Update on Regulation of Branchless Banking in Indonesia

January 2010

Note: This update of CGAP's 2009 "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia " incorporates research conducted by CGAP in January 2010 regarding relevant legal and policy changes through the end of 2009. It is one of 11 similar country updates produced by CGAP as a part of the work plan of the Access through Innovation Sub-Group of the G-20 Financial Inclusion Experts Group. However, CGAP alone is responsible for its content. Corrections may be forwarded to yseltzer@cgap.org

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1. Introduction

Despite Bank Indonesia's (BI) relatively advanced approach toward e-money, neither mobile network operators (MNOs) nor banks have developed branchless banking business models that satisfy the needs of poor and unbanked clients in Indonesia. BI has recently issued regulations permitting nonbanks to issue e-money for making retail payments. However, the ability of these regulations to dramatically change the landscape of e-money providers is questionable. This is due in part to the fact that any person wishing to offer person-to-person (P2P) transfers must obtain a money remittance license.

BI does not permit banks to provide financial services through agents (other than limited payment services for existing customers in regions that are already serviced by a bank's branch), notwithstanding ambiguities in the law that could be interpreted otherwise, as acknowledged by BI. There are also restrictions on nonbanks' use of agents, including the requirement that any agent offering money transfer or cash withdrawal services be licensed as a money transferor. These restrictions limit the ability to achieve the necessary scale to make a low-value transaction business sustainable. Furthermore, banks are not allowed to outsource know-your-customer (KYC) account-opening procedures, thereby precluding customer acquisition beyond the reach of bank branches. In addition, the KYC rules for account opening and financial transactions by non-banks engaged in the provision of financial services are costly and, for some providers, not feasible.

[1] The 2009 "Diagnostic Report on the Legal and Regulatory Environment for Branchless Banking in Indonesia" was based on an analysis of existing legislation and regulations relevant to branchless banking approaches and on the CGAP research team's insights from interviews with a range of stakeholders. The original diagnostic assessment was carried out under the auspices of CGAP's Technology Program, which is co-funded by the Bill & Melinda Gates Foundation.
[2] In September 2009, the G-20 called for the establishment of a Financial Inclusion Experts Group with two subgroups, one of which is the ATI Sub-Group. CGAP is a member of an experts group assembled to assist the ATI Sub-Group. The work of the experts group includes updating information previously published on the policy and regulatory framework for branchless banking in various developing countries.

2. Sector Overview

2.1. Mobile Network Operators

The Indonesian mobile phone market is dominated by three companies. At the end of 2009, Telkomsel had 51 percent market share, followed by Indosat with 20 percent, and Excelcom with 17 percent. Five other companies share the remaining 12 percent. There are currently 164 million active SIM cards in service, but one industry source estimates that this represents only 106 million customers, many of which hold multiple accounts. Ninety-seven percent of subscribers hold prepaid accounts. The industry is showing early signs of maturing. Established networks are reaching existing capacity as usage rates have quadrupled since 2007. New MNOs have entered the market, rates per minute have dropped to approximately the regional average of US$0.025–US$0.03 per minute, and customer churn or turnover per year is approximately 12 percent.

The two largest MNOs have each developed an e-wallet service for their mobile phone customers. Telkomsel' s T-Cash, a mobile wallet allowing customers to make retail payments, is available to customers, but industry watchers estimate that as of December 2009, T-Cash had fewer than 100,000 "active" accounts (compared with 500,000 registered users). Even though Telkomsel has received a remittance license from BI to offer a P2P transfer function (see Section 3.4), it currently does not offer that function.

Indosat has developed, but not yet launched, its Dompetku service. However, Indosat has not been able to qualify for a remittance license, which it needs in order to add P2P transfer functionality to its e-wallet service.

Yet, even if an MNO holds a remittance license, it cannot leverage its distribution network to serve as a cash-out point for remittances and withdrawals from a mobile wallet as current regulations would require every airtime dealer to apply individually for a remittance license (unless the airtime dealer is a branch office of a money remittance license holder). The relatively extensive licensing requirements (see Section 3.4) would most likely discourage a significant number of small airtime dealers from applying.[3]

Due primarily to existing regulation, T-Cash and Dompetku offer customers fewer transaction services than existing commercial bank-based mobile banking models described in Section 2.2. In this context, an e-wallet service does not appear to have significant revenue potential for MNOs as e-money issuers, suggesting that MNOs offer e-wallets simply to reduce customer churn and facilitate airtime purchases.

