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Banking Financial Performance "Before and After the Implementation of the Replacement Goverment Regulation Lieu of Law"

(Case Studied of Law Regulations Number 1/ 2017 in Indonesia)

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Abstract: *The purpose of this study is to describe The difference between the financial performance of banks in Indonesia before and after the adoption of Government Regulation in Lieu of Law Number 1 of 2017. That Government Regulations was made by the Indonesian's government in the context of Indonesia's participation in the Automatic International Agreement. Exchange of Financial Account Information. This Study uses mixed method, which is a combination of qualitative methods supported by quantitative methods.. The result of this study is that there are differences in several components of the financial statements of banks in Indonesia that are affected by the application of Government Regulation in Lieu of Law Number 1 of 2017. The components of financial statements are Deposits (Third Party Funds), Net Interest Income (Loan to Deposit Ratio), and Profit / Loss Operations.*

Keywords: *Government Regulation in Lieu of Law Number 1 of 2017, Banking Financial Performance.*

1. Introduction

Bank is one of the financial institutions that has an important role in the economy of Indonesia. Almost all society understand about banks and use financial services provided by banks. In running that operations, banks have laws or regulations that must be implemented, such as the law on banking Number 10 of 1998. In principle all the provisions governing the banking industry must be in line with and not contrary to this law. One of the regulations that must be done by banks is the regulation regarding the confidentiality of bank data. Article 1 paragraph 28 of Law No. 10 of 1998 states that bank secrets are all things related to information about depositors and deposits. However in Article 41, Article 41A, Article 42, Article 43, Article 44, and Article 44A, it is stated that the confidentiality of bank data does not apply to the interests of the judiciary in criminal cases, settlement of bank receivables that have been submitted to the State Debt and Procurement Agency / Affairs Committee State receivables and tax interests.

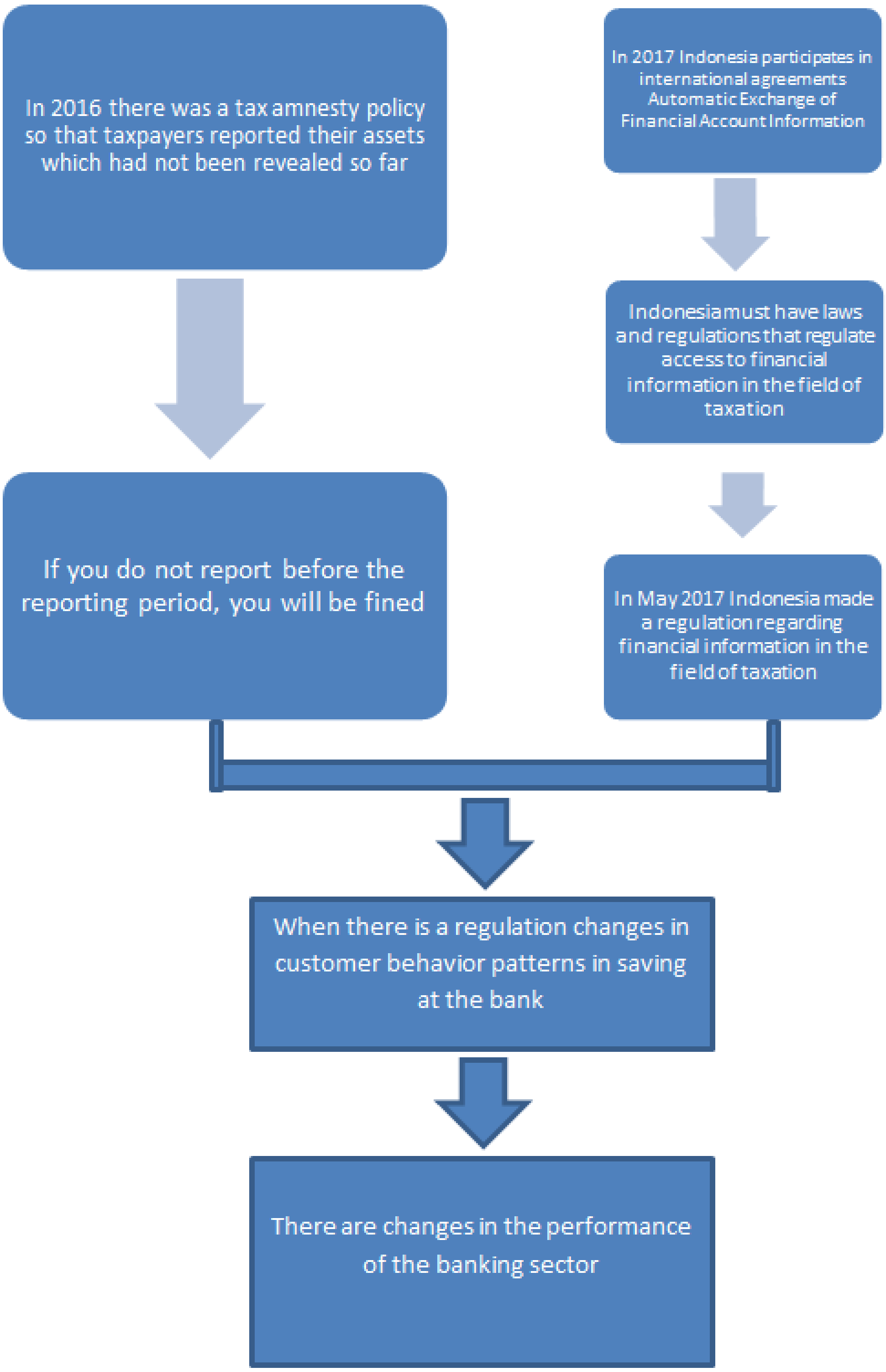
Regulations relating to the confidentiality of banking data and taxation interests state that at the request of the Minister of Finance, the Financial Services Authority (Otoritas Jasa Keungan/OJK) Board of Commissioners may issue a written order to the bank to provide information and show written evidence and letters regarding the financial situation of certain depositors to bank officials. The most recent regulations related to banking and taxation data are contained in the Government Regulation in Lieu of Law Number 1 of 2017 which was ratified on May 8, 2017, namely regarding access to financial information for tax purposes. The Regulation was then ratified as Law Number 9 of 2017 on August 23, 2017. The latest regulation was made in line with the Indonesian government's decision to participate in international agreements in the field of taxation that obliged participating countries to fulfill commitments in implementing Automatic Exchange of Financial Account Information. This automatic exchange of financial information makes it easier for participating countries to gain access to banking data / customers who are citizens who have accounts in other countries. One application is that if there are foreign customers who save their money in Indonesia, then the government must provide the customer's data to the customer's home country, and vice versa. (Aditya, 2017).

