

Study on Indonesia's KYC & KYB Process



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INTRODUCTION

KYC, or Know Your Customer, is a process used by financial institutions to verify the identity of their customers and assess their risk profile. KYC typically involves collecting personal information from customers, such as their name, address, date of birth, and government-issued identification documents. This information is then used to verify the customer's identity and assess their risk profile, which helps financial institutions comply with anti-money laundering (AML) and counter-terrorism financing (CTF) regulations.

KYB, or Know Your Business, is a similar process used by financial institutions to verify the identity and ownership of businesses that they work with. KYB typically involves collecting information about the business, such as its legal name, registration number, and ownership structure, as well as identifying the key individuals associated with the business. This information is then used to verify the identity and ownership of the business, which helps financial institutions comply with AML and CTF regulations and assess the business's risk profile.

Both KYC and KYB are important processes in the financial industry, as they help to prevent financial crimes such as money laundering and terrorism financing, and ensure compliance with regulatory requirements. They also help to build trust between financial institutions and their customers, which is essential for maintaining a stable and secure financial system.

INDONESIA'S DIGITAL KYC AND KYB PROCESSES

Indonesia's digital KYC (Know Your Customer) and KYB (Know Your Business) processes are regulated by the country's Financial Services Authority, also known as Otoritas Jasa Keuangan (OJK). The aim of these processes is to ensure that financial institutions and other regulated entities verify the identity of their customers and the businesses they deal with, in order to prevent money laundering, terrorism financing, and other financial crimes.

Here are the key elements of Indonesia's digital KYC and KYB processes:

1. **Digital KYC:** Financial institutions and other regulated entities must verify the identity of their customers using official documents such as national ID cards, passports, or driver's licenses. They may also use digital methods such as facial recognition technology or biometric scans.
2. **Risk-based approach:** The level of due diligence required for KYC varies depending on the risk profile of the customer. Higher-risk customers may require additional due diligence measures, such as enhanced due diligence or ongoing monitoring.
3. **Record-keeping:** Financial institutions and other regulated entities must keep records of the information collected during the KYC process, including copies of official documents and any other information used to verify the customer's identity.
4. **KYB:** Financial institutions and other regulated entities must also verify the identity of the businesses they deal with, using official documents such as business registration certificates, tax ID numbers, and shareholder information.
5. **Customer due diligence:** Financial institutions and other regulated entities must conduct ongoing customer due diligence to monitor for any changes in the customer's risk profile, such as changes in their financial activities or the countries they are doing business with.

It's worth noting that Indonesia has also launched a national digital identity system called e-KTP (Electronic Identity Card), which provides a secure and standardized way for citizens to prove their identity online. While e-KTP is not currently used for digital KYC purposes, it has the potential to be integrated into Indonesia's KYC processes in the future.

FINANCIAL ACCESS IN INDONESIA

As of September 2021, there were 116 commercial banks operating in Indonesia, according to data from the Financial Services Authority (OJK). These include state-owned banks, private banks, foreign banks, and regional banks.

In terms of financial inclusion, Indonesia has made significant progress in recent years, although there is still room for improvement. Here are some key statistics on financial inclusion in Indonesia:

- 1. Bank account ownership:** According to a 2020 survey by the OJK, around 76% of Indonesian adults (age 17 and above) have a bank account. This represents a significant increase from previous years, due in part to government initiatives to promote financial inclusion.
- 2. Digital payments:** The use of digital payments is growing rapidly in Indonesia, with mobile payments and e-wallets becoming increasingly popular. According to a 2020 survey by Google, Temasek, and Bain & Company, the value of Indonesia's digital payments market is expected to reach \$100 billion by 2025.
- 3. Financial literacy:** Financial literacy levels in Indonesia are relatively low, with many people lacking basic knowledge about financial products and services. The government and financial institutions have launched various initiatives to improve financial literacy, including educational campaigns and the development of financial education materials.
- 4. Microfinance:** Microfinance institutions play an important role in promoting financial inclusion in Indonesia, particularly in rural areas where traditional banking services may be unavailable. As of 2019, there were over 5,000 microfinance institutions operating in the country, serving around 23 million clients.
- 5. Regulatory environment:** The Indonesian government has implemented various policies and initiatives to promote financial inclusion, including the National Strategy for Financial Inclusion and the development of a national financial literacy framework. The OJK has also implemented regulations to promote responsible lending and protect consumers from predatory practices.

ECONOMIC GROWTH

Indonesia's digital KYC and KYB processes play a crucial role in supporting economic growth and the development of small and medium-sized enterprises (SMEs). Here are some of the ways in which digital KYC and KYB processes support economic and SME growth in Indonesia:

- 1. Access to finance:** Digital KYC and KYB processes help to promote financial inclusion by making it easier for individuals and businesses to access formal financial services. By streamlining the account opening process and reducing the need for physical documentation, digital KYC and KYB processes can help to reduce barriers to entry and increase access to finance.
- 2. Improved credit risk assessment:** Digital KYC and KYB processes allow financial institutions to more accurately assess the creditworthiness of borrowers, based on their financial history and other data points. This can help to reduce credit risk and improve the availability of credit for SMEs and other businesses.
- 3. Streamlined regulatory compliance:** Digital KYC and KYB processes help to simplify and streamline regulatory compliance for financial institutions, reducing the burden of compliance costs and allowing them to focus more resources on serving customers. This can help to promote the growth of the financial sector and encourage innovation in financial services.
- 4. Promoting transparency and accountability:** Digital KYC and KYB processes help to promote transparency and accountability in financial transactions, making it easier to detect and prevent

financial crimes such as money laundering and terrorism financing. This can help to promote a more stable and secure financial system, which is essential for economic growth.

5. Encouraging entrepreneurship: By improving access to finance and reducing regulatory barriers, digital KYC and KYB processes can help to encourage entrepreneurship and the growth of small businesses. This can help to create jobs and stimulate economic growth, particularly in rural areas where traditional banking services may be limited.

CONCLUSION

In conclusion, digital KYC and KYB processes play a crucial role in supporting economic and SME growth in Indonesia, by promoting financial inclusion, improving credit risk assessment, streamlining regulatory compliance, promoting transparency and accountability, and encouraging entrepreneurship. As Indonesia continues to develop its digital infrastructure and regulatory framework, these processes are likely to become even more important in supporting the country's economic growth and development.