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The Implementing Regulation of the Payment Systems Regulation: Payment Services Providers

Following the issuance of Bank Indonesia Regulation No. 22/23/PBI/2020 on Payment Systems (“**Payment Systems Regulation**”) on 30 December 2020 which came into force on 1 July 2021 that serves as an “umbrella” regulation that provides a regulatory framework for the Indonesian payment systems industry, an advisory on which can be found at this link: [“Advisory on the Payment Systems Regulation”](#), this advisory discusses what follows the Payment Systems Regulation, that is one of the two newly issued implementing regulations of the Payment Systems Regulation, ie. Bank Indonesia Regulation No. 23/6/PBI/2021 on Payment Services Providers (*Penyedia Jasa Pembayaran* – “**PJP**”) which was issued and came into force on 1 July 2021 (“**PBI PJP**”).

As discussed in the Advisory on the Payment Systems Regulation, the Payment Systems Regulation classifies payment systems services providers into two main categories: (i) PJP, which further regulated under the PBI PJP; and (ii) Payment System Infrastructure Providers (*Penyelenggara Infrastruktur Sistem Pembayaran* – “**PIP**”), which further regulated under Bank Indonesia Regulation No. 23/7/PBI/2021 on PIP. Upon this classification, the following types of licensed payment system services providers are now categorized as PJPs and they are subject to the PBI PJP:

1. Payment Gateway Providers;
2. E-Wallet Providers;
3. E-Money Issuers;
4. Issuers and Acquirers of Debit Cards and Credit Cards; and
5. Fund Remittance Operators.

This PBI PJP has 276 Articles in 11 chapters covering various topics, and it revokes the following regulations and provisions:

1. Bank Indonesia Regulation No. 11/11/PBI/2009 on the Organization of Card-Based Payment Instrument Activities and its amendment;
2. Bank Indonesia Regulation No.18/40/PBI/2016 on the Organization of the Processing of Payment Transactions;
3. Bank Indonesia Regulation No. 19/12/PBI/2017 on the Organization of Financial Technology;
4. Bank Indonesia Regulation 20/6/PBI/2018 on Electronic Money;
5. the provisions on the arrangement and supervision of payment systems of Bank Indonesia Regulation No. 18/9/PBI/2016 on the Arrangement and Supervision of Payment Systems and the Management of the Rupiah Currency; and
6. the provisions on licensing of Bank Indonesia Regulation No. 14/23/PBI/2012 on Fund Remittance. Other than the licensing provisions, fund remittance operators are still subject to this Bank Indonesia regulation on Fund Remittance.

Meanwhile, the implementing regulations of the regulations number 1. to 4. above remain in effect until 30 June 2022 as long as they are not contrary to the PBI PJP.

Given the broad scope of the PBI PJP, this advisory only focuses on the scope of activities of PJPs, the licensing requirements, the ongoing capital, the single ownership policy and restrictions on corporate actions, particularly the requirements which apply to non-bank entity PJPs.

THE SCOPE OF ACTIVITIES OF PJPs

Upon the issuance of the Payment Systems Regulation, the structure of the payments systems industry changed from an institution-based approach to an activity and risk-based approach. PBI PJP introduces the following complete scope of activities of PJPs:

Scope of Activities	Remarks
Providing sources of funds information	This activity includes the provision of information about sources of funds for initiating payments with the users' consent, which is conducted through cooperation and/or a connection with a PJP administering sources of funds or other PJPs determined by Bank Indonesia.
Initiating payments and/or acquiring services	This activity includes forwarding payment transactions, which includes the following: <ol style="list-style-type: none"> 1. forwarding orders and instructions to move funds through tools, media and/or sets of procedures using certain methods or technology in the payment transactions; and/or 2. forwarding payment-transaction data in the form of instrument data, payment-transaction amount data and other payment-transaction data.

