

# A Juridical Review of the Role of the Financial Services Authority (OJK) in Supervising Open-Loop Savings and Loan Cooperatives in Indonesia Under Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector

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**Abstract:** *The role of the Financial Services Authority (OJK) in supervising Open-Loop Savings and Loan Cooperatives (KSP) in Indonesia. Open-Loop KSP is one of the important sectors of the Indonesian economy, but it is vulnerable to financial problems such as bad loans and misappropriation of funds. The author will conduct an in-depth assessment of the role of OJK in conducting supervision in Open Loop KSP institutions and to minimize the occurrence of violations that may occur. OJK is responsible for ensuring the security and stability of Indonesia's Financial Sector Services (JSK) industry. OJK will function as a supervisory team and regulate activities in the financial services sector as regulated in the P2SK Law (Law Number 4 of 2023) which regulates Open-Loop KSP. For Closed-Loop KSP, the supervision remains under the authority of the Ministry of Cooperatives and SMEs, while the OJK for Open-Loop KSP. The writing method in this study is doctrinal legal research that refers to the main secondary data source and additional supporting data. The data source of this research comes from a literature study that uses secondary data.*

**Keywords:** OJK Role, Supervision, Open Saving, Loan Cooperatives

## 1. Introduction

Cooperatives are collective enterprises based on mutual cooperation and familial principles, involving the active participation of all members in their operations. The essence of cooperatives lies in fostering a spirit of solidarity and collaboration in building joint enterprises, as envisioned in the Indonesian Constitution, specifically Article 33(1) of the 1945 Constitution, which underscores economic democracy. A cooperative is a business entity composed of individuals united by cooperative principles, forming a grassroots economic movement grounded in familial values (Nugroho et al., 2018: 11).

The Financial Services Authority (OJK) is mandated to protect the interests of cooperative members and consumers, particularly to prevent and address illegal fundraising activities in Indonesia (Alfarhani, 2022: 16). However, significant challenges remain. According to the Minister of Cooperatives and Small and Medium Enterprises, at least eight Savings and Loan Cooperatives (Koperasi Simpan Pinjam or KSP)—including KSP Sejahtera Bersama, KSP Indosurya, KSP Pracico Inti Sejahtera, KSPPS Pracico Inti Utama, KSP Intidana, Koperasi Jasa Wahana Berkah Sentosa, KSP Lima Garuda, and KSP Timur Pratama Indonesia—have defaulted on payments, resulting in cumulative losses of IDR 26 trillion (Aprilia, 2023).

This crisis has been attributed to weak oversight of Savings and Loan Cooperatives, particularly those that attract public funds with promises of high returns (Antoni & Razaga, 2024: 180). Cooperatives experiencing payment defaults should ideally operate under stringent and prudent systems, supported

by rigorous government oversight. The enactment of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (UU P2SK) introduces specific provisions for open-loop Savings and Loan Cooperatives—those engaging in financial services and openly mobilizing public funds—which are now under the supervision of OJK. Conversely, close-loop cooperatives, operating exclusively within their membership base, remain under the purview of the Ministry of Cooperatives and SMEs.

According to data from the Ministry of Cooperatives and SMEs, as of 2021, Indonesia had 127,846 cooperatives, reflecting a modest growth of 0.56% compared to the previous year (Raymond, 2024). Among these, 72,793 cooperatives were engaged in savings and loans, 24,593 in consumer services, 16,435 in other services, 5,973 in production, and only 3,254 in marketing—the least represented sector (Widi, 2022). These figures illustrate the limited growth of the cooperative industry. In response, the Ministry of Cooperatives and SMEs has initiated policy reforms aimed at enhancing the competitiveness and modernity of cooperatives, aligning with the demands of economic globalization.

Despite these efforts, the contribution of MSMEs and cooperatives to Indonesia's non-oil and gas exports in 2021 was only 15.69%, significantly lower than Singapore (41%), Thailand (29%), and China (60%). Regulatory fragmentation, with different laws and implementing regulations issued by various financial sector authorities, has created challenges in addressing financial sector issues. This has resulted in instances of *regulatory forbearance*—allowing financial institutions to continue operating instead of shutting down, as observed in the banking sector during the 1998 crisis—leading

to suboptimal resolutions in the financial sector (Brownbridge & Kirkpatrick, 2000: 9).

