

# Policy Impact Analysis of Multiple Licenses to Indonesia Business Banking

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**Abstract:** Bank Indonesia as monetary authorities issued Bank Indonesia Regulation (PBI) the number of 14/26/PBI/2012 about Business Activity and Office Network Based on Core Capital Bank on December 2012. This policy is known as multiple license policy. With the issuance of this regulation that the whole business should be linked bank core capital owned. Multiple License policy will have an impact to business banking Indonesia, there are will be a fulfillment of capital by the old owner, the transfer of partial ownership of banks, there was a wave of mergers, sales of small banks, there was a wave of foreign ownership, bank stock price fluctuations, customer migration to higher BUKU, downsizing bank became a common BPR which will increasing competition for existing, increased lending to the productive sector in particular for SME financing, expansion of branch network especially by BUKU 3 and 4.

**Keywords:** multiple license policy, core capital, BUKU.

## 1. Introduction

Bank as depository financial institution play an important role in the economic of a country. According to Koch, role of banks in facilitating economic growth of a country as follows:

“Commercial banks play an important role in facilitating economic growth. On a macroeconomic level, they represent the primary conduit of Federal Reserve monetary policy. Banks deposit represent the most liquid form of money, such that Federal Reserve efforts to control the nation’s money supply and level of aggregate economic activity do so by changing the availability of credit at banks. On a microeconomic level, commercial bank represents the primary source of credit to most small business and many individuals [1].

In Indonesia context, the role of banks in the economy, especially as the main source of credit can be seen from the market share indicator of financial industry’s assets as follows:

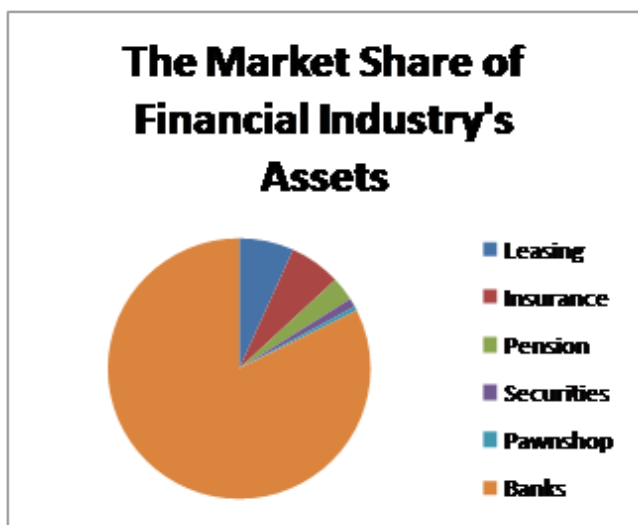


Figure 1: Market share indicator of financial industries

Based on the chart can be seen the market share of financial

industry’s assets in Indonesia is dominated by banks at 82.30%, followed by leasing 6.7%, insurance 6.37%, pension 2.94%, corporate securities 1.08 % and pawnshop 0.54%. Especially banking assets, total assets on September 2012 had reached Rp. 4009.37 billion it invested largely in the form of loans amounting to Rp. 2573.06 trillion or 64.18%.

In view of fundamental importance the banking sector in economy, Bank Indonesia as monetary authorities continue to make arrangements (regulatory approach) or control (supervisory approach) to realize the Indonesian banking system that are efficient, healthy, and stable, to encourage sustainable economic growth and more equitable through easy financing, safe and affordable in order to improve the welfare society.

Related matters on December 2012 Bank Indonesia issued Bank Indonesia Regulation (PBI) the number of 14/26/PBI/2012 about Business Activity and Office Network Based on Core Capital Bank. This policy is more popularly known as Multi License or Multiple License Policy. In this regulation banks grouped by core capital into 4 (four) Commercial Business Group (BUKU) as follows: BUKU-1: core capital to Rp. 1 trillion; BUKU-2: core capital > Rp. 1 Trillion to Rp. 5 Trillion; BUKU-3: core capital > 5 to Rp. 30 Trillion, and BUKU-4: Core Capital over Rp. 30 Trillion.

