
Bullion Bank Regulation in Indonesia in an Effort to Protect Customers

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ABSTRACT

The development of the global financial system has encouraged various countries to adopt bullion banks as an alternative to the gold-based financial system. However, in Indonesia, the concept of bullion banks is still relatively new and does not yet have a clear legal framework. This study aims to examine the need for bullion bank regulation in Indonesia and to assess the suitability of the national legal framework with international practices. The method used is normative juridical with a statutory approach and comparative studies. The results of the study show that Indonesia does not yet have specific regulations regarding bullion banks, which has the potential to cause legal uncertainty for business actors and investors. Therefore, it is necessary to formulate comprehensive regulations to regulate bullion bank activities specifically to support the stability of the national financial system. This study recommends that policy makers immediately formulate regulations related to bullion banks by referring to best practices in other countries.

Keywords: Bullion Bank, Customer Protection, Gold Investment.

1. INTRODUCTION

The development of the global financial system shows that innovation in financial instruments and institutions is key to supporting economic stability, transaction efficiency, and expanding financial inclusion. One form of institutional innovation that has developed significantly in several developed countries is bullion banking, which is a business activity in the form of gold instruments in the form of savings, financing, trading, gold custody and/or other activities carried out by LJK.

The precious metals market, especially gold, has become an increasingly popular investment instrument in Indonesia. World Gold Council data (2023) noted that demand for physical gold in Indonesia has grown by an average of 8% per year since 2020, driven by high public interest as a hedge against inflation and economic uncertainty. In the global

gold trading ecosystem, bullion banks play a key role as intermediaries between producers, consumers, and institutional investors.

Bullion bank is a financial institution that provides trading, storage, and management services for precious metals, especially gold, as an investment and transaction instrument. In Indonesia, regulations on bullion banks are still relatively new and limited, especially after the encouragement of Bank Indonesia and the Financial Services Authority (OJK) to develop a gold-based financial ecosystem. However, in practice there are still a number of problems related to legal protection for bullion bank customers.

Among them, bullion banks are not yet considered conventional savings institutions so they are not guaranteed by the Deposit Insurance Corporation (LPS). In addition, potential regulatory loopholes arise on issues such as anti-money laundering, precious metal price manipulation, physical and digital storage management, institutional bankruptcy risks, and fraudulent practices.

Bullion banks, as defined by the London Bullion Market Association (LBMA), are financial institutions that provide physical gold storage services, commodity financing, and precious metal derivative transactions. In Indonesia, similar activities are carried out by commercial banks, futures trading companies (gold brokers), and Antam subsidiaries. However, to date there is no specific regulation governing the legal status of bullion banks, thus potentially creating systemic risks such as price manipulation, default, or money laundering.

Several cases show market vulnerabilities. In 2022, Bappebti recorded 147 investor reports related to illegal gold investment fraud with losses reaching IDR 200 billion. Meanwhile, the absence of binding physical gold storage standards (such as the LBMA Good Delivery standard) in Indonesia increases the risk of failure to deliver by service providers.

In various countries, the development and operation of Bullion Banks are generally under the supervision of central banks with varying regulatory mechanisms, adjusted to the needs of each country's domestic financial sector. However, there are a number of core functions of central banks in Bullion Bank supervision that are relatively similar and can be adopted as a reference framework for implementation.

Based on the roles carried out, there are at least three models of Bullion Bank regulation by central banks. First, the policy maker model where the central bank functions as a policy maker, as implemented in the UK, Vietnam, and Russia. Second, the financial authority model adopted by Hong Kong. Third is a hybrid model that combines both roles as a policy maker and a financial authority, as practiced in Singapore, Malaysia, and China.

In the midst of the current global economic dynamics, every country is required to be able to empower economic resources optimally in order to achieve significant economic benefits. One strategy that can be implemented is through strengthening the banking sector, including by developing a special precious metal bank or bullion bank. This financial institution plays a strategic role in the management of valuable commodities, especially gold, while also having the potential to be an effective means of increasing national foreign exchange reserves.

In the global financial system, bullion banks play a vital role as intermediaries in the precious metals market. The regulation of these institutions varies from country to country, depending on the characteristics of the market and the local legal framework. Here is an in-depth analysis of bullion bank regulation in several key jurisdictions:

The London Bullion Market Association (LBMA) is a self-regulatory organization that oversees the activities of bullion banks in the UK. The system is supported by the Bank of England, which monitors market stability without direct intervention. The LBMA

Good Delivery standard is the global benchmark for the quality and storage of precious metals. In 2019, the Financial Conduct Authority (FCA) fined Deutsche Bank £30 million for failing to supervise high-risk gold transactions.

