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BANK OF INDONESIA OFFICIALLY IMPLEMENTS THE NEW PAYMENT SYSTEM REGULATION

As of 1 July 2021, Bank of Indonesia (“BI”) Regulation Number 22/23/PBI/2020 of 2020 on Payment System (“**PBI 22/2020**”) which was issued on 30 December 2020 has officially become effective. Henceforth, PBI 22/2020 shall serve as the umbrella regulation of Indonesia’s payment system. PBI 22/2020 is expected to bring much-needed reformation in the payment system regulatory framework in response to the digitalization and innovation of payment system by way of rearrangement of payment system industry.

PBI 22/2020 introduces ‘*same risk, same regulation*’ principle wherein PBI 22/2020 shifts regulatory approach of payment system from institutional-based to activity and risk-based approach. PBI 22/2020 aims to increase the efficiency in licensing process by granting licenses in bundle (bundling) in accordance with activities grouping. Enactment of PBI 22/2020 is in line with five initiatives on the implementation of strategic program over the course of 2019 to 2025 of BI’s Indonesia Payment Systems Blueprint 2025 issued on 2019 which encompass (i) Initiative 1: Developing open banking; (ii) Initiative 2: Strengthening the configuration of retail payment systems; (iii) Initiative 3: Strengthening financial market infrastructures; (iv) Initiative 4: Developing public infrastructure for data; and (v) Initiative 5: Strengthening the regulatory licensing, and supervisory.

Key Points

1. Payment System Operators

PBI 22/2020 classifies payment system operators into:

- a. Payment Service Providers (*Penyedia Jasa Pembayaran/ “PJP”*)
PJP are banks or non-bank institutions providing services to facilitate payment transaction to users. Under Indonesian Standard Business Classification Number (*Klasifikasi Baku Lapangan Usaha Indonesia/KBLI*) of 2020 as contemplated under Indonesia Statistics Central Agency (BPS)

Regulation Number 2 of 2020, PJP is identified under KBLI Number 66411. Pursuant to PBI 22/2020, PJP may engage in the following activities:

- (i) Provision of information regarding source of fund, including for the purpose of payment initiation based on users' approval;
- (ii) Payment initiation and/or acquiring services, including forwarding payment transactions;
- (iii) Management of source of fund, including executing fund transfer instruction; and
- (iv) Remittance services, including accepting and executing fund transfer instruction where the source of fund originate from accounts managed by other remittance service operators.

b. Payment System Infrastructure Operators (*Penyelenggara Infrastruktur Sistem Pembayaran*/ "PIP")

PBI 22/2020 describes PIP as the parties who provide infrastructure facilities which may be utilized for conducting fund transfer for the interest of its members. Under 2020 KBLI, PIP is identified under KBLI Number 66412. Pursuant to PBI 22/2020, PIP may engage in the following activities:

- (i) clearance, including reconciling, confirming and calculating rights and obligations of the PIP's members before the settlement; and/or
- (ii) settlement, including final and binding end-settlement by way of debiting and crediting the accounts of the related parties over the financial rights and obligations of the PIP's members based on clearance result.

Previously, there was no distinct classification of payment system operator, however, in general for the purpose of licensing, the payment system operator is divided into two (2) groups being (i) front-end operators, encompassing issuer, acquirer, payment gateway providers, electronic wallet operators, and fund transfer operators; and (ii) back-end operators, encompassing principals, switching operators, clearance operators and settlement operators, wherein an entity may not act as payment system operator in both front-end and back-end group.

2. Payment System Operators Licensing Requirement

Pursuant to the previous regulations, entities intending to engage in the activity as a payment system operators would have to apply for and obtain multiple different licenses for each activity, meaning an entity will have to obtain issuer license to act as e-money issuer, obtain fund transfer license to provide fund transfer service and so on. This is highly ineffective considering that it is very common for an entity to engage in several activities in order to offer multiple relevant services on its platform.

