



FINANCE AND MARKETS GLOBAL PRACTICE

# INDONESIA DIAGNOSTIC REVIEW OF CONSUMER PROTECTION AND FINANCIAL LITERACY

Volume I  
Key Findings and Recommendations

December 2014



## **DISCLAIMER**

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## ABBREVIATIONS AND ACRONYMS

<b>ADPI</b>	<i>Asosiasi Dana Pensiun Indonesia</i> (Indonesian DPPK Pension Funds Association)
<b>ADR</b>	Alternative Dispute Resolution
<b>AKKI</b>	<i>Asosiasi Kartu Kredit Indonesia</i> (Indonesian Credit Card Association)
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BAMI</b>	Indonesian Mediation Board
<b>BAPMI</b>	<i>Badan Arbitrase Pasar Modal Indonesia</i> (Indonesian Capital Markets Arbitration Board)
<b>BI</b>	<i>Bank Sentral Republik Indonesia</i> (Bank Indonesia)
<b>BIK</b>	<i>Biro Informasi Kredit</i> (Credit Information Registry at BI)
<b>BKK</b>	<i>Badan Kredit Kecamatan</i> (Sub-district level MFIs in Central Java)
<b>BMT</b>	<i>Baittul Maal wa Tamwil</i> (Savings and Loan Sharia Institution )
<b>BPD</b>	<i>Bank Pembangunan Daerah</i> (Regional Development Bank)
<b>BPSK</b>	<i>Badan Penyelesaian Sengketa Konsumen</i> (Consumer Dispute Settlement Board)
<b>BRI</b>	<i>PT. Bank Rakyat Indonesia</i> (Bank Rakyat Indonesia)
<b>CPFL</b>	Consumer Protection Financial Literacy
<b>DB</b>	Defined benefit
<b>DC</b>	Defined contribution
<b>DPLK</b>	<i>Dana Pensiun Lembaga Keuangan</i> (Financial Institution Pension Funds)
<b>DPPK</b>	<i>Dana Pensiun Pemberi Kerja</i> (Employer Sponsored Pension Funds)
<b>FCP</b>	Financial Consumer Protection
<b>FISF</b>	Financial Inclusion Support Framework
<b>GA</b>	Government Agency
<b>GDP</b>	Gross Domestic Product
<b>IDI</b>	Individual Debtor Information
<b>IDR</b>	Indonesian Rupiah
<b>IDX</b>	Indonesia Stock Exchange
<b>KSEI</b>	<i>Kustodian Sentral Efek Indonesia</i> (Indonesian Central Securities Depository)
<b>LPD</b>	<i>Lembaga Perkreditan Desa</i> (Village Credit Institutions in Bali)
<b>LT</b>	Long Term
<b>MC</b>	Ministry of Cooperatives and SMEs
<b>MFI</b>	Microfinance Institution
<b>MoT</b>	Ministry of Trade
<b>MT</b>	Medium Term
<b>MCIT</b>	Ministry of Communication and Information Technology
<b>NBCI</b>	Non-Bank Credit Institution
<b>NCPC</b>	National Consumer Protection Council
<b>NGO</b>	Non-Governmental Organization
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OJK</b>	<i>Otoritas Jasa Keuangan</i> (Financial Services Authority of Indonesia)
<b>ST</b>	Short Term
<b>TNP2K</b>	<i>Tim Nasional Percepatan Penanggulangan Kemiskinan</i> (National Team for the Acceleration of Poverty Reduction, the Office of the Vice President)
<b>WB</b>	World Bank

## ACKNOWLEDGMENTS

This report contains the findings and recommendations from a World Bank mission to Indonesia between October 21 and November 6, 2013, which took place for the purposes of a Diagnostic Review on Financial Consumer Protection and Financial Literacy. The banking, non-bank credit institutions, securities, insurance, pension, and credit reporting sectors were considered during the mission as well as financial literacy strategies and programs. The review was undertaken in response to a request from Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI) for the purposes of Indonesia's Financial Inclusion Strategy and was a critical component in the design of the support program for Indonesia under the Financial Inclusion Support Framework (FISF) program of the World Bank (WB). The report also reflects discussions and research which took place following the mission.

The mission team was led by Ros Grady (Task Team Leader, Senior Financial Sector Specialist and Insurance Expert, GFMDR). The mission team included Eric Haythorne (Consultant, Banking Expert), Juan Carlos Izaguirre (Consultant, Non-Bank Credit Institutions Expert), Richard Symonds (Consultant, Securities Expert), Fiona Stewart (Senior Financial Sector Specialist and Pension Expert, GFMDR), Fredes Montes (Financial Infrastructure Specialist and Credit Reporting Expert, GFMDR), Dan Iannicola (Consultant, Financial Literacy Expert), and Sarah Fathallah (Financial Sector Analyst, GFMDR). Guidance and support was provided by the Jakarta World Bank office including Carlos Pinerua (Country Manager, ECCHR), I Gede Putra Arsana (Financial Sector Specialist, GFMDR), Alwaleed Fareed Alatabani (Senior Financial Sector Specialist, GFMDR), Djauhari Sitorous (Senior Financial Sector Specialist, GFMDR), Kiyotaka Tanaka (Financial Sector Specialist, GFMDR), Frans Wiyono (Consultant, GFMDR), Neni Lestari (Financial Sector Specialist, GFMDR), Chitra Buscoti (Consultant, GFMDR) and Pamitra Wineka (Consultant, GFMDR).

The mission held meetings with representatives of relevant stakeholders, including from OJK and BI, the Ministry of Cooperatives and SMEs, financial institutions, industry associations, a consumer association and industry associations. The mission team is grateful for the support and collaboration of all with whom they met and who have contributed to this report. The team particularly wishes to express its appreciation to the authorities for their assistance during the Review.

Peer review comments on this report were received from Samuel Munzele Maimbo (Lead Financial Sector Specialist, GFMDR), Nataliya Mylenko (Senior Financial Sector Specialist, GFMDR) and Rekha Reddy (Senior Economist, GFMDR) and overall guidance was provided by Douglas Pearce (Acting Practice Manager, GFMDR). The mission team is grateful for their valuable contributions.

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### **Currency and Equivalent Units**

*(As of December 2014)*

Currency Unit = Indonesian Rupiah (IDR)

US\$ 1 = IDR 12,820.00

### **Government Fiscal Year**

January 1 – December 31

## PREFACE

**The existence of a sound financial consumer protection framework is fundamental to increasing access to and usage of financial services, and the quality of those financial services, along with supporting further financial sector deepening.** Financial consumer protection is a necessary precursor to building trust in the formal financial sector and thus in encouraging financial inclusion. Further, consumer protection helps ensure that expanded access benefits consumers and the economy as a whole. This is because, while increased access can result in significant economic and societal benefits, it can be neutral or even harmful if consumers are not able to (i) exercise their rights as consumers, (ii) select the financial products that suit them best; and (iii) be protected from mis-selling, fraud and other market abuses.

**The World Bank has developed the *Good Practices for Financial Consumer Protection as an assessment tool for diagnostic reviews of a country's consumer protection and financial literacy framework for the financial sector (Good Practices)*.** The Good Practices were developed using international benchmarks, such as the principles released by the Basel Committee, IOSCO and IAIS and OECD recommendations for financial literacy and awareness on pensions, insurance and credit products. The Good Practices incorporate provisions of laws, directives, regulations and codes of business practices from the EU and both developed and developing countries.<sup>1</sup>

**The main objective of a review based on the Good Practices (CPFL Review) is to assess the legal, regulatory and institutional frameworks for financial consumer protection in a country, with reference to international practices.** The review addresses the following areas: (i) Institutional Arrangements, (ii) the Legal and Regulatory framework, (iii) Transparency and Disclosure, (iv) Business Practices, (v) Complaints Handling and Dispute Resolution Mechanisms and (vi) Financial Literacy. All parts of a financial sector can be considered including: (i) Banking, (ii) Securities, (iii) Insurance, (iv) Non-Bank Credit Institutions, (v) Private Pensions and (vi) Credit Reporting. CPFL Reviews against Good Practices have been conducted by the World Bank in more than 30 countries worldwide, including many middle and low-income countries.<sup>2</sup> A CPFL Review results in a detailed assessment of each relevant financial segment consistent with the Good Practices and a report summarizing the key findings for the assessment and prioritized recommendations.

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<sup>1</sup> Examples include the United States, Australia, Canada, France, Ireland, Malaysia, Mexico, New Zealand, Peru and South Africa.

<sup>2</sup> As well as Indonesia, relevant countries include: Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Kazakhstan, Kosovo, Kyrgyz Republic, Latvia, Lithuania, Malawi, Mongolia, Mozambique, Nicaragua, Pakistan, Paraguay, Peru, the Philippines, Romania, the Russian Federation, Rwanda, South Africa, Slovakia, Tajikistan, Tanzania, Ukraine, Vietnam, Zambia, and Zimbabwe.

## EXECUTIVE SUMMARY

**The findings and recommendations presented in this report cover six sectors of the financial system in Indonesia**, namely (1) Banking, (2) Securities, (3) Insurance, (4) Non-Bank Credit Institutions, (5) Private Pensions, and (6) Credit Reporting. The assessment of each one of these sectors covers six areas: (a) Institutional Arrangements, (b) the Legal and Regulatory framework, (c) Transparency and Disclosure, (d) Business Practices, (e) Complaints Handling and Dispute Resolution Mechanisms and (f) Consumer Awareness and Financial Literacy. The report reflects the legal and regulatory framework and relevant aspects of the financial sector at the time of the CPFL Review, with significant changes noted in footnotes.

### *Key Findings*

**The finance sector is highly complex with a wide diversity and large numbers of institutions.** The banking industry is the largest part of the financial system accounting (it accounts for around 75% of the assets) and at the time of the mission consisted of 120 commercial banks and 1,837 rural banks. The non-bank credit sector is composed of multiple categories of institutions: 202 multi-finance companies, one state-owned pawnshop with 4,631 branches and 108,066 savings and loan cooperatives and several savings and loans units within multi-purpose cooperatives. There are also several types of community-based institutions or village credit providers in different provinces. The total number of formal and semi-formal providers in the non-bank sector is estimated at more than 220,000.<sup>3</sup> The insurance industry is small and highly concentrated but with a significant diversity of insurers and a growing Sharia insurance market. As of the end of 2012, there were 140 insurance and reinsurance companies, and 258 insurance-related entities (agents, brokers, loss adjusters, actuarial consultants). The private pensions market is very small, representing only around 1% of the population and assets under management constitute only 2% of GDP. Market capitalization in the securities market has grown since the 2008 crisis yet the number of equity issuers and retail investors has remained relatively stable. Credit reporting services are primarily provided by the credit registry operated by Bank Indonesia (BI), although the industry is likely to be opened up in the future to the private sector.

**The Indonesian authorities have demonstrated a strong focus on financial education and consumer protection.** This has been shown by (amongst other things) the emphasis on consumer protection in the 5 Pillars of Indonesia's National Strategy for Financial Inclusion,<sup>4</sup> Bank Indonesia's commitment to develop and implement nationwide financial literacy programs through the Maya Declaration, the fact that OJK has a specific consumer protection function, the publication of the Financial Services Sector Consumer Protection Regulation No. 1 of 2013 (FCP Regulation), and the recent launch of the National Financial Literacy Blueprint.

**OJK has primary responsibility for consumer protection in the financial sector.** Created in 2011, *Otoritas Jasa Keuangan* (the Financial Services Authority) (OJK) is now the principal prudential and consumer protection regulator and supervisor responsible for the financial sector. Specifically, OJK is

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<sup>3</sup> This includes BKDs, LDKPs, BDs, LDs, cooperatives, sharia MFIs, multi-finance companies and self-help associations but does not include the many informal providers such as ROSCAs and purely Indonesian savings clubs called "arisans".

<sup>4</sup> The five pillars of the National Strategy for Financial Inclusion are: Financial education; Financial eligibility; Supportive regulation; Facilitating intermediation; and Distribution channels.

responsible for the banking sector, the insurance sector, capital markets, pension funds, and other financial institutions (such as pawn shops and multi-finance companies).<sup>5</sup> Importantly, OJK's objectives expressly include consumer protection and its enabling law provides that the OJK Board of Commissioners must include a member in charge of education and consumer protection.<sup>6</sup>

**There are however other regulators who share consumer protection responsibilities who operate without the benefit of a formal coordination arrangement.** They include Bank Indonesia (BI) in relation to the payments system, the Ministry of Trade (MoT) who supervises the Consumer Law (which appears to apply to financial services as well as all other services and products), the National Consumer Protection Council (NCPC) which has broad policy responsibilities for consumer issues, the Ministry of Cooperatives and SMEs (MC) who regulate cooperatives, with provincial authorities having other responsibilities. At the time of the mission there are no formal coordination mechanisms between these different regulators and supervisors. While institutional arrangements are expected to change once the Cooperatives Law and the Microfinance Institutions Law are fully implemented,<sup>7</sup> there still remains a need for coordination (see Table 2).

**Across the financial sector, the non-bank credit sector presents the most complex landscape in terms of institutional arrangements, with remaining uncertainty for the supervision of microfinance institutions that operate as cooperatives.** Institutional arrangements are expected to change once the Cooperatives Law and the Microfinance Institutions Law are fully implemented, but there is still some uncertainty about the responsibilities for supervision of microfinance institutions that operate as cooperatives. In the context of the Cooperatives Law enacted in 2012, the MC is setting up the Monitoring Institution for Savings and Loan Cooperatives (the deadline for implementation of this law is October 2014). At the same time, the Microfinance Institutions Law enacted in 2013 requires all institutions specialized in providing financial services targeted to the poor and low-income communities to be licensed as microfinance institutions by OJK by 1 January 2015 (with exception of village credit institutions recognized by customary law). It is not entirely clear at this moment how both laws will be implemented in the case of cooperative microfinance institutions. In any case, the provincial authorities are still expected to play a key role in the supervision and regulation of non-bank credit institutions. They will supervise microfinance institutions (under a delegation from OJK), as well as supervising and regulating village credit providers.

