

Unclassified

English - Or. English

24 November 2025

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**Balancing Prudential Regulation and Competition Considerations in Banking – Note by  
Indonesia**

5 December 2025

This document reproduces a written contribution from Indonesia submitted for Item 10 of the 147<sup>th</sup> OECD Competition Committee meeting on 4-5 December 2025.

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## *Indonesia*

1. The regulatory dilemma is becoming increasingly urgent amid efforts to encourage banking consolidation to face global and domestic challenges. Actions aimed at achieving stability (e.g., encouraging banks to grow large or conducting mergers) have the potential to create dominant positions and significantly reduce competition. The relevant stakeholders are expected to cooperate seeks to dissect the philosophical and practical conflicts that arise at the intersection of the two legal regimes, as well as identify the harmonized framework necessary to achieve a stable, fair, and efficient financial system.

### **1. Regulatory and Policy Balance in Indonesian Banking Sector**

2. The banking sector in Indonesia is a strategic sector whose existence is fundamental to national economic stability. Therefore, the regulation is faced with a duality of often conflicting objectives: achieving Financial System Stability (SSK) as a public good on the one hand, and promoting market efficiency and protecting consumers from monopoly practices on the other. This philosophical tension is manifested in the overlap of jurisdiction between two main regulatory regimes, the prudential regime represented by the Financial Services Authority (OJK) and the Business Competition regime represented by the Indonesia Competition Commission (KPPU).

3. OJK is responsible for supervising and regulating financial services institutions, including banking, insurance, and capital markets. OJK focuses on prudential supervision and the behavior of financial service institutions. KPPU works based on Law of the Republic of Indonesia Number 5 of 1999 (Law 5/1999) concerning the Prohibition of Monopoly Practices and Unfair Business Competition. The main purpose of enforcing this law is to create effectiveness and efficiency in business activities, as well as to prevent business actors from actions that can result in unfair business competition in all economic sectors, including banking. Banks and other financial services institutions, as business actors, are generally subject to KPPU's jurisdiction. In addition, Bank Indonesia (BI) is also responsible for maintaining financial system stability and supervising the central bank, including regulating monetary policy and maintaining the stability of the payment system.

4. In an effort to make Indonesian banking more competitive, adaptive, and contributory to the national economy, OJK encouraged industrial consolidation. POJK Number 12/POJK.03/2021 concerning Commercial Banks was issued in the spirit of encouraging the banking industry to achieve a higher and more efficient economic scale. This policy, which structurally reduces the number of business actors, aims to strengthen the institutional aspects of the bank. These actions aimed at stability, structurally reducing the number of business actors, have the potential to create a dominant position and significantly reduce competition.

5. OJK continues to strengthen the resilience of the national banking industry through the adoption of international standards, especially Basel III. This policy focuses on strengthening capital, risk governance, and bank liquidity. This is realized from the issuance of the latest OJK Regulation (POJK), such as POJK Number 20 of 2025 which requires Sharia Commercial Banks and Sharia Business Units to meet the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). In addition, POJK Number 21 of 2025 stipulates the obligation to fulfill the Leverage Ratio for Sharia Commercial Banks. This regulation is an important step to strengthen the structure of capital, liquidity

and long-term funding, ensuring that banks are more resilient and in line with international prudential standards. This adoption is claimed as a prerequisite for sustainable competition in banking sector.

6. The importance of stability is also seen in the handling of problematic banks. The OJK has the authority to issue written orders (including through POJK 18/2020) instructing financial service providers to conduct mergers, consolidations, acquisitions, or integrations to maintain system stability. This order shows that stability is a top priority, even if it has to put aside competition considerations in the short term, which reflects the approach of failing firm defence or systemic stability.

7. Prudential Banking is at the heart of modern banking governance, designed to protect the stability of individual banks and the system as a whole. The prudential banking principle is defined as the bank's efforts to minimize the risk of the bank's operational business. This is done based on the provisions set by the central bank or regulator and the internal provisions of the bank. The main goal is to ensure that the bank is always in a healthy, liquid, and solvent state. This principle is very fundamental in the context of banking sector, where failure to implement it can result in significant losses and risks, both for institutions and for public trust.