2.2. Banks and Payment Service Providers

The 2009 World Bank Access to Finance study for Indonesia[4] indicates that just under 50 percent of Indonesian households hold an account in a formal financial institution; 18 percent have accounts in informal institutions. Access is highly skewed to urban areas, and only 20–34 percent of rural households have access to banking services.

[3] In the best case, BI would be presented with a flood of applications by small dealers as well as the task of creating capacity to supervise them.
[4] *Improving Access to Financial Services in Indonesia.* World Bank. 2009.

People predominantly use informal channels for receiving remittances, including money changers, courier services, hand delivery, and employment agencies. (The World Bank estimates that only 20 percent of total remittances to Indonesia arrive through formal channels.) Returning migrants carrying cash on behalf of others is a principal transfer mechanism, but these remittance couriers, who may or may not be close friends or family members of migrant workers, risk seizure at custom checkpoints and losses due to robbery.[5] In 2006, BI issued a regulation regarding money transfer services with the intent of increasing the extremely low use of formal remittance channels to Indonesia although development of such channels has been hindered by the regulation's requirement that agents also be licensed (see section 3.4).

The Bank Rakyat Indonesia's Unit Desa network of approximately 6,000 branches represents the farthest geographic reach of the formal banking system. Its estimated 35 million accounts represent 40 percent of all household savings accounts. Most of these accounts have low transaction volume, and less than a third of the branches are online.

The rural bank network consists of approximately 1,800 mostly rural institutions. However, rural banks do not participate directly in the interbank clearance and settlement system, and so only those with correspondence relationships with commercial banks can offer their clients access to the broader payment system network. As of December 2008, rural banks had approximately US$3.2 billion in assets, with 2.7 million credit accounts and 7.3 million savings accounts.

The post office company, PT Pos Indonesia, also offers payment services as one of its three core business lines. As of June 2009, PT Pos had 3,500 branches (3,200 of which were networked online), 300 mobile service vehicles, and 11,000 village agents. The network processed 20 million money transfers a month on behalf of its 38 bank partners, and it processed 10 million transfers through its proprietary money transfer service. PT Pos also claims to have the highest traffic of any Western Union agent in Asia.

The payment system infrastructure has been built around the population of traditional bank clients. There are five automatic teller machine (ATM) networks (Bersama, Prima, Alto, Link, and Chakra), with approximately 25,000 machines. ATMs are capable of cash-out and other limited account transactions, but there are very few cash deposit machines in Indonesia. Artajasa, a payment technology company, owns approximately 14,000 ATMs in the Bersama network; almost all of the remaining ATMs belong to Bank Central Asia's (BCA) Prima system. The systems are interoperable for most clients, either because card-issuing banks join several networks or the transactions are cleared through Cirrus. This is not the case with the approximately 100,000 merchant point-of-sale (POS) terminals with respect to which commercial banks have chosen to build out non-interoperable proprietary systems.

Many commercial banks have rolled out mobile phone banking applications as an additional transaction channel for existing clients. For example, Artajasa provides its Bersama mobile banking platform to 30 banks. However, usage levels are low. A technology company is about to launch a similar product called Ponsel Banking.

[5] World Bank Working Paper, The Malaysia Indonesia Remittance Corridor. http://siteresources.worldbank.org/INTAML/Resources/Malaysia-Indonesia.pdf

There are at least three mobile banking partnerships that are designed to deliver banking services to new clients. Axis, a mobile phone operator, has teamed up with Permata Bank to offer customers a bank account linked to a Visa debit card. Axis plans to offer a mobile banking service linked to the card soon. It has already signed up members of its distributer network as bank customers to simplify airtime wholesale transactions. Permata Bank benefits because the partnership increases its customer numbers at low acquisition costs and introduces a new liquidity source to account balances.

The two companies appear satisfied with the early stage of this initiative. However, there are both regulatory and business model realities that may well block significant reach into the unbanked population. KYC regulations (see Section 3.1) limit how much a nonbank partner like Axis can do to acquire customers for the bank. This means that the MNO and the bank must each incur costs associated with customer acquisition, and those costs are likely to climb as the partnership reaches further into more remote markets for new customers. The incentives to incur those costs are not immediately clear, given that the mobile banking service is not a core business line for Axis, and low-income customers are not a core target market for Permata Bank.

