

OJK integrates business plan requirements for non-banking financial institutions (NBFIs)

19 November 2019

On 19 September 2019 the Financial Services Authority (OJK) issued OJK Regulation No. 24/POJK.05/2019 on Business Plans for Non-Banking Financial Institutions (NBFI Business Plan Regulation). Whilst this long-awaited regulation came into force on 27 September 2019, it was only made publicly available on the OJK website in late October 2019.

The NBFI Business Plan Regulation defines a business plan as a written document that describes development and business activities plan of NBFI over a certain period of time, as well as various strategies that will be undertaken to realise such plan in accordance with predetermined targets (business plan). Business plans are important to the OJK as the regulator uses them to prepare its own supervisory plan for the NBFI sector. In the past, the obligation to submit business plans was spread across different NBFI business type-specific regulations. The NBFI Business Plan Regulation aims to harmonize business plans in the NBFI sector and encourages NBFI players to prepare realistic business plans which take into account their medium and/or long term plans, external and internal factors that may affect their business, prudential principles, and risk management. The provisions of the NBFI Business Plan Regulation are effective for business plans for the year 2020, and must be submitted by OJK-supervized NBFIs (see below) by 30 November 2019.

OJK-supervized NBFIs are as follows:

Insurance providers	:	<ul style="list-style-type: none"> a. Conventional and sharia insurance and reinsurance companies b. Insurance and reinsurance brokerage companies
Pension funds	:	Conventional and sharia pension funds
Financing Institutions	:	<ul style="list-style-type: none"> a. Conventional and sharia financing companies b. Venture capital companies c. Infrastructure financing companies
Other Financing Institutions	:	<ul style="list-style-type: none"> a. Conventional and sharia pawnbrokers b. Conventional and sharia guarantee and re-guarantee institutions c. Peer-to-peer lenders d. Indonesia Eximbank;

	<ul style="list-style-type: none"> e. the state secondary mortgage company - PT Sarana Multigriya Finansial (Persero) f. the social security agency g. the state SME financing company - PT Permodalan Nasional Madani (Persero).
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Scope of business plans

Pursuant to the NBFI Business Plan Regulation, business plans should be prepared by the board of directors and approved by the board of commissioners on an annual basis. In order to effectively implement the business plan, the board of directors is also required to communicate the business plan to the shareholders, and to all divisions and structures of the relevant NBFI. The board of commissioners shall supervise the implementation of the business plan.

The business plan should include the following at a minimum:

- a. an executive summary;
- b. an evaluation of the implementation of previous business plan;
- c. the business' vision, mission, and strategy;
- d. policy and management planning, which should include:
 - 1) business activity plan - those action items which have been undertaken by the NBFI;
 - 2) expansion of business activities plan - those action items which have not yet been undertaken by the NBFI;
 - 3) investment plan¹;
 - 4) equity capital plan (save for pension funds);
 - 5) financing plan (save for guarantee institutions and peer-to-peer lenders);
 - 6) plans for development and/or change of its office network or distribution channels;
 - 7) plans for development of internal divisions/departments, human resources, and/or IT;
 - 8) plan for activities in order to increase financial literacy and inclusion²;
- e. projections of financial statements and underlying assumptions;
- f. projections of certain ratios and key financial indicators;
- g. other information which could potentially affect the NBFI's operations.

In addition, any NBFIs who engage in sharia-based business are also required to include a special sharia-focused business plan.

The above list will be set out in detail in the upcoming OJK circular letter.

Timing of submission to OJK

OJK requires NBFIs to submit the following reports through the OJK online system:

¹ Applies to conventional and sharia insurance companies, conventional and sharia reinsurance companies, pension funds, financing institutions, and the social security agency.

² Applies to conventional and sharia insurance companies, financial institutions, pension funds, conventional and sharia financing companies, conventional and sharia venture capital companies, pawnbrokers, conventional and sharia guarantee companies.

- Business plan - NBFIs are required to submit their business plan to the OJK by the preceding 30 November.
- Business plan realization report and business plan supervision report - NBFIs are required to submit these reports semi-annually to OJK at the latest one month after the relevant semester has ended. The form and content of these reports will be detailed by the OJK at a later date.

Revisions to business plans

The OJK may request the revision of business plan if:

- a. the business plan is incomplete;
- b. the projections, targets, or plans set out in the business plan are not realistic/feasible. Revisions to the business plan must be submitted at the latest 15 business days after the date as stated in any revision request letter from OJK.

In contrast, NBFIs are only allowed to make voluntary amendments to a business plan if there are external and/or internal factors which significantly affect the business operations and performance of NBFIs. Business plans can only be amended once and amendments must be submitted by the latest 30 June of such business plan year.

Administrative sanctions

Failure to comply with the NBFBI Business Plan Regulation may result in administrative sanctions in the form of written warnings. Insurance companies, pension funds, and guarantee institutions which fail to submit a business plan or revise a business plan within the deadline will be subject to administrative fines in the amount of Rp 500,000 (c.US\$35) per day, with a maximum amount of Rp25 million (c.US\$1,785).

Continued violations may result in risk profile downgrading or controlling parties reassessment.

Conclusion

Integrating the provisions surrounding business plans into a single regulation is a sign of OJK's continued effort to support the development of a dynamic NBFBI sector, and is consistent with the OJK mission to make the provision of financial services organized, fair, transparent and accountable, and to protect the interests of consumers and the public in general

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