



CHAPTER 8

Payment System Policy

Payment system policy was aimed at supporting the momentum of economic growth by improving the effectiveness, security and efficiency of cash and non-cash payment transactions. This policy strategy was pursued, among other ways, by encouraging the expansion of the electronification of non-cash payments in various spheres, including in the distribution of government social programs. The policy also sought to anticipate challenges, thus enabling payment system to continue supporting the sustainable economic growth.

Chapter 8

Payment System Policy

In 2018, Bank Indonesia's payment system policy supported economic growth by improving the effectiveness, security and efficiency of transactions. The 2018 focus was on government programs, including the distribution of social assistance funds, and on anticipating challenges, thereby continuing to support sustainable economic growth. The first challenge stemmed from growing digitalization and rapid technological developments: these may change the landscape of the national payment system. The second challenge related to the importance of strengthening the country's non-cash payment ecosystem to make it more efficient. The final challenge pertained to keeping fit-for-circulation currency equally available in all regions of Indonesia, especially given the country's geographical vastness.

In line with this policy direction, Bank Indonesia reinforced its non-cash and cash payment system policies. On the non-cash side, Bank Indonesia encouraged the acceleration and expansion of electronic payments, including in the distribution of government social assistance payments, payments in the transport sector, and local government transactions. Bank Indonesia also continued to strengthen the digital finance and payment ecosystem through the ongoing implementation of the national payment gateway (NPG), and through the development of a financial technology (fintech) ecosystem, particularly for the payment system sector. On the cash side, Bank Indonesia continued to expand its ability to distribute currency fit for circulation to all regions of the country. Amid these efforts to support economic activity, however, Bank Indonesia exercised prudence in the implementation of payment system services. To this end, Bank Indonesia strengthened risk control and consumer protection.

Bank Indonesia continued to strengthen institutional cooperation and coordination – through national and international forums – to maintain the effectiveness and security of the national payment system. At the national level, Bank Indonesia worked with industry and relevant authorities, including with government ministries and institutions. Synergy with the Government was also enhanced to expand public access to financial services (financial inclusion). At the international level, Bank

Indonesia plays an ever-greater role in international forums, including as a member of the Committee on Payments and Market Infrastructure (CPMI) and as an observer in the Financial Action Task Force (FATF). This is important to ensure that Indonesia has an international-standard payment system, and also to give credibility to Bank Indonesia.

8.1. Expansion of Electronic Payments

Bank Indonesia continued to encourage the expansion and acceleration of electronic payments in various spheres, including in the distribution of financial aid under government social programs, payments in the transport sector and management of local government financial transactions. The goal of electronifying government social programs was to increase the number of recipients of non-cash social assistance (*bantuan sosial* or *bansos*), and to manage operating funds for schools (BOS) (Box 8.1 Non-cash Social Assistance for Economic Empowerment). A new electronic cash management system was introduced to manage non-cash BOS funds. This system improves transparency, and increases the speed at which schools use the funds. This policy effectively supported government social programs. Also in 2018, Indonesia increased the number of people receiving cash transfers under the Family Hope Program (PKH). Cash transfers reached 10 million beneficiary families in 510 districts or cities, in 34 provinces. Furthermore, in 2018 Indonesia also distributed Non-Cash Food Assistance (BPNT) to more families, reaching 10 million beneficiary families in 218 regencies or cities spread across 32 provinces.

The electronification program was strengthened in an effort to expedite non-cash payments in the transport sector. In this regard, Bank Indonesia, through coordination with stakeholders, ensured that the government policy of 100% non-cash transactions on toll roads could be implemented consistently.¹ By the end of 2018, 46 toll roads – or 100% of all toll roads in Indonesia – had non-cash payment systems. This includes 13 new

¹ The government requirement for all toll transactions to be cashless came into effect on 31 October 2017.

sections of toll road that opened in 2018. This positive development represented a further improvement on 2017, when 98% of all toll roads – 33 roads – had electronic payment systems. The electronification program for the transport sector was also extended to payments for marine transport, and to the integration of payments for land transport, including with railways.

At a local government level, the electronification program was expanded to support transparency and efficiency in financial management. In 2018, Bank Indonesia supported a Ministry of Home Affairs trial program to electronify local government transactions in 12 regencies and provinces. This trial showed that electronification of these transactions improves the transparency and speed of regional revenue collection, and also encourages more extensive non-cash ecosystems to develop in the region. The electronification of local government transactions also extended to paying tax and to parking payments. In the future, the increasing electronification of payments in the tourism sector will also help regional economies to develop. Such electronification in tourist areas is aimed at creating a less-cash society, which will increase financial inclusion, and increasing the number of visits and activities of foreign and domestic tourists, given tourism's role in the economy.²

8.2. Strengthening of Payment Ecosystems and Digital Finance

Bank Indonesia also continued to strengthen the NPG to achieve interconnection and interoperability of the retail payment system. The NPG, as one of the backbones of the retail non-cash payment system, was further reinforced by efforts to boost the effectiveness of its institutional functions. Throughout 2018, Bank Indonesia succeeded in facilitating the establishment of NPG operators, including effective standards institutions, switching institutions and services institutions.³ Standards institutions already manage the National Chip Technology Standard (SNTC),⁴ and have assisted Bank Indonesia in preparing and developing electronic money standards and quick response (QR) barcode standards. Standards institutions also carried out a certification process to

ensure payment instruments and/or channels conformed to the required standard, while also overseeing key management and certification authorities. Meanwhile, switching institutions, which play a role in bringing about the interconnection and interoperability of the retail payment system, carried out domestic transaction processing and continually sought to improve their services.^{5,6,7} Furthermore, services institutions carried out the functions of reconciliation, clearing and settlement, and management of the lifecycle of the secure access module (SAM), while also taking over their own interim implementing functions from switching institutions and banks from the second half of 2018.

The presence of the NPG led to an increase in non-cash transactions, especially following the launch of the debit/ATM card with the NPG logo. In May 2018, Bank Indonesia cooperated with banks to launch an ATM/debit card with the NPG logo (NPG card), which can be used in all ATMs, electronic data capture (EDC) machines and domestic payment terminals. In 2018, 16,077,868 NPG cards were distributed out of 26,795,665 that were printed. The launch of the NPG card was intended to make it easier for people to make payment anywhere.

