

## Regulatory Sandbox

### Introduction (General Refreshment)

In recent years, we have seen the active role of Bank Indonesia and Financial Authority Services (*Otoritas Jasa Keuangan*, “**OJK**”) encouraging digital innovation in the financial sector. One of the major instruments mobilised by both institutions is the regulatory sandbox.

Bank Indonesia first introduced the regulatory sandbox in 2017 through Bank Indonesia Regulation No. 19/12/PBI/2017 of 2017 on the organisation of financial technologies (“**BI Reg 19/2017**”). Later in 2021, Bank Indonesia issued Bank Indonesia Regulation No. 23/6/PBI/2021 of 2021 on Payment System Service Providers which revoked BI Reg 19/2017 (“**BI Reg 23/2021**”). One year after Bank Indonesia introduced the sandbox, OJK also introduced its kind of regulatory sandbox through OJK Regulation No. 13/POJK.02/2018 of 2018 on Digital Financial Innovations in the Financial Services Sector (“**OJK Reg 13/2018**”).

Prior to 2023, the arrangement of the regulatory sandbox was only governed by the respective regulations of each institution, Bank Indonesia and OJK. In 2023, however, Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (“**P2SK Law**”) became the main legal umbrella for the implementation of the regulatory sandbox.

### Regulatory Sandbox Arrangement under P2SK Law

In P2SK Law, the regulatory sandbox is defined as the creation of space and/or facilitation of trials/development of innovations that are part of the financial sector’s technological innovation (*inovasi teknologi sektor keuangan*, “**ITSK**”). P2SK Law mandates that supervision of ITSK implementation shall be carried out by Bank Indonesia and OJK in accordance with the scope of their respective authorities, including mechanisms and procedures for implementing the regulatory sandbox<sup>1</sup>. P2SK Law also provides authority for Bank Indonesia and OJK to coordinate

<sup>1</sup> Article 216 P2SK Law

in order to regulate, supervise, and implement ITSK, which includes the regulatory sandbox<sup>2</sup>.

i. Bank Indonesia's Regulatory Sandbox

As mentioned above, Bank Indonesia initially introduced the sandbox through BI Reg 19/2017, which governs that, the regulatory sandbox is a safe, limited test space to test financial technology providers and their products, services, technology, and/or business models (Sandbox 1.0). Later on, through its latest regulation on payment service providers, BI Reg 23/2021, Bank Indonesia introduced a new term, 'payment system technology innovation' (*inovasi teknologi sistem pembayaran*, "ITSP"). Essentially, the ITSP encompasses products, activities, services, and business models utilising innovative technologies in the digital economy and financial ecosystem that can support the implementation of payment systems<sup>3</sup>.

Through ITSP, Bank Indonesia launched an enhanced version of the regulatory sandbox, known as Sandbox 2.0, which consists of three functions<sup>4</sup>:

- a) innovation lab: development of innovations that have not been used or have been used in the payment system industry on a limited basis;
- b) regulatory sandbox: innovations to payment system policies or regulations; and
- c) industrial sandbox: innovations that have been used in the payment system industry and need to be encouraged to be used widely.

The implementation of ITSP development trials (including regulatory sandbox) may be initiated by requests submitted by payment service providers (*penyedia jasa pembayaran*, PJP) or other parties determined by Bank Indonesia, or by Bank Indonesia's own initiative<sup>5</sup>. In addition, there are no significant differences in terms of the mechanism and trial period of Sandbox 2.0 with the previous version. The trial period is set at a maximum of six months from the date of determination of participants, which can be extended once with a maximum period of six months<sup>6</sup>. Lastly, based on the results of its assessment, Bank Indonesia determines the status of the trial results as (i) successful or (ii) unsuccessful<sup>7</sup>.

ii. OJK's Regulatory Sandbox

OJK organises a regulatory sandbox through OJK Reg 13/2018, where the regulatory sandbox is defined as a testing mechanism undertaken by OJK to assess the reliability of the provider's business processes, business models, financial instruments, and governance<sup>8</sup>. During its implementation, providers who are in the regulatory sandbox process may obtain OJK approval to be temporarily exempted from certain OJK regulations<sup>9</sup>. Moreover, related to the participants' determination, providers who take part in the regulatory sandbox trial must at least meet the following criteria<sup>10</sup>:

- a) be registered under digital financial innovations (*inovasi keuangan digital*, IKD) at OJK or be registered based on an application letter submitted by the relevant supervisory work unit at OJK;

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<sup>2</sup> Article 217 paragraph (1) and (2) P2SK Law

<sup>3</sup> Article 210 BI Reg 23/2021

<sup>4</sup> Article 213 BI Reg 23/2021

<sup>5</sup> Article 214 BI Reg 23/2021

<sup>6</sup> Article 221 paragraph (1) and (2) BI Reg 23/2021

<sup>7</sup> Article 224 paragraph (3) BI Reg 23/2021

<sup>8</sup> Article 1 Number 4 OJK Reg 13/2018

<sup>9</sup> Article 7 paragraph (2) OJK Reg 13/2018

<sup>10</sup> Article 8 OJK Reg 13/2018

- b) provide a new business model;
- c) have a business scale with a wide market coverage;
- d) be registered with the organiser's association; and
- e) other criteria set by OJK.

The regulatory sandbox, under OJK, is conducted for a period of one year and can be extended for six months (if necessary)<sup>11</sup>. For the results, OJK will determine the status as (i) recommended, (ii) needs revision (with a six-month extension), and (iii) not recommended<sup>12</sup>. OJK may coordinate with others in the event that the results of the trial show a connection with other relevant authorities. On the other hand, providers may also coordinate with financial service institutions and other related parties as long as they remain under OJK's coordination<sup>13</sup>.

Further provisions on the implementation of OJK's regulatory sandbox are regulated under OJK Circular Letter No. 20/SEOJK.02/2019 of 2019 on Registration Procedure on the Operation of Digital Financial Innovations and OJK Circular Letter No. 21/SEOJK.02/2019 of 2019 on the Regulatory Sandbox.

## Conclusion

Basically, the issuance of ITSK governance through P2SK Law provides legal certainty for innovators to produce and develop various new financial products. The division of authority is clear, with Bank Indonesia acting as the regulator of all payment-system-related financial technology, while OJK supervises all financial technology other than the payment system. Now, however, years after the launch of the regulatory sandbox, there are still several issues faced by businesses, such as unclear time limitations for the registration/recordation process, unclear consumer complaint arrangements, and non-existent appeals mechanisms against regulatory sandbox results. Nevertheless, the role of the regulatory sandbox is crucial to support the growth of the Indonesian digital economy in the near future.

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<sup>11</sup> Article 9 OJK Reg 13/2018

<sup>12</sup> Article 11 OJK Reg 13/2018

<sup>13</sup> Article 12 OJK Reg 13/2018

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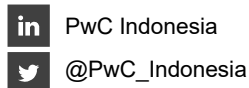
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