**There is not an oversight arrangement for the credit reporting system as a whole.** Although BI has responsibility for licensing private credit bureaus, and OJK has responsibility for regulating and developing the interbank information system, there is not a specific regulator with overall responsibility for credit reporting.<sup>8</sup> This is a concern is given the multiplicity of regulators overseeing financial institutions which provide credit to consumers (BI, OJK and MC) and the need for consistency in protecting consumers whose data is held in the credit reporting system. OJK's role in this regard is unclear

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<sup>5</sup> Article 1(10) of the OJK Law

<sup>6</sup> Articles 4(1) and 10 (4)(g) of Law No. 21 of 2011 establishing *Otoritas Jasa Keuangan* (Financial Services Authority of Indonesia) (OJK Law)

<sup>7</sup> OJK will supervise microfinance institutions (per the Microfinance Institutions Law of 2013) starting from 2015, whilst MC will regulate savings and loan cooperatives (per the Cooperatives Law of 2012). Both institutions will delegate supervision of these institutions to the provincial government authorities, who will continue to regulate the small village credit providers.

<sup>8</sup> Article 69(1)(a) of the OJK Law and Article 32 of Law No. 23 of 1999 concerning Bank Indonesia (BI Law).

notwithstanding that OJK Law specifically provides that OJK has power “to regulate and supervise bank soundness that includes: ... (iii) Debtor information system; (iv) credit testing;...”.<sup>9</sup>

**Although OJK has a strong policy focus on consumer protection, it does not separate its prudential and consumer protection (market conduct) supervisory arrangements.** The policy focus is demonstrated, for example, by the making of the Financial Consumer Protection Regulation (FCP Regulation) as the first OJK regulation and the 2013 launch of the National Financial Literacy Blueprint, as well as the request for the review the subject of this report. However, individual staff members perform both prudential and consumer protection supervisory functions and do not appear to have a particular focus on consumer protection issues. Such arrangements can in principle give rise to conflicts between supervising financial institutions and protecting the interests of their customers. Further, staff do not use, in any systematic way, many of the specific tools relevant to this area (such as mystery shopping, customer focus groups and surveys, review of advertising materials or a systematic analysis of customer complaints made to the various mediation services on offer).

**There are also concerns as to whether regulators have adequate resources for supervision of consumer protection laws.** OJK’s Consumer Protection and Education Commission has less than 10 staff and the staff currently looking after prudential supervision are unlikely to have sufficient time (or the expertise) to take on supervision of consumer protection matters in a comprehensive way. This issue will be exacerbated in 2015 when OJK becomes responsible for supervising microfinance institutions. The lack of resources is particularly acute for MC which supervises savings and loan cooperatives and does not appear to have the resources or the expertise to deal with consumer protection issues.

**The new FCP Regulation covers an impressive range of consumer protection issues but there are still important consumer protection matters to be addressed.** On the one hand, the new FCP Regulation will apply to all OJK regulated entities once it comes into force in August 2014. However, the FCP Regulation is a broad, principles based regulation and there is much detail still to be included in guidelines to be issued by OJK. For example, there is an urgent need for further detail on the consumer protection rules relating to product – specific disclosures, product suitability assessments (including responsible lending standards), advertising, staff training, bundling of insurance and loan products, standard contracts and financial literacy programs. An additional concern is that the FCP Regulation will not apply to financial services that are not regulated by OJK (such as financial cooperatives, small village credit providers and third-party dealers in the multi-finance sector) and in relation to which there are very limited existing consumer protection provisions.

**It is also not clear how the new FCP Regulation will interact with existing laws and regulations.** Examples of existing general and sector specific laws and regulations are the Consumer Law of 1999 (Consumer Law), the Bank Transparency Regulation of 2006 and the Insurance Good Corporate Governance Regulation of 2012. The FCP Regulation provides that existing consumer protection laws and regulations remain valid as long as they are “not contrary” to the FCP Regulation. The difficulty is that it is not clear what this term means in practice. Existing laws and regulations contain some provisions which are not included in the FCP Regulation (such as the Consumer Law), some which are inconsistent with the FCP Regulation and others which, while not being entirely inconsistent, are worded differently. In any event, the provisions of a regulation such as the FCP Regulation cannot override the provisions of a law approved by Parliament (such as the Consumer Law), and there is doubt as to whether the general

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<sup>9</sup> Article 7(b)

consumer protection provisions of the FCP Regulation could override sector specific regulations (such as the Bank Transparency Regulations).<sup>10</sup> This overlap and ambiguity in the consumer protection framework is likely to be of concern to relevant financial institutions seeking to comply with the differing regimes, as well as creating legal uncertainty. The additional complexity is that the existing regulatory regime is very fragmented and appears to have been issued to address particular issues (this is especially the case with the banking, insurance and securities sectors).

**There are other sector specific issues which also need to be addressed.** For example: provisions need to be introduced for specialized disclosure requirements for credit, debit and insurance products, to require total cost of credit disclosures and to facilitate switching of bank account providers; the capacity of the new Investor Protection Fund for the capital markets sector needs to be developed as does that of statutory managers and the bankruptcy trustee; a specific consumer protection framework for the pensions sector should be introduced as the market develops and standardized reporting of performance and fees and a centralized comparison site is needed and there is a particular need for consolidation of consumer protection laws and regulations relating to the securities and insurance sectors. Further, the consumer protection regime relating to credit reporting needs to be enhanced and consolidated so that consumers have similar rights regardless of whether their information is held by BI, OJK, an LPIP or an informal credit information sharing arrangement such as that maintained by multi-finance companies through AAPI.

**The consumer protection regulatory regime for innovative products and distribution channels is also incomplete.** At the time of the mission, there were no provisions for consumer protection issues specifically associated with electronic funds transfer channels and products offered by banks and other institutions in the financial system. Specific issues in this context include safeguarding client funds, data privacy, electronic contracts and disclosures and liability for unauthorised and mistaken payments, system malfunctions, and lost or stolen devices. Further, OJK does not appear to have the power to ban products which are not considered suitable for offering to retail clients (such as complex derivative products<sup>11</sup>).

**There are only limited Codes of Conduct in place for the financial sector.** There is a Code for the Life Insurance Industry and a Code of Ethics for General and Life Insurance Agents, but there are no Codes of Conduct for the banking sector (which has 6 industry associations). Non-bank credit institutions have an industry association for multi-finance companies and one for Sharia-based savings and loan cooperatives. However there are no industry-based codes of conduct in place for the multi-finance, savings and credit cooperatives, village credit or BMT segments. In the capital markets sector, there are several industry associations, but they do not have a Code of Conduct. Industry Codes of Practice, if well drafted and widely disseminated to consumers and enforced, can be helpful in building trust in the financial system and hence assist in financial inclusion.

**There are requirements of general application relating to internal complaint resolution processes and procedures and specific requirements relating to the banking and credit reporting industries. However there are still gaps and a lack of consistency.** Banks must have a policy and written procedures dealing with complaints under BI Regulation No. 7 of 2005. There are also complaint resolution provisions applicable to BIK and private credit bureaus but there are concerns about the extent

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<sup>10</sup> See FCP Regulation, Article 55

<sup>11</sup> See IOSCO Report on *Suitability Requirements with respect to the Distribution of Complex Financial Products*: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD373.pdf>

of consumer rights (for example, in relation to correction of credit reports) and the consumer protection rules are undesirably different for BIK and a private credit bureau. There are also general provisions in the Consumer Law relating to entrepreneurs obligations to deal with customer complaints. Further, once the new FCP Regulation comes into effect, all financial services providers (including banks) will be required to have and implement detailed mechanisms for consumer complaint resolution and consumers will have the right to compensation for the faults or failures of financial services providers.<sup>12</sup> An important gap is that complaints handling rules are nonexistent for financial cooperatives or small village credit providers. In summary, there is not a common set of rules relating to how financial institutions are required to deal with consumer complaints.

**The current system for the resolution of external disputes in the financial system is fragmented and overlapping, with various gaps.** At present there are two statutory dispute settlement systems: the Consumer Dispute Resolution Board (BPSK) (which is supervised by MoT) and the BI mediation service for consumers. Further, as from 7 August 2014, OJK will provide a facilitation service under Articles 40 to 46 of the FCP Regulation, but this service is not clearly transparent, accessible, or binding on the financial institutions. OJK also has advocacy powers under the FCP Regulation. There are also dispute resolution industry schemes within the insurance, pensions and capital markets industries, although only the insurance scheme appears to be operational. It is understood that the multi-finance industry is also currently evaluating the establishment of an ADR system for its members but for the present customers appear to complain to OJK or other regulators of government agencies. In the cooperative and village credit segments, the most common way to solve disputes seems to be through informal consensus – based discussions. This patchwork of industry schemes and associations is a concern given the current proposal to have industry associations providing ADR services for consumers of financial services.

**The publication of OJK’s Financial Literacy Blueprint is an important step toward building Indonesia’s financial literacy infrastructure, especially when coupled with the new obligation on financial services providers to carry out financial literacy programs pursuant to Article 14 of the FCP Regulation. However much still remains to be done.** In particular, there is a need for development of targeted financial literacy programs, development of the OJK financial literacy website, guidance for industry in relation to their obligations under Article 14 and coordination between relevant stakeholders. An example of the current lack of coordination is that both BI and OJK are working on financial literacy data collection as well as program development and implementation. For example, BI has a school-based curriculum and OJK is planning to develop one soon; this presents a timely opportunity for cooperation for greater impact. Similarly BI and OJK have each performed their own financial literacy survey in the last couple of years. Ideally, data collection methods, analysis and results should be compared to determine if there is an opportunity to eliminate redundancy and increase efficiency.

## ***Key Recommendations***

**Table 1 below lists the main recommendations and priority actions. A comprehensive list of recommendations (including cross cutting recommendations and recommendations by sector) is presented in the Annexure, which should be read in conjunction with Table 1.** The complete assessment is presented in two documents: the first document (Volume I) presents a summary of the key

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<sup>12</sup> Articles 29 and 32 to 38

findings and recommendations, and the second document (Volume II) is presented in the form of a background technical note that assesses each sector against the Good Practices for Financial Consumer Protection developed by the World Bank.

**Table 1. Summary of Main Recommendations**

<b>Recommendation</b>	<b>Responsibility*</b>	<b>Term**</b>
<b>INSTITUTIONAL ARRANGEMENTS</b>		
Consider separating the prudential and market conduct supervisory functions within OJK	OJK	ST
Develop CPFL specific resources, tools and capacity within OJK for implementing financial consumer protection/market conduct regulations and related supervisory activities	OJK	ST
Establish coordination and consultation arrangements between key consumer protection regulators (e.g. through a Memorandum of Understanding)	OJK / BI / MC / MoT / NCPC	ST
Design and implement a financial literacy technical working group as a coordination mechanism involving all relevant stakeholders	OJK / BI / Ministry of Finance + GAs	ST
Develop guidelines for provincial authorities with delegated supervision of savings and loan cooperatives and MFIs	OJK	MT
Develop the capacity of the Investor Protection Fund	OJK	MT
Enhance the oversight framework for credit reporting	OJK / BI / MC / NCPC / MCIT	MT
<b>LEGAL AND REGULATORY FRAMEWORK</b>		
Eliminate / minimize overlap between the FCP Regulation, the Consumer Law and other existing consumer protection laws and regulations and consolidate the consumer protection regime (pending development of a comprehensive Financial Consumer Protection Law, in interim provide guidance in Circulars under the FCP Regulation)	OJK / BI / MC / MoT / NCPC	LT
Develop guidelines for financial institutions who are required to have financial literacy programs under Article 14 of FCP Regulation <sup>13</sup>	OJK	ST
Provide the regulatory flexibility to deal with consumer protection issues relevant to innovative products and distribution channels	OJK / BI	MT
Enhance the legal and regulatory framework applicable to consumer protection issues relevant to credit reporting	OJK / BI / MC / NCPC / MCIT	MT
Develop consumer protection laws (or regulations) for private pension products	OJK	LT

<sup>13</sup> After the CPFL Review, OJK Circular Letter No. 1/SEOJK.7/2014 concerning the Education Implementation Plan to Enhance Financial Literacy towards the Consumer and/or Society was issued, but was not the object of the mission team's analysis.

<b>Recommendation</b>	<b>Responsibility*</b>	<b>Term**</b>
<b>TRANSPARENCY AND DISCLOSURE OF INFORMATION</b>		
Develop specific disclosure requirements for different types of financial products, including Key Facts Statements <sup>14</sup>	OJK / MC	ST
Develop total cost of credit interest rate requirements	OJK / MC	ST
Introduce standardized reporting for private pension funds and centralized comparison web site	OJK	MT
<b>BUSINESS PRACTICES</b>		
Strengthen obligations for product suitability / affordability assessments (e.g. by issuing a Circular under Article 16 of the FCP Regulation)	OJK / MC	ST
Prohibit unreasonable insurance forcing practices relating to bundling and tying of credit and insurance products and introduce requirements for disclosure of insurance details and rebates for tied insurance policies where the loan is paid out early	OJK / MC	MT
Introduce standardized training requirements for staff and intermediaries of financial services providers	OJK / MC	LT
Develop training on the sale of pension products by agents	OJK	LT
Support the development of industry Codes of Practice through providing guidance on minimum content and principles	OJK / MC	LT
<b>DISPUTE RESOLUTION MECHANISMS</b>		
Review the ability of industry associations to provide ADR services	OJK	ST
Develop complaint handling rules for cooperatives which are consistent with those applicable to OJK regulated entities	MC	MT
Develop options for a single, independent ADR scheme covering entire financial sector	OJK / MC	LT
<b>FINANCIAL LITERACY</b>		
Develop a national website and public awareness campaign, launch targeted financial literacy programs, conduct outreach	OJK / TNP2K / BI + GAs	ST
Conduct a public awareness campaign around the benefits and risks of the Credit Reporting System	OJK / BI / MC / MCIT	ST
Consider a National Pension Awareness Campaign for social security reforms and role of voluntary pensions in the future	Government / OJK	MT

\* GAs: (other) relevant Government Agencies.

