OUTLINE

1) Recent Development of Digital Services in Indonesia
2) Government Policy and Regulation
3) The Regulatory Sandbox
Recent Development of Digital Services in Indonesia
Technology innovations had an impact to many industries, such as media, film, music, telecommunications, commerce, transportation.
Various transactions can be done through smartphone...
The Growth of Digital Services in Indonesia

The Growth of FinTech market in Indonesia shows an upward trend...

Transaction Value¹ (Growth 24.6% (yoy))*

2017 18.6 B
2018 22.3 B

FinTech Player (Growth 46% (ytd))

2016 140
2018 189

99% of transaction value are digital payment, 0.11% personal fund and 0.08% business fund.

Projection of Transaction Value (statista, 2018)

FinTech Search in Google increasing drastically in the early 2016-2017

¹Source: Statista (2017) – projection number
Urgency of Islamic Economic and Finance Development in Indonesia

1. The biggest halal food market
2. Top 10 Islamic Finance Player
3. High Millennial engagement

The urgency of fulfilling the domestic market
The urgency of increasing reach
The urgency of increasing online education

The gap widens
Overseas
Domestic
ZISWAF as a solution

Promising Indonesian sharia market

Dynamic Halal Supply Chain
Massive Open Online Courses

Online ZISWAF Payment
FinTech

Benefit

Source: Global Islamic Economy Report 2016/2017
Utilizing digital technology for Islamic social finance (ISF) collection could accelerate the process of ISF optimization in achieving SDGs and inclusive growth.
Government Policy and Regulation
Who are involved in the making of policy and regulatory framework?

- Payment System & Macroprudential: Bank Indonesia
- Micro-Zakat Regulation: BAZNAS and Ministry of Religious Affairs
- Fiscal Policy: Ministry of Finance
- Other relevant ministries: Commercial Finance OJK
Implication of Digital Financial Services in Indonesia

- More than 310m cell phone users
- Only 11 Bank branches per 100k adult population
- IDR7.528T Credit Gap to GDP
- 64% of the population are unbanked
- 42% of the population are millennials

**Integrated technology and decentralization in financial sector are structural trend that hardly to deny**

**Authority need to take right decision for:**
- To set harmony between formal and informal financial sector
- Right policy without slowing down the innovation in financial sector
BI Policy to Stimulate FinTech & Islamic FinTech

Striking the right balance: policies to nurture the digital innovation while preserving stability and integrity

**STABILITY**
1. Maintain monetary stability
2. Maintain financial system stability
3. Maintain a secure, smooth and efficient payment system
4. Mitigate risks and encourage consumer protection

**INNOVATION**
1. Promote innovation in the financial sector including Islamic Finance
2. Boost economic growth utilizing digital technology

**FinTech Regulation**

- **Required: Tools to observe developments in FinTech**
  - FinTech Registration and Licensing

- **Required: Controlled environment for innovative products**
  - Regulatory Sandbox
# Opportunities & Challenges of Digital Services: Central Bank Perspectives

There is a need for a greater and deeper understanding of its economic & social impacts as well as the right policies to have its broader benefit

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Challenges</th>
<th>Nurture Digital Innovation</th>
<th>Preserving Stability &amp; Integrity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote innovation, entrepreneurship &amp; economic growth</td>
<td>Disruptive labor markets and worsen income inequality</td>
<td>Create space and facilitate innovation</td>
<td>Standardization to reduce fragmentation</td>
</tr>
<tr>
<td>Higher Access to Financial Services at lower Cost (Financial Inclusion &amp; SME)</td>
<td>Migration of financial activities outside the regulated sector.</td>
<td>Electronification and Financial Inclusion</td>
<td>Consumer protection issues</td>
</tr>
<tr>
<td>Social inclusivity - digital identity that enable Government to provide public and social services with transparency at lower cost.</td>
<td>Consumer protection issues</td>
<td>Provide a conducive ecosystem (interoperability, interconnectedness and sharing infrastructure)</td>
<td>Regulate and educate Virtual currency</td>
</tr>
<tr>
<td>New Technologies (DLT, Blockchain,..) could provide faster, better, cheaper payment and lower counterparty risks.</td>
<td>Virtual currency may pose risks related to not only money laundering, tax evasion, circumvention of capital flow management, but also related to volatility that potentially impact to financial stability</td>
<td>Research Frontier (CBDC, DLT, Blockchain)</td>
<td>Enhance security (cyber-threats)</td>
</tr>
<tr>
<td></td>
<td>Increase of Cyber Risks</td>
<td></td>
<td>Building Infrastructure</td>
</tr>
</tbody>
</table>
Regulatory Sandbox
Bank Indonesia Regulatory Sandbox

Regulatory Sandbox is a safe, limited testing space to test Digital Financial Services Provider and their products, services, technology, and/or business models.

1. Objectives
   To encourage innovations from FinTech while maintaining the risks.

2. Participants
   Registered FinTech which appointed to participate on Regulatory Sandbox by BI.

3. Time Period
   6 month at max, with an extra another 6 month if necessary.

4. Results
   - Success
   - Failed
   - Others

5. Follow Up
   - License
   - Prohibition
   - Coordination with related institution.

CRITERIA-BASED PROCESS
FAIRNESS
EQUAL TREATMENT
PROPORTIONALITY

CRITERIA
Registered
Payment System
Innovative
Risk Identification & Mitigation
Massive
Other Criteria
Non Exclusive
Benefits

Criteria
CRITERIA
CRIT I E R A
PR I N C I P L E S

Registered

CRITERIA
CRIT I E R A
PR I N C I P L E S
Thorough assessment is required to ensure the business model is innovative and may not be classified as payment system service provider.

Startup may receive earlier feedback to adapt its business model from the assessment, it may proceed to regulatory sandbox or proceed to the licensing step without entering regulatory sandbox.

Bank and fintech may collaborate by optimizing their own strength. Bank has strong risk mitigation, scalable infrastructure, and wide network while fintech may compliment for its flexibility, operational efficiency & innovative business model.

Financial inclusion needs adequate digital literacy to exploit the potential benefits of innovation and mitigate technology risks.

Startup company need sustainable business model and real case, supported by project sponsor (in this case multinational FMCG company and Bank).

Regulator should ensure any cross border activities comply with international best practice and regulation.

Here some key take aways from Regulatory Sandbox Implementation in Indonesia...
SUMMARY

1. Advances in digital technology have brought changes to the economy as well as the lifestyle of the Indonesian people.

2. Islamic Economics and Finance has many opportunities that can be used to drive growth in the digital age.

3. Cross-sector regulatory framework needs to be developed to ensure a comprehensive approach and minimizing potential loopholes.