



NICKY HOGAN

Indonesia Stock Exchange

Indonesia Stock Exchange: “Sailing North”

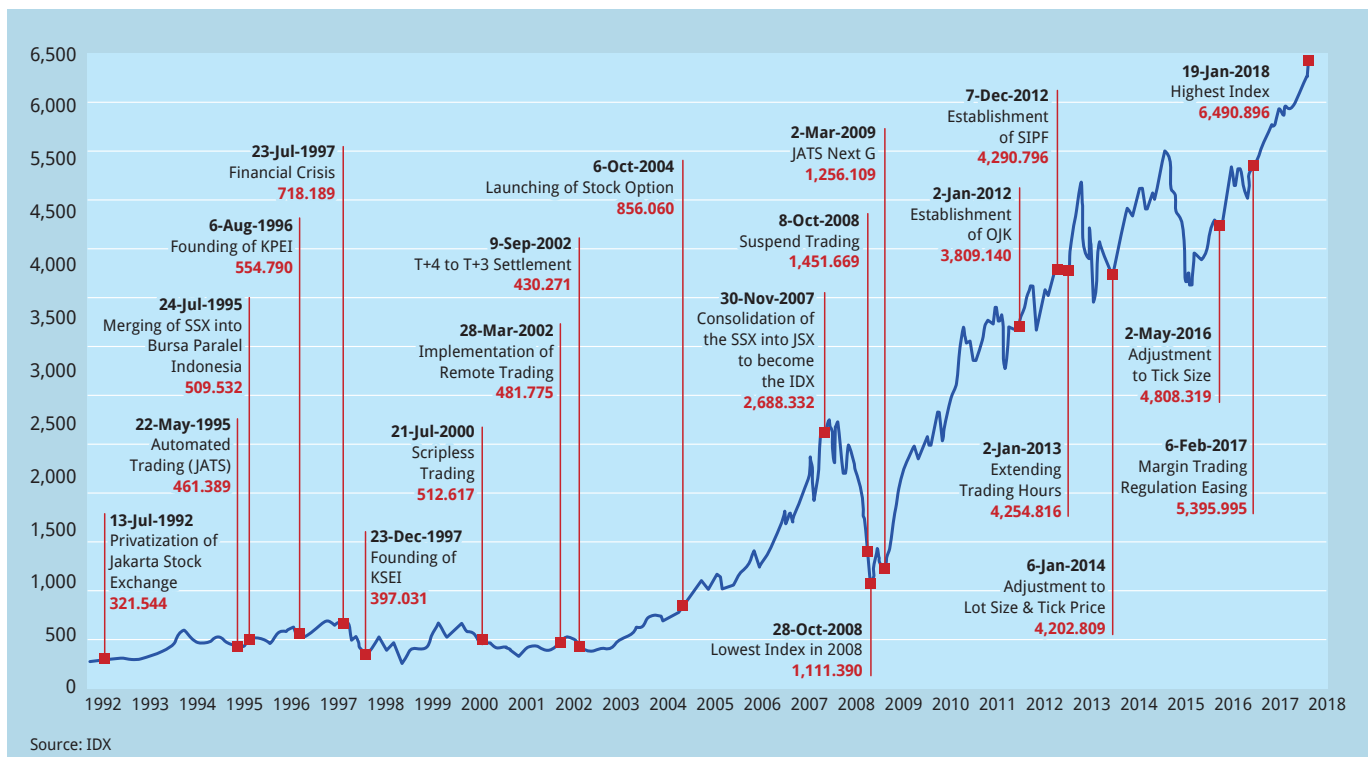
Indonesia has the potential to be the biggest market in the region. In 2017, Indonesia has a total population of nearly 262 million people, the largest in Southeast Asia and the fourth in the world. It is also the largest economy in Southeast Asia in terms of GDP, which reached USD 1,000 billion.

With the privatization of Jakarta Stock Exchange in 1992, and the consolidation of Jakarta Stock Exchange and Surabaya Stock Exchange to become Indonesia Stock Exchange (IDX) in 2007, the Indonesian market is set to achieve a more brilliant performance (Figure 1).

In 2016, IDX launched their compa-

ny's four-year strategic planning term to 2020, called “Sailing North”. The company's main goal is to become a fair, orderly, and efficient capital market with the biggest trading value in ASEAN. There are four strategic goals in this master plan: increasing the number of active investors, increasing the number of listed companies,

Figure 1: Jakarta Composite Index and IDX Transformations



strengthening exchange members, and strengthening the resilience of capital market industry.