The contents of Government Regulation in Lieu of Law Number 1 of 2017 state that the Director General of Taxes has the authority to obtain access to financial information for tax purposes from financial service institutions that carry out activities in the banking sector, capital market, insurance, other financial service institutions, and / or other entities categorized as a financial institution in accordance with financial information exchange standards based on international agreements in the field of taxation. Matters that must be submitted are: (1) a report containing financial information in accordance with financial information exchange standards based on international taxation agreements for each financial account identified as a financial account that must be reported; and (2) reports containing financial information for tax purposes, which are managed by financial service institutions, other financial service institutions, and / or other entities referred to for one calendar year. A report containing financial information contains at least: a. financial account holder identity; b. financial account number; c. identity of financial service institutions; d. balance or financial account value; and e. income related to financial accounts (Government Regulation in Lieu of Law Number 1 of 2017 Article 2 paragraph 3).

Some parties stated that the regulation would have an adverse effect on the Indonesian banking industry. INDEF researchers (Institute for Development of Economic and Finance) stated that the government should carefully consider the adverse effects of this Government Regulation in Lieu of Law Number 1 of 2017 for efforts to encourage financial inclusion and efforts to increase economic growth through bank credit. According to him, the adverse effects of the application of the Government Regulation in Lieu of Law Number 1 of 2017 include: (1) being disinclined for the community to save their funds in banks, so that the government's hope to reduce cash transactions is not achieved. (2) It is feared that Third Party Funds (DPK) will fall because the owners of large funds will divert their funds out, resulting in a capital outflow, and disrupting liquidity, which implies a decrease in the rate of credit and raising interest rates. (3) Fund migration will generally be placed on unproductive assets, such as gold and property. (4) this policy has the potential to cause liquidity inequality between banks to increase, considering that after the implementation of the tax amnesty bank liquidity has declined and there has been shifting from small banks to large banks in an effort to anticipate risk (Listiyanto, 2017).

The adoption of Government Regulation in Lieu of Law Number 1 of 2017 concerning access to financial information for tax purposes may have an impact on the financial performance of banks in Indonesia. The focus of this study is to explore which banking financial report components are affected by the application of the Government Regulation in Lieu of Law Number 1 of 2017 and how the differences in banking financial performance before and after the implementation of Government Regulation in Lieu of Law Number 1 of 2017.

