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REFORMULATION OF THE AUTHORITY OF THE DEPOSIT INSURANCE CORPORATION WITHIN THE FRAMEWORK OF THE P2SK LAW

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ABSTRACT

The reform of the financial sector governance framework in Indonesia through Law Number 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK Law) and its subsequent amendment has significantly transformed the institutional role of the Deposit Insurance Corporation (LPS). This study examines the legal implications of strengthening LPS authority in maintaining financial system stability, focusing on legal certainty, institutional accountability, and regulatory balance. Using a normative (doctrinal) legal research method, this study applies statutory, conceptual, and comparative approaches to analyze relevant legal frameworks, including the LPS Law, P2SK Law, and subsequent regulatory developments. The findings indicate that the post-P2SK framework has expanded LPS functions beyond deposit protection and bank liquidation toward a more comprehensive financial safety net mechanism involving prevention, resolution planning, and systemic risk management. However, the expansion of authority also creates challenges related to institutional coordination, moral hazard, and accountability mechanisms. The study argues that strengthening LPS requires not only broader legal authority but also clear governance safeguards, transparency, and harmonized relationships with other financial authorities, particularly Bank Indonesia and the Financial Services Authority. The reform of LPS represents an important advancement in Indonesia's financial stability architecture, provided that institutional power is balanced with effective legal control mechanisms.

1. Introduction

Financial system stability constitutes a fundamental objective of contemporary financial governance, particularly in countries where banking institutions serve as the dominant mechanism of financial intermediation and economic resource allocation. A resilient financial system is essential not only for maintaining public confidence in financial institutions but also for ensuring economic continuity, protecting depositors, and preventing systemic crises that may generate broader social and economic consequences. The experience of global financial crises demonstrates that weaknesses in banking supervision, inadequate crisis management mechanisms, and ineffective institutional coordination may amplify financial vulnerabilities and threaten national economic stability.[1] Consequently, modern financial regulatory frameworks have increasingly emphasized the development of comprehensive financial safety nets consisting of preventive supervision, lender-of-last-resort mechanisms, and effective deposit insurance and bank resolution institutions.

In Indonesia, financial system stability is closely related to the constitutional mandate of promoting public welfare and economic justice. As a bank-based financial system, Indonesia relies heavily on the stability of banking institutions to support economic growth and protect public savings. The collapse of banking institutions may produce significant consequences, including loss of depositor confidence, liquidity disruption, and systemic contagion effects. Therefore, the establishment of a strong legal framework for financial safety nets has become a central component of Indonesia's financial governance reform. Within this framework, the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS) occupies a strategic position as an institution responsible for protecting depositors and participating in bank resolution mechanisms.

The establishment of LPS through Law Number 24 of 2004 represented a significant transformation in Indonesia's banking governance after the Asian financial crisis. Prior to the establishment of an independent deposit insurance institution, depositor protection relied heavily on government guarantees, which created substantial fiscal burdens and potential moral hazard risks. The creation of LPS was intended to replace the blanket guarantee system with a limited deposit insurance mechanism while simultaneously strengthening public confidence in the banking sector. In addition to its deposit insurance function, LPS was granted authority to handle failed banks through resolution mechanisms aimed at minimizing systemic disruption.[2] Internationally, the development of deposit insurance institutions reflects a broader regulatory trend in which deposit protection schemes have evolved beyond passive compensation mechanisms into active components of financial stability frameworks.[3]

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[1] Stephen G. Cecchetti., Deposit Insurance. in *The New Palgrave Dictionary of Economics, Third Edition*, Palgrave Macmillan UK, 2008, page.1343. See too, Ningyao Ye., *The Reform of Deposit Insurance After the Global Financial Crisis: How the FDIC Evolved from a Deposit Insurer to the Saviour of Banks?* 2020, page.232.

[2] I. Budi Kagramanto., Eksistensi Lembaga Penjamin Simpanan Dalam Sistem Perbankan Nasional, *Jurnal Mimbar Hukum* Vol.19, no.3, 2007, page.823. See too, Inda Rahadiyan., Peran dan tanggung jawab lembaga penjamin simpanan dalam penanganan dan penyelamatan Bank gagal berdampak sistemik, *Jurnal Hukum Ius Quia Iustum,* Vol.23, no.1, 2016, page.233.

[3] Edeki, S. O., and V. E. Azu-Nwosu., Deposit Insurance Modeling Based on Standard Power Option Payoff Using Picard–Lindelöf Iteration, *Annals of Financial Economics,* Vol.19, no.3, 2024, page.322. See too, Magdalena Kozińska., Role of deposit insurance schemes on financial markets, *International Journal of Monetary Economics and Finance*, Vol.14, no.1, 2021, page.91.

However, contemporary financial developments have challenged the traditional understanding of deposit insurance institutions. The increasing complexity of banking activities, digital transformation, interconnected financial markets, and the emergence of systemic risks require deposit insurance institutions to possess broader preventive and resolution capacities. Deposit insurance schemes are not only expected to protect depositors but also to contribute to crisis prevention and orderly bank restructuring. Nevertheless, the expansion of institutional authority must be carefully balanced with accountability mechanisms because excessive protection may encourage risk-taking behavior by financial institutions. Previous studies have highlighted that deposit insurance may create moral hazard when financial institutions perceive excessive protection from regulatory intervention.[4] Therefore, the legal design of deposit insurance institutions requires a balance between strengthening crisis response capacity and preventing institutional irresponsibility.

In the Indonesian context, the enactment of Law Number 4 of 2023 on Financial Sector Development and Strengthening (*Undang Undang Pengembangan dan Penguatan Sektor Keuangan*/P2SK Law), as recently amended by Law Number 4 of 2026, represents a major milestone in the reform of financial sector governance. The P2SK Law was introduced as a comprehensive legislative response to strengthen financial resilience, improve regulatory coordination, and modernize Indonesia's financial sector architecture. The regulation amended various provisions concerning financial authorities, including the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK), Bank Indonesia, and LPS. Through this reform, LPS received expanded authority, particularly concerning early intervention, bank resolution planning, and mechanisms for handling failing banks. The reform demonstrates Indonesia's movement toward a more integrated financial safety net framework that places crisis prevention and resolution alongside traditional deposit protection functions

The strengthening of LPS authority under the P2SK Law, however, generates several legal implications that require further examination. First, the expansion of LPS authority potentially creates institutional overlap with other financial authorities, particularly OJK and Bank Indonesia. OJK retains primary responsibility for financial institution supervision, while Bank Indonesia maintains authority related to monetary stability and payment systems. Meanwhile, LPS now possesses broader resolution functions that may intersect with supervisory and crisis-management responsibilities of other institutions. Previous research has emphasized that unclear institutional boundaries may weaken regulatory effectiveness and create uncertainty regarding responsibility allocation during

[4] David G. Mayes., Moral Hazard, Bank Resolution and the Protection of Depositors, In *Research Handbook on International Banking and Governance*, Cheltenham, Edward Elgar Publishing, 2012, page.23. See too, Chuang-Chang Chang, and Ruey-Jenn Ho., Risk-shifting Behavior at Commercial Banks with Different Deposit Insurance Assessments: Further Evidence from U.s. Markets, *Journal of Financial Research*, Vol.40, no.1, 2017, page.58; Jungho Choi, and Duckhyun Cho., Risk-Seeking Behavior of Financial Institutions due to Deposit Insurance: Evidence from Korea, *The Journal of Asian Finance, Economics and Business*, Vol.6, no.1, 2019, page.84.