The second initiative is by Permata Bank, which has entered into a partnership with a technology company to provide the banking infrastructure for a product called Ponselpay. The service will work on all mobile networks. Account features will be similar to those of the other mobile banking initiatives. The target market will be unbanked MNO customers and rural bank clients who need access to the broader payment system infrastructure. This initiative appears to offer Permata Bank the same customer acquisition opportunity as its Axis partnership. However, the Ponselpay partnership also will be challenged by the same regulatory restrictions and business considerations.

The third initiative is Smart Telecom's partnership with Bank Sinarmas to launch Smart Dompet (translation: Smart Wallet), which envisions providing the user with an interest-bearing bank account, mobile banking application, and access to all ATMs and Bank Sinarmas' remittance services. Smart Dompet has been soft launched for a limited group of people and is moving out into the market. Smart Telecom and Bank Sinarmas belong to the Sinarmas Group, whose employees are the primary target market for the rollout. The respective business models of these two companies and their customer acquisition plan appear to be aligned with a broader Sinarmas Group strategy that may well achieve significant impact in the underbanked and unbanked population.

2.3. BI, Less Cash and E-money

Compared to other regulatory bodies in the world, BI is relatively advanced in its approach toward e-money. Even before BI issued specific regulations on e-money, Indonesia was among the few countries permitting nonbanks to issue e-money. BI is committed to moving Indonesia toward a society that relies less on cash, and in 2006 it launched an initiative to create a "less cash" society. In 2008, the BI governor said that BI is aware of the importance of developing microscale noncash payment instruments to complement existing payment instruments. The micropayment instrument would be designed to serve extremely low-value, high-frequency payments expeditiously.

At the Asia Pacific Conference and Exhibition 2008, "Towards a Cashless Society," the BI senior deputy governor said that e-money regulation in Indonesia will be based on four principles: (*i*) safety (comprising safety of the electronic instrument and the information-technology-based processing system, as well as prudent behavior of issuers), (*ii*) efficiency at the national level (the instrument will have to conform to a certain industry-approved standard and the processing systems must be interoperable), (*iii*) equitable access to all users, and (*iv*) consumer protection. While the new regulations have indeed incorporated these principles, some issues still remain (see Section 3.3).

3. Current Legal Framework for Branchless Banking

3.1. Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT)

Indonesia has created a National Coordinating Committee for the Prevention and Eradication of AML Crimes (the "National Coordinating Committee"), which convenes once a year and provides related policy recommendations, evaluates related implementation, and reports to the president. It is chaired and coordinated by the minister for Political and Security Affairs and includes (*i*) the ministers of Economy, Foreign Affairs, Justice and Human Rights, and Finance, (*ii*) the Indonesian Financial Intelligence Unit (PPATK), (*iii*) the head of the Indonesian police force, (*iv*) the attorney general, (*v*) the head of the National Intelligence Agency, and (*vi*) the BI governor. The National Coordinating Committee has issued a National Strategy for 2007 through 2011. In February 2005, Indonesia was removed from the Financial Action Task Force (FATF) blacklist, where it had been listed since 2001.

In 2002, Indonesia introduced its AML Act,[6] although a new AML bill has been with the Indonesian Parliament since October 2006. The AML Act established PPATK and mandates reporting obligations to PPATK for all financial service providers.[7] It also sets forth a list of PPATK's duties, one of which is to issue guidelines "to providers of financial services concerning their obligations as set forth in this law or in other prevailing laws and regulations."[8] It is not always clear how PPATK guidelines relate to BI regulations; incidents of overlapping PPATK guidelines and BI regulations[9] indicate that improved coordination between the two institutions and their respective regulatory authority may be beneficial.