In line with the launch and distribution of NPG cards, Indonesia recorded an increase in the volume and value of transactions using ATM/debit cards.⁸ On average, 7.0 million transactions were made every day using ATM/debit cards. The average daily value of these transactions is IDR11.2 trillion, up 11.4% from 2017 (Chart 8.1). The presence of the NPG also facilitated integrated payment transactions, as reflected in increased domestic debit off-us transactions.⁹ The NPG card was launched in May; from May to December 2018, there was an upward trend in the monthly average value of domestic debit off-us transactions, with the average at IDR12.2 trillion per month (Chart 8.2).

² See Box 10.1 Tourism to Boost Foreign Exchange

³ For a full explanation of NPG institutions, see the 2017 Economic Report on Indonesia.

⁴ The SNTC is also called the National Standard for Indonesian Chip Card Specification (NSICCS).

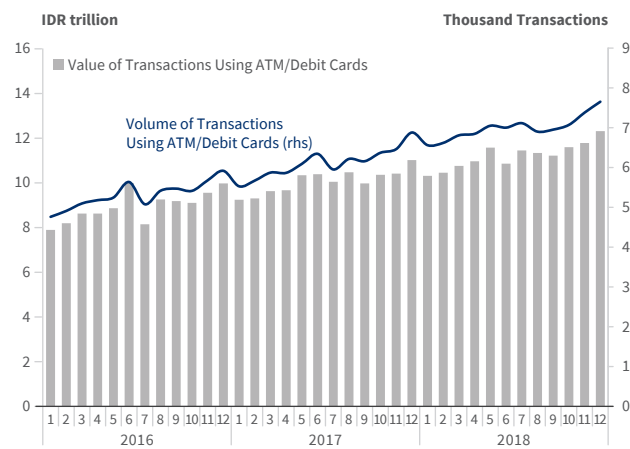
⁵ There are currently four NPG switching institutions. The implementation of the initial phase of the NPG for debit card instruments required banks to be connected to at least two NPG switching institutions.

⁶ The interconnection of payment channels refers to the connection between networks on a payment channel with one another.

⁷ The interoperability of payment instruments refers to a situation in which a payment instrument can be used on other instruments besides those within the infrastructure of the issuer of the payment instrument concerned.

⁸ Widespread acceptance means that the NPG card can be used in all payment channels in Indonesia.

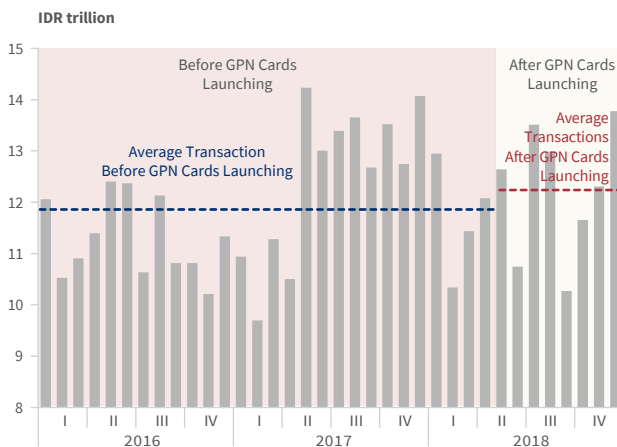
⁹ Off-us transactions are payment transactions involving different issuers and acquirers. For example, Bank A's card is used for a transaction at Bank B's ATM/EDC.

Chart 8.1. Transactions Using ATM/Debit Cards

Source: Bank Indonesia

The strengthening of the digital payment and finance ecosystem was also intended to encourage innovations that will boost economic growth. Bank Indonesia strives to respond in a balanced manner to rapid developments in product innovation, business models, services and technology. To this end, Bank Indonesia is facilitating innovation through its Meet the Startup and regulatory sandbox programs.¹⁰ In 2018, almost all fintech operators registered with the Indonesian Fintech Association participated in a routine Meet the Startup forum, and 49 were registered with Bank Indonesia.¹¹ Of those 49, one operator was selected to participate in the regulatory sandbox program and successfully completed it.

Bank Indonesia encourages innovation, and also urges the fintech and e-commerce industry to contribute positively to the economy, especially in the development of micro, small and medium enterprises (MSMEs), financial inclusion and the sharia economy. To this end, Bank Indonesia implemented the digital village/fintech village program in regions including Jambi, Pontianak, Bandung and Yogyakarta. This program is designed to strengthen the agricultural, tourism and plantation sectors. Bank Indonesia is also trying to develop the digital economy through its Go-Online MSME multiyear program, which began in 2017. This program helps MSMEs to use

Chart 8.2. Off-Us Transactions Value of GPN Cards

Source: Bank Indonesia

information technology and e-commerce to expand their product marketing.

8.3. Extending the Reach of Rupiah Services

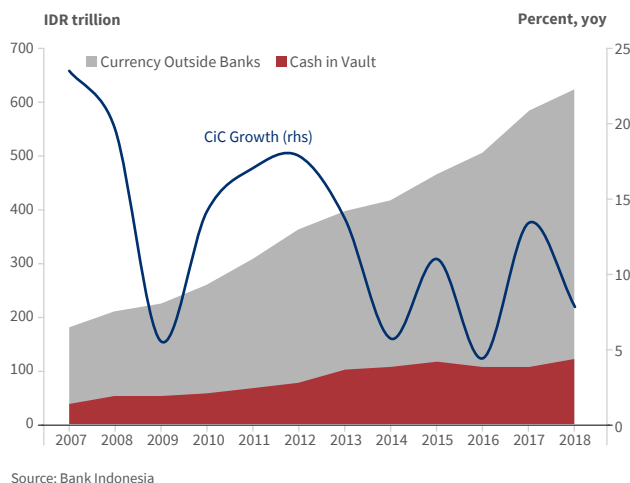
In order to support economic activity, Bank Indonesia is committed to providing rupiah to all regions of Indonesia in line with each community's needs. Bank Indonesia has continued to improve the distribution of rupiah and ensure it is more readily available, while also extending the reach of its services to all corners of the country, especially to the remote, outlying and underdeveloped areas (3T) regions. Bank Indonesia also continued to improve the quality of currency in circulation in order to minimize the risk of counterfeiting, further demonstrating its commitment as the authority for rupiah distribution. This was also aimed at boosting strong and balanced economic activity.

