PROBLEMS AND SOLUTIONS TO IMPROVE BANKING PERFORMANCE: IN THE PANDEMIC SITUATION OF COVID-19 IN INDONESIA

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ABSTRACT

This study aims to find out the main problems faced by the banking industry in Indonesia and what solutions are appropriate to overcome them, in the COVID-19 pandemic situation in Indonesia. Using a descriptive method with secondary data which aims to provide data and fact support from the analysis and observation process carried out. The results of the study concluded that there were three main problems, namely liquidity, bad credit, and loss of intermediary income. Liquidity problems are resolved by lending liquidity funds, loosening liquidity, and incentivizing interest rates. The problem of bad credit is resolved by relaxing payment delays in the form of loan restructuring of up to 12 months. The problem of intermediary income is overcome by providing digital financial service innovations that can provide speed and ease of banking access without having to physically meet.

Keywords: Problems, Solutions, Banking Performance, COVID-19, Indonesia

Jel Classification: E50, E60

I. INTRODUCTION

Improving banking performance during the COVID-19 pandemic is very important to do, considering that when financial transaction activities are physically limited and even business activities must be closed temporarily, it will have an impact on decreasing people's purchasing power. This in turn will affect reducing the amount of savings held, weak ability to pay installments, and small financial transactions. These three consequences will have an impact on decreasing liquidity and increasing bank non-performing loans.

During this COVID-19 pandemic situation, financial transaction activities will automatically switch from cash to electronic. However, this is a new problem in Indonesia, given that not all business sectors have sufficient resources to adapt quickly to these changes. Referring to the records of the Indonesian Central Statistics Agency that in 2019 the number of MSMEs in Indonesia was around 64 million. However, Bank Indonesia notes that up to May 2020, the number of MSMEs connected to the digital platform (market place) is only 8 million, which means that only 13% have implemented a digital marketing strategy when sales activities are conventionally closed. Now at this point, problems will arise with MSME financial activities which will certainly lead to a decline in financial activities carried out in banks, as we all understand that traditional banks get profit (which will be used for operational costs) is through the difference (positive) between loan interest and savings interest. However, what happens if the amount of public savings continues to decrease (to finance daily life) and the ability to pay installments continues to weaken as a result of a business closure. This has the potential to cause losses to banks, where at any time there will be a negative difference between deposit and loan interest.

One of the banks affected by the COVID-19 outbreak is PT Bank Artos Indonesia Tbk (ARTO), a bank with total assets of 1.78 trillion rupiahs with total liabilities of 492 billion rupiahs, but recorded operating profit (loss) in the financial statements of April. 2020, amounting to minus 27.7 billion rupiahs with the largest portion in the labor load of 39 billion rupiahs. Then, followed by PT Bank Pembangunan Daerah Banten Tbk (BEKS), a bank with total assets of 7.5 trillion rupiahs with total liabilities of 6.9 trillion rupiahs, recorded an operating profit (loss) in the financial statements of April 2020 of minus 50, 7 billion rupiahs with a portion of the labor load of 35.5 billion rupiahs.

The latest research on the impact of COVID-19 on banking was delivered by Rizwan, Ahmad, and Ashraf (2020), who explained that the COVID-19 outbreak had slowed the global economy, resulting in financial institutions facing increased levels of liquidity risk, loan defaults, and loss of intermediary income. . Where the findings of this study state that systemic risk has a positive influence on the policy response undertaken by the government. From this study, we get three main problems, as a result of the COVID-19 outbreak, namely liquidity risk, loan default, and loss of intermediary income.

This research aims to find banking problems as a result of the COVID-19 pandemic in Indonesia and solutions that can be done to minimize the risks that may occur so that in turn it can improve financial performance and finally be able to record a positive performance in 2020. This paper is divided into five parts, where the first part contains an introduction, the second part contains a review of the literature and previous research, third is a research methodology, fourth is a discussion of research results, the fifth is a conclusion, limitations of research and suggestions for further research.

