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Policy Guarantee Program Expanding Deposit Insurance Corporation Mandate under Financial Sector Regulatory Framework

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Abstract: *This article examines the expansion of Indonesia's deposit insurance mandate through the introduction of the Policy Guarantee Program under the Financial Sector Development and Strengthening Law (2023). Unlike prior studies that predominantly describe regulatory changes, this research offers a novel analytical perspective by positioning the program as a form of institutional convergence between banking deposit insurance and insurance policyholder protection within a unified financial safety net framework. Using a normative juridical method with statutory and conceptual approaches, this study analyzes the legal rationale for extending the deposit insurance authority and evaluates its implications for institutional governance. The findings reveal that the program marks a significant shift from a sector-specific guarantee model toward an integrated financial protection mechanism. This transformation not only strengthens consumer protection for policyholders but also enhances systemic stability by mitigating the impact of insurance company insolvency. However, the study also identifies critical challenges, including institutional capacity constraints, the need for effective coordination with financial supervisory authorities, and the risk of moral hazard arising from guarantee schemes. The novelty of this research lies in conceptualizing the program as a hybrid regulatory instrument that bridges two traditionally separate domains, banking and insurance, while highlighting its implications for regulatory design in emerging financial systems. Accordingly, the study argues that the effectiveness of this policy depends on the development of comprehensive implementing regulations, clear governance structures, and robust oversight mechanisms to ensure both financial stability and policyholder protection.*

Keywords: *Policy Guarantee Program; Deposit Insurance Corporation; Financial Sector Law; Legal Protection; Insurance Policyholders*

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INTRODUCTION

The stability of the financial system constitutes a fundamental prerequisite for sustainable economic development and the protection of public trust in financial institutions. Within contemporary financial governance, the establishment of financial safety net mechanisms such as deposit insurance schemes and policyholder protection systems has

become a key regulatory instrument to mitigate systemic risks and safeguard consumers. In many jurisdictions, including the United States and the European Union, policyholder protection is institutionally separated from deposit insurance, reflecting a segmented regulatory approach between the banking and insurance sectors. However, recent global discussions have highlighted the need for more integrated protection frameworks, particularly in emerging financial systems where institutional capacity and market resilience remain uneven. [1]

In the Indonesian context, the enactment of Law Number 4 of 2023 on Financial Sector Development and Strengthening introduces a significant institutional shift through the establishment of the Policy Guarantee Program administered by the Lembaga Penjamin Simpanan. This development reflects a regulatory move toward integrating policyholder protection into the broader financial safety net framework. Nevertheless, unlike mature jurisdictions that have long-established guarantee schemes in the insurance sector, Indonesia's approach raises important juridical and institutional questions regarding the design, scope, and governance of such integration. [2]

Existing studies on the Lembaga Penjamin Simpanan have predominantly focused on its traditional role in guaranteeing bank deposits and maintaining banking system stability. These studies emphasize the effectiveness of deposit insurance in preventing bank runs and strengthening depositor confidence. However, limited attention has been given to the expansion of this mandate into the insurance sector. Moreover, the current academic discourse has not sufficiently addressed the legal implications of integrating deposit insurance functions with policyholder protection mechanisms within a single institution. This indicates a clear research gap, particularly in understanding how such institutional convergence affects regulatory coherence and accountability. [3]

From a legal perspective, the introduction of the Policy Guarantee Program gives rise to several critical issues. First, there is a potential overlap and tension of authority between the

[1] Catarina Manurung et al., "Skim of Bank's Deposit Guarantee System in Some Countries in the World Based on Principles of Justice," *Journal of Public Administration, Finance and Law*, no. 26 (2022): 190–205, https://doi.org/10.47743/jopafl-2022-26-17; Rishi Raghuwanshi, "An Evaluation of India's Deposit Insurance and Credit Guarantee Corporation's (DICGC) Contribution to Banking Sector Reforms and Financial Stability," *International Journal of Multidisciplinary Research and Growth Evaluation* 6, no. 2 (2025): 1771–74, https://doi.org/10.54660/.IJMRGE.2025.6.2.1771-1774; Olena Sova and Nataliia Poliakova, "Deposit Insurance System as a Guarantee of Depositor's Protection," *Bioeconomics and Agrarian Business* 12, no. 1 (2021): 29–39, https://doi.org/10.31548/bioeconomy2021.01.003.

