



Bank Indonesia's National Payment Gateway Introduced

The regulation on the national payment gateway has finally been issued. Bank Indonesia ("BI"), through its regulation No. 19/8/PBI/2017 ("PBI 19/8") which was promulgated on 22 June 2017, aims to establish national payment system interoperability by implementing switching interconnectivity.

The following is a general overview of PBI 19/8.

The National Payment Gateway: an Introduction

The National Payment Gateway or NPG means a system which consists of standards, switching, and services developed through a set of regulations and mechanisms (arrangements) which integrate a variety of payment instruments and channels nationally. Through the NPG, BI expects every payment instrument (eg ATM/Debit Cards, Credit Cards, e-money) to be usable in every payment channel (eg EDC at POS) not owned by the relevant issuers of the payment instruments – known as "*interoperability*". This can be achieved through connecting switching networks among the switching companies – known as "*switching interconnectivity*".

Under PBI 19/8, the NPG applies to all domestic transactions, ie transactions (i) using payment instruments issued in Indonesia; and (ii) entered into in Indonesia. Every domestic transaction must be processed through the NPG, as follows:

- a. ATM/debit cards will be subject to the BI regulations on payment instruments using cards (BI Regulation No. 11/11/PBI/2009 – as amended – and its implementing regulations); and
- b. payment instruments other than ATM/debit cards will be subject to a Regulation of the Members of the Governing Council of BI to be issued later.

Parties Involved in the NPG

The parties involved in the NPG are (i) the operators of the NPG; and (ii) parties connected to the NPG.

The Operators of the NPG

The operators of the NPG consist of (a) the Standards Institution; (b) Switching Institutions; and (c) Services Institutions.

a. Standards Institution

The principal function of the Standards Institution is to create, develop and manage standardized technical and operational specifications ("**Standards**") for the interconnectivity and interoperability of the payment instruments and channels, as well as for switching and security. To do this, the Standards Institution will, among other things, manage and implement the certification of conformity to the Standards, act as the certifying authority, etc. The Standards will be owned by BI.

Makarim & Taira S.

Summitmas I, 16th & 17th Fls.
Jl. Jend. Sudirman Kav. 61-62
Jakarta 12190
Indonesia
P: (62-21) 5080 8300, 252 1272
F: (62-21) 252 2750, 252 2751
www.makarim.com

M&T Advisory is an email publication prepared by the Indonesian law firm, Makarim & Taira S. It is only intended to inform generally on the topics covered and should not be treated as legal advice or relied upon when making investment or business decisions. Should you have any questions on any matter contained in M&T Advisory, or other comments generally, please contact advisories@makarim.com

Any party which intends to become the Standards Institution must request a determination (*penetapan*) from BI. The Standards Institution must be a representative of the national payment industry (ie represent principals, issuers, acquirers, clearing operators, and end-settlement operators). From news available in certain media, BI repeatedly mentioned that *Asosiasi Sistem Pembayaran Indonesia* (or ASPI) may likely be appointed as the Standards Institution.

b. Switching Institutions

The role of Switching Institutions in the NPG is to process payment transaction data domestically for the interconnectivity and interoperability of the systems. Note that a Switching Institution (*Lembaga Switching*) is not the same as a Switching Provider (*Penyelenggara Switching*) referred to in BI Regulation No. 18/40/PBI/2016 on the Processing of Payment Transactions ("PBI 18/40"). Not all Switching Providers can act as a Switching Institution in an NPG framework.

If a Switching Provider (holding a Switching Provider License) wishes to become a Switching Institution, it must obtain a specific approval from BI for this new role. When applying for the BI approval, Switching Providers must already have domestic processing infrastructure in Indonesia and the capacity to perform the switching function in the NPG. Switching Providers must also have complied with the 20% foreign shareholding limitation,¹ and have at least IDR 50 billion in paid up capital.

Specifically for an existing Principal that is planning to be a Switching Institution, it may apply for the BI approval without having to obtain a separate Switching Provider License, provided that (i) the application is submitted within 3 months of 22 June 2017; and (ii) it satisfies the Switching Provider requirements, except for the Switching Provider License and the minimum paid-up capital. Principals remain responsible for providing services² to their members.

