

# The Role of Financial Services Authority in Monitoring Fraud in the Capital Market

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## Abstract

Economic growth is supported by the expansion and development of Indonesia's capital market, under certain conditions. Investors are concerned about actions that could harm the Indonesian capital market. With its authority, Financial Services Authority (OJK) oversees stock market activities. This study aims to examine the conditions that occur in the Indonesian capital market and the role of the OJK in overseeing and regulating it. Descriptive qualitative research methodology was used, and literature review was the means of data collection. For analysis, the study utilized literature sources. The research findings show how OJK was used to oversee the Indonesian stock market between 2020 and 2023. In 2020, there were 4 stipulations set, followed by 110 stipulations in 2021, 162 exams with 54 penalties in 2022.

## Article Info

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## 1. Introduction

According to Kasmir (2018) the capital market functions as a means of funding or investment for companies that want to sell their shares to the general public through the IPO procedure. Investment can be seen as an alternative source of external funding for companies (Fikasari & Bernawati, 2021). Investment can help companies shift their capital to other productive areas, thereby increasing the overall value of the company and the amount of money it has (Ren et al., 2022). One of the instruments in the economic field is the capital market. Currently, the capital market is growing rapidly (Novak et al., 2022).

Primary and secondary markets are part of the capital market. The primary market serves as a place for companies to launch initial public offerings of bonds or shares as well as a market for newly issued securities. In this market, money is raised from the flow of newly issued securities from the company issuing the securities (referred to as the issuer) to the buyers of the securities (referred to as investors). As a mechanism for buying and selling securities, investors use securities brokers to create prices in the secondary market, which is the market for trading existing securities (old securities) on the stock exchange. The results of this transaction only move from one securities holder to another, not to the company that issued the securities (Samsul, 2006).

One of the markers of a country's economic progress is the capital market (Pradhan et al., 2020). The cause of capital flight abroad is not only due to a country's declining currency exchange rate, high inflation, and low interest rates, but also due to the unavailability of profitable investment alternatives at home or investment portfolios in other countries that offer much higher returns. The capital market, according to Harjito and Martanto (2014) is a place where long-term trading of funds, both debt and equity, takes place. Securities are a medium that trades these long-term funds.

After the government took decisions in the financial sector at the end of 1988, the capital market in Indonesia grew and developed very rapidly since 1989 (Kasmir, 2018). Foreign investors were able to buy shares in the banking industry when the government took the decision at the end of 1988. In this case, the expansion of stock market activities had a positive impact on the Indonesian capital market. Formally, the capital market is a market for various long-term financial instruments, or securities, issued by private companies or exchanged by governments (public authorities), either as debt or equity.

The Indonesian capital market has grown rapidly in recent years. Although there are sometimes obstacles in its development, it still happens regularly. The use of other people's names for stock transactions, insider trading, stock price manipulation, stock index management, money laundering, transacting stocks outside operating hours, and market timing are just some of the many unethical practices that occur in the capital market and involve legal actors who have extensive knowledge of stock trading. Therefore, OJK must conduct very strict supervision.

The Financial Services Authority was established under Law No. 21/2011 as an independent institution. (Undang-Undang Republik Indonesia Nomor 8 Tahun 1995 Tentang Pasar Modal, 1995). The main task of this institution is to protect investors and ensure that the capital market operates in an organized, effective, and professional manner by acting as a supervisor, regulator, and enforcer in the financial sector. Concerns over the supervisory function performed by Bank Indonesia arose when the Financial Services Authority was established. The Financial Services Authority was established in response to three main factors, namely problems associated with various industry sectors, the development of the financial services sector in Indonesia, and the requirements of Law No.3 2004 on Bank Indonesia (Ps. 34) (Undang-Undang No. 3 Tahun 2004 Tentang Bank Indonesia, 2004). In carrying out its duties, OJK is based on several principles:

OJK bases its activities on several principles, namely:

- a. Principle of independence  
Independent in making decisions and carrying out duties in accordance with laws and regulations.
- b. The principle of legal certainty  
Prioritizing justice and legal basis in every policy.
- c. Public interest principle  
Upholding and protecting the interests of the public and consumers.
- d. The principle of openness  
Protecting state secrets and human rights and delivering accurate, truthful and non-discriminatory information.
- e. The principle of professionalism  
Prioritizing expertise in carrying out duties in accordance with laws and regulations and codes of ethics.
- f. Principle of integrity  
Pholding moral principles in every action and choice.
- g. Accountability principle
- h. Every action must be accountable to the public.

Due to its crucial position in a country's economy, the capital market is highly sensitive to events that may include information that could cause an overreaction on the part of the market. A successful capital market can improve economic performance by creating jobs, increasing national income, and distributing profits equitably.