3.1.1 AML/CFT and Banks

Applicable BI regulation (the "Bank KYC Regulation") specifies the KYC requirements for commercial banks.[10] It lists the following as valid documents for KYC compliance: a government-issued ID card, driver's license, or passport. Anecdotal evidence suggests that poor people have faced challenges in getting a government-issued ID and are therefore excluded from financial access. Government-issued IDs are usually issued by the local government. It is illegal for a person to hold IDs from two different areas. However, national migrants are usually unwilling to give up their original ID given that most still have strong ties

[6] Law Number 15, as amended by Law 25/2003.
[7] Article 13.
[8] Article 26.
[9] For example, in guideline IIIA, PPATK prescribes KYC procedures for Money Transfer Service Businesses (i.e., PT Pos and Western Union), while the BI's Money Transfer Circular (see Section 3.1.2) lays out more stringent KYC requirements for nonbank fund transfer businesses.
[10] Regulation 3/10/PBI/2001, as amended by Regulations 3/23/PBI/2001 and 5/21/PBI/2003

with their home or plan to eventually go back. As a result, many are forced to use bribes to get a second ID, which the very poor may not be able to afford.[11]

The Bank KYC Regulation stipulates that "banks which provide electronic banking services shall meet the prospective customer at least at the time of account opening."[12] Official commentary to the Bank KYC Regulation specifies that "the meeting between the bank and the customer can be held by a special officer or any person representing the bank to get assurance on the customer identification." This requirement poses a serious barrier to the potential roll out of branchless banking by banks, given that account opening can be conducted only directly in a bank branch or at best through mobile bank employees (i.e., bank agents may not fulfill a bank's KYC obligations). Consequently, current m-banking models cannot leverage the MNO's merchant network for signing up unbanked customers who are unable or unwilling to enter traditional bank branches.[13]

3.1.2 AML/CFT and Nonbanks

The AML Act establishes the general obligation of any provider of financial services to get the complete and accurate identity of its customer. There are two BI circulars that address the AML/CFT obligations of specific nonbank financial service providers: the E-Money Circular and the Money Transfer Circular.[14] For each, poor people face the same problems regarding government–issued ID cards as noted above (see section 3.1.1).

E-money Issuers. An e-money issuer must, when opening a "registered" e-money account,[15] record the customer's identity data: name, address, date of birth and other data as listed in the customer's identity card. [16] (No such requirement applies to unregistered e-money accounts.[17]) The issuer can record the customer's data by providing an application form that must be completed by the customer accompanied with a copy of the identity card. The wording of the E-Money Circular makes it possible for agents to conduct KYC on behalf of an e-money issuer.[18] However the requirement to send a copy of the ID card makes remote account opening difficult unless a camera or phone can be used.

Money Transfer Services. The Money Transfer Circular requires nonbank money transferors to comply with the following KYC procedures:

[11] There are 4.3 million Indonesian undocumented migrant workers in foreign countries who cannot comply with KYC procedures for remittances. For example, in 2006 there were an estimated 600,000 undocumented Indonesian immigrants in Malaysia alone. World Bank Working Paper—The Malaysia Indonesia Remittance Corridor.

[12] Article 4.

[13] KYC procedures for rural banks are regulated in the separate Regulation 5/23/PBI/2003. Its Article 4 (4) also requires face-to-face contact for account opening, with the same implications as described above.

[14] Circular Letter 11/11/DASP and BI Regulation 8/28/PBI/2006.

[15] The E-Money Circular distinguishes between registered and unregistered e-money. Unregistered e-money is subject to an account limit of IDR 1 million (approximately US$100) while the account limit for registered e-money is IDR 5 million (approximately US$500). There is an aggregate transaction limit of IDR 20 million (approximately US$2,000) per month for both registered and unregistered e-money.

[16] Article VII, A of the E-Money Circular.

[17] However, as noted in Section 3.3, a non-bank e-money issuer that offers P2P must be licensed as a money transferor and therefore must comply with the AML/CFT requirements of the Money Transfer Circular, discussed below

[18] There is no explanation regarding why a bank acting as an e-money issuer may use an agent to conduct KYC (even though a bank is generally not permitted to use an agent to conduct KYC – see Section 3.1.1), although it may be an issue of BI regarding e-money as a limited payment service.

a) Identification and verification of sender and/or recipient identities at the time of the funds transfer. This can be done through the government-issued ID card, a driver's license, or a passport.
b) Re-identification and re-verification of the sender and/or recipient if

    i. The transfer exceeds the value of IDR 100,000,000 (approximately USD 8,600),
    ii. The transaction is suspicious, or
    iii. There is doubt with regard to the legality of the information provided by the sender/recipient.

