RETHINK FINTECH

Crisis as an opportunity – Indonesia

September 2021

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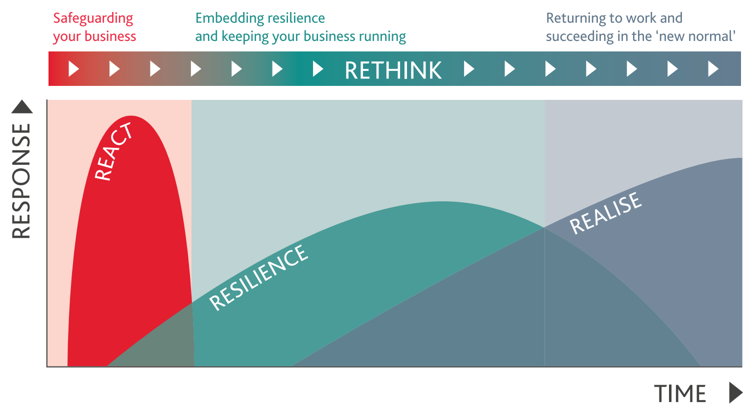
INTRODUCTION



Indonesia, the world's largest island country with 17,508 islands, and the world's 16th largest economy is the world's fourth most populous country with 270 million people, out of these 71% are in the productive age according to Indonesian Central Bureau of Statistics (BPS Indonesia) report as of 21 January 2021.

There are many untapped markets due to geographical and infrastructural barriers. Almost 60% of the country's workforce is in the informal sector, and many micro, small, and medium-sized enterprises (MSMEs) have little access to financing from banks, as they too are mostly operating in the informal sector.

With Internet penetration standing at 67% and financial inclusion remaining a key challenge, Indonesia offers a fertile ground for Fintech innovation.

Indonesia's fast-growing Fintech ecosystem has been largely driven by a proactive government that has introduced rules in areas including peer-to-peer (P2P) lending, digital payments, and most recently open banking, in hopes to encourage innovation and improve financial inclusion.

This favourable landscape has attracted the attention of both local and international investors, many of which are betting big on the prospects of digital financial services in the country.

Clear regulations, coupled with investors interest, have led to the growth of a dynamic Fintech ecosystem that is now one of the most competitive in the world as evidenced by the emergence of Indonesia's first Fintech unicorn, mobile wallet Ovo, which was worth an estimated US$2.9 billion as of September 2019, and the presence of decacorn Gojek which was valued at US$10.5 billion.

The Fintech sector has been very active despite the COVID-19 pandemic. In fact, it may even be said that the pandemic has given Indonesia's Fintech sector a bigger push as more people turn to digital solutions to carry out their daily activities. Businesses have accelerated their adoption of technology to adapt to, and survive in, the "new normal".

SUSANTO BONG,
Head of Financial Services,
BDO Indonesia

TIM AMAN,
Head of Global Fintech,
BDO Australia

> *Indonesia could be described as the dark horse of the Fintech world – with fruitful conditions that are largely untapped. Indonesian Fintechs are moving in to provide consumers who lack financial literacy with empowering tools that close both the financial and digital divide – providing them with technological access and filling the credit gap. One factor that stands out for me, is the innovative business models that we continually see develop among Fintechs globally that enhance the financial services system. In Indonesia, this is no different, with a new market booming - Sharia Fintech. Paying it forward is a quality that we see many Fintechs share and is starkly epitomised with Sharia Fintech platforms who offer banking without interest.*

FINTECH IN INDONESIA

Indonesia is home to 20% of all Fintech companies in Southeast Asia, and despite its infancy, is expected to generate some US$8.6 billion in revenue over the next five years.[1] In June 2021, according to AFTECH there were 362 Fintech startup companies.

AFTECH

OTORITAS JASA KEUANGAN

AFTECH has been officially appointed by the Financial Services Authority (OJK) as the Association for Digital Financial Innovation Organizers based on POJK No.13 / 2018. Currently AFTECH has more than 350 members, consisting of 359 fintech companies, 24 financial institutions, 13 research partners, and six technology partners.

Source: Fintech Indonesia, https://Fintech.id/en

[1] https://Fintechnews.sg/45513/indonesia/indonesia-Fintech-report-and-map-2020/, December 2020

Partners with regulators and the entire industry ecosystem to drive a technology-oriented financial future.

362 Start Up Fintech

24 Lembaga Keuangan

5 Mitra Tecknologi

Fintech is the biggest segment within Indonesia's startup ecosystem. Fintechs in Indonesia have been hailed as the agents of change that can close the financial inclusion gap in the country and help conquer the digital divide.

Super platform apps such as GoJek, Tokopedia and other large P2P lenders can take most of the credit for this success. They have promoted inclusion for underserved communities, such as small merchants and ride-hailing drivers. Together, these super platforms and Fintech startups have channelled loans worth approximately US$7 billion to date – with shorter turnaround times and lower overhead costs than banks.[2]

The Fintech industry is one of the most funded sectors — along with e-commerce — and is dominated by peer-to-peer (P2P) lending (50%) and e-payment (23%) platforms. Despite having more than 300 Fintech companies operating in Indonesia, foreign investors will find the industry has yet to fulfil its potential.

The past two years have seen early signs of consolidation and several merger and acquisition (M&A) deals including GoJek's US$130 million acquisition of POS services provider Moka, US$159 million acquisition of 22,2% stake in Bank Jago and Ovo's purchase of local startup Taralite to enter the online lending space.

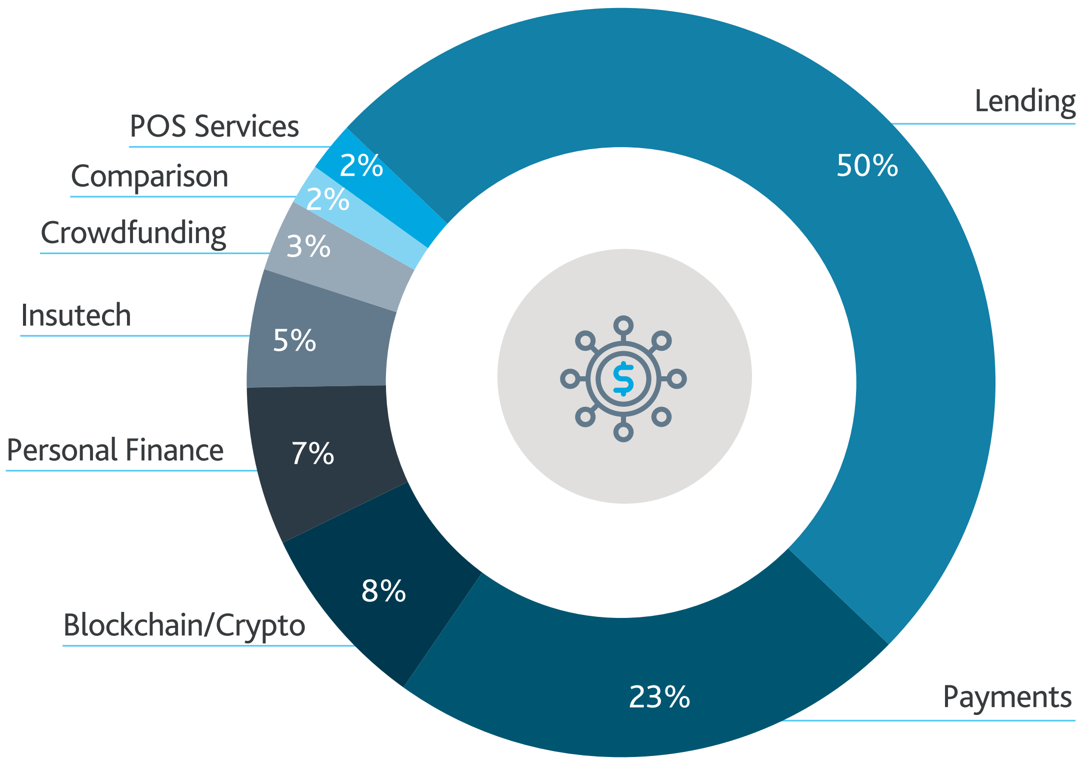
GoJek has also been expanding aggressively across Southeast Asia in 2020, acquiring Vietnamese e-wallet WePay in September. The so-called super app raised about US$3 billion in its Series F in March 2021.

Despite COVID-19 and global uncertainties, Indonesian Fintech startups continued to attract significant funding, with three mega-rounds of over US$100 million recorded since late-2019. These include Kredivo's US$110 million Series C and LinkAja's US$200 million Series B.

In the online lending sector, there is increased use of artificial intelligence (AI) for credit scoring and alternative lending solutions. P2P lending volume continued to grow in Indonesia with total funding reaching IDR194 trillion as of April 2021.

[2] https://www.microsave.net/2020/08/27/necessity-is-the-mother-of-disruption-how-indonesias-Fintech-startups-can-survive-the-do-or-die-situation-of-COVID-19/

Composition of Indonesia's Fintech Industry



Source: https://www.aseanbriefing.com/news/opportunities-in-indonesias-financial-technology-sector/, April 2021.