2. Conseptual Framework



Picture 1. Conseptual Framework

Substitute Government Regulations Act No. 1 of 2017 which was later passed into Law No. 9 of 2017 was made based on several considerations from the government. Some of these considerations include the need to provide access for the taxation authority to receive and obtain financial information for tax purposes for the welfare and prosperity of all Indonesian people equally. As we know, there were previously banking laws regarding the confidentiality of bank data that seemed to conflict with the interests of the tax authorities. The banking regulation is considered to be an obstacle for the tax authority in strengthening the taxation database to meet the needs of tax revenue and maintain the effectiveness of the tax amnesty policy (the weighing section of paragraphs a and b). Another consideration is that Indonesia has committed itself to an international agreement in the field of taxation which is obliged to fulfill its commitment to participate in implementing (Automatic Exchange of Financial Account Information and must immediately form legislation at the level of legislation regarding access to financial information for tax purposes. In addition, if the government does not immediately have a law regarding access to financial information, it will reduce Indonesia's credibility as a member of the G20, decrease investor confidence, and potentially disrupt national economic stability (a section weighing verses c and d). Because of this background and consideration, the Indonesian government ratified Government Regulations Act Number 1 of 2017 and was later adopted as Regulation Number 9 of 2017.

If conclusions are drawn, there are 2 major objectives or considerations underlying the formation of the law, namely the first for taxation purposes in Indonesia, namely to increase tax revenues in Indonesia and maintain the effectiveness of tax amnesty policies, and the second is to implement cooperation between countries in terms of Automatic Exchange of Financial Account Information.

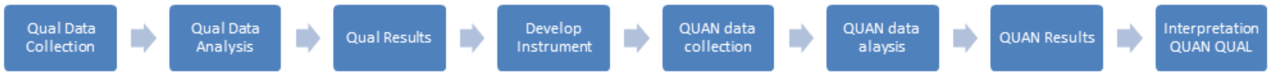
Government policy regarding tax amnesty is stated in Law No. 11 of 2016. Tax Amnesty is the elimination of taxes that should be paid by revealing assets and paying ransoms as stipulated in Law No. 11 of 2016 concerning tax amnesty. In the law it is written that taxpayers need to disclose their assets and pay tax ransom as assets that have not been reported. The tax amnesty program is carried out in 3 periods during 2016 until the end of March 31, 2017. In the law it is written that after the date that assets are not reported or not disclosed in the annual tax return, the net assets will be considered income and subject income tax in accordance with the provisions and sanctions of 200 percent.

If it is associated with tax amnesty or tax amnesty, Government Regulations Act Number 1 of 2017will be a "specter" for taxpayers who do not report their assets honestly, because in this Government Regulations Act Number 1 of 2017 is said that the tax authorities can see financial data from taxpayers. In the Government Regulations Act Number 1 of 2017 is written that the Director General of Taxes is authorized to obtain access to financial information for tax purposes. Reports containing financial information include: financial account holder identity; financial account number; identity of financial service institutions; balance or financial account value; and income related to financial accounts (article 2 paragraph 3). In the Minister of Finance Regulation Number 70 of 2017, the balance limit that will be seen by the tax authority is 1 billion rupiah for personal financial accounts and the international balance is US $ 250 thousand. For taxpayers who do not report assets in their accounts honestly and have a balance of more than 1 billion rupiah, they will certainly be frightened when their accounts can be "peered" by the tax authorities. This will cause changes in customer behavior. According to observations in the field, some customers took their money in accounts and bought property or gold, then also split the money into other accounts. This change in customer behavior may have an impact on the financial performance of banks in Indonesia. Based on this background, this research is focused on seeing whether there are differences in banking financial performance before and after the application of Government Regulations Act Number 1 of 2017.

3. Methodology

This study uses a Mixed Method approach that combines Grounded theory (qualitative methods) with different tests (quantitative methods) with types exploratory design: instrument development model (QUAN emphasized). The exploratory research design in the mixed method begins with qualitative data used to explore phenomena, then build quantitative research. (Cresswell and Clark, 2007). Both qualitative and quantitative methods must be done because both have different objectives.