8. Systemic impact banks (SIBs) or banks that are considered Too Big To Fail (TBTF) are a direct product of prudential regulations that emphasize the resilience of large banks. The status of SIBs provides significant structural advantages and creates a profound distortion of competition. The status of TBTF assumes for the market that there is an implicit guarantee from the government if the bank faces difficulties. This trust automatically lowers the risk of bank SIBs premiums, which in turn reduces the cost of funding (Third-Party Funds/Deposits). This cost advantage creates a distortion of competition (often referred to as a TBTF subsidy) for national private banks or smaller banks. Large banks can use this advantage to dominate deposit pricing competition, effectively deterring or marginalizing smaller competitors.

9. KPPU works to fight monopoly practices or exploitation by large companies that have a dominant position. KPPU faces challenges in overcoming dominance resulting from stability policies that are not carefully pursued and needs to find appropriate solutions to ensure healthy and fair competition in the market.

## 2. Competition Enforcement Challenges in Financial Services

10. In Indonesia, the merger notification regime under the Indonesian Competition Commission (KPPU) is characterized as a post-notification regime. This means that parties to a merger or acquisition are not required to obtain prior approval from KPPU before completing the transaction. Instead, they are required to notify KPPU of the merger or acquisition within a specified timeframe after the transaction has been completed. Under this regime, the parties can proceed with the merger or acquisition without waiting for KPPU's approval, but they must notify KPPU of the transaction and provide the necessary information. KPPU will then review the notification and may take further action if the merger or acquisition is deemed to have potential anti-competitive effects.

11. This post-notification regime is designed to balance the need for efficient business transactions with the need to ensure competition in the market. It allows businesses to complete their transactions quickly while still providing KPPU with the opportunity to review and take action if necessary. Although the OJK can issue urgent written orders for troubled banks, the KPPU still requires post-merger notification compliance for Merger and Acquisition (M&A) that exceeds certain thresholds. The conflict of time and priorities

becomes clear here: the OJP prioritizes the speed of corporate action to maintain stability, while the KPPU must carry out its legal mandate to analyze the anti-competitive impact of such transactions.

12. A structural weakness in this process is the absence of ex ante synergy. No mechanism requires banking business actors to obtain KPPU's opinion or approval before obtaining final approval from the OJK or the Ministry of Law and Human Rights. This poses a significant legal risk, if an M&A instructed by the OJK (for stability reasons) turns out to create a dominant position in violation of Law 5/1999, KPPU can take action against the bank ex post. This conflict has the potential to lead to legal uncertainty, where banks possibility are punished for obeying the orders of other regulators.

13. In addition to M&A supervision, KPPU has also conducted studies that have been forwarded into case initiatives. In 2014, The KPPU investigated PT Bank Rakyat Indonesia (BRI) and two insurance companies, PT Asuransi Jiwa Bringin Jiwa Sejahtera and PT Heksa Eka Life Insurance, for allegedly violating Indonesia's competition law. The issue centered around BRI's requirement for customers to purchase life insurance from one of the two designated insurance companies as a condition for obtaining a housing loan. The KPPU found that BRI's arrangement with the insurance companies constituted an unlawful "tying arrangement," which is prohibited under Article 15(2) of the Law 5/1999. This arrangement was deemed to limit market access for other insurance companies, restrict fair competition in the relevant market, and harm consumers by limiting their choice of life insurance products and providers.

14. KPPU considered Bank Indonesia's circular, which requires banks to allow borrowers to choose from at least three different insurance providers. BRI's arrangement was found to be in violation of this regulation. KPPU annulled the agreements between BRI and the insurance companies and imposed fines totaling Rp 57 billion (approximately USD 4.4 million) on the three companies involved. This case highlights the importance of compliance with competition laws in Indonesia, particularly in the banking and insurance sectors. It emphasizes the need for businesses to ensure that their practices do not restrict competition or harm consumers.

