

Indonesia: Payment System Service Providers

With today's economic climate leaning towards the digitalization of payment systems, the Bank of Indonesia ("BI") has initiated a reformation on the current payment system regime as mentioned in BI's 2025 Payment System Blueprint. Accordingly, BI has issued BI Regulation No. 22/23/PBI/2020 regarding Payment Systems ("**PBI on Payment Systems**") at the end of 2020. This regulation introduced the payment system service provider concept which entered into force on July 1st 2021 where, at the same time, BI issued in parallel its implementing regulation of Regulation No. 23/6/PBI/2021 regarding Payment System Service Providers ("**PBI on PJP**").

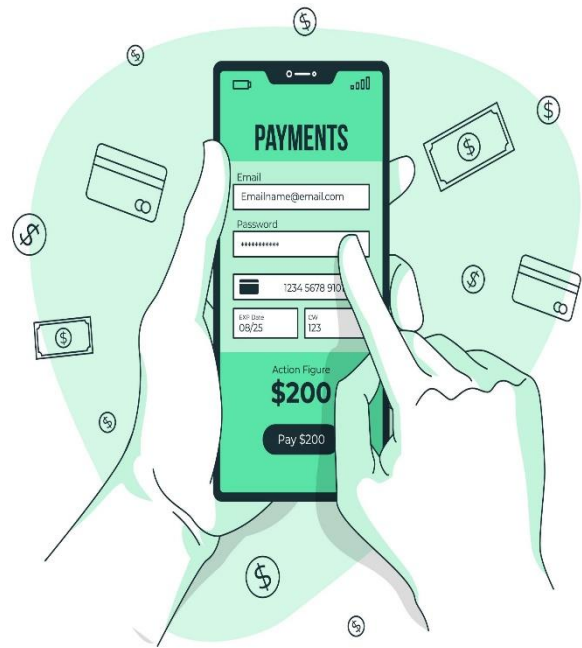
Under the PBI on PJP regulation, Payment System Service Providers (*Penyedia Jasa Pembayaran*, or "**PJP**") are comprised of both banking and non-banking agencies (*Lembaga Selain Bank* or "**LSB**") which provide services to facilitate payment transactions with service users. PBI on PJP covers the provisions regarding entry requirements, fit and proper test, the organization of payment services, supervision, exit strategy, PJP obligations, as well data processing. This regulation supersedes some of the previous BI regulations regarding payment systems.

Business Category

Under the new payment system regulatory framework, BI transformed the previous institutional-based regulatory approach to become an activity and risk-based regulatory approach, in order to fulfill the "same risk, same regulation" principle. In accordance with that purpose, PBI on PJP acknowledged two categorizations of PJP. First is the categorization based on the scope of the activities of the PJP, which are determined at the entry level and divided into the following:



1. PJP Category 1, which permits PJP to conduct these activities:
 - a) Management of sources of funds services;
 - b) Provision of information on sources of funds;
 - c) Payment initiation and/or acquiring services; and
 - d) Remittance services;
2. PJP Category 2, which permits PJP to conduct these activities:
 - a) Provision of information on sources of funds; and
 - b) Payment initiation and/or acquiring services; and/or
3. PJP Category 3, which permits PJP to conduct these activities:
 - a) Remittance services; and/or
 - b) Other activities as determined by BI.



The second categorization or “classification”, is for the purpose of classifying PJP based on the risk that might occur when carrying out their business activities. These classifications shall be determined by BI based on the size, connectivity, complexity, and irreplaceability of the PJP, which is divided into the following:

1. Systemic Payment System Providers (*Penyedia Sistem Pembayaran Sistemik* or “**PSPS**”);
2. Critical Payment System Providers (*Penyedia Sistem Pembayaran Kritis* or “**PSPK**”); and
3. General Payment System Providers (*Penyedia Sistem Pembayaran Umum* or “**PSPU**”).

