

## Client Alert

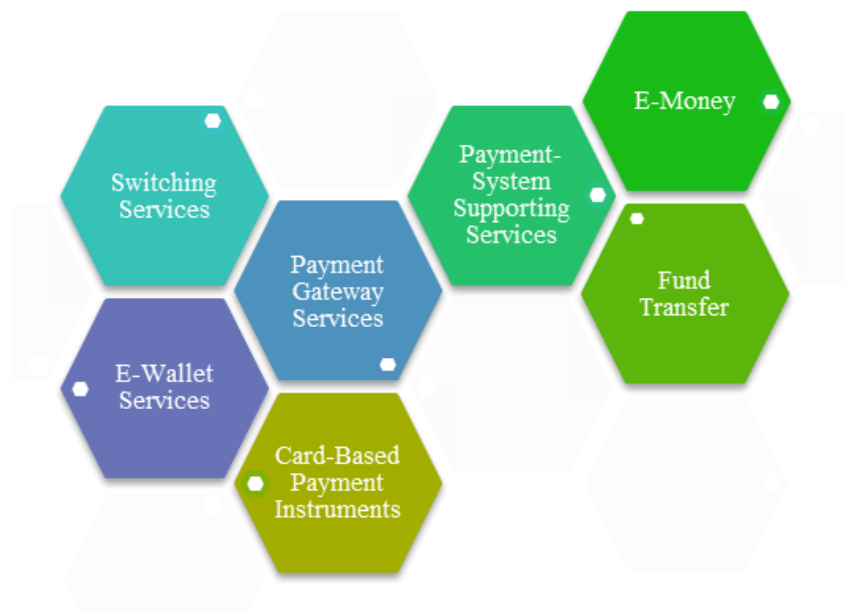


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### Indonesia's FinTech Office and New FinTech Regulation

Bank Indonesia just launched a FinTech Office on 14 November 2016. The office is expected to boost the growth of the Indonesian FinTech industry, optimize technology developments in the sector, improve the industry's competitiveness and provide feedback from business players.

Bank Indonesia also issued the FinTech Regulation, i.e., Bank Indonesia Regulation No. 18/40/PBI/2016 on Implementation of Payment Transactions Processing ("**Regulation No. 18**"). Regulation No. 18 introduces new FinTech services to Indonesia's payment-system industry, which previously consisted of e-money, card-based payment instruments and fund transfers. The below diagram illustrates the current Indonesian FinTech ecosystem after the issuance of Regulation No. 18.



Along with e-money operators and card-based payment system operators, switching operators, payment gateway companies and e-wallet companies are classified as the operators of payment-system services. The payment-system supporting services cover, among other things, providers of data centers or disaster recovery centers, contactless technology providers and security features providers.

Regulation No. 18 sets out that payment-gateway operators, e-wallet operators and switching operators, which can be in the form of non-bank limited liability companies, must apply for a business license for their activities to Bank Indonesia. Operators that hold payment-system business licenses from Bank Indonesia must also seek Bank Indonesia's approval for:

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- (i). development of payment-system activities;
- (ii). development of payment-system products; and
- (iii). cooperation with other parties, which should cover cooperation with foreign entities.

Regulation No. 18 introduces a new foreign investment limitation only for switching operators, principals, clearing operators and final settlement operators. Interestingly, the foreign ownership limitation does not apply to issuers and acquirers of e-money and card-based payment instruments.

Regulation No. 18 emphasizes that payment-transaction processing operators must, among other things:

- (i). implement effective and consistent risk management;
- (ii). perform the processing of payment transactions domestically; and
- (iii). implement consumer protection.

Further, Regulation No. 18 prohibits operators from processing payment transactions with virtual currency. This formalizes Bank Indonesia's view that Bank Indonesia does not recognize virtual currency as a valid payment instrument.

For compliance, switching operators, payment gateway operators and e-wallet operators that had performed their activities before Regulation No. 18 was enacted must apply for a business license to Bank Indonesia at the latest six months after the enactment of Regulation No. 18.