Authority of Banking Supervision And Regulation By Bank Indonesia And Financial Services Authority (OJK)

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ABSTRACT

This study analyzes the regulatory and supervisory authority of banks conducted by the Financial Services Authority set out in Law no. 21 of 2011 which was previously undertaken by Bank Indonesia in fact to apply the principles of prudence and good faith principles to banks in order to prevent the risk of banking crime. Banking supervision and regulation after the issuance of the OJK Law (Financial Services Authority), Bank Indonesia as the central bank only acts as a monetary policy regulator to maintain monetary stability. The problem in this research is about the concept of law of regulation and supervision of banking sector by OJK and how the legal relationship with Bank Indonesia. The type of research used is juridical normative, then the data used secondary data and primary data, the approach in this study using conceptual approach, and komparatif. Bank Indonesia's regulatory and supervisory duties transferred to OJK are only related to microprudential, and the banking arrangements by Bank Indonesia are still conducted by Bank Indonesia only macroprudential, while the regulation of banking by OJK is not fully independent.

Keywords: Authority, Bank Indonesia, Legal Relations and the Financial Services Authority

1. INTRODUCTION

The presence of a bank is closely related to development of trade. Today’s modern world is closely related and frequently depends on banking activities and services. Article 34 of Act Number 3 of 2004 concerning Amendments to the Law of the Republic of Indonesia Number 23 of 1999 concerning Bank Indonesia (hereinafter referred to as BI Act) guides the establishment of financial service sector supervising institutions including banks, insurance, pension funds, securities, capital ventures, and finance companies and agencies that run public funds.

The policy was taken with consideration of problems that appear in banking sector. There ahev been 21 (twenty-one) national private banks affected by the crisis and were liquidated by Bank Indonesia. In the process, various irregularities were discovered that made Bank Indonesia's supervision questionable. Century Bank, for example, was surprisingly determined by BI as a failed bank with systemic impacts ¹. The problems in banking sector can disrupt the stability of the financial system that it encourages the formation of supervisory institutions in the integrated financial services sector. In December 31, 2012 Law Number 21 of 2011 concerning the Financial Services Authority (hereinafter referred to as the OJK Law) applied. This shows that Indonesia is changing the application of the supervision model to its financial industry ². The functions, duties

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and authorities of the regulation and supervision of financial service activities in the Banking sector shift from Bank Indonesia to the Financial Services Authority (Article 33 paragraph (2)).

Every official makes policies in various fields. Harold D. Lasswell and Abraham Keplan interpreted policy as "a projected program of goals, values and practices". Policy is interpreted as a series of actions that are determined and implemented or not carried out by the government that has a goal or is oriented towards specific objectives for the benefit of the whole community. This is important that the authorities as decision makers are not trapped in short-term policy. Bank Indonesia's policy of establishing a supervisory institution in the financial services sector is expected to improve a more resilient financial system framework.

With OJK Law, the unification of regulation and supervision of financial services sector was formed. The authority was previously exercised by the Ministry of Finance, Bank Indonesia, and the Capital Market Supervisory Agency and financial institutions. OJK Law regulates the provisions governing the transition that the transition of tasks and functions of regulation and supervision goes well.

The present study discusses the legal concept of the authority to regulate and supervise financial institutions in financial service activities in banking sector by the Financial Services Authority (OJK) and Bank Indonesia. OJK was formed to regulate and supervise banks with good synergy between Bank Indonesia and OJK. OJK can embody interests between Bank Indonesia and the Ministry of Finance.

