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Analysis of the Impact of Financial Services Authority Regulations on the Development of the Financial Industry in Indonesia

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Abstract. *This research aims to analyze the impact of Financial Services Authority (OJK) regulations on the growth of the banking sector and the improvement of financial literacy and inclusion in Indonesia. The research was conducted using a qualitative method and a normative approach. Data were obtained through literature studies of laws and regulations, literature, journals, and other relevant sources. The results showed that OJK regulations have a significant influence on banking growth, although the impact is not always positive. On the other hand, OJK's efforts to improve financial literacy and inclusion through various policies are considered to have not yet yielded optimal results. A balanced regulatory formulation, cross-sector policy coordination, and policy breakthroughs are needed so that the implementation of financial literacy and inclusion is more effective. This research is expected to provide input for regulators in formulating policies that support the growth of the Indonesian financial services sector.*

Keywords: *Banking; Financial; OJK.*

1. Introduction

The financial services industry in Indonesia has shown significant development in recent years. This is marked by the establishment of various new financial institutions, such as banking, insurance, pawnshops, venture capital, and fintech (Financial Services Authority, 2021). This development is certainly inseparable from the various regulations issued by the Financial Services Authority (OJK) as the regulatory and supervisory authority for the financial services industry in Indonesia.

According to Mulyaningsih & Daly (2011), OJK regulations have a vital role in creating a healthy banking and financial business climate. OJK regulations are also important for protecting consumer and public interests, maintaining financial system stability, and encouraging the financial services sector to grow

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sustainably. However, some studies show that not all OJK regulations have a positive impact on the growth of the financial industry.

Research from Siringoringo (2012) found that the policy on the Minimum Capital Adequacy Ratio (CAR) for banks actually had a negative impact on the profitability of commercial banks in Indonesia. This means that the higher the CAR ratio set by OJK, the lower the bank's profitability. This is because banks have to provide more capital, resulting in higher operational costs for banks.

Meanwhile, a study by Trisnawati (2015) showed that the implementation of the fit and proper test regulations by OJK has not been fully effective in preventing bank management failures. There were still some cases of bank directors who passed the fit and proper test but were later involved in legal cases or abused their authority.

From the perspective of consumer protection in the financial services sector, research by Diansari (2017) found that there were still many public complaints and reports related to delays in insurance claim settlements, non-transparent banking transactions, and difficulties in accessing financial services. This indicates that OJK's consumer protection policies have not been fully effective in protecting the public interest.

On the other hand, some OJK regulations have also proven to be beneficial for the growth of the financial services industry. For example, OJK regulations on relaxation of down payments for housing loans (Loan to Value/LTV) had a positive impact on increasing mortgage lending by banks (Putri, 2018). Similarly, OJK regulations regarding fintech regulatory sandboxes have encouraged innovation and growth of fintech in Indonesia (Hariyani, 2020).

In order to support financial inclusion penetration, OJK has issued OJK Regulation No. 76/POJK.07/2016 concerning Improving Financial Literacy and Inclusion. This regulation aims to increase public access to formal financial products and services. Some financial literacy and inclusion programs implemented by OJK include socialization of financial products, development of financial literacy curricula, and empowerment of financial inclusion agents in remote areas.

However, Indonesia's level of financial literacy and inclusion is still relatively low compared to other ASEAN countries. Based on the 2019 National Survey on Financial Literacy and Inclusion, only 36.1% of the Indonesian population has access to formal financial services. The level of financial literacy has only reached 38.03% (OJK, 2019). This figure is still far below Indonesia's financial inclusion target of 90% by 2024.

The low level of financial literacy and inclusion is caused by various obstacles, such as inadequate infrastructure in remote areas, high costs of financial services, and a culture of keeping money at home. Therefore, OJK needs to continue innovating in financial literacy and inclusion policies in order to increase public access to formal financial services.

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Based on the above description, it can be concluded that OJK regulations have a vital role in driving the growth of the financial services sector in Indonesia. However, their impact on the financial industry is not always positive. Some regulations even have a counterproductive effect that hinders the development of the financial industry. Therefore, in-depth research is needed to analyze the effectiveness of various OJK regulations in supporting the growth of the banking sector and financial inclusion in Indonesia. Thus, OJK can formulate policies that are more conducive to the advancement of the financial services industry without neglecting the principles of consumer protection and risk management.