Entry Requirements

Any PJP candidate, in the form of bank or LSB, hoping to complete the following licensing processes must first fulfill various requirements covering various aspects, as determined by BI*:

Requirements	Documents
Institutional Aspect	
a. General Requirements To obtain a license as PJP, the candidate must:	<ul style="list-style-type: none"> • Documents addressing the legality of the company;

<p>1. be in a form of Limited Liability Company (<i>Perseroan Terbatas</i>);</p> <p>2. have at least 1 (one) member of Board of Directors domiciled in Indonesia;</p> <p>3. ensure that all member of the Board of Directors, Board of Commissioners, and the shareholders¹ of the company fulfill the track record requirement, including but not limited to:</p> <p>a) has never been declared bankrupt and/or guilty to cause the bankruptcy of a company within the last 5 (five) years prior to submitting the application to obtain license as PJP;</p> <p>b) has never been convicted guilty of a crime based on a court verdict that is legally binding within the last 5 (five) years prior to submitting the application to obtain license as PJP;</p> <p>c) is not under bad debt list at the time of the submission; and</p> <p>d) is not under national blacklist administrated by BI at the time of the submission.</p> <p>b. Ownership Requirements To obtain a license as PJP, at least 15% of the share ownership in the company shall be owned by an Indonesian citizen(s) or an Indonesian legal entity².</p> <p>c. Control Requirements In accordance with the provision under PBI on Payment Systems, at least 51% of the shares with voting rights in the company applying for PJP license shall be owned by Indonesian citizen or Indonesian legal entity. If there is any right to nominate Board of Directors and/or Board of Commissioners, or any right to veto the shareholders meeting or resolution, the domestic party shall be entitled to it as well.</p>	<ul style="list-style-type: none"> • Recommendation from supervisory authority; • Shareholding structure to the ultimate shareholder; • Documents evidencing the track record requirements of the BOD, BOC, and shareholders of the company; • Representations and warranties by the BOD, stating that the company is not under any imposition of sanction and/or undergo a civil, criminal, and/or bankruptcy procedure; • Human resource and corporate organization structure, along with the duty, authority, responsibility, including a unit or function responsible for consumer's protection, implementation of anti-money laundering and terrorism funding prevention, risk management, internal audit, and compliance; • Legal due diligence from independent legal consultant and/or statement letter from the BOD stating that all of the documents submitted are valid and complete according to the condition of the company.
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¹ This provision is only applicable for the shareholders owning 25% or more shares in the company, or if such shareholder owns less than 25% of shares in the company, there shall be proofs that such shareholder is controlling the company, either directly or indirectly.

² Different provision may apply for PJP who is also a public company

<p>d. Fit and Proper Test BI may conduct a fit and proper test for:</p> <ol style="list-style-type: none"> 1. Shareholders, owning: <ol style="list-style-type: none"> a) 25% or more shares with voting rights in the company; or b) less than 25% shares with voting rights in the company, and there shall be proofs that such shareholder is controlling the company, either directly or indirectly; 2. Board of Directors; and 3. Board of Commissioners <p>in the event that there is a plan to change the parties above, or there is an indication of violation, fraud, and/or deteriorating business performance that has a significant impact on the implementation of the Payment System conducted by the parties above.</p>	
Capital and Finance Aspect	
<p>The minimum amount of the paid-up or initial capital of PJP candidates are as follows:</p> <ol style="list-style-type: none"> 1. Rp15 billion for PJP Category 1; 2. Rp 5 billion for PJP Category 2; 3. Rp 500 million for PJP Category 3 who don't provide systems to be used by other PJP Category 3; and 4. Rp1 billion for PJP Category 3 who provide systems to be used by other PJP Category 3. 	<ul style="list-style-type: none"> • Documents that set out the current capital structure of the company; • Documents that set out the financial condition, readiness and performance of the company during certain periods; and • Business feasibility calculations concerning the organization of payment system activities.
Risk Management Aspect	
<p>PJP shall implement risk management aspects through the following:</p> <ol style="list-style-type: none"> 1. Active supervision, as undertaken by the directors and commissioners or other organs which perform a supervisory function; 2. Availability of policies and procedures, as well as possession of an adequate organizational structure; 	<ul style="list-style-type: none"> • Documents that set out the policies and procedures relating to the management of legal risk, operational risk and liquidity risk; • Documents that set out any cooperation plans between the company and other parties

<p>3. Risk management processes, risk management functions and human resources; and 4. Internal controls.</p>	<p>during the organization of payment system activities; and</p> <ul style="list-style-type: none"> • Documents that set out policies and operational procedures and that also address the availability of devices relating to consumer protection; and so forth.
<p>Information System Capability Aspect</p>	
<p>PJP must ensure the following:</p> <ol style="list-style-type: none"> 1. Procedures for the control of security systems; 2. Fraud management systems; 3. Auditing of information systems and security testing; and 4. Capabilities and availability of information systems. 	<ul style="list-style-type: none"> • Documents that set out security procedures for the handling of any utilized systems; • Documents that set out fraud management procedures, mechanisms, and infrastructure; • Documents that contain system reliability test results; • Documents that set out procedures, mechanisms, and effective infrastructure for the purposes of business continuity and disaster recovery.
<p>* BI may impose additional requirements for certain PJP classification, including the capital aspect, risk management and information system capability aspect, and other aspects determined by BI.</p>	

