

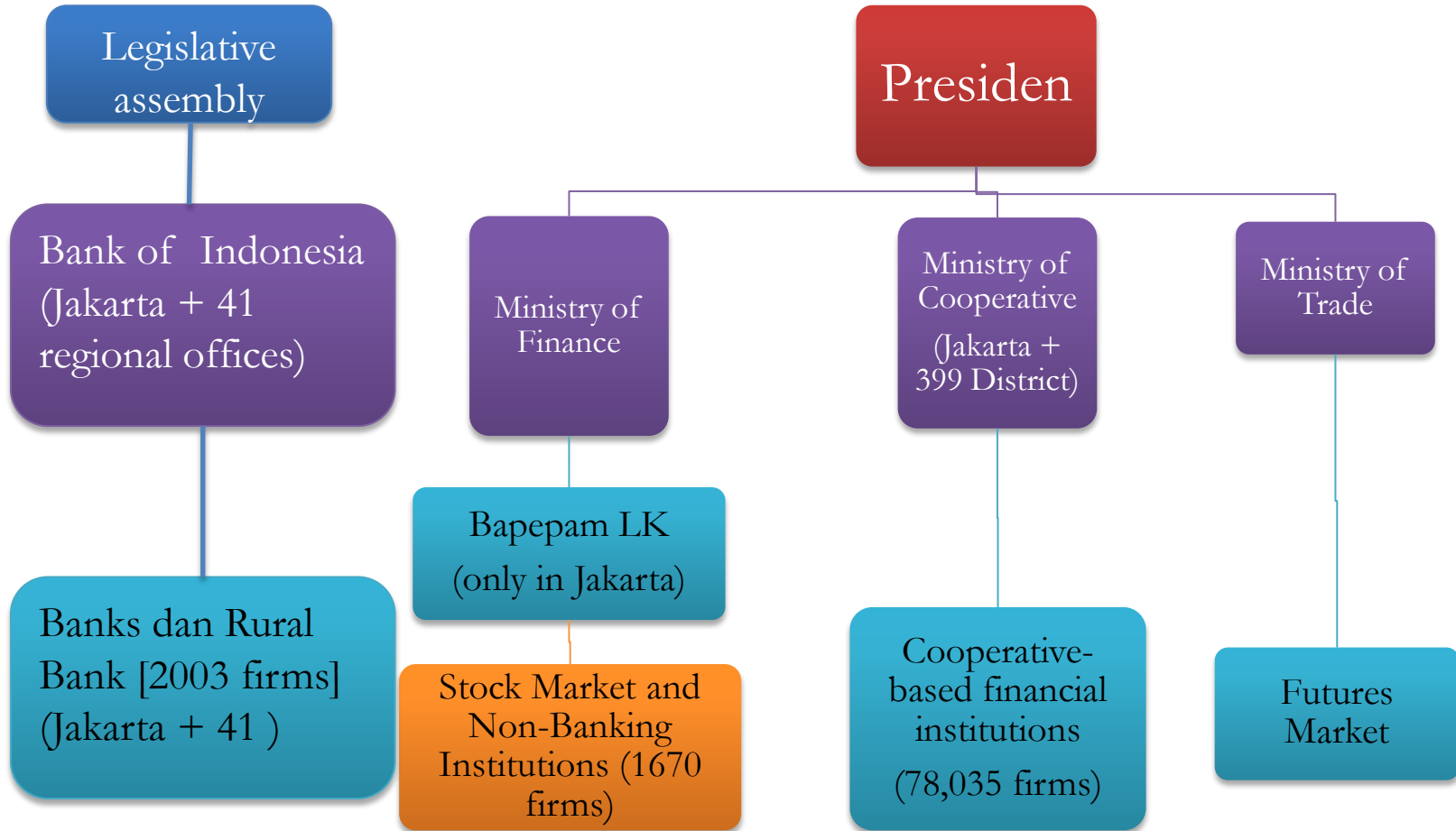
Indonesia International Banking Convention 2012
JW Marriott, Jakarta
16 February 2012