Overall, this topic is highly relevant for research as it touches on the relationship between legal aspects (OJK regulations) and economic aspects (financial industry performance). The research results are expected to provide input to policymakers in designing balanced regulations that promote the growth of the financial services sector and protect the interests of the Indonesian people.

1. Problem Formulation

Based on the background above, the problems in this research are as follows:

a. What is the impact of Financial Services Authority regulations on the growth of the banking sector in Indonesia?

b. Is there a correlation between OJK regulations and the improvement of financial literacy and inclusion among the Indonesian people?

2. Research Methods

This research uses a qualitative method with a normative approach. The qualitative method is a research method based on post-positivism philosophy, used to study objects in their natural conditions where the researcher is the key instrument (Sugiyono, 2017). The normative approach is an approach carried out by studying library materials or secondary data on legal principles and case studies, which in other words is often referred to as library legal research (Soekanto and Mamudji, 1995).

The normative approach was chosen because this research aims to analyze the relationship between OJK regulations as a normative object and their implications for the development of the financial industry in Indonesia. The data sources for this research are secondary data consisting of:

1. Laws and regulations in the field of OJK and banking
2. Literature and scientific journals related to the research topic
3. Statistical data on the Indonesian financial industry
4. Information from relevant print and electronic media

The data collection technique was carried out through literature studies and documentation of the secondary data sources above. The data analysis technique used descriptive qualitative content analysis. The collected data and information were classified and analyzed to answer the research problem formulation.

The results of the data analysis are presented in a logical and systematic description. Conclusions were drawn inductively based on the problem formulation and research objectives. With this qualitative normative method, it is hoped that a deep understanding of the impact of OJK regulations on the development of the financial industry can be obtained from a legal perspective.

3. Result and Discussion

1. Impact of Financial Services Authority Regulations on the Growth of the Banking Sector in Indonesia

The banking sector plays a very strategic role in the Indonesian economy. According to Law No. 7 of 1992, banking aims to support the implementation of national development in order to increase equitable economic growth and national stability towards improving the welfare of the people. Therefore, the stability and growth of the banking sector needs to be maintained through adequate regulation and supervision by the regulator.

In Indonesia, the authority tasked with regulating and supervising the banking industry is the Financial Services Authority (OJK). As an independent institution established through Law No. 21 of 2011, OJK has the authority to establish regulations in the banking sector. The aim is for the banking industry to grow in a healthy manner and maintain financial system stability (OJK, 2021).

Some examples of OJK regulations that impact banking growth include those related to minimum capital requirements, maximum lending limits, sectoral lending, liquidity, and others. Basically, OJK regulations have positive and negative impacts on banking performance. According to Mawardi (2005), strict banking regulations are needed to minimize systemic risk, but on the other hand, they can also limit the flexibility of banks to operate.

On the positive side, research by Masyhud (2014) found that OJK regulations related to the Minimum Statutory Reserve Requirement (GWM) had a positive effect on the profitability of commercial banks in Indonesia. The higher the GWM set by OJK, the higher the bank's profitability tends to be. This is because at the macro level, a strict GWM policy encourages higher bank lending rates.

Similarly, a study by Dendawijaya (2009) showed that OJK regulations on the maximum lending limit (BMPK) were able to reduce the risk of non-performing loans at commercial banks. The BMPK limitation encourages banks to be more selective and cautious in lending, thus maintaining non-performing loans (NPLs) in the banking sector.

However, some studies have also found negative impacts of OJK regulations on banking performance. Utari et al. (2012) showed that the policy of eliminating credit for the property sector had a significant impact on the decline in the financial performance of commercial banks in Indonesia. The increase in NPLs in the property sector reached 9.72% due to the elimination of credit facilities in this sector.

In addition, the economic recession that occurred in 2018 caused OJK to issue regulations on credit restructuring relaxation for debtors affected. However, research by Prasanjaya & Ramantha (2021) found that credit restructuring by banks actually increased the risk of non-performing loans. This is because some debtors failed to make payments after the restructuring period ended.

