

Staying Ahead of the Curve: *Indonesia's Regulatory Response to Rapid Fintech Advancements*



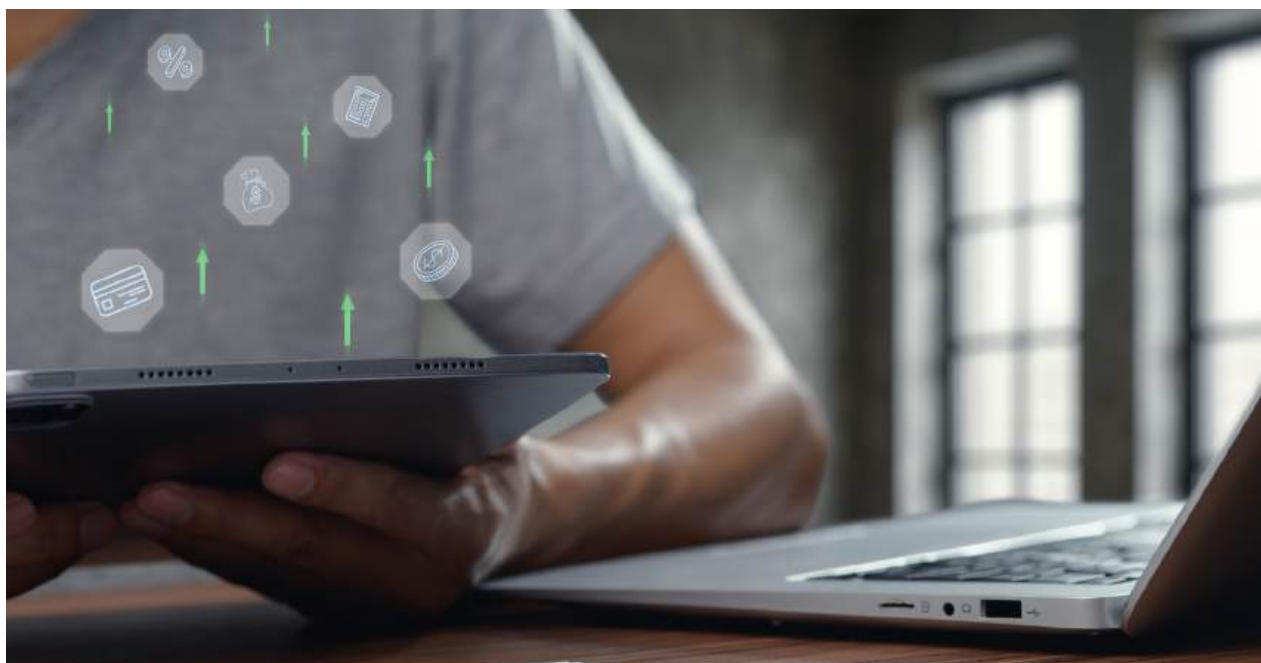
Newsletter

Key Topics:

- Policy Shift
- ITSK Framework
- Entering the Regulatory Sandbox
- Post-Sandbox Pathways

INTRODUCTION

The pace of innovation in today's financial industry is unprecedented. Technologies that once took years to develop now emerge in months, sometimes weeks, creating a landscape where products, services, and business models can shift before regulators have time to respond. As a result, governments around the world face the same challenge: **how to protect consumers and maintain market integrity without slowing down innovation?**



Indonesia is no exception. Just as a new regulation is issued, the industry often produces another technology that reshapes the market again. This constant cycle places regulators in a perpetual “catch-up mode”, requiring a more adaptive, principles-based approach in overseeing financial innovation.

Against this backdrop, Indonesia has begun introducing significant reforms. One of the most notable developments is the Financial Services Authority's (Otoritas Jasa Keuangan or “**OJK**”) Regulation on the Implementation of Technological Innovation in the Financial Sector (Inovasi Teknologi Sektor Keuangan or “**ITSK**”). This OJK's regulation that started to effective in 2024 is designed to modernize the supervisory modal for financial services innovation. This was one of the responses done by OJK when the regulatory oversight of ITSK activity, including digital assets and crypto assets has officially shifted to OJK. This marks a major transformation in how digital assets ecosystem will be governed going forward.

This article will explore how Indonesia is recalibrating its regulatory architecture to keep up with the rapid evolution of financial technology – while ensuring stability, accountability, and consumer protection remain at the center of innovation.