\*\*ST: Short-term; MT: Medium Term; LT: Long Term

<sup>14</sup> After the CPFL Review , OJK Circular Letter No.12/SEOJK.07/2014 concerning the Delivery of Responsible Information on Financial and Marketing Products and/or Services was issued, but was not the object of the mission team's analysis.

# CONTEXT FOR CONSUMER PROTECTION AND FINANCIAL LITERACY

## Introduction

**The existence of a sound financial consumer protection framework is fundamental to increasing both access and usage of financial services, the quality of those financial services, and supporting further financial system deepening.** Financial consumer protection is a necessary precursor to building trust in the formal financial system and hence in encouraging financial inclusion. Further, consumer protection will help ensure that expanded access benefits consumers and the economy as a whole. This is because, while increased access can result in significant economic and societal benefits and enhance financial stability, it can be neutral or even harmful if consumers are not able to: (i) exercise their rights as consumers; (ii) select the financial products that suit them best and (iii) be protected from mis-selling, fraud, and other market abuses. In addition, it is a necessary complement to such a consumer protection framework that consumers have the levels of financial literacy necessary to access the benefits of the framework.

**The Indonesian authorities have demonstrated a strong focus on consumer protection and financial literacy.** This has been shown by (amongst other things) the emphasis on consumer protection in the 5 Pillars of Indonesia's National Strategy for Financial Inclusion, Bank Indonesia's commitment to develop and implement nationwide financial literacy programs through the Maya Declaration, the fact that OJK has a specific consumer protection function, the publication of the Financial Services Sector Consumer Protection Regulation No. 1 of 2013 (FCP Regulation), and the recent launch of the National Financial Literacy Blueprint.

## Financial Sector

**The financial sector has room for growth in the coming years.** Indonesia's GDP for 2012 is estimated at US\$878.2 billion<sup>15</sup> and the financial sector is estimated to account for a little over 58% of GDP at approximately IDR 5,691 trillion (US\$512 billion).<sup>16</sup> The growth potential of the financial sector is notable considering that, for example, domestic credit provided by the private sector represents 43% of GDP in 2012, whereas in neighboring countries like Malaysia, Singapore, Thailand and Vietnam, that indicator is 135%, 100%, 169% and 115%, respectively.<sup>17</sup>

**Over the past few years, the financial supervisory and regulatory landscape has been going through a number of reforms aimed at shifting all responsibilities under one entity.** Prior to 2011, Bank Indonesia (BI) and the Ministry of Finance (MoF) shared responsibility for financial sector. BI regulated and supervised deposit-taking institutions (i.e. commercial banks and rural banks), while the MoF, through Bapepam-LK, regulated and supervised capital markets, as well as supervised multi-

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<sup>15</sup> [http://data.worldbank.org/country/indonesia#cp\\_wdi](http://data.worldbank.org/country/indonesia#cp_wdi)

<sup>16</sup> Figure based on total assets for commercial banks of IDR 4,314 trillion and a share of 75.8% in assets of the financial sector as per Bank Indonesia. Data as of March 2013.

<sup>17</sup> <http://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS>

finance companies, leasing companies, insurance, and pension funds. In late 2011, Indonesia established OJK, intended to become the sole regulatory body for all financial services institutions, including banks. As such, all the regulatory and supervisory functions of Bapepam-LK and the MoF were transferred to OJK by 1 January 2013, and OJK took over all banking regulatory and supervisory functions from BI by 1 January 2014.

**As a result of these reforms, OJK is the principal prudential and consumer regulator and supervisor responsible for the financial system.** OJK is responsible for the banking sector, the insurance sector, capital markets, pension funds, finance institutions and “*other finance institutions*” as defined (such as pawnshops, deposit insurance institutions, the Indonesia credit export agency, secondary mortgage companies, and institutions that provide management of mandatory public funds). OJK’s statutory objectives expressly include consumer protection in the financial system.

**However other authorities retain responsibilities relevant to consumer protection in the financial sector.** BI retains responsibility for the payments sector as well as monetary policy and has recently established a division devoted to consumer protection matters that arise from the operation of the payments system. Following the mission, BI also made BI Regulation No. 16 of 2014 *Protection for the Consumer of Payments Services*. Other regulators with relevant functions and powers include the MoT, the NCPC, MC and the provincial authorities.

## ***Banking Sector***

**The banking industry at the time of the mission consisted of 120 commercial banks and 1,837 rural banks, accounts for around 75% of the assets of the financial system, with the top 5 banks accounting for approximately 50% of the market.** Both commercial banks and rural banks provide services based either on conventional and/or Sharia principles but a rural bank cannot provide payment transaction services, accept deposits in the form of demand deposits or conduct business in foreign exchange. Taken together, the assets of all of these banks, estimated as of October 2013 at 4,716.8 trillion IDR, account for more than 75% of the assets of Indonesia’s entire financial system. There is significant concentration in the banking industry with the top 5 banks accounting for just under 50% of the sector’s assets.

## ***Non-Bank Credit Institutions Sector***

**The non-bank credit sector is composed of multiple categories of institutions regulated and supervised by OJK, the Ministry of Cooperatives and SMEs and provincial authorities.** At the time of the mission there were 202 multi-finance companies (with total assets of IDR 342 trillion as of December 2012); one state-owned pawnshop with 4,631 branches (with total assets of IDR 29 trillion as of December 2012); and 108,066 savings and loan cooperatives and several savings and loans units within multi-purpose cooperatives, which are currently regulated and supervised by MC (if they operate nationally) and by the provincial and district authorities if they operate locally. There are also several types of community-based institutions or village credit providers in different provinces, with the most important category being the village credit institutions in Bali (LPD), of which there were 1,351 as of December 2012. LPDs are regulated by provincial governments and subject to delegated supervision of Bank BPD Bali, the Bali regional development bank. Further, there are savings and loan sharia institutions (BMTs), which offer different types of Sharia – compliant financing agreements, savings and term deposits, and even shares. Finally, there are also self-help groups and non-government

organizations providing local financial facilities, in many cases as distribution channels for government programs.

## ***Securities Sector***

**Market capitalization in the securities market has grown since the 2008 crisis yet the number of equity issuers and retail investors has remained relatively stable.** These figures may improve in the future as overall there is a dynamic movement in the industry to provide the infrastructure for a sound and robust capital market. Market capitalization has risen from approximately IDR 1.1 trillion in 2008 to approximately IDR 4.1 trillion in 2012. However, the number of equity issuers has only risen from 396 in 2008 to 459 in 2012. The number of securities accounts has increased from 302,447 in 2008 to 359,333 in 2012. Nevertheless, this does not necessarily reflect the number of retail investors since it includes duplicate, dormant and institutional accounts. The number of investment fund accounts (which are usually held by retail investors) has risen from 352,429 in 2008 to 515,714 in 2012. To encourage market participation, the Indonesian Stock Exchange (IDX) has established representatives in 17 of the 34 provinces of Indonesia to provide information to businesses and investors and has established an Investor Protection Fund to cover the bankruptcy of a broker-dealer. To provide further investor protection, the Indonesian Central Securities Depository (KSEI) has established a state of the art method of segregating customer securities accounts through sub-accounts and providing the customers with the ability to access their accounts to verify the status of their investments.

## ***Insurance Sector***

**The insurance industry is small and highly concentrated but with a significant diversity of insurers and a growing Sharia insurance market.** The sector's total gross premium income increased by 16.3% from IDR 153.1 trillion in 2011 and to IDR 178.1 trillion in 2012. Within the last four years, the average annual growth for gross premiums was around 18.5%. Life insurance companies contributed to 61% of the sector's gross premium income, while the non-life and reinsurance segments represented 25%. As of the end of 2012, there were 398 companies operating in the insurance sector, including 140 insurance and reinsurance companies, and 258 insurance-related companies (agents, brokers, loss adjusters, actuarial consultants). Despite its diversity, the life insurance market is highly concentrated with the top 10 insurers at year end 2012 representing 78.8% of total assets and 73.1% of premiums. The general insurance industry is also somewhat concentrated but less so with the top 10 general insurers representing 56.2% of total assets in 2012 and 48.4% of premiums. Sharia (Takaful) insurance is a relatively new but growing market. As of December 2012, there was 45 sharia insurance and reinsurance businesses, with a gross premium income of IDR 6.45 trillion in 2012. While this only represents 3.62% of the sector's total gross premium income, it has seen an increase of 26.9% compared to 2011.

## ***Pensions Sector***

**There are two main forms of voluntary private pension schemes.** Employer pension funds (DPPK) are run by sponsoring companies, on either a defined benefit (DB) or increasingly on a defined contribution (DC) basis. As of 2012, there were approximately 244 DPPK funds operating in the country, covering around 1.4 million workers. In addition, 25 financial institutions offer DC pension plans (DPLK) either on a group basis to companies which do not wish to run their own in-house occupation fund (approximately 1 million members), or in some cases directly to individuals (700,000 members). Together these schemes represent only around 1% of the population and assets under management constitute only 2% of GDP. However they may become more important in the future as the reformed social security

system will only be able to provide limited, subsistence benefits (at least if it is to be fiscally sustainable) and the current generous severance pay system is likely to be reformed.

## **Credit Reporting**

**Credit reporting services are primarily provided by the credit registry operated by BI, although the industry is likely to be opened up in the future to the private sector.** The Biro Informasi Kredit (BIK), which commenced operations in its current form in 2006, provides positive and negative information on both individual and business provided by banks and other creditors. Membership in the BIK is mandatory for commercial banks, large rural banks (assets above IDR 10 billion), and voluntary for smaller rural banks, non-bank financial institutions, and cooperatives. The mission team was advised that there are 120 banks, 20 financial institutions and 1304 rural banks participating in the system reporting loans from 70 million individuals and 424,000 firms. As at the time of the mission there were no cooperatives participating in the system and only about 5 multi-finance companies (who participate voluntarily). The only product that the BIK offers is basic reports with a 24 month history known as Individual Debtor Information (IDI) History. In addition to this system, there is a private, unlicensed credit bureau operated by CRIF in partnership with the Association of Credit Cards (AKKI). The market will be opened to private credit bureaus once the licensing regulation process is completed by the BI under the new Credit Bureau Regulation No. 15 of 2013 (Credit Bureau Regulation).

**An outstanding issue is the role that OJK will play in the future in relation to credit reporting.** The OJK Law specifically provides that OJK has power *“to regulate and supervise bank soundness that includes: ... (iii) debtor information system; (iv) credit testing; ...”*.<sup>18</sup> The mission team was nevertheless advised that BI intends to continue to operate BIK for at least five years, on the basis that it needs comprehensive and reliable credit information for the purposes of its financial stability and macro prudential role in supervising the financial sector. However BI recognizes the need for OJK to have access to this information as well.

## **Financial Education**

**On 19 November 2013, President Susilo Bambang Yudhoyono launched Indonesia’s Financial Literacy Blueprint which articulates OJK’s financial literacy strategy.** Significantly, financial literacy is the first pillar of Indonesia’s National Financial Inclusion Strategy which was launched by Indonesia’s Vice President in 2012. While the financial literacy movement is in its early stages, significant pilot projects have been ongoing for the last few years which will provide valuable insights to those leading future efforts in the field. On the government front, BI has been leading the effort since 2008 by advancing a multi-prong financial literacy program which includes a variety of different interventions including integrating financial education in national curricula (primary, secondary, and high schools), launching national campaigns (“Let’s go to the Bank” campaign, “3P” campaign, and “Saving Day” campaign), an implementing targeted financial education interventions for migrant workers, farmers and fishers, SMEs, rural populations, etc.) Although newer to the topic, OJK has quickly made advancing its regulatory mandate on financial capability an organizational priority, beginning with a financial capability household survey conducted in 2013 and other initiatives as well as the development of the National Financial Literacy Blueprint.

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<sup>18</sup> Article 7(b)

**Importantly, Article 14 of the FCP Regulation requires financial services providers to carry out education in order to improve the financial literacy of consumers and/or the community.** OJK is in the course of developing a Circular to provide guidance to industry on compliance with this requirement.

**In addition to early government efforts in financial literacy, private sector companies and NGOs have begun to play a role.** Various financial institutions have programs focusing on financial literacy as do some of their associations. For example, a few banks have developed financial literacy materials and a teacher training programs while an insurance association reached out to university students through the "*Insurance Goes to Campus*" program which introduces insurance as an important planning tool and possible career. Likewise, a small number of NGOs in the last few years have begun to address financial capability needs such as Prestasi Junior which operates entrepreneurship programs for youth in a few schools and the Indonesian Financial Inclusion Society which helps coordinate financial capability seminars for underserved communities. A more detailed stocktaking of current and recent financial literacy initiatives is available in Volume II of this report.

# FRAMEWORK FOR CONSUMER PROTECTION AND FINANCIAL LITERACY

## A. Institutional Arrangements

**OJK has very broad responsibilities for consumer protection in the financial sector.** OJK's responsibility for the financial services sector is provided for by Articles 5 and 55 of the OJK Law. Importantly, Article 5 provides that "*The Financial Services Authority shall have the functions to implement the integrated regulatory and supervisory system for the entire activities of the financial services sector*". Article 55 provides for timing issues (in summary, as of 1 January 2014, OJK obtained regulatory and supervisory responsibility for the banking sector, having obtained that responsibility for the capital markets, insurance, pension funds, finance institutions, and "*other financial services institutions*" on 1 January 2013. Importantly, Article 4 (c) of the OJK Law expressly provides that OJK was established "*with the objectives that the entire activities of the financial services sector:...c). can protect the interests of Consumers and the public*".

**There is currently no separation of prudential and market conduct supervisory arrangements for the financial sector within OJK.** Although OJK has a separate Commission for Education and Consumer Protection, consumer protection supervision activities are carried out by officers who are also responsible for prudential regulation and who report to the Commissioners with direct responsibility for the different parts of the financial sector covered by OJK. Having consumer protection and prudential responsibilities within the same unit may make it harder to resolve situations when conflicting objectives arise. For example, if the consequences of sanctioning a financial institution for noncompliance of consumer protection provisions would have an impact on the soundness (or perception of soundness) of a financial institution, or if a requirement for a financial institution to compensate customers would have an impact on prudential requirements, a supervisor may opt to avoid making a decision or even considering consumer protection issues in order to minimize prudential impact. Alternatively, when there is high political or public pressure to identify problems with consumers, the attention of supervisors may focus too much on consumer protection rather than prudential issues.