	<p>In forwarding payment transactions, PJPs may:</p> <ol style="list-style-type: none"> 1. store data on sources of funds and/or access to sources of funds including providing a platform to facilitate users to store data on sources of funds and/or access to sources of funds; 2. process payment transactions through the use of various instruments; 3. acquire the providers of goods and/or services; 4. make advance payments to providers of goods and/or services; and/or 5. forward funds (disbursements) to providers of goods and/or services.
Administering sources of funds	<p>This activity includes administering accounts for sources of funds and executing the authorization of payment transactions.</p> <p>The executing the authorization of payment transactions are approval for a transaction after the relevant payment transaction data has been forwarded through the following methods:</p> <ol style="list-style-type: none"> 1. the verification or authentication of the identities of the owners of the sources of funds that conduct payment transactions; 2. the validation of access to sources of funds and payment transactions; and 3. ensuring the adequacy of the sources of funds.
Fund Remittance services	<p>This activity includes accepting and executing fund remittance instructions where the sources of funds do not originate from accounts administered by the fund remittance operators.</p>

THE LICENSING REQUIREMENTS

1. License Categories

To engage in the above PJP activities, both new players and existing licensed payment system services providers must first obtain a PJP license.

Bank Indonesia issues 3 categories of PJP licenses depending on the activities of the PJP. A PJP License allows the PJP to engage in several activities, as long as the activities are in the same category. The license category determines the minimum paid up capital (initial capital) that the PJP must have as shown in the table below.

License Category One	License Category Two	License Category Three	
Providing sources of funds information	Providing sources of funds information	Fund remittance services	
Initiating payments and/or acquiring services	Initiating payments and/or acquiring services	Other activities determined by Bank Indonesia	
Administering sources of funds			
Fund remittance services			
Paid Up Capital (Initial Capital) for License Category One	Paid Up Capital (Initial Capital) for License Category Two	Paid Up Capital (Initial Capital) for License Category Three	
IDR15 Billion (approx. USD1,034,482.76 ¹)	IDR5 Billion (approx. USD344,827.59)	If providing a system for other PJPs holding license category three	IDR1 Billion (approx. USD68,965.52)
		If <u>not</u> providing a system for other PJPs holding license category three	IDR500 Million (approx. USD34,482.76)

2. The Term of a PJP License

Generally, the PJP licenses issued by Bank Indonesia do not have a specific term. However, Bank Indonesia can determine a PJP license term if Bank Indonesia deems necessary, according to its license category, activity it engages in, and/or the processed sources of funds.

3. The Requirements to Obtain a PJP License

The following are the aspects of the requirements that must be satisfied by a party that applies for a PJP license:

Aspects	Remarks
Institutional	This aspect includes the legality of the legal entity, its ownership, control and management.

¹ All USD figures assume an exchange rate of USD1 = IDR14,500

The highlighted requirements for a non-bank entity PJP in this aspect are the following:

1. Ownership and Control

At least 15% of all the shares and 51% of the shares with voting rights of a non-bank entity PJP (calculated up to the ultimate shareholder level) must be owned by Indonesian parties.

The regulation indicates that foreign parties may hold up to 85% of all the shares, but subject to the control limitation explained in the following paragraph. For a non-bank entity PJP in the form of a listed company, the foreign ownership limitation only applies to shareholding percentages of 5% or more. Shareholdings with a percentage below 5% traded on the stock exchange are calculated as domestically owned shares, unless:

- a. they are traded on the Indonesian stock exchange and declared to be owned by a foreign party by the party to be licensed as a PJP; or
- b. they are traded outside Indonesia.