The Money Transfer Circular also requires money transferors (i) to request information about the source of funds and the purpose of the fund transfer, (ii) to monitor transactions, and (iii) to maintain information systems able to identify, analyze and monitor senders and/or recipients and the transactions in which they engage. Suspicious transactions must be reported to PPATK.[19]

3.2. Agents

Use of agents by banks. There is no specific regulation in Indonesia that deals with bank agents. The Banking Act stipulates that any party taking deposits from the public shall have a license from BI to operate as a commercial bank or a rural bank.[20] Deposits are considered funds entrusted to an institution by the public, based on an agreement in the form of demand deposits, time deposits, certificate of deposits, savings, and/or other similar forms.[21] According to BI's interpretation, banks are not permitted to use agents to accept funds from the public as such activity would be considered deposit-taking requiring the agent to have a banking license.[22]

The Banking Act distinguishes between commercial banks and rural banks. In contrast to commercial banks, rural banks do not have access to the Indonesian payment system.[23] Even though BI does not permit banks to use agents to deliver financial services (except for the noted exceptions of e-money and payment points), BI has created a quasi-tiered system of branches for both commercial and rural banks that seems to recognize the need for leaner and possibly mobile channels to reach remote rural populations.

<u>Commercial banks.</u> In 2009, BI issued a regulation regarding commercial banks (the "Commercial Banks Regulation").[24] It describes the different channels through which a bank can conduct its business - namely branches, sub-branches, cash offices (and cash service activities), and functional offices. While branches, sub-branches and cash offices offer nothing new in terms of branchless banking, cash service activities deserve a closer look.

The Commercial Banks Regulation defines cash service activities as cash services for *already existing customers*, including among other things (*i*) mobile cash services using vehicles, including cash automobiles, cash boats, and nonpermanent cash counters, and (*ii*) payment

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[19] PPATK's Guidelines on Reporting for Suspicious Financial Transactions Reporting for Foreign Currency Traders and Money Transfer Services currently considers only the post office and Western Union as money transfer services. Given that it requires KYC only for transactions of IDR 100,000,000 or more, e-money provided by MNOs would not fall under it anyway, given the value limit established by Circular 7/60/DASP.
[20] Article 16 of Act 7 of 1992 concerning banking, as amended by Act 10 of 1998.
[21] Article 1.5 Banking Act.
[22] However, banks are permitted, *as e-money issuers*, to use agents to upload value to e-money accounts. In addition, banks may provide limited payment services to existing customers at "payment points." (See below in Section 3.2.)
[23] Article 1.3 and 1.4 Banking Act.
[24] Regulation 1 1/1/PBI/2009.

points where the bank cooperates with other parties to process payments (e.g., telephone and electricity billing payment, payment of salaries, and receiving funds from a third party).[25] Cash service activities can be conducted only in a region in which there is a branch. Any cash service activities must be included in the bank's business plan, which must be reported to BI. Financial reports from cash service activities must be provided together with reports of parent branches.

Payment points are a form of branchless banking, namely a bank providing services through a nonbank agent. However, they are subject to two major limitations. First, payment points are restricted to the same region in which the parent bank branch is located, which curtails the potential to reach very remote customers. Second, the benefit is reserved for already existing customers.[26]

Rural banks. Pursuant to BI regulation,[27] rural banks can provide services through a tiered system of branches, cash units, and outdoor cash services. Most interesting in terms of branchless banking are outdoor cash services, the establishment of which is limited to the same municipality as the rural bank supervising office. According to the regulation, outdoor cash services can be ATMs, mobile cash services, or payment points.[28] Mobile cash services describe bank employees using cash automobiles or cash boats to disburse cash or take deposits. However, they are not allowed to open bank accounts or to approve credit applications. Payment points are operated in cooperation between a rural bank and a third party, usually a merchant equipped with a POS device. Payment points are limited to bill or retail payments and cannot accept deposits or provide cash withdrawals. Mobile cash services and payment points both report through the branch office, to which they are subordinated.