financial distress situations.[5]

Second, the strengthened role of LPS raises questions concerning institutional accountability and governance. As an independent institution managing significant public resources and possessing substantial intervention authority, LPS requires a strong accountability framework to ensure transparency, proportionality, and legal certainty. Although institutional independence is necessary to avoid political intervention, independence without adequate oversight mechanisms may generate governance concerns. Studies on OJK supervision and financial institutional governance indicate that regulatory effectiveness depends not only on authority allocation but also on mechanisms of accountability and institutional checks and balances.[6]

Third, the implementation of the P2SK Law introduces new challenges regarding the coordination mechanism within the Financial System Stability Committee (*Komite Stabilitas Sistem Keuangan*/KSSK). Effective crisis management requires cooperation among LPS, OJK, Bank Indonesia, and the Ministry of Finance. However, coordination mechanisms must be supported by clear legal standards regarding decision-making procedures, institutional responsibilities, and liability allocation. Without sufficient legal clarity, overlapping authority may create uncertainty in crisis resolution and potentially delay necessary intervention measures.[7]

Previous studies have extensively examined the role and effectiveness of LPS in Indonesia. Existing research has discussed LPS as a deposit protection mechanism, its role in failed bank resolution, and its responsibility toward depositors affected by bank liquidation.[8] Other studies have analyzed specific issues concerning deposit insurance schemes, including risk-based insurance mechanisms, digital

[5] Yuli Indrawati., Independence of Bank Indonesia Post Law No. 4 of 2023 on Development and Strengthening of the Financial Sector, *Journal of Central Banking Law and Institutions*, Vol.4, no.2, 2025, page.208. See too, Agus Riyanto, Budi Santoso, Paramitha Paraningtyas, and Rafsi Azzam Hibatullah Albar., UU P2SK dan Pengaruhnya terhadap Model Pengawasan OJK: Twin Peaks Sebuah Alternatif, *Mimbar Hukum,* Vol.35, no.2, 2023, page.233.

[6] Suwinto Johan, and Ariawan Gunadi., The Effectiveness of the Financial Services Authority Supervisory Board in Supervising the Board of Commissioners, *Unnes Law Journal,* Vol.10, no.2, 2024, page.33. See too, Annisa Arifka Sari., Peran Otoritas Jasa Keuangan Dalam Mengawasi Jasa Keuangan Di Indonesia, *SUPREMASI Jurnal Hukum*, Vol.1, no.1, 2018, page.26.

[7] Abdhy Walid Siagian, Muhammad Syammakh Daffa Alghazali, Rozin Falih Alify, and Muhammad Alfian Kusnaldi., Tinjauan Yuridis Kewenangan Lembaga Penjamin Simpanan Sebagai Deposit Protection Scheme Dalam Pemulihan Ekonomi Nasional, *Padjadjaran Law Review,* Vol.11, no.1, 2023, page.2723.

[8] Sarasdewi Febryanti, Hendro Saptono, and Siti Mahmudah., Tanggung Jawab Lembaga Penjamin Simpanan terhadap Nasabah Penyimpan Bilyet Deposito Akibat Likuidasi Bank, *Jurnal Diponegoro Law Review,* Vol.5, no.2, 2016, page.349. See too, Dian Kartika., Efektifitas Lembaga Penjamin Simpanan (LPS) Dalam Menjalankan Fungsinya Di Indonesia, *Adzkiya: Jurnal Hukum dan Ekonomi Syariah,* Vol.8, no.02, 2020, page.56; Nanang Pradana, and Sri Anggraini Kusuma Dewi., Peran Lembaga Penjamin Simpanan (LPS) Pada Bank Gagal Sebagai Upaya Perlindungan Hukum Terhadap Nasabah, *YUDISIA: Jurnal Pemikiran Hukum dan Hukum Islam*, Vol.10, no.2, 2019, page.101.

banking challenges, and depositor protection in different financial sectors.[9] International literature has also examined the evolution of deposit insurance institutions, particularly the transformation of institutions such as the Federal Deposit Insurance Corporation (FDIC) from conventional deposit insurers into broader financial crisis resolution institutions.[10]

Nevertheless, existing literature demonstrates several limitations. First, most previous Indonesian studies focus primarily on the functional role of LPS as a deposit insurer or bank resolution institution, while limited attention has been given to the legal implications of the expanded authority introduced by the P2SK Law. Second, existing analyses tend to examine financial stability from institutional or economic perspectives, whereas a comprehensive legal analysis concerning authority redistribution, regulatory harmonization, and accountability mechanisms remains limited. Third, there is insufficient discussion regarding whether the strengthened authority of LPS under the P2SK Law creates a more coherent financial safety net or instead generates new challenges concerning institutional overlap and legal certainty.

This article addresses these gaps by providing a normative legal analysis of the transformation of LPS authority after the enactment of the P2SK Law. Unlike previous studies that primarily evaluate LPS from the perspective of depositor protection or institutional performance, this study focuses on the legal restructuring of authority, inter-institutional relations, and governance implications within Indonesia's financial stability framework. The study contributes theoretically by enriching discussions on financial regulatory governance and deposit insurance reform in emerging economies. Practically, the findings provide insights for policymakers and regulators in designing a balanced framework that strengthens crisis management capacity while ensuring accountability, legal certainty, and institutional coordination.

Based on this background, this study seeks to answer the following research questions:

RQ1: How has the authority of the Deposit Insurance Corporation (LPS) been reformulated under Law Number 4 of 2023 on Financial Sector Development and Strengthening (P2SK Law)?

RQ2: What are the legal implications of expanding LPS authority for institutional relations between LPS, OJK, and Bank Indonesia within Indonesia's financial safety net framework?

RQ3: To what extent does the post-P2SK Law regulatory framework strengthen

[9] Nun Harrieti, Azlin Alisa Ahmad, Eidy Sandra, and Fatmi Utarie., Now and Forward: Customer Deposit Insurance of Sharia Bank in Indonesia, *Udayana Journal of Law and Culture*, Vol.7, no.2, 2023, page.159. See too, Aluf Ra'syiah Rabah, and Kharista Dewi Antisha Shakeab., Problematika Regulasi Lembaga Penjamin Simpanan Dalam Program Penjaminan Simpanan Nasabah Bank Digital, *Jurnal Lex Renaissance*, Vol.8, no.1, 2023, page.135.

[10] Darryl E. Getter, and Oscar R. Gonzales, *The Federal Deposit Insurance Corporation (FDIC): Efforts to Support Financial and Housing Markets*, Congressional Research Service, Library of Congress, 2009, page.343. See too, Ningyao Ye., *The Reform of Deposit Insurance After the Global Financial Crisis: How the FDIC Evolved from a Deposit Insurer to the Saviour of Banks?* 2020, page.231.

financial system stability while maintaining principles of legal certainty, accountability, and institutional balance?

2. Research Methods

This study employs a normative (doctrinal) legal research method to examine the reformulation of the authority of the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS) under the Financial Sector Development and Strengthening Law (Law Number 4 of 2023/P2SK Law). This method is appropriate because the research focuses on analyzing legal norms, institutional arrangements, and regulatory principles governing LPS's role in maintaining financial system stability, rather than examining empirical behavior or statistical relationships.