Many complex issues affect the performance, stability and sustainability of international financial markets. First, geopolitical events, economic crises, and trade policy changes that cause uncertainty and volatility are often the cause of market volatility and economic instability. Second, due to variations in national regulations, inconsistent financial reporting requirements and transparency, and other factors that make it difficult for investors to make informed judgments, regulations and compliance pose significant barriers. Lastly, through blockchain and fintech, technological and cybersecurity innovations provide new efficiencies, but also raise cybersecurity concerns that could jeopardize market integrity. Fourth, while globalization and market integration facilitate easier cross-border capital flows, they also pose systemic risks as market failures can have far-reaching impacts. Finally, with the growing need for sustainable investment

and the potential impact of climate change on business performance and international economic stability, environmental and social factors are becoming increasingly significant. Addressing these issues requires a thorough understanding of international capital markets investment and risk management, and an adaptive approach.

The following issues arise based on the background information provided above:

- a. How often does capital market fraud occur in Indonesia;
- b. What is OJK's function in supervision and regulation;
- c. How well is OJK's supervision of fraud in Indonesia's capital markets implemented?

## 2. Methods

Descriptive qualitative is the choice of research type used. Because, Bodgan and Taylor in Moelong (2017) suggest that qualitative descriptive research is a research stage with the final result, namely exposure to written or oral descriptions obtained from several sources and behavioral observations, while according to Sulisty Basuki in Parent et al. (2023) qualitative research is carried out in order to see and find a complete explanation related to a topic based on a person's perception.

Literature study is the choice in this research in order to obtain data through reference sources, namely theories concerning the theme of cultural analysis related to the accountant's (Lubis & Youpika, 2022). argues that secondary data is obtained through researchers as a single instrument from various literature related to the topic of discussion. In line with that, the data source for this research is in the form of literature by utilizing various intellectual reading materials, such as books, news, previous research, and so on related to the topic of discussion.

## 3. Results and Discussion

### 3.1. Results

This research was conducted at the Class IV Office of the Syahbandar and Port Authority (KSOP) in Panarukan, Situbondo, East Java, during the 2022-2023 period. KSOP Panarukan functions as the supervisor, regulator, and issuer of operational permits for the port, as well as handling operational services, including the management of port facilities and maritime safety. The work environment at this office is considered favorable, with adequate facilities, a conducive atmosphere, and harmonious relationships between employees and between the Head of the Office and the staff, fostering loyalty and collaboration. Workplace safety is well assured, providing employees with a sense of security in carrying out their duties.

### **Fraudulent Practices in the Indonesian Capital Market**

According to the Law of the Republic of Indonesia Number 8 of 1995 on Capital Markets. (Undang-Undang Republik Indonesia Nomor 8 Tahun 1995 Tentang Pasar Modal, 1995) the capital market is an activity that includes the public offering and trading of securities, public companies with all their securities offerings, and institutions or fields of work related to securities offerings. This means that every type of activity that includes the issuance of securities, whether carried out alone or through institutions, can unite to form what is called the capital market. The economic and financial functions of the capital market are its two main objectives. In economic language, the capital market facilitates the flow of money from lenders to borrowers. Lenders expect a return on their investment when the money is transferred. Meanwhile, borrowers can take advantage of the availability of outside funds to advance their businesses.

Any individual or organization that has more funds can carry out investment activities, which will certainly provide a return on the invested capital. The capital market, according to Handini and Astawinetu (2020) has made a significant contribution to Indonesia's economic development. Apart from being a place where people can invest in financial instruments such as stocks, bonds, mutual funds, and others, the capital market also provides funds that can be used for business

development, expansion, additional working capital, and other purposes. Thus, investors can allocate their capital based on the advantages and disadvantages of various instruments.

The capital market provides cash that can be used to determine how to set up and run corporate organizations. In addition, alternative funds from the capital market can be used to budget various government initiatives, thereby improving the economy and welfare of the population. However, due to the fraud and abuse that occurs in Indonesia's capital market, none of these initiatives have gone according to plan. Panjaitan and Apriani (2022) defined capital market crime (securities fraud) as various violations of all applicable laws, which can be classified as administrative, civil, or criminal offenses in the realm of capital markets.

Based on excerpts from the CNBC Indonesia page, so far there have been a lot of criminal acts of fraud in the Indonesian capital market. In 2022, OJK noted that there were 162 violations in the Indonesian capital market (Purwanti, 2022). Meanwhile, OJK has sanctioned 110 parties who violated the provisions in the Indonesian capital market in 2023 (Binekasri, 2023). Seeing the number of violations of the provisions of the Indonesian capital market in 2022 and 2023, supervision and action are still needed to prevent criminal acts of fraud in the capital market. This is done so that the Indonesian economy can grow and develop, while maintaining investor protection and stability of the country's capital market.

### **OJK's Role in Regulating and Supervising**

OJK is an autonomous institution that exercises regulatory authority and responsibility without external assistance. OJK's objectives are: 1) to organize all financial services sector activities in an orderly, fair, open and responsible manner; 2) to be able to build a sustainable and sustainable financial structure in all financial services sector activities; and 3) to be able to protect investors and the public, as stated in Law of the Republic of Indonesia Number 21 of 2011 concerning the Financial Services Authority (Undang-Undang Republik Indonesia Nomor 21 Tahun 2011 Tentang Otoritas Jasa Keuangan, 2011).