Based on the description above, it can be seen that OJK regulations have a significant influence on the growth of the banking sector, although the direction of influence is not always positive. In order to effectively promote healthy banking growth, OJK needs to consider macroeconomic conditions in establishing regulations. In addition, policy coordination with Bank Indonesia and the Government is also important for synchronizing monetary, fiscal and real sector policies.

Furthermore, OJK is expected to be able to formulate banking regulations that are proportional between prudential banking regulations and the flexibility of bank operations. Regulations that burden banks can hinder lending and need to be reviewed so as not to disrupt bank intermediation. Meanwhile, regulatory relaxation needs to be carried out carefully so as not to create moral hazard in the banking industry. Thus, banking growth can continue in a healthy and sustainable manner.

2. Correlation Between OJK Regulations and Improvement of Financial Literacy and Inclusion among the Indonesian People

Financial literacy and inclusion are important aspects in promoting the growth of the financial services sector in a country. Financial literacy is the knowledge, beliefs, and skills that influence attitudes and behaviors to improve the quality of decision-making and financial management in order to achieve prosperity (OJK, 2017). Meanwhile, financial inclusion is the availability of access to various formal financial institutions, services, and products for all levels of society.

The Financial Services Authority (OJK) as the regulator of the financial services sector has a vital role in efforts to improve financial literacy and inclusion in Indonesia. Several regulations have been issued by OJK to encourage financial literacy and inclusion so that people can properly utilize formal financial services.

According to OJK Regulation No. 76/POJK.07/2016, every financial service provider is required to organize and play an active role in financial literacy and inclusion programs according to their consumer segment. The forms of activities carried out include providing educational brochures in branch offices, socialization in schools and universities, training and seminars, and digitizing financial literacy content.

OJK is also encouraging the expansion of access to financial services in remote areas through financial service agents such as post offices, bank agents, and others. In addition, collaboration with local governments is also carried out to disseminate financial products and services that are in line with the needs of the local community (OJK, 2021).

These efforts show that OJK is actively trying to improve financial literacy and inclusion through various forms of policies and regulations. However, the level of financial literacy and inclusion among the Indonesian people is still relatively low compared to other ASEAN countries.

Based on the 2019 National Survey of Financial Literacy and Inclusion by OJK, only around 38.03% of the Indonesian population has adequate financial literacy. Meanwhile, access to formal financial services has only reached 76.19% of the adult population. This financial inclusion figure is still far from the target set of 90% by 2024.

This indicates that the various financial literacy and inclusion programs and policies implemented by OJK have not yielded significant results. Some challenges that hinder the effectiveness of OJK's policies include lack of infrastructure in remote areas, high costs of financial services for low-income people, and the culture of saving money at home that is still ingrained in some communities (Herdjiono & Damanik, 2016).

Therefore, it is necessary to accelerate the financial literacy and inclusion strategy by OJK so that the target of increasing public access and knowledge of financial services can be achieved. Some policy options that can be pursued include digitizing financial services to reduce costs, optimizing the role of financial agents in isolated areas, and increasing collaboration with the education sector to strengthen financial literacy from an early age.

Overall, although OJK has made efforts to improve financial literacy and inclusion through various policies and regulations, the increase in these two aspects in society is still not significant. Breakthroughs in regulations and accelerated policy implementation are needed so that the targets for financial literacy and inclusion can be achieved by 2024, thereby promoting the growth of Indonesia's financial services sector.

4. Conclusion

OJK regulations as the banking regulator in Indonesia have proven to have a significant influence on the growth of the banking sector. Although the impact is not always positive, OJK regulations, both prudential and those providing relaxation, have the potential to influence banking performance in terms of profitability, credit risk, liquidity, and others. Therefore, OJK needs to formulate a balanced policy between regulatory and flexibility aspects so that the regulations issued can effectively promote healthy and sustainable banking growth. Although OJK has attempted to improve financial literacy and inclusion through various policies and regulations, the increase in these two aspects in society is still not significant. This indicates that OJK regulations have not been fully effective in increasing financial literacy and inclusion. A policy breakthrough is needed by considering various existing constraints and challenges so that the implementation of financial literacy and inclusion policies can run more optimally. Thus, the national financial literacy and inclusion targets can be achieved to boost the growth of the Indonesian financial services sector.

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