

BANKING, FINANCE & PROJECT

New Rules for Financial Conglomerates: Understanding OJK Regulation No. 30 of 2024



Law No. 4 of 2023 or more commonly known as the PPSK Law continues to reshape Indonesia's financial landscape. With the aim of modernising and strengthening the country's financial industry, the PPSK Law sets the stage for a wave of new regulations. One of the key developments in this process is OJK¹ Regulation No. 30 of 2024 on Financial Conglomerate and Financial Holding Company ("**Regulation**"). Enacted in December 2024, the Regulation replaces OJK Regulation No. 45/POJK.03/2020 on Financial Conglomerate and introduces important changes to the governance and operation of these major financial players.

This alert provides a breakdown of these key changes and their potential implications.

What is a Financial Conglomerate?

The Regulation introduces key changes to how a "financial conglomerate" is defined. Previously, under OJK Regulation No. 45/POJK.03/2020, any group with over IDR100 trillion in assets operating in multiple financial sectors was considered a conglomerate. Now, it is no longer just about size (having over IDR100 trillion in assets). Instead, the OJK will consider structure and the types of businesses involved. This shift reflects a move towards a more nuanced approach to regulation, recognising the diverse nature of financial conglomerates.

Two types of financial conglomerate

Under the Regulation, a financial conglomerate is defined as a group under the same Controlling Shareholder (*Pemegang Saham Pengendali* or "**PSP**") that meets **one** of the following criteria:

- **Large Conglomerates:** Possessing total assets of at least IDR100 trillion and having at least two Financial Services Institutions (*Lembaga Jasa Keuangan* or "**LJK**") operating² in two different financial sectors (e.g., banking and insurance).
- **Medium-Sized Conglomerates:** Having total assets between IDR20 trillion and IDR100 trillion, with at least three LJKs operating in three different financial sectors.

To illustrate, a company that owns a bank and an insurance firm where the combined assets exceed IDR100 trillion will be considered a large conglomerate. On the other hand, another company that owns a bank, an insurance firm, and a financing company is classified as a medium-sized conglomerate if the combined assets is below IDR100 trillion.

Calculating assets

The initial assessment of assets is based on the financial statements as of June 2024, which can be either audited or unaudited. It is important to note that even if a conglomerate's total assets fall below the thresholds later, it must still comply with the Regulation as long as it continues to operate the required number of LJKs in different sectors.

OJK's discretion

The OJK retains the authority to designate a group as a financial conglomerate even if it does not meet these criteria, especially if the group's business activities are complex (e.g. based on product and service variations, transaction volume, product sensitivity in the public, or performance realisation) or have a significant impact on the financial sector. Similarly, the OJK can also determine that a previously designated conglomerate no longer meets

¹ OJK is *Otoritas Jasa Keuangan*, Indonesia's Financial Services Authority.

² The business can be either conventional or sharia.

the definition by considering the composition or dominance of total assets within each financial institution under the OJK's discretion.

Establishing a Financial Holding Company (PIKK)

The Regulation introduces a major change for financial conglomerates: the mandatory establishment of a Financial Holding Company (*Perusahaan Induk Konglomerasi Keuangan* or "**PIKK**"). This applies to both the Controlling Shareholder (PSP) and the Ultimate Shareholder (*Pemegang Saham Pengendali Terakhir* or "**PSPT**"). The PIKK must be approved by the OJK, and the requirement is triggered based on the conglomerate's total assets, calculated over six months and limited to the assets of LJKs within the group.

Types of PIKK

There are two types of PIKK:

- **Operational PIKK:** This is an existing LJK within the conglomerate that is appointed to act as the PIKK. It is subject to the regulations of its specific financial sector (e.g., banking regulations if the PIKK is a bank).
- **Non-operational PIKK:** This is a new company established specifically to serve as the PIKK or an existing company owned by the PSP or PSPT. It is not itself an LJK and must meet certain requirements, which will be further detailed below.

The key differences between the two types of PIKK are as follows:

Feature	Operational PIKK	Non-operational PIKK
Formation	An existing LJK owned by a PSP or PSPT appointed as PIKK	A new or existing company – non-LJK – owned by the PSP or PSPT.
Establishment Requirements	Subject to sectoral LJK regulations	It must be a limited liability company established in Indonesia.
Paid-Up Capital	Subject to sectoral LJK regulations	The paid-up capital must be at least equal to the nominal value of the shares it holds in the conglomerate members.
Ownership	Subject to sectoral LJK regulations	It must be owned by Indonesian citizens/entities, or a partnership between Indonesian citizens/entities with foreign citizens/entities.
Change of Ownership	Subject to sectoral LJK regulations	It must notify OJK of any changes in capital or ownership structure.

Business activities

Regardless of the type, a financial holding company's main role is to oversee and manage the financial conglomerate. This includes:

- Controlling, consolidating, and being responsible for all activities of all members in the financial conglomeration.

- Making equity investments.
- Providing management services to enhance the effectiveness of consolidation and business strategies.
- Optimising the financial performance of the conglomerate.

Management and structure

Both operational and non-operational PIKKs are governed by a board of directors and a board of commissioners. For operational PIKKs, the composition of these boards will be determined by the existing regulations for that particular type of financial institution (e.g., a bank acting as an operational PIKK will follow banking regulations).

Non-operational PIKKs have specific requirements: they must have at least three directors and three commissioners, with a mix of independent and non-independent commissioners. The president director of a non-operational PIKK cannot hold any other positions within the conglomerate.

The Regulation also outlines detailed rules to ensure the effective governance of PIKKs. These rules address residency requirements for board members (all of whom must reside in Indonesia), restrictions on concurrent positions to prevent conflicts of interest, and other stipulations to promote transparency and accountability.

Transitional Provisions and Exemptions

Transition period for restructuring

Financial conglomerates undergoing restructuring to comply with the PIKK requirements have a one-year window to complete the process. The required documents must be submitted within six months of the Regulation's enactment, and the restructuring must be finalised within one year of receiving OJK approval. The OJK has the discretion to grant extensions to this timeline if needed.

Special case for bank business groups

Existing bank business groups (*Kelompok Usaha Bank*) where a bank acts as the parent company will see a shift in responsibilities. The parent bank's duties and authority will be transferred to a non-operational PIKK.

Exemptions

The Regulation exempts the following entities from the requirement to form a financial holding company:

- **Rural Banks:** Rural banks and rural sharia banks within the same group or under the same ownership are exempt.
- **Foreign Bank Branches:** Branches of foreign banks are not included in the financial conglomerate structure.
- **Government-Owned LJKs:** LJKs owned and controlled directly by the government (central or regional) are exempt from forming a PIKK.

Prohibition on Cross-Holding

To prevent conflicts of interest and ensure clear ownership structures, the Regulation prohibits cross-holding within the financial conglomerate. This means members of the conglomerate cannot hold shares in the PIKK or in other members.

Key Takeaways

The Regulation marks a significant shift in the regulatory landscape for Indonesia's financial sector. By introducing new definitions, requiring the establishment of financial holding companies, and outlining clear exemptions and prohibitions, the regulation aims to strengthen oversight, promote stability, and enhance the resilience of financial conglomerates.

While these changes may present challenges, they also offer opportunities for financial conglomerates to streamline their operations, improve risk management, and enhance their overall financial health. We encourage all financial groups to proactively assess their current structures and operations in light of these new requirements.

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