Additional Capital Requirement

Aside from fulfilling the paid-up capital requirement at entry-level, PJPs who are LSBs are required to fulfill the additional on-going capital or all capital requirements during the commencement of its business activities, with the following arrangements:

1. At least 10% of risk-calculated transactions for all PJP classifications; and
2. Additional capital surcharges based upon PJP classification in the following amounts:
 - a) 2,5% of all risk-calculated transactions for PSPS; and
 - b) 1,5% of all risk-calculated transactions for PSPK.

Composition	Remarks
Core capital	<ol style="list-style-type: none"> 1. Primary core capital, includes: <ol style="list-style-type: none"> a) Capital stock; b) Advance payment of capital; c) Premium agio or disagio shares; d) The balance of profit or loss for the current year, including the accumulated profit or loss during the previous year; and e) Other comprehensive income balance. 2. Additional core capital*, includes: <ol style="list-style-type: none"> a) Debt instruments in the form of debt securities and subordinated loans, that have no term and the yield payment cannot be accumulated; b) Hybrid instruments that have no term and the yield payment cannot be accumulated; c) Non-cumulative preferred stocks with or without the call option feature; and d) Premiums or discounts originating from the issuance of the abovementioned debt and hybrid instruments.
Supplementary capital*	<p>Consist of:</p> <ol style="list-style-type: none"> 1. Long-term debt instruments in a form of debt securities and subordinated loans with maturities of more than 5 years; and 2. Premiums and discounts originating from the issuance of the abovementioned instruments.
<p>Risk-calculated Transaction</p> <ol style="list-style-type: none"> 1. Risk-calculated transactions for all PJP classifications are set at 10 times the transaction load. 2. The provision of said transaction load is as follows: <ol style="list-style-type: none"> a) Transaction loads for PJP Category 1 and PJP Category 2 are the sum of the following ranges of calculation: <ol style="list-style-type: none"> (i) 4% of any transaction nominal processed by PJP ranging up to Rp100 billion; (ii) 1% of any transaction nominal processed by PJP ranging above Rp100 billion to Rp1 trillion; and (iii) 0,1% of any transaction nominal processed by PJP ranging above Rp1 trillion. b) Transaction loads for PJP Category 3 are calculated at 0,1% of any incoming and outgoing transaction nominal processed both domestically and overseas; 	

<p>c) For PJP Category 1 who organizes sources of funds for administrative activities in the form of issuing electronic money, the following provisions apply:</p> <ul style="list-style-type: none">(i) The transaction load referred to in point 1) above shall be added to 5% of the managed float funds;(ii) The transaction nominal taken into account is defined as outgoing transactions that include shopping, transfer, and redeem transactions; and/or <p>d) For PJP Categories 1 and 2 conducting payment initiations and/or acquiring services and who follow payment transactions through the use of various instruments, the transaction amount is calculated from:</p> <ul style="list-style-type: none">(i) The overall transactions processed under merchant aggregator business model; and/or(ii) 10% of the overall transactions processed under the facilitator business model.
<p>*Note:</p> <ul style="list-style-type: none">• The result of the calculation of <u>additional core capital</u> after calculating the reducing factor is a maximum of 1/3 of the <u>primary core capital</u>.• The result of the calculation of <u>supplementary capital</u> after calculating the reducing factor is a maximum of 1/3 of the <u>additional core capital</u>.

Business Activity Development, Product Development, and Cooperation with Third Parties

Prior to conducting activity development, product development, or cooperation ("**Activities**"), PJP shall conduct a self-assessment to determine the risk category of the proposed Activities: (i) low risk; (2) moderate risk; or (3) high risk. If the Activities are under the low-risk category, PJP shall only be obligated to convey a report to BI regarding such Activities. On the other hand, if the Activities are under the moderate-risk or high-risk category, PJP shall obtain BI's approval prior to conducting the Activities.

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To obtain BI's approval to conduct the moderate risk or high-risk Activities, PJP shall convey, among others, supporting documentations encompassing the following aspects:

1. operational readiness;
2. system security and reliability;
3. implementation of risk management; and
4. consumer protection.

