>1,490.2</b>	<b>83.4</b>	<b>56.4</b>
Commercial Banks	131	1,469.8	82.2	55.6
State Owned Banks	5	556.0	31.1	21.0
Regional Develop Banks	26	85.1	4.8	3.2
Private Banks	100	828.7	46.4	31.3
Rural Banks	2,066	20.4	1.1	0.8
<b>Non-bank financial institutions</b>		<b>296.9</b>	<b>16.6</b>	<b>11.8</b>
Finance companies (2005)	236	67.7	3.8	2.6
Insurance companies (2005)	152	75.1	4.2	2.8
Pension funds (2004)	308	107.1	6.0	4.1
Securities firms (2004)	169	10.1	0.6	0.4
Pawnshops (2005)	1	4.8	0.3	0.2
Mutual funds (2005)	329	29.4	1.6	1.1
Venture capital (2005)	60	2.7	0.2	0.1
<b>Total</b>		<b>1,787.1</b>	<b>100.0</b>	<b>68.1</b>

Source: BI, MoF, Staff estimates

# Ministries/Agencies in Financial Sector Development

- **Coordinating Ministry for Economic Affairs (CMEA):**  
Coordinate planning and formulation of policy and to synchronize implementation of policy in economic affairs.
- **Bapepam & LK (part of MoF):**  
Supervisor and regulator of capital market, insurance, pension funds, leasing, venture capital, pawnshop and other non bank financial institutions.
- **Bank Indonesia (central bank):**  
Supervisor and regulator of banking sector, set monetary policy and administer payment system
- **Ministry of State owned Enterprise (MoSOE):**  
Represent the Government as majority of shareholders in state owned banks, state owned insurance companies, state owned securities firms and other state owned financial institutions.

# Ministries/Agencies in Financial Sector Development

- **Lembaga Penjamin Simpanan (Deposit Insurance Company)**  
Administer all banks' deposit insurance program.
- **Perusahaan Pengelola Asset (State Asset Management Company)**  
Manage, restructure and dispose ex-IBRA assets
- **PPATK (Indonesian Financial Intelligence Unit)**  
Create a sound Anti Money Laundering regime in Indonesia.

# Financial Sector Policy Package: Key Features

- Issued in July 2006 through a joint decree of CMEA, Governor of Bank Indonesia, MoF and MoSOE
- Earlier in the year, GOI also issued two other policy packages on (i) improving investment climate and (ii) accelerating infrastructure development. Broadly the financial sector policy package is expected to support implementations of these two policy packages.
- CMEA has been leading the process of formulation of this policy package.
- The package outlines clear policy, program, action and output and most importantly the time target and responsible ministries and agencies.
- The time horizon is one year i.e. from July 2006 to July 2007.
- An implementing team was also created chaired by Deputy of CEMA and its members consist of representatives of other ministries and Bank Indonesia.
- Every month, progress report is prepared and reported to the President.

# Financial Sector Policy Package: Key Features

- The objectives of financial sector policy package are:
  - Improve financial sector stability
  - Improve performance and efficiency of financial institutions
  - Improve regulations and their enforcement
  - Increase access to finance
  - Increase diversity of financial sector

The package consist of 5 distinct areas with each has policy, program and action.

Areas:	Policy	Program	Action
1. Financial System Stability	2	3	7
2. Banking Institutions	2	7	16
3. NBFIs	5	11	15
4. Capital Market	3	9	17
5. Others	2	2	3
Total	14	32	57