II. STUDY OF LITERATURE

The impact of the COVID-19 pandemic provides significant changes to the economy of a country, in a paper by Goodell (2020), explaining that the COVID-19 crisis provides information to investors, policymakers, and the wider community that natural disasters can cause economic damage at scale. which had never happened before. Goodell also pointed out that, unlike events such as nuclear war, or events such as slower-moving climate change, or local disasters that do not have a significant impact on global economic activity, the COVID-19 pandemic is causing destructive economic stress. globally and directly in every region around the world. Goodell argues that all parties must now face what is already clear to many that such a phenomenon is imminently possible and indeed possible. Finally, Goodell in his writing stated that six impacts will occur, namely the cost of capital; retirement planning; coverage; financial system; social trust and concurrent transaction costs; and political stability in society.

Risk mitigation efforts in the socio-economic sector during the COVID-19 pandemic were conveyed by Bruinen de Bruin et al. (2020), in which he writes that socio-economic boundaries target activities where people gather for education, recreation, sports, or work-related purposes. Bruin et al also stated that the restrictions include closing or restricting schools or child care and homes for the elderly, closing museums, swimming pools, bars and restaurants, indoor and outdoor sports facilities, and hotels. Suspension of retail trade, storage of essential goods (including food, medicine, and supply chains) with banking, financial, and insurance services. Also includes restrictions or cancellation of production at the factory.

The effort to maintain financial stability to avoid crises is explained by Nakatani (2020), in his writing explaining macroprudential policies that function to avoid financial instability, such as banking crises, which have long-term and devastating effects on the economy. Nakatani in his writing concludes that macroprudential policies are very effective in changing the possibility of a banking crisis through the credit channel but its effectiveness depends on macroeconomic policies. Changes in the loan-to-value LTV ratio have proven to be effective in influencing the probability of a banking crisis in countries with inflation target rates, floating exchange rates, and capital controls. Nakatani's writing underscores the importance of coordination between different government agencies to design appropriate macroprudential policies, especially in the context of the current COVID-19 crisis.

The application of ICT (Information and Communication Technologies) to improve performance in the banking industry can increase profitability and avoid the risk of bankruptcy, this was conveyed by Del Gaudio, Porzio, Sampagnaro, and Verdoliva (2020), who in their paper investigated the role of ICT in the banking industry, where Gaudio et al tested whether ICT affects improving banking performance? Gaudio et al. Found evidence that there is a positive relationship between bank profitability and adoption of ICT applications. Gaudio et al also explained that the implementation of ICT will have a positive effect on the return on investment in IT infrastructure and even the results (profits) may exceed the initial implementation costs. Gaudio et al found evidence that ICT innovation can improve the performance of the banking industry from traditional to digital payments. Besides, the application of ICT has the potential to increase profitability, which in turn will prevent the possibility of bankruptcy risk.

Medium and long-term strategies are needed to stabilize and motivate the economy during this recession, as a result of the COVID-19 pandemic, this was conveyed by research conducted by M et al. (2020), with a case study in the State of India, M et al explained in their writing that to control the transmission of COVID-19, air travel and city closures must be carried out, this has caused companies in India to have faced many project cancellations in various fields. M et al also explained that the COVID-19 outbreak also affected the pharmaceutical industry, because 70% of effective antibiotic products were still produced in China. Whereas, antibiotic products are very valuable to a large number of antibiotic-producing companies in India. Furthermore, the banking sector, health services, finance, and real estate markets are expected to experience significant damage, as a result of the COVID-19 outbreak in India since March 2020.

The long-term impact of the COVID-19 pandemic is described by Flögel and Gärtner (2020), namely economic shocks that are generated in various sectors. Bank branch offices serve as a means of direct meetings between banks and customers and financial transaction activities that are physically and globally replaced with e-branches and e-money. The affordability of the inter-branch network in the regional bank network will face many losses in this crisis if the bank cannot quickly adapt to the changes that occur. Also, bank closings or bankruptcy of all types of banks are logical things to happen, if banks are slow to adapt to the current era of technological innovation. The banking system, which has a variety of digital facilities that supports customer needs and cooperation between state-owned and private banks, is an important factor in efforts to improve banking performance in the region. Banking policies and financial activities must consider customer safety and security, because COVID-19 may not be the last crisis in history.

