OJK: TOWARDS INTEGRATED FINANCIAL SERVICES REGULATION AND SUPERVISION

Otoritas Jasa Keuangan (OJK)

Indonesia Financial Services Authority
Indonesia

- What They Said ....
- The Economy
- Highlight of Capital Market and NBFIs
What They Said ... Indonesia

Indonesia today ...

- 16th-largest economy in the world
- 45 million members of the consuming class
- 53% of the population in cities producing 74% of GDP
- 55 million skilled workers in the Indonesian economy
- $0.5 trillion market opportunity in consumer services, agriculture and fisheries, resources, and education

... and in 2030

- 7th-largest economy in the world
- 135 million members of the consuming class
- 71% of the population in cities producing 86% of GDP
- 113 million skilled workers needed
- $1.8 trillion market opportunity in consumer services, agriculture and fisheries, resources, and education

Source: McKinsey Global Institute, September 2012
<table>
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<td>720</td>
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<td>1,415</td>
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<td>2,715</td>
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<td>686</td>
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<td>1,407</td>
<td>Argentina</td>
<td>2,620</td>
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Source: PwC Economics, January 2013
Source: McKinsey Global Institute, September 2012
Indonesia Direct Investment

Foreign Direct Investment Realization

USD Billion

2006  2007  2008  2009  2010  2011  2012
6,0  10,3  14,9  10,8  16,2  19,5  24,6

Domestic Direct Investment Realization

USD Billion

2006  2007  2008  2009  2010  2011  2012
2,3  3,8  2,1  3,6  6,7  8,7  9,5

Source: BKPM
**HIGHLIGHT OF CAPITAL MARKET AND NBFIS**

<table>
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<th>Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Q1-2013</th>
<th>Ytd (%)</th>
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<td>Composite Index</td>
<td>1,355.41</td>
<td>2,534.36</td>
<td>3,703.51</td>
<td>3,821.99</td>
<td>4,316.69</td>
<td>4,940.99</td>
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<td>Equity Market Capitalization (IDR Trillion)</td>
<td>1,076.49</td>
<td>2,019.38</td>
<td>3,247.10</td>
<td>3,537.29</td>
<td>4,127.00</td>
<td>4,813.00</td>
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<td>Corporate Bonds (IDR Trillion)</td>
<td>73,41</td>
<td>88.33</td>
<td>115.35</td>
<td>141.41</td>
<td>179.21</td>
<td>191.68</td>
<td>6.96</td>
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<td>Government Bonds (IDR Trillion)</td>
<td>534,46</td>
<td>574.66</td>
<td>641.21</td>
<td>723.61</td>
<td>820.27</td>
<td>861.52</td>
<td>5.03</td>
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<td>Ratio of Capital Market Cap. to GDP (%)</td>
<td>33.80</td>
<td>47.78</td>
<td>62.33</td>
<td>59.27</td>
<td>62.20</td>
<td>71.17</td>
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<td>Ratio of Equity Market Cap. to GDP (%)</td>
<td>21.73</td>
<td>35.97</td>
<td>50.55</td>
<td>47.63</td>
<td>50.07</td>
<td>58.40</td>
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<td>Ratio of Corporate Bonds to GDP (%)</td>
<td>1.47</td>
<td>1.57</td>
<td>1.80</td>
<td>1.90</td>
<td>2.17</td>
<td>2.33</td>
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<tr>
<td>Ratio of Government Bonds to GDP (%)</td>
<td>10.61</td>
<td>10.24</td>
<td>9.98</td>
<td>9.74</td>
<td>9.95</td>
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<td>Net Asset Value of Mutual Funds (IDR Trillion)</td>
<td>74.01</td>
<td>116.57</td>
<td>153.48</td>
<td>193.72</td>
<td>187.59</td>
<td>192.90</td>
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<td>Number of Mutual Funds Products</td>
<td>567</td>
<td>610</td>
<td>558</td>
<td>646</td>
<td>754</td>
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<td>Issuers:</td>
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<td>Equity</td>
<td>396</td>
<td>398</td>
<td>420</td>
<td>440</td>
<td>459</td>
<td>464</td>
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<td>Corporate Bonds</td>
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<td>86</td>
<td>83</td>
<td>92</td>
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<td>98</td>
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<tr>
<td>Net Asset of Pension Funds (IDR Trillion)</td>
<td>90.35</td>
<td>112.53</td>
<td>130.39</td>
<td>142.03</td>
<td>158.37</td>
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<td>Asset of Multifinance Companies (IDR Trillion)</td>
<td>168.50</td>
<td>174.44</td>
<td>230.30</td>
<td>291.38</td>
<td>341.78</td>
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<td>Asset of Insurance Companies (IDR Trillion)</td>
<td>246.25</td>
<td>325.93</td>
<td>412.14</td>
<td>490.95</td>
<td>569.32</td>
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</table>

GDP 2012: IDR 8,241.9 trillion
In 2012, financing provided by the financial sector (excl. government debt securities) was approx. IDR 550 triliun (USD 47 billion) and is dominated by the banking sector, approx. 80% of the total 2012 financing.

In the equity market, the Composite Index of the Indonesia Stock Exchange (JCI Index/IHSG) is among the highest-performing indices in the Asia Pacific Region. In 2012, its return was 12.94%. As of Q1-2013, its year-to-date return was 14.46%, the third best-performing index in the region, after Nikkei 225 (Japan) and Philippine Composite Index.
The growth of JCI Index is also supported by the capital inflow from foreign investors. It somehow reflects the confidence of foreign investors, amidst global uncertainty. During Q1-2013, foreign capital inflow reached IDR 18.77 trillion (USD 1.94 billion).