The Monetary Authority of Singapore (MAS) adopted a comprehensive regulatory model through the Precious Stones and Metals Dealers Act (PSMD). Bullion banks are required to meet dual requirements as financial institutions and precious metals dealers. Singapore also implemented a tax exemption for investment gold to support market development.

The Commodity Futures Trading Commission (CFTC) oversees gold derivatives activity under the Dodd-Frank Act. The Office of the Comptroller of the Currency (OCC) limits commercial banks' exposure to commodities. The 2016 JPMorgan case saw the imposition of a hefty \$920 million penalty on a violator who was found to have manipulated the gold market.

The People's Bank of China (PBOC) tightly controls bank bullion through the Shanghai Gold Exchange (SGE). Foreign banks are only allowed to operate through joint ventures in the Shanghai Free Trade Zone. The Gold International Board system promotes the use of the yuan in international gold transactions.

The Hong Kong Monetary Authority (HKMA) classifies bullion banks as merchant banks with special requirements. The Commodities Trading Ordinance requires real-time reporting of gold transactions. Standards for physical gold storage are among the strictest in Asia.

These differences reflect variations in each country's regulatory philosophy and financial market structure. The UK emphasizes self-regulation through the LBMA, while China exercises direct control through the PBOC. Singapore and Hong Kong offer a hybrid model with fiscal incentives and tight oversight.

The experiences of these countries demonstrate the importance of: (1) clear standards for precious metal storage, (2) a clear division of regulatory authority, and (3) a real-time transaction monitoring mechanism. The gold fraud cases in Indonesia demonstrate the urgency of establishing a specific regulatory framework for bank bullion.

This study aims to examine regulatory gaps and formulate an effective supervision model for bullion bank activities in Indonesia through comparative theory, taking into account aspects of consumer protection and financial system stability.

2. RESEARCH METHOD

This research is a normative legal research that uses data from relevant literature and written sources. Therefore, literature studies are used to find the relationship and relevance between the issues studied and the theories that support this research. Primary Legal Materials in this study use POJK No. 17 of 2024 concerning the Implementation of Bullion Business.

Secondary legal materials in this study include legal literature such as books, journals, and other articles relevant to the topic being studied. The collection of legal materials is carried out through legislative studies and literature studies of legal materials, based on the classification of legal materials related to the research subject. This study uses descriptive analysis to provide an overview or explanation of the subject and object of research in accordance with the research results.

3. RESULTS AND ANALYSIS

Bullion Bank's Position in the Indonesian Business Legal System

Bullion banks in the Indonesian context do not yet have a specific institutional form and regulation that explicitly regulates their existence. Bullion banking functions such as

digital gold trading, precious metal custody, and gold-based financing are partly carried out by entities such as PT Pegadaian, Islamic banks, or precious metal-based fintech. However, these institutions cannot be said to be bullion banks in the international sense.

Until 2025, there is not a single OJK, BI regulation, or law that explicitly mentions or defines bank bullion. Regulations that are indirectly related include:

- POJK No. 13/POJK.02/2018 concerning Digital Financial Innovation.
- Law No. 21 of 2011 concerning OJK.
- Law No. 10 of 1998 concerning Banking.
- Several Bank Indonesia Circulars regarding precious metal transactions and payment systems.

This creates legal uncertainty in terms of customer protection and supervision of the activities of institutions that carry out bullion banking functions.

Legal loopholes

In practice, there are several legal loopholes found in bullion bank transaction practices, including the following:

a. LPS does not guarantee customer funds

The Deposit Insurance Corporation (LPS) only guarantees deposits in the form of demand deposits, savings, deposits, certificates of deposit, and/or other forms that are similar to those, as long as they meet certain requirements. While precious metal products or gold savings, which are categorized as investment instruments, are not included in this scope, this certainly opens up the risk of losing assets if the bank or depository institution fails or goes bankrupt.

b. Potential for Price Manipulation and Non-Transparent Trading Practices

The practice of price manipulation and non-transparent practices in precious metal transactions can occur due to several factors, including the following:

- There is no obligation to report daily prices based on global standards (e.g. LBMA Fixing).
- Not all institutions have the obligation to conduct periodic external audits.
- There is no monitoring system for precious metal transactions by BI/OJK as applies to foreign exchange or derivatives.

c. Physical and Digital Storage Risks

In international practice regulated by the London Bullion Market Association (LBMA), bank bullion transactions have two storage models, namely allocated and unallocated accounts:

- Allocated: gold is physically stored in the customer's name and can be withdrawn at any time.
- Unallocated: only in the form of digital records, without individual physical guarantees.