To execute the master plan, IDX and other Self-Regulatory Organizations (SRO) that consist of Indonesia Clearing and Guarantee Corporation (KPEI) and Indonesia Central Securities Depository (KSEI) work together to develop the Indonesian capital market industry. KPEI provides proper and efficient clearing and settlement guarantee services as well as other services under the terms stipulated by the Financial Services Authority of Indonesia (OJK). On the other side, KSEI functions as Depository and Settlement Institution (LPP) in the Capital Market by providing a fair, orderly, and efficient securities central depository and securities settlement services. IDX, KPEI, and KSEI are part of SRO in Indonesian Capital Markets. SRO has the authority to make technical regulations for their members.

Increasing the Number of Active Investor

Based on a survey conducted by the OJK in 2013 to 8,000 respondents in 20 provinces, Indonesia's financial services literacy index (how well people understand about financial services) was only 21.84 percent, while the inclusion index (level of utilization of financial services) reached 59.74 percent. Furthermore, literacy and usage rates in the area of capital markets, which stood at 3.79 and 0.11 percent respectively, are the lowest compared to the other financial services industries. This means that among all of Indonesians, fewer than 10 million people understand about capital markets and could be seen either as a drawback or, instead, as a huge potential market.

An increase in the number of active investors in IDX will directly boost the value of stock trading. Hence, IDX promotes investor development activities through collaboration with the SRO, IDX members, listed companies and other supporting institutions.

The main challenge for Indonesia is how to attract investors is the vast area of the country. A flight between Aceh – the western-most province in Indonesia, and

Papua – the eastern-most province, takes approximately seven hours, almost equal to the flight duration from Jakarta to Tokyo. Indonesia consists of more than 16,000 small islands, grouped into seven major islands which are Sumatra, Java, Kalimantan, Bali & Nusa Tenggara, Sulawesi, Maluku and Papua. To reach all potential investors across Indonesia, IDX must choose the most effective method for market development.

On 12 November 2015, IDX initiated the “Yuk Nabung Saham (stock saving)” campaign. This campaign aims to change mindsets and saving habits into an investing society. Public perception has been wrong about stock investments. Most people will say that they are expensive, unaffordable for certain communities, risky, and speculative. These perceptions have caused people to hesitate investing in stock and other capital market instruments.

In this campaign, IDX partners with many other private institutions and organizations to promote stock investment. Among others, IDX collaborates with listed companies to organize a capital market educational program for their employees so they gain insight into how to invest in the capital market and may then open a securities account for their investments.

Exchange members also help to increase public awareness through massive campaigns, either “*above the line*,” such as through television commercials, radio, cinema, billboards, commuter line, newspaper, and electronic media, or “*below the line*,” through seminars, workshops, investor forums, and regularly scheduled capital market school.

Equal distribution of accurate information to the entire public is an important factor to attract regional investors. Therefore, expanding IDX's network throughout Indonesia is a must. IDX aims to bring the capital market closer to regional communities, and one way of doing that is by establishing representative offices in every province of Indonesia.

For the last two years, IDX has been intensively opening additional representative offices throughout the country. Currently, IDX has 28 representative offices with a target of 34. These representative offices serve as educational centers that promote capital market investments to public.

IDX also provides a place for securities companies to expand their business to other regions. Through cooperation with the securities companies and universities throughout Indonesia, IDX opens investment galleries on many campuses where not only students and academics but also the people in the surrounding areas can

learn about capital markets, open a securities account to become an investor, and start investing or trading. In the last two years, the number of investment galleries has doubled to more than 300 all over Indonesia.

Another strategy to expand IDX's network is providing accurate capital markets information to all stakeholders through social media and establishing a capital market TV station called IDX Channel. This station broadcasts news related to the economy, business, and capital market, especially news related to the activities of listed companies such as annual shareholder meetings and public exposure for all investors throughout Indonesia.

The use of technology has been very helpful in increasing the number of investors. By the conversion of physical paper shares into electronic holdings in 2000, the change from floor trading to remote trading in 2002, and the application of internet and mobile trading, the capital market industry has become more efficient and attracted more people participants.

The minimum size of initial deposits, which used to be around USD 1,000, has now gradually been reduced to under USD 100 – even just USD 10 for academics – hence enabling anybody to become a stock investor. To engage individual retail investors, the IDX reduced the number of shares in a trading lot from 500 shares to 100 shares in 2014. Therefore, it is not surprising that the number of retail investors continue to grow and that they are coming from different backgrounds, ranging from students, factory workers, even farmers from rural areas. After the Yuk Nabung Saham campaign was released, IDX started a program called Desa Nabung Saham (stock saving village) that educates villagers about investment options, warns them about false investment schemes, and promotes capital market investment.

