

## The Role Of Bullion Banks As A Market Risk Management Instrument In Indonesia'S Gold Sector

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**Abstract:** Gold has long been regarded as a safe haven asset capable of maintaining value stability amid economic uncertainty. Bullion banks emerge as a strategic solution to manage risks in the gold market by offering services such as hedging, clearing, storage, and gold-based financing. This study aims to analyze the potential role of bullion banks in mitigating gold market risks in Indonesia and to assess their implementation readiness. Using a descriptive qualitative approach through literature review, the study reveals that bullion banks can enhance transaction security, market liquidity, and export-import efficiency in the gold sector. However, several challenges persist, including inadequate clearing infrastructure, fragmented regulations, and limited public awareness. The involvement of government institutions and Islamic financial institutions such as Bank Syariah Indonesia plays a crucial role in establishing a resilient bullion banking system. With integrated policies, technological advancement, and cross-sector collaboration, bullion banks can significantly strengthen Indonesia's gold market resilience and transparency.

**Keywords:** Bullion Bank, Gold Market, Risk Management, Hedging, Financial Infrastructure, Market Liquidity

### INTRODUCTION

Gold is widely recognized as a stable safe haven asset during times of economic uncertainty and global crises. In Indonesia, gold plays a significant role in both the national and international economy as an investment commodity, a hedging instrument, and part of the country's foreign exchange reserves. Public interest in gold investment remains strong.

Table 1. Domestic Gold Consumption in Indonesia

Year	Jewelry (tons)	Retail Investment (Bar & Coin) (tons)	Total Consumption (tons)
2017	38.6	20.2	58.8
2018	41.9	22.2	64.1
2019	40.4	14.2	54.6
2020	20.9	16.8	37.7
2021	27	19.8	46.8
2022	28.3	21.5	49.8
2023*	25.5	21	46.5

2024*	25	21.5	46.5
2025*	25	22	47

Source: SBMA (2023); WGC (2023); Ministry of Trade of the Republic of Indonesia (2021)

During the period from 2017 to 2025, domestic gold consumption in Indonesia exhibited fluctuating trends, reflecting macroeconomic dynamics, purchasing power variations, and market responses to gold as both an investment instrument and a lifestyle commodity (SBMA, 2023). The peak in gold consumption occurred in 2018, largely driven by economic stability and increasing public interest in gold jewelry and physical investment, both of which were perceived as safe assets at that time (WGC, 2023). In contrast, the lowest consumption was recorded in 2020, a decline attributed to the impact of the COVID-19 pandemic, which weakened consumer purchasing power, reduced jewelry demand, and disrupted the retail gold distribution chain (Ministry of Trade of the Republic of Indonesia, 2021). Following the pandemic, consumption began to recover gradually, indicating national economic recovery and broader public access to gold-based investment instruments.

The gold market is subject to several risks, such as price volatility, liquidity constraints, and counterparty risk in both physical and derivative transactions. These risks, according to The Royal Mint (2024) and Fisher (2023), can result in significant losses for stakeholders, thereby emphasizing the need for a stable and efficient market system. As noted by the Financial Services Authority (OJK, 2025), bullion banks play an essential role in providing transaction facilitation, hedging instruments, clearing mechanisms, secure gold storage, and supporting international precious metals trade.

On February 26, 2025, the President of the Republic of Indonesia officially inaugurated the gold trading service known as the Gold Bank, operated collaboratively by Pegadaian and Bank Syariah Indonesia (Ministry of Finance of the Republic of Indonesia, 2025). This institution, operating within the precious metals sector, serves a crucial function as a primary intermediary in the buying, storing, and financing of gold assets.

The concept of bullion banking has long been adopted in developed countries such as the United Kingdom, Switzerland, and the United States, where it plays a central role in ensuring efficient and stable global gold market operations (London Bullion Market Association, 2023). In Indonesia, bullion banking remains a nascent sector, yet its potential is promising due to strong public interest in gold as a secure investment, a savings tool, and a hedge against inflation (Rongiyati, 2025).

