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IADI UPDATES – First Quarter 2019

The International Association of Deposit Insurers held an International Conference In Saint Petersburg, Russia

July 2019

The State Corporation Deposit Insurance Agency of Russia (DIA) and the International Association of Deposit Insurers' (IADI) Asia-Pacific Regional Committee (APRC) held an International Conference on “Deposit Insurance and Bank Liquidation: Standards, Best Practices and Innovations” on 27 June 2019. The conference took place in Saint Petersburg, Russia as part of the IADI APRC 17th Annual Meeting. The Conference was attended by 124 participants from 37 jurisdictions.

The DIA General Director Mr Yury Isaev welcomed the participants to Saint Petersburg and expressed his sincere gratitude to the Bank of Russia for their support of the conference. He stressed that the experience and ideas shared at the conference will help to improve the APRC Members' deposit protection arrangements as well as their bank liquidation and asset marketing practices. Mr Isaev noted that in order to meet the new global requirements, IADI and APRC Members should work together to promote the full implementation of the IADI Core Principles for Effective Deposit Insurance Systems (Core Principles) in all IADI Member jurisdictions. Mr Vasily Pozdyshev, the Deputy Governor of the Bank of Russia and Chairman of the DIA's Strategy Committee, in his keynote speech described the pros and cons of resolution and liquidation approaches. In Russia, a vast practical experience of both methods has been accumulated over the recent years. For instance, 315 banks have been liquidated with the DIA as liquidator since 2006. And, presently 363 banks are in the process of liquidation. On a separate note, Mr Pozdyshev stressed that the deposit insurer should keep up with financial technology (FinTech) developments. If the majority of depositors deal with their bank through a mobile device, the deposit insurer should also provide remote mobile services. The Deputy Governor concluded by stating he always finds IADI conferences to be of a high professional interest, as in addition to theory, “hands-on” practical insights are shared.

Mr Katsunori Mikuniya, IADI President and Governor of the Deposit Insurance Corporation of Japan, delivered opening remarks stating that every financial system needs to adapt to reality in order to be resilient. It is to be acknowledged that the excessive risk-taking from the short-term perspective through exploiting regulatory loopholes will never disappear. Also, regulations which are too tight bring about side effects.

President Mikuniya quoted an Asian saying that “too much is as bad as too little.” We should not be complacent and believe we are able to subdue excessive risk-taking completely. Not only improving systems but also adequate risk control by financial institutions and sensitive supervision by supervisors are always important. In connection with these points, the President referenced the Financial Stability Board's (FSB) Peer Review Report titled “Thematic Review on Bank Resolution Planning”, published earlier that year.

A keynote speech “IADI Core Principles: Reimbursement of Insured Depositors – Standards, Data and New Developments” was made by Mr David Walker, IADI Secretary General. His main message was that prompt reimbursement of insured depositors is the core of deposit insurance. IADI's 2018 Annual Survey data reveals that only around half of the deposit insurance agencies (DIAs) are able to initiate a pay out within 7 working days. Secretary General Walker then described the key challenges for making rapid reimbursements. Those include: the legal framework, early access to depositor information, IT, public awareness and expectations, safety-net coordination, cross-border challenges, and funding. Moreover, in view of the rapid development of FinTech, going forward even the 7-day payout target may turn out to be not fast enough.

Another keynote address was delivered by Ms Eva Hüpkes, Acting Head, Regulatory and Supervisory Policies, Financial Stability Board (FSB). Financial crises are costly events for society. A lesson from the past crisis was that authorities and firms need to be better prepared. Over the past ten years and since the establishment of the FSB, we have come a long way in improving the resolvability of banks in strengthening authorities' powers and tools

to resolve failing firms in a manner that maintains the continuity of critical functions and does not expose taxpayers to the risk of loss. However, despite the very substantial progress, legal, technical and operational challenges remain and implementation across jurisdictions is not uniform.

Resolvability is a continuous process – “a journey not a destination” – and continued efforts are needed to achieve and maintain crisis preparedness and to identify and address any remaining impediments to resolvability.

Conference attendees were privileged to receive presentations from a wide range of experts from Chinese Taipei, Croatia, Germany, Indonesia, Japan, Kenya, Korea, the Philippines, Russia, Switzerland (Financial Stability Institute), the United Kingdom and the United States. In addition, there were three panels held on: “Deposit Insurance: How to Ensure 7-day Payout”, “Bank Liquidation by Deposit Insurers: Benefits and Challenges”, and “Recoveries from Assets of Failed Banks: How to Liquidate Such Assets?”