In light of these challenges, Law No. 4 of 2023 (UU P2SK) is a critical step towards reforming financial sector oversight systems and institutional frameworks. The law aims to improve regulatory frameworks, delineate authority, strengthen coordination, and establish robust mechanisms for addressing issues in the financial services sector, including the Savings and Loan Cooperatives.

## 2. Research Methodology

The method employed in this study is legal research using a statutory and regulatory approach. The research is grounded in the influence of policies related to the omnibus law, which also encompasses provisions on cooperatives. Furthermore, this study examines the open-loop Savings and Loan Cooperative (Koperasi Simpan Pinjam Terbuka, or KSP) industry, which is currently facing significant challenges due to the payment defaults of eight KSPs previously mentioned.

In addition, the research emphasizes the need for an analysis of the financial supervision role of open-loop KSPs, which operate as financial service institutions (Lembaga Jasa Keuangan, or LJK) collecting public funds beyond their membership base, under the oversight of the Financial Services Authority (Otoritas Jasa Keuangan, or OJK).

This study adopts a juridical-normative or doctrinal approach, relying primarily on secondary data sources. Primary data directly sourced from the public is not a primary focus; if obtained, it serves only as a supplementary resource for the study.

## 3. Results and Analysis

### 3.1 Legal Issues and Solutions in the Supervision of Savings and Loan Cooperatives Before the Enactment of Law No. 4 of 2023

#### 3.1.1 Regulations Governing the Supervision of Savings and Loan Cooperatives Prior to the Enactment of Law No. 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK)

The legal framework for supervising Savings and Loan Cooperatives (KSP) before the enactment of Law No. 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) includes the following regulations, in addition to Law No. 25 of 1992 on Cooperatives:

- Government Regulation (PP) No. 9 of 1995 on Savings and Loan Activities by Cooperatives.
- Regulation of the Minister of Cooperatives and SMEs (Permenkop UKM) No. 17/Per/M.KUKM/IX/2015.
- Regulation of the Minister of Cooperatives and SMEs (Permenkop UKM) No. 9 of 2020 on Cooperative Supervision.

#### 3.1.2 Internal Supervision (Control) of Savings and Loan Cooperatives (KSP)

Article 44 of Law No. 25 of 1992 on Cooperatives provides the legal basis for cooperatives to conduct savings and loan activities, either as a primary or sole business activity. This

provision is reinforced by Government Regulation (PP) No. 9 of 1995, which stipulates that Savings and Loan Cooperative operations must adhere to the Banking Law and Cooperatives Law. (Dame et al., 2023: 6)

To mitigate risks and maintain trust, cooperatives must be managed professionally by competent professionals and supported by a robust Internal Control System (Sistem Pengendalian Internal, or SPI). SPI is a critical tool for fostering healthy cooperatives capable of benefiting their members. Supervision of KSP activities is necessary to ensure compliance with laws and regulations (Syafrizal, 2022). Effective management and control are essential to build trust among members and the public.

However, internal supervision of KSPs has been weak, leading to deviations such as raising and disbursing funds to non-members, which contradicts cooperative principles. These deviations, often resembling banking activities disguised as cooperatives, have resulted in cases like the KSP Indosurya payment default, causing significant harm to members and the public. (Kamila et al., 2023: 604)

As of 2020, the Ministry of Cooperatives and SMEs reported the following membership distribution (Dinas Koperasi UKM Kabupaten Kulon Progo, 2020):

- National : 3,187 units (2.59%).
- Provincial : 6,389 units (5.19%).
- Regency/City : 113,472 units (92.22%).

Indonesia had 123,048 cooperatives in total, but only 35,761 had Cooperative Identification Numbers (NIK). Cooperatives contributed to:

- Employment : 614,997 workers.
- Membership : 22,463,738 members.
- GDP Contribution: 5.1%.