2. METHOD

This is legal research. Law is rules and norms that exist in society. The type of research used is normative legal research. Statute and conceptual approaches are used to study the problems. The source of legal material from this research is in accordance with the nature of normative legal research of primary and secondary legal materials. The primary legal material used is Act Number 23 of 1999 concerning Bank Indonesia as amended by Act Number 3 of 2004 concerning Bank Indonesia concerning Amendments to Act Number 23 of 1999 concerning Bank Indonesia (hereinafter referred to as Bank Indonesia Law) and Act Law Number 21 of 2011 concerning OJK. Secondary legal material provides an explanation of the primary legal material and includes work from legal circles, journals, scientific magazines, the internet and views or doctrines related to the literature and principles of banking actors. The secondary legal material used in this study is related to Financial Services Authority (OJK).
4. DISCUSSION

According to Law Number 21 of 2011 concerning OJK, this is an independent institution in the supervision of banking. This institution is expected to coordinate well with Bank Indonesia. The task of Bank Indonesia, with the issuance of the OJK Law, no longer supervises individual banks, but supervises macroprudential aspects of systemic risk in financial system stability. The tasks of Bank Indonesia are still in accordance with Bank Indonesia Law including maintaining monetary stability and regulating the payment system and overseeing capital markets and non-bank financial institutions. The task is aimed at ensuring the possibility of risk of disruption to financial system stability in banking sector. The task is carried out with the precautionary principle adopted from the core core principle issued by the baseline committee on banking supervision.

Policy is a set of decisions taken by political actors in order to choose goals and how to achieve goals. According to M. Irfan Islamy, policy is a set of actions that are determined and implemented or not carried out by governments that have goals or are oriented towards specific goals for the benefit of all the community. Juridically, the policies carried out by the Government are solely to carry out authority based on the Law. Achieving better results to exercise authority, the government needs the freedom to act alone known as Ermessen. This freedom of action is in accordance with the authority inherent in officials, including Bank Indonesia officials. That authority is given by law because of his position.

The inherent authority must be exercised by Bank Indonesia officials in accordance with legal provisions. Law consists of a collection of legal regulations. According to Bagir Manan, authority means the right and at the same time the obligation (rechten en plichten), the right to contain the freedom to do or not do certain actions or according to other parties to do certain actions, while the obligation includes the obligation to do or not do. According to Soedarto, criminal law policy in narrow sense is broader, and most extensive. In a narrow sense, criminal politics is described as a whole of the principles and methods that form the basis of reactions to criminal violations in the form of crime. In a broader sense, this includes the overall function of the law enforcement apparatus, including the workings of the court and police. Whereas in the broadest sense, this is the whole policy carried out through legislation and official bodies, which aims to enforce the central norms of society.

In brief, Soedarto argued that criminal politics is a rational effort by the community in tackling crime. According to Barda Nawawi Arief policies or efforts to tackle crime are essentially...

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3 Ibid (Note 1), hlm. 20.
5 Irfan Fachruddin, Ibid, hlm. 40.
an integral part of efforts to protect society (social defense) \(^6\). The ultimate goal of criminal politics is the protection of society to achieve public welfare \(^7\). In general, the policy can be made schematically the relationship described in scheme 1 as follows: \(^8\)

Related to the scheme, G. Peter Hoefnagels as quoted by Barda Nawawi Arief stated that "criminal policy a science of policy is part of a larger policy: the law enforcement policy ... the legislative and enforcement policy is in turn part of social policy. The essence of policies or efforts to tackle crime is essentially an integral part of efforts to protect society (social defense) and efforts to achieve social welfare (social welfare) \(^9\). Therefore, the ultimate goal or the main objective of public law politics is the protection of society to achieve the welfare of the community. \(^10\)

According to Sudarto as quoted by Barda Nawawi Arief, there are 3 (three) meanings of public law policies, they are:

1. in the narrow sense, this is the whole of the principles and methods that form the basis of reactions to criminal violations in the form of criminal law;
2. in a broad sense, this is the overall function of the law enforcement apparatus, including the workings of the court and police; and

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3. in the broadest sense, this is the whole policy, which is carried out through legislation and official bodies that aim to enforce the central norms of society.