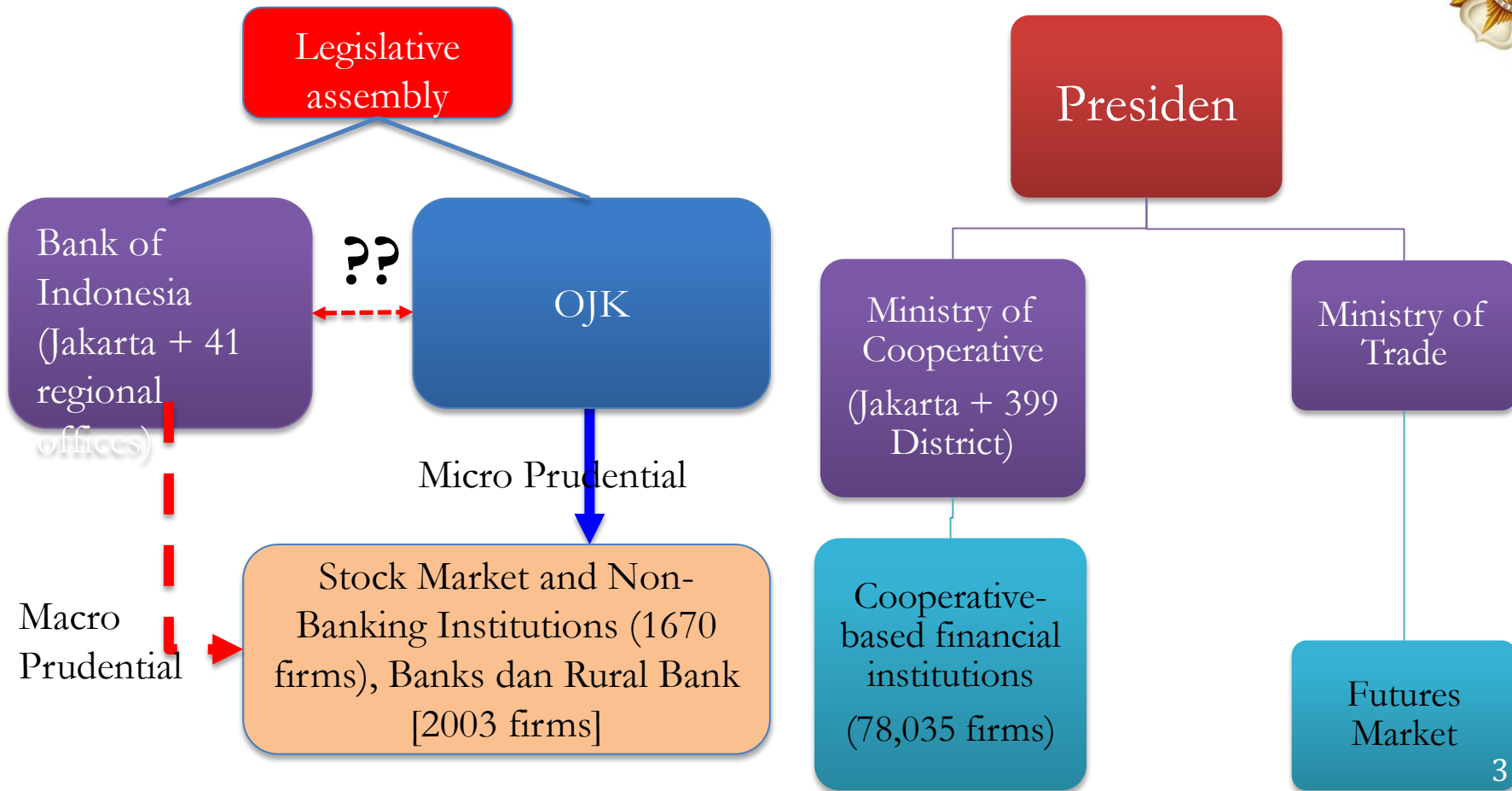
A Bridge Too Far; The Strive to Establish A Financial Service Regulatory Authority in Indonesia

Rimawan Pradipto, PhD (York, UK)
Department of Economics
Faculty of Economics and Business
Universitas Gadjah Mada