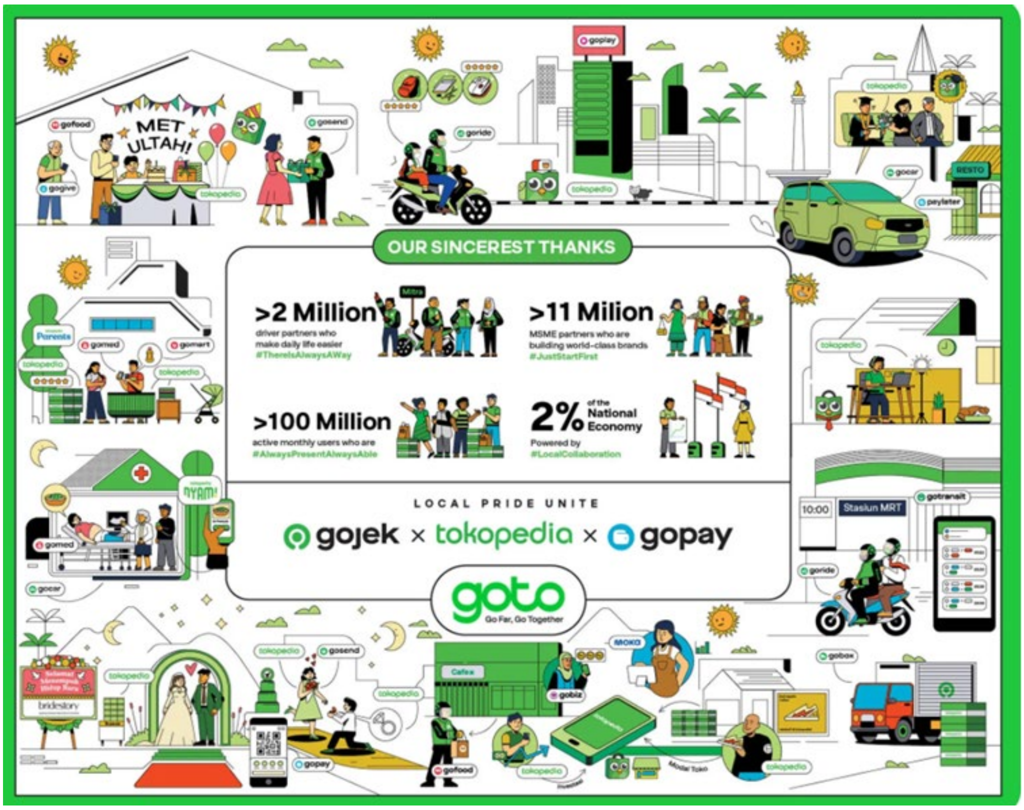
On May 17, 2021, two of Indonesia's biggest internet companies — ride-hailing and payments giant Gojek and e-commerce leader Tokopedia — announced an US$18 billion merger to create 'GoTo Group', in what is the country's largest-ever business deal.

GoTo's inception highlights the huge potential of Indonesia's digital economy. According to a report by Bain & Co, Temasek, and Google, Southeast Asia's digital economy is poised to reach a gross merchandise value (GMV) of over US$300 billion by 2025, of which roughly US$125 billion can be attributed to Indonesia's market, making it the largest in the region.

The ultimate aim of GoTo would be to go public, with a market valuation estimated at between US$30 and US$40 billion in Jakarta and the US. This will be the first IPO by an Indonesian tech startup and paves the route for others to follow, such as Bukalapak (another e-commerce platform). This puts GoTo Group a notch higher in the fight against regional competitor Grab, which recently doubled its valuation to US$40 billion in one of the world's largest special purpose acquisition company (SPAC) deals.

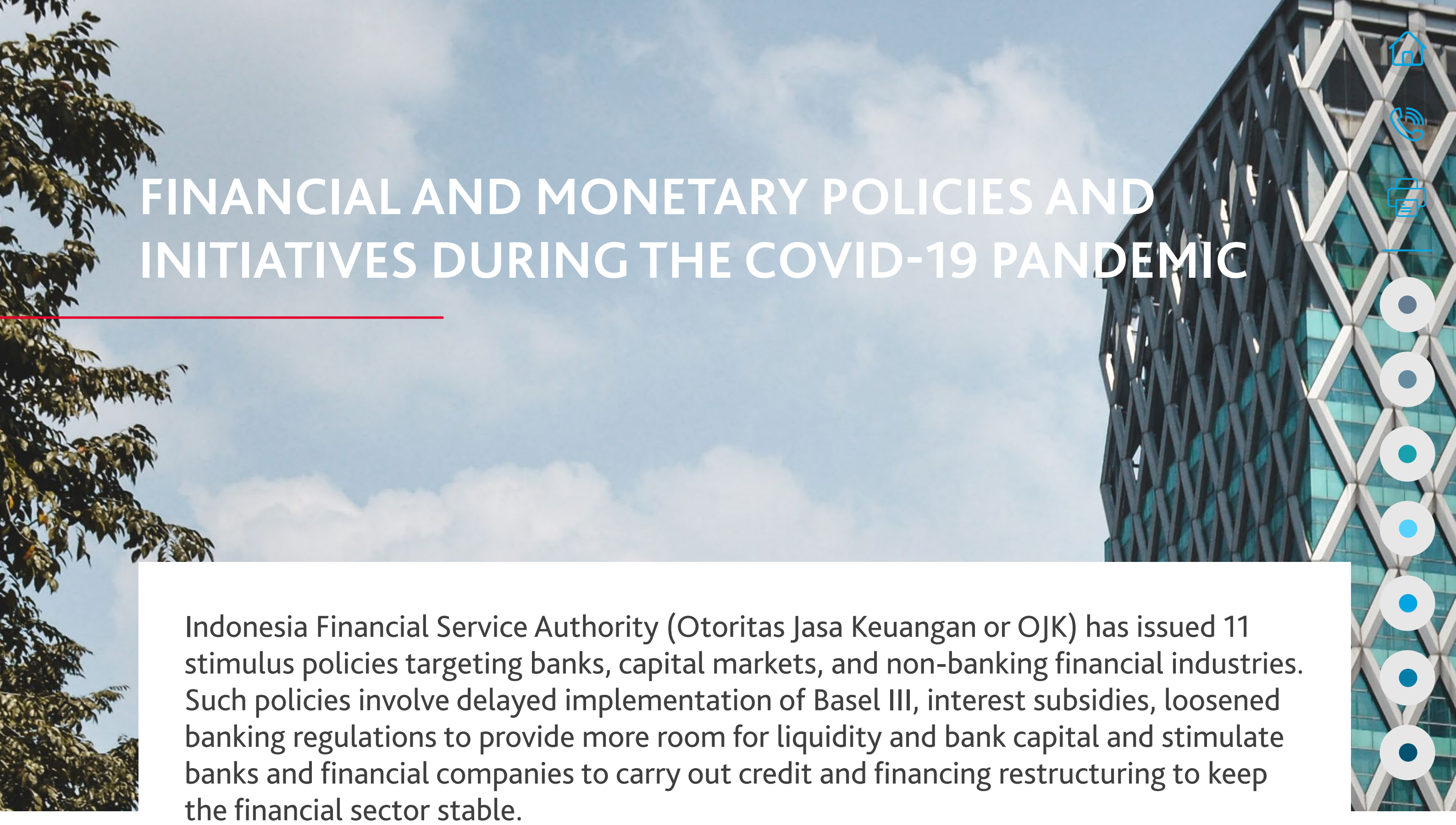
GoTo has the potential to provide financial solutions to the country's underbanked and unbanked population, which is estimated at 47 million and 92 million people respectively.

Ant Group-backed Dana and Grab-backed OVO, both Fintech players, will see heated competition, which might just result in another merger if rumours in June 2020 are to play out.



SUSANTO BONG,
Head of Financial Services,
BDO Indonesia

> *As one of the largest and most populous countries, supported by the development of communication infrastructure and clear investment regulation set by the government, Indonesia has attracted the attention of both local and international investors, many of which are betting big on the prospects of digital financial services in the country. Indonesia's fast-growing Fintech ecosystem has been largely driven by a proactive government that has introduced rules in areas including peer-to-peer (P2P) lending, digital payments, and most recently open banking, in hopes to encourage innovation and improve financial inclusion*



FINANCIAL AND MONETARY POLICIES AND INITIATIVES DURING THE COVID-19 PANDEMIC

Indonesia Financial Service Authority (Otoritas Jasa Keuangan or OJK) has issued 11 stimulus policies targeting banks, capital markets, and non-banking financial industries. Such policies involve delayed implementation of Basel III, interest subsidies, loosened banking regulations to provide more room for liquidity and bank capital and stimulate banks and financial companies to carry out credit and financing restructuring to keep the financial sector stable.

OJK supported the government's issuance of credit guarantee plans for MSMEs and investment in the banking industry, to facilitate lending to MSMEs and labour-intensive employers. Regarding non-bank financial institutions, financial reform is still in progress.

OJK issued the Digital Finance Innovation Road Map & Action Plan 2020-2024 to boost the development, integration, and talent training of the Fintech industry. This road map complements a “regulatory sandbox” operated by OJK, in which Fintech startups can conduct live experiments to trial new products or business models in a controlled environment.