Meanwhile, in the practice applied in Indonesia, there is no provision that forces institutions to clearly state the type of customer gold ownership. This opens up loopholes for disputes and misuse of customer assets.

d. Risk of Money Laundering and Other Crimes

It is no longer a secret that precious metal transactions are often used as a medium for money laundering because of their anonymous nature, easy to move, and difficult to

trace. In addition, OJK and PPATK also do not have a special supervision system for bullion banking or gold savings activities. In the conventional banking system, there is a term known as the know your customer standard and the anti-money laundering system as regulated by PBI No. 3/10/PBI/2001 regulating the principles of KYC and PBI No. 11/28/PBI/2009 regulating the implementation of APU programs and prevention of terrorism financing. In addition, OJK also issues regulations related to KYC and AML, such as OJK Regulation No. 8 of 2023, but in this case not all gold storage institutions apply AML/KYC standards as required for conventional banks.

Comparative Study: Bullion Bank Regulation in Other Countries

In this case, the author takes examples from several countries that have implemented fairly good regulations in bullion business practices or known as bullion banks, including the following:

a. Malaysia

Several countries, such as Malaysia and Turkey, have successfully developed a banking system based on gold and have had a significant economic impact. Gold itself has long been known as a hedging instrument, especially in the face of inflation and exchange rate fluctuations. The presence of Gold Banks makes it easy for people to save and invest in gold without having to store physical gold which has high risks. Unfortunately, in Malaysia itself, there are no regulations that specifically regulate bullion banks.

b. United Kingdom

Bullion banking practices in the UK operate under the supervision of the Financial Conduct Authority (FCA) and follow the standards of the London Bullion Market Association (LBMA), which in its regulations requires the following rules:

- Transparency of monthly reports
- Gold audit by independent auditors
- Separation of customer gold from bank assets
- And full protection in case of bankruptcy
- Customers also have the legal right to demand the return of physical gold in the system allocated account.

c. Switzerland

The Swiss Financial Market Supervisory Authority (FINMA) requires all transactions and storage of precious metals to be subject to strict financial regulations, where any gold held on behalf of a client must be recorded as client property, not a bank asset. Switzerland also requires transparency from the custodian and certification of physical storage of gold.

d. United Arab Emirates (UAE)

In the United Arab Emirates, through the Dubai Multi Commodities Centre (DMCC), transparency of gold ownership and transactions is required. DMCC implements AML/KYC systems and international tax compliance. Bullion bank customers in Dubai are secured through a regularly audited vaulted gold system with direct access.

Recommendations for Legal Protection Regulation Model for Bullion Bank Customers in Indonesia

Based on the findings and comparative studies above, the recommendations for strengthening legal protection for bullion bank customers in Indonesia are as follows:

- a. Develop a special regulatory framework for bullion banks through POJK or BI Regulations containing operational requirements, product types, supervision, and legal responsibilities.
- b. Recognize bullion banking as a new form of financial product (not purely an investment), subject to the same principles of prudence and consumer protection as the banking sector.
- c. Requires transparency of information on the physical status of gold (allocated/unallocated), storage location, and service fees.
- d. Implementing an independent audit scheme and PPATK involvement in supervising precious metal transaction activities.
- e. Encourage LPS participation or establish a non-deposit asset guarantee scheme, in collaboration with institutions such as OJK and the Ministry of Finance.

4. CONCLUSION

Until 2025, Indonesia does not have specific regulations governing bullion banks, thus creating various legal loopholes such as non-guaranteed customer funds, potential price manipulation, unclear gold ownership, and money laundering risks. The bullion banking function is currently carried out partially by non-bank institutions such as Pegadaian and fintech, but does not meet international standards. Comparative studies with developed countries show the importance of strict regulations, transparency, and clear legal protection. Therefore, Indonesia needs to immediately formulate special regulations for bullion banks to ensure legal certainty and customer protection in precious metal-based financial activities.

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