With regard to control in a non-bank entity PJP, foreign parties are only allowed to hold up to 49% of the shares with voting rights (calculated up to the ultimate shareholder level). In addition, if its shares in a non-bank entity PJP grants a shareholder a special right to:

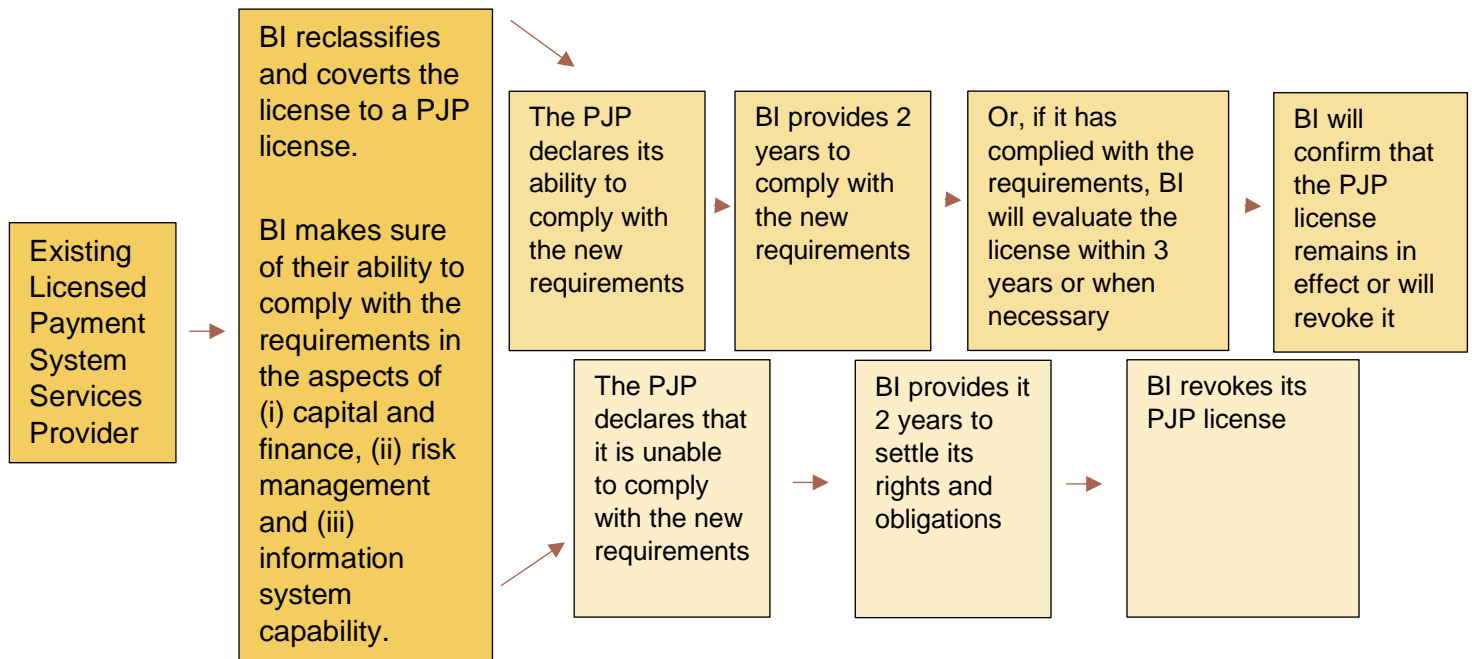
- a. nominate a majority of the members of the Board of Directors (“**BOD**”) and/or Board of Commissioners (“**BOC**”); and/or
- b. veto a decision or approval of the General Meeting of Shareholders that has a significant impact on the company, such as an amendment to the Articles of Association, a change to the capital structure, the appointment and termination of members of the BOD and BOC, a merger, consolidation, acquisition, split-off and dissolution of the company,

the right must be held by an Indonesian shareholder(s). This means that even if a foreign shareholder can hold up to 85% of all the shares in a PJP company, control of the company must remain with the Indonesian shareholders.

To determine the ownership and control of a PJP company, the company must submit its self-assessment of the ownership and control structure to Bank Indonesia at least once in a year or anytime there is a change to the ownership and control structure. If there is a discrepancy between the assessment made by the company and that made by Bank Indonesia, the assessment made by Bank Indonesia will prevail.

