

Insights on Innovative Credit Scoring

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In Indonesia, credit scoring systems are categorized into conventional and innovative approaches. Conventional scoring relies on traditional credit data from registries like the Financial Information Service System (*Sistem Layanan Informasi Keuangan* or “**SLIK**”) and Private Credit Bureaux (known as *Lembaga Pengelola Informasi Perkreditan* or “**LPIP**”), which are mainly regulated by the Financial Services Authority (*Otoritas Jasa Keuangan* or “**OJK**”) through OJK Regulation Number 18/POJK.03/2017 concerning Reporting and Requesting Debtor Information through SLIK (as amended several times) (“**OJK Reg 18/2017**”) and OJK Regulation Number 5/POJK.03/2022 concerning LPIP. Innovative Credit Scoring (“**ICS**”), on the other hand, utilizes alternative data sources such as social media and digital transactions to assess creditworthiness, especially for those with limited credit history.

Since ICS does not process data from SLIK, but rather ‘alternative’ data for scoring purposes, ICS does not fall under the LPIP regime. Consequently, ICS developed without specific regulatory oversight until December 2024 when OJK finally addressed this gap by enacting the OJK Regulation Number 29 of 2024 concerning Alternative Credit Scoring (“**OJK Reg 29/2024**”), marking a significant step in establishing a formal legal framework for ICS in Indonesia.

In this article, we will explore in depth ICS activities, the previous and current regulations governing ICS, the Personal Data Protection (“**PDP**”) concerns associated with ICS activities, and the future for ICS in Indonesia.

ICS activities

ICS providers use alternative data such as telecommunications data (including mobile credit, internet usage, calls and texts), health records, social media activity and electronic transactions data that are obtained and processed through Artificial Intelligence (“**AI**”) with machine learning algorithms, to estimate credit worthiness of potential borrowers to be used by ICS providers’ clients – usually, but not limited to, Peer-to-Peer Lending (“**P2P Lending**”) companies.

As a short illustration, P2P Lending companies provide information about prospective borrowers to the ICS provider. The ICS provider then crawls alternative data related to this potential borrower

from several electronic platforms. To access those data, ICS provider partners with several third-party platform companies that originally collected the users’ data. Additionally, ICS providers also cooperate with an AI-powered company to obtain these alternative data from several electronic platforms. These collected data are then processed by ICS providers to calculate credit scores.

Previous regulation on ICS prior to OJK Reg 29/2024

Prior to the enactment of OJK Reg 29/2024, there was no specific regulation on ICS and OJK still classified ICS as one of the clusters in Financial Sector Technology Information (“**FSTI**”) under OJK Regulation Number 3 of 2024 concerning FSTI (“**OJK Reg 3/2024**”).

According to the OJK Regulation 3/2024, an ICS provider as an FSTI operator should undergo the following licensing schemes before legally commencing its operations in Indonesia:

1. Regulatory Sandbox

The regulatory sandbox is a testing ground for FSTI operators to experiment with their products or services under OJK supervision. Participants must submit an application and trial plan to OJK. Upon approval, they can conduct trials for up to a year. Successful completion of the sandbox allows participants to proceed to the registration stage.

2. Registration stage

The registration stage requires FSTI operators to provide documentation related to their business, technology, and partnerships. One of the crucial requirements is a registration certificate as an electronic system organizer from the Ministry of Communication and Informatics (now Ministry of Communication and Digital – “**MOCD**”). Successful registration allows operators to proceed to the licensing stage.

As a reference, in April 2024, OJK issued the result of regulatory sandbox trials conducted in the period 9 August 2023 – 30 April 2024 (“**OJK Sandbox Result April 2024**”). Based on the OJK Sandbox Result April 2024, there are 10 ICS providers that had been recommended for proceeding to the registration phase.

