



## Transformation of the Financial Services Authority in the Digitalization Era

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**Abstract:** *The research aims to analyze policies and regulations as well as steps to develop the Financial Services Industry, institutional strengthening of the Financial Services Authority, the role of OJK as part of the Financial System Stability Committee. The research method used in this research is descriptive method. Researchers analyzed based on reference sources such as Government Regulations, Laws and Regulations from the Financial Services Authority. The research results consist of Policies and regulations as well as steps to develop the Financial Services Industry have been regulated in Law Number 21 of 2011 which can be implemented in several stages, namely the preparation, implementation and evaluation stages. Institutional strengthening of the Financial Services Authority is carried out in various aspects, namely aspects of service, human resources and institutional budgets. The role of OJK as part of the Financial System Stability Committee is carried out by maintaining financial system stability through policy responses and synergy.*

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## **Introduction**

We live in a world that is accelerating on the locomotive of information technology innovation and the Covid-19 pandemic which has the potential to change the way we live and the way we work. This locomotive is termed by Giddens as a juggernaut that has great strength and can move quickly, can be driven to a certain level but can also carry a threat of danger to an uncontrollable level, destroying boundaries that can hinder and fight it on the current track. through it(Lamsal, 2012). This information technology innovation can lead to a point that can cause a change in a company's leadership position in the market, products and services, consumer preferences, regulations and policies made.(Berman, 2012). This can happen massively in the activities of people's lives that take place in the financial services sector as the end point.

Various new start-up companies have emerged and compete with each other to offer a variety of information technology innovations in financial products and services which are currently known as financial technology (fintech). The adoption of information technology into fintech regenerates a variety of financial services in the form of investment, financial transactions, funding services, insurance and other financial services.(Romanova et al., 2018). Fintech is dismantling traditional business models and business processes for financial services which are considered to be very complex, complicated and convoluted, giving rise to new variants of business models and business processes. Fintech offers convenience and inclusion for people who have never been or have not been reached by financial services.

The innovations brought by fintech companies not only bring positive progress such as convenience, simplification of business process operations and expanding a more inclusive market share, but can also bring a number of consequences and risks that can jeopardize security, trust and create injustice in society.(Anagnostopoulos, 2018). The narrative that is built on this innovation becomes a euphoria that leads to being wild and has already taken its toll on the community. This recent problem is a consequence of technological advances in various financial service activities, both in the form of fraudulent investment fraud, customers experiencing loss of funds when conducting financial transactions, customers experiencing threats in the credit collection process, customers who cannot claim insurance policies, disrupting incumbent financial institution. Without strict control efforts in the form of regulation, supervision, investigation and prosecution from elements of the state, this can lead to danger that is getting worse and more uncontrollable.(Chiu, 2016). The lack of information, including an early warning system for any possible dangers that can be experienced by the public in using financial services, is one of the things that has the potential to cause consumers to lose money.

Disappointment over the absence of state authorities on various problems experienced by people in the financial services sector(Asongu, 2014), make people to be able to take anarchic actions. For example, by sharing their experiences on forums or social media platforms, they will bring support and defense from other communities. Here the power of the community collectively emerges and makes the community the judge of its own problems. Widespread distrust of the credibility of financial institutions can have a direct impact on the

decline in the performance of financial institutions which can have a systemic impact on the country's economy. This happens because people who have already put their trust in and really hope for firm action from the authorities of state institutions to carry out the functions of regulation, supervision,(van der Cruijssen et al., 2021). The existence of the Financial Services Authority (OJK) is a milestone in the community's expectations of this problem.

Based on this background, the formulation of the problem in the article is how are policies and regulations as well as steps to develop the Financial Services Industry? How is the institutional strengthening of the Financial Services Authority? What is the role of OJK as part of the Financial System Stability Committee?

## Research Method

The writing method used by the author is a descriptive method, according to Sugiyono (2015) descriptive method defined as a method used to describe or analyze something results study but no used to make more conclusions wide. Based on definition according to Sugiyono , get it said that method analysis descriptive is method study for make description about situation or existing events, so that this method should be held data accumulation. The type of data used in writing this final project is secondary data. Secondary data used by the author comes from: books, reports, journals, and others.