Bank Indonesia plans and prints money having considered economic conditions and historical patterns of public demand for currency. Bank Indonesia consolidates all planning pertaining to the demand for rupiah, both at the central and regional levels, to obtain a comprehensive estimate of needs. Further, Bank Indonesia consistently considers the needs of the regions. In 2018, the currency in circulation from Bank Indonesia increased in line with nominal gross domestic product (GDP) growth and, compared with 2017, rose 7.8% to IDR749.2 trillion (Chart 8.3).

¹⁰ The Meet the Startup program is a means for regulators to facilitate the regulatory requirements of fintech and the development of services, technology and business models. The regulatory sandbox is a means for testing product innovations, services, technology, and business models for fintech and is run jointly with regulators.

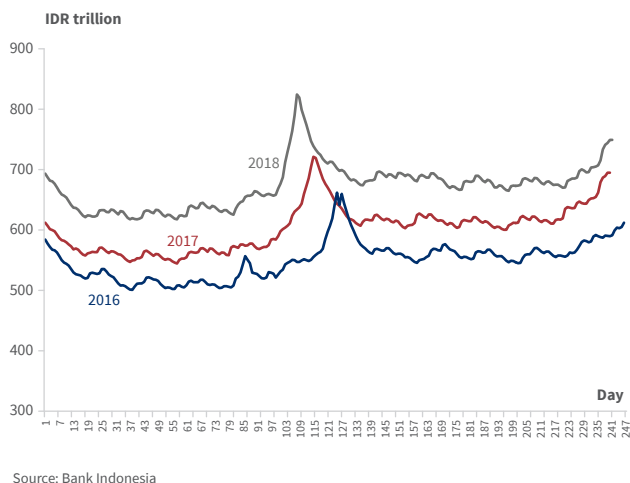
¹¹ Fintech operators engaged in the payment system and market support areas must register with Bank Indonesia. Fintech operators engaged in financing, investment and insurance are not required to register with Bank Indonesia, but must register with the OJK.

Chart 8.3. Currency in Circulation (CiC)



With measured planning and printing, Bank Indonesia anticipates increases in demand for money, including during periods leading up to national religious holidays (HBKN) and at the end of the year. For example, the demand for money in the 2018 Ramadhan/Idul Fitri period amounted to IDR191.3 trillion, up 17.2% over the same period of 2017; it was also the highest recorded position in 2018. This surge in demand was due, among other things, to the policy of adding extra public holidays and the payment of a 14th-month salary, accompanied by incentive payments for civil servants' performance. The concurrent local elections in June 2018 also pushed up demand for cash over the holidays. During this period the amount of currency in circulation stood at IDR824.4 trillion, up 14.6% compared to the position at the end of Ramadhan 2017 (Chart 8.4). In rural areas and outside

Chart 8.4. Comparison of Currency in Circulation



Java, non-cash payments are less accepted because the payment infrastructure is inadequate; this explains the increase in cash transactions amid the general increase in non-cash.

Bank Indonesia also continued to strengthen its distribution of rupiah throughout Indonesia so that the economy could continue to grow evenly. The currency distribution network was optimized by cash deliveries through 12 depots acting as hubs for Bank Indonesia representative offices. All modes of transport, including land, sea and air, were optimized to facilitate currency distribution. In addition, Bank Indonesia worked with the Indonesian National Police and Indonesian National Army to protect currency distribution channels throughout Indonesia. Cash custodian services were also continuously synergized with banks, including by accelerating the removal of currency unfit for circulation.^{12,13} Bank Indonesia prioritized the opening of cash custodians for regions that have limited access to or are far from a Bank Indonesia representative office. By the end of 2018, 113 cash custodian offices were available with a total outflow in 2018 of IDR127.7 trillion.

Bank Indonesia also built up its cash services to improve currency distribution, particularly mobile cash services in 3T areas, thereby stimulating the economy and reinforcing the national symbolism of the rupiah. Bank Indonesia provided mobile cash services through its own office network, and by cooperating with banks and other institutions, such as the Navy and Marine and Air Corps. In 2018, 18 mobile cashier services operated across the archipelago, reaching 93 of Indonesia's islands, up from 16 in 2017 over 79 islands. Throughout 2018, the nominal amount of cash exchanged and mobile cash stood at IDR4.4 trillion.

Bank Indonesia provided excellent cash services at times of emergency or disaster so that economic activity could continue as normally as possible. In 2018, devastating earthquakes occurred in Lombok and Palu and caused a breakdown in public infrastructure. Bank Indonesia took five steps to ensure rupiah remained available so that local economies could continue to function. *First*, Bank Indonesia coordinated with banks, currency handling

¹² Cash custodian services involve the provision of rupiah belonging to Bank Indonesia. The rupiah are deposited with one bank (the managing bank) to provide sufficient cash for other banks (participating banks) in order to meet the needs of the community in a particular area.

¹³ Bank Indonesia Regulation No. 18/15/PBI/2016 concerning Currency Handling Services Providers of 24 August 2016 (PBI PJPUR) and Circular Letter No. 18/25/DPD of 2 November 2016 concerning Currency Handling Services Providers.

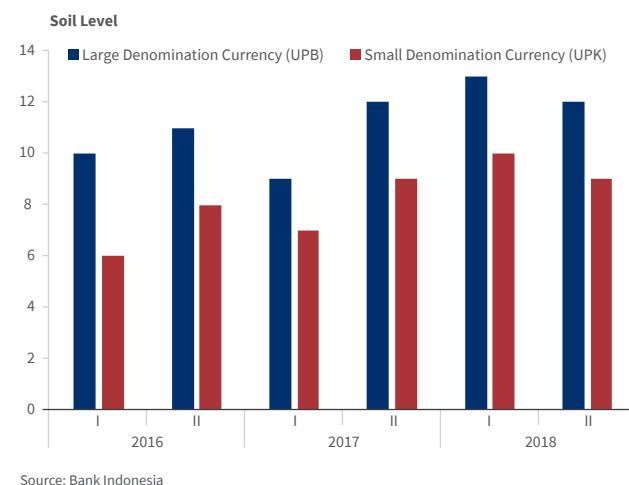
services providers (PJPUR), and other stakeholders to ensure the need for money in these areas was met. *Second*, Bank Indonesia delivered currency from its closest office to cover any lack in the affected area. Cash services in cash custodian areas not affected by the disasters were put on alert to provide backup cash. *Third*, Bank Indonesia gradually improved supporting infrastructure in the areas affected. *Fourth*, Bank Indonesia prepared anticipatory actions if cash services could not be provided from other cash custodian areas, including using cars or trucks to function as service counters. *Fifth*, Bank Indonesia sent cashiers, either from headquarters or regional offices, to help with cash management until the situation returned to normal.