The pandemic is likely to lead to significant changes in the provision of financial services, with retail banking at the helm, said Wójcik and Ioannou (2020). Increasing the digital banking strategy in the FinTech industry will have a significant impact when conventional financial transaction activities are replaced digitally. Technology companies that enter the financial sector will depend on many factors including regulation. The biggest challenge faced by FinTech companies is their relatively small size and limited cash, this will make it difficult for this company to have a good performance, especially in this crisis due to COVID-19.

III. METHODOLOGY AND DATA

The research method used in this research is descriptive. Descriptive analysis is a method that functions to uncover a systematic picture and gather all existing facts. This study uses secondary data obtained from online banking documentation and the latest articles published in 2020, especially those related to banking activities in Indonesia, during the COVID-19 pandemic outbreak.

The analysis was carried out by referring to previous research related to banking performance problems during the COVID-19 pandemic and observing the selection of articles to find solutions to solve the problems that occurred.

IV. ANALYSIS RESULTS

Referring to research conducted by Rizwan et al. (2020), three banking problems were found during the COVID-19 outbreak, namely liquidity risk, bad credit, and loss of intermediary income.

PROBLEM

First: The problem of liquidity risk occurs because of the limited activities carried out by the community, to break the chain of the spread of COVID-19. Land, sea, and air transportation facilities are limited and their operations are temporarily suspended. Activities of schools, factories, offices, banks, tourist attractions, malls, and others were temporarily closed. The significant impact of this situation greatly affects people's income in various sectors, which in turn, people will use their savings to be used to meet their daily needs. The decrease in the amount of public savings in banking will affect the low flow of liquidity. But in fact (CNN-Indonesia, 2020) concerning Bank Indonesia statistical data, for January 2020 rupiah and foreign currency deposits in commercial banks and rural banks (BPR) amounted to 5,721 trillion rupiahs. Then in February 2020, total customer deposits amounted to 1.48% to 5.806 trillion rupiahs. Continued in March 2020, the amount of public savings increased by 2.96 percent 5,979 trillion rupiahs. In April 2020, the amount of public savings fell by 1.6% to 5,883 trillion rupiahs.

Finally, in May 2020, the amount of public savings increased by 0.84% to 5,933.29 trillion rupiahs. The results of this statistical data prove that people are starting to become aware and try to set aside the income they earn as anticipation if the impact of the COVID-19 pandemic continues.

Second: The problem of bad credit arises as a result of the low purchasing power of the community, as a result of very limited activities outside the home. Termination of employment, the closure of various business sectors, and restricted access to goods and goods, and the movement of people have had a tremendous effect in continuing to suppress the income earned. In this phase, logically, the potential for bad credit due to business closures and restrictions on activities outside the home is irreversible. Facts (Ramli, 2020) show that, according to the Financial Services Authority up to May 2020, the ratio of bad credit or non-performing loans (NPL) has reached 3.01% and this percentage has increased compared to previous months which was around 2, 8%.

Third: The problem of loss of intermediary income. Intermediary bank income is income earned by banks when facilitating financial transaction activities carried out by various parties, or what is often referred to as commission-based income. For example, inter-bank transfer fees, PPOB transactions, share purchases, e-channel transactions, and various other activities aim to provide convenience and speed for citizens in fulfilling every public financial transaction. Logically this loss of income is a result of a decrease in people's income due to layoffs (PHK) as a systemic impact of the COVID-19 outbreak, the fact (Cahyani, 2020) states that the Ministry of Manpower of the Republic of Indonesia reported that the number of layoffs was as a result of COVID-19 Until 2 June 2020 there were 3 million people, it is even estimated that it will continue to increase to 5.2 million unemployed due to this layoff. Besides, this is also supported by the facts in an article written by Hutauruk (2020b), which explains the decline in income of three commission-based banks, such as Bank Rakyat Indonesia, which estimates that fee-based income by the end of 2020 will only grow by one digit and convey that the consequences of the COVID-19 outbreak will begin to be felt in the second quarter. Then, Bank Mandiri stated that fee-based income had begun to show a fall due to the COVID-19 outbreak and the implementation of PSBB in April, COVID-19 caused a decrease in commission-based income related to financial transactions such as ATM fees, EDC usage fees, branch transactions, and late payments. an administration fee of credit, Bank Mandiri estimates that this year's commission-based income will be less than last year. Finally, CIMB Niaga reported a decline in fee-based income of 18.7 percent in the first quarter, where the slowdown in fee-based income was due to a decrease in income from credit costs.

