

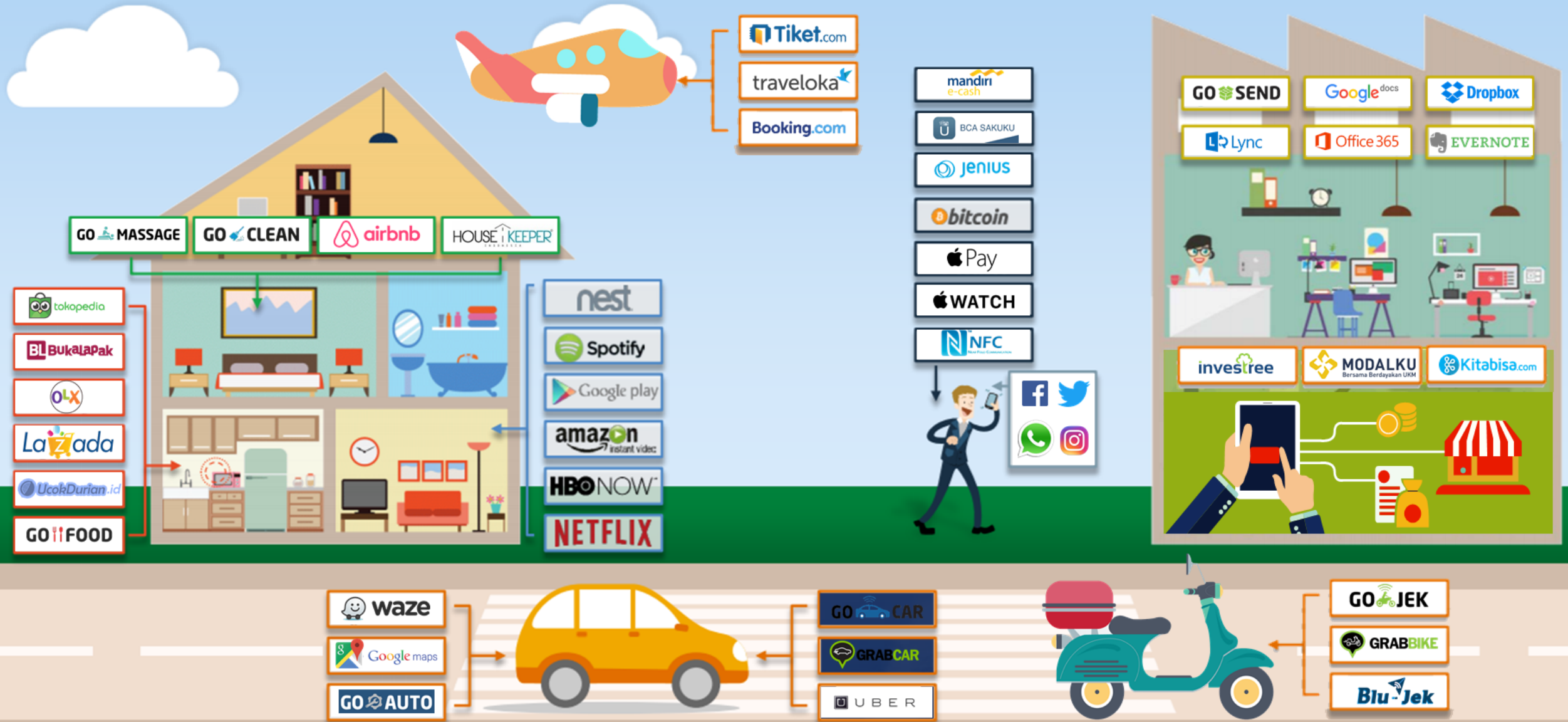
The Role of the Government **Zakat Development in the Era of Industrial Revolution 4.0**

Islamic Economic and Finance Department
Bank Indonesia
2019

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





BANK INDONESIA

Various transactions can be done through smartphone ...