It also allows OJK to receive immediate feedback and test upcoming regulations. With a more diverse range of loan products, SMEs stand to benefit by finding products best suited to their business.[3]

In August 2020, OJK and the Indonesia Fintech Association (AFTECH) jointly held the Virtual Innovation Day 2020, with the aim to promote economic recovery through Fintech innovation and encourage Fintech companies to continue to contribute to the growth of the financial services industry and the national economic recovery.

> In response to COVID-19, AFPI or Indonesian Joint Funding Fintech Association, required its members to join the FDC. FDC provides information about more than 25 million Indonesian companies. Fintech companies can use this information to take preventive measures, such as checking the credit status of borrowers and whether they have received loans from multiple lenders. As more and more members are connected to FDC, relevant data will help Fintech companies reduce their non-performing loan ratio.

[3] https://theconversation.com/how-Fintech-can-help-indonesias-small-and-medium-enterprises-survive-the-COVID-19-pandemic-148528

Government policies have tried to relieve post-pandemic economic stress but the impact on the Fintech sector has been mixed.

Policies	Category	Impact	Insights
Credit relaxation (POJK 11 Year 2020)	P2P/ Lending	↑ (I)	POJK 11 Year 2020 does not explicitly declare P2P lenders as beneficiaries under the loan relaxation quidlines announced by OJK. However, banks,as institutional lenders on P2P platforms, are passing on the relaxations tp P2P lenders to help them restructure loans. This regulation also removes the obligation for financial institutions to provide financial literacy training, which helps FinTechs reduce their operational expenses.
Collaboration between ECF and the Indonesia Central Depository (KSEI) (POJK Number 37 Year 2018)	ECF/ Lending	↑ (D)	With this collaboration, investors in the ECF platform have also become investors in stock exchanges and can sell the shares in the secondary market. This will enable the formation of a more iquid market for ECF.
Launch of Kartu Prakerja program	E-wallet/ Payment	↔ (D)	In the medium term, this may drive the adoption and usage of e-wallets. However, FinTechs are struggling to enroll a large number of program beneficiares as there is no provision of e-KYC using the nationak ID database. Moreover, operational processes at the program level are still evolving.
Waivers on electricity bills and remiums under National Health Insurance	PPOB/ Payment	↓ (D)	Waiver of electricity bills under a certain limit (usage) and waiver of National Health Insurance premium has decresed the number of transactions for payments-focused FinTechs, especially PPOB players.
Relaxation in payment of insurance premium	Principal and broker InsurTech	↔ (D)	This relaxation in insurance policies gas been ineffective since reinsurance companies are reluctant to agree to relax insurance premiums.

Source: https://www.microsave.net/2020/08/03/impact-of-COVID-19-on-Fintechs-indonesia-report/

REGULATORY OVERVIEW

BANK INDONESIA'S REGULATION OF PAYMENT SYSTEMS

According to Bank Indonesia Regulation Number 19/12/PBI/2017 concerning the Implementation of Financial Technology, every Financial Technology Provider that will or has carried out activities that meet the criteria as referred to in Article 3 paragraph (2) is required to register with Central Bank of Indonesia and must submit information to Bank Indonesia regarding new products, services, technology, and or business models that meet the criteria. The Financial Technology Provider must be a business entity with a legal entity in Indonesia.

The criteria referred to in Article 3 paragraph (2) are:

- Innovative;
- May have an impact on existing products, services, technology, and/or financial business models;
- Can provide benefits to the community;
- Can be used widely; and
- Other criteria determined by Bank Indonesia.

Bank Indonesia determines Financial Technology Provider and their products, services, technology, and/or business models to be tested in the Regulatory Sandbox. Bank Indonesia stipulates a certain period of time for Financial Technology Provider to conduct a trial in the Regulatory Sandbox, after the end of the period the status of the test results will be determined.

If the trial results are successful, the Financial Technology Provider may market the tested products, services, technology, and business models if they have applied for a permit or approval in accordance with Bank Indonesia regulations. However, if the trial results are not successful, the Financial Technology Provider is prohibited from marketing the products and/or services and using the technology and business model being tested.

Financial Technology Provider who violate the regulations may be subject to sanctions in the form of:

- Written reprimand;
- Termination of business activities;
- Certain actions related to the implementation of payment system activities;
- Recommendation to the competent authority to revoke the business license granted by the competent authority;
- Removal from the list of Bank Indonesia Financial Technology Provider;
- Fines;
- Temporary suspension of part or all of payment system service activities.

On 30 December 2020, Bank Indonesia issued a new regulation of Payment Systems (Bank Indonesia Regulation No 22/23/PBI/2020) that seeks to implement a major overhaul of the payment licensing framework in Indonesia. This regulation will become effective on 1 July 2021. Industry players and foreign investors are particularly interested in the new minimum local shareholding requirements introduced by the regulation, which set the ceiling for foreign shareholding.

The minimum local shareholding requirements are applicable to each of the two categories of payment system providers introduced under this new regulation:

- payment service providers (penyelenggara jasa pembayaran, or PJP); and
- payment system infrastructure providers (penyelenggara infrastruktur sistem pembayaran, or PIP).

Bank Indonesia will reclassify existing payment system providers (ie, e-money, e-wallet, payment gateway, fund transfer, acquirer, principal, clearing, switching and settlement) into these two new categories and will convert their licences accordingly.

The regulation sets out two tests that must be satisfied.

- Total shareholding test – at least 15% (direct and indirect up to the ultimate shareholder) of the total shares in a non-bank PJP must be owned by Indonesian shareholders, and at least 80% of the total shares in a non-bank PIP must be owned by Indonesian shareholders.
- Domestic control test – at least 51% of the shares with voting rights in a non-bank PJP must be owned by Indonesian shareholders, and at least 80% of the shares with voting rights in a non-bank PIP must be owned by Indonesian shareholders. If there is any special right (i) to nominate a majority of the board of directors and/or board of commissioners, or (ii) to exercise a veto over any decision or approval in the general meeting of shareholders that has a significant impact on the company (eg, amendment of articles of association, change of capital structure, appointment of directors or commissioners, merger, consolidation, acquisition, spin-off or dissolution), then such right must be held by the Indonesian shareholders.

These shareholding and control tests apply to direct and indirect share ownership up to the ultimate shareholders.

Bank Indonesia provides development trial space Payment System technology innovation to support digital economy and finance development. Payment System technology innovations include products, activities, services, and business models that use innovative technologies in the economic and financial ecosystem digital technology that can support the implementation of the System Payment.

Trial development of Payment System technology innovation shall be conducted by Bank Indonesia through trials:

- Development of innovations that have not been used or have been used in the Payment System industry on a limited basis (innovation lab);
- Innovations to System policies or provisions Payment (regulatory sandbox); and
- Innovations that have been used in the Systems industry Payments and need to be encouraged to use area (industrial sandbox).

Trial of innovations that have been used in the System industry Payments and need to be encouraged for widespread use including the use of application programming technology interface, biometrics, and Quick Response Code Indonesian Standards (QRIS).

DIGITAL BANKING

There have been reports suggesting that the Indonesian Financial Services Authority (OJK) is considering issuing a new regulation on digital banking. This new regulation could lead to the issuance of virtual-only banking licences like those found in jurisdictions such as Singapore, Malaysia and Hong Kong.

Digital platform companies have already begun acquiring stakes in Indonesian banks with a view to integrating their offerings. However, Indonesia may face more challenges than other more mature jurisdictions in introducing virtual-only banks without any physical branches.

Until the new digital banking regulation is issued, there are existing banking regulations governing the offering of digital banking products, which allow conventional banks to offer such products either alone or in collaboration with other companies. OJK has also published a draft regulatory amendment on banking business activities that seeks to cover digital banking services and acknowledges the need for banks to adopt information technology more intensively to compete in the Fintech sector.

The ongoing need among Indonesians (particularly the "unbanked") for credit and the strict regulatory framework associated with traditional lending services have meant that peer-to-peer lending ("P2P Lending") platforms are still very popular in Indonesia. These lending platforms are also increasingly being integrated into e-commerce platforms. According to an OJK statement in 2020, loan disbursements via P2P Lending platforms stood at IDR155.9 trillion – an increase of 91.3% on 2019, when the figure was IDR81.49 trillion. Many of these loans were distributed to micro, small and medium enterprises in urgent need of liquidity due to the COVID-19 pandemic.

Under the current OJK regulation on P2P Lending (OJK Regulation No 77/POJK.01/2016), OJK adopts a two-stage licensing process for P2P Lending players: registration followed by licensing, which are required to have a capital of at least IDR1 billion at the time of registration and when applying for a licensed company, the company must have a capital of at least IDR2.5 billion. A maximum of one year after being registered, the operator must apply for a permit to the OJK. If the operator does not apply for a permit, the operator must return the registration certificate to the OJK. Both registered and licensed companies can run a business of lending and borrowing money based on information technology in accordance with applicable regulations. However, a licensed company is a company that has obtained a permanent permit and has an Information Security Management System certificate of SNI/ISO 270001. As of 10 June 2021, there were 125 P2P lending companies, of which 65 were licensed by OJK and 60 were registered with OJK.

