



## OVERVIEW OF TECHNOLOGY INNOVATION IN THE FINANCIAL SECTOR (ITSK) AND SANDBOX MECHANISM

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The Financial Services Authority (*Otoritas Jasa Keuangan* or “**OJK**”) has issued Regulation No. 3 of 2024 on the Operation of Technology Innovation in the Financial Sector (“**POJK 3/2024**”) which came into force on 19 February 2024. POJK 3/2024 revokes and replaces OJK Regulation No. 13/POJK.02/2018 on Digital Finance Innovation in the Financial Services Sector.

The substantial changes introduced by POJK 3/2024 include additional feasibility criteria, additional testing plan requirements and determination of sandbox results for Technology Innovation in the Financial Sector (“**ITSK**”) as well as its exit policy.

Below are the key takeaways of POJK 3/2024:

**Scope of ITSK** – covers commercial papers transaction settlements, capital accumulation, investment management, risk management, fund collection and/or distribution, market support, activities related to digital finance (including crypto assets) and other digital finance service activity.

**ITSK Operators** – consist of (i) financial services institutions (*Lembaga Jasa Keuangan* or the “**LJK**”) and/or (ii) other parties in the financial sector, whether in the form of limited liability company or other legal entities.

**Sandbox** – an enclosed and secure testing environment, introduced to undefined fintech in order to ensure their innovation and technological development in the financial sector is carried out responsibly mitigating risks and without exposing customers’ data.

**Participants of the sandbox** – consist of; (i) Financial Services Institutions (LJK); or (ii) other parties in financial sector, in the form of limited liability companies or other legal entities. Candidates shall apply to become a participant in the sandbox mechanism. In the case where candidates are LJK, recommendations from relevant OJK supervisors are also required.

**Implementations of the sandbox** – process of trial and developing innovations shall commence when approval is given to become a participant. Sandbox implementations are carried out within a maximum period of one year from the given approval. Participants are required to carry out trials and develop innovation, based on the submitted testing plan. Upon the Participant’s request, the OJK may grant temporary exemptions from certain OJK rules and regulations to Participants who are in the Sandbox process.

**Sandbox results and business license** – the OJK will carry out evaluations and/or follow up on sandbox results. In the events where participants are declared to have passed, they must apply for a business license to the OJK within the validity period of the pass letter.



The pass letter is valid for six months and may be extended based on the OJK's consideration. However, the pass letter does not serve as a business permit to carry out full business operations in the financial services sector. If a participant does not apply for a business permit until the validity period has passed and is not extended by OJK, its pass status will automatically terminate and be declared invalid.

*For further assistance and inquiries, please do not hesitate to contact our Senior Associate Mr: Oka Anantajaya ([oka.anantajaya@mkklaw.net](mailto:oka.anantajaya@mkklaw.net))*