The APRC 17th Annual Meeting was convened by Mr William Su, APRC Chairperson and President of the Central Deposit Insurance Corporation (Chinese Taipei), on 26 June 2019. Both APRC Technical Committees (on Training and Assistance and on Research) assembled as well. The Council of Heads of Deposit Insurance Agencies of the Eurasia Economic Union member countries (Armenia, Belarus, Kazakhstan, Kyrgyz Republic and Russia) used the occasion of the 17th Annual Meeting to hold their first formal meeting together.

As part of the Annual Meeting events, a Technical Assistance Workshop was conducted on 25 June 2019. The focus of the workshop was on ensuring the deposit insurer’s compliance with Core Principles 2: Mandate and powers and 8: Coverage. Presentations and case studies were made by speakers from Chinese Taipei, the Czech Republic, IADI Secretariat, Indonesia, Kazakhstan, Kenya, Malaysia, Norway, and the United Kingdom. To promote productive interaction among expert presenters and participants, the workshop program included break-out group discussions and reporting at the end of each session.

Finally, on the day of the conference IADI announced the acceptance its 91st Member – Fundo de Garantia de Depósitos from Angola.

Sources: IADI website

BCBS UPDATES – Second Quarter 2019

BCBS issued various publications in Second Quarter 2019, range from Standards, Newsletters, Quantitative Impact Study (QIS), Implementation Reports, and Others. List of publications during this period are as follows:

Table 1: BCBS Publication

Dates	Type of Publication	Titles
03 Apr 2019	Working papers	Towards a sectoral application of the countercyclical capital buffer
09 Apr 2019	Guidelines	Standardised approach - implementing the mapping process
09 Apr 2019	Consultative	Consolidated Basel Framework
07 May 2019	Implementation reports	Sixteenth progress report on adoption of the Basel regulatory framework
21 Jun 2019	Other	Overview of Pillar 2 supervisory review practices and approaches
24 Jun 2019	Working papers	The costs and benefits of bank capital - a review of the literature
26 Jun 2019	Standards	Revisions to leverage ratio disclosure requirements
26 Jun 2019	Standards	Leverage ratio treatment of client cleared derivatives

Towards a sectoral application of the countercyclical capital buffer

03 April 2019

In May 2017, the Basel Committee's Research Task Force initiated a work stream on sectoral countercyclical capital buffers (CCyBs). It was tasked to produce two deliverables that would contribute to the understanding of the sectoral application of the CCyB: (i) a review of the existing literature; and (ii) a report summarizing original research conducted within the work stream.

The literature review was published in March 2018 and shows that there is a justified need for sectoral macroprudential tools. Moreover, it argues that a sectoral CCyB may be a useful complement to both the Basel III CCyB and existing targeted instruments in the macroprudential toolkit. Yet, countercyclical capital buffers, both broad-based and sectoral, remain largely untested and more work is needed to assess their ability to achieve the different objectives attributed to them. Furthermore, a sectoral application of the CCyB entails several challenges with respect to the design of the instrument and its interactions with the Basel III CCyB and other (targeted) instruments.

This research report summarizes the RTF-CCyB work stream's findings regarding the open issues identified by the literature review. Two theoretical papers - Galaasen and Solheim (2018) in a partial equilibrium framework and Castro (2018) in a general equilibrium framework - analyse the transmission mechanism of a sectoral CCyB and compare its effectiveness and efficiency to that of the Basel III CCyB. The empirical work conducted by the work stream consists of three papers: two of them - Ferrari and Rovira Kaltwasser (2019) for the United States and Fiori and Pacella (2019) for Italy - focus on the link between sectoral credit cycles and systemic risk, and one - Behncke (2018) - analyses the transmission mechanism of the Swiss sectoral CCyB on banks' lending and risk taking.

Standardised approach - implementing the mapping process

09 April 2019

This document set out guidelines for supervisors in the process of assigning the credit risk assessments of an eligible external credit assessment institution (ECAI) to the risk weights available under the standardized approach to credit risk. It fully replicates Annex 2 of Basel II (June 2006) and has been issued as a separate publication due to the launch of the Consolidated Basel Framework (see section 1.34 of the consultation document on the consolidated framework for more information).

Consolidated Basel Framework

09 April 2019

Today the Basel Committee on Banking Supervision launched a new section of its website that sets out a consolidated version of its global standards for the regulation and supervision of banks. The consolidated framework aims to improve the accessibility of the Basel Committee's standards and to promote consistent global interpretation and implementation. The framework has been published initially in draft form, together with a consultative document to gather feedback on the website and on various proposed technical amendments to the standards.