15. KPPU also submitted suggestions for consideration regarding the exclusive cooperation agreement process in *bancassurance*, where the exclusive agreement process involving only one business actor, has the potential to conflict with the principles stipulated in competition law if the election process ignores these principles. For this reason, KPPU suggests that in determining the exclusive cooperation partners, a transparent and non-discriminatory process and based on efficiency considerations should be carried out, under the supervision of the OJK. It is the role of the two institutions to prevent business exclusivity efforts that can drive inefficiency in the insurance and banking industries in the long term. Specifically for the implementation of the principles of business competition in the financial services industry, KPPU urges the OJK to cooperate with KPPU on every aspect of the regulation of the financial services industry in preventing monopolistic practices and unfair business competition.

### 3. Next Improvement and Collaboration

16. Indonesia has traditionally implemented entity-based regulations (OJK regulates Commercial Banks, BPRs, Insurance, etc.). However, along with the development of technology, to encourage innovation and competition, especially in the digital aspect, Bank Indonesia issued the Indonesian Payment System Blueprint (BSPI) 2030 to ensure a

balance between innovation and consumer protection, integrity, stability, and healthy business competition. This framework supports the digitization of banking and open banking, which has the potential to increase competition by opening up access to data and services.

17. The digitization of banking and open banking has encouraged the development of digital payment systems in Indonesia. In this context, QRIS (Quick Response Code Indonesian Standard) and GPN (National Payment Gateway) play an important role in creating an efficient, secure, and inclusive digital payment ecosystem. QRIS is a QR code standard used to make digital payments in Indonesia. With QRIS, consumers can make transactions by scanning QR codes through banking apps or digital wallets. GPN, on the other hand, is a national payment infrastructure that connects banks and financial institutions in Indonesia. GPN allows inter-bank transactions to be carried out more efficiently and safely.

18. In line with that, in its meeting with Bank Indonesia in June 2025, KPPU delivered a plan to implement a joint study on business competition in the payment system. The study aims to identify market structure, competition dynamics, and regulatory impacts on the competitive climate in Indonesia's payments industry. This study is expected to produce policy recommendations that not only prioritize efficiency and fairness in the payment system, but also encourage innovation and growth of the digital economy. The results will be important input for regulators, industry players, and other stakeholders in formulating a policy direction that balances consumer protection, national interests, and healthy competition. This process is still ongoing and will be realized after the signing of the Memorandum of Understanding (MoU) between the KPPU and BI.

19. The MoU will complement supervision in the banking sector, where previously KPPU had a Memorandum of Understanding (MoU) with the OJK to prevent monopolistic practices and unfair business competition in the financial services sector, including banking. This agreement can be followed up with harmonization of regulations, coordination in the preparation of regulations, and joint studies.

#### 4. Conclusion

20. The banking sector in Indonesia has a strategic role in maintaining national economic stability. Banking regulation is faced with the dualism of the goal of achieving financial system stability and promoting market efficiency and protecting consumers from monopoly practices. Banking regulation in Indonesia is faced with the challenge of achieving financial system stability while promoting competition and protecting consumers.

21. KPPU, OJK and BI have an important role in supervising and regulating the financial industry to achieve these goals. Currently, KPPU already has an MoU with the OJK and is preparing an MoU with BI. The two also plan to sign a Memorandum of Understanding (MoU) to enhance cooperation in the supervision and regulation of the financial industry.

#### 5. Recommendation

22. To produce deeper synergies, the competition authorities can strive to increase the intensity and formality with relevant stakeholders in data exchange to support law enforcement and the assessment of merger risks and the potential for unfair competition in

the banking sector. The goal is to overcome problems that arise at the intersection of the two legal regimes, as well as identify the harmonized framework necessary to achieve a stable, fair, and efficient financial system. Competition authority, in collaboration with banking regulator, may conduct focused market studies and surveillance on banks to proactively monitor for anti-competitive practices stemming from bank dominant position. It is ensure that the necessary prioritization of stability doesn't become a loophole for anti-competitive behavior.

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