The study applies three complementary legal approaches. First, the statutory approach is used to analyze the relevant legal framework, including Law Number 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK Law), and Law Number 4 of 2026 concerning the Amendment to the P2SK Law, Law Number 24 of 2004 concerning LPS, and other related financial sector regulations. This approach aims to identify changes in LPS authority, particularly the shift from a primarily deposit protection and bank resolution function toward a broader preventive, resolution planning, and systemic stability-oriented role.

Second, the conceptual approach is applied to examine fundamental legal concepts underlying institutional reform, including legal certainty, accountability, institutional balance, financial stability, and prevention of moral hazard. This approach provides a normative basis for assessing whether expanded LPS authority is accompanied by adequate governance safeguards.

Third, the comparative approach is utilized by examining deposit insurance and bank resolution frameworks in selected jurisdictions, particularly the United States and Japan. The comparison is intended to identify institutional practices and accountability mechanisms relevant to strengthening Indonesia's financial safety net without directly adopting foreign models.

The legal materials consist of primary legal sources, including statutes, regulations, and official policy documents, as well as secondary legal sources comprising peer-reviewed journals, academic literature, and international financial governance reports. Data analysis is conducted through qualitative legal interpretation using descriptive, analytical, and evaluative methods. The analysis focuses on assessing whether the post-P2SK reform achieves an appropriate balance between strengthening LPS authority, ensuring legal certainty, maintaining institutional coordination, and preventing excessive concentration of regulatory power within Indonesia's financial system.

3. Results and Discussion

3.1. The Reformulation of LPS Authority under the P2SK Law: From Deposit Protection to Financial Resolution Institution

The Deposit Insurance Corporation (Lembaga Penjamin Simpanan, hereinafter referred to as LPS) was formally established under Law Number 24 of 2004 as a key component of Indonesia's financial safety net. The creation of LPS was a direct response to the banking crisis of the late 1990s, which exposed the vulnerability of the financial system and the absence of an effective mechanism to protect depositors and manage bank failures. As an independent public legal entity, LPS was designed to operate autonomously from political influence while remaining accountable under statutory provisions. Its legal status reflects a hybrid institutional model, combining elements of public authority with operational independence, aimed at ensuring credibility and effectiveness in safeguarding depositor interests.[11]

Under Law Number 24 of 2004, the primary mandate of LPS consisted of two core functions: deposit insurance and participation in bank resolution. In its deposit insurance function, LPS was authorized to guarantee bank deposits up to a certain coverage limit, funded through premiums collected from member banks. This statutory guarantee was intended to maintain public confidence in the banking system and to prevent destabilizing bank runs during periods of financial uncertainty. The legal framework clearly defined the types of deposits covered, eligibility criteria, and the procedures for claim payments, thereby providing legal certainty to both depositors and banks.

In addition to deposit insurance, LPS was entrusted with a role in the resolution of failed banks. This authority included the power to handle banks whose licenses had been revoked, either through liquidation or through resolution measures aimed at minimizing systemic impact. Resolution tools available to LPS prior to the P2SK Law included capital participation, asset management, and the transfer of assets and liabilities under specific conditions. However, these powers were largely reactive in nature and could only be exercised after a bank had entered a state of failure as determined by the relevant supervisory authority. As a result, LPS's involvement in crisis management was limited to the final stages of bank distress, rather than encompassing early intervention or preventive measures.

The scope of LPS authority prior to the P2SK Law was further constrained by the institutional division of responsibilities among financial authorities. The responsibility for bank supervision and prudential regulation was primarily assigned to the Financial Services Authority (Otoritas Jasa Keuangan/OJK), whereas Bank Indonesia was entrusted with monetary policy and macroprudential supervision. In contrast, the Deposit Insurance Corporation (LPS) functioned mainly as a deposit insurance and bank resolution authority with limited involvement in

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[11] Joe M. Wallace, and Keith R. Barnes., *Federal Deposit Insurance Corporation and National Credit Union Administration: assessments and actions*, New York, Nova Science, 2012, page.23. See too, Uswatun Hasanah, Djulaeka Djulaeka, Nurus Zaman, Erma Rusdiana, and Bakhouya Driss., The Indonesian Consumer Protection Law for Credit Union Depositors in Credit Union Failures: Quo Vadis? *Jurnal Hukum Bisnis Bonum Commune,* Vol.8, no.1, 2025, page.22.

supervisory activities. This separation of functions was intended to prevent conflicts of interest, but it also created coordination challenges, particularly in situations where early intervention could have mitigated losses and reduced systemic risk.[12]

Several limitations of LPS authority before the reform became evident over time. First, the absence of a clear legal mandate for early intervention restricted LPS's ability to act proactively in addressing bank distress. LPS could not require banks to prepare resolution plans or intervene at an early stage, even when there were clear indications of financial deterioration. Second, the legal framework did not provide LPS with sufficient authority to handle systemic banks in a comprehensive manner, thereby increasing the reliance on ad hoc policy measures during periods of crisis. Third, the funding mechanisms available to LPS, while adequate for resolving isolated bank failures, were potentially insufficient to address large-scale systemic crises without additional government support.

Institutional coordination was formally facilitated through the Financial System Stability Committee (*Komite Stabilitas Sistem Keuangan*/KSSK), which served as a forum for cooperation among key financial authorities, including the Ministry of Finance, Bank Indonesia, OJK, and LPS. Prior to the P2SK Law, the role of KSSK was primarily consultative, focusing on information sharing and coordination during periods of financial stress.[13] Although KSSK provided an important platform for inter-institutional dialogue, its legal authority to enforce coordinated action was limited. Decision-making processes within KSSK were often constrained by overlapping mandates and the absence of clearly defined leadership during crisis situations.

The legal status of LPS within the KSSK framework further highlighted the institutional limitations of its pre-reform authority.[14] While LPS was a member of KSSK, its role was largely confined to providing input and implementing decisions taken by other authorities. This subordinate position reduced its ability to influence strategic decisions related to crisis prevention and resolution planning. Moreover, the lack of binding coordination mechanisms increased the risk of delayed responses during rapidly evolving financial crises. Prior to the enactment of the

[12] Ahmad Fikri Assegaf, and Harun Wailan Ngantung., Banking and Finance Law in Indonesia, In *Routledge Handbook of Indonesian Law*, London, Routledge, 2025, page.67. See too, Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.794; Varda Sardana, and Shubham Singhania., Fifty Years of Research in Deposit Insurance: A Bibliometric Analysis and Review, *FIIB Business Review*, Vol.15, no.4, 2022, page.507.

[13] Yunus Husein, and Ichsan Zikry., Legal and institutional aspects of the financial sector in handling the COVID-19 pandemic, *Journal of Central Banking Law and Institutions,* Vol.1, no.2, 2022, page.220.

[14] Yehezkiel Steferd Kristo Hitalessy, Putri Balqis Nuril Hakim, and Kaila Intan Fatihah., Peran Lembaga Penjamin Simpanan (Lps) Otoritas Jasa Keuangan (OJK) Dan Bank Indonesia (Bi) Dalam Proses Likuidasi Bank, *Jurnal Ilmiah Wahana Pendidikan,* Vol.11, no.6, 2025, page.32.