The number of capital market investors has increased to more than 40 percent over the last two years. Based on the data at the end of October 2017, there are more than 600,000 stock investors in Indonesia. In addition, there are more than 500,000 mutual fund investors. Therefore, together there are more than a million investors in Indonesia, based on their unique Single Investor Identity. This number is of course still very small compared to Indonesia's population of 262 million people. However, this suggests that there is a huge potential to increase of the number of Indonesian investors in the future.

Investors nowadays are becoming more aware of the benefit of investing on

regular basis and over a long term period, as voiced through Yuk Nabung Saham campaign. The number of active investors per month (who trade at least once) reached 100,000 investors in 2017, an increase of 25 percent compared to 2016. Additionally, these new investors have contributed 50 percent to the growth of daily average trading value this year and 20 percent of that comes from new retail investors.

Increasing the Number of Listed Companies

As one of the most attractive sources of funding for companies, the capital market is still less appealing to business players. At 563, the total number of listed companies in Indonesia is relatively small compared to that in some neighboring countries. However, with the growing economy and improving investor confidence, more and more domestic firms are interested in raising funds from the capital market. In the last five years, the number of listed com-

panies has increased 15.7 percent, a significant growth compared to other ASEAN countries (Figure 2).

As with the number of investors, there is also great potential for listing domestic companies as public companies. In this strategic objective, IDX seeks to expand its role as a source of financing outside the banking industry by expanding public capital access for companies across Indonesia, start-up companies, small and medium-sized enterprises (SMEs) and innovative industries. To achieve this, there are four tactical plans: "To Ease", "To Educate", "To Persuade" and "To Enforce".

"To Ease" focuses on improving companies' ease of access to funding from the capital markets. Since 2016, IDX has established six Go Public Information Centers (PIGP) in five major cities in Indonesia (Jakarta, Bandung, Semarang, Surabaya, and Medan). Through the establishment of PIGP, local companies that are interested to know more about the benefits and process of going public can obtain information directly in their cities without having to go to the IDX's head office in Jakarta.

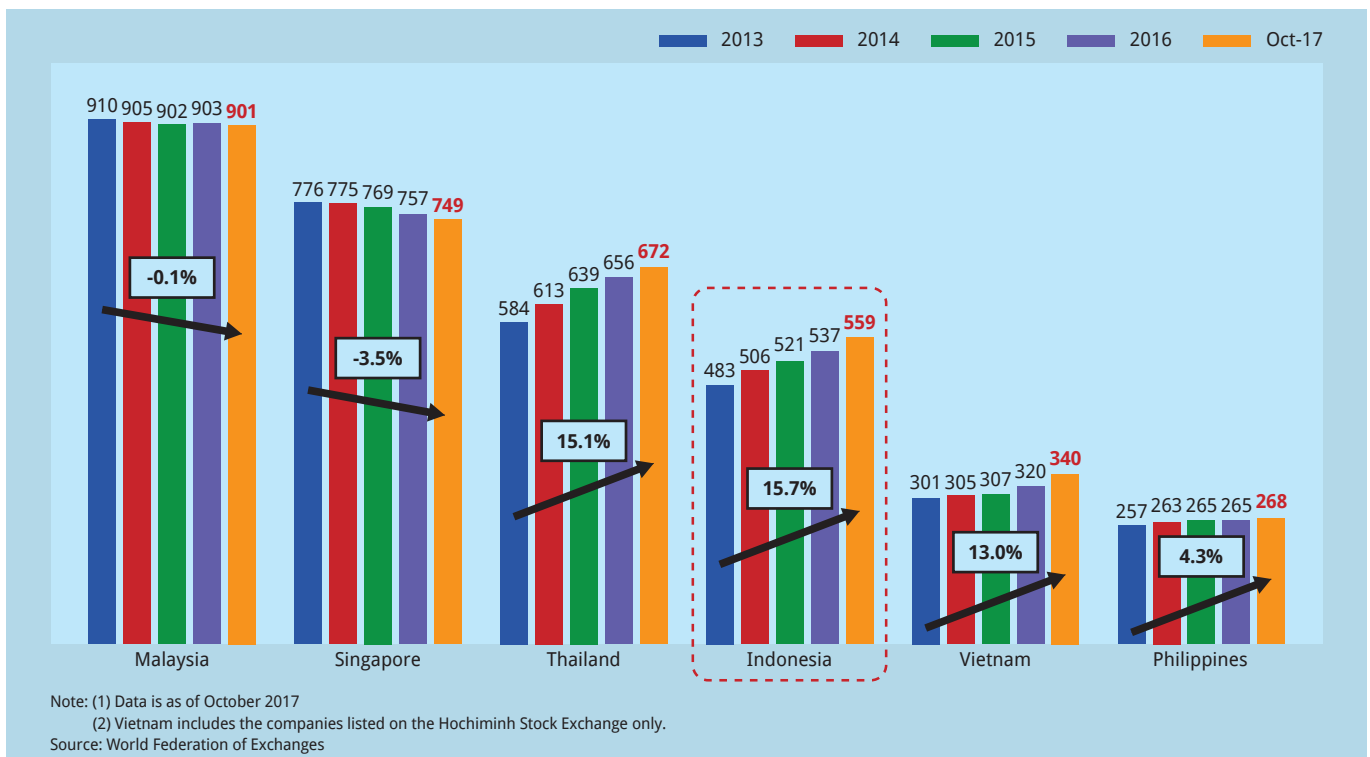
"To Educate" focuses on increasing the awareness and giving socialization to prospective listed companies as well as providing them with ongoing education. The tagline of this program is "No day without meeting the issuer". Public seminars