In addition, OJK has increased its efforts to stamp down on P2P Lending platforms operating illegally (without registration or a licence), which have tarnished the reputation of P2P Lending platforms generally by adopting aggressive debt collection strategies and improperly collecting data from their users. a total of 2

Given the large number of P2P Lending companies and the potential impact of non-performing loans, OJK has reviewed the licensing process for P2P Lending companies and is expected to issue a new P2P Lending regulation to simplify licensing into a single-stage process but with more stringent requirements.

The draft OJK regulation on P2P Lending also seeks to introduce several other key changes to the licensing requirements for P2P Lending companies, by increasing the minimum paid-up capital for licensed P2P Lending companies from IDR2.5 billion to IDR15 billion, by changing the scope of activities that can be facilitated on a P2P Lending platform (from general loan arrangements to productive financing and multi-financing activities), and by requiring controlling shareholders, directors and commissioners to pass OJK's fit and proper test. There is also a new requirement for P2P Lending company shareholders that are foreign legal entities to be engaged in the financial services sector. Once this regulation comes into effect, these new requirements are likely to attract more specialised investors with the relevant financial services experience who can meet the relevant qualification requirements and improve the level of governance of P2P Lending companies.

[4] https://practiceguides.chambers.com/practice-guides/Fintech-2021/indonesia/trends-and-developments

There are 146 P2P lending platforms in Indonesia

Source: AFPI. April 2021.

Digital Payment Companies licensed and registered at Bank Indonesia

No	Product	Company	Description
1	OVO	PT Visionet Internasional	OVO is a digital platform for simple payment and smart financial services, with affiliated merchants, business partners and members in its ecosystem.
2	Dana	PT Espay Debit Indonesia Koe	Dana is Indonesia digital wallet that provides cashless and card-less transaction from buying mobile recharge credits/ data package, payments at various DANA merchants, to bill payments (electricity, water, BPJS, insurance and installments), pay with QR Code, send & receive money conveniently.
3	Linkaja	PT Fintek Karya Nusantara	LinkAja is an electronic money service for any transaction. Buy mobile credit/data, pay merchants, pay bills, send donations, send money to pay insurance and apply for credit.
4	Doku	PT Nusa Satu Inti Artha	Payment service provider with integrated payment gateway, transfer services and collaborative commerce (e-wallet) services.
5	Gopay	PT Dompet Anak Bangsa	GoPay is an all-in-one digital wallet. From fast transactions for all Gojek services and hundreds of Business Partners, to sending or receiving money easily.
6	Paprika	PT Paprika Multi Media	Paprika is a payment platform for shops, credit, data packages, PLN bills, PDAM, BPJS, Telkom and others that offers all convenience in payments.
7	MotionPay	PT MNC Teknologi Nusantara	Motionpay is an application designed to facilitate financial transactions. Motionpay has e-money, e-wallet and digital remittance features.
8	Shopeepay	PT Airpay International Indonesia	ShopeePay is an e-wallet service offered by Shopee that can be used to pay for online transactions within Shopee and also offline transactions with merchants who accept ShopeePay.
9	Paytren	PT Veritra Sentosa Internasional	Paytren is an application that is used for online payments, such as routine bills, electronic credit purchases, travel tickets, pay with QR, waqf, zakat and alms.
10	Bayarind	PT Sprint Asia Technology	Bayrind is Indonesia Electronic Wallet that provides multiple source of funds (Bayarind e-money, credit card, debit card and BCA Oneklik), making order and payment at Bayarind merchant by using Bluetooth and QR Code scanning, recharge mobile credit, mobile data package, education and various online products.
11	Sakuku	PT Bank Central Asia Tbk	Sakuku is an electronic money service for payments, mobile top ups, and other banking transaction
12	iSaku	PT Inti Dunia Sukses	iSaku is an electronic money that already has license from Bank Indonesia for shopping at Indomaret. iSaku provided multiple payments such as top-up, money transfer, cash withdrawal, routine bills and etc.

QRIS (QUICK RESPONSE CODE INDONESIA STANDARD)

Quick Response Code Indonesian Standard or commonly abbreviated as QRIS is the unification of various QR types from various Payment System Service Providers using a QR Code. QRIS was developed by the payment system industry together with Bank Indonesia so that the transaction process with the QR Code can be easier, faster, and secure. All Payment System Service Providers who will use QR Code Payments must implement QRIS.

Currently, with QRIS, all payment applications from any Operator, whether bank or non-bank that are used by the public, can be used in all shops, merchants, stalls, parking lots, tourist tickets, donations (merchants) bearing the QRIS logo. Although the QRIS provider at merchants is different from the application provider used by the community.

Merchants only need to open an account with one of the QRIS providers that has been licensed by Bank Indonesia. Furthermore, merchants can already accept payments from the public using QR from any application that is hosted.

QRIS Transaction nominal is limited to a maximum of IDR 2.000.000 (Two Million Rupiah) per transaction. The Issuer may set a daily and/or monthly cumulative nominal limit for QRIS Transactions carried out by each QRIS User, which is determined based on the Issuer's risk management.

The government through Bank Indonesia issued the National Standard QR Code Payment (Quick Response Code Indonesian Standard) abbreviated as QRIS. QRIS is a Payment QR Code Standard set by Bank Indonesia to be used to facilitate payments in Indonesia. As a guideline for the implementation of QRIS, Bank Indonesia (BI) issued Regulation of the Members of the Board of Governors (PADG) No.21/18/PADG/2019 concerning the Implementation of the National Standard Quick Response Code for Payments on August 16, 2019. The issuance of provisions aims to ensure the implementation of payment services using QRIS in Indonesia can run well. The national implementation of QRIS is effective starting January 1, 2020, in order to provide a transitional period of preparation for Payment System Service Providers.

Payments with QR codes have several advantages, including the ability of QR codes to accommodate a large amount of payment information even though they are small in size and have error correction capabilities, payments become more efficient because they can still use existing infrastructure and payment media, expand access to finance and payments, as well as providing alternative payment media to the public. However, with the increasing number of Payment System Service Providers in Indonesia, there is a tendency for these Payment System Service Providers to prepare their respective standards and infrastructure. This can lead to inefficiency and fragmentation in the overall payment system.

Bank Indonesia has set a national standard QR Code for payments (QRIS) which must be used in every payment transaction facilitated by QR Code Payments. Considering that the implementation of payment transaction processing using QR Code Payments involves various parties, further regulation regarding the implementation of QRIS has been determined by Bank Indonesia. This is to ensure that the implementation of payment system services facilitated by QR Code Payments in Indonesia can run effectively and efficiently, as well as ensuring clarity of the roles and responsibilities of the parties in processing payment transactions using QR Code Payments. Strict regulations are also needed to ensure the creation of a level of playing field among Payment System Service Providers that is in line with efforts to maintain healthy business competition.[5]

[5] Source: Bank Indonesia

TAX OVERVIEW

IRWAN KUSUMANTO,
Head of Tax and Business Advisory, BDO Indonesia

> *Over the last couple of years, peer-to-peer (P2P) lending services are getting more attraction especially amongst the millennials. P2P lending companies apply the self-assessment system which is similar to the other industries in general, including the obligation to remit and report its taxes to the Indonesian Directorate General of Taxes ("DGT") both for annual and monthly tax compliance. The DGT is currently in the midst of drafting tax regulations to further regulate the tax administration for P2P lending and it is expected that the prevailing tax regulations would apply to all parties engaged in Fintech business, including platform providers, lenders, and borrowers. This is one of the pieces of evidence that the Indonesian government fully supports the growth of the Fintech industry in this country.*