All these objectives are intended to regulate, govern, and supervise the activities of the financial services industry, which includes capital markets, banking, insurance, pension funds, financial services, and other related financial services. For the sake of convenience, this is of course important for a number of industries to carry out their activities. In terms of supervising financial activities in the capital market sector, OJK is authorized to do the following: 1) Establish operational guidelines for the supervision of financial services activities; 2) Monitor the implementation of supervision by the Chief Executive; 3) Monitor, assess, inspect, secure, and take action against financial service providers, financial service users, and/or other parties assisting in financial service activities; 4) Determine the person in charge of supervising laws and regulations; Give written orders to financial services or other parties; 5) Select business entities to be appointed to implement laws and regulations; 6) Determine administrative sanctions to be imposed on violators of applicable laws and regulations; Grant and/or revoke company licenses, individual licenses, applicable registration statements, legal entity marks, agreement letters or dissolution decrees, and other requirements (Takalamingan, 2021).

To ensure ease and convenience in carrying out all financial services operations, OJK has a very broad and adaptive authority to supervise financial services activities. Based on the results of the Takalamingan (2021) study, OJK has succeeded in stopping and supervising illicit investment activities in Indonesia. Therefore, Pikahulan (2020) in his research came to the conclusion that all banking operations in Indonesia must comply with all OJK laws and regulations in terms of enforcing provisions and supervising all financial services operations. Furthermore, Zudriana and Sufyan (2023). Through internal and external channels, OJK has successfully carried out its responsibilities and authority to supervise and control Islamic banking activities in Aceh.

## **3.2. Discussion**

### **Implementation of OJK's Role in Supervising Fraud in the Indonesian Capital Market**

OJK plays an important role in overseeing financial services operations, especially those related to the capital market. The purpose of this supervision is to detect any fraudulent activities in the capital market and provide investors with peace of mind and security when transacting. The goal is to help Indonesia develop a strong economy.

Indonesia Corruption Watch (ICW) in 2020 during the Covid-19 pandemic uncovered several fraudulent activities involving the Financial Services Authority (OJK) in the country's capital market. OJK identified four main types of capital market fraud in the study, with a total of 27 perpetrators. PT Asuransi Jiwasraya and PT Danareksa securities were the main culprits behind the biggest scams of all. A major financial scandal involving misappropriation of investment funds involved PT Asuransi Jiwasraya, a state-owned insurance company, and resulted in significant losses to the business and policyholders. Financial statements in this case were manipulated, and investments were made in illiquid equities that were then overvalued and sold to consumers, undermining public confidence and capital market stability. One of the leading securities firms, PT Danareksa Sekuritas, engaged in insider trading and other unethical trading methods that benefited a few parties within the firm, undermining market integrity and costing investors money. OJK found two other forms of share price manipulation fraud apart from these two major cases.

This ICW report identifies a number of systemic problems with capital market regulation and supervision, highlighting the need for stricter oversight, accountability and transparency in the financial sector to protect the integrity and stability of Indonesia's capital markets. The report also emphasizes the importance of OJK's role in enforcing strict sanctions for violations to prevent similar scandals in the future. Meanwhile, from January to August 9, 2021, OJK has examined and documented 110 cases of fraud against capital market business activities in Indonesia, as reported by Liputan 6 (Ramadhani, 2021). In addition, OJK has imposed 386 fines related to these incidents in accordance with applicable laws and regulations.

In 2022, OJK released a press release entitled Optimism for Indonesia's Capital Market to Continue Economic Recovery in Indonesia Stock Exchange Trade Closing 2022. The release contained OJK's performance in overseeing the capital market in Indonesia. It was noted that there were 217 OJK activities consisting of technical and compliance checking activities. The number of fraud incidents recorded reached 162 and those resolved through examination were 54 (Otoritas Jasa Keuangan, 2022). OJK has supervised various capital market players with a total of 3,986 recorded by 2023. This graph shows that the level of OJK supervision has increased considerably since 2022. In accordance with the relevant provisions and regulations, OJK also imposed 796 sanctions as a follow-up to supervisory procedures (Otoritas Jasa Keuangan, 2023).

## 4. Conclusion

Fraudulent practices in the Indonesian capital market are still a polemic in the economic field until now. This can be seen from the various cases that have occurred from the time the capital market began to enter. The increase in the capital market helps contribute significantly to the country's economy. Therefore, the implementation of OJK's supervisory role of the capital market is needed in order to maintain economic stability, protect investors, and provide comfort when conducting financial service activities. From 2020-2023, OJK has implemented its authority to oversee capital market activities in Indonesia with the following details: 1) 4 frauds in 2020 that have been sanctioned, 2) 110 frauds that occurred during 2021, 3) Out of 217 inspections in 2022, 162 were recorded as frauds and 54 were sanctioned, 4) there are 3986 service providers in the capital market that are supervised by OJK

The Financial Services Authority (OJK) has indeed implemented its authority to assist in supervising the capital market in Indonesia, but the rate of fraud remains quite high. The government must improve the OJK in the capital market, namely through revising laws and strengthening sanctions, enhancing cooperation with relevant parties, increasing the number of qualified employees, and raising public awareness.

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