

# Bad Debt before and after Global Crisis in Foreign Exchange Banks of Indonesia

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## Abstract

*The measurement of the banks bad debt is applicable to assess the composite rating of a bank, as the impact of the global crisis toward bad debt of foreign exchange banks. The population of this study was 57 foreign exchange banks. The Hypothesis was tested by using Mann Whitney different test. This study showed that bad debt of foreign exchange banks before, during, and after global crisis did not have significant difference.*

**Keywords:** bad, debt, crisis, foreign, exchange. .

## Introduction

In running a business wheel, bank collects fund from public in the form of saving, deposit, and clearing, generally in short period. The collected fund is going to be utilized by bank to fund corporation credit or assignment of other infestation instruments in period over a year. In this case, bank naturally faces maturity gap on its financial structure. In meaning, between obligation of paying customer fund and lending result, the maturity is not same. Global crisis is affected to national economy through some strips: direct market between Indonesia and United States, Indonesia and Asia/Europe market, increased of saving fee, appreciation of exchange rate, and interest of monetary policy of United states Central Bank (Partomo 2007). Global crisis is going to be affected to foreign exchange bank performance. Foreign exchange bank which serves foreign exchange transaction is very susceptible to the change of rupiah exchange value. Foreign exchange bank is financial institution implements a transaction to abroad or gives service of foreign exchange transaction. It is different with non foreign exchange bank. Foreign exchange bank is able to serve foreign currency matters, buy and sell foreign exchange, letter of credit, traveller cheque, payment of foreign exchange and receive foreign exchange saving.

Crisis makes banks difficult to get funds from the community. This makes banks trying to maintain funds and grab people's funds through high interest rates, especially deposits to lead the interbank interest war. On the other hand, the increase in the interest rate causes the interest rate of credit to rise. Under conditions of crisis, it is normal for bank to observe the performance of loans disbursed to debtors. Many of the company's performance that becomes bank debtors have decreased performance so that they cannot pay the loan principal or interest rate. Above description appears question about how is impact of global crisis toward jamming credit or bad debt of national foreign exchange bank. The purpose of this research is to find evidence between before global crisis until after global crisis.

## Literature Review

Bank business continuity relate to its earning asset. Management of bank is charged to analyze and watch over the quality of earning assets. The quality of earning asset shows the quality of asset due to credit risk faced by bank as a result of lending. The quality of asset measurement is meant to rate condition of bank asset, including anticipation, credit risk in some time appears.

Bad debt is a problem of credit ratio in a bank. If the non-performing loans increased, the risk of profitability decreased is bigger. When it happened, the ability of bank to conduct credit expansion and credit rate are also affected. The bad debt is a risk as a result of unpaid loan given by bank. According to (Ayumi & Hermanto, 2013) the failure sources of bank are below:

1. over expansion of bank credit
2. The asymmetry information results to inability of depositor to rate bank asset accurately especially when bank economy is in a bad condition.
3. The shock starts from outside of banking system, regardless to bank financial condition, which led customer changes their liquidity preference or causes a reduction in bank reserves, and



4. Restrictions on institutional and juristic weaken banks and lead to bankruptcy.

Bed debt greatly affects to cost control and the credit policy of bank. The increasing of bed debt contributes to productive asset write-off which established by bank. The greater ratio of bed debt, the greater the operational costs spent by the bank. Ratio that can be used to measure quality of asset is bad debt. Formulation of bad debt is:  $\text{Bad debt} = \frac{\text{bad debt}}{\text{Total credit}} \times 100\%$ . Scoring system of public bank condition, scoring criteria of bad debt to determine composite position can be seen on table 1.

TABLE 1. Criteria of Position Composite Scoring of Bad Debt

Name of ratio	Position	Criteria
Bad debt	PC-1	$BD < 2\%$
	PC-2	$2\% \leq BD < 5\%$
	PC-3	$5\% \leq BD < 8\%$
	PC-4	$8\% \leq BD < 12\%$
	PC-5	$BD \geq 12\%$

The composite position as stated in regulation of Indonesia Bank are below:

1. Position composite 1 (PC-1) indicates that Bank is categorized as very good and able to overcome negative influence of economy condition and financial industry.
2. Position composite 2 (PC-2) indicates that Bank is categorized as good and able to negative influence of economy condition and financial industry. However, Bank still has small weaknesses that still can be handled by routine action.
3. Position composite 3 (PC-3) indicates that Bank is categorized as good enough. However there are some weaknesses which cause composite position in bad condition if corrective action is not taken immediately.
4. Position composite 4 (PC-4) indicates that Bank is categorized as not good and sensitive to negative influence of economy and financial industry. Bank also has a serious financial weakness or combination of some inconvenient factors if corrective action is not taken effectively. It is potential to face difficulty in running a business.
5. Position composite 5 (PC-5) indicates that Bank is categorized as not good and very sensitive to negative influence of economy and financial industry and also potential to face difficulty in running a business.