Although the BI NPG regulation is in effect, existing Switching Providers which are not Switching Institutions may continue doing business, provided that they are connected to Switching Institutions and their cooperation is approved by BI.³ Switching Institutions must make sure that all domestic transactions are processed through the NPG.

In addition, a Switching Institution must become interconnected to at least two other Switching Institutions and BI may impose a certain policy on the interconnectivity of these Switching Institutions.

c. Services Institutions

The roles of Services Institutions are, among others, the following:

- i. to maintain the security of payment transactions and customer data;
- ii. to perform reconciliation, clearing, and settlement;
- iii. to resolve disputes over payment transactions in order to protect customers; etc.

Like the Standards Institution, Services Institutions are determined by BI. Services Institutions must be jointly owned by a Switching Institution and a BUKU 4 Bank. Specifically for BUKU 4 Banks, the ownership may be indirect.

Before any Services Institution is determined, BI may appoint certain parties (ie principals, issuers, payment gateway providers) as Services Institutions to perform all their duties, taking into account input from the payment system industry.

Parties Connected to the NPG

Under PBI 19/8, parties connected to the NPG include issuers, acquirers, and payment gateway providers. Bank Indonesia may also name other parties than issuers, acquirers, payment gateway providers which provide payment services to consumers.

¹. BI may apply the foreign shareholding limitation up to the ultimate/beneficial owners.

². Services Activities are ATM/Debit Cards, excluding management of the life cycle of SAM or mobile apps.

³. Bank Indonesia, *Frequently Asked Questions*, accessed through <http://www.bi.go.id>, posted on 6 July 2017. In response to the questions, Bank Indonesia makes an implicit reference to Article 17 of PBI 19/8. Therefore, its explanation may also apply to existing principals.

Features of the NPG

PBI 19/8 introduces such features of the NPG as the pricing scheme, services feature, and national branding.

Pricing Scheme

BI determines the pricing scheme that the NPG operators must adhere to. The pricing scheme is based on several principles, including cost recovery, a reasonable margin, risks, and convenience, etc. In determining the pricing scheme, BI may consider input from other parties, ie payment system industry operators/providers (principals, issuers, acquirers, clearing operators, end-settlement operators) and associations.

Services Features

Both the operators of the NPG and parties connected to the NPG must provide certain services features for transactions processed through the NPG. Services features include, among others, payment, fund transfer, cash withdrawal. These features must be provided according to the BI regulations which apply to the relevant instruments.

National Branding

Through national branding, BI aims to expand acceptance of the NPG brand. This will include rules related to the logo and domestic processing. Parties connected to the NPG must (i) include the logo in the payment instruments they issue or payment channels they provide; and (ii) accept payment instruments indicating the national logo. PBI 19/8 is silent, however, on whether it applies to newly issued cards or it includes existing cards.

Reporting

PBI 19/8 requires operators of the NPG to submit regular reports and incidental reports at different times.

The Standards Institution must submit quarterly reports and an annual report. Incidental reports are required in the event of, among other things, a change to its capital structure or shareholders, or the data or information it submitted to BI when applying for the appointment.

Switching Institutions must submit the reports required under PBI 18/40. Switching Institutions must also report on their operation, ie anything related to the organization of the Switching Institution including payment transactions among members, payment transactions among Switching Institutions, and specific data required for analysis.

Services Institutions must, in addition to quarterly and semi-annual reports, submit regular reports including an information system audit report from an independent auditor at least once a year. Incidental reports must be submitted in the event of, among other things, any disruption to the services and the follow up action, a change of management, a change to the data and information submitted when applying to be appointed as a Services Institution.

Parties connected to the NPG must submit the reports required under PBI 18/40.

Closing

PBI 19/8 has been in effect since 22 June 2017.

Some provisions of PBI 19/8 remain unclear so industry players should wait for the implementing regulation (ie The Regulation of the Members of the Board of Governors of BI) to be issued with further details, including the procedures for obtaining an appointment and approval. It is expected that the implementing regulations will be issued in August 2017.

* * *

Contacts:

Maria Sagrado - maria.sagrado@makarim.com
Frederick Simanjuntak - frederick.simanjuntak@makarim.com
Yanuar Pribadhie - yanuar.pribadhie@makarim.com