[2] Joop Adema, Christa Hainz, and Carla Rhode, "Deposit Insurance: System Design and Implementation across Countries," *Ifo DICE Report* 17, no. 1 (2019): 42–51, https://www.ifo.de/DocDL/dice-report-2019-1-adema-hainz-rhode-april.pdf; Reda Manthovani, "Perlindungan Hukum Terhadap Lembaga Penjamin Simpanan," *Jurnal Magister Ilmu Hukum: Hukum Dan Kesejahteraan* 6, no. 1 (2021): 79–98, https://doi.org/10.36722/jmih.v6i1.2314; Muyanja Ssenyonga Jameaba, "Deposit Insurance and Financial Intermediation: The Case of Indonesia Deposit Insurance Corporation," *Cogent Economics & Finance* 6, no. 1 (2018): 1468231, https://doi.org/10.1080/23322039.2018.1468231; Tri Budiyono, "Penjaminan Simpanan Dari Waktu Ke Waktu (Studi Penjaminan Simpanan Di Indonesia)," *Refleksi Hukum: Jurnal Ilmu Hukum* 3, no. 2 (2019): 129–44, https://doi.org/10.24246/jrh.2019.v3.i2.p129-144.

[3] Yusuf Berlin Isu, "Perlindungan Hukum Nasabah Terkait Kewenangan Lembaga Penjamin Simpanan Dalam Likuidasi Perusahaan Asuransi Menurut Undang-Undang Nomor 4 Tahun 2023 Tentang Pengembangan Dan Penguatan Sektor Keuangan," *Ranah Research: Journal of Multidisciplinary Research and Development* 7, no. 6 (2025): 4324–36, https://doi.org/10.38035/rrj.v7i6.1738; Nilam Nurainiyah, I Ketut Astawa, and Tri Setiady, "Perlindungan Hukum Bagi Pemegang Polis Dalam Konteks Pengalihan Liabilitas Dan Restrukturisasi Asuransi Berdasarkan Undang-Undang Nomor 40 Tahun 2014 Tentang Perasuransian," *UNES Law Review* 7, no. 1 (2024): 169–83, https://review-unes.com/law/article/view/2236.

Lembaga Penjamin Simpanan and the Financial Services Authority (Otoritas Jasa Keuangan), particularly in the areas of supervision, resolution, and consumer protection in the insurance sector. Second, the existence of a guarantee scheme may create moral hazard risks, where insurance companies may engage in excessive risk-taking behavior due to the presence of policyholder protection mechanisms. Third, the absence of detailed implementing regulations may lead to legal uncertainty regarding the operational mechanisms, funding structure, and claim settlement processes under the program. [4]

Based on these considerations, this study seeks to analyze the legal construction and institutional implications of the Policy Guarantee Program within Indonesia's financial regulatory framework. Specifically, this research addresses three main issues: (1) the legal framework governing the Policy Guarantee Program under the Financial Sector Development and Strengthening Law; (2) the institutional expansion of the Lembaga Penjamin Simpanan's authority and its implications for regulatory governance; and (3) the juridical consequences of the program for policyholder protection and financial system stability. [5]

The novelty of this study lies in its focus on the institutional convergence between deposit insurance and policyholder protection within a single regulatory body. Unlike previous research that treats these mechanisms separately, this study conceptualizes the Policy Guarantee Program as a hybrid financial safety net instrument and critically evaluates its implications for legal design, regulatory coordination, and systemic risk management. Through this approach, the research contributes to the development of a more integrated understanding of financial protection frameworks in emerging economies.

METHOD

This study employs a normative juridical method, which focuses on the analysis of legal norms, statutory regulations, and relevant legal doctrines governing the financial sector in Indonesia. The normative juridical approach is commonly applied in legal research to examine the consistency, structure, and interpretation of legal provisions within the existing regulatory framework. In this context, the research primarily analyzes the legal provisions contained in Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) and

[4] M. Kerem Coban, "Rethinking de Facto Autonomy? A Multi-Policy Area Approach and the Regulatory Policy Process," *Review of Policy Research* 41, no. 3 (2024): 508–30, https://doi.org/10.1111/ropr.12526; Varda Sardana and Shubham Singhania, "Fifty Years of Research in Deposit Insurance: A Bibliometric Analysis and Review," *FIIB Business Review* 15, no. 4 (2026): 506–26, https://doi.org/10.1177/23197145221116455; Muyanja-Ssenyonga Jameaba, "Digitalization, Emerging Technologies, and Financial Stability: Challenges and Opportunities for the Indonesian Banking Industry and Beyond," *Qeios* (2022), https://doi.org/10.32388/CSTTYQ.2.