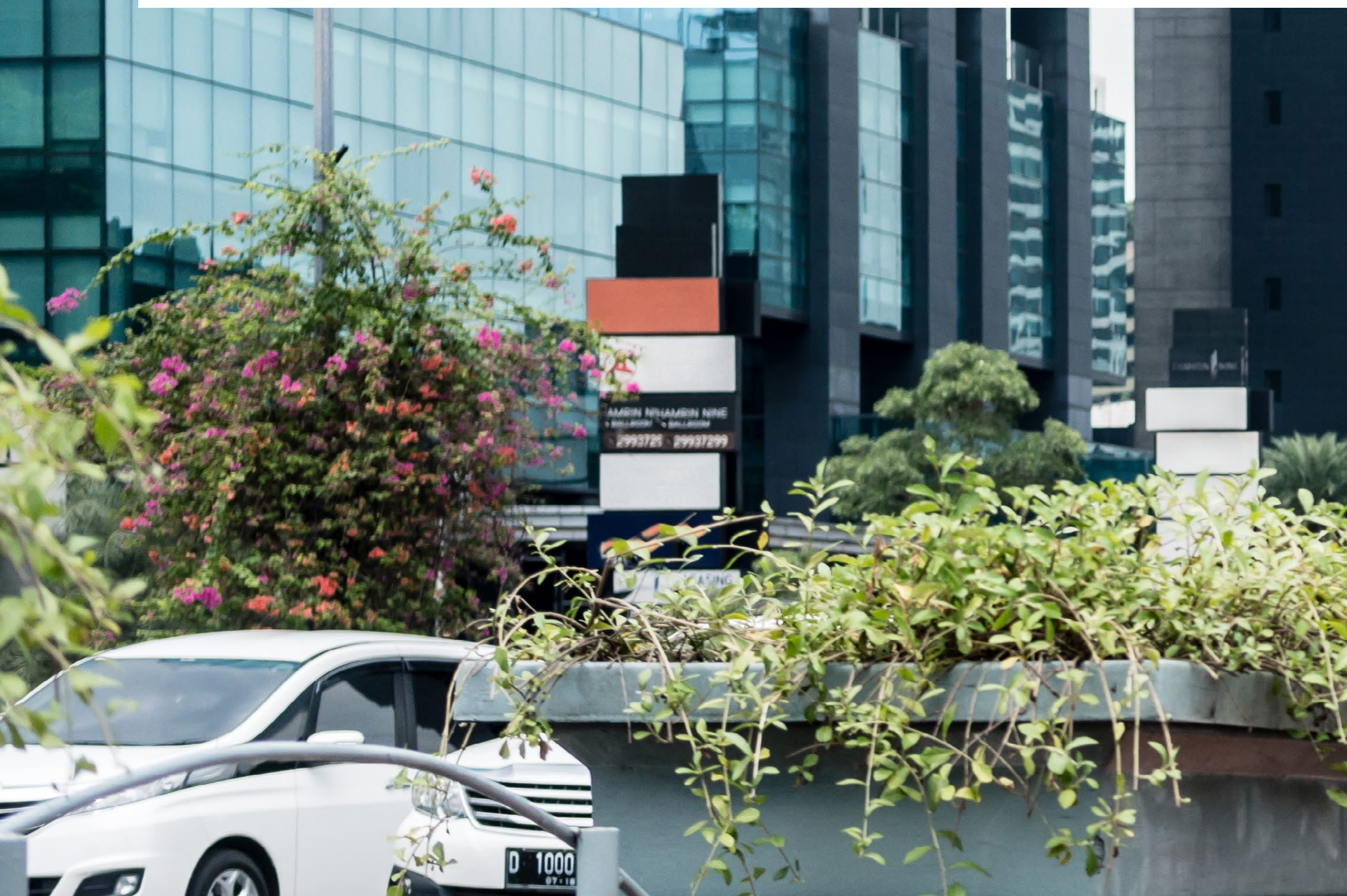
To this day, there are no specific regulations governing Fintech's taxation issued by the Directorate General of Taxes ("DGT"). Recently, in February 2021, DGT stated that they are drafting regulations that will regulate tax administration related to P2P lending or online loans, one of which is to clarify taxes payable from business transactions in this Fintech industry. However, they ensure that there will be no new type of tax in the draft regulation that is being prepared by the DGT.

The DGT insisted that the upcoming policies for Fintech businesses focus on structuring tax administration, particularly Value-Added Tax (VAT) and Income Tax. In addition to what has been said, the policy plans that are being drafted will apply to all parties involved in the Fintech business, from platform providers, lenders, to the borrowers.

In tax compliance obligations, Fintech companies are no different from other companies. They both apply the self-assessment system, including to pay and report taxes to the DGT. Taxes imposed on Fintech companies include VAT and Income Tax Article 23.

In the provisions of the Financial Services Authority ("FSA"), Fintech is categorised as other financial services, but by nature, the income is as a provider of place and/or time, therefore, the income is not included in financial services and become the object of VAT at a rate of 10% (ten %). The due date for payment of VAT is before the periodic VAT return is submitted and the reporting deadline is at the end of the following month.

Income from P2P lending Fintech is categorised as an interest income. In the Income Tax Law, interest income earned from non-banking institutions is subject to Income Tax Article 23 at a rate of 15% (fifteen %). Aside from that, compensation in the form of other services obtained by business actors will be subject to Income Tax Article 23 at a rate of 2% (two %) of the earnings. As additional information, Fintech companies must take the form of a limited liability company or a cooperative as regulated in the Financial Services Authority Regulation Number 77/POJK.01/2016 concerning Technology-Based Borrowing-Lending Services. Income Tax Article 23 must be paid and reported monthly. The deadline to pay income tax article 23 is the 10th of the following month after the tax period ends and the reporting deadline is on the 20th of the following month after the tax period ends.



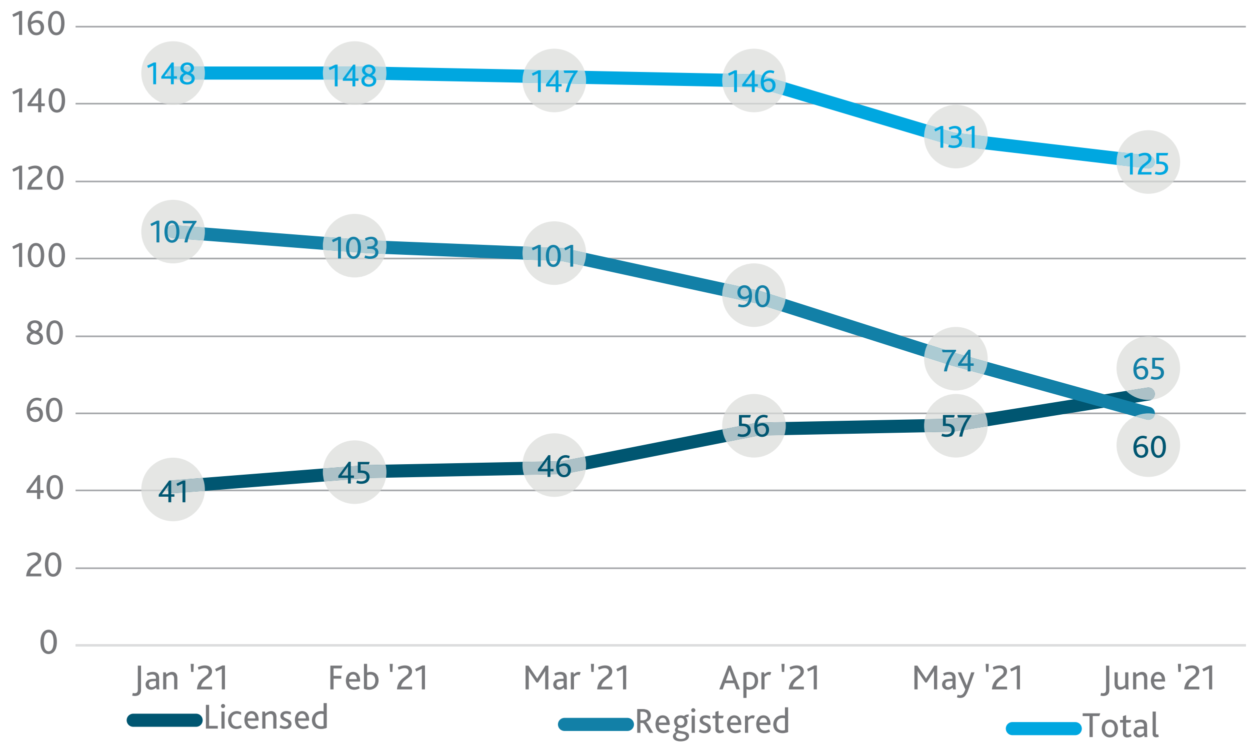
SUB-SECTOR OVERVIEW: P2P LENDING

FELIX E. PRASETYA,
Head of Valuation,
BDO Indonesia

> *The Fintech industry is one of the most funded sectors — along with e-commerce — and is dominated by peer-to-peer (P2P) lending and e-payment platforms. These platforms help to overcome geographical and infrastructure barriers to penetrate untapped market which most of the country workforce is in the informal sector and micro, small, and medium-sized enterprises (MSMEs). Despite having more than 300 Fintech companies operating in Indonesia, foreign investors will find the industry has yet to fulfil its potential in Indonesia fast growing market.*

As of June 10, 2021, the total number of registered and licensed Fintech lending companies at the OJK is 125 companies, with details of 65 licensed companies and 60 registered companies. Compared to data as of May 24, 2021, there are 6 companies whose registration marks were cancelled, 4 companies were cancelled due to the fulfilment of licensing requirements have not yet submitted within a maximum period of one year since the date registered, which did not meet POJK 77 article 10. Meanwhile, the cancellation of 2 companies were due to the inability to continue operational activities.