There have been a legal relationship between the bank as the supervised party and Bank Indonesia, the Financial Services Authority as a supervisory party and this is regulated in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking (hereinafter referred to as the Banking Act), Bank Indonesia Law and OJK Law. The core purpose of bank supervision is to protect customers who hold and entrust their funds to the bank. With Act Number 24 of 2004 concerning the Deposit Insurance Corporation (hereinafter referred to as the LPS Law), Bank Indonesia has the authority to hand over banks that cannot be saved to the Deposit Insurance Agency. As an effort to improve the bank supervision system, especially in the context of increasing the effectiveness of bank supervision, Bank Indonesia applies forward-oriented risk-based bank supervision.  

The Concept of Regulation and Supervision of the Authority of Bank Indonesia and the Financial Services Authority (OJK)

The existence of Bank Indonesia, both in terms of its position, functions and duties, authority, has been regulated in the provisions of the Bank Indonesia Law. In this study, the author examines specifically the articles governing the duties and authority of Bank Indonesia which has now been transferred to the Financial Services Authority (OJK). These articles authorize Bank Indonesia Officials to have the authority to take policy on matters in the banking sector, the scope of regulation and supervision of macro prudential, namely regulation and supervision other than what is stipulated in Article 7 of the OJK Law, is the duty and authority of Bank Indonesia. Macroprudential regulation and supervision is the task of banking regulation, by developing macro-prudential analysis methods which will later be used to evaluate the soundness, strengths and weaknesses of the financial system in Indonesia, and be published in periodic financial stability studies to the public about the impact on the financial system in the event of a crisis. The task of banking regulation is not fully carried out independently by the Financial Services Authority, because the banking task and supervision arrangements both microprudential and macroprudential are interrelated. The Financial Services Authority only helps Bank Indonesia to make moral appeals (moral suasion) to banks. Bank Indonesia policy as part

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11 Gde Made Swardhana, Ibid, hlm. 3.
of the financial system and payment system of the State of Indonesia has an important role in controlling and maintaining the balance of the national banking system.

Article 6 of OJK Law states that the Financial Services Authority carries out the regulatory and supervisory duties of:

a. Financial service activities in banking sector;

b. Financial service activities in Capital Market sector; and

c. Financial services activities in the Insurance sector, Pension Funds, Financial Institutions, and Other Financial Services Institutions.

Article 7 of the OJK Law states the task of regulation and supervision in the Banking sector as referred to in Article 6 letter a of the OJK Law, the authority is:

a. Regulations and supervision of bank institutions which include:

1. Permits for the establishment of banks, opening bank offices, articles of association, work plans, ownership, management, and human resources, mergers, consolidations, and acquisition of banks, and revocation of bank business licenses; and

2. Bank business activities, including: sources of funds, provision of funds, hybrid products, and activities in the service sector.

b. Regulations and supervision regarding bank health including:

1. Liquidity, profitability, solvency, asset quality, minimum capital adequacy ratio, the maximum lending limit, the ratio of loans to deposits, and bank reserves;

2. Bank statements related to bank health and performance;

3. Debtor information system;

4. Credit testing; and


c. Regulations and supervision regarding bank prudential aspects, including:

1. Risk management;

2. Bank governance;

3. The principle of getting to know customers and anti money laundering; and


The function of the OJK as a regulator is the implementation of an integrated regulation and supervision system for all activities in the financial sector. Based on that, all financial
service activities carried out by financial institutions are subject to the Financial Services Authority regulatory and supervision system, such as the banking sector, capital market, insurance, pension funds.

d. Bank inspection.

Elucidation of Article 7 of the OJK Law determines the regulation and supervision of institutional, health, prudential aspects and bank checks is the scope of microprudential regulation and supervision which becomes the task and authority of the Financial Services Authority. 12

Bank Indonesia carries out the task of regulating and supervising banks on a macroprudential basis, for example related to monetary policy and handling of banks that are in critical condition.

The Financial Services Authority as a supervisory institution is an independent institution outside the government (not under the government). Supervision is needed because of the potential for moral hazard. Therefore, the Financial Services Authority only helps Bank Indonesia to carry out moral appeals to banks.