Through the initiatives of Bank Syariah Indonesia (BSI) and Pegadaian, the Indonesian government has begun developing bullion banking services to address market demand. As highlighted by Supatmojo, Rivenda, and Aunillah (2023), successful bullion banking requires collaboration with central banks, gold producers, institutional and retail investors, as well as clearinghouses. Therefore, this study seeks to analyze the strategic role of bullion banks in Indonesia's gold market and to recommend policy directions for establishing an efficient, competitive, and sustainable precious metals ecosystem.

## RESEARCH METHOD

This study adopts a qualitative descriptive approach to explore the potential role of bullion banks in managing gold market risk in Indonesia. A qualitative design is considered appropriate for capturing the depth and complexity of emerging financial instruments like bullion banking, especially in a context where empirical data and historical implementation are still limited. The research seeks to understand institutional roles, regulatory frameworks, market dynamics, and implementation challenges through a conceptual and interpretive lens.

The primary method used in this research is literature review, which involves collecting, analyzing, and synthesizing relevant written sources related to bullion banks, gold markets, and financial risk management. The goal is not only to gather existing knowledge but also to interpret it in light of the Indonesian context. This method allows for a comprehensive understanding of theoretical foundations, global practices, and local developments.

Sources were selected based on credibility, relevance, and recency. The research incorporates scholarly journal articles, official publications from regulatory bodies such as the Financial Services Authority

(OJK), reports from international organizations including the World Gold Council and the London Bullion Market Association, as well as news articles and industry analyses. Both national and international sources were utilized to ensure a balanced perspective.

Data collection focused on several key themes: the definition and functions of bullion banks, their role in global gold markets, associated risks in gold transactions, and Indonesia's current financial and regulatory landscape. Particular attention was given to recent developments in Indonesia, such as the establishment of gold banking services by Bank Syariah Indonesia and Pegadaian.

The data were analyzed thematically, with the aim of identifying recurring patterns, concepts, and gaps. Themes such as market risk mitigation, hedging practices, liquidity provision, and regulatory challenges were explored in depth. The analysis process involved comparing international bullion banking models with the early-stage developments observed in Indonesia, in order to highlight contextual opportunities and constraints.

To enhance the reliability of the analysis, triangulation was applied through cross-verification of information from different sources. For example, policy documents were compared with academic commentary, and international case studies were evaluated alongside local implementation strategies. This triangulated approach ensures that the findings are grounded in multiple perspectives and not overly dependent on a single source or narrative.

While the study does not rely on fieldwork or primary data collection, its strength lies in the breadth and depth of conceptual exploration. In an emerging area such as bullion banking in Indonesia, conceptual clarity and synthesis of global best practices can provide important insights for policymakers, regulators, and financial institutions.

## RESULT AND DISCUSSION

### The Role of Bullion Banks in Mitigating Gold Market Risk

The gold market is highly susceptible to price fluctuations and global economic shocks (Zainuddin & Amrul Mutaqin, 2025). As such, it requires dedicated financial institutions to offer protection and efficiency in managing these risks. Bullion banks play a vital role in providing risk mitigation services within the precious metals-based financial system.

One of their main functions is providing hedging instruments, such as forward contracts, futures, and gold options, allowing businesses, including producers, exporters, and jewelers, to safeguard their operations against price volatility (Supatmojo et al., 2023; Hapsari & Puspitasari, 2025). These contracts help secure future pricing, supporting financial planning and business stability.

Bullion banks also ensure secure gold transactions, both physical and paper-based, with standardized clearing and settlement mechanisms, particularly in international markets like the London Bullion Market. This reduces the risk of default and strengthens transaction credibility.