This contribution remains modest compared to other nations, such as Singapore (10%), Thailand (7%), France (18%), the Netherlands (18%), and New Zealand (20%) (Sugianto, 2019). These disparities underscore the economic significance of cooperatives in national development elsewhere.

#### 3.1.3 External Supervision (Control) of Savings and Loan Cooperatives (KSP)

External supervision of KSPs is conducted by the Minister at the national level, as stipulated in Article 24 of Government Regulation (PP) No. 9 of 1995, and by supervisory officials appointed under Permenkop UKM No. 17/Per/M.KUKM/IX/2015. Permenkop UKM No. 9 of 2020 defines Cooperative Supervisors (including KSPs) as Functional Supervisory Officers (PFPK) or Non-PFPK Civil Servants, appointed for specific periods.

Routine supervision may be conducted on-site or off-site, as outlined in Articles 7 and 8 of Permenkop UKM No. 9 of 2020. Compliance levels are assessed based on managerial competence and adherence to written management standards, including Standard Operational Management (SOM) and Standard Operational Procedures (SOP).

If a cooperative engages in activities under another agency's oversight, supervision must be coordinated with relevant

authorities as per Article 17 of Permenkop UKM No. 9 of 2020. External audits by public accountants may also be conducted as necessary, as allowed under Article 18 of the same regulation.

In practice, supervision by the Cooperative and SME Office often becomes reactive, focusing on enforcement after problems arise. Enhanced coordination between the Ministry of Cooperatives, the Financial Services Authority (OJK), and the Financial Transaction Reports and Analysis Centre (PPATK) is crucial for joint audits and comprehensive supervision. Provincial and municipal Cooperative Offices, supported by Supervisory Task Forces (Satgas Pengawas) and law enforcement, should strengthen oversight to prevent irregularities and ensure cooperative sustainability.

### 3.2 The Role of the Financial Services Authority (OJK) in Supervising Open-Loop Credit Unions in Indonesia

#### 3.2.1 The Significance of Supervising Credit Unions

The supervision of credit unions (Koperasi Simpan Pinjam or KSP) is crucial to prevent the misuse of their legal framework as a medium for illegal investment schemes that harm members and the public. Such oversight ensures that the operations of KSPs align with prevailing regulations, enhances financial stability, and fosters trust among members. The Indonesian government has issued various regulations to safeguard the public and strengthen KSPs in their financial activities, including:

- Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (UUP2SK);
- Law No. 6 of 2023 concerning the enactment of Government Regulation in lieu of Law No. 2 of 2022 on Job Creation into Law; and
- Regulation of the Ministry of Cooperatives and SMEs (Permenkop UKM) No. 8 of 2023 on Credit Union Operations by Cooperatives.

Under Permenkop UKM No. 8 of 2023, Article 1(10), supervisors are cooperative members appointed and elected during the Members' Meeting to oversee the policies and management of the cooperative. Law No. 4 of 2023 introduces an omnibus regulatory framework, integrating various financial sector regulations into a single, comprehensive law. This legal development impacts KSP activities, notably through the addition of Article 44B to Law No. 25 of 1992 on Cooperatives, embedded in Chapter XIII of Law No. 4 of 2023.

This provision empowers the Financial Services Authority (OJK) to regulate, license, and supervise cooperatives engaged in financial services, creating a dual legal framework for KSPs under both Law No. 25 of 1992 and Law No. 4 of 2023. Notably, this opens opportunities for KSPs to expand their operations beyond member-based credit services, enabling them to engage in broader financial activities, such as mobilizing and channeling funds from and to non-members. The enhanced supervisory mechanism aims to bolster public confidence and promote the growth of KSPs, thereby reinforcing Indonesia's financial sector and economic development.

#### 3.2.2 Supervision Post-Enactment of Law No. 4 of 2023

Article 44B(1) of Law No. 4 of 2023 stipulates that cooperatives may conduct activities in the financial services sector under prevailing laws. Additionally, Article 44B(3) designates OJK as the licensing, regulatory, and supervisory authority for cooperatives operating in this sector. This mandate aligns with Article 6 of Law No. 21 of 2011, which outlines OJK's duties to regulate and supervise financial activities across banking, capital markets, insurance, pensions, financing institutions, and other financial service entities.

