

THE IMPLEMENTATION OF POJK 45/2015 ON THE BANKING FINANCIAL PERFORMANCE IN INDONESIA : AN ANALYSIS

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Abstract

Otoritas Jasa Keuangan (OJK) as Financial Services Authority (FSA) in 2015, issued new regulations regarding the administration of the Remuneration Governance for Banks. With this rule, the remuneration policy applied by the Bank to Employees, Directors and Commissioners should be adjusted to follow the rules and principles set out in POJK No.45 /POJK.03/2015. Issuance of this Regulation as part of the implementation of Basel II, particularly Pillar 3 (Market Discipline), which the Bank is required to disclose information that is more transparent to the public and market participants, particularly related to remuneration to encourage discipline and allow the stakeholders to give a fair assessment. Failure to follow these rules can result in a downgrade of the factors of good corporate governance of the Bank concerned. Implementation of POJK 45 starts per 1 January 2016 for Commercial Bank Operations Group (BUKU) 3 and 4 as well as foreign banks. This study aimed to analyze the implementation of POJK 45/2015 on the financial performance of banking in Indonesia. The data which are used in this study were obtained from the Indonesian Banking Directory quarterly and look at the first kuartal of 2016 only. Samples were selected by purposive sampling method and finally obtained 27 banking companies that fulfill the criteria. Data were analyzed using financial ratios that LDR, ROA and CAR then described using qualitative description method. The results showed that the implementation of POJK 45 gives the significant positive effects on the bank performance in Indonesia.

Keywords : Bank Performance, Financial Performance, POJK 45, Remuneration

INTRODUCTION

Banking sector performance relative to increase in line with the global trend led to the management expects a form of appreciation for the achievement of the performance they have done. One form of the award given by the company to motivate management in the form of compensation. Compensation is defined

as a sum of money or awards granted by an organization or a company to its employees, as payment for its services in performing duties, obligations and responsibilities (Muljani, 2002).

In the banking sector, with the provision of a high and competitive compensation to employees (particularly executives) are expected to create productivity, profit, and the growing

business. Based on the financial numbers that have been published, these expectations have been realized. Indonesia's banking industry profitability levels continued to increase (up 30% - 50% per year) and consistent asset growth on average over 20% (Infobank, in October 2011, 33). As a consequence of the improvement of the financial performance, the owners of the bank gave awards to executives in the form of compensation increases or higher. The increase in compensation was awarded in the form of cash-based compensation such as salary and benefits and equity-based compensation.

Increasing the salaries of bankers national banks considered something normal. This is due to the national banking industry continues to grow while the supply of professional bankers are not comparable with the request. In the three years since 2007, the remuneration received by directors and commissioners of the bank increased by 65% (2007-2010), an average of more than 21% per year. During 2010 the numbers increase in the remuneration of directors and commissioners of the bank stood at 19%, much higher than the previous year, which is only 5% (Infobank, October 2011).

Infobank (October 2012) mentions that bankers in Indonesia received the highest compensation compared with the bankers in other countries in the ASEAN region. Compensation bankers in Indonesia which consist of salary, bonus, routine allowance, gratification and other

facilities Rp. 12 billion per year. While in Malaysia is only Rp. 5.6 billion per year, even in the Philippines is only Rp. 1.1 billion per year or one-twelfth of Indonesia. Earlier, remuneration in banks in Indonesia has been arranged by Bank Indonesia to the remuneration and nomination committee. But executive remuneration to the bank based on the Limited Liability Company Act (PT) in 2007. Salaries are set in the GMS (General Meeting of Shareholders), which became the highest forum of shareholders. The system is commonly used in awarding compensation is not the salary system of reward system. Employees who could generate big profits will get the rewards are great as well from the company. In other words, the compensation awarded based on the achievement of performance that has been made by the management with its professional expertise.

However, this condition is not always linear to the actual state of the banking industry in Indonesia. Infobank (in October 2011, 11) suggested that based on the activities carried out explicitly, there is no relationship between income with remuneration. Offering high remuneration not based on profit revenue reflecting the performance of the banking system. There is a bank which provides a remuneration of more than 30% of the profits, but there is also that only 3% of profit. In addition, there is no link between a number of assets to the amount of remuneration for

remuneration decisions are governed by the general meeting of the forum.