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# CONTENT OF FINANCIAL SECTOR POLICY PACKAGE

## I. FINANCIAL SYSTEM STABILITY

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.	Strengthening of Financial Sector Coordination Mechanism	1. Drafting of Financial Sector Safety Net Law	1. Finalization of Bill on Financial Sector Safety Net	Submission of draft Bill on Financial Sector Safety Net to the Parliament	December 2006	Ministry of Finance, Bank Indonesia
2.	Operationalising Financial System Stability Forum	1. Establishment of a framework for the development of the financial sector as a whole	1. Finalization of proposed concepts of the Indonesian Financial System Architecture (ASKI)	Joint Decree between the Governor of Bank Indonesia and the Minister of Finance on ASKI	March 2007	Ministry of Finance, Bank Indonesia Deposit Insurance Agency
			2. Undertake Pre-Financial Sector Assessment Program (FSAP)	Report of Pre-FSAP results	December 2007	Ministry of Finance, Bank Indonesia Deposit Insurance Agency
			3. Establishment of Macro Early Warning System in Financial Sector	Macro EWS Model which produces early indicators of the financial sector condition	November 2006 and onward	Ministry of Finance, Bank Indonesia Deposit Insurance Agency
		2. Harmonization of regulations among authorities	1. Harmonization of Regulations on submission of information regarding the asset quality of publicly listed banks .	Synchronization of BI regulations and or Bapepam regulations governing the submission of information on asset quality of publicly listed banks	November 2006	Bank Indonesia, Ministry of Finance
			2. Harmonization of Regulations on Insurance and Capital Markets	Bapepam-LK Regulation re. Unit Link Product in line with Investment Product self managed by Insurance Companies.	October 2006	Ministry of Finance



## II. BANKING INSTITUTIONS (continued)

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.	Strengthening Banking Institutions	1. Human Resources Development	Expansion of certification programs in respect to basic banking operations in addition to risk management.	Concept of education and certification programs in respect of basic banking operations, which will be formulated together with banking associations	March 2007	Bank Indonesia
		2. Implementation of Good Corporate Governance (GCG) and risk management	1. Implementation of minimum GCG standards for commercial banks.	Bank Indonesia Circular on the GCG implementation in commercial banks.	August 2006	Bank Indonesia
		3. Quality improvement of the Credit Bureau in line with international standards	1. Conduct assessment and evaluation on the information system and formulation of an operational code of conduct of the credit bureau.	Services and provision of the credit bureau's products which are in line with international standards.	July 2007	Bank Indonesia
			2. Improvement of the credit Bureau's information coverage and users' access.	Integration of databases of public utilities companies.	December 2006 and ongoing	Bank Indonesia



## II. BANKING INSTITUTIONS (continued)

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
		4. Improvement of the efficiency and effectiveness of regulation and supervision system	1. Improvement of the methodology for risk-based banking regulation and supervision	Bank Indonesia Circular on risk-based banking supervision and regulation.	November 2006	Bank Indonesia
			2. Undertake consolidated, risk-based supervision	Bank Indonesia Circular on the implementation of consolidated supervision.	November 2006	Bank Indonesia
		5. Protection and empowerment of consumers and investors	1. Improved transparency of information on banking products	Bank Indonesia Circular on the information transparency of banking products.	September 2006 and onward	Bank Indonesia
			2. Implementation of standard customer complaint filing system	Bank Indonesia Circular on the implementation of standard complaint filing mechanism	November 2006	Bank Indonesia
			3. Establishment of an independent dispute mediation body	Bank Indonesia Circular on the establishment of an independent dispute mediation body	November 2006	Bank Indonesia
			4. Drafting of regulations to strengthen the capacity of Deposit Insurance Corporation (LPS) in dealing with banks potentially posing systemic risk	LPS Regulation governing the resolution of problem banks that potentially pose systemic risk.	September 2006	Deposit Insurance Corporation

**II. BANKING INSTITUTIONS (continued)**

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.		6. Improvement of market institutions and structure	1. Provision of incentive for banks successfully conducting consolidation, merger and acquisitions until 2008.	1. Bank Indonesia Regulation providing incentive to successfully consolidating banks	October 2006 and onward	Bank Indonesia
				2. Simplification of tax administration for transferor banks through amendment of KEP-161/PJ/2001	October 2006	Ministry of Finance
			2. Simplified procedure for the opening of branches for Rural Banks (BPR) and BPRS that have satisfied requirements.	Bank Indonesia Regulation	November 2006	Bank Indonesia

