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Legal Alert

Regulatory Framework of Indonesian Payment System: Overview of Payment Services Providers and Payment System Infrastructure Providers

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This year, Bank Indonesia ("**BI**") has issued two new regulations to further implement BI Regulation No. 22/23/PBI/2020 on Payment System ("**PBI 22/2020**") which was issued by the end of 2020 and designed to serve as an umbrella regulation and to restructure the ecosystem of the payment system using "activity and risk-based" approaches.

The two regulations, namely:
a. BI Regulation No. 23/6/PBI/2021 on Payment Services Providers/*Penyedia Jasa Pembayaran* ("**PJP**") ("**PBI on PJP**"); and
b. BI Regulation No. 23/7/PBI/2021 on Payment System Infrastructure Providers/*Penyelenggara Infrastruktur Sistem Pembayaran* ("**PIP**") ("**PBI on PIP**")

which, along with PBI 22/2020, have been in effect since 1 July 2021 (hereinafter, altogether jointly referred to as "**BI Regulations**").

Previously, both PJP and PIP in Indonesia are classified under one concept i.e. Payment System Services Providers/*Penyelenggara Jasa Sistem Pembayaran* ("**PJSP**"). The new regime under this BI Regulations now differentiates it as either PJP or PIP. Therefore, currently, the facilitation of payment transactions are carried out by Indonesian banks and non-bank institutions as PJP and PIP.

Some of the services provided by PJP are payment gateway, e-money, e-wallet, etc. Meanwhile, PIP is the provider of the infrastructure of fund transfer services.

Scope of Activities of PJP and PIP

We provide below the summary of Scope of Activities with regards to PJP and PIP under BI Regulations:

PJP		
No.	**Activities**	**Remarks**
1.	Provision of information on source of funds	Provision of information on source of funds for payment based on user's consent.
2.	Payment initiation and/or acquiring services	Forwarding orders or instruction of fund transfer and payment transaction data through devices, media, and/or set of procedures.
3.	Administration of source of funds	Administration of source of funds account and payment transaction authorization.
4.	Remittance services	Acceptance and execution of fund remittance in which the source of funds does not originate from an account administered by remittance service providers.

PIP		
No.	**Activities**	**Remarks**
1.	Clearing services	Reconciliation, confirmation, and calculation of financial rights and obligations of the PIP members before implementing the final settlement.
2.	Settlement services	Conduct final and binding settlement debiting and crediting the accounts of the parties for the financial rights and obligations of PIP members based on clearing results.

Activities based Licenses for PJP and PIP

In order to commence abovementioned activities, **PJP is required to obtain a license**, whereas **PIP shall obtain a stipulation from BI**. Issuance of license for PJP is carried out in accordance with its activities, as follows:

License Category 1	• All PJP scope of activities
License Category 2	• Provision of information on source of funds • Payment initiation and/or acquiring services
License Category 3	• Remittance services • Other services as may be determined by BI

Risk-Based Categorizations

Additionally, PJP and PIP shall be classified based on the risk that may impact the system if there is a disturbance or failure. In this line, the factors of size, interconnectedness, complexity and substitutability are also taken into consideration. Further elaboration on the categorizations is as follows:

No.	Risk Categorization	Remarks
1.	Systemic Payment System Providers/*Penyelenggara Sistem Pembayaran Sistemik* ("**PSPS**")	PJP and PIP that have a systemic impact on the payment system if there is a disruption or failure of the information system.

2.	Critical Payment System Providers/*Penyelenggara Sistem Pembayaran Kritikal* ("**PSPK**")	PJP and PIP that have a critical impact on the payment system in the event the information system experiences a disruption or failure.
3.	General Payment System Providers/*Penyelenggara Sistem Pembayaran Umum* ("**PSPU**")	PJP and PIP, which have no significant impact on the payment system, if the information system encounters disruption or failure.

Foreign Ownership Limitation

One of the most revolutionary changes introduced in the BI Regulations is regarding the foreign direct ownership, where it separates economic interest and voting rights in the shareholding of PJP and PIP.

Below is the maximum percentage of foreign ownership:

No.	Actors		Economic Interest	Voting Rights
1.	Non-bank institution	PJP	85%	49%
		PIP	20%	20%
2.	Bank institution	PJP & PIP	99%	

In addition, shares in PJP and PIP (non-bank institutions) with the following special rights shall be domestic-owned:

a. Voting majority member of Board of Directors and Board of Commissioners; and/or
b. Veto over a decision or approval in the General Meeting of Shareholders that has significant impact to the company.

Therefore, the foreign shareholder in PJP may own a maximum of 85% shares. However, the control of the company must remain with domestic shareholders, whereas the foreign shareholder in PIP may own a maximum of 20% shares.

Capital Requirement

The minimum paid-up capital for a bank institution shall be IDR 10 trillion. The minimum initial paid-up capital that shall be satisfied by PIP is in the amount of IDR 100 billion, whereas PJP shall fulfil the minimum initial paid-up capital in accordance with the category of the PJP license, as stipulated below:

Licenses Category		Minimum Paid-up Capital
License Category 1		IDR 15 billion
License Category 2		IDR 5 billion
License Category 3		
•	Provide a system that may be utilized by other PJP holding license category three	IDR 1 billion
•	Does not provide a system that may be utilized by other PJP holding license category three	IDR 500 million

Transitional Provisions

PJSP shall be assessed and reclassified accordingly by BI for the purpose of its previous PJSP license conversion to PJP license or PIP stipulation as may be relevant. It shall be noted that PJP and PIP shall fulfil the requirements, as set out in BI Regulations, within **2 (two) years** since the effective date of the BI Regulations.

Foreign ownership and control limitation requirements (*as referred to in the above table*) shall also be observed by existing entities regarded as PJP and PIP after BI Regulations come into force. Foreign ownership and control may only exceed the said limitation provided there is no change in the ownership composition and/or control by the foreign parties in PJP or PIP after the enactment of BI Regulations.

Closing Remarks

There are significant differences between the old regime with the current system. Therefore, it is expected that BI Regulations will bring reformation to payment services to accommodate continuous innovation and development of the industry's business models. These business models are designed to optimize digital innovation as part of Indonesia Payment System Blueprint 2025.

Due to the new regulatory changes brought by the BI Regulations, entities classified as PJP and PIP may want to review their compliance on the newly implemented provisions, notably on mandated transitional obligations which need to be fulfilled within **2 (two) years**, as have been mentioned above.

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