5



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



Transaction Value¹
(Growth 24.6% (yoy))*



FinTech Player
(Growth 46% (ytd))

2017
18.6 B

2018
22.3 B

2016
140

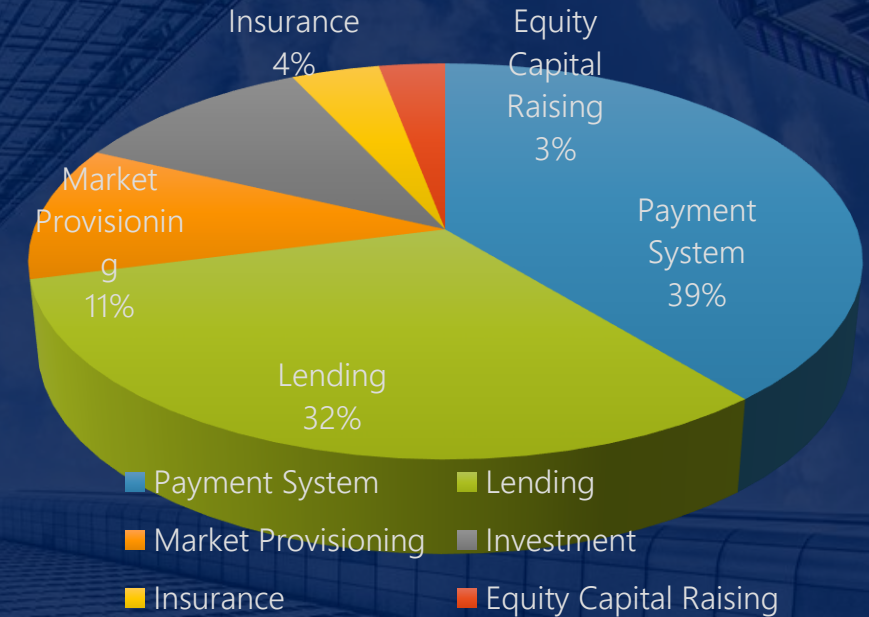
2018
189



*Transaction Value

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

Projection of Transaction Value (statista, 2018)



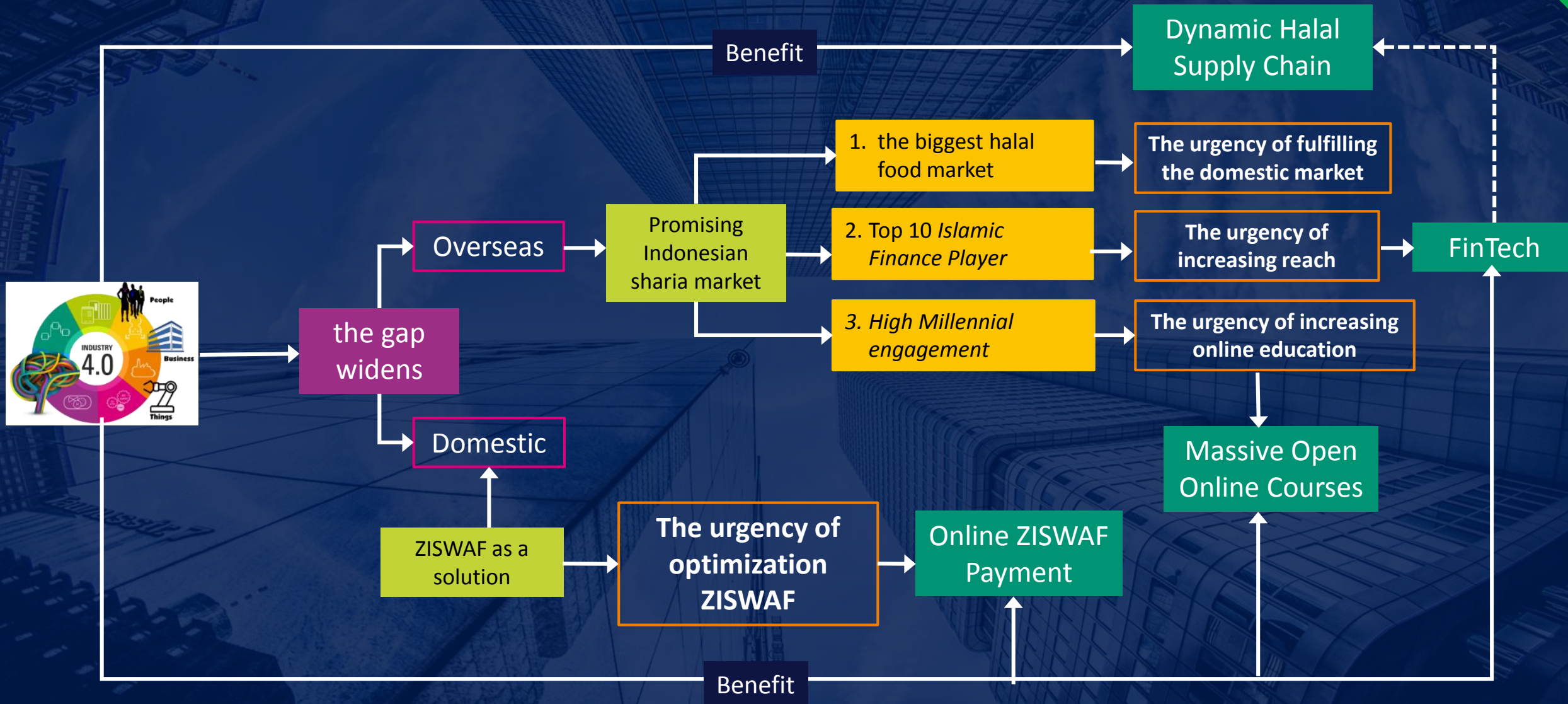
FinTech Search in Google
increasing drastically in the
early 2016-2017