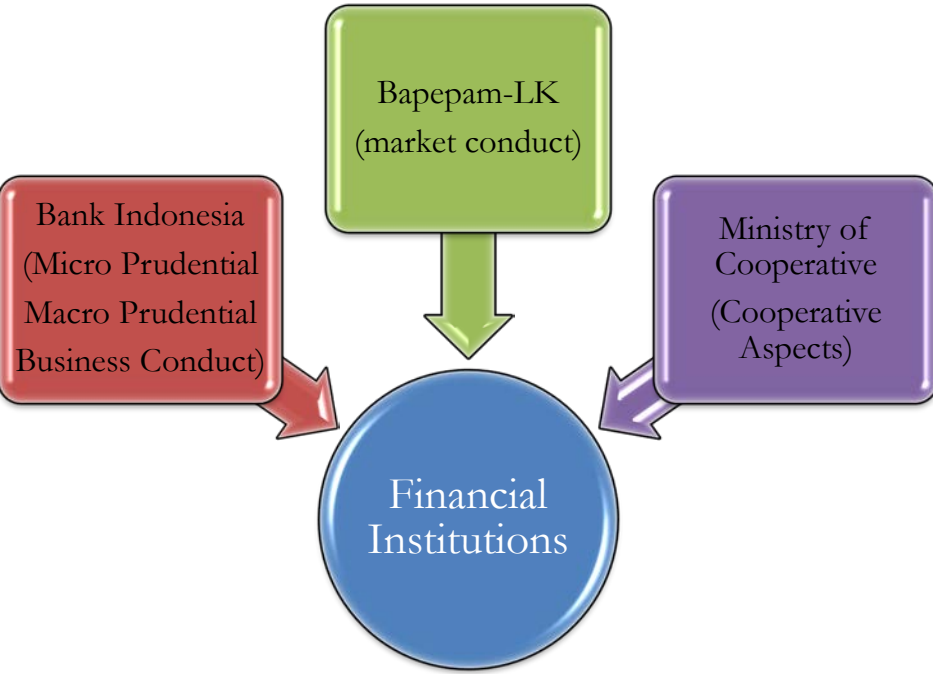
The Structure of Financial Supervision (Pre-OJK)