With the issuance PBI, so that all off business banking activity should be based on the bank's core capital owned. In this regulation also regulates the capital investment that can be made by bank lending to productive enterprises and SMEs, the issuance of a new product or new activities and setting office network tailored to the bank's core capital owned. The purpose of this study to analyze the impact of policy Multiple License to Indonesia Business Banking.

## 2. Literature

### 2.1 Basic Banking Concepts

According to the Global Association of Risk for Professionals (GARP), bank is an institution that is licensed banks, taking deposits, making loans, receiving and issuing

checks [2]. Meanwhile, according to George Hempel, bank is an organization that combines human effort and financial resources to carry out the functions of the bank in order to serve the needs community and to make a profit for the owners of the bank [3].

Furthermore F.E. Ferry said that the bank is a business entity transactions related to money, taking deposits (deposits) from the customer, to provide funds for any withdrawals, checks, collections on the orders of our customers, providing credit and deposit excess or embed it until needed for repayment [4]. Then, according to Law No. 7 of 1992 as amended by Act No. 10 of 1998, banks are business entities that raise funds from the public in the form of savings and channel them to the public in the form of credit or other forms in order to improve their many people's lives.

By the some definitions, can be concluded that bank is a business entities that raise funds in the form of savings and channeling credit and get back in shape or other shapes as well as providing financial services needed by the community in order to improve the standard of living of the people at large and to obtain profits for the bank owners. The role of banks in the economy of a country that are:

- Institutions that can collect public funds
- Institution that can create tools and efficient payment system
- Institutions that can be used to support monetary policy
- The main source of credit that can be used to finance working capital, investment and consumption needs
- Together with the central bank to control inflation.

## 2.2 Bank Capital Structure

The capital structure related to the source of funding for a company that consists of equity and debt. In other words, the capital structure is equity and debt financing from a company (Wild, 2003: 537). While Weston (1996: 608) argues that the capital structure decision is related to how much debt and equity to be used by a company.

Brigham (2002: 620) suggests there are five (5) major factors that influence the decision of the capital structure of the company, that are: (1) Business risk, (2) The firm's tax position, (3) Financial flexibility or the ability to raise capital on reasonable terms under adverse condition, (4) Managerial conservatism or aggressiveness; and (5) Growth opportunities.

The role of capital for banks is very important both as a buffer (buffer) to accommodate the expected increase in losses resulting from credit risk, interest rate risk, liquidity risk and operational risk and in order to build public trust. The same is expressed by Culp (2001:457) that capital plays a very important, namely as: (1) Buffer loss (capital loss as a buffer), and (2) Investment Mechanism (capital as an investment mechanism). Similarly, according to Schroeck (2002: 138-139) that the role of capital in the bank are: (1) As a means to achieving an optimal capital structure (capital as a means for Achieving the optimum capital structure), and (2) As a keeper of risk management that the bank's security is assured (capital assubtitute for bank risk management to Ensure Safety).

Bank capital structure consist of three components, are: (1) common stock, (2) surplus (i.e., the difference between the

price at which the common stock sold and its par value, times the number of share sold), (3) retained earning or undivided profits. Bank capital according to US bank regulators which effectively came into effect in 1992, that are: (1) Core Capital (Tier 1) consist of common stockholders equity plus minority interest in consolidated subsidiaries less goodwill, (2) Supplementary Capital (Tier 2) consist of allowance for losses on loans and leases (general reserves only), perpetual and longterm prefered stock, hybrid capital instrument, subordinated debt and intermediate term prefered stock (Sinkey 1989 :604).

For Banking in Indomesia as stipulated in Bank Indonesia Regulation (PBI) the number of 14/18/PBI/2012 dated 28 November 2012 on the Capital Adequacy of Commercial Banks, capital for commercial banks headquartered in Indonesia, consisting of: (a) Core Capital (Tier 1), and (b) Supplementary Capital (Tier 2) and (c) Supplementary Capital (Tier 3).