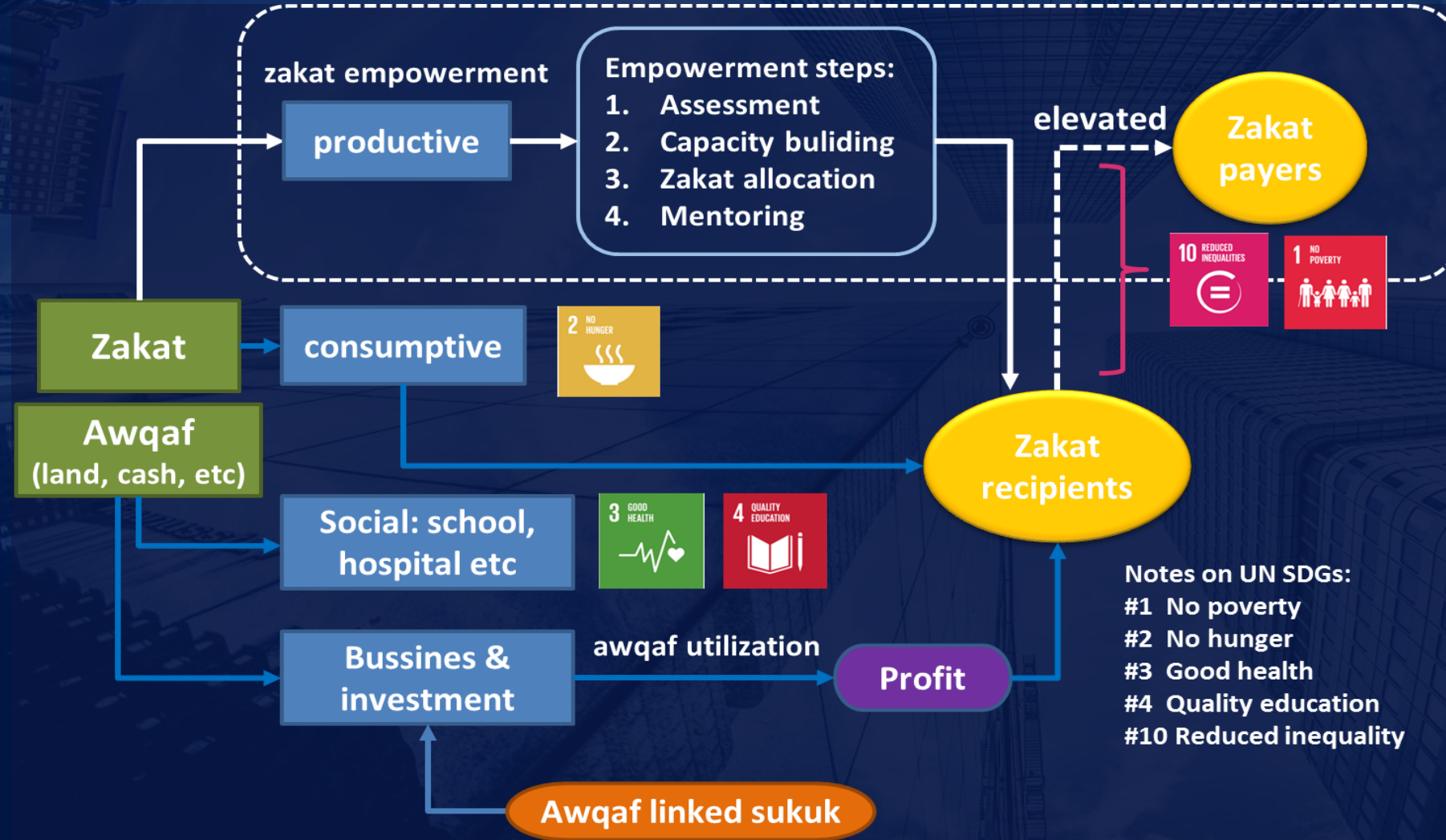
Source: Google Analytics, Chart shows an index of the number of google searches for the term 'FinTech'