SOLUTION

(First) To solve banking liquidity problems:

1. (Hutauruk, 2020a) The Indonesian Financial Services Authority forms an Intermediary Bank which is an extension of the Ministry of Finance to provide liquidity fund loans to banks that do not have access to Bank Indonesia. Where the Ministry of Finance simply places a deposit at the Intermediary Bank. Then, Banks that need a liquidity fund loan can visit an Intermediary Bank by using an underlying credit that has been restructured as a result of Covid-19.

2. (Kuncoro, 2020) Liquidity easing (quantitative easing) undertaken by Bank Indonesia starting in early 2020, which has disbursed additional funds of 583.3 trillion rupiahs, for relaxation of minimum statutory reserves (GWM) and foreign exchange swaps in January 2020 IDR 53 trillion and April 2020 IDR 29.7 trillion. During the same period, the purchase of SBN (Government Securities) on the secondary market from foreign investors amounted to 166.2 trillion rupiahs and for a bank term repurchase agreement amounting to 137.1 trillion rupiahs, then relaxed GWM and the Macroprudential Intermediation Ratio (RIM).), term bank "repo" and foreign currency swaps in May 2020 disbursed liquidity funds of 167.7 trillion rupiahs.

3. (Elena & Richard, 2020) Bank Indonesia provides incentives by providing an interest rate of 1.5% for current accounts placed in the statutory reserve requirement (GWM).

(Second) To solve the problem of bank bad credit:

1. (Fauzie, 2020) The Government and the Financial Services Authority (OJK) issued a policy of relaxation of postponement of payment of credit and financing installments from banks and multi-finance companies to ease their burden from the pressure of the coronavirus outbreak.

2. (Putra, 2020) The leniency of credit restructuring for 12 months is to maintain the level of health, liquidity, and profitability of the bank, with a maximum amount of 10 billion rupiah due to the impact of COVID-19.

(Third) To overcome the loss of intermediary income:

1. (Wiratmini, 2020) Case study of Bank Mandiri, by implementing an Anti-Death Style strategy that can serve all online financial transaction activities. Then by changing the transaction method from the previous one through the EDC machine to e-commerce transactions, and accelerating the implementation of online merchants to boost e-commerce transactions.

2. (Ammurabi, 2020) BCA case study, applying video banking in the process of opening an account. Then by providing ease and speed of access for customers in using m-banking, internet banking, and e-wallet facilities.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

There are three problems faced by the banking industry today. First, liquidity problems. Second, the problem of bad credit. Third, the problem of intermediary income. Liquidity problems are resolved by lending liquidity funds, loosening liquidity, and incentivizing interest rates. The problem of bad credit is resolved by relaxing payment delays in the form of loan restructuring of up to 12 months. The problem of intermediary income is overcome by providing innovative digital financial services that can provide speed and ease of banking access without having to physically meet.

This study provides recommendations for the government to give serious attention and close supervision to all activities carried out by the community to remain vigilant to always implement health protocols when outside the home. Furthermore, the government should always provide socialization and continuous understanding of the various policies issued, which can be quickly implemented and felt by all levels of society affected by COVID-19. So that it is expected to create a stable economic growth that can increase gradually, which in turn will also have an impact on increasing banking financial transaction activities.

This study has limitations in deepening the literature review and selecting relevant articles related to banking performance during the COVID-19 pandemic outbreak. Future research is expected to complement the limitations of this study so that it becomes more complete and comprehensive.

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