



## STRENGTHENING THE SUPERVISION OF E-MONEY

Bank Indonesia has issued Regulation No. 20/6/PBI/2018 on Electronic Money (e-Money) ("PBI 20/6") which revokes the previous regulation on e-Money. This new regulation has attracted comments from e-money related business companies as it imposes greater and stricter requirements for existing providers as well as new e-Money providers.

The following are the key provisions of PBI 20/6.

### Closed Loop vs. Open Loop

PBI 20/6 divides e-Money into (i) closed loop and (ii) open loop e-Money. Both can be server-based or chip-based, and unregistered or registered. The previous Bank Indonesia regulation only regulated open loop e-Money and therefore, closed loop e-Money did not fall under the e-Money regulation.

Closed loop means e-Money which can only be used as a payment instrument in the provider of goods/services which is also the issuer of the e-Money. Examples include Starbucks loyalty card, Time zone points card, SOGO card etc.

Open loop means e-Money which can be used as a payment instrument in providers of goods/services which are not the issuers of the e-Money. Examples of these are Mandiri e-Money, Flazz card, GoPay etc. This includes e-Money used in the providers of goods/services which are not the issuer of the e-Money, but have an ownership/management relationship with the issuer of the e-Money, such as a group holding, franchise arrangement or online retail network.

All the above types of e-Money providers require a license from Bank Indonesia before they can operate their businesses, except for closed loop e-Money with floating funds amounting less than IDR 1 billion (or around USD71,500). An e-Money provider can be a bank or Indonesian limited liability company (PT) which is not a bank ("**Non-Bank Companies**").

### Payment System Services Provider Categories

PBI 20/6 divides payment system services providers into two major categories: front-end providers and back-end providers. Front-end providers include issuers, acquirers, payment gateway providers, electronic wallet providers, and fund transfer providers. Back-end providers include principals, switching providers, clearing operators, and end-settlement operators.

Under PBI 20/6, a provider cannot be a front-end provider and a back-end provider at the same time. Likewise, a controlling shareholder (see below) of a front-end provider cannot also be a controlling shareholder of a back-end provider. For example, X Limited cannot be a controlling shareholder of an issuer of e-Money, while at the same time, X Limited is the controlling shareholder of the e-Money principal. This provision also applies to providers of payment system services other than e-Money (e.g. credit cards or debit cards). Existing players are subject to the above requirement when they apply for a new license.

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## Shareholding Provision

PBI 20/6 introduces the concept of a controlling shareholder. Under the regulation, a controlling shareholder is either of the following:

- a. a shareholder holding 25% or more of issued shares with voting rights;
- b. a shareholder holding less than 25% of issued shares with voting rights, but it can be proven that the shareholder exercises control in the company, directly or indirectly.

As part of the assessment of an e-Money provider's license application, Bank Indonesia also administers a fit and proper test of, among others, the controlling shareholder of the company. In addition, as explained above, there are restrictions on a controlling shareholder also being a controlling shareholder in another payment system provider.

Restrictions on foreign shareholdings in e-Money providers:

- a. in issuers: up to 49% of their shares may be directly or indirectly owned by foreigners;
- b. in principals, switching providers, clearing operators, and end-settlement operators: up to 20% of their shares may be owned by foreigners.

Bank Indonesia may consider a certain percentage foreign shareholding given such factors as the track record of the company or its shareholders, the e-Money technology used and the scope of the use of the e-Money.

The restrictions on foreign shareholdings in existing issuers apply when their shareholders change.

Any planned merger, consolidation or segregation must be reported to Bank Indonesia. Meanwhile, to acquire an e-Money provider prior written approval from Bank Indonesia is required. However, Non-Bank Companies acting as providers of e-Money may not conduct any corporate action which would cause a change of controlling shareholder within 5 years of the date of issuance of the first license, unless approved otherwise by Bank Indonesia.