P2SK Law, LPS operated within a legal framework that provided a clear mandate for deposit insurance and post-failure bank resolution but imposed significant limitations on its role in early intervention and systemic risk management. Institutional coordination through KSSK, while beneficial, was insufficient to overcome structural fragmentation and authority constraints. These limitations underscored the need for a comprehensive reform of the financial regulatory framework, paving the way for the reformulation of LPS authority under the P2SK Law

This shows that the enactment of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law), subsequently amended through Law Number 4 of 2026, represents a significant development in the legal architecture of Indonesia's financial safety net. Within this reform framework, the position and functions of the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS) have experienced substantial strengthening, particularly through the expansion of its institutional responsibilities beyond conventional deposit protection. Prior to the P2SK reform, LPS primarily operated under Law Number 24 of 2004 concerning the Deposit Insurance Corporation, with two fundamental mandates: guaranteeing customer deposits and actively participating in maintaining banking system stability through the resolution of failed banks. This institutional design reflected the traditional deposit insurance model, where the primary objective was to preserve depositor confidence, prevent bank runs, and reduce the social costs associated with bank failures.[15]

The establishment of LPS itself represented a transformation in Indonesia's banking governance following the Asian financial crisis, replacing the previous blanket guarantee mechanism with a limited and institutionalized deposit insurance system. Deposit insurance institutions generally perform a dual function: protecting individual depositors while simultaneously contributing to systemic stability by maintaining confidence in financial institutions.[16] In this regard, LPS functions not merely as a compensation mechanism after bank failure but as an essential component of preventive financial governance. International experiences demonstrate that effective deposit insurance institutions have gradually evolved from passive guarantee institutions into active participants in crisis prevention and financial resolution processes.[17]

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[15] Philip B. Williamson., *Insolvency issues and the FDIC*, New York, Nova Science, 2010, page.45. See too, Dian Kartika., Efektifitas Lembaga Penjamin Simpanan (LPS) Dalam Menjalankan Fungsinya Di Indonesia, *Adzkiya: Jurnal Hukum dan Ekonomi Syariah,* Vol.8, no.02, 2020, page.56; Inda Rahadiyan., Peran dan tanggung jawab lembaga penjamin simpanan dalam penanganan dan penyelamatan bank gagal berdampak sistemik, *Jurnal Hukum Ius Quia Iustum* Vol.23, no.1, 2016, page.238.

[16] Darryl E. Getter., *Federal deposit insurance for banks and credit unions*, Congressional Research Service, 2014, page.432. See too, Joe M. Wallace, and Keith R. Barnes., *Federal Deposit Insurance Corporation and National Credit Union Administration: assessments and actions*, New York, Nova Science, 2012, page.23.

[17] Stephen G. Cecchetti., Deposit Insurance. in *The New Palgrave Dictionary of Economics, Third Edition*, Palgrave Macmillan UK, 2008, page.1344. See too, Ningyao Ye., *The Reform of Deposit Insurance After the Global Financial Crisis: How the FDIC Evolved from a Deposit Insurer to the Saviour of Banks?* 2020, page.232; Ninik Hariati, M. Yunus, and E. R. M. Putri., Valuation risk adjusted deposit insurance on heston model. In *Journal of Physics: Conference Series*, IOP

The P2SK Law introduces a broader regulatory orientation by strengthening the role of LPS within Indonesia's financial stability framework. The most significant expansion concerns the addition of new institutional responsibilities beyond banking deposit protection. Through the P2SK reform, LPS is assigned additional responsibilities related to the implementation of the insurance policy guarantee program and the resolution of problematic insurance companies whose licenses have been revoked by the Financial Services Authority (OJK). This development represents a genuine expansion of LPS functions because, prior to the P2SK Law, LPS authority was primarily limited to the banking sector. The extension of protection from bank depositors to insurance policyholders reflects a broader conception of financial safety nets, where public confidence must be maintained not only in banking institutions but also in other segments of the financial sector.[18]

The expansion of LPS responsibilities under the P2SK Law is also consistent with the international evolution of deposit insurance institutions. Modern deposit insurance frameworks increasingly emphasize the role of deposit insurance agencies as crisis management institutions rather than merely reimbursement mechanisms. In several jurisdictions, including the United States through the Federal Deposit Insurance Corporation (FDIC), deposit insurance institutions possess resolution authority, including liquidation, bridge banking, purchase and assumption transactions, and other restructuring mechanisms designed to minimize systemic disruption.[19] Similarly, Indonesia's LPS has gradually developed toward a resolution-oriented institution capable of addressing failed financial institutions through legally structured intervention mechanisms.[20]

Under the P2SK framework, LPS's authority in bank resolution is also strengthened. Although LPS already possessed resolution authority under the previous legal framework, the P2SK Law reinforces its role by positioning LPS as a more active institution within the financial crisis management system. The previous approach, which was predominantly reactive and focused on post-failure intervention, has

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Publishing, 2019, page.78; Nikoletta Kleftouri., Meeting the rationale of deposit protection system, *Journal of financial regulation and compliance,* Vol.22, no.4, 2014, page.343.

[18] Ahmad Fikri Assegaf, and Harun Wailan Ngantung., Banking and Finance Law in Indonesia, In *Routledge Handbook of Indonesian Law*, London, Routledge, 2025, page.69. See too, Noor Fatimah Mediawati, Mochammad Tanzil Multazam, and Filia Amanda., Urgency of mutual insurance policy guarantee program in Indonesia, In *E3S Web of Conferences*, EDP Sciences, 2025, page.75.

[19] Neal J Curtin, Edwin E Smith, and James M. Rockett., *The FDIC and Creditors' Rights in the Event of an Insured Bank Failure*, London, Banking LJ 126, 2009, page.65. See too, Darryl E. Getter, and Oscar R. Gonzales, *The Federal Deposit Insurance Corporation (FDIC): Efforts to Support Financial and Housing Markets*, Congressional Research Service, Library of Congress, 2009, page.346.

[20] Zulfikar Hasan., The Position of Bridge Banks as Instruments for Resolving Bank Failures in Indonesia, *Journal of Central Banking Law and Institutions,* Vol.2, no.2, 2023, page.56. See too, Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.795.

shifted toward a more preventive and resolution-based approach. This transformation enables LPS to participate more effectively in preparing resolution strategies, managing failing banks, and reducing the potential systemic consequences of banking failures.[21]

The strengthening of resolution functions reflects a broader global trend in financial regulation after the global financial crisis. International regulatory reforms emphasize that financial safety net institutions must possess adequate authority to intervene before institutional failures create widespread instability. Deposit insurance systems must therefore balance two competing objectives: protecting depositors and preventing excessive risk-taking by financial institutions. Without sufficient intervention authority, deposit insurance institutions may only address the consequences of failure rather than reducing the probability and impact of financial crises.[22]

Nevertheless, the expansion of LPS functions under the P2SK Law creates important legal consequences concerning institutional accountability and regulatory boundaries. Greater authority requires stronger governance mechanisms to ensure that LPS exercises its powers proportionally and transparently. The existence of broad resolution authority may create potential moral hazard if financial institutions perceive that intervention mechanisms provide excessive protection against poor risk management practices.[23] Therefore, strengthening LPS authority must be accompanied by adequate legal safeguards, including clear procedures, institutional checks, and coordination mechanisms with other financial authorities.