¹Source: Statista (2017) – projection number

Urgency of Islamic Economic and Finance Development in Indonesia



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 & Macprudential
Bank Indonesia

Commercial Finance
OJK

Micro - Zakat Regulation
BAZNAS and Ministry of
Religious Affairs

Fiscal Policy
Ministry of Finance

Other relevant
ministries



More than 310m
cell phone user



Only 11 Bank
branches per
100k adult
population



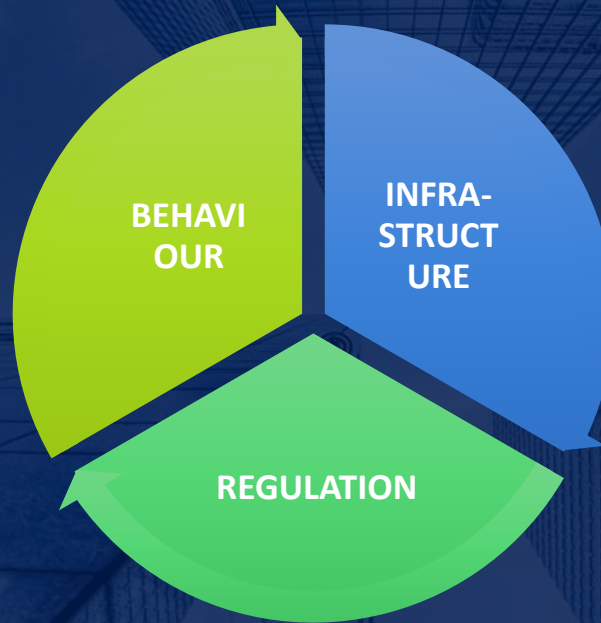
IDR7.528T Credit
Gap to GDP



64% of the
population are
unbanked



42% of the
population are
milenials



*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



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

Required:
Tools to observe developments in FinTech

Required:
Controlled environment for innovative products

FinTech Registration and Licensing

Regulatory Sandbox

FinTech Regulation



BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

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

| Opportunities | Challenges | Nurture Digital Innovation | Preserving Stability & Integrity |
|---|--|---|---|
| Promote innovation, entrepreneurship & economic growth | Disruptive labor markets and worsen income inequality | Create space and facilitate innovation | Standardization to reduce fragmentation |
| Higher Access to Financial Services at lower Cost (Financial Inclusion & SME) | Migration of financial activities outside the regulated sector. | Electronification and Financial Inclusion | Consumer protection issues |
| Social inclusivity - digital identity that enable Government to provide public and social services with transparency at lower cost. | Consumer protection issues | Provide a conducive ecosystem (interoperability, interconnectedness and sharing infrastructure) | Regulate and educate Virtual currency |
| New Technologies (DLT, Blockchain,...) could provide faster, better, cheaper payment and lower counterparty risks. | 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 | Research Frontier (CBDC, DLT, Blockchain) | Enhance security (cyber-threats) |
| | Increase of Cyber Risks | | Building Infrastructure |



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.