Single Presence Policy

Following the single presence policy in the banking sector, BI also imposes this stipulation for PJP, both Bank and LSB. According to PBI on PJP, all parties are prohibited to own 25% or more of any shares with voting rights or less than 25% of any shares with voting rights but have been proven to carry out direct or indirect controls over the company, within the following companies:

1. More than 1 PJP in a form of LSB with the same licensing category; and/or
2. More than 1 PJP in a form of LSB which has a PJP license and has been determined as a Payment Infrastructure Provider (*Penyelenggara Infrastruktur Sistem Pembayaran* or "**PIP**").

PJP in a form of LSB is prohibited to conduct corporate actions that result in the change of parties who own the following:

1. 25% of shares or more with voting rights; or
2. Less than 25% of shares with voting rights but have been proven to carry out direct or indirect controls over the company

The above provision applies within 5 years after the license was first issued, unless approved otherwise by BI. Said approval can only be granted by BI to fulfill provisions and/or follow up controls, and/or to strengthen capital in order to improve performance and not intended to transfer the licenses for certain benefits.

Any violation of the abovementioned obligations leads to administrative sanctions in the form of a warning, temporary suspension for certain or all activities, and/or revocation of the license as PJP.

Self-Regulatory Organization

Through the reformation of the payment system regulation, one of BI's initiatives is strengthening and optimizing the role of SRO in the payment system. SRO in the payment system sector will issue technical and micro regulation in payment systems according to BI's standard and policy. To ensure the implementation of SRO's role, PBI on PJP requires PJP to

become a member of the SRO determined by BI. The application for such membership shall be conducted along with the application to obtain PJP license from BI. Subsequently, PJP's membership in SRO will be effective when the candidate obtains a license as a PJP from BI.

License Conversion and Grandfathering Clause

According to Article 114 of PBI on Payment Systems, BI shall conduct an assessment on every Payment Systems Services Provider ("**PJSP**") who has obtained a license before PBI on Payment Systems has entered into force, in order to re-classify the activity of such PJSP into PJP or Payment System Infrastructure ("**PIP**"). BI shall convert PJSP license into PJP or PIP license based on the results of the assessment ("**Converted PJSP**").

For the license conversion to occur, PJSP must be subject to the entry requirements under PBI on Payment Systems and its implementing regulations, including PBI on PJP. That includes the institutional aspect, capital and finance aspect, risk management aspect, and information system capability aspect. However, the domestic ownership and control requirements shall only be applicable if there are changes in the foreign ownership composition of the Converted PJSP. If there is no change to the foreign ownership composition, the provision regarding domestic share ownership of 15% and/or domestic control of 51% shall not be applicable to the Converted PJSP.

In this manner, the grandfathering clause owned by foreign shareholders in Converted PJSP shall prevail, as long as there is no change to the foreign ownership composition. The elucidation of Article 269 of PBI on PJP interprets the "change of foreign ownership composition" as the change of the percentage of foreign ownership by the foreign shareholders. If there is a change in the foreign ownership composition, the Converted PJSP shall convey a corporate action to BI, and such corporate action shall be approved by BI.

Consolidation of Payment System Regulation

As discussed in the first paragraphs, PBI on PJP supersedes other BI Regulations regulating the payment systems, i.e., BI Regulation No. 11/11/PBI/2009 regarding Organization of Payment Instrument Activities Using Card, BI Regulation No. 18/40/PBI/2016 regarding Payment Transaction Processing, BI Regulation No. 19/12/PBI/2017 regarding Implementation of Financial Technology, as well as BI Regulation No. 20/6/PBI/2018 regarding Electronic Money. Some of the provisions under BI Regulation No. 18/9/PBI/2016 regarding Regulation and Supervision of Payment System and Rupiah Management and BI Regulation No. 14/23/PBI/2012 regarding Transfer of Fund are also revoked.

With the revocation of the aforementioned regulations, the provisions regarding payment instrument, payment channel, BI supervision, as well as reporting obligations for PJP which was previously dispersed among different BI regulations are now regulated under PBI on PJP.

This consolidation will seemingly simplify the payment systems under BI regulatory framework.

In conclusion, PBI on PJP was issued to provide more clarity regarding what has been stipulated in PBI on Payment Systems which has only regulated the principles and not the end-to-end implementation of the payment system. PBI on PJP provides operational regulatory provision by prioritizing the principles of being forward looking, agile, and well-structured.

Should there be any queries related to this regulation or to find out if this affects your business or personal interest, please do not hesitate to contact us.

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