Basel standards are currently published on the Committee's section of the website of the Bank for International Settlements (BIS), as a series of pdf documents. These publications may replace prior standards, amend existing standards or introduce new ones. But the current publication format, combined with the expanded scope of the Basel Framework in recent years, make it difficult for website users to find the standards that are currently in force, or track how the framework has developed over time and will develop in the future. The Consolidated Basel Framework that has been launched today addresses these issues.

The publication of the standards in the new format of the consolidated framework has focused on reorganizing existing requirements. There was no intention to introduce new requirements or otherwise amend the standards previously agreed and published by the Basel Committee. In preparing the framework, the Basel Committee has taken the opportunity to simplify the standards where possible, clarify provisions known to cause confusion, integrate answers to frequently asked questions (FAQs) and delete redundant review clauses and other outdated provisions.

The preparation of the standards in the new format did, however, reveal some inconsistencies between Basel requirements as well as ambiguities that need to be addressed through policy changes. Such policy changes, which are not substantial but which cannot be resolved unambiguously based on the current text, would normally be subject to consultation as technical amendments. The Committee considers it to be most efficient to consult on all such changes together in the context of the launch of the consolidated framework. The proposed changes have been incorporated into the draft version of the consolidated framework, together with various new FAQs.

As the technical amendments proposed in the consultative document are not substantial in nature and, in the Committee's view, contribute to a more coherent prudential framework, the Committee will encourage its members to implement the final requirements as soon as possible, and no later than 1 January 2022.

The Committee welcomes comments on the two questions set out in the consultative document. Comments should be uploaded here by Friday 9 August 2019. All comments will be published on the Bank for International Settlements website unless a respondent specifically requests confidential treatment.

Sixteenth progress report on adoption of the Basel regulatory framework

07 May 2019

This updated progress report provides a high-level view of Basel Committee members' progress in adopting Basel III standards as of end-March 2019.

It focuses on the status of adoption of all the Basel III standards, including the finalized Basel III post-crisis reforms published in December 2017, to ensure that they are transformed into national law or regulation according to the internationally agreed time frames. The report is based on information provided by individual members as part of the Committee's Regulatory Consistency Assessment Programme (RCAP).

The report includes the status of adoption of the Basel III risk-based capital standards, the leverage ratio, the standards for global and domestic systemically important banks (SIBs) and interest rate risk in the banking book (IRRBB), the Net Stable Funding Ratio (NSFR), the large exposures framework and the disclosure requirements.

In addition to periodically reporting on the status of adoption, all Committee members undergo an assessment of the consistency of their domestic rules with the Basel standards.

Overview of Pillar 2 supervisory review practices and approaches

21 June 2019

The Overview of Pillar 2 supervisory review practices and approaches describes key concepts of Pillar 2 and supervisory review practices in use across Basel Committee member jurisdictions.

The Pillar 2 supervisory review process is an integral part of the Basel Framework. When the Committee introduced the Basel II framework in 2004, a fundamental objective of the Committee's work was to reinforce the minimum capital requirements of the first pillar with a robust implementation of the second pillar. This included efforts by banks to assess their capital adequacy and by supervisors to review such assessments.

The report covers key areas of the Pillar 2 supervisory review process, including the risk assessment process, risk appetites, board and senior management roles and supervisory practices adopted to enhance transparency, and bank disclosure practices. The report further describes a number of selected Pillar 2 risks, including business risk and interest rate risk in the banking book. Lastly, the report presents a range of actions that are taken under Pillar 2. Case studies are included throughout the report to illustrate supervisory practices.

The costs and benefits of bank capital - a review of the literature

24 June 2019

In 2010, the Basel Committee on Banking Supervision published an assessment of the long-term economic impact (LEI) of stronger capital and liquidity requirements (BCBS (2010)). This paper considers this assessment in light of estimates from later studies of the macroeconomic benefits and costs of higher capital requirements.

Consistent with the Basel Committee's original assessment, this paper finds that the net macroeconomic benefits of capital requirements are positive over a wide range of capital levels. Under certain assumptions, the literature finds that the net benefits of higher capital requirements may have been understated in the original Committee assessment. Put differently, the range of estimates for the theoretically-optimal level of capital requirements - where marginal benefits equal marginal costs - is likely either similar or higher than was originally estimated by the Basel Committee.

