

INDONESIA

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The rise of digital financial innovation in Indonesia

Jeanne Elisabeth Donauw and Andhika Indrapraja of Walalangi & Partners discuss the rise of DFI companies, and the implications for registration and reporting as the regulating authorities seek to protect consumer data

Following the rise of internet usage and more advanced smartphone technology as well as the development in information and technology in the last decade, Indonesia has witnessed the rise of so-called Digital Financial Innovation (DFI) companies. These companies offer innovative tech-based financial services, which are often not specifically covered by the existing regulated models.

DFI companies are supervised by Indonesia's Financial Services Authority (OJK), which has publicly acknowledged the role of DFI companies in helping to accelerate financial inclusion in Indonesia. These companies help provide easier financial access to individuals and businesses, and they become a catalyst for the rapid growth of the digital economy by offering a wide range of innovative and interconnected financial services.

To operate a DFI business in Indonesia, foreign investors must establish a limited liability company (*Perseroan Terbatas*) and register themselves with the OJK. Registration exemption applies only to companies that are already registered with the OJK or otherwise have obtained a license from the OJK and provided the OJK with the registered business model with their products remaining unchanged. The failure of a DFI company to comply with the registration requirement could attract certain sanctions.

If a DFI company has a distinctive business model, the OJK can require the

company to be placed in the so-called 'regulatory sandbox' for further assessment. There are 15 DFI models in the regulatory sandbox, including:

- A financial aggregator, web-based platform, or application-based platform developed to assist customers by providing financial product information and allowing customers to compare similar products from different financial companies. Examples include housing finance, credit cards, bank savings, and insurance products.
- An alternative credit scoring, web-based platform, or application-based platform focuses on analysing and processing a borrower's non-credit data to generate the borrower worthiness rating for financial companies.

As of January 2022, the OJK recorded 83 DFI companies. The aggregator, credit scoring, and financing agent models were the most popular models on the list.

Personal data protection

DFI companies must ensure personal data protection. Pending the issuance of the first single comprehensive general law on personal data protection, DFI companies are subject to personal data protection obligations as regulated under the Minister of Communication and Informatics (MCI) Regulation and the OJK Regulation.

Here are the key highlights of the above regulations:

- Personal data means information on an individual that can be identified, either directly or indirectly;
- Any acts of collecting, analysing, distributing, transferring, deleting, and showing personal data must be based on the data subject's written consent, either manually or electronically, in the Indonesian language;
- The transfer of personal data to offshore countries must be reported to the MCI, both before and after the action.

Illegal practices

Although the OJK may appear to be supportive of all developments that are happening in the financial services sector, it still has deep concerns about the business conduct of the industry players, particularly in relation to consumer protection.

Such OJK concerns are not without reason. Local Indonesian news media have reported that some online platforms, such as Binomo, Fahrenheit, and Quotex, have been

under police investigation for fraud allegations. Indonesia has seen the rise of digital platforms claiming to be trading platforms or investment platforms, but which in fact offer gambling schemes or other illegal or fraudulent practices.

Given the recent cases and the increasing number of police reports filed by retail investors falling victim to these illicit platforms, we expect that the regulator will continue monitoring the business conduct of the players with the utmost caution and stricter supervision, to ensure maximum consumer protection and the proper use of personal data.

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