According to Cresswell and Clark in Puspitasari (2011: 49) it is stated that the instrument development model is used when researchers need to develop and implement instruments based on qualitative findings. To better understand the research methods of instrument development models (QUAN emphasized). Here is the research flow of Exploratory Design



Picture 2. Exploratory Design: Instrument Development Model (Quan Emphasized)
Source: Cresswell dan Clark (2007:76)

At the beginning of the study, researchers will conduct interviews with banking informants with a grounded theory approach, namely an approach using facts or empirical data to compile propositions, find concepts, and prove and develop theories (Sanusi, 2013: 79). Interviews were conducted to find out which variables from the banking financial statements were affected by the implementation of Government Regulations Act Number 1 of 2017.

Furthermore, researchers will conduct different test tests on the variable quarterly financial statements of banks affected by Government Regulations Act Number 1 of 2017 (based on the results of qualitative method interviews). There are two different test methods, namely T-Test and Wilcoxon Signed Ranked. If the data based on the normality test are normally distributed then use the T-test method, whereas if the data based on the normality test is abnormally distributed then use Wilcoxon Signed Ranked.

The selection of informants is also differentiated based on the type of book (Commercial Bank Business Group). According to the official website of OJK (Financial Services Authority), banks are grouped based on core capital into Commercial Bank Business Group 1, Commercial Bank Business Group 2, Commercial Bank Business Group 3, Commercial Bank Business Group 4. Each explanation is as follows:

a. Commercial Bank Business Group 1 is the type of bank that has the smallest core capital or minimum capital Commercial Bank Business Group 1 is a bank whose core capital is up to or less than Rp 1 trillion.
b. Commercial Bank Business Group 2 are banks whose core capital is Rp 1 trillion to Rp 5 trillion.
c. Commercial Bank Business Group 3 Bank is a bank whose core capital is from Rp 5 trillion to Rp 30 trillion.
d. Commercial Bank Business Group 4 is a bank whose core capital is Rp 30 trillion.

The selection of banking financial statement based on 3 quarterly reports for the period before the application of Government Regulations Act Number 1 of 2017 namely the financial reporting period per September 2016, December 2016 and March 2017. Meanwhile, to represent the financial statements after the Government Regulations Act Number 1 of 2017 statement, financial statements were chosen for the period of June 2017, September 2017, December 2017.

4. Result

The following are the results of the research that have been obtained:

a. Based on the qualitative results of the banking financial report components affected by the application of Government Regulations Act Number 1 of 2017 are deposits (Third Party Funds), NII (Net Interest Income), LDR (Loan to Deposit Ratio), and Operating Profit / Loss
b. The conclusion of the results of quantitative research will be divided based on the Bank BOOK (Commercial Bank Business Group). The following conclusions based on quantitative research:
   I. Commercial Bank Business Group 1

   Based on the different tests conducted on the components of the financial statements of 23 banks that include Commercial Bank Business Group 1, the conclusions are as follows:

1) There is a significant difference in Commercial Bank Business Group 1 component in the first and second quarters after the application of Government Regulations Act Number 1 of 2017and there can be no significant difference in the third quarter Bank Deposit Funds component after the implementation.
2) There are significant differences in the NII Commercial Bank Business Group 1 component in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.
3) There is a significant difference in the Commercial Bank Business Group 1 in Loan to Deposit Ratio Bank component in the first and second quarters after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the LDR Commercial Bank Business Group 1 quarter third quarter LDR component after implementation. However, if based on component data, the LDR cannot be used as a measure of financial components affected by the application of Government Regulations Act Number 1 of 2017 in Commercial Bank Business Group 1 because this component is a comparison between credit / loan position compared to the position of third party funds, where the credit position is not always the same period.
4) There is a significant difference in the profit / loss component of Commercial Bank Business Group 1 Operations Income in the first quarter after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the Commercial Bank Business Group 1 Operational Income / Loss component in the second quarter and third quarter after implementation.

II. Commercial Bank Business Group 2

Based on the different tests conducted on the components of the financial statements of 41 banks that include Commercial Bank Business Group 2, the conclusions are as follows:

1) There is a significant difference in the Commercial Bank Business Group 2 Deposits in the first and second quarters after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the Commercial Bank Business Group 2 in the third quarter after implementation.
2) There are significant differences in the NII (Net Interest Income) component of Commercial Bank Business Group 2 in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.
3) There is a significant difference in the Loan to Deposit Ratio Commercial Bank Business Group 2 component in the first and third quarters after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the LDR Commercial Bank Business Group 2 component in the second quarter after implementation. However, if based on component data, the LDR cannot be used as a measure of financial components affected by the application of Government Regulations Act Number 1 of 2017 in Commercial Bank Business Group 2 because this component is a comparison between credit / loan positions compared to the position of third party funds, where the credit position is not always the same period.
4) There is a significant difference in the Commercial Bank Business Group 2 Operational Income / Loss component in the first, second and third quarters after the implementation of Government Regulations Act Number 1 of 2017.