3.2. Institutional Relations and Potential Regulatory Overlaps

The expansion of the authority of the Indonesia Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS) under Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) represents a significant transformation in Indonesia's financial governance architecture. Before the reform, LPS primarily performed two core functions: providing deposit insurance and resolving failed banks. However, the P2SK Law broadens its

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[21] Zulfikar Hasan., The Position of Bridge Banks as Instruments for Resolving Bank Failures in Indonesia, *Journal of Central Banking Law and Institutions,* Vol.2, no.2, 2023, page.58. See too, Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.796.

[22] David G. Mayes., Moral Hazard, Bank Resolution and the Protection of Depositors, In *Research Handbook on International Banking and Governance*, Cheltenham, Edward Elgar Publishing, 2012, page.26. See too, Choi, Jungho Choi, and Duckhyun Cho., Risk-Seeking Behavior of Financial Institutions due to Deposit Insurance: Evidence from Korea, *The Journal of Asian Finance, Economics and Business*, Vol.6, no.1, 2019, page.85.

[23] Chuang-Chang Chang, and Ruey-Jenn Ho., Risk-shifting Behavior at Commercial Banks with Different Deposit Insurance Assessments: Further Evidence from U.s. Markets, *Journal of Financial Research*, Vol.40, no.1, 2017, page.59. See too, Muyanja Ssenyonga Jameaba., Deposit insurance and financial intermediation: The case of Indonesia Deposit Insurance Corporation, *Cogent Economics & Finance,* Vol.6, no.1, 2018, page.55; Lucy Chernykh, and Vladimir Kotomin., Risk-based deposit insurance, deposit rates and bank failures: Evidence from Russia, *Journal of Banking & Finance,* Vol.138, no.6, 2022, page.75.

mandate by strengthening its role in bank resolution, crisis management, and the implementation of policy guarantee programs, thereby positioning LPS as a more active institution within the financial safety net framework.

From the perspective of legal governance, the expanded authority of LPS does not operate independently but within a complex institutional structure involving OJK and *Bank Indonesia* (BI). These three institutions perform different but interconnected functions. OJK acts as the primary supervisory authority responsible for monitoring the soundness and compliance of financial institutions; BI maintains monetary stability and payment system integrity; while LPS functions as the deposit insurer and resolution authority responsible for protecting depositors and managing failing financial institutions. This division reflects the international principle of financial safety nets, where supervisory, monetary, and resolution functions are separated but coordinated to prevent systemic instability.

The strengthening of LPS authority under the P2SK framework creates opportunities for a more effective crisis management system. Through expanded resolution powers, LPS is expected to intervene more rapidly when financial institutions experience difficulties. Similar to the role of deposit insurance institutions in other jurisdictions, such as the Federal Deposit Insurance Corporation (FDIC) in the United States, LPS performs not only a compensation function but also a preventive and corrective function by maintaining depositor confidence, reducing the probability of bank runs, and ensuring orderly resolution of failed institutions. Deposit insurance therefore operates as an essential institutional mechanism to maintain public trust and financial system resilience.

Nevertheless, the expansion of LPS authority also generates potential regulatory overlaps, particularly concerning the boundaries between supervision, intervention, and resolution. Bank resolution decisions require a continuous flow of information and coordinated assessments among institutions. OJK identifies weaknesses in financial institutions through supervisory processes, BI evaluates liquidity and systemic implications, while LPS determines resolution strategies and executes intervention measures. Without clearly defined legal parameters regarding institutional responsibilities, overlapping interpretations may emerge concerning when a financial institution should be classified as failing, which institution has authority to initiate intervention, and how responsibility should be allocated after a crisis occurs.[24]

This issue demonstrates that financial stability governance is not merely a question of institutional authority but also of regulatory coherence. A fragmented authority structure may reduce effectiveness when coordination mechanisms are weak because each institution may prioritize its own statutory mandate rather than

[24] Yuli Indrawati., Independence of Bank Indonesia Post Law No. 4 of 2023 on Development and Strengthening of the Financial Sector, *Journal of Central Banking Law and Institutions*, Vol.4, no.2, 2025, page.210. See too, Agus Riyanto, Budi Santoso, Paramitha Paraningtyas, and Rafsi Azzam Hibatullah Albar., UU P2SK dan Pengaruhnya terhadap Model Pengawasan OJK: Twin Peaks Sebuah Alternatif, *Mimbar Hukum,* Vol.35, no.2, 2023, page.239.

collective financial stability objectives. Previous studies on financial regulatory governance highlight that institutional fragmentation requires strong coordination mechanisms, transparent information exchange, and clear accountability arrangements to avoid regulatory uncertainty.[25]

The Financial System Stability Committee (*Komite Stabilitas Sistem Keuangan*/KSSK) provides an important coordination mechanism within Indonesia's financial safety net architecture. Through KSSK, OJK, BI, the Ministry of Finance, and LPS can exchange information and formulate responses to systemic risks. However, coordination through KSSK should not eliminate institutional accountability. Each authority must remain responsible for decisions taken within its legal mandate. Therefore, coordination should function as a mechanism for institutional complementarity rather than as a transfer of authority from one institution to another.

The P2SK reform also strengthens the importance of risk-based governance within LPS operations. International experiences demonstrate that modern deposit insurance institutions no longer rely solely on deposit reimbursement mechanisms but increasingly incorporate risk assessment, risk-based premiums, and preventive intervention strategies. Risk-based assessment allows deposit insurance institutions to identify vulnerable financial institutions earlier and reduce moral hazard, where banks may engage in excessive risk-taking due to the existence of government-backed protection.[26] In the Indonesian context, strengthening LPS risk assessment mechanisms is particularly important because expanded authority must be accompanied by stronger accountability and institutional capacity.

Furthermore, the extension of LPS responsibilities into policy guarantee programs under the P2SK Law illustrates a broader shift from a narrow deposit protection institution toward a comprehensive financial stability institution. While this expansion may strengthen consumer protection and public confidence, it also requires clearer regulatory arrangements regarding funding mechanisms, institutional responsibilities, and coordination with sectoral supervisors. The broader the mandate of LPS, the greater the need for precise legal boundaries to prevent conflicts with OJK's supervisory authority and BI's financial stability mandate.

Therefore, the post-P2SK financial governance framework should be understood as a model of coordinated institutional authority rather than hierarchical control. The effectiveness of the reform depends not only on expanding LPS powers but also on establishing clear rules concerning information sharing, crisis intervention procedures, resolution authority, and accountability mechanisms among LPS, OJK, and BI. Without such legal clarity, expanded authority may unintentionally create institutional ambiguity. Conversely, if supported by effective coordination mechanisms and adaptive regulatory governance, the P2SK reform can strengthen

[25] Suwinto Johan, and Ariawan Gunadi., The Effectiveness of the Financial Services Authority Supervisory Board in Supervising the Board of Commissioners, *Unnes Law Journal,* Vol.10, no.2, 2024, page.35.

[26] Ausrine Lakstutiene, Aida Barkauskaite, and Justyna Witkowska., The importance of systemic risk assessment in a risk-based common European Union deposit insurance system: case of Lithuania, *Economic research-Ekonomska istraživanja,* Vol.31, no.1, 2018, page.343.

Indonesia's financial safety net and improve resilience against future financial crises.