Fintech lending Companies - Licensed and registered at OJK



Source: OJK

Platform Type	Micro Retail Loans	Multipurpose Loans	Product Loans	Sharia-based Loans
Product	Merchant financing Usially Closed loop ecosystem (meaning not open to general public)	Loan up to 5 million IDR with tenure max at 30 days and payment method instalments or lump sum	Invoice Financing, Business Financing	Sharis-based business or Consumer Financing B2B, B2C, SMEs
Typical Target Market	SMEs, Individuals, GroupEmployees	Individuals, B2B SMEs, Supply Chain Financing	B2B, B2B, SMEs	Individuals, B2B, B2B, SMEs
Typical Loan Amount	<25 million IDR (<$1,718)	<25 million IDR (<$1,718)	<2 billion IDR (<$137,476)	<1 billion IDR (<$68,745)
Typical Annual Interest	15%-60% p.a	15%-60% p.a (although with an interest cap at 0.8%/day means there can be loans with >200% p.a)	15%-30% p.a	15%-30% p.a

Source: AFPI

In early 2020, the industry was disbursing around IDR7 billion loans per month. With the onset of lockdowns and the economy taking a hit, a lot of platforms stopped underwriting loans to manage risk, loan distribution slowed down to Rp3.5 trillion in April 2020 before starting again by October 2020. As of April 2021, overall loan distribution P2P lending Indonesia in April 2021 reached Rp12.2 trillion. Despite the loan values increasing significantly, the loss rate (defined as no payment after 90 days due) is better than before. [6]

[6] https://medium.com/included-vc/indonesias-peer-to-peer-lending-landscape-5c219c4fff00

POTENTIAL MARKET SIZE[7]

The credit gap in Indonesia (defined as credit needs not currently fulfilled by traditional lending institutions such as banks and multi-finance companies) is anywhere between US$68 billion (1,000 trillion IDR) to US$165 billion (2,398 trillion IDR). Reasons for the credit gap include the risk appetite of banks, location/geography limitations and high barriers to obtain a loan (such as security, paperwork, reference checks, etc). There is a big demand for consumer and SME financing that the P2P lending market has the opportunity to tap into.

Many local MSMEs have business models that are not compatible with the characteristics of the banks' financial products. That includes aspects such as payment terms for loan schemes, forms of collateral, and credit quality, among others.

Foreign Fintech firms can plug this gap through new financing models that have the potential to serve Indonesia's 47 million underbanked and 92 million unbanked adults. As of 2020, P2P lending reached US$7.7 billion from 160 Fintech companies officially listed by the Financial Services Authority (OJK). This covered over 26 million borrowers throughout the country.

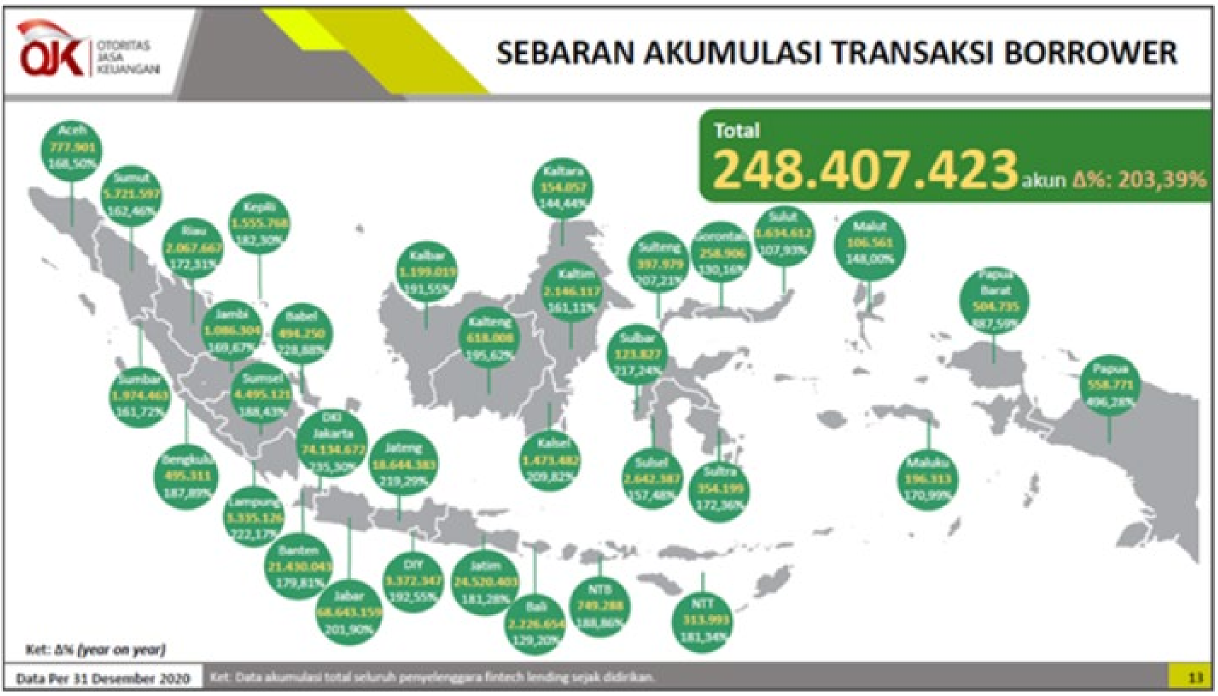
These microloans are popular because of their convenience as it normally takes just 24 hours for the funds to be disbursed, and the terms and maturity are small and short – with borrowers typically receiving not more than US$100. These are normally returned within a few weeks as there are often huge interest charges.[8]

[7] The Indonesian Joint Funding Fintech Association (Asosiasi Fintech Pendanaan Bersama Indonesia - AFPI) is an organisation that houses the Fintech Peer to Peer (P2P) Lending or Fintech Online Funding business in Indonesia. AFPI was appointed by the Financial Services Authority (OJK) as the official association of information technology-based lending and borrowing service providers in Indonesia.

[8] https://www.aseanbriefing.com/news/opportunities-in-indonesias-financial-technology-sector/

One of the benefits of P2P lending is that financial inclusion increases in Indonesia (a country with 18,000 islands). Traditional rural places historically have less access to finance, but with access to internet connectivity improving every year, they can access more financial services more easily.

Cumulative number of borrower transactions across the 34 provinces of Indonesia



Source: OJK

The borrower must originate and be domiciled in Indonesia. Meanwhile, lenders can originate from inside and/or outside the country. The Company provides input on the interest rates offered by lenders and loan recipients by taking into account the reasonableness and development of the national economy.

As of April 2021, there were an accumulated 364 million transactions since the inception of P2P lending, spread across 60 million borrowing accounts.

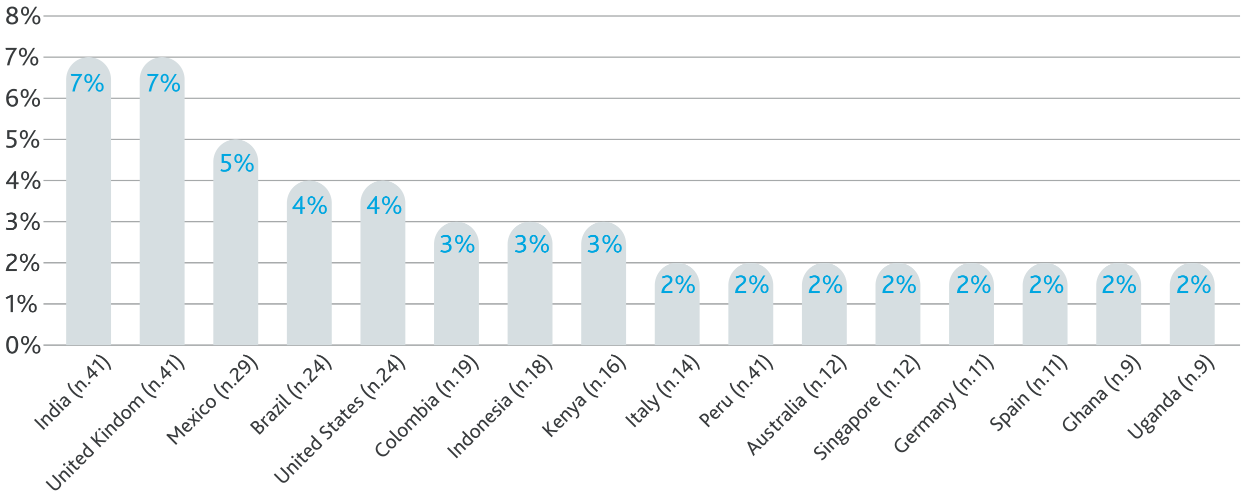
Cumulative number of lenders

Source: OJK

Most of the lending accounts are still from Indonesia, with 72% of lending accounts coming from 6 provinces located on the Island of Java, and 27% of lending accounts coming from outside of Indonesia. [9]

[9] https://medium.com/included-vc/indonesias-peer-to-peer-lending-landscape-5c219c4fff00

Top 15 countries by HQ and countries of operation – Digital lending (number of respondents)



Source: CCAF, World Bank and World Economic Forum (2020). The Global COVID-19 Fintech Market Rapid Assessment Report.[10]

investree

Indonesian P2P lending and investment platform Investree has secured a licence to operate a crowdlending platform in the Philippines. It will provide invoice and purchase order financing to support the country's SMEs.

Investree Philippines is the first P2P crowdlending platform to receive an operating license in the Philippines since new **Rules** and Regulations Covering Crowdfunding took effect in July 2019.

Investree Philippines is a joint venture between Investree Singapore and the Filinvest Development Corporation (FDC), a publicly listed diversified conglomerate owned by the Gotianun family.

[10] Cambridge Centre for Alternative Finance (CCAF) partnered with the World Bank Group and the World Economic Forum to conceptualise, design and deliver the Global COVID-19 Fintech Market Rapid Assessment Report. This market assessment report endeavours to answer a series of pertinent questions on how COVID-19 has impacted the global Fintech industry.