No.	Company	Platform
1.	PT Trusting Social Indonesia	TSI
2.	PT Tongdun Technology Indonesia	FinScore
3.	PT Bangun Percaya Sosial	BPS
4.	PT Credolab Indonesia Scoring	CredoLab
5.	PT Izi Data Indonesia	IziData
6.	PT Semangat Digital Bangsa	Toko Score
7.	PT Eureka Analytics Indonesia	Eureka
8.	PT Aiforesee Inovasi Skor	Aiforesee
9.	PT Scoring Teknologi Indonesia	Scoring.co.id
10.	PT Prima Analytics Indonesia	Prime

Out of those 10 ICS providers above, OJK has approved the registration of four ICS as per November 2024 – those players are: (a) PT Trusting Social Indonesia; (b) PT Semangat Digital Bangsa; (c) PT Scoring Teknologi Indonesia; and (d) PT Prime Analytics Indonesia.

3. Licensing stage

The licensing stage involves OJK granting a business license to FSTI operators who have successfully completed the previous stages. The specific requirements and processes for obtaining a business license will depend on the type of FSTI.

Current ICS regulation – OJK Reg 29/2024

OJK has recently enacted OJK Reg 29/2024 on 20 December 2024. This new regulation contains several significant provisions that existing and potential ICS providers in Indonesia should be aware of, among others as follows:

1. Scope of activities

An ICS provider can offer credit scoring and other data-driven services that utilize alternative data to provide added values for their clients, as approved by the OJK. However, ICS provider is restricted from generating credit scores based on any type of credit or financing data.

2. Form of company, minimum capital and foreign ownership limitation

An ICS provider must be in the form of limited liability company (*perseroan terbatas*).

To obtain a business license, the ICS provider must have a minimum paid-up capital of IDR5,000,000,000 (five billion Rupiah). The funds cannot originate from illegal activities such as money laundering, terrorist financing, and/or other activities categorized as financial crimes.

Foreign ownership of the ICS provider is capped at 85% (whether owned directly or indirectly), except for the ICS providers that are publicly listed on the stock exchange. Domestic investors and foreign investors who invest in an ICS provider are prohibited from making agreements and/or statements affirming that the ownership of shares in a limited liability company is for and on behalf of another party. Any agreements or statements suggesting that shares are held on behalf of others are void.

3. License

An ICS provider must submit an application to the OJK for an ICS license, along with several required documents, among others: (a) corporate documents; (b) data of directors, commissioners, and shareholders; (c) a 3-year business plan; (d) a business model; (e) evidence of technological certifications for its human resources; (f) a portal domain and application (with mockups); (g) an ISO 27001 certificate; (h) an operational policy; (i) a personal data protection policy; (j) proof of capital injection; (k) and the rest of the documents specified in the OJK Reg 29/2024. The OJK will decide whether to approve or reject the application within 20 business days after the complete application documents have been received by OJK.

Further, an ICS provider must also obtain a registration certificate as an electronic system organizer from the relevant authority (in this case, MOCD) within 60 calendar days after receiving the business license from the OJK. The ICS provider must then commence business operations within 30 calendar days of obtaining the registration certificate from MOCI.

Do note that any ICS provider that has successfully completed the sandbox testing or is already registered with the OJK must apply for a business license according to the provisions of OJK Reg 29/2024 within 12 months of its effective date. Failure to apply within this timeframe will result in the ICS providers to cease its operations within six months after considered as unlicensed and unregulated by the OJK.

4. Management

An ICS provider is required to have a minimum of two members on its Board of Directors (“**BOD**”) and one member on its Board of Commissioners (“**BOC**”). At least one BOD member must possess the knowledge and/or experience in: (a) credit scoring industry; (b) information and technology sector; and/or (c) financial services.

In addition, BOD members may only hold concurrent positions as: (a) BOD members; (b) BOC members; and/or (c) executive officers, of non-profit companies, organizations or institutions.

5. Fit-and-Proper Test (“**FPT**”)

The key party candidates (*calon pihak utama*) of ICS provider must obtain the approval and pass the FPT from the OJK before assuming their roles.

The key parties in ICS provider are the Controlling Shareholder (*Pemegang Saham Pengendali* or “**PSP**”), BOC and BOC members. The PSP refers to a legal entity, individual or business group that holds 25% or more of the issued shares with voting rights in ICS provider, or holds less than 25% but still exercises control over the ICS provider.

