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BI ISSUES IMPLEMENTING REGULATION FOR PAYMENT SYSTEM PROVIDERS

Following the enactment of Bank of Indonesia (“BI”) Regulation Number 22/23/PBI/2020 of 2020 on Payment System (“**PBI 22/2020**”) which has become effective as of 1 July 2021, BI has issued BI Regulation Number 23/6/PBI/2021 on Payment System Providers (“**PBI 23/6/2021**”) as the implementing regulations regarding payment system providers under the framework of the new payment system introduced by PBI 22/2020. PBI 22/2020, PBI 23/6/2021 hereinafter together shall be referred to as “**New Payment System Regulations**”.

PBI 23/6/2021 revokes several regulations namely (i) BI Regulation Number 11/11/PBI/2009 on the Implementation of Card-Based Payment Instrument as amended by BI Regulation Number 14/2/PBI/2012; (ii) BI Regulation Number 18/40/PBI/2016 on the Implementation of Payment Transaction Processing; (iii) BI Regulation Number 19/12/PBI/2017 on Implementation of Financial Technology; and (iv) BI Regulation Number 20/6/PBI/2018 on Electronic Money.

Upon the enactment of PBI 23/6/2021, payment system operators who have obtained their payment system operators license(s) under the previous payment system regime, would be reclassified and have their license(s) converted into payment system providers licenses pursuant to assessment conducted by BI in accordance with the New Payment System Regulations.

Please do refer to our previous publication for further elaboration on PBI 22/2020 and detailed comparison to the previous payment system regime.

Key Points

PBI 22/2020 classifies payment system operators into payment service providers and payment system infrastructure operators. PBI 23/6/2021 specifically provide further elaboration on payment service providers (*Penyedia Jasa Pembayaran/ “PJP”*), which can be sum up as follows:

PJP Activities

PJP are banks or non-bank institutions providing services to facilitate payment transaction to users. PBI 23/6/2021 provides further detailed provisions regarding the activities conducted by a PJP, which encompass the following services:

- a. Provision of information regarding source of fund,

This service includes those conducted for the purpose of payment initiation upon users' approval based on cooperation and/or interconnectivity with other PJP.

- b. Payment initiation and/or acquiring services,

Payment initiation and/or acquiring services includes forwarding of payment transaction which encompass (i) forwarding of instruction or fund transfer instruction through instrument, media and/or a set of procedure by using certain method or certain technology in a payment transaction; and/or (ii) forwarding of payment transaction data in the form of data regarding instrument, payment transaction amount, and other payment transaction data.

PJP conducting payment transaction forwarding may (i) store source of fund data and/or access to the source of fund, including providing the platform which facilitates users in storing data regarding source of fund and/or access to the source of fund; (ii) process payment transaction by using various instruments; (iii) acquire merchants; (iv) make advanced payment to merchants; and or (v) disburse payment to merchants.

- c. Management of source of fund;

Management of source of fund includes management of account and the execution of payment transaction authorization. Payment transaction authorization means a transaction approval following payment transaction data forwarding which may be conducted by way of: (i) verifying or authorizing the identity of source of fund owner who was conducting such payment transaction; (ii) validating source of fund access and payment transaction; and (iii) ensuring the availability of source of fund. Management of source of fund activity shall be complemented with the granting of source of fund access to users. PJP may also conduct fund transfer activity as access feature to the source of fund.

- d. Remittance services.

Remittance services activity encompass activity of management of fund transfer in the form of accepting and executing fund transfer instruction where the source of fund originate from accounts not managed by such remittance service operators.

- e. Other activities as may be stipulated by BI.

Licenses

Any party must obtain license as PJP from BI prior to conducting the abovementioned activities. BI classifies PJP licenses into the following category:

- a. Category I License
Upon obtaining Category I License, such party may conduct the entirety of PJP activities encompassing provision of information regarding source of fund, payment initiation and/or acquiring services, management of source of fund, and remittance services.
- b. Category II License
Upon obtaining Category II License, such party may conduct only two out of four PJP activities namely provision of information regarding source of fund, and payment initiation and/or acquiring services.
- c. Category III License
Upon obtaining Category III License, such party may conduct only remittance services activities and/or other services as may be stipulated by BI.

BI will determine the validity period of each license on case-per-case basis depending on (i) license category; (ii) activities undertaken by such PJP; and (iii) the processed source of fund.

In order to obtain PJP license, there are requirements that shall be fulfilled by the applicants which are divided into several different aspects such as institutional aspects, capitalization and financial aspect, risk management, capability of information system and other aspects as may be deemed necessary by BI, such as:

- a. The applicant must be established in the form of (i) Bank; or (ii) non-bank entity incorporated as a limited liability company, for applicant of Category I and Category II License, or any legal entity, e.g., limited liability company or cooperative, for applicant of Category III License.
- b. The board of directors of non-bank entity must consist of at least one (1) director domiciled within the territory of the Republic of Indonesia.
- c. Members of board of directors and commissioners as well as controlling shareholders of applicant must satisfy integrity requirement and in possession of clean professional track record.
- d. The shareholding structure of non-bank entity applicant must adhered to the following requirements:
 - minimum of fifteen percent (15%) of shares must be owned by Indonesian party, percentage of which shall be evaluated by BI based on direct and indirect ownership over the shares up to the ultimate shareholders;
 - minimum of 51% (fifty one percent) of shares with voting rights must be held by Indonesian party;
 - any special rights, such as rights to nominate the majority of members of board of directors and/or board of commissioners and/or rights to veto a decision or approval in a shareholders meeting, must be held by Indonesian party.