## 2.3 Multiple License Policy

Multiple license policy or permit a tiered policy as stated in Bank Indonesia Bank Indonesia Regulation (PBI) No. 14/26/PBI/2012 of Operations and Office Network Based on Core Capital Bank. Based on Core Capital owned, Bank grouped into 4 Commercial Business Group (BUKU) as follows: BUKU-1: core capital to Rp. 1 trillion; BUKU-2: core capital > Rp. 1 Trillion to Rp. 5 Trillion; BUKU-3: core capital > 5 to Rp. 30 Trillion, and BUKU-4: Core Capital over Rp. 30 Trillion. With the issuance PBI, so that all off business banking activity should be based on the bank's core capital owned.

## 3. Method

The research method used in this research is descriptive method which the method used to analyze data in a way describes or represents data that had been collected as factual condition without intending to generally accepted conclusions or generalizations. (Sugiyono, 2009: 4).

The data used are secondary data obtained from the publication of the financial statements as of 30 September 2012 with population of 109 banks amounts of data, downloaded from [www.bi.go.id](http://www.bi.go.id) on 04 February 2013. The data collected then processed and analyzed based approach to financial management and banking knowledge.

## 4. Results and Discussion

Based on data through September or Third Quarter 2012, core capital which owned by 109 commercial banks (excluding Islamic banks) operating in Indonesia by the bank group based on the amount of equity as follows:

**Table 1:** Classification Of Core Capital Multiple License Version as of September 30, 2012 (In Billion Rupiah)

No.	Banks	BUKU 1	BUKU 2	BUKU 3	BUKU 4	Total
1	Persero	0	0	7.177	135.488	142.665
2	BPD	6.502	24.052	0	0	30.554
3	BUSN	6.645	14.002	86.289	39.916	146.852
4	Non BUSN	4.585	1.253	0	0	5.838
5	Mixed	1.476	25.143	0	0	26.619
6	Foreign	1.086	8.098	15.087	0	24.271
Total Bank		58	35	12	4	109
Total Core Capital		20.294	72.548	108.553	175.404	376.799

From the table can be seen amount of core capital held by all commercial banks was Rp. 376,799 trillion, consisting of Rp Persero Bank Rp. 142,665 billion (38%); BPD Bank Rp. 30,554 trillion (8%); BUSN Exchange Bank Rp. 146,852 billion (39%); Non BUSN Exchange Rp. 5388 trillion (2%); Mixed Bank Rp. 26,619 billion (7%) and Foreign Banks Rp. 24,271 billion (6%). The table also informed that the equity held by the largest core BUSN Exchange Bank followed by the partners, BPD, Mixed Bank, Foreign Banks and the smallest amount of core capital is owned by Non BUSN Exchange.

When the bank's core capital classified by strata multiple licenses, classifications bank number will appear in the following table:

**Table 2:** Classification of Banks

No.	Banks	BUKU 1	BUKU 2	BUKU 3	BUKU 4	Total
1	Persero	0	0	1	3	4
2	BPD	14	12	0	0	26
3	BUSN	15	7	8	1	31
4	Non BUSN	22	1	1	0	24
5	Mixed	3	11	0	0	14
6	Foreign	4	4	2	0	10
Total Bank		58	58	35	12	4

The table shows that the number of banks that went BUKU 4 is 4 bank consists of three banks and one bank partner in BUSN Exchange. Incoming BUKU 3 are 12 banks comprises 1 partner in the bank, 8 BUSN Exchange, Non-Exchange BUSN 1 bank, and 2 foreign banks. Incoming BUKU 2 is comprised of 35 banks 12 banks BPD, 7 BUSN Foreign banks, one bank BUSN Non-Foreign Exchange, 11 banks and 4 banks Foreign mixture. While that includes a group of 58 banks BUKU 1 is comprised of 14 banks BPD, 15 banks BUSN Exchange, Non-Exchange BUSN 22 banks, 3 and 4 Mixed bank Foreign bank.

