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Indonesia moves to become a millionaire magnet

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Rifky Pratama Wicaksono
Audit Board of Indonesia

IN BRIEF

Indonesia's plan to attract high-net-worth individuals through family offices, aiming to capture at least 5 per cent of the US\$11.7 trillion global market, has sparked interest but also raised concerns. In the wake of major money laundering scandals involving family offices in Singapore, Indonesia must address potential pitfalls by implementing a robust regulatory framework. This includes tackling cybersecurity threats, wealth inequality and corruption. Balancing these issues will be crucial for converting ambition into sustainable and inclusive economic growth.



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The Indonesian government's proposal to establish family offices to attract high-net-worth individuals and boost the economy has generated significant interest. While promising economic benefits, this policy raises concerns about regulatory oversight and financial fraud risks.

Family offices manage the wealth of high-net-worth individuals, providing a tailored approach to asset management. They offer comprehensive services such as wealth management, estate planning, tax services, family business management and philanthropic consultation.

The government stands to benefit from establishing family offices. Attracting high-net-worth individuals increases foreign investment and stabilises financial markets, promoting economic growth. These offices can also stimulate employment growth in finance and legal sectors. Positioning Indonesia as an appealing place for family offices can elevate its reputation as a global financial hub and attract foreign business.

The Coordinating Ministry for Maritime and Investment Affairs aims to finalise the relevant regulations and preparatory steps for implementation by October 2024. This includes the minimum funding policy, mandatory investment clauses and employee absorption. Sandiaga Uno, Minister of Tourism and Creative Economy, stated that approximately US\$11.7 trillion is managed under family office programs worldwide. The Indonesian government aims to attract at least 5 per cent of these potential cash flows to Indonesia.

Singapore's success as a global family office hub is often cited as an example. The city-state is renowned for its open and well-regulated economy, making it one of the most favourable environments for global financial institutions. Singapore offers low taxes and is strategically located with direct flights to major investment destinations. Principals of Singapore's family offices are also conditionally eligible to apply for permanent residency status. These benefits solidify the attractiveness of Singapore to the world's wealthiest.

But Singapore's success has been undermined by a 2024 money laundering case that involved multiple family offices and revealed significant regulatory gaps. The S\$3 billion money laundering scandal involved six family offices laundering money through assets including real estate, luxury goods, crypto assets and cars. This scandal highlights the potential for family offices to be exploited for illegal purposes if not properly regulated.

Establishing a strong regulatory framework quickly can be difficult. But insufficient control may lead to misuse, increasing the likelihood of corruption within financial institutions.

High-profile financial scandals could harm Indonesia's financial reputation on a global scale. Indonesia Corruption Watch reported 791 corruption cases in 2023, involving 1695 suspects and a potential state loss of Rp 28.4 trillion (US\$1.7 billion).

Strong data protection is crucial to ensuring that financial transactions are fully protected by the government. But a recent cyberattack on Indonesia's national data centre in June 2024 highlights the country's cybersecurity vulnerabilities. Indonesia's data and security infrastructure is currently weaker than Singapore's, and requires progressive improvement in its regulation, system and human capital.

Despite the huge opportunity to increase investment, there is a risk that tax revenue may not be maximised if the funds are primarily invested in financial instruments like stocks. This might not benefit everyone and could lead to increased wealth disparities.

Stringent due diligence procedures are also required to make sure that the source of funds controlled by family offices is legitimate. This includes thorough background checks on clients and constant transaction monitoring. According to the Indonesian Financial Transaction Reports and Analysis Center (PPATK), 11,825 suspicious transactions were reported in January 2024, a 91.9 per cent year-on-year increase from 2023. Strict compliance with anti-money laundering and counter-terrorism financing legislation, mandatory reporting of anomalies and frequent audits must be enforced to ensure transparency and accountability.

Effective cross-ministerial collaboration is essential, specifically between the Coordinating Ministry for Economic Affairs, Coordinating Ministry for Maritime and Investment Affairs, Ministry of Finance and Ministry of Investment. Independent authorities such as PPATK, the Corruption Eradication Commission and Supreme Audit Agency also play crucial roles in preventing money laundering and fraud detection. This strategy will increase investor confidence and underscore Indonesia's commitment to combating financial crimes and guaranteeing a stable environment.

The government should consider the real economy as an investment target for family offices to enhance economic impact, particularly in manufacturing, infrastructure, agriculture and services. Tailored tax incentives for strategic sectors and support for social activities through public-private partnerships will further enhance family offices' effectiveness and assist the government in reaching its objectives.

But terms and conditions should be carefully applied to ensure that the benefits of these investments outweigh the opportunity costs of tax relief for high-net-worth individuals. By adhering to strong legal frameworks and transparency standards, family offices can ensure that their operations are aligned with national targets rather than being simply tax havens.

As Indonesia starts this substantial initiative, it must remain vigilant and aggressive in addressing roadblocks. Indonesia should carefully analyse these regulatory shortcomings and socioeconomic conditionalities before determining whether to continue this financial program or pursue alternatives. The lessons from Singapore highlight the importance of robust regulatory measures in safeguarding the integrity of financial institutions and protecting the economy from fraud.

Rifky Pratama Wicaksono is Policy Technical Reviewer at the Audit Board of Indonesia. The views expressed belong solely to the author.

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