	<p>2. Management</p> <p>At least 1 member of the BOD must be domiciled in Indonesia.</p> <p>Bank Indonesia will conduct a fit and proper test of the following parties:</p> <ul style="list-style-type: none"> a. shareholders of 25% or more of all the shares issued with voting rights or less than 25% but it can be proven that the party concerned has control of the party to be licensed as a PJP, either directly or indirectly; b. the members of the BOD and BOC. <p>Bank Indonesia will conduct the fit and proper tests for the following:</p> <ul style="list-style-type: none"> a. to process the application for a PJP license; b. a plan to change the shareholders or members of the BOD or BOC; c. a Bank Indonesia decision based on its supervision (if it has found a violation, fraud and/or deterioration of business performance that has a significant impact on the operation of the payment system). <p>The fit and proper test is conducted through an administrative assessment and/or interview to ensure the following requirements are satisfied:</p> <ul style="list-style-type: none"> a. integrity; b. a financial reputation; c. financial feasibility; and/or d. competence.
Capital And Finance	<p>This aspect includes the minimum paid up capital requirement, a feasibility analysis and business projections.</p> <p>The highlighted requirement in this aspect is that the party to be licensed as a PJP must satisfy the paid-up capital requirement (initial capital) explained in 1. above.</p>
Risk Management	<p>This aspect includes the legal risks, operational risks and liquidity risks.</p>
Information System Capability	<p>This aspect includes the security and reliability of the information system ie, the availability of security control, a fraud management system, information system audits and security testing, and certain level of capability and availability of the information system.</p>

4. How an Existing Licensed Payment System Services Provider Can Convert Its License to a PJP License



The institutional aspect requirements regarding the ownership and control only apply to existing licensed payment system services providers as non-bank entity PJPs if, after 1 July 2021, a change is made to the share ownership composition by the foreign parties or there is a change in control by the foreign parties.

ONGOING CAPITAL

In addition to the initial capital, now a PJP must also meet certain ongoing capital requirements under the PBI PJP during the operation of its business activities. The ongoing capital consists of:

1. core capital, which includes:
 - a. the main core capital (*modal inti utama*); and
 - b. additional core capital (*modal inti tambahan*); and
2. supplementary capital (*modal pelengkap*).

The minimum ongoing capital for a non-bank entity PJP is calculated according to the payment systems capital requirement ratio with the following conditions:

1. at least 10% (ten percent) of the risk-weighted transactions (*transaksi tertimbang menurut risiko*) for all PJP classification (systemic, critical, general); and
2. additional capital requirements (surcharges) according to the PJP classification of:
 - a. 2.5% of risk-weighted transactions (*transaksi tertimbang menurut risiko*) for a PJP with a systemic impact²; and
 - b. 1.5% of risk-weighted transactions (*transaksi tertimbang menurut risiko*) for a PJP with

² According to the PBI PJP, a PJP with a systemic impact means a PJP that has a systemic impact on the payment systems and/or financial systems in the event that the PJP experiences a disruption or failure.

a critical impact³.

THE SINGLE OWNERSHIP POLICY AND RESTRICTIONS ON CORPORATE ACTIONS

Under the PBI PJP, no party may hold:

1. shares constituting 25% (twenty five percent) or more of all the shares issued by a PJP with voting rights; or
2. shares constituting less than 25% (twenty five percent) of all the shares issued by a PJP with voting rights but it can be proven that the party concerned has control of the PJP, either directly or indirectly,

in more than 1 non-bank entity holding a license as a PJP in the same category and/or in more than 1 non-bank entity holding a license as a PJP and a determination as a PIP.

In addition, the PBI PJP also prohibits non-bank entity PJPs from taking any corporate action which will cause a change of the party which holds:

1. shares constituting 25% (twenty five percent) or more of all the shares issued by the PJP with voting rights; or
2. shares constituting less than 25% (twenty five percent) of all the shares issued by the PJP with voting rights but it can be proven that the party concerned has control of the PJP, either directly or indirectly,

within 5 years since the PJP license was issued the first time except with Bank Indonesia's approval.

³ According to the PBI PJP, a PJP with a critical impact means PJP that has a critical impact on the payment systems and/or financial systems in the event that the PJP experiences a disruption or failure.



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