**II. BANKING INSTITUTIONS (continued)**

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
2.	Improving the performance of State-Owned Banks	1. Resolving the state-owned banks' non-performing loans problem	1. Amendment to Government Regulation no. 14/2005 on the Procedure for writing off the State/Regional Government's receivables	Government Regulation	July 2006	Ministry of Finance, State Ministry for State Owned Enterprises
			2. Amendment to Finance Minister Decree no. 31/PMK.07/2005 on the Procedure of Proposal Submission, Evaluation and Determination of Write-off of State/Regional Government's receivables	Decree of the Minister of Finance	July 2006	Ministry of Finance, State Ministry for State Owned Enterprises
			3. Special supervision of the state-owned banks as a measure to improve performance and corporate governance	Joint Decree between the Finance Minister and the State Ministry for State-Owned Enterprises on the Oversight Committee.	August 2006	Ministry of Finance, State Ministry for State Owned Enterprises
			4. Ensure the state-owned banks' management commitment to corrective measures in governance and risk management and to effort for resolving problem loans	Management contracts with the state-owned banks' boards of directors on the improvement of governance and risk management, and on the resolution of problem loans.	August 2006	State Ministry for State Owned Enterprises

### III. NON-BANKING FINANCIAL INSTITUTIONS

No.	Policy	Program	Action	Outcome	Time Target	Responsible Agency
1.	Improving the implementation of Know Your Customer (KYC) principles in Non Bank Financial Institutions	Improving the regulation on the implementation of the KYC principles in non bank financial institutions (anti-money laundering program)	<p>Amendment to provisions of the Finance Minister Decree No. 45/KMK.06/2006 regarding the implementation of the KYC principles in Non Bank Financial Institutions including:</p> <p>a. Period for reporting suspicious financial transactions and suspicious cash transactions to PPATK</p> <p>b. The types of non bank financial institutions which are obliged to report suspicious financial transactions and suspicious cash transactions to PPATK</p> <p>c. Confirmation of the criteria of Insurance branch offices which are obliged to have special officers responsible for Implementing KYC principles.</p>	Amendment to Finance Minister Decree No. 45/KMK.06/2006 on Implementation of the KYC Principles in Non Bank Financial Institutions	August 2006	Ministry of Finance
2.	Strengthening of non-bank financial institutions	Protection and empowerment of consumers an investors	Improving transparency of non-bank financial institutions' product information	Bapepam-LK regulation on the transparency of non-bank financial institutions' product information	September 2006 and onward	Ministry of Finance
3.	Strengthening of the insurance industry	1. Resolution of insolvent insurance firms	1. Design of a strategy to deal with insolvent insurance companies, including a clear and consistent exit policy	Decree of Bapepam-LK on Guidelines to deal with insolvent insurance companies	August 2006	Ministry of Finance
			2. Implementation of the exit policy to deal with insolvent insurance companies which no longer have sustainable business plans	Decree of the Minister of Finance on the closure of insolvent insurance companies	November 2006 and onward	Ministry of Finance

### III. NON-BANKING FINANCIAL INSTITUTIONS (continued)

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
3.		2. Improving the quality and effectiveness of insurance industry regulation and supervision	1. Amendment to Law No. 2 of 1992 on the Insurance Business to regulate matters including: <ul style="list-style-type: none"> <li>a. Refinement of the criteria for foreigners or foreign legal entities to own joint-venture insurance companies</li> <li>b. Establishment of syariah-based Insurance and re-insurance businesses</li> <li>c. Permission for life insurance companies to manage employee pension fund</li> <li>d. Expansion of the scope of loss insurance business</li> <li>e. Implementation of social insurance program (harmonizing with National Social Insurance System-SJSN)</li> <li>f. Closure of business, bankruptcy and liquidation of insurance and re-insurance companies</li> </ul>	Submission of Draft Law to amend Law no. 2 year 1992 on Insurance Business to the Parliament	March 2007	Ministry of Finance
			2. Second Amendment to Government Regulation no. 73 of 1992 on Insurance Business Operation to regulate the following : <ul style="list-style-type: none"> <li>a. Strengthening the capital of insurance companies</li> <li>b. Expansion of the investment instruments of insurance companies with SBIs and SUN</li> <li>c. Requirement for the appointment of independent commissioners for all insurance companies</li> </ul>	Government Regulation on the Second Amendment of PP no. 73 year 1992	December 2006	Ministry of Finance

