

## Newsletter

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# The New Financial Conglomeration Rules and Requirements: Key Insights and Considerations



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## Introduction

On 19 December 2024, Indonesia's Financial Services Authority (Otoritas Jasa Keuangan - "**OJK**") issued a new regulation regarding Financial Conglomeration and Financial Holding Company ("**OJK Reg. 30/2024**") which came into effect on 23 December 2024. The new regulation replaces the previous OJK Regulation No. 45/POJK.03/2020 on Financial Conglomeration ("**OJK Reg. 45/2020**") and is based on the mandate of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector ("**P2SK Law**").

OJK Reg. 30/2024 introduces new requirements for financial conglomeration groups ("**FCG**") in Indonesia, aimed at strengthening the regulatory framework of FCGs as well as enhancing the governance of financial holding companies (Perusahaan Induk Konglomerasi Keuangan - "**PIKK**"). An FCG is defined as a group of Financial Service Institution ("**FSI**") that are interlinked within one group through ownership and/or control. Under OJK Reg. 30/2024, the types of FSIs have been expanded to include those conducting businesses conventionally and/or those based on sharia law, such as banks, insurance/reinsurance companies, securities companies, finance companies, infrastructure finance companies, deposit insurance companies, pension funds, venture capital companies, pawnbrokers, peer-to-peer lending platform operators, technology-based crowdfunding services, and other FSIs. Whereas the previous regulation, OJK Reg. 45/2020 recognized FCG members to only include banks, insurance/reinsurance companies, financing companies, and securities companies.

A group of FSIs meeting the criteria for an FCG are required to designate a PIKK, which can be either Operational (an FSI) or Non-Operational (a non-FSI entity). Designating a PIKK requires approval from OJK. This new regulation, in line with the P2SK Law, also affirms the authority of OJK to regulate and perform integrated supervision over FCGs.

Below, we highlight the notable items under OJK Reg. 30/2024 as follows:

- **Criteria of an FCG:** The criteria for an FCG have been updated and are now classified into two categories. **Category I** applies to FCGs with total group assets of at least Rp100 trillion, consisting of at least two FSIs in two different sectors. **Category II** applies to FCGs with total group assets ranging from Rp20 trillion to Rp100 trillion, consisting of at least three FSIs in three different sectors.
- **Formation of a PIKK:** FSIs that meet the criteria for an FCG are required to designate a PIKK, which can be either Operational (an FSI) or Non-Operational (a non-FSI entity), and must obtain approval from OJK. For new FCGs, the application for OJK approval must be submitted within six months of meeting the criteria. For existing FCGs, the application for OJK approval must be submitted within six months following the enactment of OJK Reg. 30/2024.
- **Control of FCG Members:** The regulation sets criteria for a PIKK's control over FCG members, including shareholding thresholds and consolidation requirements.
- **Corporate Plan and Charter:** The regulation mandates the preparation of a five-year corporate plan and a corporate charter to ensure governance and alignment within the FCG.
- **Corporate Actions:** OJK's authority over corporate actions has been expanded, including events such as changes of control or shareholding composition by a PIKK and its members of the FCG.

- **Management of PIKK:** Fit-and-proper tests are required for the BOD and BOC of the PIKK, with specific requirements for both Operational and Non-Operational PIKKs.
- **Prohibitions:** The regulation prohibits the encumbrance of PIKK shares and cross-ownership within the FCG to maintain clear lines of control.
- **Bank Holding Companies:** Banks acting as holding companies are required to transfer their PIKK role to a Non-Operational PIKK.
- **Termination and Reporting:** Conditions for terminating a PIKK and reporting requirements to OJK are outlined.

## Key Takeaways

OJK Reg. 30/2024 represents a significant shift towards more robust, comprehensive, and integrated governance for FCGs in Indonesia. It introduces new provisions as well as a more elaborate and stringent set of requirements for FCGs. Nevertheless, these new rules and requirements may also entail practical challenges, such as the restructuring process, tax implications, fit-and-proper tests, and coordination among FCG members and their internal business units. While the regulation significantly impacts FSIs that are interlinked within one group through ownership and/or control, the requirement to restructure ownerships of each FSI to a designated PIKK introduces an additional layer of ownership. This might result in intricate bureaucratic procedures between other shareholders of each FSI as a member of the FCG. Hence, it is essential for relevant stakeholders to revisit agreements governing shareholder arrangements. Accordingly, it is important for FSIs and relevant stakeholders to conduct the necessary assessments and preparations to ensure compliance with the new rules and requirements and facilitate a smooth transition as OJK Reg. 30/2024 sets a tight timeline for this transition.

A more detailed analysis of the regulation is underway. Please stay tuned for our further assessment in our upcoming newsletters. If you have any questions in relation to the topic raised in this briefing, please contact the authors listed above.