As a central bank, Bank Indonesia has the highest position in the structure of the banking system. Therefore, it can serve financing needs and launch a payment system mechanism for all sectors of the economy, and can provide guidance to create a healthy monetary system that has an orientation to development activities.

The establishment of the Financial Services Authority is mandated by Article 34 of the Bank Indonesia Law, where there is a division of tasks in carrying out banking supervision, namely the task of supervising banks carried out by the Financial Services Authority. The tasks assigned by the Act to Bank Indonesia cannot be released in relation to the objectives of Bank Indonesia. The Bank Indonesia Act stipulates the objective of Bank Indonesia to achieve and maintain the stability of the rupiah value. The stability of the value of the rupiah is very important to support sustainable economic development, which in the end is to improve people's welfare. The stability of the Rupiah's value is the stability of the Rupiah's value of goods and services, and the stability of the Rupiah's exchange rate. The stability of the exchange rate is measured by the development of the

rupiah exchange rate against other countries' currencies. The exchange rate is not entirely dependent on economic conditions.

Political and social issues also have a strong influence on the stability of the rupiah exchange rate against other countries' currencies. The duties and functions of Bank Indonesia that are directly related to Banking are the function of the lender of last resort, as formulated in Article 11 of the Bank Indonesia Law. Bank Indonesia has the authority to provide loans or payments based on sharia principles, to help with the short-term funding difficulties that are being faced by banks. The assistance was given because of the mismatch between inflows and outflows, namely that the inflow of funds is smaller than the outflows.

Provisions concerning the granting of loans or financing based on sharia principles are carried out by Bank Indonesia based on the following:

1. Bank experiences a mismatch either because of credit risk, financing risk based on sharia principles, management risk or market risk;
2. bank has high-quality collateral that is easily liquidated;
3. given no more than ninety days (calendar days). The time period is "maximum" and it includes an extension;
4. if bank is unable to pay off when due, Bank Indonesia has the right to disburse the collateral;
5. determination of certain interest rates by Bank Indonesia, among others, in the context of credit from Bank Indonesia and in the implementation of the lender of last resort function.

According to Article 6 of the OJK Law, this carries out the regulatory and supervisory duties of:

a. Financial service activities in banking sector;
b. Financial service activities in capital market sector; and
c. Financial services activities in insurance sector, pension funds, banking institutions, and other financial service institutions.

Furthermore, these authorities have been exercised by the Financial Services Authority in Article 7 of the task of regulating and supervising banks. This also refers to The Federal Reserve.

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The authorities of Bank Indonesia in accordance with Article 1 number 8, Article 25, Article 26 of the Bank Indonesia Law have been switched to the Financial Services Authority, as stipulated in Article 7 letters a, b, paragraph (1), namely carrying out regulatory and supervisory duties in the banking sector as referred to in Article 6 letter a. The Financial Services Authority has the authority:

- Regulations and supervision of bank institutions which include:
  1. Licensing for the establishment of banks, opening bank offices, articles of association, work plans, ownership, management and human resources, mergers, consolidations and acquisitions of banks, and revocation of bank business licenses; and
  2. Bank business activities, including sources of funds, provision of funds, hybrid products, and activities in the field of services,

- Regulation and supervision of bank health including:
  1. Liquidity, profitability, solvency, asset quality, minimum capital adequacy ratio, maximum lending limit, the ratio of loans to deposits, and bank reserves;
  2. Bank statements related to bank health and performance;
  3. Debtor information system;
  4. Credit testing; and

Bank Indonesia as the Central Bank places all banks in an organizational structure where Bank Indonesia as the Central Bank is the highest shoot. In Indonesia, the issue of banking supervision has received very sharp attention because of the banking crisis that affected the Century Bank bail out. In the regulation and supervision of banks both nationally and internationally must be in accordance with the basic principles of good international regulators such as The Basel Core Principles issued by the Basel Committee on Banking Supervision, which is realized in the form of good operational standards, with good corporate governance and management risk\(^\text{14}\).