The Structure of Financial Supervision POST-OJK



The Existing Supervision



Post OJK



Micro Prudential

Business Conduct

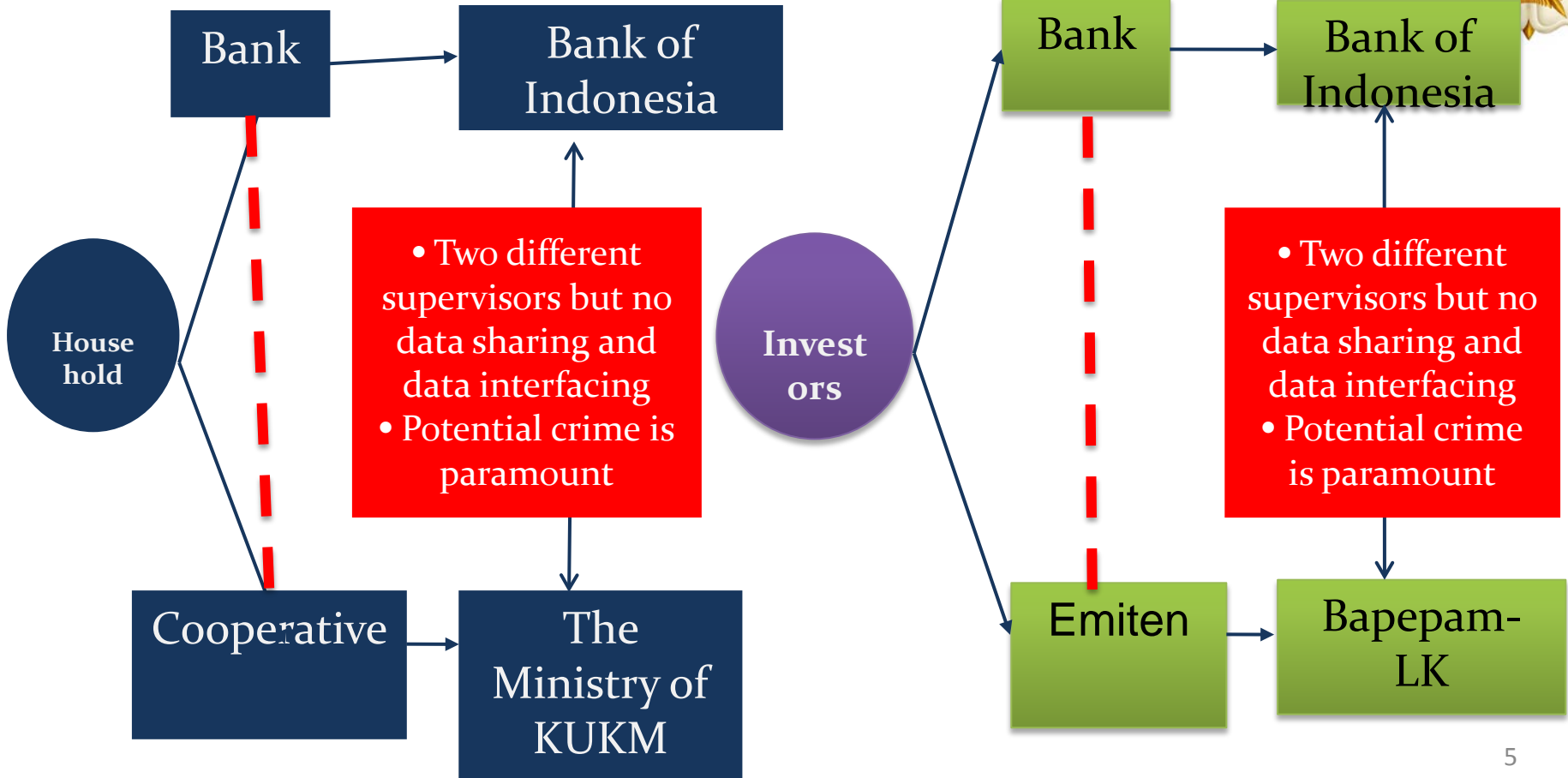


Bank Indonesia

Macro Prudential

Coordination between BI and OJK is paramount, however coordination is 'expensive' in Indonesia

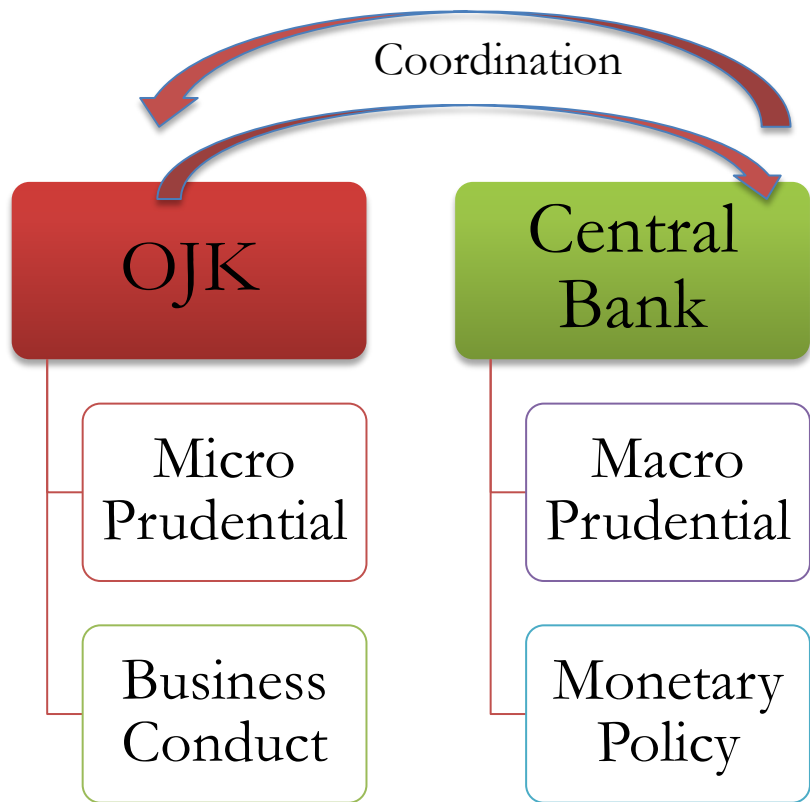
Asymmetric Information Problems



Example of Problems in Microfinance



- BMT X was very aggressive in marketing its products and opened its office in an elementary school
- Pupils and staff of five elementary schools became its customers, and they saved their money in the BMT and worthed Rp8 billion.
- Then, the BMT collapsed and the customers were panic and they consulted the regulators:
 - BI: the BMT is not a bank or BPR (rural bank)
 - Bapepam: the BMT is not their supervisee.
 - The Ministry of KUKM: the BMT is their supervisee, but the customer money was not guaranteed by LPS (IDIC)
- Mrs X had borrowed money from money lender who act as cooperative Rp3 million. After the 5th month, she cannot afford to pay the installment.
- Few months later, her loan became Rp11 million as she has to pay:
 - Interest rate
 - Fee for belated payment
 - Fee for penalty (between 1-5x interest rate)
 - Fee for *debt collector* (Rp1,5 million/visit)
 - In her case the debt collector visited her house twice and she has to pay for it.