Table also informed that the largest core capital controlled by BUSN Exchange Bank followed by the partners, BPD, Bank Mixed, Foreign Banks and the smallest amount of core capital is owned by non BUSN Exchange. There are 15 banks into groups Foreign BUSN BUKU 1, whereas foreign banks are relatively high activity level of risk that requires support substantial core capital. From 15 BUSN Exchange even still there are 12 banks that are essentially capital below Rp. 500 billion.

Thus are still a mix of bank 3 and 4 foreign banks core capital below Rp. 1 trillion. As for the non-bank foreign exchange BUSN there are 20 banks core capital below Rp. 500 billion. Especially for BPD, there are 14 BPD or more than 50% of all BPD operating in Indonesia have capital below Rp. 1 trillion even 10 banks core capital less BPD Rp. 500 miliar. By looking at the tier classification was stratified multi license to the bank that includes BUKU 3 and 4 are relatively safe and can perform activities more freely even be able to open a network of offices in Asia (BUKU 3) and worldwide (BUKU 4).

The issuance of multiple license policy impact on sustainability (sustainability) banking operations, especially for banks that have relatively small core capital belonging to groups BUKU 1 and 2. In other words, the main problem faced by the Bank Indonesia in the presence of multiple license policy is a matter of capital. Adequate bank capital does not only act as motivating factor for expansion, bumper risks and one of the factors to build public confidence, but in the context of multiple license policy, according to the opinion of the writer over the fulfillment of the rules issued by the regulator or by the terms Rose (2002) as the Capital serves as a regulator of bank growth.

### 5. Conclusion

Multiple License Policy or Policies Tiered Permit is Bank Indonesia policy governing business activities and office networks based on the Bank's core capital. Public Bank's core capital divided by 4 (four) Commercial Business Group (BUKU) as follows: BUKU-1: core capital to Rp. 1 trillion; BUKU-2: core capital > Rp. 1 Trillion to Rp. 5 Trillion; BUKU-3: core capital > 5 to Rp. 30 Trillion, and BUKU-4: Core Capital over Rp. 30 Trillion.

The ultimate goal of this policy to strengthen the resilience of banks, improved governance, increase competitiveness of local, national and regional funding and the provision of an efficient, optimize the function of intermediation, financing SMEs and contribute to economy sector.

Based on the data tier third quarter of 2012, from 109 conventional banks operating in Indonesia, there are 58 banks BUKU 1; 35 banks BUKU 2; 12 banks BUKU 3, and 4 banks BUKU 4. Multiple license policy will impact on the business activities of Bank Indonesia. For banks that have core capital to meet this policy will be more free to run their business, while for banks that have not fit it must fulfill the core capital or adjust operations to the current core capital.

Multiple License policy will be fulfilling a long time by the owners of capital, transfer of partial ownership of banks, there was a wave of mergers, sales of small banks, there was a wave of foreign ownership, stock price fluctuations banking, bank customers to transfer the higher BUKU and downsizing general bank to BPR that will increase competition, increasing the productive sector lending, particularly by the expansion of branch network BUKU 3 and 4.

## 6. Recommendation

There are recommendation that can be delivered:

- a. The additional capital by existing shareholders can be done with fresh money, improve internal financial resources, finding strategic investors or sell shares through a public.
- b. Bank management needs to carry out the realignment the assets liabilities.
- c. Banks need to improve the quality of risk management.
- d. The government in this case Securities and Exchange Commission (BAPEPAM) and OJK to give a boost to ease bank regulations that will implement the merger.
- e. Government to review the rules foreign ownership of banks by permitting foreign banks controlled 99% banking shares.
- f. To maintain the stability of stock prices, banks should improve performance.
- g. The opening office network remains to consider the business feasibility.
- h. Bank focus with the BUKU based on the business scale.

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