[5] Elyana Novira, "Authority of Deposit Insurance Corporation in Bank Guarantee and Resolutions Post Law Number 4 of 2023 Concerning Development and Strengthening of Financial Sector," *Eduvest: Journal of Universal Studies* 3, no. 6 (2023): 1128–41, https://doi.org/10.59188/eduvest.v3i6.830; Abdul Ghoni, "Analisis Peran LPS Dalam Penjaminan Polis Asuransi Syariah Di Indonesia," *Syar'Insurance: Jurnal Asuransi Syariah* 10, no. 2 (2024): 1–12, https://jurnal.uinbanten.ac.id/index.php/si/article/view/11193; Kadek Ary Purnama Dewi, "Regulasi Penyelenggaraan Polis Digital Dalam Kerangka Perlindungan Hukum Bagi Perusahaan Asuransi Dan Nasabah," *Jurnal Preferensi Hukum* 6, no. 2 (2025): 245–54, https://www.ejournal.warmadewa.ac.id/index.php/juprehum/article/view/11271; Adi Muliawansyah Malie, Zahry Vandawati Chumaida, and Bambang Sugeng Ariadi Subagyono, "Perlindungan Hukum Bagi Para Nasabah Asuransi Pasca Terbentuknya Lembaga Penjamin Polis (LPP)," *Jurnal Ilmiah Penegakan Hukum* 11, no. 2 (2024): 258–67, https://doi.org/10.31289/jiph.v11i2.11068.

other relevant regulations concerning financial sector governance and insurance policyholder protection.

The study further evaluates the legal principles underlying the establishment and implementation of the Policy Guarantee Program administered by the Lembaga Penjamin Simpanan. By relying on statutory interpretation and doctrinal analysis, this research seeks to assess the juridical basis of the program and its implications for the development of Indonesia's financial safety net system and the broader framework of consumer protection in the financial services sector.

This research applies several legal approaches in order to obtain a comprehensive understanding of the regulatory and institutional aspects of the Policy Guarantee Program within Indonesia's financial legal framework.

1. First, the statutory approach is employed to examine the legal provisions governing the establishment and implementation of the policy guarantee mechanism as regulated under Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) and other related financial sector regulations. Through this approach, the study analyzes the structure, scope, and legal authority granted to the Lembaga Penjamin Simpanan in administering the program.
2. Second, the conceptual approach is used to explore legal doctrines and theoretical perspectives related to financial safety nets, consumer protection, and institutional governance within financial regulation.

Third, a comparative approach is utilized to review policyholder protection mechanisms and insurance guarantee schemes in other jurisdictions in order to provide analytical insights and evaluate the regulatory development of policy guarantees in Indonesia.

The legal materials utilized in this research consist of primary and secondary sources that support the juridical analysis of the Policy Guarantee Program within Indonesia's financial regulatory framework. Primary legal materials include statutory regulations that serve as the main legal basis for examining the authority and institutional role of the Lembaga Penjamin Simpanan. These materials particularly include Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK), which introduces the Policy Guarantee Program, as well as Law Number 24 of 2004 on the Deposit Insurance Corporation, which regulates the establishment, functions, and responsibilities of LPS.

In addition, this research also relies on secondary legal materials to provide doctrinal interpretation and academic perspectives relevant to the subject matter. These materials consist of scholarly journal articles, legal textbooks discussing financial regulation and insurance law, as well as policy papers and official publications issued by regulatory institutions and governmental bodies related to financial sector governance.

ANALYSIS AND DISCUSSION

Legal Position of the Deposit Insurance Corporation in the Indonesian Financial System

The establishment of the Lembaga Penjamin Simpanan represents a significant institutional development within Indonesia's financial regulatory framework. As an independent public institution, LPS is entrusted with the responsibility of guaranteeing bank deposits and contributing to the maintenance of financial system stability. Its institutional mandate forms part of the broader financial safety net designed to protect depositors and sustain

public confidence in financial institutions, particularly during periods of financial distress. The legal foundation for the creation and operation of LPS is principally regulated under Law Number 24 of 2004 on the Deposit Insurance Corporation, which outlines the institutional structure, authority, and operational responsibilities of the corporation. [6]

The creation of LPS cannot be separated from the historical context of the financial turmoil experienced during the Asian Financial Crisis of 1997–1998. During this period, Indonesia's banking sector experienced widespread instability marked by the collapse of numerous financial institutions, a severe liquidity shortage, and a significant loss of public trust in the banking system. The absence of a permanent and structured deposit insurance mechanism at that time exacerbated the panic among depositors, leading to large-scale withdrawals and further deterioration of the banking sector. Consequently, the crisis highlighted the urgent need for a comprehensive institutional framework capable of protecting depositors and preventing systemic disruptions within the financial system.