The above conclusion is however subject to a number of important considerations. First, estimates of optimal capital are sensitive to a number of assumptions and design choices. For example, the literature differs in judgements made about the permanence of crisis effects as well as assumptions about the efficacy of post crisis reforms - such as liquidity regulations and bank resolution regimes - in reducing the probability and costs of future banking crisis. In some cases, these judgements can offset the upward tendency in the range of optimal capital. Second, differences in (net) benefit estimates can reflect different conditioning assumptions such as starting levels of capital or default thresholds (the capital ratio at which firms are assumed to fail) when estimating the impact of capital in reducing crisis probabilities.² Finally, the estimates are based on capital ratios that are measured in different units. For example, some studies provide optimal capital estimates in risk-weighted ratios, others in leverage ratios. And, across the risk-weighted ratio estimates, the definition of capital and risk-weighted assets (RWAs) can also differ (eg tangible common equity (TCE) or Tier 1 or common equity tier 1 (CET1) capital; Basel II RWAs vs Basel III measures of RWAs). A full standardization of the different estimates across studies to allow for all of these considerations is not possible on the basis of the information available and lies beyond the scope of this paper.

This paper also suggests a set of issues which warrant further monitoring and research. This includes the link between capital and the cost and probability of crises, accounting for the effects of liquidity regulations, resolution regimes and counter-cyclical capital buffers, and the impact of regulation on loan quantities.

Revisions to leverage ratio disclosure requirements

26 Jun 2019

The publication Revisions to leverage ratio disclosure requirements sets out additional requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions. A comparison of the two sets of values will allow market participants to better assess banks' actual leverage throughout the reporting period.

The Basel Committee has finalized this disclosure requirement to address concerns expressed in a newsletter regarding potential regulatory arbitrage by banks in the form of "window-dressing", whereby temporary reductions of transaction volumes around reference dates result in the reporting and public disclosure of artificially elevated leverage ratios. The Committee will continue to carefully monitor potential window-dressing behavior by banks.

These revisions are applicable to the Pillar 3 disclosure requirements associated with the version of the leverage ratio standard that serves as the Pillar 1 minimum capital requirement as of 1 January 2022.

Leverage ratio treatment of client cleared derivatives

26 June 2019

The publication Leverage ratio treatment of client cleared derivatives sets out a targeted revision to align the leverage ratio measurement of client cleared derivatives with the measurement determined per the standardized approach to measuring counterparty credit risk exposures (SA-CCR) as used for risk-based capital requirements. This treatment will permit both cash and non-cash forms of segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only.

The Basel Committee revised this treatment following its evaluation of the impact of the leverage ratio on banks' provision of client clearing services and of quantitative and qualitative information on banks' exposures to client cleared derivatives. The Committee also took into consideration a joint evaluation - alongside the Financial Stability Board, the Committee on Payments and Market Infrastructures and the International Organization of

Securities Commissions - of the effects of G20 financial regulatory reforms on the incentives to centrally clear over-the-counter derivatives.

The Basel Committee is of the view that this limited revision balances the robustness of the leverage ratio as a non-risk based safeguard against unsustainable sources of leverage with the policy objective set by the G20 Leaders to promote central clearing of standardized derivative contracts as part of mitigating systemic risk and making derivatives markets safer.

The revised treatment of client cleared derivatives is applicable to the version of the leverage ratio standard that serves as the Pillar 1 minimum capital requirement as of 1 January 2022.

Sources: BIS website

FSB UPDATES – Second Quarter 2019

FSB Chair’s letter to G20 Finance Ministers and Central Bank Governors: April 2019

9 April 2019

This letter from FSB Chair Randal K. Quarles to G20 Finance Ministers and Central Bank Governors was sent ahead of their meeting in Washington DC on 11-12 April 2019. The letter addresses four key issues:

- Addressing new and emerging vulnerabilities in the financial system – the FSB will continue to scan the horizon to identify and assess emerging risks. While the core of the financial system is considerably more resilient than it was a decade ago, potential vulnerabilities in the financial system persist, and in some cases have built up further. Loosening lending standards, elevated asset values, and high corporate and public debt call for particular vigilance.
- Finalizing and operationalizing post-crisis reforms – the FSB will work with standard-setting bodies to complete the few remaining reform items. The FSB will continue to support full, timely and consistent implementation of the agreed post-crisis reforms. Work on addressing structural vulnerabilities from asset management activities will continue.
- Evaluating the effects of the reforms – the FSB is currently examining the effects on the financing of small and medium-sized enterprises, and has just started to evaluate the effects of too-big-to-fail reforms in the banking sector. The FSB, is exploring issues around market fragmentation, supporting the Japanese G20 Presidency’s priority to address this topic.
- Reinforcing outreach to stakeholders – the FSB remains committed to improve communication and transparency with other external stakeholders, to increase understanding of the FSB’s work and facilitate greater input from a wide array of stakeholders.

Thematic Peer Review on Bank Resolution Planning

29 April 2019

This report forms part of a series of peer reviews to support timely and consistent implementation of the FSB’s Key Attributes of Effective Resolution Regimes for Financial Institutions. The Key Attributes set out the core elements of effective resolution regimes that allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss, while maintaining continuity of their vital economic functions.