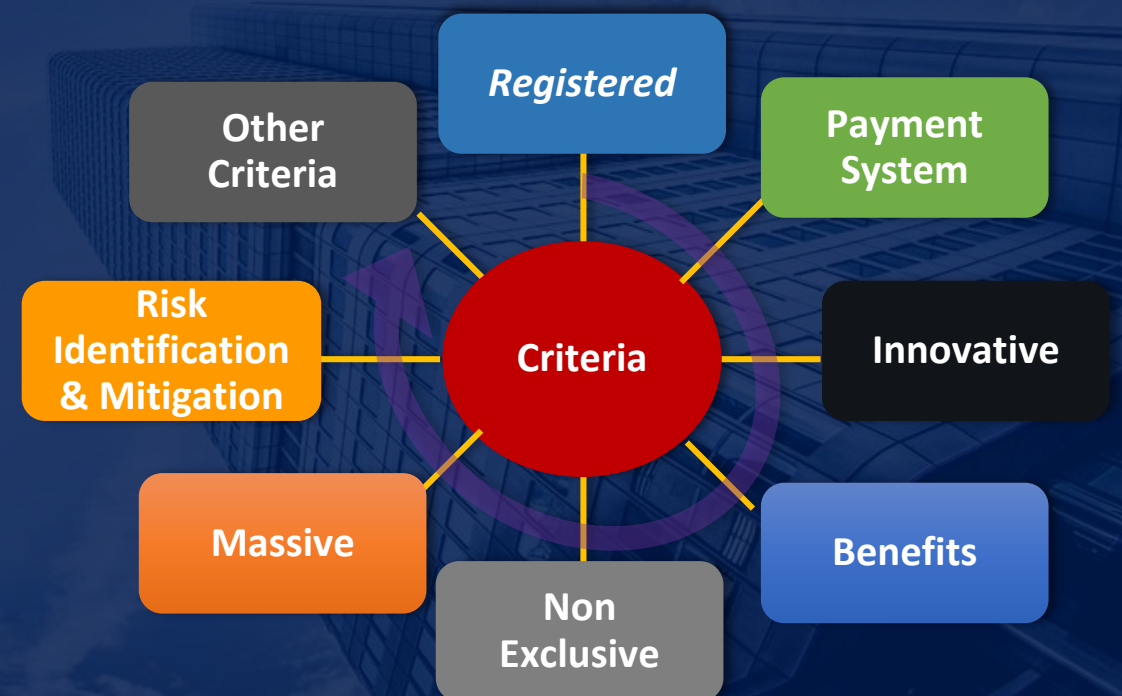
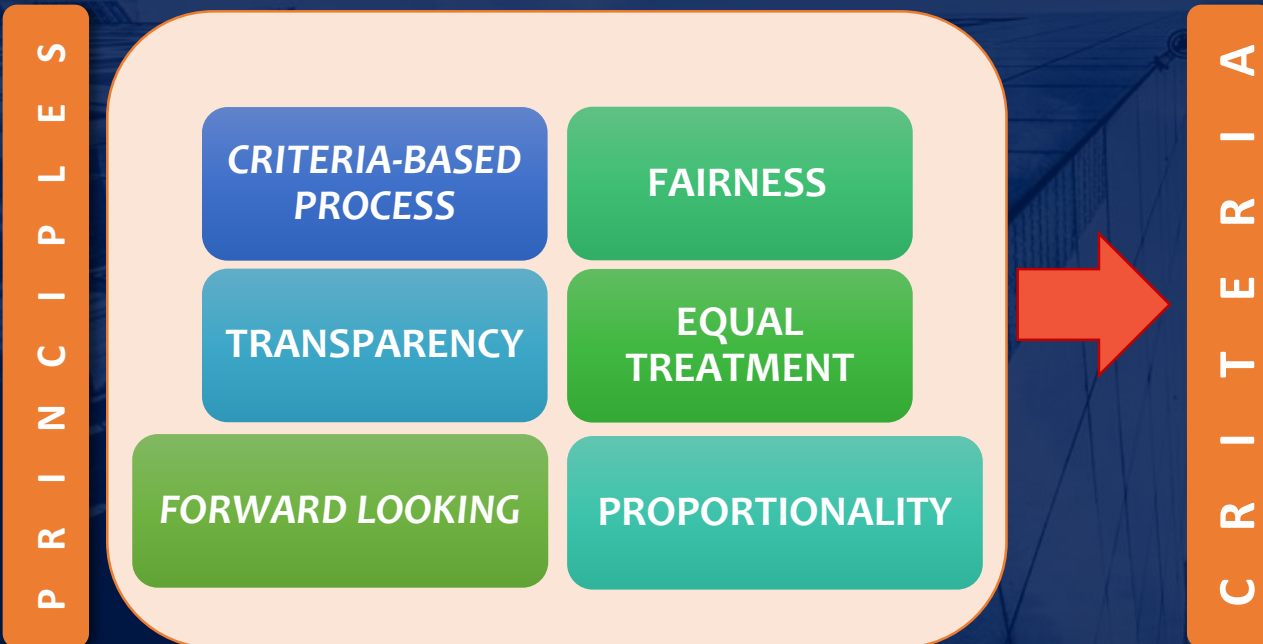
4. Results

- ❖ Success
- ❖ Failed
- ❖ Others



5. Follow Up

- ❖ License
- ❖ Prohibition
- ❖ Coordination with related institution.



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

1

Thorough assessment is required to ensure the business model is innovative and may not be classified as payment system service provider.

2

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

3

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.

4

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

5

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

6

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

- 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.