The transition of cooperative oversight from the Ministry of Cooperatives and SMEs (Kemenkop UKM) to OJK, as outlined in Article 321 of Law No. 4 of 2023, requires OJK to process business licenses for cooperatives listed by Kemenkop UKM based on specified criteria. This process must be completed within one year from the date OJK receives the list, provided the cooperatives comply with financial sector regulations.

The supervisory transition will take full effect two years after the law's enactment, by January 12, 2025. During this period, both Kemenkop UKM and OJK are expected to prepare human resources and mechanisms to manage this transition effectively, including adopting a risk-based supervision approach (RBS) that requires KSPs to implement sound risk management and governance practices.

#### 3.2.3 OJK Supervision of Open-Loop Credit Unions as an Independent Authority

OJK's role as an independent body is underscored by its authority to regulate and supervise financial cooperatives to mitigate risks that could impact financial system stability (Meirinaldi & Sudijo, 2015: 157). The legal basis for OJK's oversight authority lies in Article 44B of Law No. 4 of 2023, which integrates cooperative financial services into OJK's purview (Sigalingging, 2022: 40). This integration reflects OJK's overarching mandate to maintain public trust and systemic stability within Indonesia's financial sector.

The supervision of KSPs post-enactment of Law No. 4 of 2023 is categorized into:

- KSPs not engaged in financial services, which remain under the jurisdiction of Law No. 25 of 1992 and the Ministry of Cooperatives;
- KSPs operating in the financial services sector, whose supervision is transferred to OJK, especially those providing financial services beyond their membership base.

To support this transition, OJK is drafting regulations to operationalize its authority under the new law. These regulations will address licensing procedures, document requirements, capital adequacy, supervision, and administrative sanctions for financial cooperatives.

In conclusion, KSPs meeting the criteria for financial services under Article 44B of Law No. 4 of 2023 will undergo verification by OJK, transitioning into Financial Services Cooperatives (KSJK), thereby enhancing their regulatory and supervisory framework under OJK's jurisdiction (Khaira, 2023). This evolution underscores Indonesia's commitment to

a robust, integrated financial system that supports sustainable economic growth.

### 3.2.4 Association for the Support of Cooperative Existence (APEX)

Savings and Loan Cooperatives (Koperasi Simpan Pinjam or KSP) are required to establish or affiliate with APEX—a network-based institution akin to an Association for the Support of Cooperative Existence—under Article 1, paragraph 43 of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (P2SK Law). APEX facilitates inter-cooperative collaboration to strengthen liquidity, provide financing, technical support, and conduct monitoring for its member cooperatives. Its primary function is to safeguard liquidity, particularly for KSPs facing financial shortfalls. APEX plays a pivotal role in reinforcing the stability and autonomy of KSPs by ensuring both necessary conditions (essential prerequisites) and sufficient conditions (adequate support). Consequently, APEX's existence is integral to ensuring the sustainability and growth of KSPs.

### 3.2.5 Deposit Insurance Agency (LPS) for Savings and Loan Cooperatives

The National Research and Innovation Agency (BRIN) has underscored the urgency of integrating the Deposit Insurance Agency (LPS) within the framework of KSP operations to protect depositors (Purnomo, 2023). While LPS has historically supported other microfinance instruments, such as Rural Banks (BPR), its inclusion in KSP systems would mitigate risks of fund misappropriation involving cooperative members and clients (Sabrie, 2021). However, for KSPs to benefit from LPS guarantees, they must comply with stringent financial oversight regulations established by the Financial Services Authority (Otoritas Jasa Keuangan or OJK). This measure is critical given that approximately 70% of cooperatives in Indonesia operate within the financial sector, as recorded by the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) (Ivani, 2024).