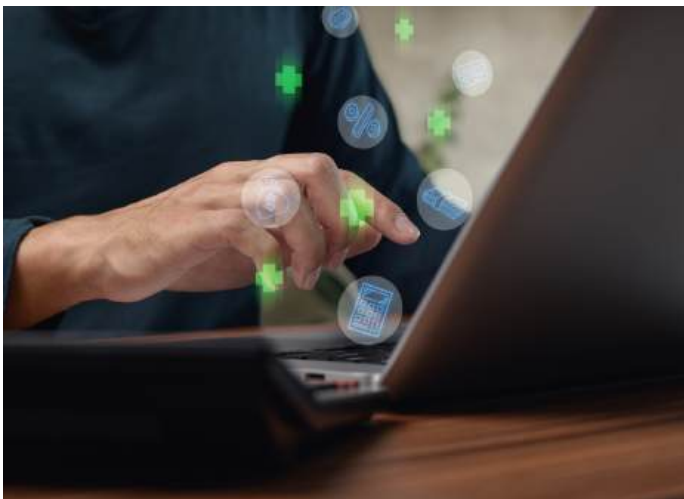
GOVERNING LAWS

On this article, we will briefly deep dive to some of Indonesia's regulations in connection with the ITSK, among others:

- (i) Law No. 21 of 2011 on Financial Services Authority (or "**OJK Law**");
- (ii) Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (*Pengembangan dan Penguatan Sektor Keuangan* or "**P2SK Law**"); and
- (iii) OJK Regulation No. 3 of 2024 on the Implementation of ITSK (or "**OJK Reg. 3/2024**").

POLICY SHIFT

Following the major policy shift introduced by the P2SK Law, and recognizing the scale and speed at which financial technology continues to evolve, OJK responded swiftly by issuing OJK Reg. 3/2024. This regulation establishes a comprehensive framework that enables businesses to introduce new and innovative business models in the financial technology sector, while ensuring that such innovations remain aligned with regulatory safeguards. Prior to the enactment of the P2SK Law, the regulatory and supervisory authority of Indonesia's financial sector was fragmented. The OJK previously exercised oversight only over traditional financial service activities, namely banking, capital markets, insurance, pension funds, financing institutions, and other conventional financial services providers.



As a consequence, other financial activities, particularly those involving cryptocurrency, digital commodities, and certain digital financial innovations—were supervised by different institutions. For example, the Commodity Futures Trading Regulatory Agency (*Badan Pengawas Perdagangan Berjangka Komoditi* or BAPPEBTI) oversaw crypto asset trading as a commodity, while Bank Indonesia (or BI) regulated payment systems and monetary stability.

POLICY SHIFT

This fragmented supervisory structure proved increasingly challenging in the face of rapid technological development, where financial innovations often span multiple regulatory domains and evolve faster than existing regulations can keep pace.

Expanded Mandate Under the P2SK Law

A major regulatory turning point occurred in early 2023 when the Indonesian Government introduced the P2SK Law, representing the most comprehensive financial sector reform in decades. Through this reform, OJK’s mandate was significantly expanded.

Under Article 6 of the OJK Law, as amended by the P2SK Law, OJK’s authority now extends to the regulation, licensing, and supervision of financial sector innovations, including: ITSK, Digital Financial Assets, and Crypto Assets.

This legislative shift not only consolidates regulatory authority within a single institution but also ensures a more holistic, integrated, and forward-looking supervision framework.

ITSK FRAMEWORK

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Scope of ITSK Activities

Under the Article 2 OJK Reg. 3/2024, ITSK covers a broad range of technology-driven financial services and activities. These include, among others:

- (i) Securities transactions settlement;
- (ii) Capital raising mechanisms;
- (iii) Investment management;
- (iv) Risk management solutions;
- (v) Fundraising and/or fund distribution;
- (vi) Market-supporting activities;
- (vii) Digital financial activities, including crypto assets; and
- (viii) Other digital financial service activities.

These broad scopes reflect OJK’s intention to capture not only current financial innovations but also emerging models that may arise in the future.

OJK’s Supervisory Mandate Over ITSK

OJK now holds full regulatory and supervisory authority over the implementation of ITSK. Under the Article 4 (4) OJK Reg. 3/2024 the scope of OJK’s supervision includes, among others:

- (i) Provision of the Regulatory Sandbox as a controlled environment for testing and developing innovative business models;
- (ii) Licensing and ongoing regulatory approvals;
- (iii) Monitoring and evaluation of ITSK operators and their activities;
- (iv) Financial literacy and public education responsibilities;
- (v) Consumer protection oversight;
- (vi) Enforcement of data privacy and data protection standards for consumers;
- (vii) Supervision over institutional aspects of ITSK operators; and
- (viii) Regulation of third-party activities that support the delivery of ITSK services.