Indonesia as a member of the G20 committed to adopting the principles of the Principles for Sound Compensation Practices issued by the Financial Stability Board in 2009. The principle is rising in response to the global economic crisis in 2007 that allegedly partly due to the practice of bonuses unhealthy, high bonuses but by ignoring the risks that will arise in the future so that harm the financial condition of the bank if the bank is unable to absorb such losses. The principle is part of the agenda of the global financial system reform program that aims to prevent the emergence of moral hazard and promote prudential element in the management of the Bank; maintaining the health of the bank on an individual basis; and mitigating the existence of excessive risk taking that is performed by the decision makers. In 2015, the Otoritas Jasa Keuangan as Financial Services Authority issued new regulations governing the administration of the Remuneration Governance for Banks. With the publication of these regulations, the remuneration policy applied by the Bank to Employees, Directors and Commissioners should be adjusted to follow the rules and principles set out in POJK No. 45/POJK.03/2015.

LITERATURE

Executive compensation policy is basically a form of agency contracts between shareholders

(principal) with the management company (the agent). Prihatiningtyas (2012), reveals that the interests of owners and management companies can be harmonized by basing compensation to one or more measure of achievement in the company's performance. Thus the determination of executive compensation policy is one way that can be done in order to drive improved performance. Management is responsible for optimizing the benefit of owners or shareholders, and in return the management will be compensated in accordance with the contract. Own company expects management can improve the performance of a policy of granting the right compensation. Employers give high compensation with the goal of keeping employees motivated to improve productivity or achieve performance high levels. Compensation will make management feel responsible for improving performance. Thus the management will try to make the company's performance continues to increase. According to Indra (2011) compensation is one factor either directly or indirectly affect the level of employee performance.

The number of studies that focus on management compensation has increased in parallel with the increase in the number of executive salaries over the last two decades. The study was conducted in developed countries, especially the United States (US) and Britain (Murphy, 1999). This is due to the growing popularity of executive compensation issues

and the ease of getting data through a stock exchange of large private companies in the country (Ramaswamy et al., 2000). According to Kato, Kim, and Lee, (2006), in developing countries, especially in Asia, research on executive compensation is rarely done due to lack of adequate data.

Research on executive compensation to performance was conducted by previous researchers as Kato, Kim and Lee (2006); Brick, Palmon, and Wald (2005); Mangistae and Xu (2004), which concluded that executive compensation is not related to company performance. Inversely proportional to this, the theoretical study contained in the print media Infobank concluded that the compensation provided by the owner of the company has been comparable to the performance conducted by executives. In addition, the compensation is also one way in which the owner of the company to solve the agency conflict that often occurs internally within the company caused by the asymmetry of information. Jensen and Murphy (1999) states that the provision of the compensation package can be used to overcome the problem of moral hazard management. The higher the compensation to be awarded, the company expects increased performance management.

Issuance of POJK 45/2015 also as part of the implementation of Basel II, particularly Pillar 3 (Market Discipline), which the bank is required to disclose information that is

more transparent to the public and market participants, particularly related to remuneration to encourage discipline and allow the stakeholders can provide a reasonable assessment. Failure to follow these rules can result in a downgrade of the factors of good corporate governance of the Bank concerned. And the implementation of POJK 45/2015 starts in 2016 for the Commercial Bank Group Business Activities (BUKU) 3 and 4 as well as the foreign banks.

In general, the content of POJK 45/2015 calling attention to the importance of the precautionary principle in remuneration. Therefore, accordingly to the description of the precautionary principle. This study wanted to see the implementation of article 5 of POJK 45/2015, where the remuneration policy should consider the creation of an effective risk management; financial stability of the bank; strengthening capital adequacy of the Bank; short and long-term liquidity requirements; and potential earnings in the future.

RESEARCH METHOD AND DATAS

This study used cross section data is secondary data in the first quarter of 2016. Where POJK 45/2015 effective as of January 1, 2016, for banks that stand within the bank at BUKU 4, BUKU 3 and foreign banks which in total amounted to 27 banks. The banks will be samples of the study, which banks of BUKU 4 consists of 4 banks, BUKU 3 consists of 15 banks and foreign bank consists of 8 banks.

Financial ratios are used to determine the financial performance of the sample bank. Financial ratios used is the implementation of article 5 of POJK 45/2015, in which the remuneration policy should consider the creation of an effective risk management; financial stability of the Bank; strengthening capital adequacy of the Bank; short and long-term liquidity requirements; and earnings potential in the future. Thus this study uses the ratio of loan to deposit ratio (LDR) which is a proxy of liquidity, Return to Asset Ratio (ROA) which is a proxy of the profitability, and the Capital Adequacy Ratio (CAR) which is a proxy of the capital adequacy of banks. The data was obtained from the financial ratios Banking Quarterly Reports issued by OJK in March 2016.