Table 1. Institutional Functions and Potential Regulatory Overlaps after P2SK Reform

Institution	Main Legal Function	Role after P2SK Reform	Potential Overlap
LPS	Deposit insurance and bank resolution	Expanded authority in bank resolution, policy guarantees, and crisis intervention	Possible overlap with OJK regarding intervention timing and bank failure determination
OJK	Financial institution supervision and regulation	Supervisory assessment, institutional monitoring, and regulatory enforcement	Potential overlap with LPS regarding troubled bank identification and corrective actions
Bank Indonesia	Monetary stability and payment system stability	Liquidity assessment, systemic risk evaluation, and emergency support mechanisms	Potential overlap with LPS in determining systemic impact of bank failures
KSSK	Inter-agency financial stability coordination	Crisis coordination and policy response mechanism	Risk of unclear accountability if collective decisions replace institutional responsibility

The enactment of Law Number 4 of 2023 on Financial Sector Development and Strengthening (the P2SK Law) represents a fundamental shift in Indonesia's legal framework for financial system stability. One of its most significant features is the reformulation of the authority of the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS), which reflects a normative commitment to strengthening crisis prevention and resolution mechanisms. The reform is grounded in the recognition that fragmented institutional authority and reactive resolution models are inadequate to address the increasingly complex and interconnected nature of modern financial systems. From a normative perspective, the expansion of LPS authority is justified by the constitutional obligation of the state to protect public welfare and to ensure the stability of the financial system as a public good.

The normative foundation of the reformulation lies in the P2SK Law's objective to enhance legal certainty, institutional coordination, and systemic resilience.[27] By amending and harmonizing existing financial regulations, the P2SK Law provides a clearer legal basis for LPS to exercise broader powers in crisis management. The law explicitly recognizes LPS not only as a deposit insurer but also as a key resolution authority within the financial safety net. This shift aligns Indonesia's regulatory framework with international standards that emphasize the importance of empowering resolution authorities to act decisively while maintaining accountability and transparency.

One of the most notable aspects of the reformulation is the expansion of LPS authority in bank resolution and crisis handling. Under the P2SK Law, LPS is granted enhanced powers to manage the resolution of both systemic and non-systemic banks. These powers include greater discretion in selecting resolution tools, such as bridge banks, asset separation, and the transfer of assets and liabilities, with the aim of preserving critical banking functions and minimizing systemic disruption. Unlike the previous legal regime, which limited LPS intervention to post-failure scenarios, the P2SK Law enables LPS to play a more active role throughout the resolution process, including the preparation and execution of resolution strategies.

The expansion of authority also extends to crisis handling mechanisms, particularly in situations involving systemic risk. The P2SK Law strengthens the legal mandate of LPS to participate in coordinated crisis responses within the Financial System Stability Committee (KSSK). In this capacity, LPS is no longer merely an implementing body but a strategic actor with a defined role in decision-making processes. This reform addresses prior weaknesses in crisis coordination by clarifying the responsibilities of each institution and enhancing the legal force of collective decisions taken within the KSSK framework.

A further critical development under the P2SK Law is the strengthening of early intervention and resolution planning. The law introduces a proactive approach to bank resolution by requiring the preparation of resolution plans for banks that meet certain criteria, particularly those with systemic importance. LPS is empowered to engage in early-stage assessments of bank viability and to coordinate with supervisory authorities to ensure timely intervention. This approach reflects a preventive paradigm that seeks to address financial distress before it escalates into systemic crises. By enabling LPS to contribute to early intervention, the P2SK Law enhances the effectiveness of resolution measures and reduces the potential fiscal and social costs of bank failures.

In addition to substantive authority expansion, the P2SK Law introduces changes to the governance structure and decision-making mechanisms of LPS. The reform seeks to strengthen internal governance by enhancing the professionalism, transparency, and accountability of LPS leadership. Clearer rules regarding decision-making procedures, conflict of interest management, and institutional oversight are intended to ensure that expanded powers are exercised responsibly.

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[27] Yunus Husein, and Ichsan Zikry., Legal and institutional aspects of the financial sector in handling the COVID-19 pandemic, *Journal of Central Banking Law and Institutions,* Vol.1, no.2, 2022, page.224.

These governance reforms are essential to maintaining public trust, particularly given the significant financial and economic implications of resolution decisions.

The reformulated governance framework also emphasizes accountability through reporting obligations and oversight mechanisms. While LPS retains its status as an independent institution, its expanded authority is subject to enhanced supervision by relevant state bodies. This balance between independence and accountability reflects a core principle of administrative law, ensuring that discretionary powers are exercised within legally defined limits and subject to appropriate checks and balances.

The legal integration of LPS with KSSK and other financial authorities constitutes another key dimension of the reformulation. The P2SK Law seeks to address longstanding coordination challenges by clarifying the legal relationships among LPS, the Financial Services Authority (Otoritas Jasa Keuangan/OJK), Bank Indonesia, and the Ministry of Finance. Through more explicit statutory provisions, the law establishes a structured framework for information sharing, joint decision-making, and coordinated action during periods of financial stress. This integration reduces the risk of regulatory overlap and conflicting mandates, thereby enhancing legal certainty and operational efficiency.

However, the integration of authority also raises important legal considerations. The potential for overlapping responsibilities remains, particularly in areas where supervisory, macroprudential, and resolution functions intersect. The effectiveness of the reform will therefore depend on the implementation of detailed regulations that clearly delineate the scope of authority and establish procedures for resolving institutional conflicts. Without such clarity, the expansion of LPS authority may inadvertently create new sources of legal uncertainty. The reformulation of LPS authority under the P2SK Law represents a significant advancement in Indonesia's financial regulatory framework. By expanding resolution powers, strengthening early intervention, reforming governance structures, and enhancing institutional integration, the P2SK Law seeks to create a more resilient and coherent financial safety net. Nevertheless, the success of this reform ultimately depends on the careful calibration of authority, accountability, and coordination to ensure that expanded powers effectively contribute to financial system stability while upholding the principles of legal certainty and good governance.

3.3. Strengthening Financial Stability through LPS Reform: Legal Certainty, Accountability, and Institutional Balance

The strengthening of the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan*/LPS) under Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) represents a significant transformation in Indonesia's financial safety net architecture. The reform does not merely expand the institutional authority of LPS but also redefines its strategic position within the broader framework of financial system stability. Nevertheless, institutional strengthening must be accompanied by legal certainty, accountability mechanisms, and an appropriate balance of authority among financial sector institutions.

From the perspective of legal certainty, the expansion of LPS authority provides a stronger normative foundation for addressing banking failures and systemic financial risks. Before the P2SK reform, LPS primarily exercised authority in deposit insurance and bank resolution based on Law Number 24 of 2004 concerning the Deposit Insurance Corporation, as amended by Law Number 9 of 2016 concerning Prevention and Handling of Financial System Crises. The P2SK Law strengthens this framework by integrating LPS more explicitly into the national financial stability mechanism and expanding its responsibilities beyond traditional deposit protection. Such institutional reinforcement is important because delayed intervention in failing financial institutions may increase systemic vulnerability, generate higher fiscal costs, and undermine public confidence in the financial system.[28]

The expanded authority of LPS reflects the international development of deposit insurance institutions from a narrow "pay-box" function toward a broader resolution authority model. In contemporary financial governance, deposit insurance institutions are not only responsible for compensating depositors but also for managing failing financial institutions through resolution mechanisms, including liquidation, bridge banks, and purchase-and-assumption strategies.[29] These instruments allow financial authorities to minimize disruption while ensuring continuity of essential financial services.[30] Within the Indonesian context, the P2SK Law strengthens LPS's ability to participate in crisis management by providing a clearer legal mandate for intervention and resolution planning.