Bank Indonesia consistently seeks to improve the quality of currency in circulation. Good quality currency makes people feel comfortable when carrying out transactions, and also makes it easier to see whether rupiah are authentic or not, thus helping to reduce counterfeiting. In light of this, Bank Indonesia further strengthened the Cinta Rupiah (Love the Rupiah) program by introducing the '5 Jangan' (5J, or the '5 Don'ts') slogan, which encourages people to take care of their currency.¹⁴ In addition, Bank Indonesia processes and sorts every rupiah banknote or coin coming from banks and the public to ensure its authenticity, accuracy and quality. Bank Indonesia has succeeded in improving the quality of rupiah, as shown by a survey of the soil level – the cleanliness – of large and small denomination rupiah in circulation (Chart 8.5).¹⁵

8.4. Strengthening of Risk Control

In pursuing its payment system policy, Bank Indonesia acted prudently so as to support monetary and financial system stability. Bank Indonesia continued to reinforce risk control measures, and supervise the implementation of payment services. In risk control, Bank Indonesia improved the rules of its real time gross settlement

Chart 8.5. Quality Survey of Banknotes in Circulation



(BI-RTGS) system and issued new provisions related to electronic money. In its supervisory role, Bank Indonesia worked to ensure that consumer security and protection requirements were properly heeded by all cash and non-cash payment system operators (Box 8.2 Consumer Protection to Support the Optimization of Payment Systems).

In 2018, Bank Indonesia improved the rules of the BI-RTGS system. These improvements pertained to the obligation to provide sufficient funds and intraday liquidity facilities. They were intended to improve the effectiveness and speed of the settlement process, and also the market discipline of participants in liquidity management. Moreover, Bank Indonesia also provided incentives to BI-RTGS participants to abolish intraday liquidity facility fees. This means the intraday liquidity facilities can be fully used and liquidity managed more efficiently. It will avoid settlement failures due to insufficient funds. In a broader context, BI-RTGS was strengthened to streamline the management of banking liquidity. The policy was effective, as seen by the increasing use of intraday liquidity facilities following the changes (Chart 8.6). Further, the average daily volume of BI-RTGS transactions rose 7.9% to 46,000, while the average daily value of these transactions rose 2.3% to IDR503.6 trillion (Chart 8.7).

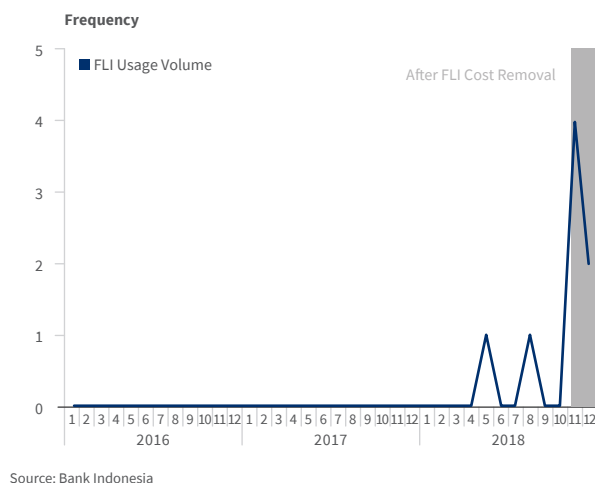
On the retail front, in May 2018 Bank Indonesia issued new regulation to strengthen risk control in electronic money (UE) operations.¹⁶ This was done to evaluate electronic money business models that continue to grow alongside

14 The 5 Jangan are: don't fold, don't deface, don't staple, don't crumple and don't dampen. The Currency Law prohibits damaging, cutting, destroying and/or changing rupiah currency; this is viewed as dishonoring a national symbol. Violations can be punished with up to five years' imprisonment and a fine of up to IDR1,000,000,000.

15 Soil level indicates the physical condition of currency. The soil levels used by Bank Indonesia range from 1 to 16. Soil level 1 is money that is unfit for circulation, while soil level 16 is perfectly printed new money from Perum Peruri, the Indonesian state mint. For 2018, Bank Indonesia set a minimum soil level of 9 as the standard for large currency banknotes to be considered fit for circulation, meaning banknotes with a soil level of 1 to 8 were unfit for circulation. A minimum soil level of 7 was set for small denominations to be considered fit for circulation, meaning small denominations with a soil level of 1 to 6 were unfit for circulation.

16 Bank Indonesia Regulation No. 20/6/PBI/2018 on Electronic Money.

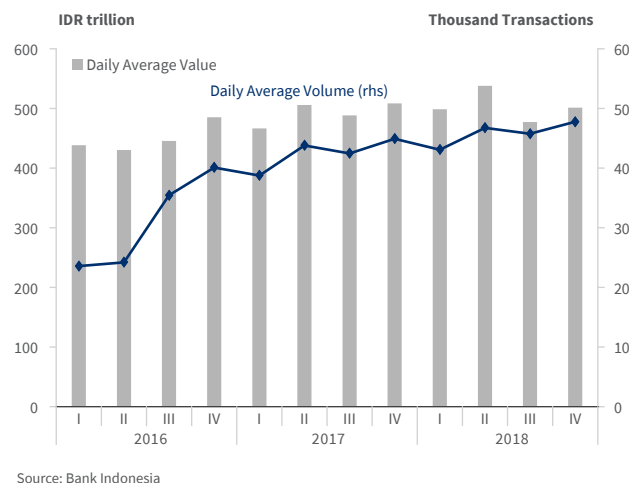
Chart 8.6. Intraday Liquidity Facilities (FLI) Usage Volume



technological innovations and growing public need. The regulations: organize the structure of the industry; ensure fair business competition; attempts to prevent the risks associated with shadow banking from rising; prevent money laundering; and prevent the funding of terrorism. The Bank Indonesia regulation expanded the scope of electronic money licensing, especially for closed-loop operators with a float fund value of over IDR1 billion.¹⁷ With regard to float funds, Bank Indonesia requires non-bank issuers of electronic money to place an electronic money balance (float funds) in a national bank to prevent the risks associated with shadow banking from rising. Non-bank issuers that apply for permission to become electronic money issuers must also meet the minimum paid-up capital requirement, which rises in line with increases in the managed float funds. In addition, non-bank electronic money issuers must maintain a liquidity adequacy ratio to reduce liquidity risk and protect consumer funds. And Bank Indonesia also requires a minimum 51% of each non-bank issuer of electronic money to be held by a domestic owner.