- About 2/3 of the Act focuses on the mechanism to establish a new financial service regulatory authority

- Little attempt has been made to discuss about monitoring and supervision in the Draft Act

- The members of board of commission would be chosen by parliament.

- 7 independence members

- 2 ex officio from Bank of Indonesia and the Ministry of Finance

- In the first three years, OJK will be financed by the GOI

- In subsequent years, OJK will be financed by financial institutions as they have to pay annual fee to OJK.

Would OJK be financed by supervisees?

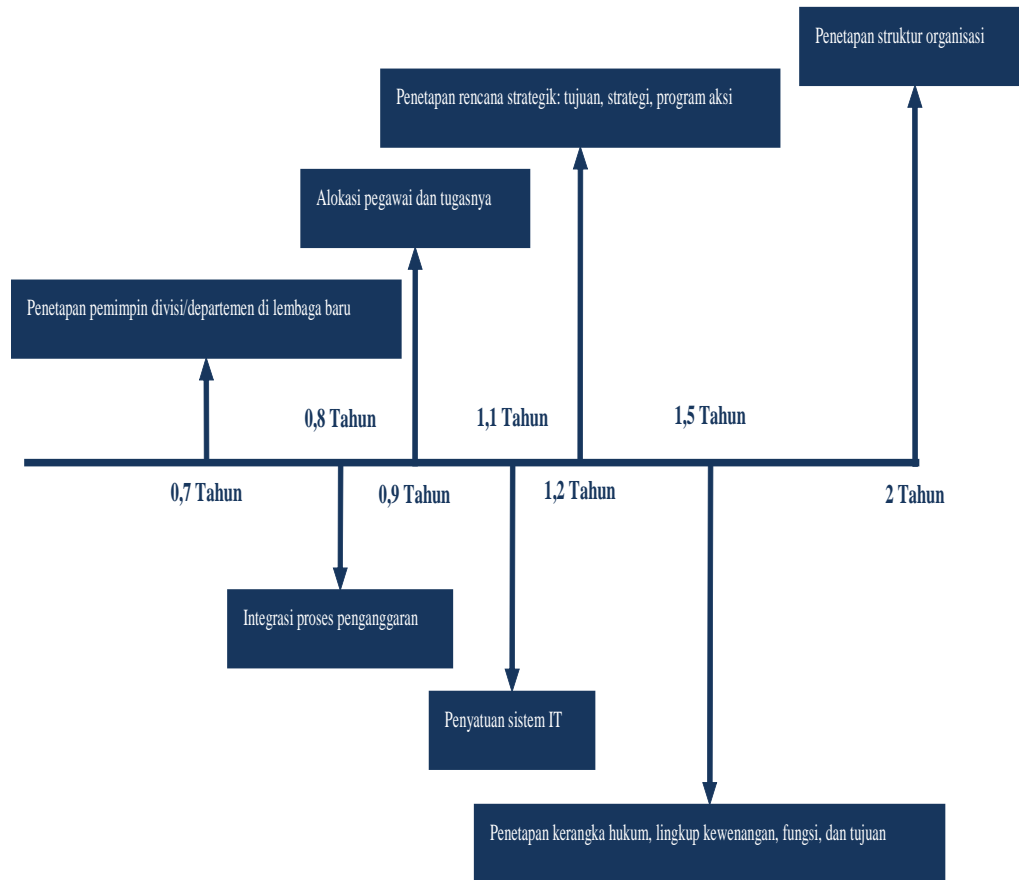


- According to the Act, in the first 3 years, OJK will be financed by the GOI
- Subsequently, OJK will be financed by supervisees in the financial sector
- What is the supervision fee for OJK? Is it a tax or a retribution?
 - If the fee is a tax, then there will be double taxation as the supervisees have paid income tax
 - If the fee is a retribution, what is the direct benefits obtained by the supervisees?
- The fee will give extra burden to customers of the supervisees

	Rivalness	Non-Rivalness
Excludable	Private Goods	Natural Monopoly
Non Excludable	Common Resources	Public Goods

- If the fee is a retribution:
 - It will transform financial supervision from public goods to common resources
 - This creates further complication as if the supervision is similar to toll road: if you don't want to pay then OJK will not supervise you!!!

