

# Effects of fintech start-ups in Indonesia's financial world

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As the technological revolution continues, along with the development of low cost smart phone industries and the development of mobile broadband infrastructure in Indonesia, it is triggering developments in digital business development, particularly in the area of e-commerce. The impact of the technological revolution on business is to improve productivity, save cost, streamline business processes, provide better customer service, provide opportunities for new business, and create new job fields.

A joint report released by idEA (Indonesia E-commerce Association), Google Indonesia and Taylor Nelson Sofres (TNS) have revealed that Indonesia online commerce could be worth Rp300trillion (US\$25billion) by 2016. With around 297 million mobile phone subscriptions and 83.6 million internet users, Indonesia is currently a hotbed for the e-commerce industry. The Minister of Communications and Information Technology, Rudiantara also said that Indonesia's e-commerce is likely to grow this year, although the transaction volume might still be lower than in China.

Currently in Indonesia, e-commerce business model have developed significantly, not only in the retail or marketplace sectors for products but also transportation services, for example Go-Jek, Uber, Grab Taxi, Grab Car, Grab Bike, Blu-Jek, Transjek, Wheel Line, Bangjek, etc.

However, in Indonesia, the e-commerce industry remains largely unregulated. Currently, e-commerce is regulated through Electronic Transaction Law and Trade Law (Law No. 7 of 2014, in particular Art. 65 – 66), which is aimed at consumer protection. There is no Indonesian regulation specifically defining e-commerce.

## Can Fintech Start-ups Become a Game Changer for Financial Business in Indonesia?

The financial sector has an important role in building the country's economy. In his recent statement, Rudiantara said that currently the Government of Indonesia will focus on e-commerce platforms, especially e-commerce applications followed by financial transactions using applications technology or fintech (financial technology) start-ups. This statement also confirms that these fintech start-ups could be a game changer for financial business in Indonesia.

Indonesian local entrepreneurs are beginning to see the opportunities of what's possible with the internet in terms of financial business. The opportunities in financial business are appearing in areas which could not be touched by the local Banks or Non-Bank Institutions due to regulations restricting the Banks or Non-Bank Institutions' movement, but can be reached through internet and applications technology. These business opportunities make Indonesian local entrepreneurs or foreign investors seek any possibilities of establishing fintech start-ups in Indonesia.

However, fintech start-ups shouldn't just be thought of as alternative payments method, but they can be applied as an innovation in the financial sector which provides more practical and secure financial transactions. The fintech start-ups in Indonesia have various focuses, some fintech start-ups provide services for payment gateways, to

compare financial products (i.e, insurance, credit cards, investments), etc.

Fintech start-ups in Indonesia will be booming in 2016. Lending platforms, payment gateways, P2P, financial or insurance comparison platforms are some of the fintech start-ups trending in Indonesia. We can see fintech start-ups which have already established and run business in Indonesia, among others CekAja, UangTeman, CekPremi, Bareksa, Doku, Veritrans, Kartuku, Halomoney, Modalku, etc. UangTeman and Modalku are our fintech start-up clients, who we have assisted to establish companies in Indonesia and for whom we act as their local legal counsel for day to day business.

During the development of fintech start-ups in Indonesia, an association for financial technology company was called as fintech Indonesia established in September 2015.

Developing and strengthening fintech business in Indonesia, which everyone can access using applications technology and internet services at any time could have a major impact on the Indonesian financial world; in particular it could improve Indonesian living standards to include small medium business entrepreneurs, it could develop the financial structure as the solution to improve the people's purchasing power, and it could provide a transparent lending system.

## Can Fintech Regulations Increase the Start-up Growth and Innovation?

Fintech business will be the next big thing in tech investment as one of the investment trends in 2016. As quoted by Accenture, "fintech investment in Asia-Pacific is set to at least quadruple in 2015 – from about US\$880 million in 2014 to nearly US\$3.5 billion in the first 9 months of 2015".

Meanwhile in Indonesia, only 19% of the Indonesian population uses banks. The 81% of the Indonesian population who do not use banks are a potential market for fintech business.

Knowing the potential business for fintech start-ups and the growth of such business in Indonesia, the government must keep up with this business by starting to prepare new regulations that can be applied to this business. Will this be a challenging issue for the Indonesian government?

We, Dentons HPRP, have met with the people in the Financial Service Authority (Otoritas Jasa Keuangan or "OJK"). We see that OJK is very positive in responding to this new type of business and understands that there are no specific regulations governing the fintech business. Knowing this situation, OJK is also working with the Ministry of Communications and Information Technology to launch new regulations governing the fintech business.

Dumoly F. Pardede, Deputy Commissioner of Non-Bank Financial Institutions of OJK, as quoted by DEALSREETASIA, says the new regulations will cover technology, security, human resources, governance and risk management. In terms of technology, he said, fintech companies could get permits from the Ministry of Communication and Information Technology, while financing services licenses can be obtained from OJ.

In order to prepare the regulations, OJK has to understand this business and it should analyze the market situation to seek the risks of this business for the Indonesian economy. The new regulations must keep up with innovation and business risk, so that they can strike a balance between compliance, business, innovation and technology.

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