**There are also concerns as to whether OJK is adequately resourced for the broad CPFL functions it has to carry out.** OJK's Consumer Protection and Education Commission has less than 10 staff and the staff currently looking after prudential supervision are unlikely to have sufficient time (or the expertise) to take on supervision of consumer protection matters in a comprehensive way. This issue will be exacerbated in 2015 when OJK becomes responsible for supervising microfinance institutions. The lack of resources is particularly acute for MC which supervises savings and loan cooperatives and does not appear to have the resources or the expertise to deal with consumer protection issues.

**Further, OJK staff do not use, in any systematic way, many of the specific tools relevant to monitoring market conduct.** Examples include mystery shopping, customer focus groups and surveys, review of advertising materials or a systematic analysis of customer complaints made to the various mediation services on offer.

**There appear to be overlaps in the consumer protection functions of OJK, the Ministry of Trade (MoT), the National Consumer Protection Council (NCPC), with the Ministry of**

**Cooperatives and SMEs (MC) and provincial authorities also having consumer protection functions.** On the one hand, OJK has clear consumer protection functions in relation to the financial activities it regulates under the OJK Law. On the other hand, the MoT is responsible for supervising the implementation of general consumer protection provisions (including the Consumer Law). The NCPC functions also cover financial products and services, including in relation to advising the government on consumer protection policies, conducting surveys of relevant laws and consumer needs, encouraging NGO consumer protection foundations, and working with the media on consumer issues.<sup>19</sup> The breadth of the definitions of “consumer”; “entrepreneur” and “services” in Article 1 of the Consumer Law support the view that the Law applies to financial services and that the NCPC functions cover the financial system. In addition, the MC has consumer protection functions in relation to the cooperatives it regulates and delegates supervision to the provincial government authorities, who themselves regulate the small village credit providers (with delegated supervision carried out by the regional development banks). As of currently, there are no formal coordination mechanisms between these different regulators, supervisors, and market conduct authorities. While institutional arrangements are expected to change once the Cooperatives Law and the Microfinance Institutions Law are fully implemented,<sup>20</sup> there still remains a need for coordination (see Table 2).

**Table 2. Regulatory, Supervisory, and Market Conduct Authorities**

	Regulator		Supervisor		Market conduct authority	
	Current	Future *	Current	Future *	Current	Future *
<b>Banks</b>						
Commercial banks	BI	OJK	BI	OJK	MoT	OJK
Rural banks (BPRs)	BI	OJK	BI	OJK	MoT	OJK
Village credit institutions (BKDs)	BI	OJK	Bank BRI	Bank BRI	MoT	OJK
<i>Village banks (BDs)</i>	BI	OJK	Bank BRI	Bank BRI	MoT	OJK
<i>Rural credit institutions (LDs)</i>	BI	OJK	Bank BRI	Bank BRI	MoT	OJK
<b>Formal non-bank credit institutions</b>						
Multi-finance companies	OJK	OJK	OJK	OJK	MoT	OJK
State-owned pawnshop	OJK	OJK	OJK	OJK	MoT	OJK
Savings and loan cooperatives	MC	MC	MC & local govt.	MC & local govt.	MoT	MoT
Savings and loan units of multipurpose cooperatives	MC	MC	MC & local govt.	None	MoT	None
Village credit providers (LDKPs)						
<i>Rural credit boards (of Bali) (LPDs)</i>	Prov. govt.	Prov. govt.	Regional banks	Regional banks	MoT	MoT

<sup>19</sup> The mission team was not able to meet with NCPC and so it is not entirely clear to what extent there is an overlap in practice with OJK’s consumer protection functions.

<sup>20</sup> OJK will supervise microfinance institutions (per the Microfinance Institutions Law of 2013) starting from 2015, whilst MC will regulate savings and loan cooperatives (per the Cooperatives Law of 2012). Both institutions will delegate supervision of these institutions to the provincial government authorities, who will continue to regulate the small village credit providers.

	Regulator		Supervisor		Market conduct authority	
	Current	Future *	Current	Future *	Current	Future *
<i>Other village credit providers based on customary law</i>	Prov. govt.	Prov. govt.	Regional banks	Regional banks	MoT	MoT
<i>Other credit providers (including district credit bodies or BKKs)</i>	Prov. govt.	i) OJK; ii) MC	Regional banks	i) OJK & prov. govt; ii) MC	MoT	OJK or MoT
<b>Other</b>						
<b>Capital markets</b>	OJK	OJK	OJK	OJK	OJK	OJK
<b>Insurers</b>	OJK	OJK	OJK	OJK	OJK	OJK
<b>Pension funds</b>	OJK	OJK	OJK	OJK	OJK	OJK

\* Future refers to once the OJK Law, the Cooperatives Law, and the Microfinance Law are fully implemented. It also needs to be noted that MoT continues to have powers under the Consumer Law in relation to financial institutions.

**BI's powers in relation to the payments system have potential to overlap with OJK's consumer protection responsibilities.** For example BI has issued a wide ranging regulation 16/1/PBI/2014 entitled "Protection for Consumer of Payment System Services" (BI Payment Regulation). This regulation covers a broad range of a traditional and innovative payment services, including cover cash based deposits and withdrawals as well as services involving the use of new technologies (such as mobile banking, epayments systems, Internet banking and smart card based payment services). Particular principles covered by the Regulation include fairness and reliability, transparency, data protection, and effective complaint handling and resolution (Article 3). The mission team did not have the opportunity to assess the extent to which the BI Consumer Protection Payment Systems Regulation deals with all relevant consumer protection issues or how it interacts with other relevant laws or regulations (such as OJK's FCP Regulation). Nevertheless it is to be noted that many of the subjects covered by the BI Payment Regulation are also covered by the FCP Regulation and OJK's consumer protection functions.

**BI and OJK are presently both working on financial literacy data collection as well as program development and implementation.** For example, BI has a school-based curriculum and OJK is planning to develop one soon; this presents a timely opportunity for cooperation for greater impact. Similarly BI and OJK have each performed their own financial literacy survey in the last couple of years. Ideally, data collection methods, analysis and results should be compared to determine if there is an opportunity to eliminate redundancy and increase efficiency.

**The results of the World Bank Global Survey on Consumer Protection and Financial Literacy conducted in 2013 show that there are a multiplicity of institutional arrangements relating to financial consumer protection.** For example, the Global Survey showed that 82 countries out of 114 surveyed have multiple agencies involved in financial consumer protection. The 82 countries are made up of: 53 with multiple agencies involved in financial consumer protection but not a general consumer protection regulator, 18 with multiple agencies and a general consumer protection regulator and 11 with a single financial services agency and a general consumer protection regulator.

**The Global Survey also showed that there is an increasing trend to separate prudential regulation and consumer protection supervision.** The responses to the Global Survey showed that, in 2013, 97 countries assigned a legal responsibility for financial consumer protection to financial supervisors and, of

those 97, 70 created dedicated teams or units (both numbers increased between 2010 and 2013). To put it another way, in 2013 72% of agencies with the responsibility for financial consumer protection had a dedicated team or unit in place to perform this function compared to 62% of countries in 2010.

## ***Key Recommendations***

**Consideration should be given to revising the supervisory structures and reporting lines within OJK to ensure the separation of prudential and market conduct supervisory functions.** Whilst appreciating that the structure of the Board of Commissioners has been established by the OJK Law, consideration should be given as to how the specialized supervisory arrangements for market conduct (and consumer protection) supervision might be best managed within OJK. It is worth noting that several countries have been evaluating their most appropriate institutional arrangements for financial consumer protection in recent years and different models are emerging.<sup>21</sup> For example, so far as OJK is concerned, options would appear to include: (i) providing the Division for Education and Consumer Protection with the function and resources to undertake consumer protection supervision; and (ii) establishing a separate consumer protection unit within each sector – specific Division (Banking, Capital Markets, and Non-Bank Financial Institutions); and (iii) continuing with the current arrangement under which officers carry out both prudential and consumer protection supervision but providing additional resources and capacity building. Detailed consideration is required for each of these options and it is understood that OJK is currently undertaking this exercise.

**The team responsible for market conduct supervision in OJK should be resourced with adequate tools, approaches and capacity.** Consumer protection and prudential supervision require different types of supervisory profiles, skills and approaches, with the latter focusing more on quantitative skills and analysis of an institution's financial soundness, and the former on qualitative skills and assessment of how an institution deals with consumers. Consideration should be given to train OJK staff charged with market conduct supervision in order to utilize more systematically the tools relevant to this area, such as mystery shopping, customer research, review of advertising materials, and analysis of available customer complaints.

**A coordination and consultation arrangement relating to consumer protection issues should be established between key regulators.** This could be achieved through the establishment of formal coordination arrangements, including a possible Memorandum of Understanding between all relevant bodies. For OJK and BI such consultation could occur pursuant to the OJK/BI coordination and cooperation provisions provided for by Chapter X of the OJK Law.

**There is also a need to develop an effective consultation and coordination structure for the implementation of the financial literacy agenda.** As Indonesia is presently considering a larger coordination mechanism for financial inclusion, a specific technical working group focused on financial literacy could be envisaged. The Financial Literacy Working Group could meet regularly (say monthly or quarterly), and would include a broader set of stakeholder groups, from relevant ministries and government agencies, to industry associations, consumer associations, the media, and NGOs. Formation

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<sup>21</sup> For more examples, please refer to the World Bank technical note "[Establishing a Financial Consumer Protection Supervision Department](http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/TechNote-Belarus-FCP-Dept-FINAL.pdf)":  
<http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Publications/TechNote-Belarus-FCP-Dept-FINAL.pdf>

of a broad-based, multi-stakeholder group of the government agencies considering financial literacy matters could be considered as an appropriate first step.

## Non-Bank Credit Institutions Sector

**Across the financial sector, the non-bank credit sector presents the most complex landscape in terms of institutional arrangements, with remaining uncertainty for the supervision of microfinance institutions that operate as cooperatives.** Institutional arrangements are expected to change once the Cooperatives Law and the Microfinance Institutions Law are fully implemented, but there is still some uncertainty about the responsibilities for supervision of microfinance institutions that operate as cooperatives. In the context of the Cooperatives Law enacted in 2012, the MC is setting up the Monitoring Institution for Savings and Loan Cooperatives (the deadline for implementation of this law is October 2014). At the same time, the Microfinance Institutions Law enacted in 2013 requires all institutions specialized in providing financial services targeted to the poor and low-income communities to be licensed by OJK as microfinance institutions (with exception of village credit institutions recognized by customary law such as the LPDs). The deadline for implementation of this law is January 2015, i.e. three months after the deadline for implementing the Cooperatives Law. It is not entirely clear at this moment how both laws will be implemented in the case of cooperative microfinance institutions.

**In any case, the provincial authorities are still expected to play a key role in the supervision and regulation of non-bank credit institutions.** Once the transitional period of the new Microfinance Law is over, provincial authorities are expected to still fulfill the role of delegated supervisors for microfinance institutions (under a delegation from OJK), as well as supervising and regulating village credit providers (which are excluded from application of the Microfinance Law).

### *Key Recommendations*

**Given the multiplicity of institutional arrangements in the non-bank credit sector, efforts should be undertaken to develop similar approaches to consumer protection supervision for similar credit providers.** In particular, guidelines should be developed for provincial authorities to undertake delegated supervision of savings and loan cooperatives (currently) and microfinance institutions (following on responsibilities from Microfinance Law starting in 2015); and for regional banks to undertake supervision of village credit providers. Ideally, the approach adopted would, to the extent practical, reflect that which applies to banks so as to avoid regulatory arbitrage between the different types of institutions. These recommendations could be considered as part of OJK's ongoing development of strategies and training programs for the non-bank credit sector.

## Securities Sector

**Although Indonesia has several mechanisms to handle the insolvency of market participants, many are at an early stage of development.** This is an important issue as investor protection in the event of the insolvency of a market participant is one of the most important means of developing investor trust in the market. A new Indonesia Securities Investor Protection Fund has been created by OJK in collaboration with IDX and is in the process of being established.<sup>22</sup> Further, under the OJK Law, OJK can

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<sup>22</sup> It is understood the Securities Investor Protection Fund commenced operations on 1 January 2014.

appoint a statutory manager for a market participant if it deems it necessary. However, it is not clear how this provision will interact with the provisions of the bankruptcy law for the unwinding of an insolvent company. In addition, the procedures and powers of such a statutory manager have not been developed, although it is understood that OJK plans to do this. Finally, although investor funds are segregated at the Indonesian Central Securities Depository and at custodian banks, an unscrupulous asset manager or securities broker dealer can still misappropriate funds and assets by transferring them out of these accounts.

## **Key Recommendations**

**Early work should be undertaken to develop the capacity of the Investor Protection Fund to provide adequate customer protection.** In particular, the process and basis for compensating investors in the event of the failure of a market participant needs to be developed.

**The capacity of the statutory manager or the bankruptcy trustee for capital market participants also need to be further developed.** In particular, full and effective powers should be developed for the entity overseeing the insolvency of a company in order to allow it to fully protect investor assets, promptly return the assets to investors and resolve creditor claims. Insolvency rules should be developed that are specifically tailored to meet the characteristics and business activity of a market participant and to eliminate conflicts between a statutory manager and a bankruptcy trustee. Finally, mechanisms should be developed to prevent the misappropriation of investor funds from segregated accounts, such as implementing affirmative duties for the custodian to monitor such accounts.

## **Credit Reporting**

**There is only a limited oversight arrangement for credit reporting.** This is currently provided by BI, which is responsible for issuing licenses regarding the operation and establishment of private credit bureaus, whilst at the same time operating BIK. Further, the OJK Law provides that OJK has power “to regulate and supervise bank soundness that includes: ...*(iii) debtor information system; (iv) credit testing;...*”<sup>23</sup>. OJK is not however currently carrying out any sort of oversight function for credit reporting and there appears to be a vacuum in this regard. This is a concern given the multiplicity of regulators overseeing financial institutions which provide credit to consumers (BI, OJK and MC).