The peer review evaluates the implementation by FSB jurisdictions of the resolution planning standard as set out in the Key Attributes and in associated guidance. It focuses on resolution planning for all domestically incorporated banks that could be systemically significant or critical if they fail (‘systemic in failure’).

The peer review finds that bank resolution planning frameworks have been adopted in most FSB jurisdictions, with planning most advanced for global systemically important banks (G-SIBs) and in jurisdictions that are home to them. The range of banks subject to resolution planning varies widely and some of the requirements – for example, the frequency of resolution plan review, data reporting and the content of plans – also tend to vary, particularly for banks other than G-SIBs or domestic systemically important banks (D-SIBs).

Notwithstanding the progress made to date, the review stresses that important work remains to ensure that bank resolution plans can be put fully into effect and sets out recommendations:

- For FSB jurisdictions to take further steps to adopt and operationalize their resolution planning framework. This includes having powers to require banks to take measures to improve their resolvability; developing playbooks for executing resolution strategies; advancing work on resolution funding and valuation; and enhancing resolution-related cross-border cooperation and information sharing arrangements. Those jurisdictions identified in the report as not having a resolution planning framework should report to the FSB by June 2020 on actions undertaken, or planned, to adopt such a framework.

- For the FSB to undertake work to support member authorities' resolution planning for banks other than G-SIBs that could be systemic in failure.
- For the FSB, working with relevant authorities and other bodies, to promote the sharing of bank resolution planning experiences and practices in enhancing cooperation and information-sharing arrangements, particularly for non-G-SIBs and with non-crisis management group (CMG) host jurisdictions for G-SIBs.

FSB action plan to assess and address the decline in correspondent banking: Progress report

29 May 2019

The decline in the number of correspondent banking relationships remains a source of concern for the international community, as the number of active correspondent banks declined by 3.4% in 2018, although this represents a slight slowing of the rate of decline compared to 2017. This decline affected the vast majority of jurisdictions and all three major currencies in 2018, although it was more pronounced for USD (-5.9%) compared to EUR (-4.6%) and GBP (-3%). Concentration increased, as fewer banks are handling more payments. A comprehensive data set was published by the Committee on Markets and Payment Infrastructures (CPMI) on 27 May, based on SWIFT data.

With the international components of the FSB coordinated action plan largely in place, attention has turned to monitoring of implementation:

- There is growing evidence of the concrete implementation of regulatory clarifications by national authorities, following the guidance provided by the Financial Action Task Force and the Basel Committee on Banking Supervision.
- To support domestic capacity building in jurisdictions that are home to affected respondent banks, official sector technical assistance still requires ongoing coordination. Industry initiatives are gaining traction in that field, especially the additional guidance developed by the Wolfsberg Group to implement their Correspondent Banking Due Diligence Questionnaire.
- The technical measures recommended by CPMI to improve the efficiency of due diligence procedures and reduce compliance costs are now generally available for use, but their concrete implementation still requires continued focus by industry and the official sector, such as the use of the Legal Entity Identifier in payment messages and practical steps to support effective information sharing.
- The FSB also published a monitoring report which assesses implementation of its March 2018 recommendations to address problems with remittance services providers' access to banking services.

Sources: FSB website

IDIC UPDATES – Second Quarter 2019

A. Banking Growth and Stability

Indonesian banking industry closes the second quarter of 2019 (Q2-2019) with a moderate financial performance. As shown in Table 1, banking industry's assets grow by 4 % YoY (1.1% MtM), while profits rise by 11.4% YoY (25.5% MtM). This growth is mainly driven by credits, which grow by 9.94% YoY (0.9% MtM). Compared to its performance in Q1-2019, banks' assets and credit growths in average are relatively milder. On the right-hand side of the industry's balance sheet, deposits (third parties funds) grow by 7.43% YoY (2.3% MtM), slightly higher than its growth in Q1-2019 (7.16% YoY, 1.3% MtM). Meanwhile, the industry's Tier 1 capital grow by 12.3% YoY (1.4% MtM), supported by a strong growth of net profits (10.5% YoY, 1.7% MtM).