In response to these challenges, the Indonesian government initiated reforms aimed at strengthening financial sector governance and establishing mechanisms to mitigate systemic risk. One of the key outcomes of these reforms was the creation of LPS as a deposit insurance authority tasked with safeguarding depositor funds within certain guaranteed limits. Through this mechanism, the institution seeks to ensure that depositors retain confidence in the banking system even in circumstances where individual banks encounter financial difficulties. By providing deposit guarantees, LPS plays a crucial role in preventing bank runs, maintaining financial stability, and supporting the orderly resolution of failing financial institutions.

In addition to its deposit guarantee function, LPS is also authorized to participate in the resolution of troubled banks whose financial condition threatens the stability of the banking system. This role includes facilitating the restructuring or liquidation of failed banks in accordance with applicable regulations. Through these responsibilities, LPS operates not merely as a guarantor of deposits but also as an important component of Indonesia's crisis management framework in the financial sector.

Over time, the role of LPS has continued to evolve in response to regulatory developments and the increasing complexity of financial markets. The enactment of Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) introduces a broader institutional mandate by assigning LPS additional responsibilities related to the protection of insurance policyholders through the Policy Guarantee Program. This regulatory expansion reflects a shift toward a more integrated financial safety net system in which depositor protection and policyholder protection are addressed within a unified institutional framework.

From a juridical perspective, the legal position of LPS within Indonesia's financial system demonstrates the state's commitment to ensuring the stability and integrity of financial institutions. By providing deposit guarantees and participating in financial institution resolution processes, LPS serves as a key instrument in protecting public interests and maintaining confidence in the financial sector. Its evolving mandate illustrates the adaptive nature of financial regulation in addressing emerging risks and strengthening institutional mechanisms designed to safeguard economic stability.

[6] Indonesia, Law Number 24 of 2004 concerning the Deposit Insurance Corporation, arts. 4–6.

In addition to its formal legal position, the institutional role of the Lembaga Penjamin Simpanan must also be examined through the theoretical framework of Independent Regulatory Agencies (IRA). Within this perspective, LPS is expected to operate with a high degree of autonomy in carrying out its mandate as a guardian of financial system stability. However, the expansion of authority under the Financial Sector Development and Strengthening Law raises important questions regarding the extent to which such independence is preserved, particularly in the context of coordination mechanisms within the Financial System Stability Committee (KSSK).

The potential involvement of multiple state actors in financial crisis management may create a tension between coordination and independence. While coordination is necessary to ensure systemic stability, excessive external influence may undermine the credibility and effectiveness of LPS as an independent authority. This issue becomes particularly relevant in light of the Constitutional Court Decision Number 85/PUU-XXII/2024, which emphasizes that institutional independence must be safeguarded, including in budgetary matters. The decision clarifies that approval of LPS operational budgets by the Ministry of Finance should not be absolute in nature, as such arrangements may weaken institutional autonomy.

From a normative standpoint, this reinforces the principle that deposit insurance institutions must remain free from political and fiscal intervention, as reflected in the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers (IADI). Therefore, the legal position of LPS should not merely be understood as a statutory construct, but as an independent stabilizing authority whose effectiveness depends on the protection of its institutional autonomy.

Regulation of the Policy Guarantee Program under the Financial Sector Development and Strengthening Law

The introduction of the Policy Guarantee Program represents a significant regulatory reform within Indonesia's financial legal framework. This program was established through Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) as part of a broader effort to enhance financial sector resilience and strengthen consumer protection mechanisms. Through this legislation, the Indonesian government seeks to expand the financial safety net system by introducing a structured guarantee mechanism aimed at protecting insurance policyholders from potential losses arising from the insolvency of insurance companies. The program is administered by the Lembaga Penjamin Simpanan, which has been entrusted with the responsibility of implementing the policyholder protection scheme in addition to its existing mandate in the banking sector.

The regulatory framework governing the Policy Guarantee Program reflects an effort to address structural vulnerabilities within the insurance industry while maintaining public confidence in financial institutions. Prior to the enactment of the UU P2SK, Indonesia did not possess a formal policyholder guarantee system comparable to deposit insurance mechanisms in the banking sector. As a result, policyholders were exposed to substantial financial risks in circumstances where insurance companies were unable to fulfill their contractual obligations due to insolvency or regulatory revocation of their operating licenses. The establishment of the Policy Guarantee Program therefore represents a preventive legal instrument designed to mitigate such risks and to strengthen the protection afforded to insurance consumers.