## **Key Recommendations**

**The oversight framework for credit reporting should be enhanced.** Ideally one authority would be identified as the primary overseer of the entire credit reporting system,<sup>24</sup> with the role of other authorities clearly set out in their enabling laws (or regulations if that is possible, given the likely delays in passing new legislation). As well as being responsible for supervision of private credit bureaus, the relevant body should have general responsibility for:

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<sup>23</sup> Article 7(b)

<sup>24</sup> So far as the interbank information system is concerned, OJK now has that responsibility (see Article 69(1)(a) of the OJK Law and Article 32 of the BI Law).

- The institutions, rules, participants and public policy objectives regarding the flow of relevant credit information to creditors, financial institution supervisors and other potential users of the system, consistently with the relevant national strategy on credit reporting; and
- Coordination between all relevant government agencies and regulators with responsibility for any aspect of the credit reporting system. In particular, there should be a collaboration and coordination arrangement between BI, OJK, the MC and possibly the NCPC (given its consumer protection policy related functions).

## B. Legal and Regulatory Framework

### *Key Findings*

**The consumer protection legal and regulatory framework for OJK regulated entities has overlaps as a result of the interaction between the broad – based consumer protection provisions in the new FCP Regulation and existing laws and regulations.** Examples of existing general and sector specific laws and regulations are the Consumer Law of 1999 (Consumer Law), the Bank Transparency Regulation of 2006 and the Insurance Good Corporate Governance Regulation of 2012. The FCP Regulation, which will commence on 7 August 2013, also contains broadly expressed provisions for consumer protection applicable to OJK regulated entities. The provisions relate to areas such as general consumer protection principles (for example relating to transparency and fair treatment), the information to be provided to consumers, financial education obligations of financial institutions, access to financial products and services, product suitability, marketing, standard contracts, security of deposits, data protection, conflicts of interest, internal compliant resolution processes and facilitation of disputes by OJK.

**Existing laws and regulations contain some provisions which are not included in the FCP Regulation, some which are inconsistent with the FCP Regulation and others which, while not being entirely inconsistent, are worded differently.** For example, the Consumer Law contains provisions relating to standard contracts, complaints and harassment and which give consumers the right to “*test or try*” financial products (Articles 4, 7 (e), 15 and 18), which are all issues dealt with in the FCP Regulation (see Annex II to Volume II of this Report for further examples). Although it is understood that there is a draft Bill which has been prepared which makes it clear that the Consumer Law does not apply to financial services, for now the position is likely to be confusing to regulated institutions. Further examples of overlaps with the FCP Regulation are the Bank Transparency Regulation which contain detailed rules relating to transparency of information to be provided to bank customers and data protection issues; the Bank Customer Complaints Regulation which contains requirements for internal complaint resolution processes in banks and the Bank Mediation Regulation which deals with mediation of customer complaints by BI.<sup>25</sup> All these Regulations cover subjects which are also dealt with in the FCP Regulation.

**The OJK Law and the FCP Regulation have provisions relating to the overlap but uncertainties remain.** Article 70 of the OJK Law refers to the various sector specific laws (such as the Banking Law),

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<sup>25</sup> See BI Regulation No 7/6/ 2005 concerning Transparency in Bank Product Information and Use of Customer Personal Data ;BI Regulation No. 7/7/PBI/2005 concerning the Resolution of Customer Complaints and BI Regulation No. 8/5/2005 concerning Banking Mediation. Subsequently to the Diagnostic Mission, new legislation has been issued, including BI Regulation PBI No. 16/1/2014 re: Payment System Consumer Protection, along with its implementing Circular Letter SEBI No. 16/16/DKSP dated September 30, 2014.

their “*ancillary regulations*” and “*other laws and regulations in the financial services sector*” and then provides that these laws and regulations “*remain valid to the extent not in contravention of and not yet replaced by this Law*”. FCP Regulation further provides in Article 55 that:

*“The implementation of the provisions governing the protection of consumers in the financial services sector shall remain valid as long as not contrary to Financial Services Authority regulations.”*

The mission team were advised that the intent is that the existing law and regulations should continue to apply “*except to the extent*” the umbrella provisions in the FCP Regulation are clearly inconsistent and regardless of which regulatory agency is responsible for existing regulations (such as BI or the Minister of Finance). However, the provisions of a regulation such as the FCP Regulation cannot override the provisions of a law approved by Parliament (such as the Consumer Law), and there is doubt as to whether the general consumer protection provisions of the FCP Regulation could override sector specific regulations (such as the Bank Transparency Regulations).<sup>26</sup> This overlap and ambiguity in the consumer protection framework is likely to be of concern to relevant financial institutions that have to consider how they can comply with all relevant laws and regulations and work out what differences in language between the FCP Regulation and other laws and regulations means in practice.

**The current regulatory regime for the financial services sector may not contain sufficient flexibility to deal with consumer protection issues which might arise with innovative products and distribution channels in the future.** At the time of the mission, there were no provisions for consumer protection issues specifically associated with electronic funds transfer channels and products offered by banks and other institutions in the financial system. Specific issues in this context include safeguarding client funds, data privacy, electronic contracts and disclosures and liability for unauthorised and mistaken payments, system malfunctions, and lost or stolen devices. There was also no specific regulations relating to the offering of complex new products into the retail market, which might, for example, give OJK the ability to ban products which are not considered suitable for offering to retail clients (such as complex derivative products<sup>27</sup>).

**With regards to financial literacy, Article 14 of the FCP Regulation has the potential to give needed direction to financial services companies to advance this agenda.** The reporting requirement sets out an obligation for financial service providers to educate consumers and/or the community on financial literacy matters and to report annually to OJK on their program. OJK is presently drafting an explanatory Circular to assist with compliance with these requirements.

## ***Key Recommendations***

**There is a potential overlap between the FCP Regulation, the Consumer Law and other sector-specific laws and regulations with consumer protection provisions which needs to be minimized.** Ideally, this would be achieved by enacting a new Financial Consumer Protection Law which covers in one law the principles of the FCP Regulation in addition to the more specific consumer protection aspects of existing law which it is thought should continue. However, it is appreciated that, at best, this is likely to be a long term objective. In the interim, the issue of Circulars which provide guidance as to the broadly framed obligations in the FCP Regulation is highly desirable. It is understood that a number of such

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<sup>26</sup> See FCP Regulation, Article 55

<sup>27</sup> See IOSCO Report on *Suitability Requirements with respect to the Distribution of Complex Financial Products*: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD373.pdf>

Circulars are currently being developed, and will cover issues related to marketing (including Key Facts Statements for standard products and advertising), data protection, standard clauses, and consumer education and complaints. As these Circulars are developed, and subject to local legal advice, overlapping regulations should be repealed or amended. In the long term, this should also apply to overlapping laws.

**There should be careful consideration of consumer protection issues relevant to innovative products and distribution channels.** In particular, there should be consideration of: (i) the issues specific to different types of new products and channels; (ii) different international models such as the Epayments Code in Australia<sup>28</sup>; (iii) regulatory and self-regulatory options (such as an industry Code of Conduct); (iv) capacity building for supervisors; and (v) how to ensure OJK has regulatory flexibility to cover future innovations. It would be appropriate for OJK and BI to consult closely in this regard, given BI's role in relation to the payments system. Such consultation could occur pursuant to the OJK/BI coordination and cooperation provisions provided for by Chapter X of the OJK Law. MC should also be involved in any such consultations. In addition, there should be consideration as to whether OJK (and possibly MC) needs to exercise, or be given, power to deal with complex products which may not be suitable for distribution to retail customers. It is, of course, important that care should be taken not to unnecessarily dampen innovation and to ensure that any new regulatory regime provides a balance between relevant risks and the cost of compliance. Further, relevant institutions should be encouraged to consult with BI and OJK in relation to proposed new innovative product and distribution channels.

**A Circular setting out OJK's expectations as to how financial institutions should comply with their financial literacy obligations under Article 14 of the FCP Regulation should be issued by OJK as soon as possible.**<sup>29</sup> The aim should be to provide clarity to the great number of financial institutions that lack a strong understanding of financial literacy. A Circular could provide the proper guidance to financial institutions, while at the same time taking into account OJK's ability to monitor compliance with Article 14. The Circular could, for example, set out OJK's expectations in relation to: consistency of programs with the National Financial Literacy Blueprint; the expected size, scale and priority areas for the relevant programs; the role and responsibilities of senior management; rules relating to impact measurement and evaluation; coordination between financial institutions and the requirements for reporting to OJK.

## Banking Sector

**With the exception of a few regulations such as the Bank Transparency Regulation, there are very few provisions that deal with any aspect of consumer protection in the banking industry and what law exists is vague in its terms.** For example, Article 4 of the Banking Law requires all banks to “*improve the welfare of the common people*” and Articles 8 and 15 of the same Law require banks to have “*confidence based on thorough analysis of the intention, capability and ability of a Debtor Customer to repay the debt (or the financing) according to the agreed terms.*” Article 29 (3) of the Banking Act also provides that “*in extending credits (or financing based on Sharia principles) and conducting other forms of business, a bank is required to adhere to methods that are not detrimental to the bank and to the interests*

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<sup>28</sup> <http://www.asic.gov.au/epaymentscode>

<sup>29</sup> After the diagnostic mission, OJK Circular Letter No. 1/SEOJK.7/2014 concerning the Education Implementation Plan to Enhance Financial Literacy towards the Consumer and/or Society was issued, but was not the object of the mission team's analysis.

of its customers.” While the FCP Regulation goes furthest to date in providing a regime for consumer protection in the delivery of all financial services, none of its provisions are banking-sector specific and none will be in effect until August 2014.

## ***Key Recommendations***

**The work begun by the enactment of the FCP Regulation should be expanded to deal in greater depth with important matters of financial consumer protection in the banking industry.** For example, further regulations would be particularly helpful in providing rules applicable to retail customer account switching from bank to bank, in setting forth detailed disclosure rules for banks depending on the banking product and in banning the practice of charging prepayment penalties (in some cases as high as 5%) on the outstanding balance of variable rate loans. OJK Circulars setting out OJK’s views on such issues would be helpful.

## **Non-Bank Credit Institutions Sector**

**Although some parts of the non-bank credit institutions sector (multi-finance companies and the state-owned pawnshop) are covered by the FCP Regulation and upcoming Circulars, financial cooperatives, small village credit providers and third-party dealers in the multi-finance sector are not.** While this complex sector may be subject to the Consumer Law, its provisions are in very general terms and of limited assistance to consumers in the sector. In general, the non-bank credit sector laws and regulations do not cover financial consumer protection issues with any degree of specificity. Further, there is a concern as to the scope for regulatory arbitrage given that the consumer protection regime operating to cooperatives regulated by the MC is so much less rigorous than that applying to OJK-regulated entities.

## ***Key Recommendations***

**In order to have a common legal consumer protection framework for all types of financial products and providers, consideration should be given to the development of specific consumer protection regulations or guidelines for cooperatives, village credit providers and third-party dealers.** In the case of cooperatives and village credit providers, there should be coordination with the provincial authorities and the Ministry of Cooperatives and SMEs. In the case of third-party dealers, coordination should be established with the MoT, which plays a role as enforcer of the Consumer Law and as authorizer of third-party dealers for the sale (or rent) of automobiles and motorcycles. The scope of coordination can include the improvement of disclosure of comparative information provided by dealers to potential consumers, the standardization of calculation of interest rates and real cost of credit, and provisions on the selling of bundled insurance products.

## **Securities Sector**

**A significant concern for the securities sector is the fragmented system of regulation.** Over the period of time of its operation, MoF’s Babepam-LK issued a number of regulations for the operation of the capital markets and the qualification of its participants. These regulations appear to have been issued piecemeal to address particular issues. For example, investment fund selling agents are required to provide prospective customers with a brochure which simply explains the investment fund in addition to the longer and more complicated prospectus of the fund. However, this requirement is not made applicable to broker-dealers or mutual fund employees that sell mutual funds.

## ***Key Recommendations***

**Regulations in the area of the capital markets should be consolidated and harmonized so that there is uniformity in regulatory requirements for market participants performing the same functions.** Ideally this would be done through the issue of specific regulations under the OJK Law, but in the interim the proposed Circulars under the FCP Regulation would be helpful.

## **Insurance Sector**

**The market conduct regulatory system currently applying to the insurance sector is fragmented and overlapping.** As well as the generic rules that will apply under the FCP Regulation, the insurance sector has to interpret and comply with the consumer protection provisions in a relatively wide array of laws and regulations, many of which have come into force only recently. Relevant laws and regulations include the Insurance Law, the Insurance Business Conduct Regulations and Decree, the Insurance Licensing Decree and the Insurance Good Corporate Governance Regulation.

## ***Key Recommendations***

**The laws and regulations applicable to consumer protection in the insurance sector should be consolidated and harmonized so that the law is clear.** As with other sectors, ideally this would be done through the issue of specific regulations under the OJK Law, but in the interim the proposed Guidelines under the FCP Regulation would be helpful.

## **Pensions Sector**

**Though currently adequate, the legal and regulatory framework of pensions may need to be examined and strengthened if the voluntary sector grows and takes on a more important role as the social security systems are reforms.** The key pension legislation (No. 11 / 1992) and regulations (Nos. 76 and 77 / 1992) are broadly in line with international good practice. The former regulator, BAPEPAM- LK, also issued extensive guidelines on a range of topics (including investment, governance, solvency etc.). In addition, the consumer protection framework for the financial system at large clearly states that it applies to pensions. However, more specific, pension related regulations are lacking in some areas (such as advertising and sales requirements, data protection etc.), which may need to be reexamined if a direct, retail pension market develops. More urgently, an examination of whether the existing pension law and proposed amendments which are currently with the parliament fit with the pension landscape in the post social security reform context will be required.