Additionally, bullion banks contribute to liquidity by offering efficient platforms for physical and digital gold trading (Apriani & Nurussobah, 2025). They also act as intermediaries in export-import transactions, managing refining, vaulting, and global logistics directly, cutting down inefficiencies and increasing Indonesia's export competitiveness (Morris et al., 2015).

### Potential and Challenges of Bullion Bank Implementation in Indonesia

Indonesia has strong strategic potential to develop bullion banks as part of its financial system. As one of the world's top gold producers, with major players such as PT Antam and PT Freeport Indonesia, Indonesia's production capacity provides a solid foundation (Fazli, 2025). Public interest in gold as an investment further supports the growth of bullion services.

Government involvement, particularly through the Financial Services Authority (OJK), is reflected in the issuance of Regulation No. 17 of 2024, which outlines various bullion-related activities, including gold deposits, loans, and trading (OJK, 2024). This regulatory framework is expected to unlock substantial economic benefits.

According to OJK projections, a well-integrated bullion ecosystem could generate trillions in added value annually (Irawati, 2025), create employment, boost GDP, attract investment, and increase currency circulation (Kamalina, 2025). It could also strengthen foreign exchange reserves, offer inclusive investment access, and contribute to economic stability.

However, several challenges remain. Indonesia still lacks standardized infrastructure for gold clearing and storage. Global-grade vaulting services and digital trading platforms are limited. Moreover, public trust in digital financial systems remains low, with physical gold still being the preferred form of investment (Rezaldo et al., 2025). Improving financial literacy and institutional credibility is critical.

The success of bullion banks will require multi-agency coordination involving Bank Indonesia, OJK, BAPPEBTI, and the Ministry of Finance. Currently, there is no unified legal framework specifically governing bullion bank operations. Integrated policies covering finance, trade, and precious metal-based payments are urgently needed. Bank Syariah Indonesia (BSI) has begun pioneering gold-based financial services, promoting not only profitability but also sustainable and inclusive growth through state-owned financial institutions.

#### Potential Impact on the National Gold Market

The establishment of bullion banks is expected to enhance liquidity and transparency in Indonesia's gold market. A domestic benchmark price can be formed through efficient market mechanisms and well-documented transaction volumes, thereby reducing black market practices and increasing state revenue from taxes and export duties.

Bullion banks also have the potential to serve as strategic partners for small and medium enterprises (SMEs) involved in mining and jewelry production. With access to gold-based financing, secure storage, and fair pricing mechanisms, SMEs will be better protected from market volatility and gain opportunities for sustainable growth.

Furthermore, bullion banks can act as instruments to boost the contribution of gold to the current account and trade balance. Through an integrated and efficient export-import mechanism, Indonesia can maximize the added value of gold commodities while strengthening its foreign exchange reserves and national monetary stability.

#### CONCLUSION

The role of bullion banks in managing gold market risk in Indonesia is both strategic and transformative. As specialized financial institutions, bullion banks provide essential services such as hedging, clearing, secure storage, and transaction facilitation, which are crucial in stabilizing a market known for its volatility. By offering gold-based financial instruments, these banks help mitigate price fluctuations and enhance investor confidence.

Indonesia, with its significant gold reserves and strong public interest in gold investment, presents favorable conditions for the development of bullion banking. The initiatives led by state-owned financial institutions demonstrate a growing commitment to establishing a robust gold-based financial ecosystem. However, challenges persist in the form of inadequate infrastructure, limited public trust in digital systems, and fragmented regulations.

To fully harness the benefits of bullion banking, a coordinated effort is needed among regulators, financial institutions, and industry stakeholders. Integrated policies, investment in digital infrastructure, and improvements in financial literacy will be key to successful implementation. If developed effectively, bullion banks can enhance market liquidity, support small and medium enterprises, reduce informal trading practices, and increase the role of gold in national economic resilience. Ultimately, bullion banking represents a promising avenue for strengthening Indonesia's position in the global gold market.

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