The tightening of the rules relating to electronic money operations was in line with other Bank Indonesia regulations, such as that concerning the Obligation to Use Rupiah,¹⁸ which stipulates that electronic money in Indonesia must be issued and used in rupiah. Bank Indonesia also requires electronic money operators to maintain interconnection and interoperability, and

Chart 8.7. Daily Average BI-RTGS Transactions



to comply with anti-money laundering regulations and rules on the prevention of terrorism financing.^{19,20} Electronic money operators are required to implement risk management effectively and consistently, apply information system security standards adequately, and adhere to the principles of consumer protection.

One implication of the development of digitalization is that transactions are increasingly borderless. Bank Indonesia ensures all transactions in Indonesia are processed domestically so that digitalization does not undermine monetary and financial system stability, and in order that consumers are protected. The ever-stronger role played by foreign operators and online transactions opens up opportunities for processing transaction data – for goods and services consumed domestically – outside the jurisdiction of Indonesia.²¹ To prevent potential economic leakage and to ensure transaction data remains within Indonesia's jurisdiction, Bank Indonesia requires foreign electronic money issuers (or their representatives) to cooperate with domestic banks. Moreover, Bank Indonesia also requires foreign operators to process their transactions in Indonesia through the NPG and national banks.

Bank Indonesia continues to prioritize prudence and consumer protection when it comes to encouraging innovation. This is evident in the strict stance Bank

¹⁷ Closed-loop electronic money (UE) operations refer to the use of UE in a limited scope. Closed-loop UE can only be used as payment to providers of goods and/or services that issue that same form of electronic money.

¹⁸ Bank Indonesia Regulation No. 17/3/PBI/2015.

¹⁹ Bank Indonesia Regulation No. 18/40/PBI/2016 on Payment Transaction Processing.

²⁰ Bank Indonesia Regulation No. 19/10/PBI/2017 on Anti Money Laundering and Prevention of Terrorism Financing.

²¹ For example, foreign tourists use payment services provided by foreign operators (e.g. WeChat Pay, Alipay) to perform transactions within Indonesia.

Indonesia has taken on virtual currencies.²² In January 2018, Bank Indonesia reaffirmed the ban on the use of virtual currencies as a means of payment in Indonesia because of their status as non-legal tender. Bank Indonesia also appealed to the public to avoid using virtual currencies as underlying assets for the purpose of investment. These measures were based in part on the high price volatility of virtual currencies and the absence of real assets behind them. These measures also comply with Law No. 7 of 2011 concerning Currency (Currency Law), which requires rupiah to be used.

Bank Indonesia also continued to improve the quality of supervision to ensure payment system service providers (PJSP) are in compliance and practice risk control. Periodic surveillance and inspection by Bank Indonesia shows that the risk control capabilities of PJSP are improving. Improved transaction performance – for ATM/debit cards, credit cards and electronic money instruments – was able to be balanced with better risk control. Compliance levels, fraud monitoring systems, information system security procedures, limit restrictions, and information technology (IT) on security devices were well maintained. Bank Indonesia looks at two important indicators: *first*, the compliance of PJSP in the use of six-digit online personal identification numbers (PIN); *second*, the targets for ATM/debit cards to migrate to the National Chip Technology Standard (SNTC). All ATM/debit cards in circulation now use six-digit online PINs, and migration to SNTC stands at 37.9%, surpassing the 2018 target of 30%. The implementation of SNTC reduced the fraud loss rate by 23.1% compared to 2017. In the future, with even higher migration levels, the benefits of SNTC in reducing fraud are expected to be even greater.²³ Meanwhile, the organization of non-bank funds transfer companies continues to be strengthened, particularly to mitigate the risk of money laundering and terrorism financing.

Bank Indonesia also continued to reinforce the role of PJPUR to increase the effectiveness of rupiah distribution. It issued provisions governing the activities and operations of currency handling services.²⁴ These provisions were aimed at ensuring that rupiah processing is carried out in accordance with Bank Indonesia

standards, thereby encouraging a strong, healthy and responsible rupiah handling service industry.²⁵ In addition to permitting 26 PJPUR head offices to open, Bank Indonesia also granted opening permits for 309 PJPUR branch offices throughout 2018. In 2018, PJPUR managed IDR14,400 trillion with 51 banks as customers. To mitigate operational risks, Bank Indonesia conducted periodic on-site supervision of PJPUR, as well as off-site supervision through periodic reports. Already-licensed PJPUR can apply for permission to transport foreign banknotes.²⁶

8.5. Strengthening of Institutional Coordination

Bank Indonesia has boosted cooperation and coordination among authorities and industry participants. As the national payment system authority, Bank Indonesia consistently seeks to strengthen its coordination and role through various national and international forums. Coordination at the national level was carried out with ministries and institutions at a high and technical level. Bank Indonesia leads the Indonesian Payment System Forum (FSPI) – which consists of policymakers such as the Ministry of Finance, Ministry of Trade, Ministry of Communication and Information, the Financial Services Authority (OJK) and the Indonesian Payment System Association (ASPI) – and constantly works to communicate payment system plans and policies. As the payment system authority in Indonesia, Bank Indonesia also directs and promotes ASPI as a coordination forum for the payment system industry, and as one that functions effectively as a self-regulatory organization (SRO). In 2018, an ASPI Working Group assisted Bank Indonesia in compiling QR barcode standards. Bank Indonesia also proactively coordinated with ASPI to develop and strengthen guiding principles for cybersecurity, and on security standards for the payment system service industry.

Bank Indonesia also consistently sought to make its presence felt and strengthen its role in various international forums. For example, in 2018 Bank Indonesia successfully became a member of the CPMI

²² Virtual currencies include cryptocurrencies issued by parties outside a central bank, such as Bitcoin and Ethereum.

²³ The SNTC migration target for 2019 is 50%, rising to 80% in 2020 and 100% in 2021, in accordance with Bank Indonesia Circular Letter No. 17/52/DKSP of 30 December 2015.