## Result and Discussion

### 1. Policy and Regulatory Framework and Steps to Develop the Financial Services Industry

OJK holds the mandate of the law made by the people's representatives. OJK stands as an independent institution and is free from interference from other parties, which has the functions, duties and authority to regulate, supervise, inspect and investigate all financial services operating in Indonesia. Under the umbrella of Law number 21 of 2011, OJK is a figure who is above the structure and the ability to control situations that are problematic in public activities in the financial sector which are currently being brought about by the rapid pace of information technology modernity. In addition, OJK is expected to be able to maintain security and maintain trust as well as anticipate the occurrence of dangerous risks that can affect the stability of the country's economy.

In accordance with the mandate of Law Number 21 of 2011, OJK functions to organize an integrated regulatory and supervisory system for all activities in the financial services sector. integrated supervision The establishment of the OJK has the objective of ensuring that all activities in the financial services sector:

- a. held regularly, fairly, transparently, and accountably;
- b. able to realize a financial system that grows in a sustainable and stable manner; and
- c. able to protect the interests of consumers and society.

To achieve this goal, the law gives authority to OJK in carrying out its regulatory function to be able to determine the regulations and policies that apply to financial service institutions (Banks and Non-Banks). Meanwhile, in carrying out its supervisory function, OJK

may carry out supervision, examination, investigation, consumer protection and other actions against financial service institutions, actors and/or supporting financial service activities as referred to in the applicable laws and regulations in the financial services sector.

In the midst of the rapid pace of development of information technology in the financial services sector, this is the momentum for OJK to reflect back on the existence of its role with experience that has lasted for approximately 10 (ten) years since its establishment. This reflection is expected to be able to add energy to continuously make improvements and improvements to the OJK institution in order to carry out its functions effectively. By adjusting to actual conditions, OJK as a superstructure is always required to continue to make breakthroughs in carrying out the regulatory and supervisory functions of financial service institutions.

Practices in the regulatory and supervisory functions may change over time according to developments or ongoing situations, therefore the implementation of these functions must be guided by basic values, principles, principles that are absolute and universal.(Weber, 2021). The set of basic values adopted by the agency is strung together in the code of conduct and good governance guidelines and must be obeyed and implemented by all OJK personnel. Crystallization of compliance with the implementation of these values will become an internal culture that will radiate into positive impulses received by stakeholders to comply with every regulation made by OJK. Without the implementation of ethical behavior and good governance within the OJK, it will only lead to various forms of conflict of interest situations in the implementation of its functions(Amidjaya & Widagdo, 2020).

In the initial application of guidelines for ethical behavior and good governance, it is carried out in several stages, namely the preparation, implementation and evaluation stages(Bakhtiar, 2021). At the preparatory stage, namely by building awareness of the importance of good governance and building a shared commitment (awareness building), measuring / mapping the company's current readiness in implementing governance (assessment), and preparing manuals / guidelines that can be assisted by experts who independent from outside the institution (manual building).

At the implementation stage, socialization steps are carried out to introduce all institutional personnel to various aspects related to the implementation of governance, especially the guidelines for implementing governance; Implementation, namely activities carried out in line with existing governance guidelines, based on the roadmap that has been prepared. Implementation is a top down approach involving the board of commissioners; Internalization, namely the long-term stage in implementation. Internalization includes efforts to introduce governance in all activities, and various internal regulations.

Meanwhile, at the evaluation stage, it needs to be carried out regularly, regularly from time to time to measure the effectiveness of the governance that has been carried out. This stage is carried out by creating a monitoring and evaluation system instrument to ensure the quality of the implementation of OJK's duties and functions has been carried out effectively based on a good governance framework without any conflict of interest. This monitoring and evaluation instrument can be sourced from internal parties fronted by the Audit Board,

external institutions carried out by the Supreme Audit Agency (BPK) and Public Accounting Firms (KAP) as well as from the public directly through the whistle blowing system (WBS) complaint channel or through social media which of course cannot be controlled by OJK.

The audit board as one of the supporting organs of the Board of Commissioners is tasked with evaluating the implementation of OJK duties, compiling OJK audit and risk management standards, and compiling OJK quality assurance standards in order to realize the integrity, independence and maintain OJK accountability. The existence of the audit board plays a vital role in strengthening the institutional aspects of OJK both in terms of institutions, human resources (HR) and budget, as well as ensuring that the regulation and supervision carried out by OJK takes place in an integrated, professional and accountable manner.(Sonia & Khafid, 2020).

