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PRESS RELEASE

OJK CHIEF EXECUTIVE OF BANKING SUPERVISION, ATTENDING THE BASEL MEETING, REQUIRES BANKS TO INCREASE GOVERNANCE AND RISK MANAGEMENT

Jakarta, 27 March 2023. OJK Chief Executive of Banking Supervision, Dian Ediana Rae, attended the Basel Committee on Banking Supervision (BCBS) meeting on 22 – 23 March 2023 in Hong Kong, discussing recent developments in global banking that is currently under pressure as well as the importance of banks to revert to sound banking practices by maintaining a balance asset and liabilities management, adequate capital ratios, and available liquidity within a safe range.

BCBS considers that the current global macroeconomic conditions are in a highly dynamic state. The increasing global inflation caused by disruptions in the supply chains of both energy and commodities was responded to by increased interest rates in many jurisdictions. Such conditions will in turn suppress global economic growth. Rapid changes in the macro conditions have put great pressure on the financial industry, particularly banking.

The closure of Silicon Valley Bank (SVB) in the United States, triggered by the bank's technicalities on a mismatch in their asset & liabilities management was not covered by adequate capital and ample liquidity, has prompted a psychological impact as reflected in decreasing confidence in financial institutions. Consequently, a ripple effect emerged, affecting other banks and across jurisdictions.

BCBS took some learnings by, among others, reviewing the Basel Core Principle and agreeing to include the macroprudential aspects in the core principles that the global banking industry must adhere to.

BCBS also reiterated the need for the banking industry to return to the essential concept of sound banking management by maintaining a balance in asset & liabilities management, continuing to maintain capital adequacy as a risk buffer by anticipating potential vulnerabilities, ensuring the availability of sufficient liquidity to maintain customer trust, and regularly conducting stress test exercises with a variety of scenarios.

BCBS emphasized the need for collaboration among authorities to take swift actions in dealing with problems in banking to maintain the global financial system stability.

Dian Ediana Rae believes that the current vulnerabilities in global banking are mainly triggered by the failure of certain banks in the US and Europe, with no significant impact on the Indonesian banking industry.

Many indicators show that the Indonesian banking sector remains solid, with prudential ratios above the global banking average. As an illustration, in January 2023, the Capital Adequacy Ratio (CAR) reached 25.93 percent, of which around 85 percent of the capital component was classified as core capital (Tier 1 capital; CET 1).

As a comparison, the core capital ratio of American and European banks were 13.52 percent and 16.13 percent, respectively. In addition, Indonesia's banking liquidity performance was well-maintained, as indicated by, among others, the Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) of 232.22 percent and 134.58 percent, respectively.

Such liquidity is also way better compared to the LCR and NSFR ratios of banks in the United States (120.43 percent and 123.20 percent, respectively) and banks in Europe (152.39 percent and 120.21 percent, respectively).

Learning from SVB's failure, BCBS continues to stress the importance of having an adequate capital ratio and sufficient liquidity. The cost of capital and available sufficient liquidity are considered expensive and inefficient.

However, BCBS also reminded that limited capital and liquidity would cause much more significant losses if the banking industry fails to anticipate global macroeconomic movements/turmoil and maintain public confidence.

The economic and social costs will be substantial and much more expensive, especially if this triggers a global spillover effect. SVB's failure or the previous case of Lehman Brothers has given us precious lessons.

In line with BCBS' course of action, Dian Ediana Rae requires Indonesian banks to continue strengthening governance, risk management, and prudential principles by conducting stress tests and monitoring their asset and liability portfolios, including credit concentration risk on loans and funding.

Currently, Dian Ediana Rae observes that the banking assets are well-maintained in proportionate, whereas Third Party Funds (DPK) are increasingly dominated by current account and savings account (CASA) or low-cost funds, making them not sensitive to movements in the interest rates.

Further, in responding to the case of SVB and its spillover effects, despite its insignificant impact on the Indonesian banking industry, Dian Ediana Rae emphasized that the banks should continue considering prudential banking principles.

The capital adequacy ratio and the availability of liquidity in high-quality assets must be maintained. Excessive risk-taking behavior in the form of speculative practices must be avoided. In addition, to test resilience, banks are regularly required to conduct stress test exercises with different scenarios.

It is recognized that the fast-paced dynamics at the global level and macroprudential policies must be carefully anticipated. Global geopolitical tension and volatility in market conditions will continue dynamically. As long as the prudential principles and sound banking practices are maintained, Indonesian banks will remain resilient and continue to grow well, as in the current state.

Dian Ediana Rae affirmed that OJK would continue to enhance coordination among authorities, primarily with the Indonesian Central Bank (Bank Indonesia), Ministry of Finance, and the Indonesian Deposit Insurance Corporation, all of which are members of the Indonesian Financial System Stability Committee (KSSK), in ensuring that the stability of the national financial system is preserved.

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