SHARIA FINTECH

A new market is rapidly opening up in the world's largest Muslim-majority nation: banking without interest.

The demand for Sharia Fintech firms is booming across Southeast Asia. The majority of Indonesia's population is Muslim. This makes the country a viable opportunity for firms in the Sharia Fintech space.

Islamic Sharia law prohibits interest, and startups are adapting their services to comply. It's a multi-billion dollar opportunity as Indonesia's Muslim consumers spend US$224 billion a year. And its rapid growth has caught the attention of Indonesia's financial services regulator, OJK. Currently, OJK is preparing a new POJK that regulates the implementation of sharia principles. However, Fatwa DSN-MUI no.117/DSN-MUI/II/2018 concerning information technology-based financing services based on sharia principles has regulated the general provisions of sharia principles in Fintech activities and the variety of products that can be offered.

Sharia Fintech platforms continue to provide common services like crowdfunding and peer-to-peer lending, with some differences: borrowers share investment profits and losses with their lenders; money is only invested in Halal projects; and investors are encouraged to help low-income groups.

Another aspect of Islamic finance is paying zakat, or donations, to charitable causes. Platforms like GoPay allow people to donate their zakat digitally.

Fintech startups that operate within this niche segment must weather various challenges such as low Islamic financial literacy and incomplete infrastructures. As of 10 June 2021, 5 of the 65 licensed companies are sharia P2P lending companies, one of which is also a conventional P2P lending company. And 5 of the 60 registered companies are sharia P2P lending companies.

During the pandemic, Sharia lending platforms distributed around IDR 1.7 trillion, up from last year's IDR 1 trillion, however, there are no venture capital firms dedicated to supporting Sharia platforms, and investors have favoured financial service providers that run Islamic financial options alongside conventional services. That means dedicated platforms are often overlooked when investors seek targets to invest in.

The only Sharia Fintech startup that raised new capital is P2P Fintech Alami, The company raised US$20 million in equity and debt funding in a round led by AC Ventures and Golden Gate. Alami offers Sharia compliant peer-to-peer financing for micro, small, and medium-sized businesses.

In February 2021, President Joko Widodo launched Bank Syariah Indonesia (BSI) by merging three state-owned banks—Bank BRI Syariah, Bank Syariah Mandiri, and Bank BNI Syariah—making it the largest Islamic bank in the country. BSI is a new milestone for the Islamic economy in Indonesia. The banks forming the backbone of BSI will integrate their customer data, making it easier for Fintech companies that work with BSI to offer services to its customers. Industry insiders believe that the newly established mega Sharia bank can be a foundation for Sharia Fintech in Indonesia and beyond, helping this niche segment grow and compete with established conventional players.

BDO RETHINK – ASSISTING FINTECHS DURING AND AFTER THE CRISIS

Over the past 18 month, the economic landscape has changed rapidly as a result of the pandemic. In response, BDO developed the RETHINK model as a practical guide to help companies assess potential risks and issues. This three-phased approach creates the optimal foundation to develop their business through each phase – REACT, RESILIENCE, REALISE.

Most Fintech businesses will have successfully moved past the **REACT** phase – which focused on the immediate needs of supply chain, health and safety, operations and sustainability to safeguard their businesses. With employees safe, cash flow secured, and funding runway in place, they should have turned their minds to building **RESILIENCE** in the longer term.

Building resilience requires a focus on mitigating risk, financials, operations, regulations and compliance, and people. The emphasis for Fintechs in this phase is building out and solidifying business models; raising more capital or consolidating with incumbents; increasing the speed of digital transformation and creating the foundation for work in 'the new normal' that prioritises risks, ensures compliance and focuses on people.

While recessional impacts and its threats will be felt across the globe for some time, it also creates new opportunities - particularly for Fintech companies - to realise their potential. During the **RESILIENCE** phase, Fintechs should be laying the groundwork to make a transition into the **REALISE** phase.

In the **REALISE** phase, Fintechs must take advantage of the opportunities from changed economies, societies, and professional and personal lives. This will, among other things, involve securing capital for growth, technological innovation, and continuous adaptation of business models. It will also mean taking advantage of global regulatory conditions such as Open Banking that will allow Fintechs to thrive.

Sensible business decision-making during the resilience phase will be key to future benefits and rewards in the **REALISE** phase. At this phase, it's time for Fintechs to capitalise on their activities and realise their economic and disruptive potential, by grasping future growth opportunities, scaling up, and finally, planning a successful exit.

Despite the pandemic constraining efforts for Fintechs to scale globally, BDO is well-positioned to help. With offices all over the world, we work collaboratively and provide the assurance of boots on the ground so you can harness the opportunities that await. At BDO, our Global Fintech team understand the intricacies of varying jurisdictions to get the best results for you - whether it's understanding the complex regulatory environment, listing on the local stock exchange, or getting you in touch with a broader network.

REACT – STEP BY STEP PLAN

In the short term, the economic impact and fallout of COVID-19 make conditions difficult for Fintechs, with the priority being on cash flow and solvency. Safeguarding business is critical for Fintechs, who must consider belt tightening and cost saving measures into the medium term and seek out relevant stimulus and grants. The **four key areas of focus** should be sustainability, operations, supply chain and health and safety.

STEP 1 - Build your "new world" cash flow forecast

Build a 12 month cash flow forecast - 3 months (weekly) and then 9 months (monthly) taking into account your "new world" – build in revenue impacts but retain committed expenses as is for now – understand if you are cash flow positive. If not – understand your cash burn and your runway before existing reserves are exhausted.

STEP 2 – If you have a cash deficiency now or coming up – identify measures to reduce costs or increase revenue

Identify discretionary or non business critical expenditure to eliminate immediately. Identify overheads to defer, adjust or remove (e.g. rent, equipment leases, employee costs). Identify capital outflows to defer or adjust (e.g. dividends, bank loan repayments, capex).

STEP 3 - Engage with key stakeholders regarding potential standstill arrangements

This will be critical – you need to engage with key creditors such as landlords, ATO and suppliers, explain your situation and attempt to negotiate stand still arrangements where possible. An independent report from your accountant or financial advisor on your financial position will bring credibility and assist negotiations.

STEP 4 – Conduct due diligence on other capital sources

Consider collateral and equity available to support finance. Engage with your existing financiers - bring them into the "tent". Consider equity sources – do existing shareholders have capacity? Are there logical buyers of your equity you can approach? Do you have assets that are non-core to realise in short time to generate cash?

STEP 5 - Consider government support available

Identify the measures in the federal government's stimulus packages and state government support programs that are available. Identify how they impact cash flow and apply where relevant.

STEP 6 – Develop a 90 day "business rescue" plan

Develop a 90 day action plan incorporating steps above. Include:

- Implementation of the cash flow measures identified (i.e. apply to financier for funds, negotiate with creditors for standstills.
- Engagement with key stakeholders such as employees, financiers, landlords, customers and suppliers and remaining creditors to ensure they understand your position to continue business.

STEP 7 – Update your cash flow forecast

Recast your cash flow forecast in-line with your 90 day plan. Forecast for 90 days initially on weekly basis – be sure you can remain cash flow positive. When you are confident you can manage through the next 90 days – extend your forecast for a further 9 months (taking into account timeframes of stand stills agreed) to determine how long your "runway" is now… understand the point where you exhaust cash reserves and which you cannot go past (if within the next 12 months).