Table 1: Indicators of Banking Industry (Trillion IDR)

Indicator	Jun-18	May-19	Jun-19	YoY	MtM
Asset	7,923.4	8,146.0	8,239.3	↑ 4.0%	↑ 1.1%
Conventional	7,620.2	7,832.8	7,916.3	↑ 3.9%	↑ 1.1%
Islamic	303.2	313.2	322.9	↑ 6.5%	↑ 3.1%
Credit	5,028.6	5,479.5	5,528.6	↑ 9.94%	↑ 0.9%
Conventional	4,833.2	5,268.6	5,315.6	↑ 10.0%	↑ 0.9%
Islamic	195.4	210.9	213.0	↑ 9.0%	↑ 1.0%
Third Parties Fund	5,398.5	5,671.3	5,799.5	↑ 7.43%	↑ 2.3%
Conventional	5,150.3	5,414.6	5,532.9	↑ 7.4%	↑ 2.2%
Islamic	248.2	256.7	266.6	↑ 7.4%	↑ 3.8%
Tier 1	1,127.6	1,224.8	1,245.7	↑ 10.5%	↑ 1.7%
Conventional	1,094.8	1,190.8	1,211.6	↑ 10.7%	↑ 1.8%
Islamic	32.7	34.0	34.0	↑ 4.0%	↑ 0.1%
Profit/Loss	70.1	62.2	78.1	↑ 11.4%	↑ 25.5%
Conventional	69.1	61.1	76.7	↑ 10.9%	↑ 25.5%
Islamic	1.0	1.1	1.4	↑ 44.1%	↑ 26.2%

NOTE:

YoY : Year-on-Year growth

MtM : Month-to-Month growth

↑ : Favorable

↓ : Unfavorable

The key financial ratios in Table 2 show that the Indonesian banking industry at the second quarter of 2019 still has a solid financial performance. The industry's CAR remains strong at 22.02%, increases 64 bps from last year, while Asset Quality, Gross, and Net NPL ratios have improved by 6 bps, 18 bps, and 4 bps respectively from last year. Though Operating Cost/Operating Revenue (OC/OR) has increased and NIM has been lower than last year, banks' ROA and ROE are still able to grow resiliently, possibly due to diversification in noninterest income. Meanwhile, liquidity still becomes the main challenge in the second quarter of 2019.

Table 2: Financial Ratio of Banking Industry

Ratio	Jun-18	May-19	Jun-19	YoY	MtM
CAR	21.38%	21.81%	22.02%	↑ 64bps	↑ 21bps
Asset Quality	1.85%	1.86%	1.78%	↓ 6bps	↑ -8bps
Gross NPL	2.65%	2.59%	2.48%	↑ -18bps	↑ -12bps
NNPL	0.42%	0.41%	0.37%	↑ 4bps	↑ 3bps
ROA	2.39%	2.38%	2.48%	↑ 8bps	↑ 10bps
ROE	13.49%	13.71%	13.70%	↑ 21bps	↓ -1bps
OC/OR	78.08%	81.11%	80.06%	↓ -198bps	↑ 105bps
NIM	4.60%	4.47%	4.35%	↓ -25bps	↓ -12bps
LDR	93.15%	96.55%	95.33%	↓ -218bps	↑ 122bps
Interbank Liabilities	3.44%	3.01%	3.29%	↑ 15bps	↓ -28bps
CL/CA	19.85%	18.84%	18.23%	↓ -162bps	↓ -61bps

Financial Ratio of Banking Industry

NOTE:

YoY : Year-on-Year growth

MtM : Month-to-Month growth

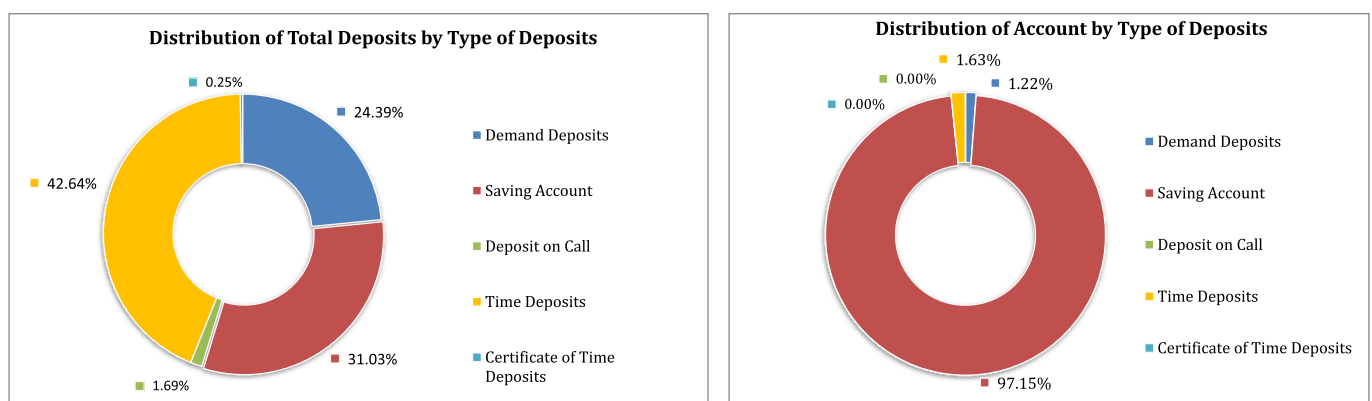
↑ : Favorable

↓ : Unfavorable

B. Deposit Insurance Updates

At the end of second quarter of 2019, total deposits in the Indonesian banking industry are still dominated by saving deposits in terms of account numbers. In particular, saving deposits account for 97.15% of the total number of accounts. However, in terms of market shares, savings contribute only 31.03% of total deposits. In contrast, time deposits, which represent only 1.63% of the total number of accounts, have the largest shares of total deposits (42.64%). Meanwhile, demand deposits, which mainly are for a transactional purpose, account for 1.22% of the total number of accounts and contribute to 24.39% shares of total deposits. Other types of deposits—Deposits on Call and Certificates of Deposits (CDs)—have still relatively limited market shares.

Figure 2: Distribution of Deposits in Banking Industry



Most of the deposits are belong to either individuals or corporations (third-party funds). There only 1.83% from the total deposits are interbank deposits. Conventional banks hold 95.46% of total deposits, while Islamic banks 4.54%.

Table 3: Distribution of Deposit Based on Type of Deposit

Total Deposits by Type of Deposits (Nominal in Million USD)												
Type of Deposits	May 2019				June 2019				Δ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	Δ Nominal	%
Demand Deposits	3,529,225	1.23	93.909	22.90	3,541,424	1.22	101.684	24.39	12.199	0.35	7.775	8.28
Saving Account	279,412,740	97.15	128.621	31.60	280,836,430	97.15	129.404	31.03	1,423,690	0.51	0.782	0.61
Deposit on Call	6.325	0.00	6.815	1.70	5.700	0.00	7.034	1.69	-625	-9.88	0.220	3.23
Time Deposits	4657.661	1.62	177.265	43.50	4,699,685	1.63	177.812	42.64	42.024	0.90	0.547	0.31
Certificate of Time Deposits	281	0.00	1.034	0.30	289	0.00	1.035	0.25	8	2.85	0.001	0.06
Total	287,606,232	100.00	407.645	100.00	289,083,528	100.00	416.969	100.00	1,477,296	0.51	9.324	2.29

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Table 4: Distribution of Deposit Based on Ownership of Deposit

Total Deposits by Ownership of Deposits (Nominal in Million USD)												
Ownership of Deposits	May 2019				June 2019				Δ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	Δ Nominal	%
Third Party-Fund	287,581,733	99.99	400.681	98.29	289,058,774	99.99	409.332	98.17	1,477,041	0.51	8.651	1.33
Funds From Other Bank	24.499	0.01	6.963	1.71	24.754	0.01	7.637	1.83	225	1.04	0.674	9.64
Total	287,606,232	100.00	407.645	100.00	289,083,528	100.00	416.969	100.00	1,477,296	0.51	9.324	2.29

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Table 5: Distribution of Deposit Based on Type of Bank

Total Deposits by Type of Business Banks (Nominal in Million USD)												
Type of Business Banks	May 2019				June 2019				Δ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	Δ Nominal	%
Conventional	262,172,474	91.10	400.681	95.46	263,516,736	91.16	409.332	95.46	1,344,262	0.51	8.651	2.21
Islamic	25,433,758	8.90	6.963	4.54	25,566,792	8.84	7.637	4.54	133.034	0.52	0.674	3.90
Total	287,606,232	100.00	407.645	100.00	289,083,528	100.00	416.969	100.00	1,477,296	0.51	9.324	2.29

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

Most of deposits accounts (98.21%) are individually less than IDR100 million (USD7,020*), which account for 14.08% of total deposits. In contrast, deposits accounts that are individually more than IDR5 billion (USD351,025) represent only 0.03% of the total number of accounts, but contribute to 47.72% of total deposits.

Note: (*)Exchange rate end of period= IDR14,126/USD

Table 6: Distribution of Deposit Based on Tiering of Nominal (in IDR)