### III. NON-BANKING FINANCIAL INSTITUTIONS (continued)

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
3.		3. Protection of policy holders	Supporting the operationalization of a mediation agency in the insurance industry	The operation of the Indonesian Insurance Mediation Agency	September 2006	Ministry of Finance
		4. Improvement of the quality of director's and commissioners in the insurance industry	Implementation of fit-and-proper test of Directors and Commissioners of Insurance Companies, which is planned to cover 10 percent by 2006.	The Decree of Bapepam-LK to advise the result	December 2006 and onward	Ministry of Finance
		5. Tax Facility for the Development of Insurance Industry	1. Recognition that claims paid by life Insurers are tax deductible.	Amendment to Finance Minister Decree Number 80/KMK.04/1995 on the Portion of Reserve that may be deductible as Cost	September 2006	Ministry of Finance
			2. Removal of the requirement to obtain from Directorate General of Financial Institutions an approval for the amount of premium reserve.	Amendment to Finance Minister Decree Number 80/KMK.04/1995 on the Portion of Reserve that may be deductible as Cost	September 2006	Ministry of Finance
4.	Strengthening of Pension Fund Industry	1. Development of the Pension Fund Industry	Drafting a development <i>road map</i> of the pension fund industry	Decree of Bapepam-LK on the Road Map for Pension Fund Industry	September 2006	Ministry of Finance
		2. Improve the quality of regulation and supervision	1. Drafting of Good Pension Fund Governance Guidelines	Decree of Bapepam-LK on the Guidelines for Pension Fund Governance	December 2006	Ministry of Finance
			2. Formulation of a regulation regarding reporting and supervision of pension funds management for civil servants, Military/Police members, and Government Officials	Finance Minister Decree	December 2006	Ministry of Finance

### III. NON-BANKING FINANCIAL INSTITUTIONS (continued)

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
5.	Strengthening of Finance Companies Sub-sector	1. Strengthening of finance companies	Strengthening of capital structure, improving the regulatory and supervision functions and audit of finance companies	Minister of Finance Decree	September 2006	Ministry of Finance
		2. Strengthening of venture capital companies	Strengthening of capital structure; improving the regulatory and supervision functions and audit of venture capital companies	Minister of Finance Decree	October 2006	Ministry of Finance

#### IV. CAPITAL MARKET

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.	Capital Market Development	1. Improvement of the stock exchange's competitiveness and efficiency	1. Merger of BEJ and BES	Juridist Agreement between BES and BEJ's shareholders to start merger process	October 2006	Ministry of Finance
			2. Implementation of remote trading	Full implementation of remote trading	Oktober 2006	Ministry of Finance
		2. Improvement of the quality of supervision and regulation	Improve capital market regulation in line with ROSC results	1. Improve the bill on Capital Market law in line with recommendations from ROSC assessment	December 2006	Ministry of Finance
				2. Improve Bapepam-LK Regulation in relation to the assessment/observance results		
		3. Improvement of Information Technology utilization in the capital market	Develop e-reporting, e-licensing, e-registration, and e-monitoring systems	Application of e-reporting, e-licensing, e-registration and e-monitoring systems	October 2006 and onward	Ministry of Finance
		4. Development of a secondary market for bonds/securities	1. Development of a price discovery mechanism	1. Bapepam-LK regulation on the requirement to report bonds/securities transactions	July 2006	Ministry of Finance
				2. Establishment of an agency to undertake valuation of bonds/securities.	June 2007	Ministry of Finance
			2. Refinement of trading system/ <i>Electronic Trading Platform (ETP)</i>	<i>A credible trading system/Electronic Trading Platform (ETP)</i>	September 2006	Ministry of Finance