Despite significant foreign inflows, there is an increase in the proportion of domestic ownership. As of Q1-2013, domestic ownership is 41.36% of total, increased from 41.21% by end of 2012 and 40.14% by end of 2011.

Capital market’s role as a source of financing is increasing. As of Q1-2013, there are 464 listed companies and 98 bonds issuers listed in the IDX. The number continuously increases after the 2008 global financial crisis.
LISTED COMPANIES’ AND MUTUAL FUNDS PERFORMANCE

The level of listed companies’ performance is in a positive trend after the 2008 crisis. ROA, ROE, and dividend yield are stable and tend to increase. This may contribute to foreign inflows in the equity market.

As of Q1-2013, the total net asset value (NAV) of mutual funds was IDR 192.9 trillion (USD 20 billion), a 2.8% increase from the end of 2012. The increase of NAV is supported by JCI Index performance and new subscriptions.
By the end of 2012, the values of assets and investments of insurance industry are increasing. Premium revenues also show a positive trend.

Despite positive growth, insurance penetration (gross premium/GDP) and density (gross premium/populations) still needs to be improved. By the end of 2012, the insurance penetration was 1.78% (2011: 1.78%) and the density was IDR600,000 (2011: IDR548,000).
As of 2012, net assets of pension fund industry were IDR158.37 trillion, a 11.5% increase from 2011. The number of pension participants was approx. 3 million participants.

Financing provided by multifinance industry (leasing, factoring, and consumer financing) is also growing. As of December 2012, financing assets of finance company was IDR302 trillion (88.3% of total assets - IDR342 trillion), increased by 23% from 2011. After the enactment of new regulation on Loan To Value (LTV) on August 2012, financing still grows, but in slower pace.
Indonesia

Indonesia Financial Services Authority

- Background
- Mandate and Authority
- Main Strategies
- Current Priorities
Regulatory and Supervisory Function in the Banking Sector

Law Number 21 of 2011

Regulatory and Supervisory Function in the Capital Market and NBFIs

Indonesia Financial Services Authority
Indonesia Financial Services Authority

Background

Urgency to Rearrange Regulatory Bodies in Financial Services Sector

- **Evolution**
  - Conglomeration
  - Hybrid products
  - Regulatory arbitrage

- **Problems**
  - Moral hazard
  - Customer Protection
  - Coordination

- **The Law**
  - Bank Indonesia Act: Establishment of Financial Services Authority
"Being a trusted financial services supervisor, protect the interests of consumers and the community, and able to make the financial services industry become a pillar of the national economy, globally competitive and promote the general welfare

**Mission 1**
Financial services sector are implemented in an organised, fair, transparent and accountable manner,

**Mission 2**
Realise the financial systems that grow in a sustainable and stable manner

**Mission 3**
Protecting the interests of consumers and the society
Indonesia Financial Services Authority

FINANCIAL SYSTEM STABILITY

Macroprudential by BI

Microprudential by OJK

Prudential Regulation

Market Conduct & Consumer Protection

Focused on safety and soundness of individual financial institution

Focused on market conduct & customer protection from unfair practices

1. Market Confidence
2. Level Playing Filed
Board of Commissioners

1. Chairman
2. Vice Chairman
3. Chief Executive for Banking Supervision
4. Chief Executive for Capital Market Supervision
5. Chief Executive for NBFI Supervision
6. Chief of the Audit Council
7. Member for Education and Consumer Protection
8. Ex-officio members: Bank Indonesia
9. Ex-officio members: Ministry of Finance

Elected on June 2012 by the Parliament
- Collective and Collegial
- Have Equal Voting Rights
Indonesia Financial Services Authority

Stakeholders Perspective
(Outcome)

An Agile Financial Sector, Contributive and Inclusive

Core Process

- The improvement of regulation and supervision capacity
- The integration of financial institution regulation and supervision
- The enhancement of financial system resiliency and performance
- The improvement of financial system stability
- The development of financial education and consumer protection
- The improvement of corporate governance and risk management in financial institutions

Internal - Learning & Growth

- The improvement of human resources
- The enhancement of internal governance and quality assurance
FOCUS ON CAPITAL MARKET DEVELOPMENT

I. CAPITAL MARKET DEEPENING
- The role of capital market as a source of financing.
- Developing debt capital market and its supervision.
- Developing Islamic capital market.
- Improving the efficiency and credibility of trading infrastructure.

II. MARKET INTEGRITY ENHANCEMENT
- Investors’ funds protection
- Enhancing the quality of market players

III. LAW ENFORCEMENT IMPROVEMENT
- Improving the quality and quantity of investigation
- Conducting intelligence activities
- Enhancing effective coordination with other law enforcement agencies
FOCUS ON NBFI DEVELOPMENT

Enhancing and Harmonizing Regulation

Improving Supervision Mechanisms and Law Enforcement

NBFI Development
National Strategy on Financial Literacy

- Guidelines for financial authority, financial institutions and other stakeholders
- Goals:
  - Increase community literacy become well literate
  - Increase financial product usage

Financial Customer Care

- Information
- Complaints Handling

- Telp: (62-21) 500 – 655 (OJK)
- Fax: (62-21) 386 - 6032
- Email: konsumen@ojk.go.id

Baseline Survey

Education Website
The Financial Safety Net

Financial System Stability Coordination Forum

Chairman OJK  Gov. BI  MoF (Chair)  Chairman LPS
Terima Kasih....