One of the central regulatory features of the Policy Guarantee Program is the mandatory participation of insurance companies operating within Indonesia. Under the statutory provisions of the UU P2SK, insurance companies are required to become participants in the policy guarantee scheme once the program becomes operational. Mandatory participation serves several important legal and regulatory purposes. First, it ensures the creation of a comprehensive guarantee system that covers the majority of policyholders in the insurance market. Second, it prevents the emergence of adverse selection, which might occur if participation were voluntary and only financially vulnerable companies sought protection under the scheme. By requiring all eligible insurers to participate, the program aims to distribute risk collectively across the insurance industry while maintaining fairness and sustainability within the guarantee system.

Another essential component of the regulatory framework is the requirement that participating insurance companies contribute premium payments to fund the policy guarantee scheme. These contributions constitute the primary financial resources used to support the guarantee mechanism administered by LPS. The premium system reflects a risk-sharing model in which the insurance industry collectively finances the protection of policyholders. In principle, the structure of the premium contributions may take into account factors such as the financial condition of the participating insurers, the types of insurance products offered, and the level of risk associated with their operations. By implementing a structured contribution system, the program seeks to ensure that sufficient financial resources are available to fulfill guarantee obligations in the event that insurance companies encounter financial failure.

The regulatory framework also establishes limitations on the scope of protection provided under the Policy Guarantee Program. These limitations are implemented through the determination of guaranteed limits for insurance policies. Guarantee limits are intended to balance the objective of protecting policyholders with the need to maintain fiscal sustainability within the guarantee system. Without such limits, the guaranteed scheme could potentially expose the administering institution to excessive financial liability. Accordingly, the determination of guaranteed thresholds constitutes an important regulatory mechanism designed to prevent the misuse of the guaranteed system while still providing meaningful protection for policyholders. These limits also encourage insurance consumers to remain attentive to the financial reliability of insurance providers when selecting insurance products.

In addition to defining the scope of guaranteed protection, the UU P2SK also introduces regulatory mechanisms for addressing situations in which insurance companies experience severe financial distress or insolvency. These mechanisms involve coordinated resolution processes intended to minimize disruptions to policyholders and to ensure the orderly handling of failing insurance companies. Within this framework, LPS may facilitate the transfer of insurance portfolios to financially sound insurers or oversee the payment of valid policy claims in accordance with applicable regulations. Such resolution mechanisms are designed to reduce systemic risk within the insurance sector while safeguarding the interests of policyholders who depend on insurance coverage for financial security.

The establishment of the Policy Guarantee Program reflects a broader transformation in Indonesia's financial safety net architecture. By extending institutional protection beyond bank depositors to include insurance policyholders, the regulatory framework seeks to create a more comprehensive system of financial consumer protection. This development also aligns

Indonesia with international practices in financial regulation, where policyholder protection schemes have been adopted in many jurisdictions as part of efforts to strengthen market stability and consumer confidence.

From a juridical perspective, the Policy Guarantee Program serves as both a preventive and corrective regulatory instrument. Preventively, it encourages sound risk management practices within insurance companies by imposing financial contributions and regulatory oversight associated with participation in the guarantee system. Correctively, it provides mechanisms to mitigate the financial impact of insurer insolvency on policyholders, insured parties, and beneficiaries. By ensuring that policyholders are not left entirely unprotected in cases of insurance company failure, the program contributes to the broader objective of maintaining public trust in the insurance sector.

Overall, the regulatory provisions governing the Policy Guarantee Program demonstrate the Indonesian government's commitment to strengthening financial sector governance and improving consumer protection. Through the implementation of mandatory participation, premium contributions, guarantee limits, and structured resolution mechanisms, the program aims to establish a sustainable and reliable policyholder protection system capable of addressing the challenges associated with insurer insolvency. In doing so, the program plays an important role in reinforcing the stability and integrity of Indonesia's financial system while safeguarding the rights and interests of insurance consumers. [7]

Expansion of LPS Authority under the UU P2SK

The enactment of Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) introduces a significant institutional development in Indonesia's financial regulatory architecture by expanding the authority of the Lembaga Penjamin Simpanan. Historically, the principal mandate of LPS has been limited to guaranteeing bank deposits and supporting the stability of the banking sector. This mandate was originally established to maintain depositor confidence and to prevent systemic disruptions in the event that banking institutions experience financial distress or failure. However, the introduction of the Policy Guarantee Program (Program Penjaminan Polis/PPP) under the UU P2SK has substantially broadened the scope of LPS's institutional responsibilities.