PBI 22/2020 however sees substantial changes to this regime by introducing bundling licensing wherein as opposed to requiring companies to apply for separate licenses for each specific activities, companies may engage in multiple activities by obtaining the corresponding license category, as follows:

PJP Licensing Category	Activities
Category I	<ul style="list-style-type: none"> • Provision of information regarding source of fund; • Payment initiation and/or acquiring services; • Management of source of fund; • Remittance services.
Category II	<ul style="list-style-type: none"> • Provision of information regarding source of fund; • Payment initiation and/or acquiring services.
Category III	<ul style="list-style-type: none"> • Remittance services; • Other activities as stipulated by BI.

PJP license shall be obtained before conducting activities as PJP. Application may be submitted online through BI's e-licensing system in accordance with mechanism which will be further stipulated by BI. BI will issue license upon the completion of administrative and substantive examination which among others encompass the following aspects:

- Institutional aspect, including the legality, ownership, control and management of the company;
- Capitalization and financial aspect, including minimum paid-up capital, feasibility analysis, and business projection;
- Risk management, including legal, operational and liquidity risks; and
- Capability of information system, including the security and reliability of the information system;
- Others as deemed necessary by BI.

Meanwhile, to engage in activities as PIP, PBI 22/2020 requires any bank or non-bank entity to obtain decree of stipulation from BI. Such decree of stipulation may be issued by BI upon considering the effects to the stability of financial system and/or public interest. Aside from such consideration, akin to examination conducted by BI for the issuance of PJP license, BI will also examine the fulfilment of institutional, capitalization and financial, risk management, and capability of information system aspects as well as other aspects as deemed necessary by BI.

Risk-Based Classification

PBI 22/2020 also introduces risk-based classification wherein BI will further classify payment system operators by taking into account the size, connectivity, complexity and replaceability of such entity into:

- Systemic payment system operator (*penyelenggara sistem pembayaran sistemik*);
- Critical payment system operator (*penyelenggara sistem pembayaran kritikal*);
- General payment system operator (*penyelenggara sistem pembayaran umum*).

Depending on the classification, BI may require the fulfillment of other obligations on top of those set out in PBI 22/2020 to the payment system operators. Further provisions on risk-based classification are expected to be regulated in a separate BI regulation.

3. BI Approval

PBI 22/2020 reaffirms the requirement to obtain decree of approval from BI in the event an entity in possession of PJP license or PIP stipulation of decree intending to enter into any cooperation with other parties and/or planning to undertake development of services or products.

However, pursuant to PBI 22/2020, in the event of any development and/or cooperation, payment system operator will have to conduct self-assessment and determine the risk of such development and/or cooperation into the following category:

- a. Low risk, in the event where such development and/or cooperation will not result in change of business model, system, and infrastructure or result in change of business model, system, and infrastructure in low scale only;
- b. Moderate risk, in the event where such development and/or cooperation will result in change of business model, system, and infrastructure;
- c. High risk, in the event where such development and/or cooperation result in high scale changes to business model, system, and infrastructure.

Application for decree of approval will only be required for development or cooperation categorized as moderate/high risk. PJP and PIP will only be required to furnish BI with report(s) if such development and/or cooperation is categorized as low risk.

4. Foreign Capital Participations in Non-Bank Payment System Operators

- a. Foreign Capital Participations in Non-Bank PJP

Maximum foreign participation in a non-bank PJP is capped at 85% (eight five percent), which is notably higher than the previous 49% (forty nine percent) cap. However, it is important to note that PBI 22/2020 requires 51% (fifty one percent) of total shares with voting rights to be held by Indonesian participants. Any special rights to nominate the majority of members of the board of directors and board of commissioners in such company as well as any rights to veto a decision or approval in general meeting of shareholders shall also be vested in the local shareholders.

- b. Foreign Capital Participations in Non-Bank PIP

PBI 22/2020 stipulates that 80% (eighty percent) of shares in a non-bank PIP shall be owned by Indonesian parties meaning foreign capital participations in non-bank PIP is capped only at 20% (twenty percent). Further, PBI 22/2020 also stipulate that any special rights to nominate the majority of members of the board of directors and board of commissioners in such company as well as any rights to veto a decision or approval in general meeting of shareholders shall also be vested in the local shareholders.