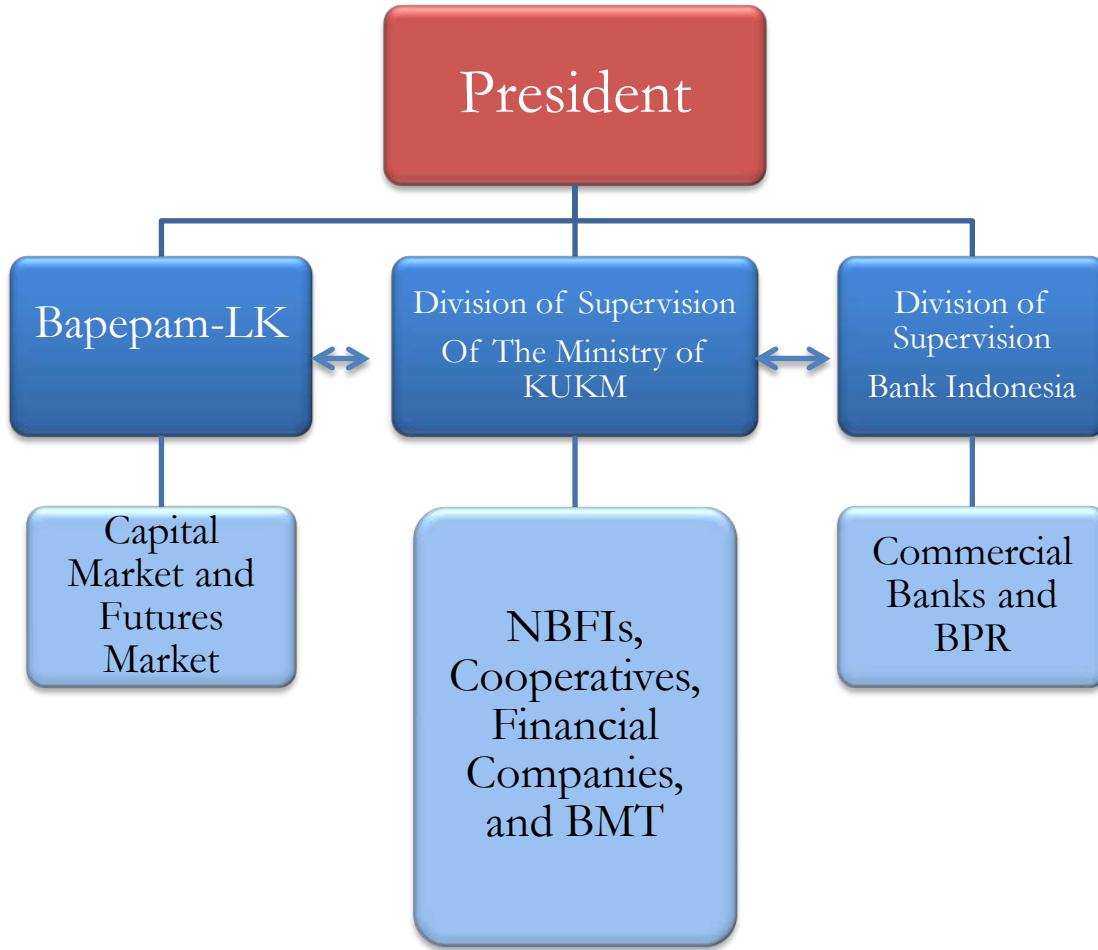
Estimated time for unification of two organisations



- It took at least 2 years for KPK, PPATK and LPS to make internal arrangement before they can effectively deal with a case
- Since October 2007 only 108 regional offices of BNPB (called BPBD) has been established out of 399 units which should have been established
- During the transition period, if there a crisis strike, then the economy is at vulnerable stage.

Alternative Models of OJK

Scenario I: Three Pillars Model



- The three regulators have to conduct data sharing and data interfacing among them (arrow sign)
- Attempts should be made to improve the quality of supervision and to minimise the heterogeneity of the quality of supervision (mainstreaming the quality).
- Attempts should be made to minimise the no man's land of the existing supervision.