Core Principles for ITSK Operators

To ensure that innovation does not compromise market integrity or consumer protection, under Article 3 (3) OJK Reg. 3/2024, ITSK Operators are required to adhere to several core principles, including:

- (i) Good corporate Governance;
- (ii) Robust risk management;
- (iii) Information system security and reliability, including strong cybersecurity resilience;
- (iv) Consumer protection and personal data protection; and
- (v) Compliance with all applicable laws and regulations.

Through POJK 3/2024, OJK aims to strike the right balance between promoting innovation and safeguarding the stability, integrity, and security of Indonesia’s financial sector.

To operate under the ITSK framework, ITSK Operators must understand the regulatory parameters of OJK’s Regulatory Sandbox. The Sandbox is designed as a controlled environment enabling innovators to test, refine, and validate new financial technology models before full-scale implementation.

Scope of the Regulatory Sandbox

As regulated under Article 7 OJK Reg. 3/2024, the Sandbox provides several key facilities, including:

(i) Controlled Testing Environment

A dedicated space to conduct trials within a limited timeframe and controlled conditions, allowing OJK to assess risks and effectiveness without exposing the broader financial system.

(ii) Regulatory Clarification Facility

A facility enabling ITSK Operators to obtain clarification on applicable regulatory provisions in the financial services sector, particularly important for business models that challenge traditional frameworks.



(iii) Support For Early-stage Development

Guidance and assistance for the initial development phase of ITSK, allowing operators to refine their models before seeking licensing.

(iv) Other Support Facilities For Testing and Development

Additional forms of guidance and coordination provided by OJK as necessary to facilitate the ITSK testing process.

These facilities collectively ensure that innovation can flourish within a controlled, supervised, and legally secure environment.

Eligibility Criteria for Sandbox Admission

Entry into the Sandbox is not automatic. Under Article 10 (1) OJK Reg. 3/2024, OJK applies a set of eligibility criteria that every ITSK Operator must satisfy. These include:

(i) Relevance to the financial services sector

The innovation must fall within the scope of financial services and be intended for use by consumers, partners, and/or the public in Indonesia.



(ii) Element of novelty or significant differentiation

The innovation must present a genuine new element or a meaningful differentiation from existing financial sector solutions.

(iii) Clear benefits and added value

The model must demonstrably improve service quality, increase efficiency, widen access, or otherwise contribute value to consumers and the financial ecosystem.

(iv) Testing readiness

The innovation must be sufficiently developed and technically ready for testing and early-stage deployment.

(v) Regulatory support requirement

The innovation must need testing facilities and development support, and must not yet be specifically regulated or supervised under existing financial services regulations.

(vi) Other criteria determined by OJK

Any additional considerations deemed relevant by OJK, depending on the nature of the innovation.

These criteria ensure that only serious, well-developed, and genuinely innovative models enter the Sandbox.

Sandbox Approval Is Not Business License

It is important for ITSK Operators to note that Sandbox approval does not constitute a business license for full operational activities in the financial services sector. Instead, operators are subject to:

- (i) Scope and activity limitations set by OJK during testing phase;
- (ii) Enhanced supervision, including periodic reporting and evaluation;
- (iii) Compliance with consumer protection and data protection standards; and
- (iv) Assessment for future licensing, depending on the Sandbox results.

Only after successfully completing the Sandbox evaluation process and upon receiving the appropriate license, may an ITSK Operator conduct full business operations under Indonesia's financial regulatory regime.

ENTERING THE SANDBOX





POST-SANDBOX PATHWAYS

Upon entering and completing the Regulatory Sandbox, ITSK Operators must prepare for the next critical phase: assessment, licensing, and ongoing supervisory obligations. The Sandbox serves as OJK's mechanism to evaluate the feasibility, safety, and regulatory readiness of new financial technology models before they are introduced to the wider market.

Sandbox Testing Period and Final Assessment

Under Article 20 of OJK Reg. 3/2024, ITSK Operators admitted into the Sandbox are granted a testing period of up to 1 (one) year from the date of OJK's approval, unless OJK determines a different period based on specific circumstances of the innovation being tested.

At the end of the testing period, based on the Article 14 OJK Reg. 3/2024, ITSK Operators must submit a Final Report, which will serve as the basis for OJK's assessment. OJK issues one of two conclusions:

- (i) **Passes (*lulus*)** – indicating that the innovation has demonstrated adequate reliability, governance, risk controls, consumer protections mechanisms, and alignment with regulatory objectives; or
- (ii) **Not Passed (*tidak lulus*)** – indicating that the innovation does not meet the necessary criteria or presents unresolved risks.