The precautionary principle in the banking sector needs to be regulated in a regulation to be in accordance with the Basel Core Principles. Thus the Basel Core Principles include 25 (two five) Principles, namely: the first principle of effective banking supervision, the second principle of permitted activities, the third principle of licensing authority must have criteria, the 4th principle and the 5 principles regarding the transfer of shares, principles 6

through 15, the important role of regulation and supervision, the 16th principle of direct supervision and indirect supervision, the 17th principle of bank supervision that must have a regular contract with bank management and a thorough understanding of operations banks, the 18th principle of bank supervision must have the tools to carry out data analysis and reports, the 19th principle of supervision that has independence, the 20th principle is the ability to supervise bank business groups on a consolidated basis, the 21st principle all banks are required to have a complete and accurate recording system, the 22nd principle of supervision is required through adequate measuring tools and is able to make improvements as well as taking action on rules and cooperation on international supervision, the 23rd principle applies the practice of consolidating supervision, the 24th principle is conducting cooperation between supervision and the 25th principle applies the same standard between local banks and foreign banks.

Based on the principles in The Basel Core Principle, the role of Bank Indonesia and the Financial Services Authority is very important to perform its obligations before the bank is established until the bank is able to operate.

Article 34 paragraph (1) of the BI Law states that the task of supervising banks will be carried out by an independent Financial Services Sector Supervisory Agency formed by Law. Since the enactment of the OJK Law, the regulation and supervision of financial institutions has become the authority of the OJK in accordance with Article 5 of the OJK Law. This OJK Law makes all the regulatory and supervisory functions of the financial sector which were previously at Bank Indonesia integrated into the Financial Services Authority.

The OJK Law regulates the distribution of authority in supervisory tasks, especially in the banking sector between the Financial Services Authority and Bank Indonesia, because Bank Indonesia has the task of establishing and implementing monetary policy that is closely related to the task of banking regulation and supervision (macro prudential, in accordance with Article 40 of the OJK Law). Monetary policy in question is a policy to achieve and maintain stability of the rupiah value carried out by controlling the money supply and interest rates (Yustianti & Roesli, 2018).

Even though the OJK Law was formed, the existence of Bank Indonesia still has a close relationship with the Financial Services Authority. This is in accordance with Article 37 paragraph (2) of the OJK Law which determines that the Financial Services Authority
and Bank Indonesia can coordinate and cooperate in joint supervision of financial service activities in the banking sector. Regarding coordination with Bank Indonesia above in the provisions of Article 39 of the OJK Law, the Financial Services Authority coordinates with Bank Indonesia in making banking supervision regulations including obligations to meet the minimum capital requirements of banks, integrated banking information systems, policies for receiving funds from abroad, revenue foreign exchange funds, and foreign commercial loans, banking products, derivative transactions, other bank business activities, determinants of bank terms that are categorized as systemically important banks and other excluded data and provisions regarding confidentiality of information.

The relationship between Bank Indonesia and OJK can be seen in Article 40 of the OJK Law which states that Bank Indonesia and OJK can conduct a direct inspection of banks by giving written notification to the Financial Services Authority if Bank Indonesia cannot provide an assessment of a bank.

The results of the inspection report were submitted to the Financial Services Authority, the Financial Services Authority then informed the Deposit Insurance Agency of the problem banks that were in the health effort by the Financial Services Authority. If the bank experiences liquidity problems or its health condition worsens, the Financial Services Authority immediately informs Bank Indonesia to take steps in accordance with the authority of Bank Indonesia (Article 41 of the OJK Law). The Financial Services Authority, Bank Indonesia, and the Indonesian Deposit Insurance Corporation must develop and maintain an integrated means of information exchange (Article 43 of OJK Law).

Recalling the main functions of banking above, the efforts that should be made are not only to improve the quality of banks relating to management issues, professional arrangements and adequate supervision, but also guidance and especially capital support from Bank Indonesia, which acts as the central bank.