**IV. CAPITAL MARKET (continued)**

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.		4...	3. Develop the bond repo market	1. Opening of the repo window at Bank Indonesia	November 2006	Bank Indonesia
				2. Bapepam-LK's regulation on the Bonds Repo Market	November 2006	Ministry of Finance,
			4. Establish SUN Primary Dealer	Minister of Finance Decree on SUN Primary Dealer	December 2006	Ministry of Finance
			5. Strengthen SUN's market infrastructure	PT Indonesia Effect Central Custodian Co. (KSEI) serving as sub-registry of BI-Scriptless Securities Settlement System (BI-SSSS) and PT Indonesia Effect Clearing Guaranty (KPEI) serving as the clearing agent for SUN transactions through the Electronic Trading Platform system.	August 2006	Bank Indonesia Ministry of Finance
		5. Develop collective investment-based products	Develop ETF (Exchange Traded Fund)	Bapepam-LK regulation on the Exchange Traded Fund	December 2006	Ministry of Finance
		6. Develop the legal framework to facilitate syariah-based development of the capital market	1. Regulate the application of syariah principles in the capital market	Bapepam-LK regulation on the Application of Syariah-Based Principles in the Capital Market	December 2006	Ministry of Finance
			2. Issue accounting standard related to the application of syariah principles in the capital market	Bapepam-LK regulation on Accounting Standard Pertaining to the Application of Syariah-Based Principles in the Capital Market	December 2006	Ministry of Finance

**IV. CAPITAL MARKET (continued)**

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.		7. Tax facility for capital market development	Abolish the requirement to obtain a Tax Clearance Certificate (Surat Keterangan Fiskal) for companies that wish to sell bonds or shares.	1. Amendment of the Director General of Taxation Circular No. SE-03/PJ.44/1994 dated 2 February 1994 on the Procedure for the Issuance of Tax Clearance to Go-Public Companies	August 2006	Ministry of Finance
				2. Amendment of the Head of Bapepam Circular No. SE-03/PM/1994 dated 16 February 1994 on the Procedure for the Issuance of Tax Clearance to Go-Public Companies	August 2006	Ministry of Finance
2.	Development of Government Securities Market ( <i>SUN</i> )	Expansion of <i>SUN</i> investor base	1. Issue Government Retail Bonds (ORI)	Minister of Finance decree on the Issuance of Government Retail Bonds in the primary market	August 2006	Ministry of Finance
			2. Issue financing Instruments based on Syariah/Sukuk	Submission of a draft law on the Government Syariah Securities to the Parliament	October 2006	Ministry of Finance
3.	Strengthening mutual fund industry	1. Improvement of accountability and supervision	1. Refinement of regulation on mutual fund sales agent's representatives	Bapepam-LK regulation concerning agent registration, agent code of conduct	August 2006	Ministry of Finance
			2. Drafting of a regulation on mutual fund sales agent	Bapepam-LK regulation concerning mutual fund sales agent's representatives	August 2006	Ministry of Finance

## VIII. OTHERS

No.	Policy	Program	Action	Output	Time Target	Responsible Agency
1.	Development of export financing	1. Establishment of National Export Financing Agency (LPEI)	1. Drafting of Law on National Export Financing Agency (LPEI)	Submission of draft law on National Export Financing Agency (LPEI) to the Parliament	December 2006	Ministry of Finance
2.	Privatization of State-Owned Enterprises	1. Development of privatization Institutions	1. Establishment of Privatization Committee	Presidential Decree on the Privatization Committee	August 2006	Coordinating Ministry for Economic Affairs
			2. Drafting of a strategy on BUMN privatization for the short and medium term perspectives	Presidential Decree on the Privatization Strategy <i>Blue Print</i>	November 2006	State Ministry of State Owned Enterprises



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# Thank you