and "go public" workshops are held regularly, in collaboration with the Chamber of Commerce and Industry, the Association of Young Entrepreneurs, banks, accounting firms, and existing associations.

"To Persuade" is an effort to provide an efficient, easy and attractive fund-raising mechanism. Targeted companies are state-owned enterprises (SOEs) and their subsidiaries as well as start-up companies, SMEs, and innovative industries. IDX and underwriters have given intensive go public socialization through 1-on-1 meetings with SOEs and their subsidiaries. As a result, the SOE Ministry has committed to list 14 SOE subsidiaries on IDX within the next two years. In addition, the Government of Indonesia has begun to utilize the capital market to finance Jokowi-JK's infrastructure projects, starting with the issuance of two EBAs by PT Jasa Marga (Persero) and PT PLN (Persero). IDX also launched IDX Incubator in March 2017 to facilitate the development of start-up companies in Indonesia, including pitching to venture capitalists.

In July 2017, the OJK issued rules to encourage SMEs to list on the stock exchange. The capital and financial report criteria were simplified, especially for the small enterprise category. IDX also further encourages SMEs to join the capital market by providing a development board that al-

Figure 2: Number of Listed Companies in ASEAN Countries



lows small companies with minimum Net Tangible Assets of IDR 5 billion to go public. Even when their financial statements show a loss, such firms can still be listed as long as they can provide positive projections and future prospects.

"To Enforce" is to use the law to encourage companies to list in Indonesia. Two types of companies are targeted: foreign companies with 50 percent of their assets and revenues derived from Indonesia and companies that owe a minimum of IDR 1 trillion (USD 74 million) in bank debt. The Indonesian people should be able to enjoy the growth of foreign companies through the issuance of their shares in IDX. In addition, since companies that owe a lot to banks are indebted to the public and society, it is fitting that these public companies should be monitored by the public. The best form of supervision is through the capital market. There are approximately 124 companies with a minimum debt of IDR 1 trillion to Indonesian banks.

Strengthening of Exchange Members

Exchange members (AB) have an enormous role to play in increasing the number of active investors; they are even the spearhead of investor development. To support this role, IDX embarks on a so-called AB strengthening strategy consisting of capital enhancement and business expansion of exchange members. The increase in AB capital is achieved through relaxation of margin rules by capital classification as well as the development of market-maker functions. In February 2017, IDX expanded its margin shares*1 from the previously restriction of only LQ45 shares to 180-200 shares. An AB that can provide margin facilities to its customers is limited to those with capital of more than IDR 250 billion (USD 19 billion).

AB expands business through addition of products, improvement of infrastructure and increasing the number of Broker-Dealer Representatives (WPPE). In April 2017, IDX launched a bond trading platform on the stock exchange. Furthermore, in May 2017, IDX launched a derivative product, called Indonesia Government Bond Futures, based on the underlying 5-

and 10-year Government Securities. Looking ahead, IDX will continue to develop derivative products for institutional investors, especially for hedging. The improvement of infrastructure for AB will include the development of General Clearing Member, the acceleration of transaction settlement from T-3 to T-2, and development of information technology for AB through the establishment of IDX's subsidiary in the field of information technology.

The total number of WPPE working in AB is currently only 3,000 people and has been stagnant over the last five years. This stagnation leads to the limited number of daily active investors due to the limited capacity of WPPE in serving its customers. IDX's tactical step to improve WPPE is by expanding the region and number of subsidized WPPE training and exams for public throughout Indonesia.