FINDINGS

Table 1. Bank Financial Performance Assessment

KINDS OF BANK	LDR	ROA	CAR
GROUP of BUKU 4 BANKS			
Bank Rakyat Indonesia (Persero), Tbk	88.81	3.65	19.49
Bank Mandiri (Persero), Tbk	86.72	2.58	18.48
Bank Negara Indonesia (Persero),Tbk	87.97	3.03	19.87
Bank Central Asia,Tbk	78.92	3.57	20.04
Average	85.61	3.21	19.47
GROUP of BUKU 3 BANKS			
Bank OCBC NISP	94.7	2.05	18
Bank Danamon	90.16	1.66	22.06
Bank Mizuho	222.69	2.34	22.17
Bank BTPN	96.01	2.67	25.51
Bank DBS Indonesia	101.26	1.28	19.88
Bank Mega	64.88	2.07	23.3
Bank Sumitomo Mitsui	245.54	1.72	24.29
Bank Panin	107.58	-0.58	17.9
Bank Permata	89.71	-1.14	15.1
Bank CIMB Niaga	94.49	0.62	17.88
Bank UOB	89.69	0.89	17.34
Bank Bukopin	81.79	1.37	15.95
Bank BTN	108.98	1.56	16.5
Bank BJB	74.1	2.55	19.01
Bank Maybank Indonesia	87.55	1.35	15.86
Average	109.941	1.361	19.381
GROUP of FOREIGN BANKS			
Bank of China Limited	129.65	3.43	26.68
Citibank, NA	72.08	4.46	28.86
Deutsche Bank AG	55.39	5.4	47.76
JP Morgan Chase, NA	95.99	4.48	36.67
Standard Chartered Bank	88.91	1.61	17.02
The Bangkok Bank Comp, Ltd	304	5.78	58.68
Bank of Tokyo Mitsubishi UFJ, Ltd	249.46	3.05	81.27
The Royal Bank of Scotland N.V.	0	1.16	115.2
Average	124.44	3.67	51.52

Source : OJK, 2016 (Data processed by author)

DISCUSSION

Liquidity Levels

At BUKU 4 Banks group, liquidity saw from several banks LDR sample can be seen in Table 1 above that the Banks at BUKU 4 group, BNI has the highest LDR value among the three other banks. The higher LDR showed indication of the low capacity of the relevant bank liquidity (Dendawijaya, 2003). But these banks value ratio is still below 110 percent, where the average value of its LDR is 85.605 percent. According to the terms of the assessment procedure for the health of banks which set by Indonesia Central Bank (BI) got a credit score of 100. This value can be interpreted that the liquidity of banks at BUKU 4 group in the healthy category.

While the banks at BUKU 3 group, the value of LDR can be seen that the group of BUKU 3 Banks, the highest LDR value occupied by Sumitomo Mitsui Bank at 245.54 percent, among the fourteen other banks. The higher the LDR showed indication of the low capacity of the relevant bank liquidity (Dendawijaya, 2003). The average value of LDR BUKU 3 Banks is below 110 percent, amounting to 109.941 percent, which in the assessment of bank health ordinances stipulated by BI and get 100 credit score. This value can be interpreted that the liquidity of banks at BUKU 3 group categorized as healthy, even though if viewed from each of the banks, there are two banks which have possession

of the LDR value over 110 percent, which amounted to 222.69 percent for Mizuho Bank and 245.54 percent for Sumitomo Mitsui Bank.

In the Group of Foreign Bank, at table 1 above can be seen that The Bangkok Bank Comp., Ltd has the highest LDR value among the seven other banks, that equal to 304 percent. The higher of LDR showed an indication that the relevant bank has low capacity of liquidity (Dendawijaya, 2003). The average LDR value of a Foreign Bank is above 110 percent, amounting to 124.435 percent, which in the assessment of healthy bank ordinances stipulated by and get 0 credit score. This value can be interpreted that the liquidity of foreign banks categorized as unhealthy, although when viewed from each bank, of those 8 foreign banks into the sample, there are 5 banks which have LDR below 110 percent, and indicates that liquidity into the five banks in the category of healthy.

When LDR viewed from the average of three groups of banks mentioned above, the BUKU 4 and 3 Banks have a value below 110 percent, even though there are 2 banks of BUKU 3 has LDR above 110 percent. This means that the two groups of banks were able to pay for any withdrawals made by depositors. While foreign banks which have an average above 110 percent is considered unable to pay withdrawals made depositors, even if viewed individually 5 of 8 foreign banks having LDR below 110 percent, and individually these

five banks were able to pay withdrawals to depositors.