## Methodology

### Research Data

Secondary data is used in this research. Secondary data is data that collected by collection institution and published to the community of data user. Secondary data is a publication of annual financial report from foreign exchange bank period 2007-2009. Data collected and validation by Central Bank of Republic Indonesia.

### Population

This research analyzes jamming credit in the whole foreign exchange banks. Population in this research is 57 foreign exchange banks.

### Variable Of Research

Bad debt is a variable used in this research. Bad debt is measured by comparing between problem credits with total credit.

### Framework

Global crisis occurred in this research determines monetary policy reaction done by Indonesia bank as central bank in controlling Indonesia economy. That policy influences condition of macro economy like interest rate, exchange rate, even economy growth. This development next will also influence bank policy in collecting and distributing fund. In running a business, bank collects fund in form of saving, deposit and clearing in short period. The collected fund is utilized by bank to fund corporation credit or placement of other infestation instruments generally in over a year. Naturally, bank faces maturity gap on its financial structure. Global crisis is predicted will influence bad debt of foreign exchange bank which its condition gets worst.

### Hypothesis Testing

Hypothesis test is done to know is there any significant different of bad debt of foreign exchange bank between before, present and after the global crisis. IBM software SPSS Statistic

20 is implemented in hypothesis test. The test equipment used for not normal data is Mann Whitney.

## Results

### Descriptive Analysis

Foreign exchange bank before global crisis shows average ratio of bad debt 2.9%. It is in good condition with composite rate 2. The global crisis in 2008, average ratio of bad debt increased 2.8 % with composite rate 2. After global crisis, average ratio of non-performing foreign exchange decreased by 2.9%. However rate of composite is 2. The biggest impact is occurred in Mutiara Bank, Citibank, HSBC and BNP Paribas. Mutiara Bank faced jamming credit increasing from composite rate of 2 (good) to 4 (bad).

TABLE 2. Ratio Bad Debt and Position Composite before until after Global Crisis

No	BANK	2007		2008		2009	
		Bad Debt	PC	Bad Debt	PC	Bad Debt	PC
1	Bank ANZ Indonesia	0.047	2	0.023	2	0.031	2
2	Bank Commonwealth	0.005	1	0.010	1	0.014	1
3	Bank Agris	0.061	3	0.016	1	0.011	1
4	Bank BNP Paribas	0.058	3	0.104	4	0.000	1
5	Bank Capital Indonesia	0.000	1	0.013	1	0.005	1
6	Bank China Trust	0.039	2	0.040	2	0.077	3
7	Bank DBS Indonesia	0.008	1	0.021	2	0.019	1
8	Bank KEB Indonesia	0.008	1	0.002	1	0.000	1
9	OCBC	0.020	1	0.019	1	0.030	2
10	Bank Mizuho Indonesia	0.003	1	0.015	1	0.033	2
11	Rabobank International	0.010	1	0.043	2	0.056	3
12	Bank Resona Perdania	0.037	2	0.056	3	0.039	2
13	Bank Sumitomo Mitsui	0.010	1	0.009	1	0.015	1
14	Bank Windu Kentjana	0.014	1	0.006	1	0.006	1
15	Bank Woori Indonesia	0.005	1	0.000	1	0.003	1
16	The Bank of Tokyo	0.020	2	0.002	1	0.024	2
17	Citibank	0.055	3	0.083	4	0.102	4
18	Deutsche Bank	0.048	2	0.060	3	0.081	4
19	Bangkok Bank	0.044	2	0.021	2	0.019	1
20	Bank of China	0.031	2	0.026	2	0.015	1
21	Standard Chartered	0.024	2	0.019	1	0.021	2
22	Royal Bank of Scotland	0.016	1	0.012	1	0.027	2
23	HSBC	0.092	4	0.106	4	0.154	5
24	Agroniaga	0.065	3	0.061	3	0.035	2
25	Antar Daerah	0.024	2	0.013	1	0.010	1
26	Artha Graha	0.025	2	0.027	2	0.028	2
27	Bukopin	0.035	2	0.035	2	0.027	2
28	Bumi Arta	0.022	2	0.019	1	0.021	2
29	Central Asia	0.008	1	0.005	1	0.007	1
30	CIMB Niaga	0.038	2	0.030	2	0.031	2
31	Danamon	0.022	2	0.023	2	0.046	2
32	Ekonomi Raharja	0.024	2	0.011	1	0.007	1
33	Ganesha	0.007	1	0.014	1	0.021	2
34	Himpunan Saudara	0.026	2	0.011	1	0.013	1
35	Hana	0.012	1	0.007	1	0.008	1
36	Bumiputera	0.061	3	0.056	3	0.056	3
37	ICBC Indonesia	0.016	1	0.013	1	0.003	1
38	Index Selindo	0.004	1	0.005	1	0.018	1
39	BII	0.031	2	0.026	2	0.024	2
40	Maspion	0.019	1	0.009	1	0.013	1
41	Mayapada	0.004	1	0.024	2	0.009	1
42	Mega	0.015	1	0.011	1	0.017	1
43	Metro Express	0.030	2	0.024	2	0.008	1
44	Parahyangan	0.015	1	0.011	1	0.018	1
45	OCBC NISP	0.025	2	0.017	1	0.026	2
46	Bank of India Indonesia	0.019	1	0.021	2	0.012	1
47	Panin Bank	0.030	2	0.040	2	0.031	2
48	Bank Permata	0.045	2	0.035	2	0.040	2