Strengthening the Resilience of Indonesia's Capital Market Industry

All development strategies must be accompanied by strengthening the resilience of the capital market to gain the confidence of market participants, especially investors and listed companies. Strengthening resilience can be achieved by giving good quality and consistent services to stakeholders, providing competitive capital market products, providing exchange-related facilities and services, managing support infrastructure for exchange activities, giving effective support and operational development, and finally, preparing good and competent human resources.

IDX continuously improves market surveillance and the consistency of law enforcement as a form of giving good quality and consistent services to stakeholders. In addition, IDX is currently in talks with Dubai Financial Market, Borsa Istanbul and Bursa Malaysia to develop a Sharia Capital Market through the establishment of Sharia Securities Exchange in Indonesia.

IDX provides exchange-related facilities and services by providing conducive exchange regulations, optimization of exchange-related information, improvement of IDX website, improvement

of investor protection mechanisms, improvement of corporate governance and risk management, and development of services and capital market product distribution. The existence of supporting infrastructure such as technology and a qualified data center is crucial to support exchange activities and trading system renewal.

The last tactical step for realizing effective operational development and competent human resources is by developing securities financing and strengthening the functions of IDX's subsidiaries. Other steps include organizing a Capital Market Professional Development Program and improving the quality and quantity of certified capital market professionals.

Sharia Capital Market

As many as 87 percent of Indonesians are Muslim, and among them 64 percent, or about to 145.4 million people, are of working age. Indonesia's population of working age Muslim people is larger than that in the world's main sukuk-issuing countries such as Turkey, the UK and Saudi Arabia. Hence, the largest potential sharia market in the world is in Indonesia.

For the last five years, the Sharia capital market in Indonesia has grown by 3,000 percent in terms of investors and by more than 50 percent in terms of sharia securities. To continue to improve and to work on the potential of the Shariah capital market in Indonesia, IDX is currently developing a Sharia Stock Exchange with the vision to become the center of excellence, the center of development and Islamic capital market hub in Indonesia and in the global Sharia capital market industry.

Unlike the capital market in general, the Sharia capital market bases its trading mechanism on Islamic law and regulation. The Sharia capital market has lower market risk than the general capital markets. Sharia securities must have real assets as their underlying assets. Sharia effect cannot be used as leverage and transactions must be on a

cash basis. To conduct a capital market on Sharia principles, Indonesia has established related capital market infrastructure including fatwa, regulation, account opening processes, and book transfer of Sharia securities accounts.

A Sharia online trading system has been developed by 12 exchange members in Indonesia. The online sharia trading system aims to help increase the number of Sharia investors and the value of Islamic securities transactions, as well as to facilitate investors in conducting Islamic stock transactions that comply with the principles of sharia and to increase the liquidity of sharia shares on IDX. Indonesia's capital market offers many kinds of sharia-compliant investment instruments, e.g., 343 sharia stocks, 160 sharia mutual funds, a sharia ETF, 68 corporate sukuk, and 29 government sukuk. Sharia stock trading contributes about 57 percent of the total value of trading on IDX. Sharia stocks dominate the number of stocks traded on IDX. Sixty-two percent of the shares listed on IDX are Sharia shares.

For these developments of sharia capital market in Indonesia, IDX was recognized by Global Islamic Finance Awards as Best Supporting Institution for Islamic Finance for the years 2016 and 2017.

Closing

As a major tropical tourism destination, Indonesia continuously records high economic growth. The confidence of domestic and foreign investors in Indonesia's Capital Market can be seen in the Investment grade rating it received from three global rating agencies (S&P Global Rating, Moody's, and Fitch) and the significant annual growth of JCI. In addition, IDX has demonstrated strong growth compared to other major stock exchanges. The exchange increased more than 200 percent over the last ten years and its 15.32 percent increase in 2016 was the second highest rate of growth in the Asia Pacific region. With all of these factors, combined with the "resurgence" of domestic investors, Indonesia has huge potential to become one of the top five economic powers in the world by 2030.

Notes

- *1 LQ 45 is a stock index comprising 45 stocks that meet some criteria such as market capitalization and transaction value.

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Nicky Hogan serves as Director of Business Development of Indonesia Stock Exchange since 2015, in charge of the Regional Development, Investor Development, Prospective Issuers development and Research Divisions. He has been working in the capital market industry since 1998, serving in various positions in the operations and marketing area for several prominent securities companies in Indonesia. He is a regular contributor of capital markets articles in a number of press media and the author of *Yuk Nabung Saham*, a book about stock investment published in 2017.

Nicky Hogan obtained his bachelor degree in Economics from Tarumanagara University, Jakarta, Indonesia, and actively involved in national and international capital market activities.