- e. Non-bank entity applicant must satisfy the minimum issued and paid up capital as follows:

Types of PJP License	Minimum Paid Up Capital
Category I License	IDR 15 billion
Category II License	IDR 5 billion
Category III License	<ul style="list-style-type: none"> - IDR 1 billion, for PJP who will provide system for other PJP; - IDR 500 million, for PJP who will not provide system for other PJP.

Licenses Application Procedure

PJP licenses application shall be submitted by applicant through BI’s electronic licensing system along with the documents as required under PBI 23/06/2021. In general, the procedure for PJP license application can be sum up as follows:

- a. The applicant shall conduct self-assessment regarding the completion of documentation requirement and submit such documentation through BI’s electronic licensing system. During this process BI may require the applicant to attend pre-consultative meeting, which will be held before or during the document submission.
- b. Upon receipt of complete documents from applicant, BI will then conduct substantive examination over the documents and will request revision as needed. The whole process may take up to maximum 80 (eighty) working days, during which BI may also require the applicant to attend consultative meeting and/or coaching clinic.
- c. If the submitted documents are deemed to be complete and correct, within maximum of 20 (twenty) working days thereafter, BI will conduct on site visit in order to evaluate the operational readiness of the applicant. BI may also opt to not conduct on site visit under certain situation and instead request the applicant to furnish additional documents. Applicant shall provide report and/or documents evidencing correction of any incompatibilities found by BI during on-site visit or such additional documents requested by BI within maximum of 120 (one hundred twenty) working days.
- d. Upon the completion of the process and satisfaction of all requirements by the applicant, BI will accept the application and issue the PJP license. In the event where BI reject the PJP license application, applicant may re-submit PJP license application after 180 (one hundred eighty) working days as of the date of the rejection letter.
- e. PJP shall conduct its activities within maximum of 120 (one hundred twenty) working days as of the issuance of license by BI.

It is notable that whilst the licensing process stipulated under PBI 23/06/2021 does not differ much from the previous licensing process under the previous payment system regulation, PBI 23/06/2021 has provided the applicant with estimation of timeline needed for obtaining the PJP license wherein the whole process is estimated to have been completed in around 7-8 months.

Fit and Proper Test

BI may require the controlling shareholders, members of board of directors and/or members of board of commissioners of the applicant to undergo a fit and proper test in order to ensure the fulfillment of requirement regarding integrity, financial reputation, financial feasibility, and competency for the purpose of issuance of PJP licenses or in the event of any changes to the composition of the controlling shareholders and/or members of board

of directors/commissioners if there is any indication of violation, fraud and/or decrease of business performance which significantly affects the operation of the ongoing payment system. Fit and proper test may be conducted by way of interview and/or administrative assessment.

Classification of PJP

In the framework of implementation of payment system, BI classifies PJP into 3 (three) classification i.e., (i) systemic payment system provider (*Penyelenggara Pembayaran Sistemik*); (ii) critical payment system provider (*Penyelenggara Pembayaran Kritis*); (iii) general payment system provider (*Penyelenggara Pembayaran Umum*), by considering the scale, connectivity, complexity and substitutability of its services. Depending on the classification, PJP will be required to comply with certain obligations, including obligations related to capitalization, risk management and information system security standard.

BI Approvals for Cooperation and Development of Products and Activities

PBI 23/06/2021 reaffirms the requirement to obtain decree of approval from BI in the event a PJP intends to enter into any cooperation with other parties and/or planning to undertake development of services or products. Such cooperation and development will be categorized into risk level consisting of:

- a. Low risk, in the event where such development affected only the pre and/or post transaction stage in the form of enhancement of current system and/or current infrastructure and in the event where such cooperation is conducted between PJP and local parties without any development to product and/or activities;
- b. Moderate risk, in the event where such development (i) affected the initiation, authorization, clearance and/or settlement stages in the form of enhancement of current system and/or current infrastructure; or (ii) the pre and/or post transaction stages in the form of development of transaction safety features, cross-border development and/or utilization of new system and/or infrastructure; or (iii) conducted on the basis of cooperation which affected the pre and/or post transaction stage and the provision of information technology solutions and/or technical services by other party which may have impact on the business sustainability of the PJP, as well as in the event where such cooperation is conducted between PJP and foreign parties without any development to product and/or activities;
- c. High risk, in the event where such development affected the initiation, authorization, clearance and/or settlement stages in the form of changes of transaction safety features, cross-border development, and/or utilization of new system and/or infrastructure, or in the event where such development is conducted on the basis of cooperation which affected the initiation, authorization, clearance and/or settlement stages as well as the provision of information technology solutions and/or technical services by other party which may have impact on the business sustainability of the PJP.

PJP shall conduct self-assessment over its development and/or cooperation planning in order to determine the risk level of such development and/or cooperation. Based on the result of such assessment, PJP shall:

- a. submit report regarding development and/or cooperation to BI, if such development and/or cooperation categorized as low risk, no later than 10 (ten) working days after the realization of such development and/or cooperation; or
- b. obtain decree of approval from BI, if such development and/or cooperation is categorized as moderate/high risk, before implementing such development and/or cooperation.

Failure to comply with this requirement is punishable with administrative sanctions encompassing:

- a. Written warning;
- b. Fines;
- c. Temporary suspension of the entire or parts of activities, including suspension of implementation of cooperation; and/or
- d. Revocation of PJP license.