The role of LPS in protecting financial stability can therefore be understood through several interconnected responsibilities. First, LPS maintains depositor confidence through deposit insurance mechanisms. The existence of an explicit guarantee system reduces the possibility of bank runs by assuring depositors that their funds remain protected within the limits established by law. Public confidence is a fundamental component of banking stability because financial institutions operate primarily based on trust.[31] Second, LPS functions as a resolution authority responsible for managing failed banks. Through orderly resolution procedures, LPS prevents individual institutional failures from escalating into broader financial

[28] Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.796.

[29] Edeki, S. O., and V. E. Azu-Nwosu., Deposit Insurance Modeling Based on Standard Power Option Payoff Using Picard–Lindelöf Iteration, *Annals of Financial Economics,* Vol.19, no.3, 2024, page.326. See too, Yunus Husein, and Ichsan Zikry., Legal and institutional aspects of the financial sector in handling the COVID-19 pandemic, *Journal of Central Banking Law and Institutions,* Vol.1, no.2, 2022, page.221.

[30] Ningyao Ye., *The Reform of Deposit Insurance After the Global Financial Crisis: How the FDIC Evolved from a Deposit Insurer to the Saviour of Banks?* 2020, page.235.

[31] Joe M. Wallace, and Keith R. Barnes., *Federal Deposit Insurance Corporation and National Credit Union Administration: assessments and actions*, New York, Nova Science, 2012, page.28. See too, Philip B. Williamson., *Insolvency issues and the FDIC*, New York, Nova Science, 2010, page.46.

instability.[32]

Third, LPS contributes to systemic stability through coordination with other financial authorities, particularly Bank Indonesia (BI) and the Financial Services Authority (OJK). The effectiveness of financial crisis management depends not only on the authority of individual institutions but also on the clarity of coordination mechanisms. The post-P2SK framework requires stronger institutional cooperation to avoid overlapping authority and ensure rapid decision-making during financial distress. Previous studies indicate that although Indonesia has established a comprehensive financial safety net, coordination challenges remain, particularly regarding transparency, institutional boundaries, and accountability in crisis resolution processes.[33]

However, strengthening LPS authority also creates potential governance challenges, particularly related to moral hazard. Deposit insurance mechanisms inherently create a regulatory dilemma: while they protect depositors and maintain financial confidence, excessive guarantees may reduce incentives for banks to implement prudent risk management. Financial institutions may engage in higher-risk activities because losses are partially absorbed by insurance mechanisms and public intervention frameworks.[34] Therefore, institutional empowerment of LPS must be accompanied by effective supervisory mechanisms, risk-based assessment systems, and accountability arrangements.

One important aspect of improving LPS governance is the implementation of risk-based approaches. A uniform guarantee mechanism may create unequal incentives among financial institutions because institutions with different risk profiles contribute equally to the insurance system. Risk-based premiums provide a mechanism to align institutional contributions with their actual risk exposure, thereby encouraging better governance and reducing excessive risk-taking behavior.[35] In this regard, strengthening LPS should not only focus on expanding

[32] Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.799.

[33] Zulfikar Hasan., The Position of Bridge Banks as Instruments for Resolving Bank Failures in Indonesia, *Journal of Central Banking Law and Institutions,* Vol.2, no.2, 2023, page.59. See too, Diana R.W. Napitupulu, Mohammad Belayet Hossain, and Bahrullah Akbar., Legal Framework and Effectiveness of Bank Resolution by the Indonesia Deposit Insurance Corporation, *Jurnal Hukum*, Vol.41, no.3, 2025, page.780.

[34] Chuang-Chang Chang, and Ruey-Jenn Ho., Risk-shifting Behavior at Commercial Banks with Different Deposit Insurance Assessments: Further Evidence from U.s. Markets, *Journal of Financial Research*, Vol.40, no.1, 2017, page.62. See too, Choi, Jungho Choi, and Duckhyun Cho., Risk-Seeking Behavior of Financial Institutions due to Deposit Insurance: Evidence from Korea, *The Journal of Asian Finance, Economics and Business*, Vol.6, no.1, 2019, page.85.

[35] Joe M. Wallace, and Keith R. Barnes., *Federal Deposit Insurance Corporation and National Credit Union Administration: assessments and actions*, New York, Nova Science, 2012, page.29. See too, Ningyao Ye., *The Reform of Deposit Insurance After the Global Financial Crisis: How the FDIC Evolved from a Deposit Insurer to the Saviour of Banks?* 2020, page.236; Min-Sun Horng, Liang-Fa Kao, and Roger CY Chen., An Estimate of Deposit Insurance Premium Considering

authority but also improving its capacity for risk assessment through transparent and accountable methodologies.

The P2SK Law also expands the role of LPS through the introduction of a policy guarantee program, particularly in relation to insurance sector stability. This development represents a broader transformation of LPS from a banking-focused institution into a more comprehensive financial stability institution. The inclusion of insurance policyholder protection responds to previous weaknesses in public confidence toward insurance institutions and aligns Indonesia's financial safety net with international regulatory developments.[36] Nevertheless, this expansion requires careful institutional design to ensure that LPS does not assume excessive responsibilities without adequate resources, expertise, and governance safeguards.

From a legal governance perspective, the effectiveness of LPS reform depends on achieving institutional balance. A strong financial stability framework requires institutions with sufficient authority to act decisively during crises; however, such authority must remain subject to legal limitations, transparency requirements, and accountability mechanisms.[37] Excessive concentration of power may create new governance risks, particularly if intervention decisions lack adequate oversight. Therefore, the strengthening of LPS should be accompanied by clear procedural standards, reporting obligations, and mechanisms for institutional accountability.

The experience of other jurisdictions, particularly the Federal Deposit Insurance Corporation (FDIC) in the United States, demonstrates that deposit insurance institutions achieve effectiveness when their authority is combined with strong legal independence and accountability. The FDIC's role in deposit protection, bank resolution, and crisis management illustrates the importance of balancing intervention capacity with regulatory discipline.[38] This comparative perspective provides important lessons for Indonesia that institutional authority alone is insufficient without governance structures capable of preventing misuse and maintaining public trust.

Therefore, the P2SK Law constitutes a significant advancement in strengthening Indonesia's financial stability architecture by repositioning LPS as a more proactive institution in financial crisis prevention and resolution. Nevertheless, the success

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Liquidity Risk, In *2008 3rd International Conference on Innovative Computing Information and Control*, IEEE, 2008, page.53.

[36] Noor Fatimah Mediawati, Mochammad Tanzil Multazam, and Filia Amanda., Urgency of mutual insurance policy guarantee program in Indonesia, In *E3S Web of Conferences*, EDP Sciences, 2025, page.76. See too, Rinitami Njatrijani, Putri Ayu Sutrisno, and Cantika Assyifani Primastito., Peran Otoritas Jasa Keuangan (OJK) sebagai badan pengawas terhadap fenomena gagal bayar polis asuransi di Indonesia, *Jurnal pembangunan hukum Indonesia,* Vol.6, no.2, 2024, page.3434.

[37] Zulfikar Hasan., The Position of Bridge Banks as Instruments for Resolving Bank Failures in Indonesia, *Journal of Central Banking Law and Institutions,* Vol.2, no.2, 2023, page.67.