### 3.2.6 Revision of the Cooperative Law

The government, through the Ministry of Cooperatives and Small and Medium Enterprises, initiated revisions to the Cooperative Law in early 2023. Despite these efforts, the draft bill remained unaddressed by the House of Representatives (DPR RI) by the end of its term. During discussions on the draft Financial Sector Development and Strengthening Law (RUU P2SK), both the government and DPR RI concurred that KSPs serving non-members (open-loop cooperatives) and engaging in financial services should be subject to OJK supervision. The proposed revisions to the Cooperative Law emphasize three key aspects:

- a. Strengthening cooperative oversight by external and internal supervisory bodies.
- b. Reforming cooperatives to achieve parity with the banking industry to safeguard depositors.
- c. Expanding cooperative business activities to encompass a broader range of sectors.

### 3.2.7 Establishment of the Regional Mitigation and Supervision Coordination Committee

The draft Cooperative Law also introduces criminal sanctions for individuals engaged in activities detrimental to cooperatives and the public. Additionally, it proposes the

formation of a Mitigation and Coordination Committee tasked with addressing liquidity challenges or other issues faced by cooperatives that may trigger systemic risks (Shofi, 2024).

### 3.2.8 Challenges in Drafting the P2SK Law and Cooperative Bill

The drafting process for the Cooperative Bill and the enactment of the P2SK Law has faced resistance from cooperative activists. Critics argue that cooperatives are democratic institutions designed to enhance the collective welfare of their members through mutual support. The emphasis on profit-making and the erosion of cooperatives' social dimension have sparked concerns about the fundamental purpose of cooperatives. Historically, cooperatives have served as collective enterprises where small producers voluntarily join forces to achieve shared goals, exchange services, and share risks using resources contributed by their members. The rapid growth of open-loop cooperatives, which attract non-member participation, has further complicated the cooperative ethos.

### 3.2.9 Future of Cooperatives: New Generation Cooperatives and Their Challenges

Open-loop cooperatives are regarded as a new generation of cooperatives, distinguishing them from the closed-loop models of earlier times. However, concerns have arisen regarding "shadow banking" practices, where entities registered as KSPs engage in unauthorized financial services. For instance, KSP Indosurya's investment in securities firms while recording transactions under KSP99 illustrates such malpractice. The P2SK Law permits cooperatives to establish banking ventures, albeit under OJK supervision, to curb shadow banking practices. The advent of open-loop cooperatives necessitates reclassification within the Cooperative Business Classification (KUK). Additionally, asymmetric information between investors and cooperative operators heightens financial risks. Enhanced oversight by independent supervisory bodies is essential to mitigate these risks. Furthermore, increased consumer protection policies are critical to addressing losses incurred by consumers lacking adequate knowledge of goods or services provided by cooperatives.

## 3.3 References

Number citations consecutively in square brackets [1]. The sentence punctuation follows the brackets [2]. Multiple references [2], [3] are each numbered with separate brackets [1]–[3]. Please note that the references at the end of this document are in the preferred referencing style. Please ensure that the provided references are complete with all the details and also cited inside the manuscript (example: page numbers, year of publication, publisher's name etc.).

## 4. Conclusion

The legal entity most aligned with the principle of kinship is the cooperative, which encompasses two primary elements: an economic element aimed at achieving the welfare of its members and a social element dedicated to supporting community well-being. However, oversight of cooperatives, particularly Savings and Loan Cooperatives (Koperasi Simpan Pinjam or KSP), remains insufficient as it

predominantly adopts a preventive approach. To enhance the effectiveness of supervision, the banking oversight model can be applied to KSPs, with the Financial Services Authority (Otoritas Jasa Keuangan or OJK) serving as the principal supervisory authority.

This approach necessitates coordination among OJK, the Deposit Insurance Agency (Lembaga Penjamin Simpanan or LPS), and Bank Indonesia to ensure optimal supervision of open-loop KSPs. Under this model, the financial health of cooperatives is assessed using the CAMEL framework, which evaluates Capital, Assets, Management, Equity, and Liabilities. The CAMEL-based oversight model emphasizes self-assessment conducted by internal supervisory bodies and routine reporting to external supervisory authorities, specifically the OJK.

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