49	QNB Kesawan	0.062	3	0.040	2	0.048	2
50	SBI Indonesia	0.034	2	0.023	2	0.041	2
51	Sinarmas	0.002	1	0.009	1	0.015	1
52	UOB Indonesia	0.033	2	0.025	2	0.026	2
53	Mutiara Bank	0.033	2	0.104	4	0.095	4
54	BNI	0.085	4	0.049	2	0.042	2
55	BRI	0.034	2	0.028	2	0.035	2
56	Mandiri	0.072	3	0.047	2	0.028	2
57	BTN	0.040	2	0.032	2	0.033	2
	Average	0.029	2	0.028	2	0.029	2

Global crisis has worsened asset quality of national foreign exchange bank. Some of them faced increasing of bad debt. As the result, 3 unit of foreign exchange banks also faced same condition. Those banks are Mutiara Bank, Bank of India Indonesia and Mayapada Bank. They faced decreasing of composite rate.

### Normality Test

Normality test of data is done by using Kolmogorov-Smirnov with alpha 5%. The result of data normality can be seen on table 3.

TABLE 3. The Result of Normality Test

No	Variable	Sig	Note
1	Bad debt before crisis	0.163	Normal
2	Bed debt in crisis	0.000	Not normal
3	Bed debt after crisis	0.000	Not Normal

The result of normality test shows ratio of bad debt before global crisis is normal, in fact ratio bad debt in time and after of global crisis is not normal. So that, hypothesis test can be done by using nonparametric test.

### Hypothesis Test

A difference test became a choice to test hypothesis in this research. The difference test is done to know there any significant differences of bad debt of foreign exchange bank between before, in time and after global crisis. In this research a difference test is done by using Mann-Whitney.

#### 1. Bad debt of foreign exchange bank before and after global crisis

Mann Whitney test result for bad debt of foreign exchange bank between before and in time of global crisis shows significant 47.7%. It is bigger than P value 5%. It can be concluded that zero hypothesis received where bad debt of foreign exchange bank is no significant difference between before and in time of global crisis.

TABLE 4. Test Result of Bed Debt before and after Global Crisis

No	Variable	Sig	Note
1	Bed Debt	0.477	No different

This research result is same with banking supervision published by Indonesia Bank. Banking supervision report mentions that banking performance during 2008 is relative stable.

#### 2. Bad debt of foreign exchange bank in time and after global crisis

Mann Whitney result test for bad debt of foreign exchange bank between in time and after global crisis shows significant 73.3%. It is bigger than P value 5%. So that, it can be concluded zero hypothesis received where bad debt of foreign exchange bank show no significant different between in time and after global crisis.

TABLE 5. Test Result of Bed Debt at Time and after Global Crisis

No	Variable	Sig	Note
1	Bed Debt	0.805	No different

There is no deference bad debt of foreign exchange bank between in time and after global crisis. It shows that impact of crisis is not significant influencing bad debt of foreign exchange bank. However, a different condition is occurred in Mutiara Bank

#### 3. Bad debt of Foreign Exchange Bank Before and After Global Crisis

Independent Sample T-test result for bad debt of foreign exchange bank between before and after global crisis shows significant 89,6%. It is bigger than P value 5%. So that it can be concluded that zero hypothesis received where bad debt of foreign exchange bank shows no



significant different between before and after global crisis.

TABLE 6. The Result Test of Bed Debt before and after Global Crisis

No	Variable	Sig	Note
1	Bed Debt	0.586	No different

There are no significant differences between bad debt of foreign exchange bank before and after global crisis. It shows that bad debt of foreign exchange bank generally has directed to previous condition or condition before global crisis.

### Conclusion

This research aims to find empiric evidence. Are there any differences of bad debt of foreign exchange bank between before until after global crisis? Mann Whitney U test become a choice in this research.

This research has limitation. The limitation in this research is ratio. It is only bad debt ratio. In fact, according to Indonesia bank, there are other ratios that used to measure assets quality: ratio of productive assets quality, development of non-performing asset ratio compared with earning asset, and credit debtor ratio outsider of related parties compared with total of credit.

The result of test toward hypothesis shown that bad debt of foreign exchange bank before, present and after global crisis did not have significant difference. This case is not escaped from successful Indonesia bank to determine wise policy that is able to overcome global crisis. Based on above conclusions, the suggestions approved are the next research is wished to use other ratios to measure the quality of bank asset and can make a difference between go public bank and before go public bank. Each figure should have a brief caption describing it and, if necessary, a key to interpret the various lines and symbols on the figure.

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