²⁴ Bank Indonesia Regulation No. 18/15/PBI/2016 on Currency Handling Services Providers (PJPUR) of 24 August 2016 (PBI PJPUR) and Circular Letter No. 18/25/DPU of 2 November 2016 on PJPUR.

²⁵ Standards relating to the facilities and infrastructure for PJPUR set by Bank Indonesia include those pertaining to buildings, cash-carrying vehicles, banknote sorting machines, banknote counting machines, coin counting machines and money packaging.

²⁶ A Registered PJPUR is a company licensed to carry foreign banknotes in and out of the Indonesian customs area.

representing Indonesia.²⁷ As a new member, Bank Indonesia has conducted a Level 1 PFMI assessment (Principles for Financial Market Infrastructure), part of an effort to meet the PFMI international standards.²⁸ Bank Indonesia and OJK continued to strengthen their coordination in an attempt to reach PFMI standards. Bank Indonesia also continued to support the Government's efforts to encourage Indonesia's membership in the FATF. In 2018, Indonesia was accepted as an observer and various preparations and coordination efforts, under the auspices of the Indonesian Financial Transaction Reports and Analysis Center, continued to be carried out in order to accelerate Indonesia's acceptance to the FATF. Bank Indonesia, as the authority in the field of fund transfers, built cooperation with authorities in other countries, including a memorandum of understanding signed with the central bank of the Philippines in 2018. These efforts are important in maintaining Bank Indonesia's credibility in the eyes of the world.

Bank Indonesia also continued to synergize with the Government to expand public access to financial services, or financial inclusion. Bank Indonesia has also supported the National Council for Financial Inclusion, which was formed and led by the President, through the position of the Governor of Bank Indonesia, who acts as deputy daily co-chairman together with the chairman of the OJK's Board of Commissioners. Bank Indonesia also served as the Head of Working Group 3, which handles financial facilitation, intermediation and distribution channels, and of Working Group 4, which deals with financial services in the government sector. Bank Indonesia coordinated with relevant ministries and institutions in BPNT, on the marine and fisheries professional identity card, the expansion of the elektronification of receipt and payment transactions, microcredit, farmer identity cards, and insurance in the agriculture, livestock and fisheries sectors.

Bank Indonesia continues to work with banks and other institutions to ensure that enough currency fit for circulation and in the correct denominations

is distributed, especially in 3T regions. To support seamless distribution across the country, Bank Indonesia cooperated with transport providers, such as PT Kereta Api Indonesia and PT Pelayaran Nasional Indonesia (Pelni), private companies and banks. For the 2018 Ramadhan/Idul Fitri religious holiday period Bank Indonesia opened money exchange services along homecoming routes. Bank Indonesia worked with banks through the BI Jangkau (BI Reach) program, which brings cash services to people in sub-districts and villages. This is done by optimizing bank branch networks, pawnshops, PJPUR and other parties to operate exchange mechanisms. This collaborative program accelerates the distribution of currency fit for circulation to communities and increases the absorption of currency unfit for circulation from communities.

Bank Indonesia also continued to forge closer cooperation with law enforcement officials to stop the circulation of counterfeit money.²⁹ Action on counterfeiting takes place in three ways: preemptive, preventative and repressive. Preemptive efforts involve educating the public about the characteristics of genuine rupiah banknotes – *cikur* in Indonesian – including through the mass media. Preventative measures include strengthening the security elements inherent to rupiah, making it difficult to counterfeit, while retaining the characteristics of authenticity that are easily recognized by the public. The repressive element of the strategy was carried out through intensive collaboration with all members of the Coordinating Agency for the Eradication of Counterfeit Money (Botasupal).³⁰ The amount of counterfeit money in circulation in 2018 fell due to intensive and large-scale implementation of these strategies. Over the course of the year, 237,431 counterfeit banknotes were discovered – 82,221 by police investigators, and the remaining 155,210 by banks and the public.

27 The CPMI is a global standards body and a member of the Financial Stability Board (FSB). It was formed on 1 September 2014 to establish global standards for financial market regulations, policies and infrastructure practices for trading platforms, payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories. The CPMI consists of 27 central banks from 27 countries (although the United States has two representatives, namely the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York), with a secretariat based in the Bank for International Settlement (BIS) in Basel, Switzerland.

28 PFMI is a global standard consisting of 24 principles of post-trade financial market infrastructure management (except trading platforms). The PFMI assessment consists of three levels in which the Level 1 assessment is a self-assessment regarding the extent to which a country's financial market infrastructure meets the PFMI.

29 Counterfeit money is an object whose material, size, color and/or design resembles a rupiah banknote, which is made, formed, printed, duplicated, circulated, or used as a payment instrument illegally.

30 In accordance with the Currency Law, members of the Coordinating Agency for the Eradication of Counterfeit Money (Botasupal) consist of the State Intelligence Agency, the Indonesian Police, the Attorney General's Office, the Ministry of Finance and Bank Indonesia.

Non-Cash Social Assistance for Economic Empowerment

For social assistance, a government priority, to be effective in alleviating poverty and economic inequality, it must be disbursed appropriately. Social assistance was disbursed to 40% of households with the lowest welfare level, in total 25.7 million households, who generally do not have access to financial services. Social assistance is most effective in poverty alleviation if it is disbursed to the right people, in the right amount, is of the right quality, on time, at the right price and is well administered (6T). This is difficult to achieve when the assistance comes in the form of cash. For the recipient, the disbursement of cash also comes with costs, because they must go to a post office. For the Government, cash disbursements to recipients spread across the regions are time-consuming and expensive.

Bank Indonesia encourages the distribution of non-cash social assistance through an electronic mechanism that is designed to improve disbursement and build financial inclusion. It plays an active role in facilitating non-cash social assistance programs, especially by setting up disbursement business models. Non-cash social assistance in Indonesia began in 2017, and it is carried out in four steps: (i) registration or opening of accounts; (ii) education and outreach; (iii) disbursement; and (iv) withdrawal of funds or collection of social assistance in various disbursing bank channels (Figure 1). To that end, a system of bank agents has been set up, whereby digital financial service agents have been deployed to work in synergy with branchless banking (Laku Pandai) agents. The social assistance electronification program focuses on the Family Hope Program and the BPNT program.

