

# New Game Rules for Financial Services Institution in Indonesia: Mandatory Implementation of Anti-Fraud Strategy

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As Indonesian financial services institutions become more sophisticated, they face increasingly high operational risks stemming from acts of fraud. Prior cases of fraud in the financial services industry have severely harmed the industry, consumers, as well as the state. Hence, on July 31, 2024, the Indonesian Financial Services Authority (“OJK”) enacted Regulation No. 12 of 2024 on the Implementation of Anti-Fraud Strategy for Financial Services Institutions (“POJK 12/2024”), which aims to ensure that financial service institutions’ business activities are not exploited for activities related to criminal activity.

POJK 12/2024 identified six categories of acts falling under the umbrella of “fraud”. They encompass acts of corruption, asset misappropriation, financial statement fraud, general fraud, leaking of confidential information, and other acts equated with fraud under Indonesian laws and regulations.

Prior to the enactment of POJK 12/2024, the obligation to implement preventative and adaptive strategies against fraud had already been mandated for commercial banks, insurance companies, and financing institutions with varying degrees of complexity. In contrast, POJK 12/2024 mandates a standardized strategy to be implemented for a wider coverage of financial services institutions—including commercial banks, rural banks, securities companies, insurance and re-insurance broker companies, insurance loss assessment companies, pension funds, financing companies, venture capital companies, infrastructure financing companies, micro financial institutions, pawnbroker companies, guarantee institutions, and other financial services institutions operating under conventional or sharia principles.

Anti-fraud strategies under POJK 12/2024 center around 4 pillar strategies which are: (1) prevention, (2) detection, (3) investigation, reporting, and sanctions, and (4) monitoring, evaluation, and resolution measures.

## 1. Prevention

Mandatory instruments to decrease the risk of fraud, including anti-fraud awareness programs for employees and consumers; vulnerability identification; and know-your-employee policy.

## 2. Detection

Providing steps to identify and uncover fraudulent activity, including whistleblowing policies and handling mechanisms; surprise audits; and supervision system.

## 3. Investigation, reporting, and sanction

Investigation includes determining authorized parties to conduct investigations and investigation mechanisms. While reporting includes policies for internal reporting as well as reports made to OJK and the imposition of sanctions on internal parties as the end result of investigations.

## 4. Monitoring, evaluation, and resolution

The implementation of sanctions must be monitored. The occurrence of fraud must be evaluated to assist the process of identifying weak links in the system. Financial services institutions must work to improve their strategies entailing those steps.

## **Enforcement of Anti-Fraud Strategy**

Each financial service institution must have an organizational structure correlating to its obligation to implement an anti-fraud, through the installation of a specialised working unit or function. The size and complexity of the working unit or function must correspond to the size and complexity of business operations. Moreover, the working unit or function must be accountable to the Board of Directors and must communicate and report directly to the Board of Commissioners.

## **Obligations to Formulate Anti-Fraud Strategy**

POJK 12/2024 will enter into force 3 (three) months subsequent to its promulgation, i.e., on 31 October 2024. Thereafter, financial services institutions will be granted a period of time to formulate Anti-Fraud Strategy Guidelines in accordance with Annex 1 of POJK 12/2024 and submit them to OJK. For your ease of reference, please see below the formulation and submission deadline for each type of financial services institution:

Financial Services Institution	Formulation and Submission Due Date
Conventional or sharia banks, insurance and re-insurance companies, and financing companies.	3 (three) months after the enforcement of POJK 12/2024  (approximately in January 2025)
Conventional or sharia rural banks, securities companies, insurance and re-insurance broker companies, insurance loss assessment companies, pension funds, financing companies, venture capital companies, infrastructure financing companies, micro financial institutions, pawnbroker companies, guarantee institutions.	6 (six) months after the enforcement of POJK 12/2024  (approximately in March 2025)

## **Mandatory Submission of Anti-Fraud Strategy Implementation Reports**

Additionally, financial services institutions must also submit Anti-Fraud Strategy Implementation Reports to OJK within a certain time window. For example, both commercial or sharia banks or rural banks with a minimum core capital of Rp50,000,000,000.00 (fifty billion Rupiah), and other financial services institutions with a minimum paid-up capital of Rp500,000,000,000.00 (five hundred billion Rupiah), must submit their initial Anti-Fraud Strategy Implementation Report by 31 January 2025 at the latest.

## **Failure to Implement Anti-Fraud Strategy**

It is imperative for Indonesian financial services institutions to commence formulating Anti-Fraud strategies as well as making the necessary adjustments to their organizational structure to comply with the obligations imposed by POJK 12/2024. Financial services institutions which fail to do so may be subject to administrative sanctions enforced by OJK, ranging from less severe sanctions such as a written notice or fine, to more serious penalties such as suspension and/or freezing of business operations.

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*The article above was prepared by Dentons HPRP's lawyers*

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