For ITSK Operators receiving a Passed status, they may proceed to apply for the relevant business license, which OJK will determine based on the nature, activities, and risk profile of the innovation. The licensing process will follow the same requirements applicable to other financial service providers operating within the same business sector.

Licensing Does Not End Regulatory Supervision

Even after obtaining a business license, ITSK Operators remain subject to OJK’s supervisory mandate. Article 23 of OJK Reg. 3/2024 stipulates that ITSK supervision is conducted based on two key principles:

- (i) Risk-based supervision; and
- (ii) Market conduct supervision.

Risk-based supervision includes, at minimum:

- (i) A balanced regulatory approach that maintains prudential safeguards while supporting ongoing innovation;
- (ii) Emphasis on robust governance and comprehensive risk management in leveraging technology and managing the digital ecosystem; and
- (iii) Adequate implementation of customer due diligence, risk management processes, and operational oversight, including oversight of third-party service providers.

Whilst, Market conduct supervision is implemented in accordance with the prevailing regulations on market conduct, with a primary focus on ensuring fair treatment of consumers, transparency, ethical practices, and responsible service delivery.

Obligation to Notify OJK of Material Changes

In addition to continuing supervision, ITSK Operators that are already registered and/or licensed must comply with ongoing reporting obligations. Under Article 32 of OJK Reg. 3/2024, any changes relating to:

- (i) The business model;
- (ii) Business processes;
- (iii) The institutional structure; or
- (iv) Operational aspects of the ITSK activities;

must be reported to OJK.

This requirement ensures that OJK remains fully informed of any developments that may affect risk profiles, governance structures, or compliance obligations of ITSK Operators.

POST-SANDBOX PATHWAYS



CONCLUSION

Indonesia is not only reforming its financial regulatory framework, it is opening the door to one of Asia's most dynamic fintech markets. With over 270 million people, a rapidly growing middle class, and one of the highest mobile adoption rates in the region, the opportunities for innovative financial solutions are immense.

Through the P2SK Law and OJK Reg. 3/2024, OJK has created a clear, structured pathway for fintech and digital asset operators to enter the market. The Regulatory Sandbox is more than a compliance mechanism, it is a strategic launchpad. It allows businesses to test new models in a controlled environment, gain regulatory clarity, and build consumer trust before scaling operations.

For forward-looking fintech players, this framework offers three critical advantages:

- **Reduced Regulatory Uncertainty** – Early engagement with OJK ensures smoother licensing and investor confidence;
- **Consumer Trust & Market Adoption** – Strong emphasis on data protection, cybersecurity, and fair conduct builds credibility with Indonesian consumers; and
- **Scalable Entry Pathways** – Whether through Sandbox participation or direct licensing, OJK provides structured routes for both innovative and established models.

Indonesia's regulatory transformation signals that the market is ready for serious, well-governed innovation. For businesses willing to align with OJK's principles of governance, risk management, and consumer protection, the rewards are significant: access to a fast-growing digital economy, a supportive regulatory environment, and the chance to be part of shaping Southeast Asia's next fintech hub.

WHAT WE OFFER?

Pasaka Rievan Smith ("PRs") stands ready to assist. With proven experience in advising clients on ITSK structures, Sandbox eligibility, licensing pathways, and digital financial asset regulations, PRS is well-equipped to guide businesses through this evolving regulatory environment and ensure that their innovations remain both compliant and competitive. In addition to regulatory advisory, PRS assists clients in structuring their business models, whether involving real-asset-backed frameworks, digital financial infrastructures, or cross-border investment components, ensuring alignment with OJK's expectations and sector-specific obligations. PRS further supports clients in navigating the complexities of innovative financial-technology concepts, helping transform sophisticated ideas into operationally sound, regulatorily compliant models capable of scaling sustainably within Indonesia's fintech ecosystem.

About US

Pasaka Rievan Smith - Counsellors at Law (“**PRS**”) is comprised of a team of dedicated and trusted lawyers with over 20 years of experience in the legal industry, spanning law firms, multinational corporations, and government institutions. We provide prompt, precise legal counsel and opinions, offering both legal and commercial perspectives to support corporate clients. Confident in our ability to meet the diverse needs of our clients, PRS enables them to focus on achieving their business objectives. With experience in assisting start-ups, growing enterprises, established organizations, and family-owned businesses, we are committed to delivering both personal and professional attention, ensuring the utmost satisfaction for our clients.

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