6. Data center location

The data center and disaster recovery center of ICS providers must be located within Indonesia.

7. Credit scores

A credit score is the output of the ICS provider's processing which reflects a consumer's financial profile or condition. The credit score must include at least one or more of the following: (a) symbols; (b) letters; (c) colors; (d) or numbers, along with a brief explanation for the score.

ICS providers are obligated to maintain the confidentiality of credit score data through encryption or other security measures, protecting the data from all security threats.

Further, the ICS provider must provide credit scores in the Indonesian language. If necessary, credit scores may also be provided in other languages.

8. PDP

If an ICS provider collects and processes personal data, then the ICS provider must comply with the Indonesian PDP regulation. Further explanation on this is elaborated below.

ICS activities in connection with the PDP aspect

Although ICS has introduced significant innovations to credit assessment, it also faces challenges, particularly regarding privacy and data usage. The reliance on alternative data (such as social media data, online transactions, etc.) often raises concerns among users on how much personal data information is accessed and used without consent.

In Indonesia, Law Number 27 of 2022 concerning PDP (“**PDP Law**”) strictly regulates that every data collector must obtain the written and explicit consent from its users (as data subjects) before collecting and processing their personal data. If the data collector will transfer the data to another data processor, the original data collector must include this information in the consent form that will be pre-approved by the data subjects. Further, if the data processor intends to transfer the data to another data processor, the first data processor must obtain a prior consent from the original data collector.

The types of potential borrowers' data that are shared with the ICS provider by P2P Lending companies and/or users are general ones, usually (a) name, (b) gender, (c) nationality, and (d) address. On the other hand, the data related to potential borrowers that are shared with the ICS provider by the third-party platform are alternative data, such as (a) digital transaction data, (b) mobile phone, (c) social media, and/or (d) bills and tax payment history. Since these data are considered personal and can be used to identify an individual, the processing of this data must adhere to the PDP provisions as stated in the PDP Law.

Having considered the above, there are several points that must be noted by existing and future players in the ICS sector on PDP-related aspect:

1. If the ICS provider directly collects data from data subjects, then a written and explicit consent from those data subjects must be obtained by the ICS provider before collecting and processing their personal data.

1. If an ICS provider cooperates with a P2P Lending company and third-party platform, before processing the data received by the P2P Lending company and third-party platform, the ICS provider needs to make sure that a written and explicit consent has been obtained from the data subject by the P2P Lending company and third-party platform. The consent must clearly state the purpose of data processing, including the transfer of data to the ICS provider as the data processor for credit score calculations (if the ICS provider is a data processor).
2. If an ICS provider obtains the alternative data from an AI-powered company, then this AI company must ensure that (a) the platform as the original data collector has obtained a prior written and explicit consent from the data subject for collecting the data (including further data processing by the AI company), and (b) the AI company has also secured a prior consent from the platform as the original data collector to share the users' data with the ICS provider (if the ICS provider is a secondary data processor).

As a second layer of protection for the ICS provider, it is also advisable to include a representation and warranty from the P2P Lending company or third-party platform or the AI company, in each of their cooperation agreements with the ICS provider, stating that they have obtained explicit consents from their end-users and/or original data controller (as relevant) for the processing of users' personal data – which includes transferring the data to the ICS provider for credit scoring purposes. Nonetheless, this clause does not fully exempt ICS provider from its primary obligation, which is to seek and obtain users' written and explicit consent, whether directly from the users themselves (if the ICS provider is a data controller), or indirectly through third parties (if the ICS provider is a data processor).

Despite the above explanations and illustrations, do note that the determination of the data collector and data processor of an ICS provider must be examined in a case-to-case manner. This depends on how the ICS provider collects, treats and controls the users' personal data which can vary in practice.