Through the establishment of the Policy Guarantee Program, LPS is now entrusted with the additional role of administering a protection mechanism for insurance policyholders. This development signifies a notable transformation in the institutional function of LPS, as the corporation's responsibilities now extend beyond the banking sector into the broader financial services industry. Previously, policyholders who faced losses due to the insolvency of insurance companies had limited avenues of protection under the legal framework. The introduction of the policy guarantee mechanism seeks to address this regulatory gap by providing a structured system of protection for individuals and entities that rely on insurance coverage.

The expansion of authority granted to LPS under the UU P2SK reflects a broader policy

[7] Jameaba, "Digitalization, Emerging Technologies, and Financial Stability"; George Yudistira Irawan and Hwian Christianto, "Legal Regulations on Gold Banks Post-UU P2SK and POJK 17/2024: Normative Review and Comparison with International Practices," *Journal of Social Research* 4, no. 9 (2025): 2133–43, https://doi.org/10.55324/josr.v4i8.2726.

objective aimed at strengthening Indonesia's financial safety net system. Financial safety nets generally consist of institutional arrangements designed to prevent systemic crises and to protect financial consumers from severe losses. Traditionally, these mechanisms have focused primarily on banking institutions due to their central role in the financial system. However, the growing complexity and interconnectedness of modern financial markets have increased the importance of establishing protective mechanisms across multiple sectors, including the insurance industry.

By assigning LPS the responsibility for administering the Policy Guarantee Program, the regulatory framework seeks to integrate consumer protection measures within a more comprehensive institutional structure. This integration allows the state to utilize an existing institution with experience in financial guarantees and crisis management to oversee policyholder protection. As a result, LPS evolves into a broader financial safety net authority that provides protection not only to bank depositors but also to insurance policyholders who may face financial losses arising from insurer insolvency.

From a regulatory perspective, the expansion of LPS authority also reflects an effort to harmonize financial sector governance and consumer protection mechanisms. The financial sector in Indonesia operates under the supervision of several regulatory bodies, including the Financial Services Authority (OJK), which oversees financial institutions and ensures compliance with regulatory standards. Within this framework, the role of LPS complements supervisory activities by providing a safety mechanism designed to address the consequences of institutional failure. In other words, while supervisory authorities focus on preventing financial instability through regulation and oversight, LPS serves as a protective institution that mitigates the impact of such instability when it occurs.

The expansion of LPS authority also necessitates a deeper examination of supervisory integration within Indonesia's financial regulatory framework. While OJK retains primary supervisory authority over insurance companies, the involvement of LPS in policyholder protection introduces a dual-layer institutional arrangement. This raises the need for clear delineation of responsibilities to prevent regulatory overlap and to ensure that supervisory and resolution functions operate in a complementary rather than conflicting manner.

In this context, the integration of supervision and resolution functions must be carefully balanced to maintain both efficiency and accountability. Without clear regulatory boundaries, there is a risk of fragmentation in decision-making processes, which may ultimately weaken the effectiveness of the financial safety net system.

Furthermore, the expansion of LPS authority under the UU P2SK reflects a regulatory approach that emphasizes the integration of financial supervision with consumer protection policies. By incorporating policyholder guarantees into the national financial safety net system, the government aims to enhance public confidence not only in banking institutions but also in the insurance sector. Such confidence is essential for ensuring the effective functioning of financial markets, as individuals and businesses rely on financial institutions to manage risks, safeguard assets, and facilitate economic activity.

In conclusion, the introduction of the Policy Guarantee Program represents a fundamental shift in the institutional role of LPS within Indonesia's financial system. The expansion of its authority from deposit insurance to policyholder protection illustrates the evolving nature of financial regulation in response to emerging risks and the increasing

complexity of financial markets. Through this expanded mandate, LPS is positioned as a central component of Indonesia's integrated financial safety net, tasked with safeguarding the interests of both depositors and insurance policyholders while contributing to the overall stability and resilience of the national financial system. [8]

Juridical Implications of the Policy Guarantee Program

The implementation of the Policy Guarantee Program (PPP) under Law Number 4 of 2023 on Financial Sector Development and Strengthening (UU P2SK) introduces a number of significant juridical implications for Indonesia's financial regulatory system. As a newly established policyholder protection mechanism administered by the Lembaga Penjamin Simpanan, the program reshapes the legal landscape of consumer protection in the insurance sector while simultaneously influencing institutional governance and regulatory coordination within the broader financial system. The legal implications arising from the implementation of the PPP can be examined through several key dimensions, including consumer protection, institutional coordination, moral hazard risks, and institutional capacity development.