Level of Profitability

Levels of profitability seen the value of Return On Asset (ROA), demonstrated the ability of banks to make a profit overall, so the greater value of ROA, the better the position of a bank in using its assets for a profit. At table 1 above, can be seen that the BUKU 4 Banks group, BRI has the highest ROA that is 3.65 percent, which it means BRI having the ability of most good at using its assets for a profit compared to the three other banks. When viewed from the ROA average value of BUKU 4 banks group, the banks are able to obtain an increase of the return in 3.21 percent, if able to increase total assets by 1 unit (eg. billion).

Whereas in the group of BUKU 3 banks, the ROA value shows that BTPN has the highest ROA that 2.67 percent, which means having the ability of most good at using its assets for a profit compared to the fourteen other banks. When viewed from the average ROA value of BUKU 3 banks, then if the banks are able to increase total assets by 1 unit (eg billion), the banks are able to obtain an increase of 1.36 percent profit. In table 1 above, can be seen that there are two banks which have a negative value, that Panin Bank has a ROA - 0.58 and -1.14 ROA of Permata Bank, indicating that there is no proper management on the use of its assets, for every increase of 1 unit (eg.

billion) will bear the loss of 0.58 percent for Panin Bank and 1.14 for Permata Bank.

The ROA of foreign banks group, The Bangkok Bank Comp. Ltd has the highest ROA of 5.78 percent which means it has the most ability in the use of its assets for a profit compared to seven other banks. When viewed from the average ROA value of foreign banks group, then the banks are able to get a 3.8 percent increase in profit if able to increase total assets by 1 unit (eg billion). And when viewed from the average value of ROA, the foreign bank group had an average value of the highest ROA that 3.8 percent. In this case, most foreign banks in the management of its assets, for every increase of 1 unit of assets (eg billion), foreign banks will gain 3.8 percent.

Capital Adequacy Levels

BI has stipulated Capital Adequacy Ratio (CAR) at least 8 percent for Indonesian Banking. Based on Table 1 above, the highest CAR owned by Bank Central Asia at 20.04 percent, which means that every increase of a unit of risk assets, the bank's capital used to finance risk assets rise 20.04 percent. The CAR average of BUKU 4 Banks are 19.47 percent is well above the minimum CAR of 8 percent which set by BI, thus categorized as healthy and being able to finance risk assets amounted to 19.47 every increase of 1 percent of these units. Whereas in the group of BUKU 3 banks, the highest CAR owned by Bank BTPN amounted to 25.51

percent, which means that every increase of 1 unit of risk assets, the bank's capital used to finance risk assets rise 25.51 percent. The CAR average of BUKU 3 banks are 19.38 percent is well above the minimum CAR of 8 percent which has fulfilled BI requirements, thus categorized as healthy banks because the bank is able to finance the risk assets of 19.38 percent at every increase of 1 unit of the risk assets.

The CAR of foreign banks as shown in the table above is owned by The Royal Bank Of Scotland N.V as the highest CAR which amounted to 115.2 percent, which means that every increase of 1 unit of risk assets, the bank's capital used to finance risk assets rise 115.2 percent. The CAR average of foreign banks amounted to 51.52 percent well above the minimum CAR of 8 percent as set by BI, thus categorized as healthy banks, then being able to finance risk assets amounted to 51.52 percent for every increase of 1 unit of the risk assets. In general of 3 kinds of the banking group, the highest CAR average is owned by foreign banks. This can occur because of few risk assets owned. Foreign banks in Indonesia is a branch office of the headquarters in their own countries, and therefore they choose to avoid any risks.

CONCLUSION

At the enactment of POJK 45/2015 per January 1, 2016, can be concluded that banking financial performance assessment such as, at the level of liquidity, BUKU 4 and 3 banks have

a better performance than foreign banks group. But when it viewed from profitability levels, the group of foreign banks is able to produce a higher profit than BUKU 4 and 3 banks. Meanwhile, if viewed from the level of capital adequacy, the highest CAR average value owned by foreign banks than Buku 4 and 3 banks. This can occur because a few of owned risk assets that the foreign banks in Indonesia is a branch office of the headquarters in their own countries, and therefore they choose to avoid any risks. The bank's financial performance assessment is very important because it is related to the sustainability business of the bank, and POJK 45/2015 aimed the business continuity of the bank in Indonesia. In this study, a grace period of 3 months is still an adaptation process for the banks to impose such regulations, so the impact of POJK 45/2015 on the bank's financial performance has not been able to look perfect. Then subsequent research is expected to add a period of research using other analytical methods.

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