III. Commercial Bank Business Group 3

Based on the different tests conducted on the components of the financial statements of 20 banks that include Commercial Bank Business Group 3, the conclusions are as follows:

a. There is a significant difference in the Commercial Bank Business Group 3 Deposits component in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.
b. There is a significant difference in the NII (Net Interest Income) component of Commercial Bank Business Group 3 in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.

c. There are significant differences in Commercial Bank Business Group 3 Loan to Deposit Ratio component in the second quarter after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the Commercial Bank Business Group 3 Loan to Deposit Ratio component first and third quarter after application. However, if based on component data, the LDR cannot be used as a measure of financial components affected by the application of Government Regulations Act Number 1 of 2017 in Commercial Bank Business Group 3 because this component is a comparison between credit / loan positions compared to the position of third party funds, where credit positions are not always the same period.
d. There is a significant difference in the components of Operational Income / Loss of Commercial Bank Business Group 3 in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.

IV. Commercial Bank Business Group 4

Based on the different tests conducted on the components of the financial statements of 5 banks that include Commercial Bank Business Group 4, the conclusions are as follows:

a. There is a significant difference in the Commercial Bank Business Group 4 Deposits component in the second and third quarters after the application of Government Regulations Act Number 1 of 2017, and there is no significant difference in the Commercial Bank Business Group 4 components after the application of Government Regulations Act Number 1 of 2017.
b. There is a significant difference in the Commercial Bank Business Group 4 NII (Net Interest Income) component in the first, second and third quarters after the application of Government Regulations Act Number 1 of 2017.
c. There is a significant difference in the Commercial Bank Business Group 4 Loan to Deposits Ratio LDR component in the second quarter after the application of Government Regulations Act Number 1 of 2017 and there is no significant difference in the LDR Commercial Bank Business Group 4 components in the first and third quarters after implementation. However, if based on component data, the LDR cannot be used as a measure of financial components affected by the implemenation of Government Regulations Act Number 1 of 2017 in Commercial Bank Business Group 4 because this component is a comparison between credit / loan positions compared to third party fund positions, where credit positions are not always the same period.
d. There is a significant difference in the Commercial Bank Business Group 4 Operational Income / Loss component in the first, second and third quarters after the implementation of Government Regulations Act Number 1 of 2017.

5. Conclusion

Based on the opinion of several management from the banking sector, a number of conclusions can be drawn: the application of Government Regulations Act Number 1 of 2017 must be applied by the Indonesian government, considering that Indonesia is bound to an international agreement regarding the openness of access to financial information for tax purposes. Actually the openness of access to banking information has long been a government discourse. This openness of banking data access begins with information about customer loans to banks (through a loan / Debtor Information checking application facilitated by Financial Services Authority (Otoritas Jasa Keuangan/OJK). Furthermore, the government opens access to credit card usage by customers, and continues until the implementation of government regulations through the Director General of Taxes and the Minister of Finance has the right to access customer financial data in the form of deposits. The nominal value accessed is the customer's balance above one billion rupiah.

Customers exhibit different behaviors when regulations regarding access to financial information for tax purposes. There are customers who start withdrawing their deposits in the bank for fear of being known by taxes, there are customers who keep them under the "pillow", there are customers who break their savings balances to several different banks, there are also customers who borrow or make accounts of their subordinates but these accounts used or managed by the customer (borrow name), there are also customers who hire tax consultant services to outsmart the implementation of the Government Regulations Act Number 1 of 2017. Some customers as well as banks have received information that the customer's account that was spotted is a position account at the end of the year, 31 December. Because of this assumption, there are some customers who withdraw their funds at the end of the year so that they are not seen by taxes and also to reduce the amount of asset balance (in the form of deposits in the bank) reported in the annual tax returns.

This change in the pattern of customer behavior has more or less impacted the financial performance of banks in Indonesia. According to the results of interviews with several banking management parties, several financial components were affected, namely deposits (Third Party Funds), NII (Net Interest Income), LDR (Loan to Deposit Ratio), and Operating Profit / Loss. This change in financial performance made the bank management feel the need to educate customers not to worry about the regulation.

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