**With regards to governance arrangements, the law does not establish adequate minimum requirements for governing boards to protect interests of members of pension funds.** The governing boards of employer-sponsored pension funds (DPPK) are made up of member representatives, but international guidelines on knowledge and training of these boards could be applied. The governing board for DPLK pension funds are currently the same as the board for the financial institution providing the pension product – i.e. there is no direct member representation. The ‘governance vacuum’ is a challenge for DC pension funds in all countries, and ensuring that commercial pension providers put their fiduciary duties ahead of their commercial interests is not easy. However, mechanisms such as

independent governance committees have been tried in other countries, and Indonesia may be able to learn lessons from international experience and good practice.

## ***Key Recommendations***

**Development of consumer protection guidelines specifically for pensions is recommended.** If and when the retail pension market develops, the general financial system consumer protection legislation and regulation will need to be reviewed to see if more detailed guidance is required specifically for pension products (e.g. reporting of investment performance over long term).

**Training and knowledge requirements for DPPK pension fund supervisory boards should be introduced and an examination undertaken into the form of governance arrangements for DPLK pension funds provided by financial institutions.** Guidelines for introducing such training requirements for DPPK funds are being drafted by OJK. Training and knowledge requirements could be based on (a slimmed down version of) the training required for pension fund managers by the employer sponsored pension fund association (ADPI). International good practice would also imply the introduction of minimum suitability and collective knowledge requirements for governing boards.

## **Credit Reporting**

**The current legal framework applicable to credit reporting is composed of an array of laws and regulations that are not sufficiently clear or consistent with each other.** Of particular relevance in this context are the Credit Bureau Regulation which applies to LPIPs, the Debtor Information System Regulation which applies in relation to the BIK and the Electronic Transactions Law. The Credit Bureau Regulation has a much stronger consumer protection regime than the Debtor Information System Regulation so that consumers whose credit records are kept by BIK have lesser protections than those whose records are kept by private credit.

**There are other examples of gaps in the consumer protection regime applying to credit reporting which should be addressed.** For example, the consent of the relevant debtor is not a pre-requisite for access to personal data held by the BIK (although, as a matter of practice, it may be obtained by the creditor), or by an LPIP or for the transfer of data between BI and an LPIP; there is not an obligation on BIK to maintain the accuracy and security of data held in BIK; there are no restrictions on the transfer of data held in BIK and, importantly, Chapter IX of the Credit Bureau Regulation contains extensive provisions on the Handling and Settlement of Complaints in relation to the conduct of LPIPs but the Debtor Information System Regulation does not contain equivalent provisions (although there is provision for debtors to access their credit information).

## ***Key Recommendations***

**A legal and regulatory framework for credit reporting should be developed which is clear, predictable, non-discriminatory and supportive of consumers' rights.** At a minimum, new rules should be introduced ensuring that consumers whose data is held in BIK have the same rights as those whose data is held by private credit bureaus and that the abovementioned gaps are addressed.

## C. Transparency and Consumer Disclosure

### Banking, Non-Bank Credit and Insurance Sectors

Although there are some provisions requiring disclosure of terms and conditions of products, there are no details on the specific items of information which should be included for the different types of financial products or any requirement to provide a short form Key Facts Statement which highlights the most important information and features of a product. The disclosure requirements in the FCP Regulation do not adequately deal with these issues given the generality of the requirements in provisions such as Articles 4 and 8. Specific disclosure requirements can help create an informed consumer marketplace, enable product comparisons and encourage competition. It is, however, important that any new requirements in this regard are proportionate in the sense of reflecting the risks of the relevant activity, the literacy level of the relevant consumers and do not impose costs which outweigh the benefits. For example, the requirements imposed on small financial institutions such as cooperatives could be a simplified version of those applicable to customers of commercial banks given the lower levels of literacy in that section of the population. A further consideration in drafting disclosure requirements for the insurance industry is the low levels of understanding of the nature of insurance products (this point was made in repeated meetings with insurance companies).

### *Key Recommendations*

In the short term, it is recommended that OJK (and the MC when relevant) focus on the following activities:<sup>30</sup>

- **There should be specialized disclosure requirements for different types of financial products (e.g. specialized disclosure requirements for credit, deposit and insurance products):** For example, a loan contract should include the interest rate and how interest is calculated, all fees, charges and commission amounts, repayment amounts and frequency, details of any insurance related to the contract (such as credit life insurance), details of the credit provider, as well as information on the consequences of late payment of debt by customers and information about any security which must be provided (for example, in the case of a housing loan secured by real estate). Further, for cooperatives there could be a need to specify the minimum membership related information that should be provided;
- **Key Facts Statements:** It would be helpful for consumers' understanding of the financial sector if financial institutions were required to publish, and give to consumers, a short form (one page), clearly expressed Key Facts Statements for commonly used debit, credit and insurance products. By way of example, such a statement should include for a loan contract: the interest rate, fees and charges, the total amount to be repaid, the term of the loan and repayment details. Examples of countries which have requirements for such statements of this type include Australia, Ghana, Mexico, Peru, the United States and various European countries.
- **Total cost of credit interest rate:** Consideration should be given to including a requirement to disclose a total cost of credit interest rate which shows as a single rate the applicable interest rate

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<sup>30</sup> After the CPFL Review, OJK Circular Letter No.12/SEOJK.07/2014 concerning the Delivery of Responsible Information on Financial and Marketing Products and/or Services was issued, but was not the object of the mission team's analysis.

and mandatory fees (such as a loan application fee) and charges (such as for a credit- life insurance premium);

- **Statements of account:** Specifying the content requirements for periodic statements of account; and
- **Consumer testing of proposed new disclosure requirements:** the aim is to ensure the disclosed information is easily understood and useful.

In the medium term, it is recommended that consideration be given to the extent to which transparency and disclosure requirements might be simplified for smaller financial institutions.

## Securities Sector

**Many capital market institutions rely on a network of experts and professional market participants, but advice as to the identity of participants in the network is not provided to investors.** These entities can have an impact on an investor's decision to invest and the performance of the investment. Therefore, disclosure of these entities is necessary to fully inform the investor about his investment and the entity with whom he is doing business. This principle is recognized in Rule V.H.1 (4) related to investment advisors who must disclose if other persons or entities prepared research reports that are given to clients.

### *Key Recommendations*

**OJK should implement a rule requiring the disclosure by a capital market participant of all entities that provide services that could have an impact on a customer's account and investment.**

## Pensions Sector

**Standardized reporting of performance and fees for private pension funds does not exist at present.** Fees may be charged in different ways (on contributions or on assets under management, on entry or exit, etc.). Likewise, investment returns can be based on daily or weekly unit prices or other measures.

**There is also a lack of transparency around the purchase of annuity products – both in terms of the exact nature of the product / contract and the fees involved.** According to the Pension Law (Article 21) members must use 80% of their accumulated DC pension fund balance to purchase an annuity on retirement. However, there are a very limited number of annuity providers, and there are no real annuity products. In practice, this means that the DPLK balance is transferred to one of the insurance companies which pays an 'annuity' for the first year or less and then allows the member to cash out the balance minus a significant fee. The requirement to purchase an annuity whilst these products do not exist in the country is clearly having an adverse effect on consumers.

### *Key Recommendations*

**OKJ should conduct a survey on the DPLK market, specifically looking at the issues of investment choice and pension statements.** The number of pension funds offering choices to their members should be ascertained and the nature of these choices analyzed (how many funds are offered, the range and type of fund, whether a default fund is selected and if so what these default funds are). The nature and level of information, education and assistance available to individuals making these choices

could also be examined. The content and format of pension statements provided to DPLK members could also be considered, including innovative ways to presenting risk and methods for encouraging increased savings. Recommendations, good practice and guidelines would be generated from this report, ensuring that international good practices are followed.

**OJK should introduce standardized reporting of performance and fees and a centralized comparison site.** Standards for calculating and imposing fees and charges should be set by the regulator along with requirements for disclosing these clearly. Fees relating to the purchase of annuities need particular attention and clarification and any ‘hidden’ charges should be prevented. OJK should provide a centralized comparison web site<sup>31</sup> for comparing DPLK investment performance (and some measure of risks) and costs by type of fund to increase transparency and increase competition in otherwise price inelastic pension markets.

**The Pension Law should be revised to allow for program withdrawals whilst measures to encourage and assist the development of the annuity market are taken.** This is one of the amendments to the Pension Law 11/1992 which is currently before Parliament, and should be passed. More flexibility around the type of annuity product which can be purchased could also be allowed in order to encourage more providers to enter the market. The OJK could also consider the experience of countries in which a central annuity provider operates, to see if such a solution could be appropriate for Indonesia. In parallel, steps to help develop the annuity market should be taken – including the issuance of appropriate instruments to hedge product related risks.

## D. Business Practices

### Product Suitability

**There are limited regulatory provisions related to assessing the suitability of a product for a consumer.** Some product suitability rules are in place currently but they are very limited in scope. Article 16 of the FCP Regulation also provides that “*Financial Services Providers must pay attention to the fit between the needs and the ability of consumers to use the products and/or services offered to them*”. However, there is not a positive obligation to conduct such an assessment; details of how the assessment should be conducted; any obligation to provide the consumer with a copy of the assessment or clarity as to the implications of a failure to undertake the assessment. Further, this provision is very generic in nature and does not, for example, provide details of what must be done in relation to responsible lending practices for credit products. Article 64(2) (b) of the Insurance Good Corporate Governance Regulation is an example of a general provision of specific relevance to the insurance industry. It requires insurance companies, brokers and agents to “*evaluate the needs*” of the policyholder, the insured, or the participant in the policy. However, no guidance is provided as to how this should be done.

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<sup>31</sup> Guidance may be obtained from the World Bank’s recent publication on Public Sector-Operated Price Comparison Websites: Case Studies and Good Practices:  
<http://responsiblefinance.worldbank.org/-/media/GIAWB/FL/Documents/Publications/Public-SectorOperated-Price-Comparison-Websites.pdf>

## ***Key Recommendations***

**The existing provisions relating to understanding a customer's needs should be considerably strengthened to deal with the abovementioned gaps.** This might be achieved by OJK providing regulatory guidance as to its expectations as to how financial institutions might comply with Article 16. The new rules could also appropriately include a requirement for a signed waiver by the client if a recommendation of non-suitability of a product or investment is ignored.

## **Staff and Intermediary Training**

**Requirements to train bank and non-bank credit institution staff are very limited.** Training of staff is a matter essentially left to each bank to organize and administer as it thinks best and its resources permit. In other jurisdictions, banking associations help to ensure minimum standards are achieved for banks staff that interact with the public in terms of basic financial literacy and knowledge of all relevant laws and regulations, as well as the products and services on offer. As a general rule, however, the various banking associations do not appear to have the capacity to take on any such role whether on their own or collectively. This issue also applies in relation to the non-bank credit sector. The issue is of considerable concern given the low levels of financial literacy in Indonesia, the efforts to promote financial inclusion and the increasing complexity of financial products and services on offer (for example, in relation to bundled insurance and credit products and branchless banking).

**Training can also be a concern with sale of pension products by agents.** Where DPLK products are sold on a retail basis, agents come from the insurance and banking sectors and are cross selling pension products. They have to pass their own industry qualifications and knowledge tests. However, they do not have specific training on pensions. This may result in the agents not fully understanding the characteristics and risks of the products which they are selling (e.g. that with DC pensions the investment risk passes to the individual). There does not currently appear to be any problems around miss-selling of products in this environment, but if the market is to grow, more specifically qualified sales agents will be required and some checks or controls on cross selling may be needed.

**There are requirements applicable to training in the insurance industry which seems adequate.** Of particular relevance is the general requirement for the management of an insurer to ensure that it is supported by "*education and training of its human resources*" (Article 27 of the Insurance Licensing Decree), the requirement to spend 5% of human resources budget on training and the requirements relating to training of agents. These requirements are supported by training programs offered by the life, general and Sharia insurance associations.

## ***Key Recommendations***

**In the long-term and at a minimum, there should be a licensing requirement for bank, insurance company and finance company staff and intermediaries who deal face-to-face with financial institution consumers or who prepare advertising and sales brochures to undertake standardized training programs which meet OJK requirements.** In particular, it is considered that there should be training and qualification requirements for staff or third party agents who advise on financial products and services, as well as requirements to ensure that sufficient information about the customer's needs is gathered so as to ensure that appropriate products and services are provided.

**Further, in the cooperative sector, OJK could consider developing, outsourcing, or otherwise encouraging training programs for secondary cooperatives in coordination with the Ministry of Cooperatives and SMEs.** This would be so as to support implementation and enforcement of client protection in primary cooperatives. However it is recognized that this is likely to be a long term objective, given the resource constraints on OJK and the very large numbers of secondary cooperatives.

**Finally, there should be an element of training on pensions in the insurance and banking qualifications applicable to those selling investment products.** If retail pension products increase in prominence, stricter licensing and qualifications for sales agents will be required.

## Bundling and tying of credit and insurance products

**Insurance bundling practices are common.** For example, consumers who take out loans from banks are required to take out life insurance (this is apparently a BI requirement). Banks will also require that mortgaged property insurance be taken out where relevant. Whilst many banks have tied arrangements with insurers, they are required by BI to offer the consumer a choice of one of 3 insurers, one of which can be a bank related part.<sup>32</sup> However it is understood that it is common practice for there to be limited observance of this requirement and it is not enforced. Further, there is no requirement to disclose commissions which are paid. Bundling is also common practice in the multi-finance sector. In some cases, the consumer is not given the option to choose the insurer, while the insurance product is a requisite to obtain credit.

**The limited rules relating to bundling of products do not deal in detail with this practice.** Article 18 of the FCP Regulation will allow bundling of products in a “*single package*” but forbids forcing consumers to buy products and/or services in a single package and requires that consumers be given choice. However it is not clear what is meant by a “*package*” in this context. Further, it would be helpful if it was clear that the prohibition also applies where an insured is required to pay for an insurance policy as well as buy it in their own name. A further requirement could be for a rebate of the premium where a loan is paid out early and the insurance protects the mortgaged property.