## Capitalization

To issue e-Money, an issuer which is a Non-Bank Company must have paid-up capital of at least IDR 3 billion. The paid-up capital must be increased according to the floating funds that the issuer manages. For example, if the average value of the floating funds reaches from IDR 3 billion to IDR 5 billion, the paid-up capital must be increased to be at least IDR 6 billion.

Existing players must comply with the above requirement within 6 months of 4 May 2018, but the average value of their floating funds is calculated as of 4 May 2018.

## Licenses

To engage in the e-Money business, a license is required (with license an exemption for closed loop e-Money discussed above). An e-Money provider's license is valid up to 5 years extendable upon application and subject to Bank Indonesia approval. Meanwhile, e-money providers' licenses issued before 4 May 2018 remain valid for 5 years as of 4 May 2018.

Despite the above, Bank Indonesia has the right to evaluate a license it has issued and depending on the result of the evaluation, may shorten or extend the validity of the license or revoke it.

To process a license application, Bank Indonesia administers a fit and proper test of the (i) controlling shareholders; (ii) members of the Board of Directors (a majority of whom must be domicile in Indonesia); and (iii) members of the Board of Commissioners. A fit and proper test may also be administered after a license has been obtained (eg if there is an indication of fraud, or if there is any corporate action).

## **Domestic Transaction Processing and the Rupiah Requirement**

e-Money issued and used in Indonesia must be processed domestically and e-Money issued abroad may only be used in Indonesia through payment channels which are connected to the national payment gateway (NPG). Parties handling transactions involving offshore-issued e-Money must cooperate with BUKU 4 banks and be connected to the national payment gateway.

e-Money issued in Indonesia must state its value in Rupiah. Transactions entered into in Indonesia using e-Money must use Rupiah.

Indonesian merchants can only cooperate with e-Money providers licensed by Bank Indonesia.

## **Deposit Limits and Features**

e-Money deposits are limited to the following amounts:

- a. unregistered e-Money: IDR 2 million;
- b. registered e-Money: IDR 10 million.

Monthly e-Money deposits are limited to IDR 20 million calculated based on the incoming funds.

e-Money can have the following features:

- a. Top up;
- b. Payment for purchasing transactions; and
- c. Payment for billings.

A fund transfer feature is only possible for open loop and registered e-Money and the provider must have a fund transfer services provider license from Bank Indonesia. Bank Indonesia may also determine other features that can be provided by the providers in addition to the above.

## **Fees**

e-Money users may be charged the following fees:

- (i) an issuance fee or replacement fee;
- (ii) a top-up fee;
- (iii) an off us deposit withdrawal fee; and
- (iv) a fund transfer fee for fund transfers among users with different e-Money issuers.

Bank Indonesia may determine the type and amount of the fees that e-Money issuers can charge.

## **Prohibitions**

Issuers may not issue e-Money with a value higher or lower than that of the money paid to them. The value stored in e-Money must be available to be used until the balance is exhausted. Issuers may not impose a minimum e-Money value requirement to use their e-Money or a requirement to redeem the e-Money. Neither may issuers unilaterally block a user's access to the e-Money or charge a redemption fee if a user wishes to terminate its use of the e-Money. In addition, issuers may not delete, change or eliminate the value of the e-Money when it expires.

e-Money providers may not accept, use, relate or process transactions using e-Money using a virtual currency (e.g. bitcoin).

Merchants may not impose a surcharge for transactions, and issuers and acquirers must ensure all Merchants' compliance with this requirement.

e-Money providers providing public services (like transportation, educational services etc.) may not cooperate with third parties on an exclusive basis.

## **Sanctions**

Sanctions for non-compliance vary. Depending on the type of non-compliance, they can be warnings, fines, a suspension of the business, or the revocation of the license.

## **Transitional Provisions**

Existing e-Money business players which were exempt from the license requirement previously, but are now subject to the license requirement under PBI 20/6, must apply for a license within 6 months of the issuance of PBI 20/6, i.e. 4 May 2018.

Parties that applied for a license before PBI 20/6 came into effect, are subject to PBI 20/6.

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