Coordination between regulation and supervision, banking authority, monetary authority and fiscal authority strengthen the finances that require a healthy banking system. Several countries have also held Authorities in the field of Financial Services between Australia and APRA since 1998, Canada with OCFI and Japan with FSC. The FSC was formed to carry out independent oversight of the institutions of financial institutions led by
the prime minister and the FSS. The operational activities of financial institution supervision are under the authority of FCS AND SFC supervision.

The concept of these countries becomes a reference for the birth of the Financial Services Authority in Indonesia which is an independent supervision system in Indonesia. The establishment of the OJK in Indonesia was motivated by the experience of the crisis that occurred in 1997-1998, the BLBI fund case and the Century Bank case, which until now there has been no clear solution. Article 8 of the Bank Indonesia Law stipulates that one of the tasks of Bank Indonesia is to regulate and supervise banks, and Article 34 paragraph (1) of the Bank Indonesia Law states that the task of supervising banks will be carried out by an independent Financial Services Sector Supervisory Agency formed by the Law.

Since the enactment of the OJK Law on November 22, 2011, the regulation and supervision of financial institutions has become the authority of the Financial Services Authority in accordance with Article 5 of the OJK Law. With this article, all regulatory and supervisory functions of the financial sector that were previously at Bank Indonesia were integrated into the Financial Services Authority.

The establishment of the Financial Services Authority aims to protect the interests of the community that owns the funds and to maintain the continuity of the bank's business as a trust and as an intermediary institution. Although the OJK Law has been established, the existence of Bank Indonesia still has a close relationship with the Financial Services Authority. In accordance with Article 1 number 10, Bank Indonesia monetary stability is a policy to achieve and maintain the stability of the value of the rupiah which is carried out among others through controlling the money supply or interest rates. In order to avoid a conflict between Bank Indonesia and the Financial Services Authority in conducting supervision of banks, it is necessary to clarify the distribution of authority and coordination between Bank Indonesia and the Financial Services Authority in banking supervision. Therefore, it is necessary to immediately revise the Bank Indonesia Law.

With the enactment of Law Number 9 Year 2016 concerning Prevention and Handling of Bank Problems in the Financial System Crisis, Article 37 A of Law No. 10 of 1998 concerning Amendments to Law No.7 of 1992 concerning Banking and Article 11 paragraph (4) and (5) Act Number 23 of 1999 concerning Bank Indonesia and Articles 44 -
46 and Article 69 paragraph (3) of Act No. 21 of 2011 concerning the Financial Services Authority (OJK) is declared invalid. Therefore, if a bank fails or fails, OJK and BI coordinate to set the Bank in a systemic state (due to the size of assets, capital, liabilities, transaction network area for banking services) which results in partial or total failure to other banks or the financial services sector.

Conclusions

The Banking Control and Supervision Duties are carried out between Bank Indonesia together with the Financial Services Authority. Bank Indonesia is currently implementing bank supervision on a consolidated basis, therefore integration of financial services supervision will strengthen monetary policy and strengthen financial system stability in Indonesia. The establishment of the Financial Services Authority will have an impact on changes in carrying out its duties and authorities in the banking sector which must be carried out optimally. Although the task of regulating and supervising banks has shifted from Bank Indonesia to the Financial Services Authority, Bank Indonesia still has the authority and access to data and information from banks.

Suggestion

With the establishment of a banking regulation and supervision system by the Financial Services Authority, there must be clear guidelines for the precautionary principle of the Financial Services Authority so that there is no risk to the stability of the banking system, given that the precautionary principle must be interpreted as a means to prevent systemic impacts, and moral hazard, because the Financial Services Authority as a new institution has no experience such as Bank Indonesia. The existence of the Financial Services Authority requires a lot of costs, to increase human resources, considering that institutions outside Bank Indonesia come from the state budget, due to limited costs that can disrupt the banking supervision system while Bank Indonesia, whose budget comes from its own funds. Banking supervision will not be hindered by budget constraints.

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