Bank Indonesia's support of the disbursement of non-cash social assistance has made it easier for recipients to obtain affordable financial services. The process of opening accounts for social assistance recipients has been facilitated by a simplified 'know your customer' policy – knowing the profile of their customer, and some document requirements – along with a bulk registration process. As a result, the quality of the social assistance

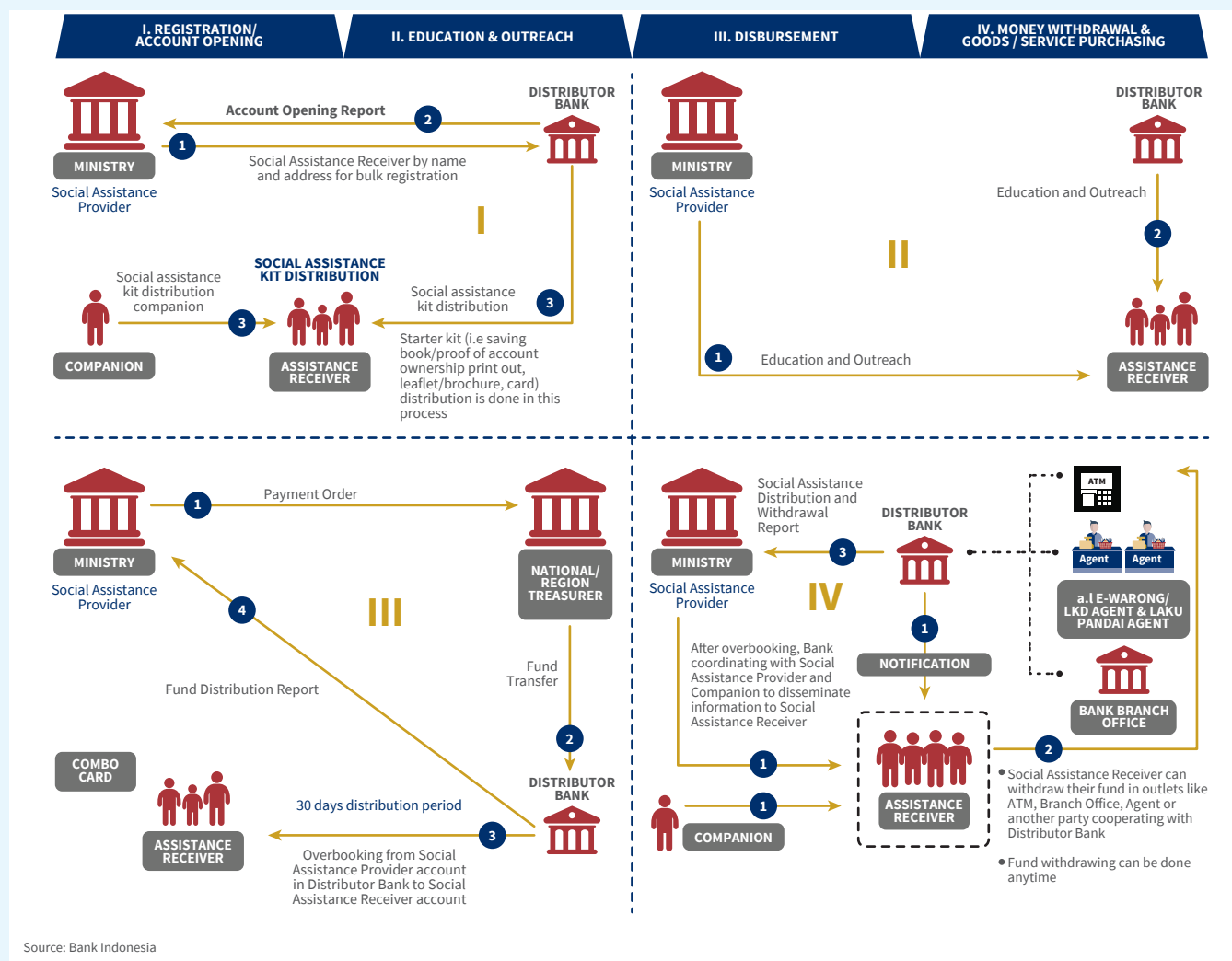
recipient database has improved, because this is the basis for opening a social assistance recipient account. Bank Indonesia has also permitted some disbursing banks to develop innovative non-cash payment instruments in the form of the Prosperous Family Card (KKS), which are 'combo' cards consisting of savings and electronic money. In addition, Bank Indonesia also continues to encourage interoperability and interconnection between social assistance disbursing banks.

Recipients of social assistance have also been given education on non-cash transactions and simple financial management, and this has yielded results, enabling them to withdraw funds according to their needs. Social assistance recipients have also been informed of the importance of using the money for the purpose for which it was originally intended. The disbursement process ensures that social assistance funds are received by the right person, in the right amount, and on time, because they go directly into the recipient's account. The Government can monitor the disbursement of social assistance via a dashboard provided by disbursing banks; this improves transparency.

The disbursement of non-cash social assistance gives communities access to financial services, ensures their basic needs are met, and allows funds to be properly regulated. Citizens with this new access to financial services are also now able to start building their social security, and to begin to save in an affordable way.

The disbursement of non-cash social assistance can develop regional economies because it needs agents to smooth the withdrawal of non-cash social assistance, thereby encouraging economic activity. Social assistance recipients are widespread, and disbursement of non-cash social assistance has triggered the emergence of agent services, including a growing number of individual digital financial service and branchless banking (Laku Pandai) agents. These agents tend to be local residents with their own businesses. In addition, BPNT also encourages economic activity in the regions through the establishment of e-warongs – shops at which recipients of BPNT assistance can use cards to buy food – which currently sell more than just BPNT commodities (rice and/or eggs). Meanwhile, the combo card innovation has also increased space for the distribution of various government subsidies, such that the objectives of social

Figure 1. Mechanism of Non-Cash Social Assistance Programs



assistance and subsidies in alleviating poverty and social inequality can be achieved as optimally as possible.

Bank Indonesia will continue to support the disbursement of non-cash social assistance, because it contributes to economic growth by maintaining household consumption, reduces poverty and expands financial access. The combo card innovation, combining savings

and electronic money, has resulted in faster disbursement of social assistance, and ensures that recipients have sufficient purchasing power. This program works in tandem with an education program – from the controlling team for the implementation of non-cash social assistance disbursement and the Association of State-Owned Banks (HIMBARA) – which teaches recipients to manage aid funds wisely.

Box 8.2.

