DEVELOPMENT AND RISK PROFILE
OF FINANCIAL SERVICES INDUSTRY
AS OF FEBRUARY 2015

OJK considered that domestic financial services sector in general remained steady with adequate stability.

- In the middle of global and domestic economy dynamics, financial services sector was generally stable.
- Stock market and bond market continued to strengthen, with significant capital inflow from non-resident investors. During 2015 (as of March 3), inflow in stock market and Indonesian treasury notes (SBN) market was Rp 11.7 trillion and Rp 44 trillion respectively.
- Financial performance and risk profile in financial services institutions were still in normal condition. Indicators of Crisis Management Protocol in each sector of banking, capital market, and non-bank financial industry were also at normal level.
- In the future, OJK will continue to consider major development in global and domestic economy that will potentially bring impact to financial services sector and stability of national financial system.
- Global development to be considered include, among others, implementation of the Federal Reserve's monetary policy normalization, economic development in Japan and Europe, economic deceleration in developing countries, particularly in China, and fluctuation in global commodity prices.
- Domestically, OJK observes some developments, such as fluctuation of Rupiah exchange rate and its impact on financial services sector, and also condition of domestic macroeconomic fundamentals. We have also conducted stress test to make sure financial services sector's resilience. So far, results of the stress test showed that the weakening Rupiah exchange rate and deceleration in economic growth were still within tolerable limits.
- OJK prepares for various anticipation measures so that those risk factors will not hinder national financial system's stability.

During February 2015, stock market and bond market showed indicators of reinforcement, supported by progress in condition of domestic macroeconomic fundamentals, despite a continuing depreciation of Rupiah exchange rate.

- Composite Index (IHSG) strengthened by 3.04 percent month to month amid pressure against Rupiah exchange rate. This reinforcement was influenced by global and regional sentiments (the Fed`s normalization policy in the near future, agreement for Greece, and quantitative easing in euro zone), and the bettering condition of domestic macroeconomic fundamentals, including decrease of Bank Indonesia (BI) rate.
- During February, bond market showed reinforcement with a continuing decrease of SBN yield. This reinforcement was supported with bettering risk perception on credit default swap (CDS) indicators.

- **March 2015 updates:** Net buy made by non-resident investors in stock market during March 2015 (as of March 6) reached Rp 893 billion, whereas net sell in SBN market reached Rp 2.3 trillion. We considered that the net sell figure was more of an action for portfolio rebalancing.

Development in financial services institutions remained in good condition. Several main indicators in financial services sector showed stable performance.

- Channeling of banking credit and accounts receivable financing resumed. As of January 2015, credit growth was slow, but deceleration rate began to decrease relatively compared to previous months.
- Increase of third party fund was also relatively stable. Loan-to-deposit ratio (LDR) eventually decreased again and that opened opportunity for further credit channeling from banking sector.
- Condition of capitalization in banking sector was excellent. For the last few months, capital adequacy ratio (CAR) was consistently at a level above 19 percent, even reached 21.01 percent in January 2015 with core capital component (Tier 1) of 18.75 percent. Rentability and efficiency were relatively stable. Net interest margin (NIM) as of January 2015 was stable at 4.24 percent since October 2014. Level of banking efficiency was reasonably good, with operational cost and operational income (BOPO) at 82.15 percent. In general, efficiency will get better for the current year.
- In the insurance industry, adequacy ratios in life insurance investment and damage insurance (to cover payment for policyholders) were also considered adequate and indicated an increase compared to previous month.
- As of January 2015, investment values in insurance industry and pension fund were relatively stable amid a relatively moderate market fluctuation in the month.

Generally, risk profile of financial services sector remained manageable.

Liquidity risk in banking, insurance and capital market industries was relatively at a low level.

- Banking sector's liquidity instruments remained adequate for anticipating potential third party fund withdrawal, with ratio of asset liquidity to non-core deposit (AL/NCD) and ratio of asset liquidity to third party fund (AL/TPF) at 89.84 percent and 18.18 percent respectively as of end of February 2015. These figures were way above respective threshold of 50 percent and 10 percent.
- In stock exchange, average bid-ask spread in February 2015 showed constraint compared to the average figure in previous month.

Credit risk in financial services institutions was relatively low in general.

- Credit risk in banking sector was generally at a relatively low level, with gross non-performing loan (NPL) and net NPL as of January at 2.23 percent and 1.15 percent respectively, a slight increase compared to previous month.

- Non-performing financing (NPF) was relatively low despite that it indicated a little increase compared to previous month. Monitoring was still conducted, considering that banking interest rate, which remained high, would also affect NPF level.

Market risk in financial services sector was relatively low and still could be managed well.

- Market risk in banking sector was still categorized as low, with net open position (NOP) ratio as of January at 1.68 percent. Average NOP ratio was always below 3 percent, far behind stipulated threshold of 20 percent. However, we keep monitoring recent development in Rupiah exchange rate.
- In mutual fund industry, market risk was considered low. Relatively high net redemption could be made offset by increase of investment portfolio in correlation with market strengthening.
- In insurance and pension fund industries, market risk tended to decrease as market strengthened during January to February 2015.
- In finance companies, gearing ratio as of January 2015 slightly decrease amid increase of foreign debt. The weakening Rupiah exchange rate could force increase of foreign debt. However, finance companies generally have hedged their foreign debt through natural hedging.

This is all our exposition. Referring to those indicators mentioned above, we emphasize again that we consider condition of domestic financial services sector remains strong enough to anticipate recent turmoil.