Advantages

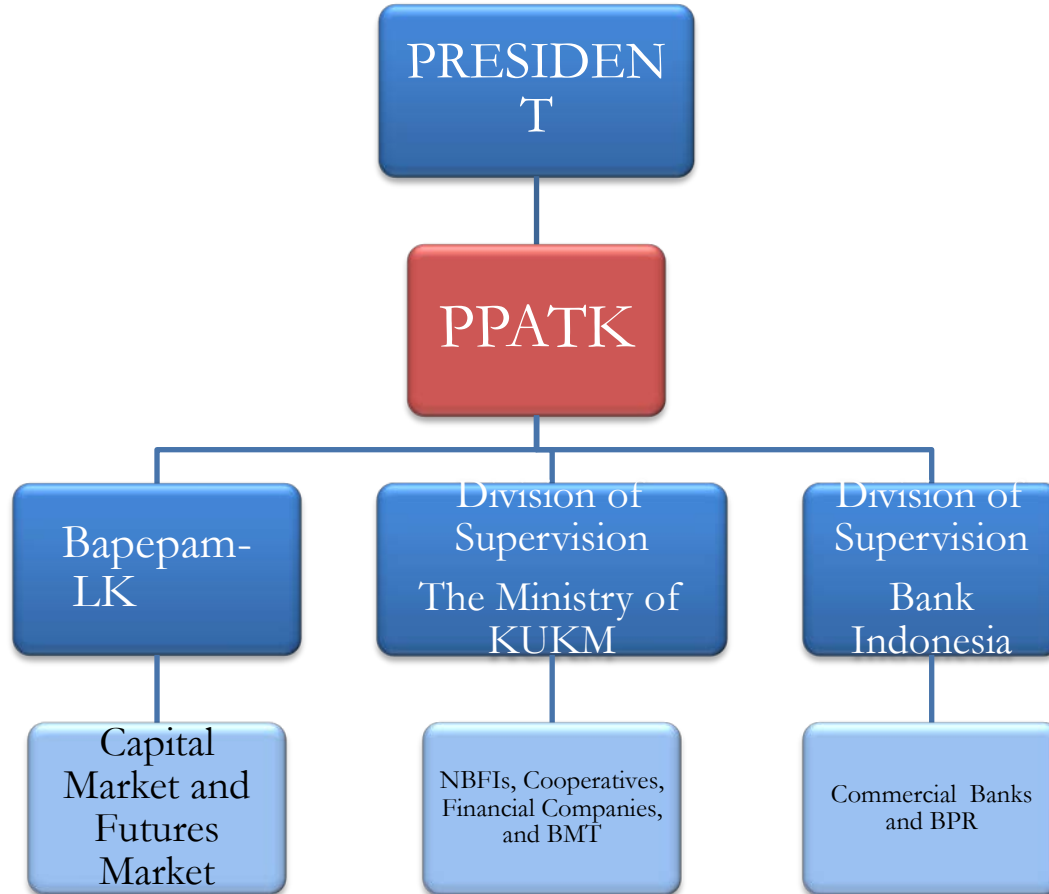
- The coordination among the regulators can be channeled through data sharing and data interfacing
- The Three-Pillar model revitalise the system of supervision without changing its structure
- Mainstreaming of the quality of supervision may be easily conducted
- SPLK has a clear cut the role of supervision, which one should focus more on micro and macro prudential, which one should focus more on business conduct
- All financial institutions can be covered by the SPLK
- SPLK reduces the vulnerability of the economy toward crisis during during the transition period

Complexities

- The system requires substantial resources to be allocated in order to conduct data sharing and data interfacing
 - The heterogeneity of the quality of information across the regulators are unknown
- The system is in jeopardy if one regulator reluctant to share the data or refuse to improve the quality of supervision.
 - The ego centrism across government departments is paramount
- If the data sharing fails, then the system may not be able to tackle moral hazard in inter market or the emergence of hybrid products.



Scenario II: Two-Stage Model



Two-Stage System

- PPATK ensures that data sharing and data interfacing among the regulators will be conducted
- Ideally PPATK should have a right to investigate and to prosecute
 - It requires amendment of the money laundering act
- Any inter market case will be dealt by PPATK, whereas within the market case will be dealt by the respective regulator.
- PPATK reports to President

Advantages

- Data sharing and data interfacing can be ensured
- The detection rate is expected to improve substantially due to multistage monitoring system
- The mainstreaming on the quality of supervision across regulators is more attainable since it can be imposed and supervised by PPATK
- All financial sectors are covered by the system
- The system will improve the detection rate for money laundering activities.



Thank You

