STRATEGY FOR STRENGTHENING CAPITAL IN MEETING REGULATIONS AND BUSINESS DEVELOPMENT OF PEOPLE'S ECONOMY BANK IN GIANYAR CITY

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ABSTRACT

The objective of this research is to analyze and formulate priority strategies that can be implemented by PT. Bank Perekonomian Rakyat to meet the minimum core capital requirements in accordance with current regulations. This study employs a case study research design utilizing a qualitative approach, where data collection is conducted through observation and documentation methods. Based on the analysis of internal strategic factors, the primary strengths of PT. Bank Perekonomian Rakyat in fulfilling the minimum core capital requirements include asset and profit growth, which demonstrate annual increases, as well as the commitment of shareholders to ensure adequate minimum core capital. Conversely, the main weakness faced by several PT. Bank Perekonomian Rakyat in meeting the minimum core capital requirements is the inability to realize additional capital contributions by December 31, 2024. The findings of this research imply that PT. Bank Perekonomian Rakyat must maximize profit growth from its operational activities to enhance the amount of minimum core capital and achieve sustainable growth independently, both in terms of capital and other aspects.

Keywords: strategy, minimum core capital

1. INTRODUCTION

Bank Perekonomian Rakyat (BPR) and financial service businesses are sectors that continuously require additional capital in line with the growth of business volume. Capital adequacy not only determines the capacity for business expansion but also the competitiveness of the bank. Therefore, banks must provide capital commensurate with the risks undertaken, assess it based on risk, and cultivate a risk culture throughout the organization. (Horne, dkk 2012).

In accordance with the Indonesian Banking Development Roadmap (RP2I) for 2020-2025, prepared by the Financial Services Authority (OJK), there are four efforts made by OJK to strengthen the structure and competitive advantages of banking, one of which is to enhance capital. Capital serves as a primary support source for conducting financial service industry activities, whether for expansion or providing adequate infrastructure, as well as a buffer to absorb unpredictable risks and failures, and protection during crises. Additionally, strong capital is essential to support the health and stability of banking institutions.

To bolster banking capital, particularly for BPRs, OJK issued Financial Services Authority Regulation (POJK) No. 5/POJK.03/2015 concerning Minimum Capital Requirements and Compliance with Minimum Core Capital for BPRs. According to Article 13 of POJK No. 5/POJK.03/2015, OJK has set the minimum core capital for BPRs at IDR 6,000,000,000 (six billion rupiah). The fulfillment of minimum core capital is to be implemented gradually from 2019 to 2024. The fulfillment of BPR's core capital can be achieved through profit retention, increasing capital contributions, consolidation mergers, acquisitions, and mergers. Prihartono (2018) states in his research that executing bank mergers to achieve synergy is not straightforward; numerous factors must be considered to produce a healthy bank, including finding complementary partners who are synergistic and compliant with legal regulations. Mergers between banks involve not only technical aspects but also cultural integration among bank units, necessitating careful study and execution of the merger process. Thus, prior to merging, various considerations must be addressed, including calculations of transaction benefits and losses. Banks that do not clearly understand their potential merger partners require time for engagement, particularly regarding transparency in both financial conditions and assets. However, this transparency should not conflict with banking confidentiality aspects.

2. RESEARCH METODOLOGY

The population in this study consists of all Bank Perkreditan Rakyat (BPR) in Gianyar City that were registered with the Financial Services Authority (OJK) from 2015 to 2018, totaling 20 BPRs. The sample for this research was obtained using purposive sampling techniques. Based on the specified criteria, a sample of 19 BPRs was selected. The criteria for the sample in this study are as follows:

1. All BPRs in Gianyar City that were registered with OJK from 2015 to 2018.
2. All BPRs in Gianyar City that provided complete and consecutive financial reports from 2015 to 2018.

3. LITERATUR REVIEW

Bank Perkreditan Rakyat (BPR)

According to Article 1 of POJK No. 62/POJK.03/2020 regarding BPR, the term Bank Perekreditan Rakyat (BPR) refers to a bank that conducts business activities conventionally and does not provide services in payment traffic. Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector (PPSK), Chapter XXVI on Transitional Provisions, Section Two regarding Transitional Provisions Related to Banking and Islamic Banking, states in Article 314 that the name Bank Perkreditan Rakyat (BPR) has been changed to Bank Perekonomian Rakyat.

Acquisition

According to Article 1 of POJK No. 21/POJK.03/2019 concerning Mergers, Consolidations, and Acquisitions of BPRs and BPRSs, an acquisition is a legal act undertaken to take over shares of a BPR, resulting in a transfer of control over that BPR. The Indonesian Institute of Accountants (IAI) (2004) defines acquisition as a business combination where one company, the acquirer, gains control over the net assets and operations of the acquired company through the provision of certain assets, acknowledgment of liabilities, or issuance of shares.

Theory of Strategy

Render and Heizer (2008) describe strategy as an organizational action plan aimed at achieving its mission. Each functional area has its own strategy to fulfill its mission and assist the organization in achieving its overall goals. Assauri (2013) states that strategy formulation fundamentally relates to decision-making in response to competitors within an interdependent environment, necessitating directed activities, particularly in forecasting mutual behaviors. Richard P. Rumelt identifies four criteria for evaluating the effectiveness of a strategy: consistency, consonance, advantage, and feasibility.