Total Deposits by Tiering of Nominal (Nominal in Million USD)												
Deposit Tiering (IDR)	May 2019				June 2019				Δ MoM			
	Account	%	Nominal	%	Account	%	Nominal	%	Δ Account	%	Δ Nominal	%
N ≤ 100 Mio	282,440,112	98.19	62.192	15.25	283,865,714	98.19	59.639	14.31	1,425,602	0.50	-2,553	-4.10
100 Mio < N ≤ 200 Mio	1,383,414	0.83	23.688	5.81	2,385,816	0.83	23.702	5.68	2.402	0.10	0.014	0.06
200 Mio < N ≤ 500 Mio	1,672,223	0.57	36.963	9.07	1,643,605	0.57	37.285	8.94	16.382	1.01	0.322	0.87
500 Mio < N ≤ 1 Bio	619,223	0.22	31.752	7.79	633,744	0.22	32.451	7.78	14.698	2.37	0.699	2.20
1 Bio < N ≤ 2 Bio	274,315	0.10	27.725	6.80	283,749	0.10	28.605	6.86	9.434	3.44	0.880	3.17
2 Bio < N ≤ 5 Bio	167,041	0.06	37.044	9.09	173,069	0.06	38.316	9.19	6.028	3.61	1.271	3.43
N > 5 Bio	95,081	0.03	188.282	46.19	97,831	0.03	196.972	47.24	2.750	2.89	8.691	4.62
Total	287,606,232	100.00	407.645	100.00	289,083,528	100.00	416.969	100.00	1,477,296	0.51	9.324	2.29

Note: The percentage of deposits in each type of deposit is the percentage of total deposits

With the maximum deposit insurance coverage of IDR2 billion (USD141,583), the IDIC's insurance program covers 99.91% of total deposit accounts fully and 0.09% of total deposit accounts partially (Table 7). In overall, the total insured deposits are about 52.77% of total deposits, while 47.23% are uninsured (Table 8).

Table 7: Distribution of Insured Deposit Based on Accounts

Distribution of Account by Insured Accounts June 2019			
Item	Deposit Tiering (IDR)	Number of Accounts	%
Account for Fully Insured Deposits	≤ 2 Billion	288,812,628	99.91%
Account for Partially Insured Deposits	> 2 Billion	270.900	0.09%
Total Account		289,083,528	100.00%

Table 8: Distribution of Deposit Based on Nominal

Distribution of Deposits by Insured Deposits (Billion IDR) June 2019			
Item	Deposit Tiering (IDR)	Nominal Account	%
Fully Insured Deposits	≤ 2 Billion	2,566,429	43.57%
Partially Insured Deposits	> 2 Billion	541.800	9.20%
Subtotal - Insured Deposits		3,108,229	52.77%
Uninsured Deposit	> 2 Billion	2,781,874	47.23%
Subtotal - Uninsured Deposit		2,781,874	100%
Total Account		5,890,103	

C. Ms. Destry Damayanti's new role as BI Senior Deputy Governor

Ms. Destry Damayanti, IDIC former Member of the Board of Commissioners, was sworn in as Bank Indonesia senior deputy governor on 7th August 2019. As a senior deputy governor, Ms. Damayanti will be the second in command at the central bank after Bank Indonesia Governor Mr. Perry Warjiyo.

Ms. Damayanti was previously IDIC Member of the Board of Commissioners from September 2015 to August 2019. Before that, she was the chief economist at Mandiri (from 2011 to 2015). She also served as chairwoman of the selection committee for Corruption Eradication Commission (KPK) leaders.

Ms. Damayanti holds an economics degree from the University of Indonesia and science masters from Cornell University.



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D. 2nd International Seminar on “Facing Softening Global Economy: The need to Strengthen Bank Resolution Preparedness” and Workshop on “Challenges in Managing Crisis Simulation”

Following the success of last year's IDIC international seminar, “20 Years of Asian Financial Crisis: Strengthening Infrastructures for Financial Crisis Resolution”, Indonesia Deposit Insurance Corporation invited leaders of deposit insurance institutions, experts in bank resolution, government officials, representatives from international organizations, bankers, as well as academicians/researchers to the 2nd IDIC International Seminar in Nusa Dua, Bali on 21-22 August 2019.

This year's theme for the international seminar is “Facing Softening Global Economy: The need to Strengthen Bank Resolution Preparedness.” The seminar aimed to generate discussions and served as a platform for experience and knowledge exchange among prominent speakers in terms of global economic and financial outlook, challenges, lessons learnt and success stories of deposit insurers and resolution authorities in fulfilling deposit insurance responsibilities, implementing Recovery and Resolution Plan, as well as conducting Resolvability Assessment.

In the first day, the seminar consisted of three sessions: Session 1 on Global Financial System Stability and Outlook; Session 2 on Recent Bank Resolution experiences in Italy, Spain, and Portugal; and Session 3 on Progress and Challenges in Implementing Recovery & Resolution Plan and Resolvability Assessment. In the second day, the participants were offered to participate in a Workshop on “Challenges in Managing Crisis Simulation”.

We strongly believe that the seminar and workshop provided the participants with valuable policy recommendations in deposit insurance and bank resolution practices, as well as financial crisis mitigation and prevention.





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