

## NEWSLETTER

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### NATIONAL PAYMENT GATEWAY REGULATED

The development of technology has provided new and innovative systems to cater the needs of the public. This includes development and innovation in the sector of finance which covers a variety of needs such as payment transactions and payment instruments. As of September 2017, the Bank of Indonesia ("BI") has issued Government Regulation No. 19/10/PADG/2017 ("**Government Regulation 19/2017**") on the National Payment Gateway ("NPG") in an effort to enforce an independent payment system for financial transactions carried out in Indonesia.

The main goal of the NPG is to create a financial system that is interconnected and interoperable. Additionally the NPG is envisioned to create Indonesia's payment infrastructure to become more efficient, reliable and secure. The enforcement of Government Regulation 19/2017 also serves as a gist to Indonesia's effort to move towards a cashless society in order to level the playing field with our ASEAN neighbors.

#### NPG

The NPG is a system which consists of standard, switching and services institution through a set of regulations and mechanism for interoperating several payment instruments and channels nationally. Through the NPG, the public can efficiently process domestic, non-cash transactions, from any bank, via any instrument or channel. NPG becomes a platform of mass payment transaction process by integrating the process upon all payment channels and domestic process that has not been implemented efficiently.

#### NPG Operators

The NPG Operators are divided into three institutions that handle non-cash payment transactions at different stages.

##### 1. The Standard Institution

The Standard Institution is an institution that represents a national payment system and has a role of making, maintaining and developing the standards that are used for interconnection and interoperability of payment instruments, payment transactions in accordance with international best practice. For security of public consumers, these standards are owned by BI. Standard Institutions are obliged to manage and implement the certification process to ensure conformity between payment transactions and payment channels and they must ensure the security and reliability of any information technology which is used in the formulation and development of standards, all of which require the prior approval of BI before its implementation.

Although its certification is still pending, most likely the Government will appoint Indonesian Payment System Association/Asosiasi Sistem Pembayaran Indonesia or ASPI as one of the standard institutions involved in the NPG program. ASPI is an organization that allows all banks and non-bank payment institution to partner up with BI in actualizing the objectives of

BI in carrying out its duties and maintaining smoothness in the development of NPG. ASPI's current members already include Indonesia's big four banks i.e., Bank BCA, Bank BNI, Bank BRI and Bank Mandiri.

## 2. **The Switching Institution**

The Switching Institutions are the middle men between payment transactions and processing payment data. The Switching Institution is the crux of the NPG system as their main goal is to ensure interconnectivity by creating an infrastructure that is able to connect the various payment transactions with the various payment instruments and process that data without losing the security of the transaction. The Switching Institution must maintain interconnectivity with at least 2 (two) other switching institutions through a Service Level Agreement ("**SLA**"). The SLA should at least address system availability, security, and reliability and recovery of payment transactions. Switching Institutions work on the standards stipulated by BI and managed by Standard Institutions.

In order to become a Switching Institution, a written application must be submitted to Bank Indonesia along with the fulfillment of certain requirements at least:

1. Applicant must already have license as a Switching administrator in accordance with the rules and regulations set out by BI;
  - b. Applicant must implement a domestic payment transaction process with the infrastructure found in Indonesia;
  - c. Applicant must have 80% of its shares owned by the Indonesian citizen or Indonesian Legal Entity;
  - d. Applicant is able and has the capacity to carry out its duties as a Switching Institution as a part of the National Payment Gateway; and
  - e. Applicant must have a paid-up capital of Rp. 50,000,000,000.00 (fifty billion Rupiah).

If the Switching Institution is going to operate as a Public Company, Applicant must have at least 5% of its shares owned by the Indonesian citizen or Indonesian Legal Entity.

Examples of Switching Institutions that already exist include, ATM Bersama, Link, Alto and Prima.

## 3. **The Services Institution**

The Services Institution is created to maintain the security of payment transaction and confidentiality of the customer's data. In order to do this, Services Institution shall carry out reconciliation, clearing and settlement and develop the system for prevention of fraud, risk management, risk mitigation and dispute. To become a Services Institution, a written application must be submitted to Bank Indonesia along with the fulfillment of certain requirements at least:

- a. Applicant should be in the form of a Limited Liability Company;

- b. Applicant is able and has the capacity to carry out its duties as a Services Institution as a part of the NPG; and
- c. Shares of the Services Institution shall be jointly owned by:
  - i. Switching Institutions; and
  - ii. Commercial Banks based on Business Activity 4 (four) ("**BUKU**"), which majority of the shareholders are indirectly owned by the Indonesian citizen and/or Indonesian legal entity.

In the event BUKU is owned by a Public Company, then its share ownership is only calculated towards share which is 5% or more.

In addition to the NPG Organizers, there are Connected Parties to the NPG System which comprise of Issuers, Acquirers and any other parties as stipulated by BI.

## **Role of BI in the implementation of NPG**

As a regulator of NPG, BI plays as a government institution which determines:

- 1. The approval or rejection of decree application to be a Standard Institution;
- 2. The granting of approval to be a Switching Institution; and
- 3. The approval or rejection of decree application to be a Services Institution.

Further, BI also covers the role as the institution where Switching Institution and Services Institution process the final settlement to obtain the final transaction calculation between Switching Institution members in 1 (one) Switching Institution and between Switching Institution and/or between the issuer.

The supervisory role is also held by BI. Every NPG Operator shall submit periodic and incidental report. The supervisory role implemented by BI covers direct and indirect supervision. If necessary, BI may assign other party for and on behalf of BI to conduct direct supervision where BI or any party appointed by BI may request from the NPG Operators i.) any document, data, information and/or reports; ii.) information and/or verbal and/or written explanation; iii.) access to the information system.

## **Pricing Scheme**

NPG operator and its connected party shall comply with the price scheme policy. The price scheme policy is regulated to push the acceptance of this new payment method, efficiency, competition, services and innovation. It is determined based on the cost recovery aspect and reasonable margin, risk and convenience. The Price scheme policy also considers the arrangement of value, fare structure and duty.

## **Obligations of Commercial Banks and Sharia Banks**

According to Government Regulation 19/2017 Commercial Banks and Sharia Banks have to be connected to one Switching Institution and must be capable of processing payment transactions via National Payment Gateway for ATM and Debit Cards at the latest by 31 December 2017.

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