Theory of Bank Capitalization

Capital refers to a predetermined amount of funds sourced from the company's owners as business establishment capital that can be utilized in various banking activities. In banking, capital is essential for ensuring that all banking operations can proceed as planned (Usman, 2011). As companies evolve, the capital contributed by founders may experience reductions or increases due to operational losses stemming from failures in executing business activities, leading to diminished capital without profit generation. Conversely, if operations funded by capital are successful, they can yield profits and thus increase capital. Generally, capital is utilized to meet various objectives in executing banking operations, enabling the institution to operate effectively and achieve its intended goals. The functions of capital for banks include:

1. Capital as a buffer against losses caused by operational failures;
2. Capital as a benchmark for providing financing to customers;
3. Capital as a measure of financial performance in generating profits.

Components of Bank Capital

Bank capital serves as a reserve or backup fund should the bank encounter difficulties. The greater the bank's capital, the better its growth prospects will be, even if it exceeds the regulations set by regulatory authorities (central banks). The components of bank capital can be detailed as follows (Latumaerissa, 2014):

1. Core Capital: This primarily consists of paid-in capital and reserves formed from after-tax profits.
2. Supplementary Capital: This includes reserves not derived from after-tax profits and loans that can be equated with capital.

Capital Structure

According to Weston and Copeland as cited by Fahmi (2013), capital structure refers to permanent financing comprising long-term debt, preferred stock, and equity capital. Brigham and Houston (2018) define capital structure as the combination of debt, preferred stock, and common stock used to finance company assets. Meanwhile, Rodoni and Ali (2010) describe capital structure as the proportion determining a company's expenditure needs, where funds are obtained through a combination or guidance from long-term sources originating both internally and externally.

Capital Adequacy

Capital functions as the primary source of financing for operational activities, a buffer against potential losses, and a means to maintain public trust in the bank's ability to perform its role as an intermediary institution. Financial institutions heavily rely on capital for expansion and loss mitigation. This capital must be reassessed according to BIS standards (Bank for International Settlements) if they wish to grow and compete effectively on a global stage. In accordance with POJK 12/POJK.03/2020 regarding minimum bank capital requirements reflected in compliance ratios known as Capital Adequacy Ratio (CAR), OJK is responsible for determining the minimum amount of capital that banks must possess to operate legally and profitably.

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

Table 1
Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.450	.622		8.762	.000		
	CAR	-.012	.005	-.150	-2.268	.026	.725	1.379
	LDR	.013	.004	.184	2.934	.004	.813	1.231
	BOPO	-.061	.005	-.805	-13.246	.000	.862	1.161

a. Dependent Variable: ROA

Based on Table 1 above, the following multiple linear regression equation is obtained:
ROA =5,450 – 0,012 CAR +0,013 LDR – 0,061 BOPO

The Impact of Capital Adequacy on Financial Performance

Financial performance (ROA) is negatively impacted by capital adequacy (CAR), according to the multiple linear regression analysis's t-test results.. A higher CAR ratio correlates with a decline in financial performance (ROA). This is attributed to the substantial use of capital set aside to mitigate potential credit risks. This indicates that BPRs have yet to manage their capital effectively, as a significant portion of the loans extended to customers is derived from the BPR's own capital. Consequently, the heightened credit risk adversely affects the BPR's ability to generate profit. These findings align with research conducted by Sartika (2012) and Raharjo et al. (2014), which also found that CAR negatively impacts ROA.

The Impact of Liquidity on Financial Performance

The multiple linear regression analysis's t-test results show that liquidity (LDR) has a favorable impact on financial performance (ROA). The Loan-to-Deposit Ratio (LDR) calculates how much credit has been given out in relation to the total amount of money obtained from outside sources. An increasing LDR signifies a greater amount of funds allocated as loans, which can enhance profits for BPRs (assuming there are no non-performing loans), thereby indicating improved financial performance. This finding is consistent with studies by Yogiswara (2016), Lukitasari (2015), and Putra (2011), which assert that liquidity (LDR) positively influences financial performance (ROA).

The Impact of Operational Efficiency on Financial Performance

The findings of the t-test from the multiple linear regression analysis show that the third hypothesis (H3), which states that Operational Efficiency (BOPO) negatively affects financial performance (ROA), is supported. This suggests that as operational efficiency increases, financial performance tends to decline. High costs incurred in pursuit of profit lead to lower operational efficiency within banks. Such inefficiency results in higher cost allocations, thereby reducing BPR income and indicating a decline in financial performance. These results are consistent with findings from Yogiswara (2016), Lukitasari (2015), and Putra (2011), who found that BOPO negatively impacts financial performance (ROA).

4. CONCLUSION

Based on the analysis results in this study, the following conclusions can be drawn:

1. Capital adequacy (CAR) has a negative impact on financial performance (ROA) in Bank Perkreditan Rakyat (BPR) in Denpasar City registered with the OJK. This indicates that BPRs have not been able to manage their capital effectively, as a significant portion of the loans extended to customers

is derived from the BPR's own capital. Consequently, the credit risk borne increases, leading to a decline in the BPR's ability to generate profits.

2. The next factor that can influence capital adequacy is the quality level of the bank's operational systems and procedures. A well-functioning operational system and procedures will certainly support the bank's business activities at a high efficiency level. With high efficiency, the bank can generate profits that will strengthen its capital (Ihsan, 2013).
3. Another risk factor that can affect the success of meeting minimum core capital requirements in BPRs is credit risk, reflected by Non-Performing Loans (NPL). If a bank's NPL continues to rise, it will impact the bank's capital since it must allocate funds to meet provisions for impaired productive assets (PPAP). The capital that should be available for other investments diminishes due to the formation of PPAP. This will inevitably lead to a decrease in the profit level obtained by the bank, which could otherwise serve as an internal funding source to meet minimum core capital requirements.

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