

# Challenges for fintech companies in Indonesia

April 19, 2016

New innovations and developments in the financial industry are becoming prominent issues and could contribute to the growth of Indonesian financial markets. Financial technology (“Fintech”) companies are one innovation which is growing and having an impact on the Indonesian financial market, but still, Indonesian conditions are challenges for any Fintech companies to grow in Indonesia.

## What are the challenges for Fintech companies in Indonesia?

### Indonesia’s geographical situation

Indonesia as an archipelagic nation has more than 18,000 islands. However, Indonesia still lacks good quality infrastructure or transportation and cannot connect all of the islands. As a result, internet access can be unreliable.

### Lack of regulations: How to regulate it?

OJK (Otoritas Jasa Keuangan) as the Indonesian government agency which supervises the financial services sector in Indonesia has issued regulations related to financial services, i.e., OJK Regulations No. 28/POJK.05/2014 and No. 29/POJK.05/2014 concerning financial companies (“OJK Regulations”). Could these OJK Regulations govern the growth of Fintech business in Indonesia? or Does the Ministry of Communication and Information (“MoCI”) need to issue another regulation to govern the Fintech business?

In our experience, the lay person takes the point of view that every Fintech business is a financial company and must therefore obtain a business license from OJK. However, from the legal point of view, there are no specific provisions in the current OJK Regulations covering the Fintech business model and so the OJK Regulations do not require Fintech businesses to obtain a business license from OJK. So, how does running a Fintech business work in Indonesia?

The Head of OJK’s Board of Commissioners, Muliaman D. Hadad, does not deny that currently a complete set of rules for Fintech is not yet complete and OJK is trying to complete a draft set of rules as soon as possible. In a recent statement to the national media, he said that the regulations for Fintech are still being prepared, as OJK must check whether the existing regulations are sufficient as an umbrella for Fintech or whether OJK must prepare new regulations. He added that this is because some of the Fintech mechanisms are similar to banking in that Fintech companies mobilize the public’s money.

Earlier, Dumoly F. Pardede, Deputy Commissioner of Non-Bank Financial Institutions of OJK, said that for now Fintech companies can still do business in Indonesia, but OJK and MoCI are planning to release new regulations on Fintech this year, covering technology, security, human resources, risk management, etc. Furthermore, Fintech companies would have to get a permit from MoCI for their technology and a license from OJK for their financing

services. Once the regulations are issued, Fintech companies will have to adjust their businesses to the new regulations.

## Any Protection in the Fintech business model?

In the Fintech business model, there are several parties involved in a transaction, i.e., the consumer, the Fintech company as a platform provider, funders, etc. In this business, how would legal protection be provided for each party?

Protection for consumers is one of the Indonesian government's concerns. If there is any complaint or claim from a Fintech company's customers, the government must have the legal standing to protect the consumer's interest.

However, what about the protection for the other parties involved in the Fintech business model? For example, who will protect the funders of peer to peer lending (P2P) or online lending or crowdfunding, if the consumer cannot fulfill its obligations? Can insurance protect the Fintech business model or is there an alternative solution for security?

Considering the potential business risks, the Fintech company should cooperate with the banks or other financial companies, in order to identify any business risks in the Fintech business model. Thus, the new regulations should protect not only the consumer but also all parties involved in the Fintech business model if the new regulations are in line with the characteristics of the Fintech business.

The above mentioned challenges are some of the challenges that we found during our research and provision of legal services for our Fintech clients (e.g., Modalku and Uang Teman). But, there are other conditions which might encumber the development of Fintech business in Indonesia, depending on the characteristics of the particular Fintech business model.

## Your Key Contacts



**Erwin Kurnia Winenda**

Partner, Jakarta

D +62 21 5701837

M +62 812 90732284

[erwin.winenda@dentons.com](mailto:erwin.winenda@dentons.com)