[38] Neal J Curtin, Edwin E Smith, and James M. Rockett., *The FDIC and Creditors' Rights in the Event of an Insured Bank Failure*, London, Banking LJ 126, 2009, page.67. See too, Darryl E. Getter, and Oscar R. Gonzales, *The Federal Deposit Insurance Corporation (FDIC): Efforts to Support Financial and Housing Markets*, Congressional Research Service, Library of Congress, 2009, page.348.

of this reform depends on whether expanded authority is supported by coherent legal arrangements, effective inter-agency coordination, risk-based supervision, and strong accountability mechanisms. A resilient financial system requires not merely powerful institutions, but institutions whose powers are exercised within a framework of legal certainty, transparency, and institutional equilibrium.

Table 2. Legal Transformation of LPS Authority in Strengthening Indonesia's Financial Stability Framework

Aspect	**Pre-P2SK Framework**	**Post-P2SK Framework**	**Legal Implication**
LPS Function	Deposit insurance and failed bank handling	Deposit insurance, prevention, resolution planning	Stronger crisis management capacity
Institutional Role	Reactive intervention	Preventive and resolution-oriented approach	Requires accountability safeguards
Relation with OJK & BI	Sectoral coordination	Integrated financial safety net	Potential overlap requiring legal harmonization
Governance Principle	Protection-oriented	Stability and systemic risk-oriented	Need balance between authority and control

The reformulation of the authority of the Deposit Insurance Corporation under the P2SK Law generates significant legal implications for Indonesia's financial regulatory framework. While the expansion of authority is intended to strengthen financial system stability and enhance crisis management capabilities, it also raises a number of legal and institutional challenges that must be addressed to ensure the effectiveness and legitimacy of the reform. These challenges primarily concern legal certainty, regulatory coherence, institutional independence, accountability, and the risk of moral hazard.

One of the principal legal implications of the reform is its impact on legal certainty and regulatory coherence. The P2SK Law introduces extensive amendments to existing financial legislation, consolidating various regulatory functions and redefining institutional mandates. From a legal perspective, this consolidation has the potential to enhance coherence by aligning previously fragmented regulatory provisions within a unified statutory framework. Clearer recognition of LPS as a resolution authority contributes to greater predictability in the handling of bank failures and financial crises.

However, the breadth of the reform also creates transitional challenges. The expansion of LPS authority must be supported by detailed implementing regulations that clearly delineate the scope and limits of its powers. Without precise normative guidance, ambiguities may arise regarding the interpretation of statutory provisions, thereby undermining legal certainty. In the context of financial regulation, such uncertainty can have serious consequences, as market participants rely on predictable legal rules to manage risk and make informed decisions. Ensuring regulatory coherence therefore requires continuous harmonization between the P2SK Law and subordinate regulations, as well as consistent application by regulatory authorities.

A closely related challenge concerns the potential overlap of authority between LPS, the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK), and Bank Indonesia. The expansion of LPS authority in early intervention and resolution planning inevitably intersects with the supervisory and macroprudential functions of OJK and Bank Indonesia. While the P2SK Law seeks to clarify institutional roles within the framework of the Financial System Stability Committee (KSSK), overlapping mandates may still occur in practice, particularly in situations involving early signs of bank distress.

From a legal standpoint, overlapping authority can create conflicts of competence and delay decision-making during critical periods. For example, differences in assessment regarding a bank's financial condition or the timing of intervention may lead to institutional disagreement, thereby weakening the effectiveness of crisis management. To mitigate this risk, clear procedural rules and coordination mechanisms are essential. The law must provide not only substantive authority but also operational clarity regarding who has the final decision-making power in specific scenarios. Without such clarity, the expanded authority of LPS may inadvertently contribute to regulatory fragmentation rather than coherence.

Another significant implication of the reform relates to institutional independence and accountability. LPS was originally designed as an independent institution to ensure credibility and to prevent undue political influence in deposit insurance and resolution decisions expansion of its authority under the P2SK Law enhances its strategic importance within the financial safety net, but it also increases the scope of discretion exercised by LPS.[39] From an administrative law perspective, greater discretion necessitates stronger accountability mechanisms to prevent abuse of power and to ensure that decisions are made in accordance with legal principles and public interest objectives.

The challenge lies in maintaining an appropriate balance between independence and accountability. Excessive external control may undermine the operational autonomy of LPS, while insufficient oversight may weaken public trust. The P2SK Law addresses this issue by strengthening reporting obligations and enhancing coordination within KSSK. Nevertheless, the effectiveness of these mechanisms depends on their practical implementation and tavailability f meaningful oversight, including legislative supervision and judicial review. Ensuring transparency in decision-making processes is particularly important given the significant economic consequences of resolution actions.

The reformulation of LPS authority also raises concerns regarding the risk of moral hazard. Expanded resolution powers and deposit guarantees may reduce incentives for banks and depositors to exercise prudent risk management, as the

[39] A. Nasution., Deposit insurance and financial stability: The Indonesian experience, *Asian Journal of Comparative Law,* Vol.15 no. 2, 2020, page.32.

perception of state-backed protection increases. From a legal and economic perspective, moral hazard represents a structural risk that can undermine the objectives of financial regulation. The challenge for lawmakers is to design legal safeguards that mitigate moral hazard without compromising the effectiveness of crisis management.

Legal safeguards against moral hazard may include clearly defined coverage limits, risk-based premium systems, and strict conditions for resolution assistance. Through the P2SK Law, these mechanisms are incorporated by establishing the principle that shareholders and creditors bear losses prior to any reliance on public funds. Furthermore, the law enhances coordination among supervisory authorities to ensure the effective implementation of early intervention measures and to reduce moral hazard and excessive risk-taking. However, the success of these safeguards depends on rigorous enforcement and the willingness of authorities to apply resolution tools without political or market pressure. The reformulation of LPS authority under the P2SK Law presents both opportunities and challenges for Indonesia's financial regulatory framework. While the reform has the potential to enhance legal certainty, regulatory coherence, and crisis management effectiveness, it also requires careful attention to institutional design and implementation. Addressing potential overlaps of authority, strengthening accountability mechanisms, and mitigating moral hazard are essential to ensuring that the expanded role of LPS contributes positively to financial system stability. The long-term success of the reform will depend on the ability of lawmakers and regulators to translate statutory objectives into coherent and effective legal practice.

4. Conclusion

The enactment of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) represents a significant institutional reform in Indonesia's financial governance framework. This study demonstrates that the P2SK Law has strengthened the legal architecture of financial sector regulation by redefining the authority, coordination mechanisms, and institutional responsibilities of key financial authorities, particularly the Financial Services Authority (OJK), Bank Indonesia (BI), and the Deposit Insurance Corporation (LPS). The reform reflects an effort to address regulatory fragmentation and enhance the resilience of Indonesia's financial system in responding to increasingly complex economic and systemic risks.

The findings indicate that the P2SK Law provides stronger legal certainty for financial supervision and crisis management. The expansion of OJK's supervisory authority, the reinforcement of BI's role within the financial stability framework, and the broader mandate granted to LPS demonstrate a shift toward a more integrated and adaptive financial governance model. In particular, the strengthening of LPS authority improves Indonesia's financial safety net by enhancing deposit protection, bank resolution capacity, and institutional preparedness in managing financial distress. However, institutional empowerment must be balanced with accountability, transparency, and effective coordination mechanisms to prevent overlapping authority and governance risks.

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