Strengthening Consumer Protection in the Insurance Sector

One of the most important juridical consequences of the Policy Guarantee Program is the strengthening of consumer protection within the insurance industry. Prior to the establishment of this program, insurance policyholders in Indonesia faced considerable legal uncertainty when insurance companies encountered financial distress or insolvency. In such situations, policyholders often relied solely on contractual claims against insurers, which could become difficult to enforce when companies lacked sufficient financial resources to meet their obligations.

The introduction of the PPP establishes a formal legal mechanism designed to mitigate these risks by providing a structured system of protection for policyholders. Through the guarantee scheme, policyholders, insured parties, and beneficiaries may obtain compensation or the continuation of insurance coverage in circumstances where insurance companies are unable to fulfill their contractual commitments due to financial failure. This legal framework contributes to the enhancement of legal certainty by ensuring that policyholders are not left without protection when insurers collapse or lose their operating licenses.

Moreover, the existence of a policy guarantee mechanism can increase public confidence in insurance institutions. Insurance contracts inherently involve long-term commitments, and the effectiveness of such arrangements depends heavily on the financial reliability of the insurer. By introducing a guarantee scheme administered by a state-authorized institution, the regulatory framework provides additional assurance to consumers that their interests will be safeguarded even in adverse circumstances. As a result, the PPP contributes to strengthening the credibility and stability of the insurance sector within the national financial system. [9]

[8] Dedy et al., "Legal Uncertainty and Creditor Protection in the Bankruptcy Regime for Insurance Companies in Indonesia," *Lex Localis: Journal of Local Self-Government* 23, no. 11 (2025): 1467–1482, https://doi.org/10.52152/vmdp8k93.

[9] Malie, Chumaida, and Subagyono, "Perlindungan Hukum Bagi Para Nasabah Asuransi"; Ghoni, "Analisis Peran LPS."

Institutional Coordination within the Financial Regulatory Framework

Another significant juridical implication of the PPP relates to the need for effective institutional coordination among various regulatory authorities responsible for financial sector governance. The implementation of the policy guarantee mechanism requires cooperation among several institutions, particularly the Financial Services Authority (OJK), the Ministry of Finance of the Republic of Indonesia, and the Lembaga Penjamin Simpanan.

Each of these institutions possesses distinct regulatory responsibilities within Indonesia's financial regulatory structure. The Financial Services Authority is primarily responsible for supervising financial institutions, including insurance companies, to ensure compliance with regulatory standards and to prevent financial instability. The Ministry of Finance plays a role in developing financial policy and overseeing the broader fiscal and economic implications of regulatory reforms. Meanwhile, LPS functions as the implementing body responsible for administering the policy guarantee scheme and managing the financial resources associated with the program.

Effective coordination among these institutions is essential for ensuring that the Policy Guarantee Program operates efficiently and achieves its intended objectives. For instance, supervisory information from the Financial Services Authority regarding the financial condition of insurance companies may be necessary for LPS to assess potential risks within the guarantee system. Similarly, policy direction and regulatory guidance from the Ministry of Finance may be required to support the development of implementing regulations and operational frameworks. Without clear mechanisms of coordination and communication among these institutions, the effectiveness of the policy guarantee system could be significantly compromised.

Furthermore, the coordination between LPS, OJK, and the Ministry of Finance within the KSSK framework must be critically evaluated from the perspective of institutional independence. While coordination is essential in crisis situations, excessive centralization of decision-making may compromise the autonomy of LPS as an independent regulatory authority. This creates a structural tension between collective governance and institutional independence, which must be carefully managed to preserve the credibility of the financial safety net system.

Moral Hazard Risks within the Insurance Industry

While the Policy Guarantee Program provides important benefits for policyholder protection, it also introduces potential risks associated with moral hazard. Moral hazard arises when the presence of a guarantee mechanism reduces the incentive for market participants to maintain prudent financial behavior. In the context of the insurance industry, the existence of policy guarantees could potentially encourage certain insurance companies to assume excessive financial risks, knowing that policyholders may still receive protection through the guarantee scheme if the company fails.

This possibility creates an important regulatory challenge. If insurance companies perceive that the guarantee system will absorb the consequences of poor financial management, they may engage in riskier investment strategies or fail to maintain adequate financial reserves. Such behavior could undermine the stability of the insurance sector and place additional

pressure on the guarantee system administered by LPS. [10]

To mitigate these risks, the regulatory framework governing the PPP must incorporate safeguards that discourage irresponsible conduct by participating insurers. These safeguards may include risk-based premium contributions, strict supervisory oversight, and clear eligibility criteria for guarantee coverage. By ensuring that insurance companies remain accountable for their financial performance, the regulatory framework can reduce the likelihood that the policy guarantee system will create unintended incentives for excessive risk-taking.