## **2. Institutional Strengthening of the Financial Services Authority (OJK)**

The strengthening of the institutional side can be seen in the increasing public trust in OJK. There is a standardization of measurement of public trust. The level of public trust in the OJK institution can be measured by its role in the aspect of consumer protection(Charisma, 2021). OJK's commitment to consumer protection is based on OJK's role as a facilitator in resolving any consumer complaints received and followed up by OJK in a transparent and accountable manner.(Ferretti, 2014). The transparency of OJK's follow-up can provide a sense of comfort for complainants. The consumer complaint channel to the OJK is the last choice made by consumers who do not get a settlement from the financial service provider. If you still don't get a solution from OJK as the last hope, the role of OJK will be considered absent and will further reduce public trust in OJK institutions.(Charisma, 2021). If left unchecked, consumers will start holding cases by seeking justice on the streets. Disappointment from one consumer will be transmitted very quickly to the wider community, becoming a trending topic on social media that is getting out of control. As a result of disappointment, one consumer will get massive public support and prosecute the existence of OJK because it is considered useless and undermines public trust in financial institutions in Indonesia in general.

On the Human Resources and budget side, it is necessary to supervise compliance with the ethical code of conduct that applies to all OJK personnel(Voegtlin & Greenwood, 2016). This ethical behavior is to limit the occurrence of conflicts of interest that may occur between OJK personnel and industry players in financial services. Independent attitude in providing the best recommendations for the sustainability of the financial services industry usaha(Schönborn et al., 2019). Budget management sourced from the State Revenue and Expenditure Budget (APBN) and from contributions from the financial services industry players(Zaini, 2019), carried out in a transparent, accountable and responsible manner. Every efficiency in the use of the budget needs to get an appreciation that can be considered in measuring the achievement of its performance. The existence of contributions from actors from the financial services industry is not a burdensome factor for OJK to act independently. This is in accordance with the duties of the OJK as an independent institution, free from

interference from other parties. The independence of the OJK is important, therefore the instruments established are aimed at safeguarding the institution better.

Article 5 of the OJK Law states that the OJK functions to implement an integrated regulatory and supervisory system for all activities in the financial services sector. The financial services sector includes banking services, capital markets and other financial services such as insurance, guarantee institutions. Pension funds and other service industries. Every financial institution that will run and stop its operations must have permission from the OJK. This is carried out as a form of supervision and protection carried out by the OJK. Periodic supervision by OJK of financial institutions encourages financial service institutions to increase economic growth and maintain monetary stability and supervision of financial services to maintain the interests of the financial community (Maulidiana, 2014). Therefore, OJK must become an independent institution so that it is able to properly maintain the interests of the community and develop a financial services industry that is beneficial to the national economy. (Pikahulan, 2020).

### **3. The role of OJK as part of the Financial System Stability Committee (KSSK)**

The stability of the financial system is important for a country. The role of maintaining stability cannot be carried out by one party. Therefore, the Ministry of Finance together with financial institutions such as OJK, Bank Indonesia (BI) and the Deposit Insurance Corporation are members of the Financial System Stability Committee (KSSK). All relevant agencies work together to maintain financial system stability. If the financial system is experiencing instability, then monetary policy will run abnormally. This creates a domino effect such as hampered economic growth, massive withdrawals of funds from financial institutions, investor panic, and other systemic effects.

OJK's role in maintaining financial system stability can be carried out by responding and synergizing policies (Hughes Hallett & Proske, 2018). OJK can provide a more appropriate policy response in the event of vulnerabilities triggered by the financial sector. In this case, OJK synergizes with the central bank, namely Bank Indonesia (BI) to formulate monetary policy and bank regulation and supervision policies. In addition, the role of OJK in maintaining financial stability is to mitigate systemic risk. Systemic risks if not anticipated can jeopardize the financial system and the economy. OJK synergizes with related institutions, both BI and the Deposit Insurance Corporation, must maintain monetary stability and monitor each other among members of the Financial System Stability Committee (KSSK) as a systemic risk regulator. (Hughes Hallett & Proske, 2018).

### **Conclusion**

Policies and regulations as well as steps to develop the Financial Services Industry have been regulated in Law Number 21 of 2011 which can be implemented in several stages, namely the preparation, implementation and evaluation stages. Institutional strengthening of the Financial Services Authority is carried out in various aspects, namely aspects of service, human resources and institutional budgets. The role of OJK as part of the Financial System

Stability Committee is carried out by maintaining financial system stability through policy responses and synergy.

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