

Indonesia: Expansion of commercial bank business activities

Subtitle

In brief

The Financial Services Authority (*Otoritas Jasa Keuangan* or "**OJK**") has recently issued OJK Regulation No. 26 of 2024 on the Expansion of Banking Business Activities ("**POJK 26**"). This regulation aims to keep pace with the rapid development of the banking sector in Indonesia and provide legal certainty for banks regarding specific banking products. The highlight of POJK 26 is that now, OJK allows conventional commercial banks and sharia commercial banks ("**Commercial Banks**") to directly invest in companies that support the banking industry ("**Supporting Business**"). This regulation also addresses several banking activities (and/or products) offered and undertaken by Commercial Banks:

1. Transfer of receivables (*pengalihan piutang*)
2. Guarantees (*penjaminan*)
3. Foreign currency exchange business activities (*kegiatan usaha penukaran valuta asing*)
4. Electronic signatures and electronic agreements
5. Sharia banking products

In addition to provisions for Commercial Banks, this regulation allows rural banks (i.e., *bank perekonomian rakyat* and *bank perekonomian rakyat syariah*) to invest in Indonesian non-financial institutions that support rural banks' business.

This regulation came into effect on 13 December 2024. Below are the selective topics of POJK 26 for Commercial Banks:

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Direct investments by Commercial Banks in companies that support the banking industry

Prior to the issuance of POJK 26, Commercial Banks can invest in the following:

1. Financial services institutions
2. Companies that utilize information technology to produce financial products as their main business (e.g., electronic money providers)
3. Credit bureaus (*lembaga pengelola informasi perkreditan*)

POJK 26 expands the scope of permissible investments to also cover the following:

4. Companies that are established or whose business activities are prioritized to support the business activities of Commercial Banks and/or subsidiaries of Commercial Banks (e.g., IT providers for Commercial Banks and/or Commercial Banks' subsidiaries)
5. Companies whose business characteristics are intended to support the business activities of the banking industry (e.g., switching companies, clearing companies)
6. Companies domiciled outside the territory of Indonesia that meet following criteria:

- a. Financial services institutions
- b. Engage in business activities that are equivalent to the business activities of financial services institutions

Items 1 to 6 shall be referred to as the "**Scope of Permitted Investments.**"

The Scope of Permitted Investments is also applicable for subsidiaries of Commercial Banks that operate in the financial services business, but not for venture capital companies that may make investments in any type of companies (as permitted under OJK regulations on the implementation of venture capital companies business).

For subsidiaries of Commercial Banks that do not operate in financial services businesses, the Scope of Permitted Investments is not applicable. Nevertheless, Commercial Banks must monitor the calculation of capital adequacy on a consolidated basis for themselves, their subsidiaries, and companies controlled by their subsidiaries.

Requirements around assignment of receivables

Commercial Banks may transfer or receive receivables by taking the following into account:

1. The ownership and risks of the transferred receivables shall be transferred to the purchaser of the receivables.
2. Commercial Banks may only transfer receivables on a non-recourse basis.
3. Commercial Banks shall implement the following:
 - a. Risk management and prudential principles
 - b. Sharia principles (as relevant)
4. Commercial Banks must assess the asset quality of the receivables in accordance with prevailing regulations.
5. Commercial Banks must stipulate a clause that covers approval for assignment of receivables in a financing agreement or terms and conditions between the Commercial Banks and its customers.
6. Commercial Banks shall notify the transfers of receivables to the relevant customers.

By **13 June 2025**, Commercial Banks must adjust their credit/financing policies to set out policies and procedures for transferring and/or receiving receivables that contain at least the following:

1. Criteria of receivables that can be transferred or received
2. Mechanisms for transferring collateral of receivables

Closing

POJK 26 allows Indonesian banks to explore more opportunities of collaboration (through investments) with non-financial institutions. With the right management and operation, banks hopefully can generate more efficient and synergized financial products and services. POJK 26 also gives financial actors more certainty on the practices of assignment of receivables. With the issuance of this regulation, banks are expected to enhance their operation to meet the market needs and standards.

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