ICS business prospects in Indonesia

ICS is often used by P2P Lending companies as a platform to assess the funding risks of potential borrowers. This practice has emerged due to the large number of unbanked and underbanked P2P Lending borrowers, who are excluded from conventional banking systems and therefore have limited credit assessment information available on SLIK.

The cooperation between a P2P Lending company and an ICS provider is also supported by the OJK. In the Article 157 paragraph (1) of OJK Regulation Number 40 of 2024 concerning Information Technology Based Co-Funding Services (commonly known as P2P Lending), the OJK allows a P2P Lending company to collaborate with ICS providers to exchange users' data, both personal and transaction data which will be used as the basis of credit scoring, so long as this collaboration enhances P2P Lending companies' services.

As the business developed, the OJK realized there was a need to expand the scope of the Indonesian credit reporting system. Therefore, on 31 July 2024, the OJK enacted OJK Regulation Number 11 of 2024 concerning Second Amendment of OJK Reg 18/2017 ("**OJK Reg 11/2024**"). Under OJK Reg 11/2024, the OJK includes P2P Lending companies as one of the parties that are allowed to report and request borrower's data through the SLIK – this means, P2P Lending companies will also be required to submit the lending data in its platform to SLIK. The integration of P2P Lending data to SLIK will transform borrowers' "un-bankable" history to be "bankable", creating a more comprehensive data on prospective borrowers and enhancing transparency in credit evaluation within the Indonesian financial ecosystem.

These changes have sparked concerns on the future certainty and sustainability of the ICS industry. Since most ICS users are P2P Lending companies, the relevance of ICS is increasingly being questioned, and therefore it creates challenges in assessing the potential opportunities for ICS moving forward.

Despite those challenges, we believe there are several key factors that still support the existence of ICS in Indonesia:

1. Large potential of unbanked and underbanked population in Indonesia

Based on the Roadmap for Developing and Strengthening FSTI, Digital Financial Asset and Crypto Asset 2024 – 2028 issued by the OJK on 1 August 2024 ("**FSTI Roadmap 2024 – 2028**"), Indonesia's financial technology sector has seen rapid expansion fueled by the extensive use of smartphones and high internet penetration. Further, the OJK sees that financial innovation still presents opportunities to explore a wider market in channeling funds to unbanked and underbanked customers in Indonesia.

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Consequently, ICS is expected to remain relevant in the upcoming years since Indonesia still has a substantial population of unbanked and underbanked individuals who can benefit from ICS services.

2. Co-existence with conventional credit scoring

The OJK, through the FSTI Roadmap 2024 – 2028, asserts that successful collaboration between technology companies, financial institutions and government bodies is essential, especially to enhance operational efficiency, and expand access to financial services. Ultimately, this partnership is aimed at building a more resilient ecosystem in the innovation ecosystem.

Referring to the above, we are of the view that the issuance of OJK Reg 11/2024 does not completely replace the role of ICS. Instead, ICS can be used hand-in-hand with conventional credit scoring methods by financial institutions to conduct a more comprehensive screening of prospective borrowers and to enhance financial inclusion. This is expected to create a conducive environment for the growth of the digital finance sector.

3. The OJK’s commitment to regulate ICS

The swift expansion of ICS without sufficient regulatory oversight presents considerable risks of systemic instability, data breaches, and biased lending practices.

The issuance of OJK Reg 29/2024 demonstrates the OJK’s acknowledgment of the importance of ICS industry, especially for the development of financial inclusion for micro, small, medium businesses. Moreover, the OJK realizes that an adequate regulation is required to set the standards of implementation and risk management of ICS business in Indonesia moving forward.

Conclusion

The growth of ICS is reshaping financial inclusion in Indonesia. Despite concerns on ICS’s relevance and sustainability, its potential remains significant particularly for the unbanked and underbanked society. On the one hand, the OJK is also committed to regulate ICS to balance innovation with a proper regulatory supervision. This action will also be significant for the co-existence of both ICS and conventional credit scoring to achieve better financial inclusion and to reduce the level of unbanked and underbanked society, resulting in expanded access to financial services in Indonesia.

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The article above was prepared by Dentons HPRP’s lawyers

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