STEP 8 – Implement the plan and monitor regularly

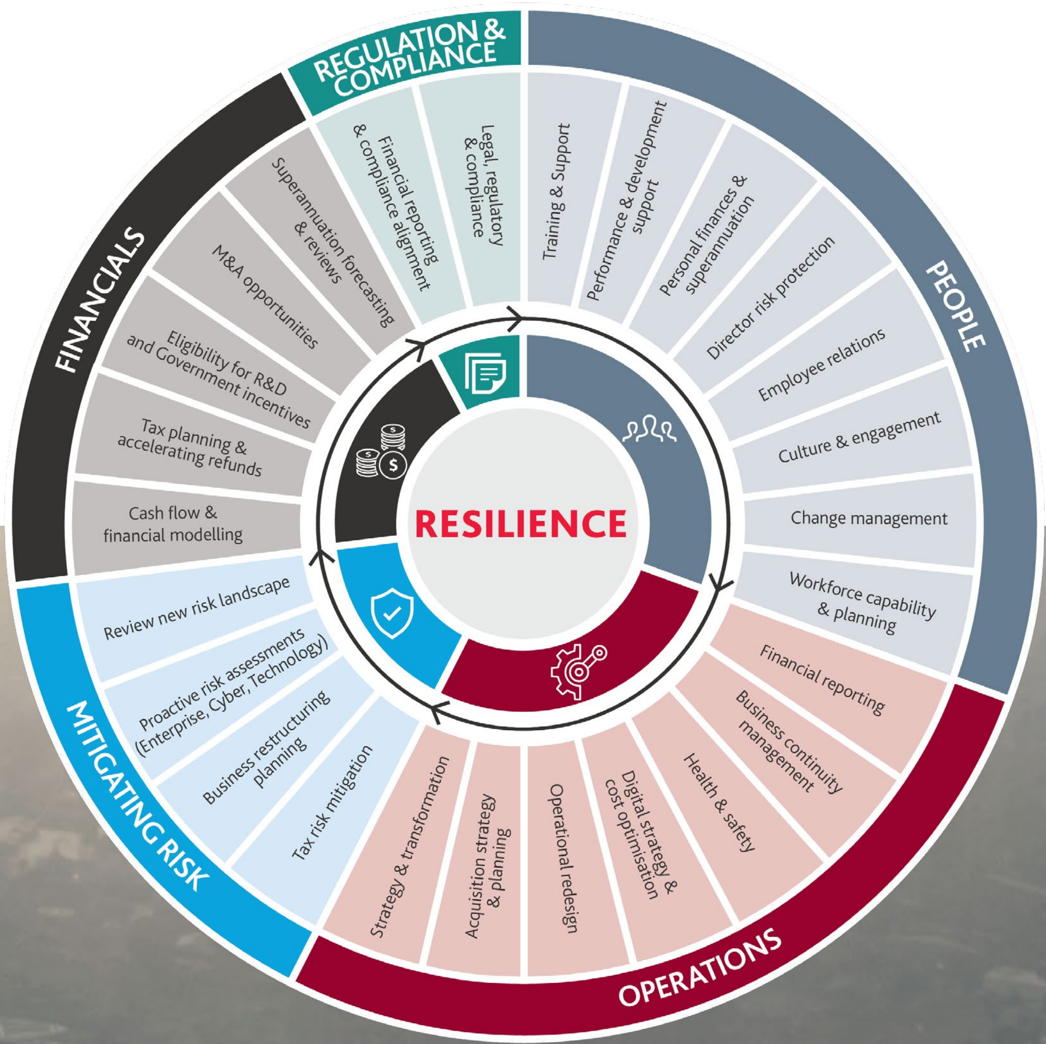
Start engaging with relevant stakeholders to put your plan into action. Monitor progress regularly (weekly to begin with) and keep updating the cash flow forecast weekly to monitor the length of your runway. Be conscious of when your cash reserves are exhausted so you do not continue to incur expenditure past that point.

RESILIENCE – WHAT'S NEXT

In the short to medium term, many Indonesian Fintech companies are going to need to restructure their organisation, strategy, and financial setup. Any company in early-stage growth mode – be it Fintech or otherwise – will find the likely economic downturn following in the wake of COVID-19 challenging to navigate.

For Fintechs, their resilience will be typified on how well they can attract capital at each of the Rethink phases. Some will be looking at mergers and acquisitions to stay afloat and carve out revenue streams.

THE RESILIENCE WHEEL



There is no way of getting around the fact that not all Singaporean Fintech companies will make it through the current crisis. However, many will – and will find themselves in an excellent position to thrive.

To succeed in the REALISE phase, Fintechs must:

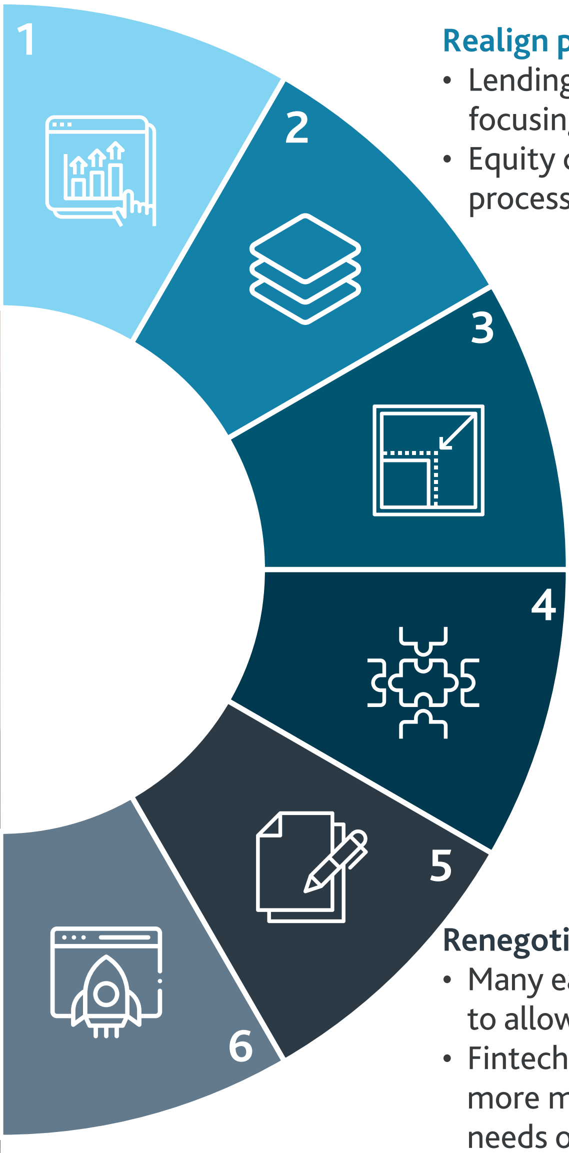
- Respond to shifts in consumer behaviour and new market conditions
- Find avenues of collaboration to create synergies
- Undertake technological transformation
- Manage expansion and costs
- Seek expert advice

Although COVID-19 has slowed the world economy, it's important to remember that neither it, nor technological development have stopped. New areas for Fintech solutions keep on appearing, for example, in the shape of Internet of Things (IoT) – enabled contactless payments, which could well be in high demand through smart city-scapes within a few years.

We are likely to see big changes in consumer behaviour due to COVID-19. For example, an increased push toward end-to-end digital solutions, as COVID-19 has both customers and incumbents focused on areas such as digital transformation, contactless payments, and online financial services.

That goes for both end-users and financial institutions. Fintechs are often the originators of such solutions and will likely be sought after by large-scale incumbents who, through partnerships or M&A, will look to combine Fintech companies' flexible, digital solutions with their capital, distribution access, and compliance infrastructure. Fintechs may want to seek out collaboration with incumbents such as traditional lenders who are safe guarded through their other investments, but also identify the need to expand their Fintech options.

Abort growth plans
Early-stage Fintechs have shelved their growth plans, such as planned ventures into different markets



Realign processes
- Lending Fintechs have stopped disbursements and are focusing on door-to-door collections
- Equity crowd funders (ECFs) have been building digital processes for the due diligence of SMEs

Reduce OPEX
Fintechs are bracing for an extended fund crunch. Early-stage Fintechs have been trying to reduce their overheads by 30%-50% through staff layoffs and a reduction in salaries and office rentals

Collaborate
Fintechs with distribution channels are offering their channels to e-commerce and institutional lenders for delivery and loan collections or follow-ups, respectively

Renegotiate contracts and revise product/service pricing
- Many early-stage Fintechs have been renegotiating contracts to allow for flexibility in payments and service delivery
- Fintechs also seek to revise their product pricing to offer more modular services on a pay-per-use basis to suit the needs of their clients

Launch new products
- Insurtechs have been offering micro-insurance for COVID-19-related hospitalisation.
- ECFs have been using their platforms to crowd-source COVID-19 grants for businesses

EXTERNAL AUDIT

- Agreed Upon Procedures
- Audit Of Financial Statements
- Controls Reports

INTERNAL AUDIT & FORENSIC SERVICES

- Secondments
- Outsource
- AML/ CFT
- Forensic Services
- Specialist Technical Support

INDEPENDENT EXPERT REPORTS

- Regulatory Audit Reports

EXTENDED ASSURANCE

- Non-financial Reporting Review
- Risk Framework Review
- Risk And Compliance Outsourcing

TAX ADVICE

- Tax Compliance
- Transfer Pricing

RISK CULTURE ASSESSMENTS

- Risk Culture Assessment
- Conduct Framework Review

TECHNOLOGY ADVISORY

- Cyber Security
- IT Transformation
- Data Quality Support

BDO IN INDONESIA

BDO Indonesia is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO Indonesia has served both domestic and international clients since 1992 from our offices in Jakarta, Yogyakarta, Surabaya and Bandung. We are one of the oldest accounting firms in Indonesia providing audit, tax and advisory services with an in-depth understanding of the local and global markets.

BDO Indonesia is ready to assist Fintech companies, financial incumbents and

businesses throughout all stages of the journey: from dealing with the initial fallout to managing the long-term growth and opportunities that we are likely to see in the coming years.

We combine a knowledge of the market and banking system with an understanding of digital transformation. We help both traditional banks in their evolvement to become digital and the new Fintechs to overcome the difficulties of complying with new regulations and adhere to best practice in compliance, risk management and ALM among others.

For more information about our services at BDO LLP in Indonesia

https://www.bdo.co.id/en-gb/home

https://www.linkedin.com/company/bdo-in-indonesia/

CONTACTS

TIM AMAN

Global Fintech Leader

Tim.aman@bdo.com.au

https://www.linkedin.com/in/timaman/

+61 404 042 615

CHRISTINE NEBEL

Global Financial Services – Business Development

Christine.nebel@bdo.global

https://www.linkedin.com/in/christinenebel/

Visit our Global Financial Services sites: