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Indonesia's Currency Strength Importance for Financial Institutions: Conceptual and Preliminary Empirical Review

- The Indonesian Rupiah depreciated by approximately 10.4% against the US Dollar over the period January 2025 to June 2026, with the USD/IDR JISDOR rate reaching Rp17,899 per US Dollar by end-June 2026. This depreciation did not occur in isolation: it unfolded against a backdrop of global financial-market uncertainty, elevated domestic inflation, Indonesia's first monthly trade deficit in six years, and a more defensive monetary-policy stance by Bank Indonesia, which raised its policy rate by a cumulative 75 basis points in the first half of 2026.
- The impact on Indonesia's listed financial services sector was initially contained in 2025 but became more pronounced in the first half of 2026. After the IDXFinance index rose to 109.66 by end 2025, it fell sharply to 90.44 by June 2026. Banking stocks declined from 117.30 to 85.42, life insurance from 124.19 to 80.34, and multi-finance to 70.15, around 32% below its end 2025 level. This decline reflected investors' reassessment of credit risk, funding cost pressures, and earnings prospects across the sector.
- First differenced monthly data from January 2020 to June 2026 show that contemporaneous exchange rate transmission to financial sector performance is generally weak. The clearest signals emerge in the January 2024 to June 2026 depreciation episode, with multifinance NPF and bank NPL correlations reaching +0.21 and +0.15, respectively, suggesting gradual credit quality deterioration. Life insurance and fintech P2P lending show stronger relationships in levels, consistent with cumulative medium term transmission through claims cost inflation and borrower financial fragility rather than immediate monthly effects.

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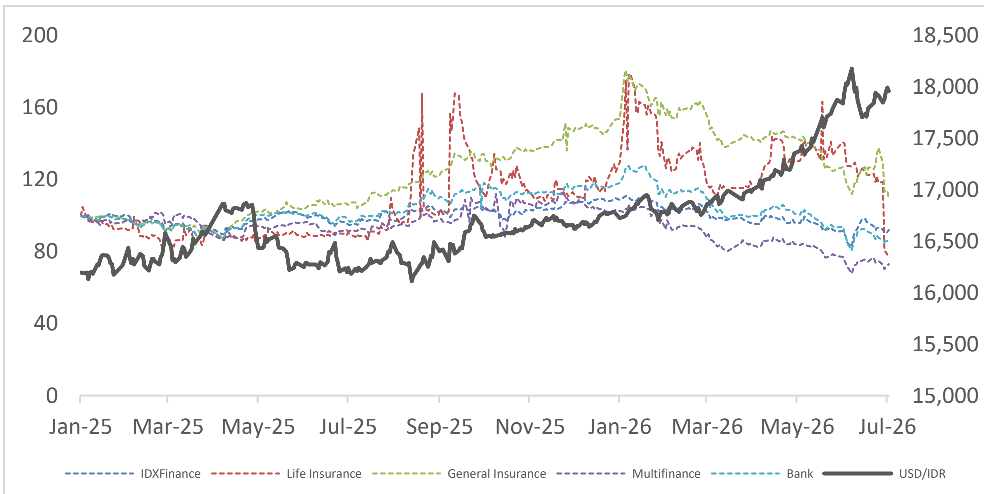
Introduction: Exchange Rate and Financial Institutions Stock Movements

The depreciation of the Indonesian Rupiah since 2025 has become an increasingly important macro-financial issue for Indonesia's financial services industry. After entering 2025 under pressure from a strong US Dollar, uncertain global interest-rate expectations, and persistent portfolio-flow volatility, the Rupiah continued to weaken through 2026. Bank Indonesia's Jakarta Interbank Spot Dollar Rate, which serves as a representative reference for the USD/IDR spot market, stood at Rp17,899 per U.S. dollar on 30 June 2026, while the financial services stock-index dataset shows that the USD/IDR index had risen to 110.42 from a base of 100 on 2 January 2025. This implies that, over the period under review, the Rupiah depreciated by approximately 10.4% against the US Dollar (Exhibit 1).

Exhibit 1. Indonesia Financial Sector Stock Index and USD/IDR Exchange Rate Movement (rhs)



Sources: Bloomberg, IFG Progress Analysis

The depreciation trend did not occur in isolation. In 2025, Rupiah pressure was already visible as Indonesia became one of the weaker-performing currencies in emerging Asia, with Reuters reporting in December 2025 that the Rupiah had lost around 3.4% year-to-date and was trading near Rp16,660 per US Dollar. The pressure intensified in 2026 as external and domestic risk factors accumulated, including global financial-market uncertainty, elevated energy-price risks, concerns over fiscal policy direction, and shifting investor sentiment toward Indonesian assets. By June 2026, Bank Indonesia had responded with a more defensive monetary-policy stance, including a 50 basis points increase in May 2026 and a further 25 basis point increase to 5.50% in June 2026, explicitly aimed at stabilizing the Rupiah and containing inflationary pressure.

The macroeconomic backdrop also became more challenging for financial-sector valuations. Indonesia recorded its first monthly trade deficit in six years in May

2026, while annual inflation rose to 3.34% in June 2026, close to the upper end of Bank Indonesia's target range. These developments mattered for financial services firms because currency depreciation can affect their performance not only through direct foreign-exchange exposure, but also through second-round channels: higher domestic interest rates, weaker household purchasing power, lower borrower repayment capacity, higher imported-cost inflation, and pressure on domestic asset prices. In this context, the Rupiah became not merely a macroeconomic indicator, but a potential transmission mechanism affecting credit risk, claims risk, investment returns, funding costs, and investor risk appetite.

The performance of Indonesia's listed financial services companies reflected this increasingly difficult environment. Based on the second sheet of the uploaded dataset, which indexes sectoral stock performance to 100 on 2 January 2025, the broader financial-sector stock index initially performed relatively well in 2025. The IDXFinance index rose to 109.66 by end-2025, while the banking index increased to 117.30. General insurance, investment services, and holding/investment companies also posted strong gains during 2025, suggesting that equity investors initially differentiated between moderate Rupiah weakness and sector-specific growth or valuation drivers. In other words, the first year of depreciation did not immediately translate into broad-based underperformance across financial services stocks.

However, the picture changed sharply in 2026. Halfway through 2026, the IDXFinance index had fallen to 90.44, equivalent to a 17.5% decline from end-2025 and a 9.6% decline from the January 2025 base. Banking stocks, which are often treated as the core proxy for Indonesia's financial-sector health, weakened materially: the banking index fell from 117.30 at end-2025 to 85.42 by 30 June 2026, while the Infobank15 index declined from 88.77 to 65.01. This suggests that investors began to price in the possibility that Rupiah depreciation, higher interest rates, and weaker macro sentiment could affect banks through higher credit costs, lower loan growth, tighter liquidity, and valuation pressure on financial assets.

Other listed financial services subsectors also showed divergent but increasingly fragile performance. Life insurance stocks declined from 124.19 at end-2025 to 80.34 by 30 June 2026, indicating a sharp reversal from the previous year's gains. This movement is consistent with concerns over investment portfolio volatility, policyholder purchasing power, and potential pressure on long-term liabilities. General insurance remained above its January 2025 base at 113.36, but it had fallen substantially from its end-2025 level of 153.31, suggesting that even relatively resilient insurance subsectors were not immune to market repricing. Multifinance stocks were among the weakest performers, falling to 70.15 by 30 June 2026, or around 32.0% below end-2025. This is conceptually consistent with the sector's sensitivity to consumer purchasing power, vehicle and equipment affordability, funding costs, and non-performing financing risk.

Asset-management and investment-service related stocks presented a more discerning picture. The investment-services index remained well above its January 2025 base at 188.29, while holding and investment companies stood at 167.28. Nevertheless, both indices had corrected sharply from their end-2025 levels, declining by around 39.1% and 22.0%, respectively. This indicates that although parts of the capital-market ecosystem had previously benefited from strong valuation momentum, market volatility and currency pressure in 2026 reduced investor appetite. The broader pattern therefore points to a transition from sectoral optimism in 2025 to macro-financial repricing in the first half of 2026 (Exhibit 1).

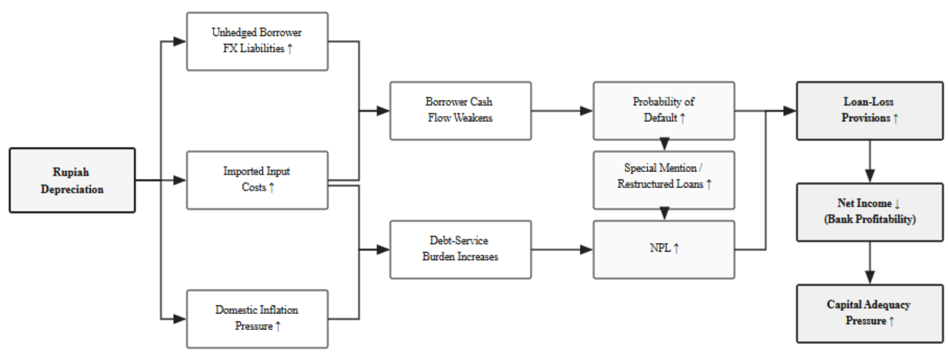
This paper aims to conceptually and empirically review how currency depreciation can affect firms across Indonesia's financial services sectors and through which transmission channels. The paper focuses on the underlying mechanisms linking Rupiah depreciation to sectoral performance. Moreover, rather than estimating the statistical magnitude of the effect, the paper presents some preliminary empirical test by looking at the Pearson Product-Moment Correlation coefficient. The review examines banks, life and health insurance, general insurance (including credit insurance), reinsurance, pension funds, multifinance companies, fintech lenders, asset managers, and related financial intermediaries such as securities company. The central proposition is that currency depreciation affects each subsector through different entry points in the balance sheet and income statement: banks through asset quality and provisioning, insurers through claims and investment portfolios, pension funds through asset-liability management, credit insurers and guarantors through default claims, multifinance and fintech firms through borrower repayment capacity, and capital-market institutions through valuation, liquidity, and transaction activity.

How Exchange Rate Influences Financial Institutions' Performance

Banking Industry

Rupiah depreciation transmits into the banking sector through several reinforcing channels. As the exchange rate weakens, borrowers with foreign-currency obligations face higher debt-servicing burdens, which erodes repayment capacity and pushes non-performing loan ratios upward. Banks are consequently compelled to increase provisioning, compressing net interest margins and profitability. At the same time, capital adequacy comes under pressure as risk-weighted assets expand and mark-to-market losses accumulate on securities portfolios, particularly those denominated in or sensitive to foreign currency movements.

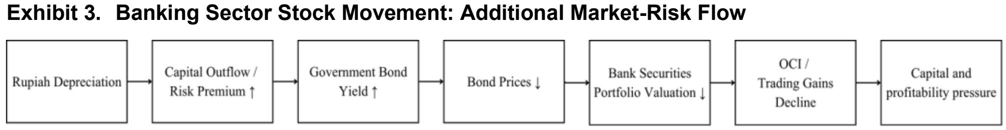
Exhibit 2. Banking Sector Stock Movement: Asset Quality, Provisioning, Capital, and Securities Valuation



Sources: IFG Progress Analysis

The depreciation cycle does not stop at the asset-quality channel. A weaker Rupiah tends to coincide with, and in some cases precipitate, upward pressure on domestic interest rates as Bank Indonesia responds defensively to stabilise the currency. Rising rates create valuation losses on fixed-income holdings and increase funding costs, adding a market-risk dimension that compounds the credit-risk deterioration already visible in asset quality metrics.

Exhibit 3. Banking Sector Stock Movement: Additional Market-Risk Flow



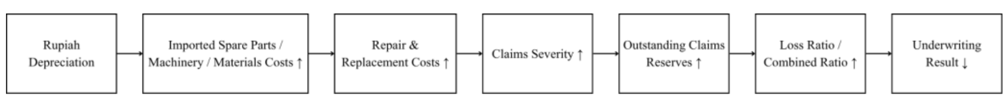
Sources: IFG Progress Analysis

Exhibit 3 further elaborates the additional market-risk transmission channel, capturing how Rupiah depreciation amplifies interest rate risk, foreign exchange revaluation losses, and liquidity pressure within the banking system. Together, both exhibits highlight that Indonesian banks face a multi-layered risk exposure when currency weakness persists, requiring simultaneous management of credit, market, and capital risks.

General & Credit Insurance Industry

Currency depreciation affects general insurers primarily through claims severity, reserve adequacy, reinsurance costs, investment valuation, and solvency. These exposures correspond to the framework's identification of claims reserves, replacement costs, reinsurance, and underwriting results as the main affected areas. The most direct transmission occurs through the replacement-cost channel. When the Rupiah depreciates, the domestic-currency prices of imported goods generally rise, although the magnitude and timing depend on invoicing practices, market structure, and firms' ability to absorb exchange-rate movements in their margins. IMF research finds that exchange-rate depreciation passes through more strongly to import prices than to export prices and that pass-through tends to be more pronounced in emerging markets and during periods of high inflation or elevated uncertainty. For insurers, this can increase the cost of settling motor, property, engineering, marine, aviation, and energy claims involving imported components, machinery, equipment, or specialised services. The immediate effect may be a higher average cost per claim even when claim frequency remains unchanged. Higher claims severity subsequently increases incurred claims, the loss ratio, outstanding claims provisions, and potentially the combined ratio. The IAIS has similarly noted that higher inflation raises non-life insurers' expenses and claims severity and can require the revaluation of claims reserves.

Exhibit 4. General & Credit Insurance Sector Stock Movement: Claims Reserves, Replacement Costs, Reinsurance, and Underwriting Result

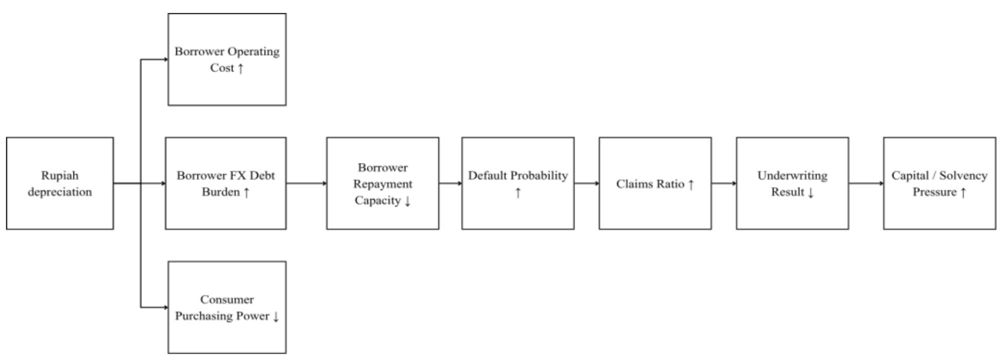


Sources: IFG Progress Analysis

The impact can be amplified by a timing mismatch between claims inflation and premium repricing. Existing policies are commonly priced using assumptions about repair costs, replacement values, inflation, and claim development that prevailed when the contracts were underwritten. If the Rupiah weakens sharply during the policy period, actual claim costs may rise before premiums and deductibles can be adjusted at renewal. Consequently, underwriting margins deteriorate even if insurers eventually pass the higher cost into future premiums. A further channel arises through reinsurance. Where treaties, facultative placements, reinstatement premiums, or claim settlements are denominated in foreign currency, depreciation increases their Rupiah value. Reinsurance reduces the direct insurer's underwriting exposure, but it also introduces counterparty, timing, basis, operational, and liquidity risks. The IAIS therefore requires insurers to evaluate the economic impact of reinsurance, its effect on liquidity, the credit quality of reinsurers, and the treatment of reinsurance within capital and enterprise-risk-management frameworks. Currency depreciation can thus increase ceded-premium expenses while also increasing the Rupiah value of recoverables. Whether reinsurance provides a net buffer depends on contractual currency, retention levels, claim-settlement timing, reinsurer creditworthiness, and the extent to which recoverables are recognised promptly.

Consider, for example, a motor insurer that priced a one-year portfolio before a substantial Rupiah depreciation. If insured vehicles require imported electronic modules or transmission components after an accident, the local replacement cost may rise even though the number of accidents does not. The insurer would then record higher claim payments and may need to strengthen outstanding claim reserves, while the premium remains fixed until renewal. If part of the portfolio is protected by foreign-currency reinsurance, the insurer may also face a higher Rupiah-denominated reinsurance cost, although eligible recoveries on large claims would rise in Rupiah terms as well. On the asset side, depreciation may coincide with higher domestic yields and weaker equity prices, creating valuation pressure on investment portfolios; over time, however, higher yields may improve reinvestment income. The overall effect is therefore not mechanically negative. Insurers with effective repricing, inflation-adjusted insured values, conservative reserves, foreign-currency assets that match foreign-currency liabilities, and well-designed reinsurance programmes may absorb the shock more effectively. The relevant prudential question is whether assets, technical provisions, reinsurance recoverables, and capital resources remain adequate under a total-balance-sheet assessment, as required by the IAIS solvency framework.

Exhibit 5. General & Credit Insurance Sector Stock Movement: Insured Credit Claims and Underwriting Result

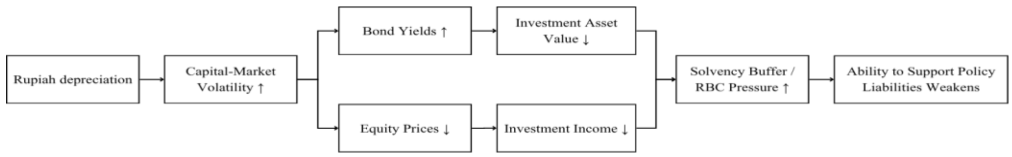


Sources: IFG Progress Analysis

Life & Health Insurance Industry

Life and health insurance companies are exposed to Rupiah depreciation through channels that are structurally more complex than those facing general insurers, owing to the long-duration nature of their liabilities and the sensitivity of their investment portfolios to asset price and interest rate movements. For life insurers, a weaker Rupiah tends to coincide with heightened financial market volatility, which erodes the market value of investment assets held to back long-term policy liabilities. Where liabilities are denominated in or indexed to foreign currency, the mismatch widens further. At the same time, solvency positions come under simultaneous pressure from both the asset and liability sides, as declining portfolio values reduce the buffer available to absorb adverse experience.

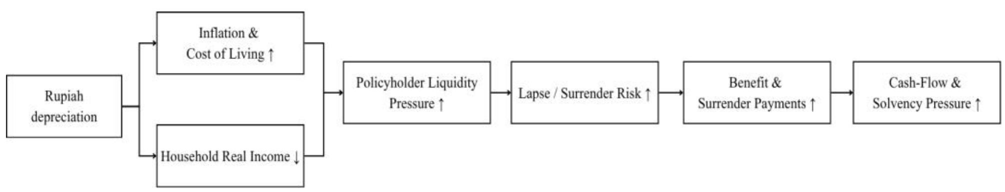
Exhibit 6. Life Insurance Sector Stock Movement: Investment Assets, Policy Liabilities, Surrender Risk, and Solvency



Sources: IFG Progress Analysis

Beyond the balance sheet, depreciation also influences policyholder behaviour in ways that can amplify liquidity pressure. As purchasing power erodes and economic uncertainty rises, policyholders may increasingly opt to surrender their policies to access cash, particularly in unit-linked and savings-oriented products where surrender values are visible and accessible. A surge in surrenders not only accelerates cash outflows but may also force asset liquidation at unfavourable prices, compounding the valuation losses already embedded in the portfolio.

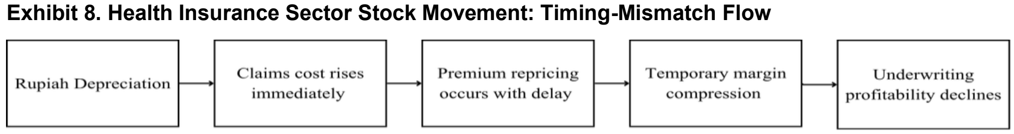
Exhibit 7. Life Insurance Sector Stock Movement: Policyholder-Behavior Flow



Sources: Bloomberg, IFG Progress Analysis

Health insurance faces a related but temporally distinct transmission mechanism. Medical costs in Indonesia carry a significant import component. Pharmaceuticals, medical devices, and diagnostic equipment are largely priced in foreign currency meaning that Rupiah depreciation raises the cost of claims faster than premium adjustments can respond. This timing mismatch between rising claims costs and relatively sticky premium income creates a structural squeeze on underwriting margins that can persist well beyond the initial depreciation episode.

Exhibit 8. Health Insurance Sector Stock Movement: Timing-Mismatch Flow



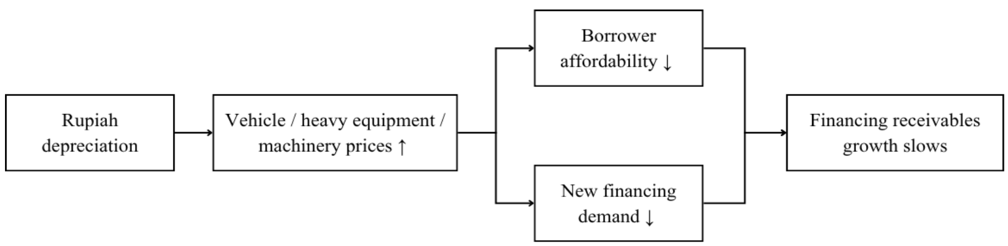
Sources: IFG Progress Analysis

The combined picture across life and health insurance therefore points to a sector where currency depreciation generates pressure simultaneously on investment returns, liability valuations, policyholder behaviour, and claims costs making it one of the more comprehensively exposed segments of Indonesia's financial services industry.

Multi-finance Sector

Multi-finance companies occupy vulnerable position during periods of Rupiah depreciation, given their simultaneous exposure to borrower-side credit deterioration and lender-side funding cost pressures. The sector's core business, financing vehicle purchases, heavy equipment, and consumer durables is particularly sensitive to currency movements because a significant share of the underlying assets carry import content, meaning that depreciation directly inflates replacement values and, where applicable, the cost of collateral. At the same time, borrowers who financed purchases at pre-depreciation price levels may find their repayment obligations increasingly burdensome as real purchasing power erodes, pushing non-performing financing ratios upward and compressing portfolio quality.

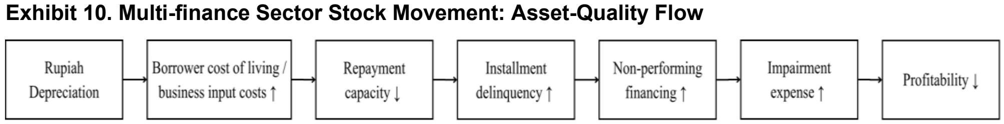
Exhibit 9. Multi-finance Sector Stock Movement: Financing Receivables, NPF, Funding Cost, and Profitability



Sources: IFG Progress Analysis

The asset-quality deterioration does not unfold in isolation. Multi-finance companies typically fund themselves through bank borrowings, bonds, and asset-backed securities, many of which carry floating rates or require periodic refinancing. As Rupiah depreciation prompts Bank Indonesia to maintain or raise interest rates defensively, the cost of this funding rises, squeezing the net interest spread between lending yields which may be contractually fixed for existing borrowers and the rising cost of liabilities. The resulting margin compression is particularly acute for companies with shorter funding durations relative to their asset books.

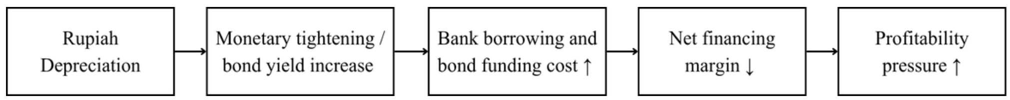
Exhibit 10. Multi-finance Sector Stock Movement: Asset-Quality Flow



Sources: IFG Progress Analysis

The funding-cost dimension adds a further layer of pressure that distinguishes multi-finance from purely deposit-funded institutions. Unlike banks, which can partially offset rising funding costs through deposit repricing, multi-finance companies are more directly exposed to wholesale market conditions and investor risk appetite, both of which tend to deteriorate during episodes of sustained currency weakness.

Exhibit 11. Multi-finance Sector Stock Movement: Funding-Cost Flow



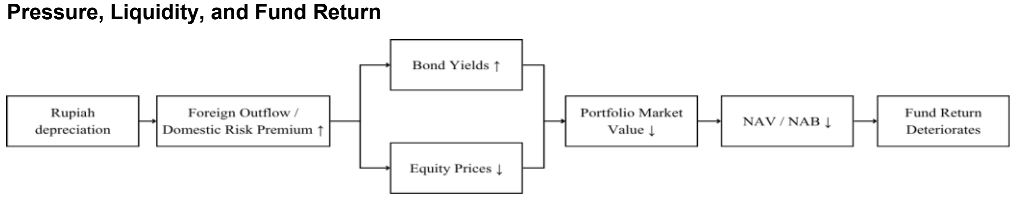
Sources: IFG Progress Analysis

The multi-finance sector therefore faces a compounding risk dynamic during depreciation cycles, where weakening asset quality and rising funding costs reinforce one another, progressively eroding profitability and, if sustained, capital adequacy.

Asset Management & Investment Securities Industry

For asset managers, currency depreciation principally affects portfolio valuation, assets under management, investor redemptions, liquidity, and fund returns, as set out in the financial framework. When the Rupiah weakens, foreign investors holding Indonesian assets experience an additional currency loss when their returns are translated into U.S. dollars or another reference currency. This can reduce their willingness or capacity to maintain exposure, resulting in portfolio outflows. Outflows from local-currency bond markets may push yields upward and bond prices downward, while weaker risk appetite can also depress equity valuations. Domestic mutual funds are then affected through lower net asset values, weaker investment performance, and potentially lower management-fee income as assets under management contract. BIS research confirms that emerging-market currency depreciation, bond outflows, and rising domestic yields can reinforce one another, while global investors' risk constraints can amplify portfolio adjustments.

Exhibit 12. Mutual Funds / Asset Management Sector Stock Movement: NAV/NAB, Redemption Pressure, Liquidity, and Fund Return

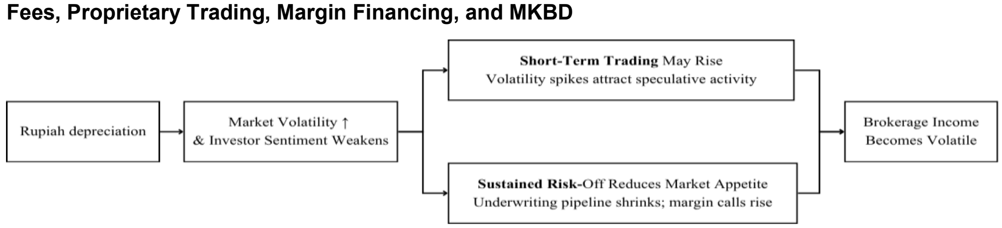


Sources: IFG Progress Analysis

The initial valuation shock may be intensified by the redemption-liquidity channel. Investors responding to declining returns may redeem their fund units, requiring fund managers to raise cash by selling portfolio assets. Where an open-ended fund offers frequent redemptions but invests in less liquid corporate bonds or other instruments, asset sales under stressed conditions may occur at discounted prices. This can impose further losses on remaining investors and encourage additional redemptions, creating a feedback loop between falling net asset values, withdrawals, and forced sales. The Financial Stability Board identifies this mismatch between asset liquidity and redemption terms as a central structural vulnerability of open-ended funds. The effect nevertheless varies by product: bond and equity funds generally face valuation pressure, whereas money-market funds may benefit from higher short-term interest rates. Funds holding unhedged foreign-currency assets may also record Rupiah translation gains that partially offset losses on domestic assets.

For securities companies, the transmission is broader because their revenues depend on brokerage, underwriting, margin financing, advisory services, and proprietary investment positions. A depreciation-driven increase in volatility may initially raise trading volume and brokerage commissions. However, if currency weakness develops into a sustained risk-off episode, declining investor participation and lower market valuations can reduce brokerage activity and delay equity offerings. Higher bond yields can similarly make debt issuance more expensive, weakening the underwriting pipeline and fee income. At the same time, falling equity and bond prices reduce proprietary portfolio values and the value of collateral pledged by margin-financing clients. This may lead to margin calls, higher receivable risk, and pressure on adjusted net working capital or Modal Kerja Bersih Disesuaikan (MKBD), consistent with the framework's identified underwriting, proprietary-trading, and margin-financing channels. The COVID-19 shock provides a useful cross-country illustration: emerging-market local-currency bonds experienced simultaneous capital outflows, sharp currency depreciation, and widening spreads, magnifying losses for portfolio investors and market intermediaries.

Exhibit 13. Securities Companies Sector Stock Movement: Brokerage Revenue, Underwriting Fees, Proprietary Trading, Margin Financing, and MKBD

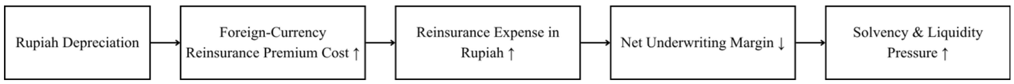


Sources: IFG Progress Analysis

Reinsurance Industry

Reinsurance companies face a structurally asymmetric exposure to Rupiah depreciation, stemming from the predominantly foreign-currency denomination of their core business transactions. Reinsurance premiums payable to international reinsurers are typically contracted in US dollars or other hard currencies, meaning that a weaker Rupiah immediately and mechanically increases the domestic currency cost of ceding risk. At the same time, recoverables the amounts owed back to the reinsurer by international counterparties following claims are similarly foreign-currency denominated, creating a timing mismatch between when claims are paid out domestically and when foreign-currency recoverables are actually received and converted. Net claims costs therefore tend to rise in Rupiah terms even when the underlying loss experience remains unchanged, directly pressuring liquidity positions and underwriting results.

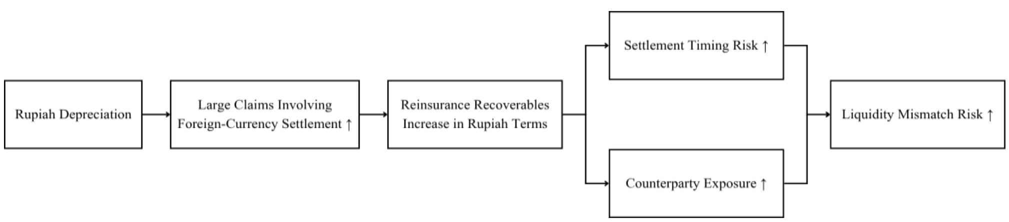
Exhibit 14. Reinsurance Sector Stock Movement: Reinsurance Premium Payable, Recoverables, Net Claims, and Liquidity



Sources: IFG Progress Analysis

The recoverables dimension deserves particular attention because it introduces a counterparty and timing risk that is distinct from the more straightforward cost-inflation channel. During periods of elevated claims activity coinciding with currency weakness the lag between claim payment and recoverable receipt can create meaningful short-term liquidity gaps. Companies with thinner capital buffers or less diversified funding sources are disproportionately exposed to this dynamic.

Exhibit 15. Reinsurance Sector Stock Movement: Recoverables Flow



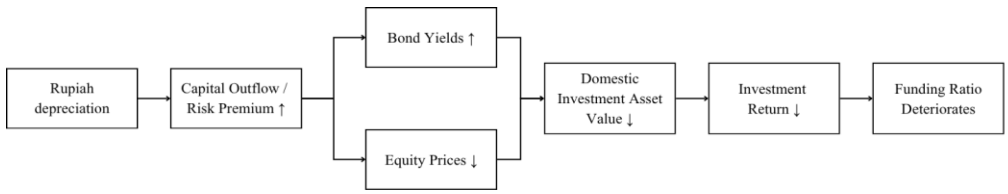
Sources: IFG Progress Analysis

Reinsurance companies in Indonesia therefore face a dual vulnerability during depreciation cycles: their cost base rises in line with the exchange rate movement, while the timing and certainty of offsetting recoveries introduce additional liquidity and counterparty risk that cannot be fully hedged through domestic instruments alone.

Pension Fund Industry

Currency depreciation affects pension funds primarily through investment performance, asset-liability management, actuarial obligations, and the funding ratio. These are also the core exposures identified in the financial framework. On the asset side, Rupiah depreciation may be accompanied by foreign portfolio outflows, higher domestic bond yields, and weaker equity prices. Because pension funds are major long-term holders of government bonds, corporate debt, equities, and mutual fund units, these market movements can reduce the value of domestic investment portfolios and lower reported investment returns. A weaker currency is generally associated with tighter financial conditions and higher market interest rates in emerging economies, particularly when exchange-rate risk causes investors to demand additional compensation for holding local-currency bonds.

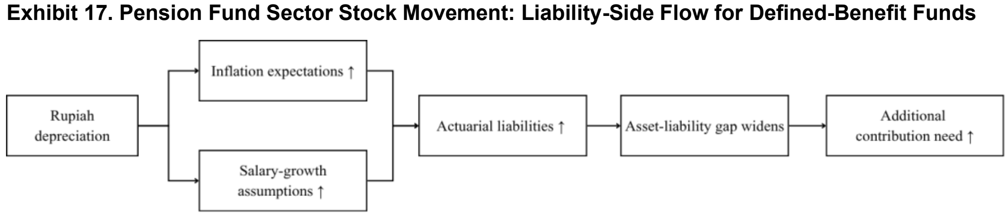
Exhibit 16. Pension Fund: Investment Assets, Actuarial Liabilities, and Funding Ratio



Sources: IFG Progress Analysis

The liability-side impact depends heavily on the design of the pension plan. In a defined-benefit arrangement, the fund or sponsoring employer bears the risk that investment assets may become insufficient to meet promised pension benefits. Depreciation-induced inflation can increase salary-growth assumptions and, where benefits are linked directly or indirectly to wages or prices, raise projected actuarial obligations. Conversely, an increase in the discount rate accompanying higher bond yields may reduce the present value of long-duration liabilities, partially offsetting asset losses. The net impact on the funding ratio therefore depends on the relative duration and sensitivity of assets and liabilities rather than on asset returns alone. For defined-contribution plans, currency and market losses are more directly reflected in members' account balances, although poor performance may still affect contribution behaviour, retirement adequacy, and the reputation of the pension provider. OECD pension guidance accordingly emphasises that portfolio risks should be evaluated against the overall liability profile and that overseas investment should account for currency-matching requirements between pension assets and obligations.

Exhibit 17. Pension Fund Sector Stock Movement: Liability-Side Flow for Defined-Benefit Funds

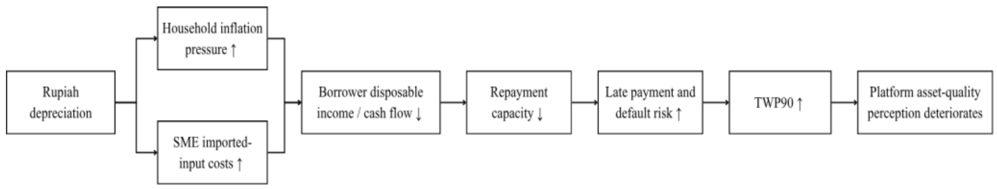


Sources: IFG Progress Analysis

Fintech (P2P) Lending Industry

Fintech lending platforms operating in the peer-to-peer segment face a transmission mechanism that is primarily borrower-driven, reflecting the largely retail and micro-enterprise profile of their loan books. Rupiah depreciation erodes household purchasing power and raises the cost of living, both of which reduce the debt-servicing capacity of borrowers who are already operating with limited financial buffers. As repayment quality deteriorates, TWP90 ratios measuring loans overdue beyond 90 days rise, triggering higher provisioning requirements and compressing platform income at a point when origination momentum may also be weakening. Unlike banks, P2P platforms carry no deposit base to absorb losses, making their financial resilience more directly dependent on the continued performance of their loan portfolios.

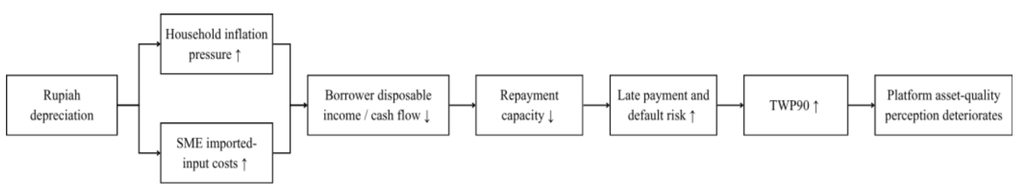
Exhibit 18. Fintech (P2P) Lending Sector Stock Movement: Repayment Quality, TWP90, Lender Appetite, and Platform Income



Sources: IFG Progress Analysis

The funding side introduces an equally consequential vulnerability. P2P platforms depend on the sustained participation of lenders, both retail and institutional who provide the capital deployed into loans. During periods of currency weakness and macroeconomic uncertainty, lender appetite tends to contract as risk aversion rises and alternative placements, including foreign-currency instruments or safer domestic assets, become comparatively more attractive. A reduction in lender participation constrains new disbursements, limiting the platform's ability to grow its way out of rising default rates and further compressing the fee and interest income that underpins platform viability.

Exhibit 19. Fintech (P2P) Lending Sector Stock Movement: Funding-Side Flow



Sources: IFG Progress Analysis

The combination of deteriorating repayment quality and shrinking lender appetite creates a reinforcing dynamic that is particularly difficult for P2P platforms to navigate, as the two pressures emerge simultaneously and act on both sides of the platform's business model. The borrower base it serves and the funding base it depends on.

Data Analysis: Exchange Rate and Financial Sector Performance

To complement the theoretical transmission framework outlined in the preceding section, this analysis estimates the empirical association between Rupiah depreciation and sectoral performance indicators using Pearson correlation coefficients on first differenced series. First differencing, which involves computing monthly changes in each variable rather than their levels, is employed to address the concern that macroeconomic time series in levels are typically nonstationary and trending. Correlations in levels may therefore be spurious, reflecting common deterministic trends rather than co-movement. The proxy for exchange rate pressure is the monthly change in USD/IDR JISDOR, where a positive value corresponds to Rupiah depreciation. Sectoral performance is measured through monthly changes in sector specific indicators sourced from OJK and Bank Indonesia, covering the period from January 2020 to June 2026. Three sub periods are examined to assess the stability of the relationship: the full sample, a post COVID window from January 2022 onward to remove distortions from pandemic era regulatory forbearance, and the most recent depreciation episode from January 2024 to June 2026 (Exhibit 20).

Exhibit 20. Correlation Analysis: USD/IDR Exchange Rate and Financial Sector Performance Indicators (January 2020 – June 2026)

Sector	Indicator	Full (Jan 2020 – Jun 2026)		Post-COVID (Jan 2022 – Jun 2026)		Depreciation Episode (Jan 2024 – Jun 2026)	
		Level r	FD r	Level r	FD r	Level r	FD r
Banking	Gross NPL Ratio (%)	-0,8583	-0,0648	-0,8312	+0,0193	-0,4201	+0,1473
Multifinance	NPF Ratio (%)	-0,4963	-0,1352	+0,0401	+0,1074	+0,4503	+0,2084
General Insurance	Claims Ratio (%)	+0,3546	+0,0878	+0,2999	+0,0116	-0,2005	-0,0648
Life Insurance	Claims Ratio (%)	+0,7948	+0,0453	+0,8215	-0,0656	+0,5231	-0,0343
Reinsurance	Loss Ratio (%)	-0,2673	+0,0776	-0,3457	+0,0800	+0,0354	-0,0726
Pension Fund	ROI (%)	+0,0215	+0,0285	+0,0921	+0,0372	-0,1742	-0,1334
Mutual Fund / Asset Management	NAV (IDR tn)	+0,3754	+0,0778	+0,3724	+0,1830	+0,3078	+0,2404
Securities	Issuance Value (IDR tn)	+0,8783	-0,0684	+0,9237	-0,1651	+0,8320	-0,1660
Fintech P2P	TWP90 (%)	+0,0602	+0,1070	+0,6367	-0,0292	+0,7591	+0,0163

Sources: Bloomberg, IFG Progress Analysis

The first-difference results indicate that the contemporaneous, month-to-month association between Rupiah depreciation and financial sector performance indicators is generally weak across most sectors, with no sector exhibiting a correlation consistently above 0.3 in absolute value across all sub-periods. This finding is itself informative: it suggests that the transmission of exchange rate movements into sectoral financial indicators does not operate through sharp, immediate shocks that are detectable at monthly frequency, but rather through gradual, cumulative mechanisms that build over quarters rather than months.

Among the sectors with the most directionally consistent results, the multifinance NPF ratio shows a positive first difference correlation that strengthens progressively across sub periods, from −0.14 in the full sample to +0.11 in the post COVID window and +0.21 in the 2024 to 2026 depreciation episode. This pattern is consistent with the theoretical expectation that currency depreciation gradually erodes borrower repayment capacity in the financing sector, with the signal becoming clearer as the COVID era restructuring distortion fades and the more recent depreciation episode dominates the sample. The bank NPL ratio exhibits a similar directional correction, moving from a strongly negative level correlation, attributable to OJK's COVID 19 loan restructuring policy that administratively suppressed NPL ratios while the Rupiah was simultaneously recovering, to a near zero and modestly positive first difference correlation of +0.15 in the 2024 to 2026 window. This suggests an emerging but still weak credit quality signal.

For life insurance and fintech P2P lending, the first difference correlations are near zero across all sub periods, despite both sectors exhibiting strong positive correlations in levels. This divergence between level and first difference results reflects the cumulative and medium-term nature of the transmission mechanism in these sectors rather than a spurious relationship at the level. Rupiah depreciation transmits into life insurance claims ratios through sustained purchasing power erosion, progressive medical cost inflation, and the gradual widening of asset liability mismatches, processes that accumulate over quarters and are therefore not detectable as contemporaneous monthly co movement. Similarly, the deterioration of fintech TWP90 under macroeconomic stress reflects the buildup of borrower financial fragility over time rather than an immediate month to month response to exchange rate movements.

For securities issuance, the first-difference specification confirms that the high-level correlation (+0.88) is spurious: after differencing, the correlation collapses to near zero or mildly negative across all sub-periods, consistent with both series sharing a common upward trend over the sample period rather than a genuine exchange rate relationship. Mutual fund NAV, reinsurance loss ratio, general insurance claims ratio, and pension fund ROI all show weak and inconsistent first-difference correlations across periods, indicating that no robust contemporaneous relationship with monthly exchange rate movements is detectable for these sectors in the data.

The overall picture from the first difference analysis is therefore one of limited contemporaneous transmission at monthly frequency, with the clearest directional signals emerging in the most recent depreciation episode and in sectors, notably multifinance and banking, where the credit quality channel is most directly exposed to macroeconomic deterioration. The absence of strong month to month correlations does not imply the absence of exchange rate effects. Rather, it reflects that these effects operate through transmission channels with longer lags and more gradual dynamics than a simple contemporaneous correlation can capture.

Conclusion

Summary

The Rupiah depreciation episode of 2025–2026 reinforce the need of stress test for Indonesia's financial services industry, one that operates through channels that are simultaneously multiple, reinforcing, and sector-specific. The analysis presented in this paper traces these channels at two levels: the theoretical mechanisms through which currency weakness transmits into balance sheet and income statement exposures, and the empirical correlations that reveal how those mechanisms have manifested in practice over the January 2020 to June 2026 period.

At the theoretical level, the paper demonstrates that no single transmission mechanism applies uniformly across the financial sector. Banks face currency risk primarily through borrower credit quality, securities valuation, and the market-risk consequences of defensive monetary tightening. Insurers, by contrast, are exposed through claims-cost inflation, investment portfolio volatility, policyholder behaviour, and the foreign-currency denomination of reinsurance and liability structures. Multifinance and fintech lenders face a more direct pass-through from macroeconomic deterioration to borrower repayment capacity, with limited institutional buffers to absorb the shock. Pension funds and asset managers are affected through asset valuations and liability-side dynamics, though these exposures are partially smoothed by long investment horizons and diversified portfolios.

At the empirical level, first difference correlations indicate that exchange rate transmission varies across sectors and operates at a lower frequency than monthly co movement can fully capture. The clearest signals emerge in the January 2024 to June 2026 depreciation episode, with multifinance NPF correlation rising from −0.14 in the full sample to +0.21, while bank NPL reaches +0.15. Life insurance and fintech P2P lending show near zero first difference correlations despite stronger associations in levels, consistent with gradual transmission through claims cost inflation and borrower financial fragility. Securities issuance provides a contrasting case, with its +0.88 level correlation collapsing to near zero after differencing, indicating that the initial association was driven by common trends rather than genuine exchange rate sensitivity.

The correlation approach employed here is intentionally parsimonious, establishing the direction and stability of associations without controlling for confounding variables or estimating causal magnitudes. The anomalous result for bank NPL, which remains consistently negative across all periods, illustrates how aggregate indicators can be systematically distorted by regulatory interventions, potentially obscuring the underlying economic relationship. Similarly, the strongly positive correlations observed for mutual fund NAV and securities issuance are more plausibly interpreted as artefacts of common trends than as evidence of genuine exchange rate sensitivity. Correlation coefficients should therefore be interpreted with caution, particularly in relatively short samples and during periods of significant policy intervention.

Looking ahead, the 2025–2026 depreciation cycle highlights the importance of exchange rate risk as a systemic consideration for Indonesia’s financial services industry as a whole, rather than merely a firm level treasury concern. As the Rupiah remains under pressure from persistent current account dynamics, elevated global interest rates, and shifts in investor risk appetite toward Indonesian assets, the transmission channels identified in this paper are likely to remain active. The sectors most immediately exposed, particularly life insurance, fintech lending, and multifinance, warrant close attention from both supervisory authorities and market participants, not only because of their individual vulnerabilities but also because simultaneous stress across these segments could amplify broader systemic fragility. Strengthening the resilience of financial institutions to currency risk through appropriate hedging frameworks, adequate liquidity buffers, and robust stress testing methods should therefore be viewed not merely as prudent practice, but as priority in an environment of persistent Rupiah uncertainty.

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