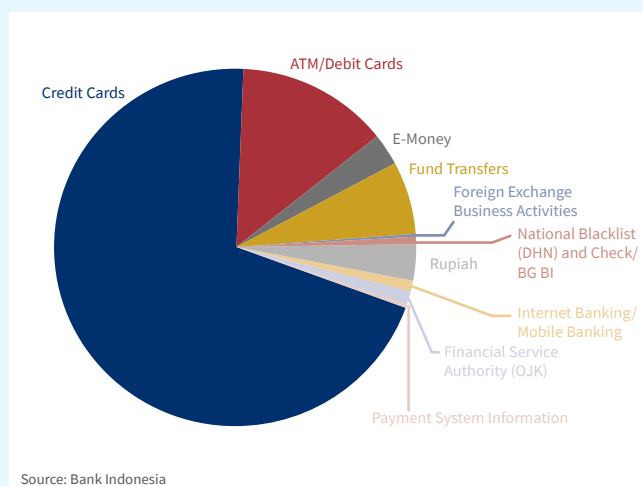
Consumer Protection to Support the Optimization of Payment Systems

The protection of consumers using payment system services is an essential part of Bank Indonesia's task of regulating and maintaining a smooth payment system, and it must also ensure systems are safe for consumers. Efforts to enhance consumer protection have several benefits, including raising the awareness of each payment system operator about the importance of consumer protection. Such efforts also increase consumer confidence, give consumers greater ability to protect themselves, and reduce imbalances of power between payment system operators and consumers. In addition, consumer protection efforts are expected to eliminate abuse of authority and fraud, and encourage innovative payment system products.

Bank Indonesia's principles of consumer protection cover: (i) fairness and reliability, by treating consumers fairly and equally; (ii) transparency, by providing information clearly and completely in clear and simple language; (iii) protecting consumer data and/or information, by keeping it confidential and secure; and (iv) handling and resolving complaints effectively, efficiently, responsively and in a timely manner. These principles are realized via education, consultation, and dispute resolution for consumers using payment system services.¹

The application of consumer protection principles generally also increases the awareness of consumers as to their rights in the use of payment system services. This was reflected in the growing number of consumer complaints in 2018, amounting to 2,819, up from 2,109 in 2017. Most consumer complaints were about credit cards (70%), followed by ATM/debit cards (14%), fund transfers (7%), rupiah (3%) and electronic money (3%) (Chart 1). The majority of complaints related to the ethics of credit card debt collection, the double swiping of credit cards and ATM/debit cards, the unauthorized use by others of

Chart 1. Consumer Complaints in 2018



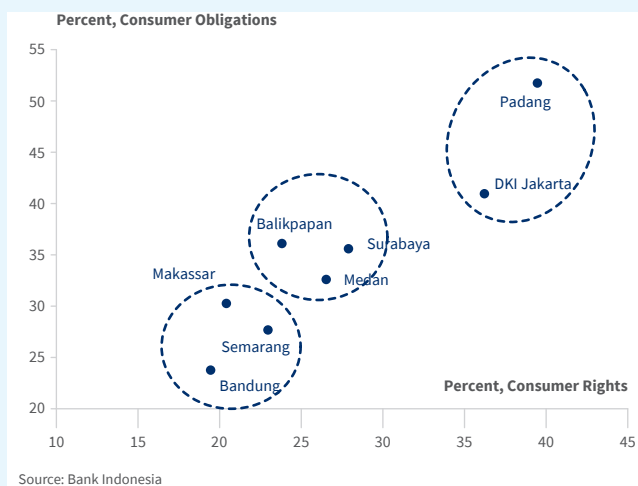
transaction products, additional transaction costs, and credit card bill relief.

In an effort to improve consumer protection, Bank Indonesia conducted a consumer protection education survey in eight cities in Indonesia (Jakarta, Bandung, Semarang, Surabaya, Medan, Makassar, Balikpapan and Padang). The results of the survey indicated that consumers using card-based payment instruments (APMK) still focus on the extra benefits, such as discounts and the scope of the network in which they may use it, in selecting their APMK and operator. Meanwhile, the level of consumer awareness of fraud remains relatively low, meaning that many people are vulnerable to this crime. In addition, while payment system operators have attempted to develop consumer protection, these efforts are not fully understood by the public because of low literacy rates.

Efforts to improve consumer protection are aimed at maintaining consumer confidence in payment system services. Consumer complaints, among other things, are motivated by low consumer literacy, and consumers tend to better understand their obligations than their rights. The survey found that consumers in all the cities surveyed better understand their obligations than their rights (Chart 2). In light of this, settling complaints

¹ The community is educated on payments system products via various media. Consultation gives consumers and operators an understanding of problems in the use of payment system services. Facilitation aims to resolve consumer complaints that contain elements of civil disputes by summoning, meeting, listening and motivating the parties involved.

Chart 2. Survey Result of Consumer Protection Education



through education, consultation and facilitation not only resolves the problem/grievance in question, but can also improve the preventative behavior of consumers, and their knowledge of security and potential crimes. Based on the survey results, the level of consumer literacy about fraud prevention behavior when using card-based payment instruments and electronic money in 2018 stood at 58.28%, while the average consumer literacy rate with regard to security and potential crimes involving card-based payment instruments was a mere 36.32%. It was

also found that the most effective and efficient media for educating consumers were TV shows (26%), social media (24%) and face-to-face (24%).

Increasing consumer confidence and literacy also contributes to the improvement of credit quality. This was indicated by an improvement in the non-performing loans (NPL) figures for credit cards in 2018. Credit card NPL for the banking industry in December 2018 stood at 6.1%, down from 7.3% in December 2017. It did not have a significant impact on banking stability, given that these loans only comprised 0.03% of the banking industry's total outstanding credit.

Bank Indonesia participates in the National Strategy for Financial Inclusion (SNKI), and this also comes with a consumer protection element. Bank Indonesia promotes consumer protection by increasing the access of low-income communities to formal financial services, as required by Presidential Regulation No. 82 of 2016 concerning the National Strategy for Financial Inclusion (SNKI). The 2019 target for financial inclusion is for 75% of adults to be banked, as well as 40% of low-income people, micro and small business people, and cross groups, which includes migrant workers, women, students and the disabled (Figure 1). In the SNKI, Bank Indonesia's position is in the Consumer Protection Working Group.

Figure 1. National Strategy for Financial Inclusion