From a theoretical perspective, the issue of moral hazard must be addressed not only through regulatory safeguards but also through institutional design grounded in the Public Trust Doctrine. The existence of a guarantee mechanism should not be interpreted as a transfer of risk from private institutions to the state, but rather as a conditional protection framework that requires continued compliance with prudential standards. Therefore, the effectiveness of moral hazard mitigation depends on the integration of risk-based supervision, proportional premium contributions, and strict enforcement mechanisms.

Institutional Capacity and Regulatory Challenges

The expansion of authority granted to LPS through the implementation of the Policy Guarantee Program also raises important questions concerning institutional capacity and regulatory preparedness. Historically, the primary mandate of LPS has been limited to guaranteeing bank deposits and participating in the resolution of troubled banks. The introduction of policyholder guarantees therefore requires the institution to develop new administrative structures, regulatory expertise, and financial management mechanisms tailored specifically to the insurance sector.

From a juridical perspective, this expansion necessitates the development of comprehensive implementing regulations that clearly define the scope of protection, operational procedures, funding arrangements, and dispute resolution mechanisms associated with the policy guarantee system. Without a well-defined regulatory framework, the effectiveness of the program could be undermined by legal ambiguity and operational uncertainty.

In addition, LPS must ensure that sufficient financial resources are available to support the guarantee system in the event of insurer insolvency. This may require the establishment of sustainable funding mechanisms through premium contributions from insurance companies and prudent financial management of guarantee funds. Strengthening institutional capacity is therefore essential for ensuring that LPS can fulfill its expanded mandate effectively.

In conclusion, the implementation of the Policy Guarantee Program carries significant juridical implications for Indonesia's financial regulatory framework. By enhancing consumer protection, encouraging institutional coordination, addressing moral hazard risks, and requiring institutional capacity development, the program represents an important step toward strengthening the resilience and integrity of the national financial system.

In addition, the juridical implications of the Policy Guarantee Program extend to the

[10] David Tan, "Demystifying the Proliferation of Online Peer-to-Peer Lending in Indonesia: Decoding Fintech as a Regulatory Challenge," *Asian Journal of Law and Society* 10, no. 3 (2023): 376–400, https://doi.org/10.1017/als.2022.21.

legal certainty of insolvency resolution processes. Under the Financial Sector Development and Strengthening Law, LPS assumes the role of a liquidator with the authority to take over the rights and powers of shareholders in failing insurance companies. While this mechanism is intended to facilitate efficient resolution, it also raises important legal questions regarding the protection of other creditors, including reinsurance partners and third-party claimants.

This issue highlights the need for a more comprehensive legal framework that balances the protection of policyholders with the rights of other stakeholders in insolvency proceedings. Legal protection, therefore, should not be limited to the payment of claims but must also encompass procedural fairness, transparency, and certainty in the liquidation process.

CONCLUSION

The establishment of the Policy Guarantee Program under Law Number 4 of 2023 on Financial Sector Development and Strengthening constitutes a significant transformation within Indonesia's financial regulatory framework. The expansion of the mandate of the Lembaga Penjamin Simpanan from a deposit insurance institution into a broader financial safety net authority reflects a shift toward a more integrated system of consumer protection that encompasses both banking and insurance sectors. This study finds that the introduction of the Policy Guarantee Program is not merely an extension of institutional authority, but rather a structural reconfiguration of financial protection mechanisms aimed at enhancing systemic resilience and safeguarding policyholder interests.

Beyond its formal regulatory function, the program introduces a hybrid protection model that combines elements of consumer protection and systemic risk mitigation. However, its effectiveness is contingent upon the development of comprehensive implementing regulations, strong inter-institutional coordination, and governance mechanisms capable of addressing legal uncertainties and minimizing moral hazard risks.

Importantly, this research highlights that the transformation of the Lembaga Penjamin Simpanan marks a paradigmatic shift in Indonesia's approach to financial consumer protection from a traditionally reactive model, which responds to institutional failure, toward a preventive-resolutive framework that emphasizes early intervention, risk containment, and structured resolution mechanisms. This shift has broader implications for the design of financial safety net systems in emerging economies, particularly in fostering a more resilient, accountable, and forward-looking regulatory architecture.

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