## Key Recommendations

**It is recommended that a clear prohibition on insuring forcing practices be introduced, coupled with disclosure and rebate provisions.** The ‘insurance forcing’ prohibition would apply to a requirement to acquire insurance from a particular supplier as a condition of providing a banking service (such as a loan) and to a requirement to pay for such insurance. However, there could be an exception to such a prohibition in certain cases – for example, where the requirement is for insurance over mortgaged property or where insurance is required by law. Further, where there is a tied insurance contract, credit providers should be required to give a proportionate refund of the applicable premium if the consumer pays out a loan early. It is further recommended to introduce a requirement for disclosure of insurance commissions and premiums.

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<sup>32</sup> See BI Circular No. 12 of 2010 re: Risk Management in Marketing Between Commercial Banks and Insurance Companies

## Codes of Conduct

**There are only limited Codes of Conduct in place for the financial sector.** There is a Code for the Life Insurance Industry and a Code of Ethics for General and Life Insurance Agents, but there are no Codes of Conduct for the banking sector (which has 6 industry associations). Non-bank credit institutions have an industry association for multi-finance companies and one for Sharia-based savings and loan cooperatives. However there are no industry-based codes of conduct in place for the multi-finance, savings and credit cooperatives, village credit or BMT segments. In the capital markets sector, there are several industry associations, but they do not have a Code of Conduct. It has become recognized by numerous market participants that the associations should develop a framework for ethics for their members in the form of a Code of Conduct setting out principles of good behavior. Industry Codes of Practice, if well drafted and widely disseminated to consumers and enforced, can be helpful in building trust in the financial system and hence assist in financial inclusion. This is especially the case in a competitive industry sector. Examples of such Codes are the Code of Banking Practice in Australia, the United Kingdom and South Africa.

### ***Key Recommendations***

**In order to strengthen the role of industry associations in financial consumer protection, OJK could develop guidance on the principles and minimum content for industry Codes of Conduct.** Such Codes could be enforced by the associations or by OJK (if the industry associations do not have the resources or the capacity to do so). Guidance should also be provided on the mechanisms to disseminate the Code among industry employees and consumers and to enforce the industry code by the association's members. A Code of Conduct for the banking sector might, for example, include rules regarding: (i) disclosure of information in banks' general terms and conditions; (ii) the switching of accounts from one bank to another; (iii) loyalty and rewards programs; and (iv) debt collection and a bank's employment of debt collection agencies; as well as commitments regarding the qualifications of bank staff who deal with consumers. OJK could also usefully support a program for the development and enhancement of the capital markets associations so that they can provide a strong framework for ethical conduct through the development of a Code of Conduct. This Code could be applied to new and existing customers of capital markets participants as one means of developing and enhancing trust in capital markets, especially with retail investors.

## Sale of investment products in banks

**The sale of a market-based financial instrument in an institution that takes deposits and provides time deposits as a financial instrument can be very confusing to customers.** This is a concern as investment fund sales agents are most often banks. Many customers do not distinguish between the instruments or understand the risks of a market-based instrument. As a result, notwithstanding extensive disclosures as to the market risks of the investment funds, a degree of inadvertent mis-selling occurs.

### ***Key Recommendations***

**Banks that sell investment funds should physically separate their sales activity from their banking activity.** This can be done by placing the investment fund sales in a different, well-marked room or, indeed, in an office in a separate building.

## E. Dispute Resolution Mechanisms

### **External Dispute Resolution Schemes**

**The current statutory systems for the resolution of disputes in the financial system are fragmented and overlapping.** At the time of the CPFL Review there appeared to be two statutory dispute settlement systems applicable to the financial services sector: the Consumer Dispute Resolution Board (BPSK) (which operates under Regulation No. 350 of 2001 issued by the Ministry of Trade and Industry) and the BI mediation service for consumers established under the Banking Mediation Regulation No. 8 of 2006. Further, as from 7 August 2014, OJK will provide a facilitation service under Articles 40 to 46 of the FCP Regulation, but this service is not clearly transparent, accessible, or binding on the financial institutions. OJK also has advocacy powers to take measures against financial institutions to resolve complaints and to institute proceedings to reclaim property or to recover damages on behalf of consumers – and indeed financial institutions if it is the harmed party (Article 30 and “*advocacy powers*”). Indonesia is also a participant in the Association of Southeast Asian Nations (ASEAN) Committee on Consumer Protection, which provides an avenue for consumers of any services or products to complain and seek compensation for loss.<sup>33</sup> Another option for consumers would also be to file a claim in the local or District court (although it is understood this option is little used).

**There are however fragmented industry schemes managed within the insurance, pensions and capital markets industries.** The Life and General Insurance Associations provide a comprehensive mediation and adjudication service through the Indonesian Mediation Board (BAMI). ADPI offers an external mediation body, but it has yet to be used. The Indonesian Capital Markets Arbitration Board (BAPMI) has only been used in six cases since its establishment in 2006. The banking sector does not have its own dispute resolution scheme, although this is contemplated by the Banking Mediation Regulation, and it has 6 industry associations which appear largely inactive and inadequately resourced.

**Non-bank credit consumers seek recourse through different mechanisms, but seem to prefer traditional customary mediation.** Some multi-finance industry customers have complained to consumer organizations, the Ministry of Finance, OJK and BPSK. In the cooperative and village credit segments, the most common way to solve disputes seem to be through *musyawarah mufakat*, which means ‘dialogue to reach consensus’, and is based on an amicable private negotiation process that aims to maintain a good relation among two disputing parties. Parties may refer the dispute to a third party, such as a religious or village leader or a senior community person, who would solve problem through mediation or conciliation. In terms of formal ADR mechanisms, the multi-finance industry is currently evaluating the establishment of an ADR system for its members. However, the pawnshop, the savings and loans cooperatives and the village credit providers have not yet thought about establishing any type of ADR.

**The abovementioned patchwork of industry schemes and associations is a concern given the current proposal to have industry associations providing ADR services for consumers of financial services.** This proposal is provided for in OJK’s draft ADR Regulation (which is now in force).<sup>34</sup> In summary, under the draft regulation, there are requirements for ADR Bodies to be registered with OJK, to

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<sup>33</sup> <http://aseanconsumer.org/>

<sup>34</sup> After the CPFL Review, OJK Regulation No.1/POJK.07/2014 concerning Alternative Dispute Resolution Institutions in the Financial Services Sector was finalized and is now in force.

provide mediation, adjudication and arbitration services, to apply specified principles of accessibility, independence, fairness, efficiency and effectiveness and to report every 6 months to OJK. ADR Bodies for the banking, finance, underwriting, mortgage sectors are required to be formed by 31 December 2015. Any breach of the Regulation by ADR Bodies and/ or “parties” may be subject to administrative sanctions including a warning, payment of money and revocation of a registration.

**Although OJK’s focus on the establishment of an external dispute resolution process is to be welcomed, some aspects of the abovementioned proposal are of concern.**<sup>35</sup> These include: (i) whether OJK has the required functions and powers to implement and enforce the proposed new regulation; (ii) the fact that OJK cannot order payment to a consumer if a financial institution breaches a decision of an ADR Body; (iii) uncertainty as to whether all relevant industry associations can be formed where they do not currently exist; and (iv) even where the industry associations exist, whether they can have an ADR system developed and registered by the deadline of 31 December 2015. A further concern is the potential for lack of consistency in procedures and decisions amongst the various ADR Bodies, as well as the lack of any requirement for consumer representatives on ADR boards (which could assist in ensuring independence). It is also not clear how the ADR Bodies will be funded, especially as ideally consumers should not have to pay a fee.

**OJK is to be commended for the establishment of its Integrated Financial Customer Care System (FCC System).** The FCC System was first established in early 2013 but has since been further developed to provide a trackable and traceable system for customer complaints with a view to making the review process more effective, quick and responsive. Financial institutions can trace the handling of complaints and consumers can track progress in OJK’s consideration of the complaints. From 21 January 2013 to 31 December 2013, the FCC System recorded 7,655 reports, including 495 information deliveries (6.47%), 6,271 information enquiries (981.92%) and 889 complaints (11.61%). Consumers can access the service on line, through a hotline and through OJK regional offices. As at February 6<sup>th</sup>, 2014, the FCC System was supported by 2 supervisors, a quality assurance officer and 22 customer service officers.<sup>36</sup>

**The FCP Regulation provisions concerning OJK’s complaints facilitation role could nevertheless be clarified.** These provisions are not clearly transparent, accessible or binding on the financial institution concerned. Issues of particular concern are that:

- OJK is unlikely to be seen as independent as it will be acting as both the supervisor of the relevant institution and the facilitator in a consumer dispute;
- OJK does not have power to make binding decisions;
- Both the consumer and the financial institution must agree to facilitation;<sup>37</sup>
- There are no details of the process for selecting facilitators, or of the required skills, experience, qualifications and independence;
- OJK’s complaint investigation powers are not specified;
- The procedures to be followed in resolving complaints are not specified (such as whether lawyers are allowed, what evidence can be called and the required time lines for decisions);

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<sup>35</sup> The making of OJK Regulation No.1/POJK.07/2014 concerning Alternative Dispute Resolution Institutions in the Financial Services Sector provides more clarity around these issues, but Circular had not been made at the time of the CPFL Review. .

<sup>36</sup> [file:///C:/Users/wb371925/Downloads/press-release-ojk-inaugurates-integrated-consumer-care-system%20\(1\).pdf](file:///C:/Users/wb371925/Downloads/press-release-ojk-inaugurates-integrated-consumer-care-system%20(1).pdf)

<sup>37</sup> Article 44, FCP Regulation

- It is not specified whether consumers will have to pay fees; and
- There is no provision for OJK to collect, analyze or report on compliant statistics.

## ***Key Recommendations***

**In the short term, it is recommended that OJK undertake the following activities to review the ability of industry associations to provide ADR services by December 2015** (except of course to the extent that it has not done so already):

- Map the current industry association dispute resolution services and assessing those that exist against international best practice standards;
- Advise on the terms of reference and governance arrangements for the various industry association schemes with a view to achieving consistency in approaches;
- Develop formats for the reporting of statistics on consumer complaints to OJK;
- Consider related regulatory requirements; and
- Capacity building for the relevant industry associations.

**Adequate mechanisms for alternative dispute resolution in financial services should be developed for all types of non-bank credit providers.** The facilitation service to be provided by OJK, coupled with the proposed industry based ADR schemes, would to some extent cover all types of non-bank credit providers that are regulated by OJK. However customers of financial cooperatives and village credit providers should also have a clear ADR scheme available to them. The MC could either encourage the formation of a cooperative-based ADR scheme within secondary cooperatives, or set up a unit to deal with consumer complaints. Customers of village credit providers should be able to go to BPSK to seek appropriate recourse. In any case, the Ministry and BPSK should follow key ADR principles and coordinate with OJK to set up similar dispute resolution procedures.

**In the long term, it is recommended that options for a single, independent ADR scheme for all financial sector consumers be considered.** It is understood that OJK is giving some consideration to this objective. However, further analysis is needed to identify the most effective institutional setup. Such an analysis should explore different models, and the costing and effectiveness of each in the Indonesian context. At a minimum, it is considered that the relevant body should be independent of financial institutions and OJK (and any other regulator), be available at no or low cost to consumers, have the power to make decisions which are binding on the financial institutions, and operate in accordance with transparent processes and procedures. It is also recommended that it be a licensing condition that the institution concerned be a member of the external dispute resolution scheme. The overseeing body for the scheme should include consumer as well as industry representatives.<sup>38</sup> In the interim the FCC System appears to be playing a useful role.

**Prior to the commencement of OJK's new complaint facilitation powers, it is recommended that OJK conduct a public awareness campaign of the processes and procedures to be followed.** Furthermore, consumer call centers in both OJK and the Consumer Protection Division of BI's Payments System Department should help as a first response to consumers' concerns, provided their existence is

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<sup>38</sup> Guidance may be obtained from the World Bank's recent publication on Resolving disputes between Consumers and Financial Businesses: Fundamentals for a Financial Ombudsman: <http://www.networkfso.org/Resolving-disputes-between-consumers-and-financial-businesses> Fundamentals-for-a-financial-ombudsman The-World-Bank January2012.pdf

very widely publicized (perhaps as a further bank disclosure requirement). It seems likely however that the vast majority of consumers are not likely to know which center to turn to in the first instance.

**The extent to which BPSK will continue to have jurisdiction over disputes involving financial services after the FCP Regulation comes into effect should also be clarified.** Consideration will also need to be given as to the transitional arrangements for existing claims (if any).

## ***Internal Dispute Resolution Schemes***

**There are requirements of general application relating to internal complaint resolution processes and procedures and specific requirements relating to the banking and credit reporting industries.**<sup>39</sup> There are also general provisions in the Consumer Law relating to entrepreneurs obligations to deal with customer complaints. In this regard Article 19 requires entrepreneurs to compensate consumers for the damages or loss that they suffer as a result of consuming services. Consumers also have the statutory rights in relation to the right to be heard and to obtain proper advocacy, protection and settlement. Further, once the new FCP Regulation comes into effect all financial services providers (including banks) will be required to have and implement detailed mechanisms for consumer complaint resolution and consumers will have the right to compensation for the faults or failures of financial services providers.<sup>40</sup>

## **Banking Sector**

**Under BI Regulation No. 7 of 2005, every bank must have a policy and written procedures dealing with complaints.** The policy and procedures must cover the receipt of consumer complaints, the handling and resolution of consumer complaints, and the monitoring of complaint handling and resolution.<sup>41</sup> All banks are also required to have a “*unit and/or function*” established in each branch office to handle and resolve consumer complaints. Furthermore, banks are required to publish for the public the existence of the dedicated unit and/or function in written and/or electronic form. “

## **Non-Bank Credit Sector**

**For multi-finance companies and pawnshops, the FCP Regulation has minimum requirements on internal complaints handling procedures; however, complaints handling rules are nonexistent for financial cooperatives or small village credit providers.** Some multi-finance companies already include in contract agreements and summary sheets the toll-free phone number a consumer may call to raise a complaint, and have developed internal procedures for complaints handling. However, many others do not have clear procedures, let alone provide contact information regarding a complaints handling contact person or unit.