Key Changes at a Glance

To sum up our elaborations above, for your ease of reference, please refer to the following table for PBI 22/2020's key changes at a glance.

	Previous Provisions	PBI 22/2020
Payment System Service Operator	<ol style="list-style-type: none"> 1. Issuer; 2. Acquirer; 3. Payment gateway operator; 4. Fund transfer operator; 5. Electronic wallet operator; 6. Principal; 7. Switching operator; 8. Clearance operator; 9. Settlement operator; 10. Other payment system service operator as stipulated by Bank Indonesia. 	<ol style="list-style-type: none"> 1. Payment Service Provider, conducting activities in: <ol style="list-style-type: none"> a. provision of fund source information; b. Payment initiation and/or acquiring services; c. Fund source governance; and/or d. Remittance service. 2. Payment System Infrastructure Operator, conducting activities in: <ol style="list-style-type: none"> a. Clearance; and/or b. Settlement.
Risk-Based Classification	-	<p>Payment service provider and payment system infrastructure operator further will be classified into:</p> <ol style="list-style-type: none"> a. Systemic payment system operator (<i>penyelenggara sistem pembayaran sistemik</i>); b. Critical payment system operator (<i>penyelenggara sistem pembayaran kritikal</i>); c. General payment system operator (<i>penyelenggara sistem pembayaran umum</i>).
License Grouping	<ol style="list-style-type: none"> 1. Front-end operators, i.e.,: <ol style="list-style-type: none"> a. Issuer; b. Acquirer; c. Payment gateway operator; d. Fund transfer operator; e. Electronic wallet operator. 2. Back-end operators, i.e.,: <ol style="list-style-type: none"> a. Principal; b. Switching operator; c. Clearance operator; d. Settlement operator. 	<ol style="list-style-type: none"> A. Payment Service Provider License <ol style="list-style-type: none"> 1. License Category One <ol style="list-style-type: none"> a. Provision of information regarding source of fund; b. Payment initiation and/or acquiring services; c. Management of source of fund; d. Remittance services. 2. License Category Two <ol style="list-style-type: none"> a. Provision of information regarding source of fund; b. Payment initiation and/or acquiring services. 3. License Category Three <ol style="list-style-type: none"> a. Remittance service; and/or b. Other services as stipulated by Bank Indonesia. B. Decree of Stipulation for Payment System Infrastructure Operator

	Previous Provisions	PBI 22/2020
Foreign Participations	<p><u>E-money issuer</u> Maximum foreign participations of 49% (forty nine percent).</p> <p><u>Back-end operators</u> Maximum foreign participations of 20% (twenty percent).</p>	<p><u>Payment Service Provider</u> Shares structure of a non-bank entity payment service provider shall be as follows:</p> <ol style="list-style-type: none"> Maximum foreign participation is 85% (eight five percent); 51% (fifty one percent) of shares with voting rights must be held by Indonesian participants. <p><u>Payment System Infrastructure Operator</u> Maximum foreign participations of 20% (twenty percent).</p>
Requirement to obtain approval in the event of development of activity or product and/or cooperation	Operators will be required to obtain approval from Bank Indonesia for development of activity/product and/or cooperation.	<p>Payment service provider and payment system infrastructure operator is expected to undertake self-assessment over the plan to develop activity/product and/or cooperation based on the following risk category:</p> <ol style="list-style-type: none"> Low risk, in the event where such development and/or cooperation will not result in change of business model, system, and infrastructure or result in change of business model, system, and infrastructure in low scale only; Moderate risk, in the event where such development and/or cooperation will result in change of business model, system, and infrastructure; High risk, in the event where such development and/or cooperation result in high scale changes to business model, system, and infrastructure. <p>Application for decree of approval will only be required for development or cooperation categorized as moderate/high risk. Payment service provider and payment system infrastructure operator will only be required to furnish Bank Indonesia with report if the development and/or cooperation is categorized as low risk.</p>