Use of agents by (banks and nonbank) e-money issuers. E-money issuers are permitted, pursuant to BI's E-Money Circular, to use agents for *uploading value* to e-money accounts (i.e., cash in). However, if an e-money issuer wants to use an agent to offer money transfers and cash-out services, the agent needs to have a money remitter license.[29]

Use of agents by money transferors. A money transferor is not permitted, pursuant to BI's Money Transfer Circular, to use agents to engage in money transfers activities. A money transferor may only engage in money transfer activities through its own network or through a network provided by an operator based on collaboration between the money transferor and operator.[30] A network provided by an operator is not considered an agent, arguably due to the narrow technology role that an operator plays in the process.

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[25] Article 1.7.
[26] The Commercial Bank Regulation appears to permit the receipt at payment points of funds from third parties. Article 1.7(b). It is unclear how to interpret this provision although a reasonable interpretation would be that in such case, the payee is the existing customer.
[27] BI Regulation 8/26/PBI/2006.
[28] Article 1.6.
[29] Article VII D of the E-money Circular.
[30] Article 3. The Money Transfer Regulation uses the terms "administrator" (referring to the money transferor) and "operator". Administrators "process an unconditional request from the remitter to the administrator in order to send money to the beneficiary"; operators conduct backend functions, providing the facility, including the system used for the money transfer and/or for receiving and forwarding data from one administrator to another to be forwarded to the beneficiary. Article 1.9 of the Money Transfer Regulation. Under the Money Transfer Regulation, administrators are licensed, operators are not. BI supervises only the administrators. Article 20.

3.3. E-money

In April 2009, BI issued a regulation concerning electronic money (the E-Money Regulation) and a related circular (the E-Money Circular).[31] Article 1.3 of the E-Money Regulation defines e-money as a payment instrument that fulfills the following criteria:

a. It is issued against equal value of the money deposited by the customer to the issuer.

b. The nominal value of the money is stored electronically in a medium, such as a server or chip.

c. It serves as a payment instrument for merchants that are not the issuer of the e-money.

d. The value of the e-money deposited by the customer and managed by the issuer is not categorized as deposits, as defined by the Banking Act.

Both banks and nonbanks can issue e-money, and both types of issuers need to obtain a license from BI.[32] The E-Money Regulation and E-Money Circular provide that nonbanks are required to obtain a license if the amount of the float under management has reached, or is expected to reach, IDR 1,000,000,000 (approximately US$100,000).[33] Nonbank issuers have to place 100 percent of the float in a commercial bank where they can choose among a savings account, a current account, or a time deposit account. Float funds can be used only to fulfill the issuer's obligations toward customers and agents.[34] Bank issuers have to report the float under immediate liabilities or other liabilities.[35] Given that e-money funds are, by definition, not deposits, they are not protected by the Indonesian deposit insurance. (Although there is no legal prohibition on paying interest on e-money, BI's interpretation is that e-money should not bear interest.)

Licensing requirements for banks and for nonbank e-money issuers that have a float that is (or is projected to be) equal to or greater than IDR 1 billion include the provision of the following documents: (*i*) an e-money profile containing information on technical specifications as well as e-money management mechanisms, (*ii*) first year business projections, (*iii*) proof of legal instrument readiness (i.e., concepts of the written key agreements with partners), (*iv*) proof of operational readiness (e.g., an organizational structure plan and equipment and business facility plan), (*v*) proof of liquidity risk management readiness, (*vi*) an information technology audit from an independent auditor, (*vii*) a disaster recovery plan, (*viii*) identification of product risk and other risks like operational, legal, and reputational risks, and (*ix*) a description of the accounting information system to be applied to the e-money issuance.[36]

[31] Regulation 11/12/2009 and Circular Letter 11/11/DASP. Before the issuance of the E-Money Regulation and E-Money Circular, BI regulated e-money as a prepaid card payment instrument under its 2004 and 2005 regulations, requiring nonbanks to operate for two years as a single merchant card before being permitted to offer e-money.
[32] Article 5 of the E-Money Regulation.
[33] Article 5 of the E-Money Regulation, read in conjunction with Article II. D of the E-Money Circular.
[34] However, in the event of bankruptcy of the e-money issuer, agents and customers would not have a preferential claim over creditors of the issuer. Other jurisdictions (such as Kenya or Malaysia) have addressed this issue through the creation of a trust account that holds the funds.
[35] Article VII, H of the E-Money Circular.
[36] Article IIC and IID of the E-Money Circular.