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<sup>39</sup> These provisions are also expanded on in OJK Circular No.2/SEOJK.07/2014 concerning the Service and Dispute Settlement of Consumer Complaints, which was made after the CPFL Review. .

<sup>40</sup> Articles 29 and 32 to 38

<sup>41</sup> *Ibid.*, Article 2 (2)

## Credit Reporting

**The consumer protection framework for handling disputes regarding data in BIK can be significantly improved.** Consumers in general can access their own reports for free but they have to go to BI in person. Correction of errors is also handled directly by the data provider which means that a consumer will need to visit each credit provider who has accessed a credit report with a mistake in it and ask for the mistake to be corrected. However, BI follows up with the data provider to send a letter to the consumer once the data has been corrected, in addition to notifying the consumer once the correction has been made.

### ***Key Recommendations***

**All financial providers should be required to follow similar principles on the handling of consumer complaints.** At the minimum, these principles should include the communication to the consumers of the person in charge of dealing with consumer complaints, as well as the number of days that a response to a complaint is expected to be given to the consumer, and the existing alternative dispute resolution schemes (including at BPSK and OJK). Financial regulators should also develop a format for financial providers to record the number and types of complaints received and how they were handled by the provider, and require financial providers to submit such reports periodically to regulators.

**There should also be clarification of the interaction between the FCP complaint resolution requirements and those under the Consumer Law and BI Regulation No. 7 of 2005.** Ideally, financial services providers should only have to comply with one set of requirements in relation to dealing with complaints.

**The following reforms are suggested with regards to dispute handling in credit reporting – BI should:**

- Notify the consumer if a correction has been made as a result of the consumer's complaint;
- Notify a consumer whose credit record has been corrected as a result of a complaint of enquiries during the previous 6 months.

## F. Consumer Awareness and Financial Literacy

**The publication of OJK's Financial Literacy Blueprint is an important step toward building Indonesia's financial literacy infrastructure, but needs to be quickly followed up with implementation of a several key projects in its first few years to maintain momentum.** Of the highest priority are projects that emphasize program evaluation, market segmentation, strong distribution, training for intermediaries and evidenced-based programming. The national website can also usefully serve as a central repository for electronic financial literacy tools and resources. It should bring together materials from across the government and, possibly, select NGOs and private sector entities. The site should be positioned to assist consumers with everyday financial issues and have a user-friendly interface. The financial literacy program should also be targeted to specific groups of adults outside of a formal school setting. This might take the form of community based sessions focused on specific financial issues or decisions facing this particular segment of consumers. The outreach effort would help raise awareness of the website and other financial literacy and inclusion opportunities in consumers' respective communities. Outreach efforts may include opportunities at public events to open bank accounts, receive one-on-one counseling or receive financial literacy materials.

**Both BI and OJK are working on financial literacy data collection as well as program development and implementation.** For example, BI has a school-based curriculum and OJK is planning to develop one soon; this presents a timely opportunity for cooperation for greater impact. Similarly BI and OJK have each performed their own financial literacy survey in the last couple of years. Ideally, data collection methods, analysis and results should be compared to determine if there is an opportunity to eliminate redundancy and increase efficiency.

**A further need for financial literacy education arises from the introduction of the new National Social Security System over the course of the next three years.** Once fully implemented, this system will radically transform the structure of the social security system in Indonesia. These reforms involve the creation of five national social security programs – a health program and four employment programs (work accident, old-age savings, pension, death benefits) that will eventually cover all Indonesians, including formal and informal sector workers, and provide the same benefits for all.

### ***Key Recommendations***

**OJK should launch a three-part program to spread financial capability and coordinate with BI on financial literacy matters. The program should consist of the development and launch of a national financial capability website, the creation of a targeted financial literacy programs, and the implementation of an outreach program.** These efforts should provide consumers with a number of important resources including on-line tools to compare terms and prices of financial products and services.

**OJK and BI should coordinate their financial literacy programs.**

**It is also recommended that the government develop a public communication campaign introducing the new social security scheme.** Messaging will explain the new public benefit while educating citizens on their continued need to save for retirement along with providing tips and tools to facilitate financial planning for retirement.

### ***Credit Reporting***

**Credit reporting activities are not well known by the population at large.** BI has relevant information regarding BIK in their website including the list of participants, the process to become members and the process to request data correction by consumers and has conducted various public awareness campaigns explaining the role of credit reporting in the overall credit process. However BIK's rules of operation are not published. Further, details of the other private credit reporting systems operating in the country are not publicized and are accordingly not likely to be known by consumers and data subjects.

### ***Key Recommendations***

**A credit reporting awareness campaign should be undertaken by the authorities.** The campaign should inform all relevant consumer associations, banks, financial institutions, cooperatives and credit organizations of the main characteristics of the credit reporting system in Indonesia including its benefits and risks. This campaign could be done in coordination with all relevant authorities in the matter including BI, OJK, MC and the NCPD.

## APPENDIX. LIST OF RECOMMENDATIONS

(See Volume II of this Report for details of these recommendations)

Area	Sector	Recommendation	Responsibility	Term
<b>Institutional Arrangements</b>	Cross-cutting	Consider separating the prudential and market conduct supervisory functions within OJK	OJK	Short term
	Cross-cutting	Develop CPFL resources, tools and capacity within OJK for implementing financial consumer protection/market conduct regulations and related supervisory activities	OJK	Short term
	Cross-cutting	Establish coordination arrangements for consumer protection regulators	OJK / BI / MC / MoT / NCPC	Short term
	Cross-cutting	Design and implement a financial literacy technical working group as a coordination mechanism involving all relevant stakeholders	OJK / BI / Ministry of Finance + GAs	Short term
	Cross-cutting	Consider support for funding financial sector consumer associations and encourage their participation in policy development	OJK	Medium Term
	Cross-cutting	Establish coordination arrangements between regulators on competition issues	OJK / KPPU	Medium Term
	Cross-cutting	Ensure that KPPU is appropriately resourced for the purposes of its functions in relation to the financial services sector	KPPU	Long term
	Non-bank credit	Develop guidelines for provincial authorities with delegated supervision of savings and loan cooperatives and MFIs	OJK	Medium Term
	Non-bank credit	Specify powers of MC's Monitoring Institution for Savings and Loans Cooperatives in relation to consumer protection issues	MC	Long Term
	Securities	Develop the capacity of the Investor Protection Fund	OJK	Medium term
	Securities	Develop the capacity of the statutory manager or the bankruptcy trustee for capital market participants	OJK	Medium term
	Credit reporting	Enhance the oversight framework for credit reporting	OJK / BI / MC / NCPC / MCIT	Medium term
<b>Legal and Regulatory Framework</b>	Cross-cutting	Eliminate / minimize overlap between the FCP Regulation, the Consumer Law and other existing consumer protection laws and regulations and consolidate the consumer protection regime (pending development of a comprehensive Financial Consumer Protection Law, in interim provide guidance in Circulars under the FCP Regulation)	OJK/ BI / MC / MoT / NCPC	Long term

Area	Sector	Recommendation	Responsibility	Term
	Cross-cutting	Develop financial literacy guidelines for Article 14 of FCP Regulation <sup>42</sup>	OJK	Short term
	Cross-cutting	Provide the regulatory flexibility to deal with consumer protection issues relevant to innovative products and distribution channels	OJK / BI	Medium term
	Cross-cutting	Make it a licensing condition for all financial services providers that they can demonstrate compliance with consumer protection laws	OJK/MC	Long Term
	Cross-cutting	Mandate disclosure of regulator contact details in sales materials	OJK/MC	Long Term
	Cross-cutting	Require complete customer and investor records to be kept	OJK/MC	Long Term
	Cross-cutting	Introduce rules on the foreclosure of mortgaged property	OJK/MC	Long Term
	Cross-cutting	Consider introduction of an over-arching data protection law	OJK	Long Term
	Cross-cutting	Evaluate NGO supervisory role in Consumer Law	MoT	Long Term
	Cross-cutting	Consider mandating cooling – off periods	OJK	Long Term
	Cross-cutting	Issue guidelines / Circulars to restrict unreasonable prepayment penalties and account closure fees	OJK	Medium term
	Non-bank credit	Consider the development of common guidelines for cooperatives, village credit providers and third-party dealers	OJK / MoT / MC	Medium term
	Non-bank credit	Introduce minimum fit and proper requirements for cooperative founders	MC	Medium term
	Securities	Harmonize capital market regulatory requirements for market participants performing the same function	OJK	Medium term
	Insurance	Consolidate the laws and regulations applicable to consumer protection in the insurance sector	OJK	Medium term
	Insurance	Require insurance agents to be licensed	OJK	Long Term
	Insurance	Introduce nominal defendant arrangements	OJK	Long Term
	Pensions	Develop consumer protection laws for private pension products	OJK	Long term

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<sup>42</sup> After the diagnostic mission, OJK Circular Letter No. 1/SEOJK.7/2014 concerning the Education Implementation Plan to Enhance Financial Literacy towards the Consumer and/or Society was issued, but was not the object of the mission team's analysis.

Area	Sector	Recommendation	Responsibility	Term
	Pensions	Implement training and knowledge requirements for DPPK pension fund supervisory boards	OJK	Short term
	Pensions	Consider clarifying guarantee policy in relation to an underfunded pension fund in the event of a sponsor bankruptcy and rigorously enforce solvency regulations	OJK	Medium Term
	Credit reporting	Enhance the legal and regulatory framework applicable to consumer protection issues relevant to credit reporting	OJK / BI / MC / NCPC / MCIT	Medium term
<b>Transparency and Consumer Disclosure</b>	Cross-cutting	Develop specific disclosure requirements for different types of financial products, including Key Facts Statements <sup>43</sup>	OJK /MC	Short term
	Cross-cutting	Develop total cost of credit interest rate requirements	OJK /MC	Short term
	Cross-cutting	Develop content requirements for periodic statements of account	OJK /MC	Short term
	Cross-cutting	Conduct consumer testing of the proposed new disclosure requirements	OJK /MC	Short term
	Cross-cutting	Consider the extent to which transparency and disclosure requirements might be simplified for smaller financial institutions	OJK /MC	Medium term
	Cross-cutting	Develop licensing and conduct rules for debt collectors	OJK/MC	Long Term
	Banking	Develop a price comparison website	OJK/MC	Long Term
	Banking	Require details of any third party guarantee to be disclosed	OJK/MC	Long Term
	Securities	Implement a rule requiring the disclosure by a capital market participant of all entities that provide services that could have an impact on a customer's account and investment	OJK	Medium term
	Securities	Require more detailed disclosures in relation to collective investment funds, margin loan interest rates and order executions	OJK	Medium term
	Securities	Develop insolvency rules for securities industry	OJK	Long term
	Insurance	Introduce rules on advertising of investment returns used in life insurance value projections	OJK	Long Term
	Pensions	Conduct a survey on the DPLK market looking at the issues of investment choice and pension statements	OJK	Short term

<sup>43</sup> After the diagnostic mission, OJK Circular Letter No.12/SEOJK.07/2014 concerning the Delivery of Responsible Information on Financial and Marketing Products and/or Services was issued, but was not the object of the mission team's analysis.

Area	Sector	Recommendation	Responsibility	Term
	Pensions	Introduce standardized reporting for private pension funds and centralized comparison web site	OJK	Medium term
	Pensions	Amend the Pension Law to allow for program withdrawals, and encourage the development of the annuity market	OJK	Long term
<b>Business Practices</b>	Cross-cutting	Strengthen obligations for product suitability / affordability assessments (e.g. by issuing a Circular under Article 16 of the FCP Regulation)	OJK / MC	Short term
	Cross-cutting	Introduce standardized training requirements for staff and intermediaries of financial services providers	OJK / MC	Long term
	Banking	Ensure that banks selling investment funds physically separate their sales activity from their banking activity	OJK	Long term
	Non-bank credit	Consider the development of a training program for secondary cooperatives	OJK / MC	Medium term
	Cross-cutting	Prohibit unreasonable insurance forcing practices relating to bundling and tying of credit and insurance products and introduce requirements for disclosure of insurance details and rebates for tied insurance policies where the loan is paid out early	OJK / MC	Medium term
	Cross-cutting	Support the development of industry Codes of Practice through providing guidance on minimum content and principles	OJK / MC	Long term
<b>Dispute Resolution Mechanisms</b>	Cross-cutting	Review the ability of industry associations to provide ADR services	OJK	Short term
	Cross-cutting	Conduct a public awareness campaign around OJK's new complaint facilitation services	OJK	Short term
	Cross-cutting	Confirm the extent to which BPSK has jurisdiction over financial services disputes after the FCP Regulation comes into effect and deal with transitional issues (through amending regulations)	OJK / MoT	Short term
	Cross-cutting	Develop options for a single, independent ADR scheme	OJK	Long term
	Cross-cutting	Require records of customer complaints to be kept and disclosed	OJK/MC	Long Term
	Non-bank credit	Develop complaint handling rules for cooperatives	MC	Medium term
	Non-bank credit	Ensure all NBCIs follow similar principles on the handling of consumer complaints	OJK	Medium term
	Credit reporting	Enhance the consumer protection framework for handling disputes regarding data in the BIK	OJK / BI	Medium term

Area	Sector	Recommendation	Responsibility	Term
<b>Financial Literacy</b>	Cross-cutting	Develop a national website and public awareness campaign, launch informal education program and conduct outreach	OJK / TNP2K / BI + GAs	Short term
	Cross-cutting	Undertake evaluation of financial literacy programs	OJK / BI	Medium Term
	Cross-cutting	Regulators should share financial literacy data	OJK / BI / MC	Medium Term
	Securities	IDX should enhance financial literacy programs and records	IDX	Medium Term
	Pensions	Consider a National Pension Awareness Campaign for social security reforms and role of voluntary pensions in the future	Government / OJK	Medium term
	Credit reporting	Conduct a public awareness campaign around the benefits and risks of the Credit Reporting System	OJK / BI / MC / MCIT	Short term