BI has the authority to supervise e-money activity. The E-Money Circular states that supervision is aimed at ensuring the implementation of e-money activities in an efficient, quick, safe, and reliable manner by safeguarding consumer protection principles. Supervision can be conducted onsite and offsite, and the inspection can be assigned to parties other than BI. Supervision primarily focuses on the following:

a. The application of risk management

b. Compliance with prevailing regulation, including the accuracy and timely delivery of information and reports

c. The application of consumer protections

3.4. Money transfer services provided by nonbanks

The Money Transfer Regulation requires a license for any person or nonbank entity that wishes to provide money transfer services.[37] The eligibility requirement for individuals and legal entities to obtain a money remitter license is compliance with one of the following:

a. The individual/entity has explicit permission under laws or regulations (e.g., banks, PT Pos).

b. The articles of association explicitly specify fund transfer activities as one of the activities of the business.

c. The individual/entity has the approval from the authority regulating the applicant's particular business.[38]

These eligibility requirements pose significant barriers for institutions that don't meet the first eligibility requirement.

The Money Transfer Circular further specifies the licensing procedures for nonbank entities engaged in the funds transfer business. These procedures vary slightly depending on whether the applicant is a natural person, a business with legal personality, or a business without legal personality. All applications require, among other things, (*i*) a notarized statement declaring the applicant's: (*a*) liability in case of the misuse of funds and (*b*) capacity to differentiate the administration of transferred funds from funds of the business or individual assets; (*ii*) documentation that describes mechanisms for risk management; and (*iii*) proof of operational readiness regarding the tools and infrastructure, as well as mechanisms and procedures, for performing the transfers. BI performs site examinations to verify the readiness and appropriateness of existing tools and infrastructure claimed in the license application. As of January 2010, BI had issued only 41 remittance licenses and nine e-money licenses (five to banks and four to nonbanks).

[37] Banks are not required to be licensed as money remitters, given that the Banking Act mentions money transfers as one of the permitted operations of a commercial bank.
[38] Article 4(2) a of the Money Transfer Regulation.

3.5. Consumer Protection

BI Regulation 7/7/PBI/2005 (the "Consumer Complaints Regulation")[39] lays out a detailed complaints and reporting procedure for both commercial and rural banks. Banks are required to have written procedures for the receipt, processing, resolution, and monitoring of complaints. Each bank is required to establish a unit dealing with processing and resolving complaints, which must be advertised to the public in written or electronic form. Complaints can be filed in writing or verbally. The Consumer Complaints Regulation establishes time limits during which complaints must be resolved. Finally, banks are required to keep records of incoming complaints and to submit quarterly reports on complaint filings and resolution to BI.

The E-Money Circular stipulates that e-money issuers have to provide the following information to customers in clear and easily comprehensible Bahasa Indonesia:[40]

(i) information that e-money is not considered a deposit in the sense of the Banking Law and hence not guaranteed by Indonesian deposit insurance,

(ii) E-money usage procedure, such as cash in, transfer of funds, cash withdrawal, and redemption, as well as risks that may arise from using e-money,

(iii) rights and obligations of a customer, which include:

- (a) important matters for using e-money such as validity period of e-money, and rights and obligations of the customer at validity period expiry,
- (b) rights and obligations of the customer if something causes a loss to the customer and/or the issuer, either due to system failure or other reasons,
- (c) type and size of costs charged,
- (d) procedure of submitting a claim in connection with e-money and estimated length of time for processing a complaint, and
- (e) procedure of product use including procedure for redeeming the entire e-money balance.

If the e-money issuer uses agents, the agency contract needs to include certain minimum clauses, including a prohibition on agent surcharges to customers, and the agent's obligation to protect customer data privacy. Finally, although issuers can determine an expiration period for e-money, the e-money balance does not become cancelled upon expiration - the customer still has a claim against the issuer for 30 years, as stipulated in the Indonesia Civil Code.

[39] Amended by Regulation 10/10/PBI/2008.
[40] Article VII, I.

3.6. Interoperability

Article 27 of the E-Money Regulation stipulates that e-money providers are required to provide systems that are connectible to other systems of e-money. Article X of the E-Money Circular reiterates that in the framework of improving efficiency, smoothness and advantage to e-money users, there must be efforts to develop systems which can be interoperable. BI may oblige the parties to follow and adjust its systems when criteria or requirements have become an industrial consensus.