



BANK INDONESIA



Good Corporate Governance Implementation by Commercial Bank

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Indonesian Banking Architecture

OUTLINE

1. Governance System
2. Background
3. Basic Principles
4. *Good Corporate Governance (GCG)* Implementation
5. Disclosure and Assessment
6. Corporate Governance for Foreign Bank
7. Sanctions
8. Transitional Provision

Overview

The Need to Strengthen the Banking System

Supervision,
Risk Mgt
and GCG

Crisis
Anticipation

Economic Growth

Sufficient
lending growth
to support the
economy

Recapitalisatio
n and White
Paper

banking
restructuring

Financial
System Stability

Banking
industry covers
> 80% assets of
the financial
system

GOVERNANCE SYSTEM

**Commitment
on Governance**

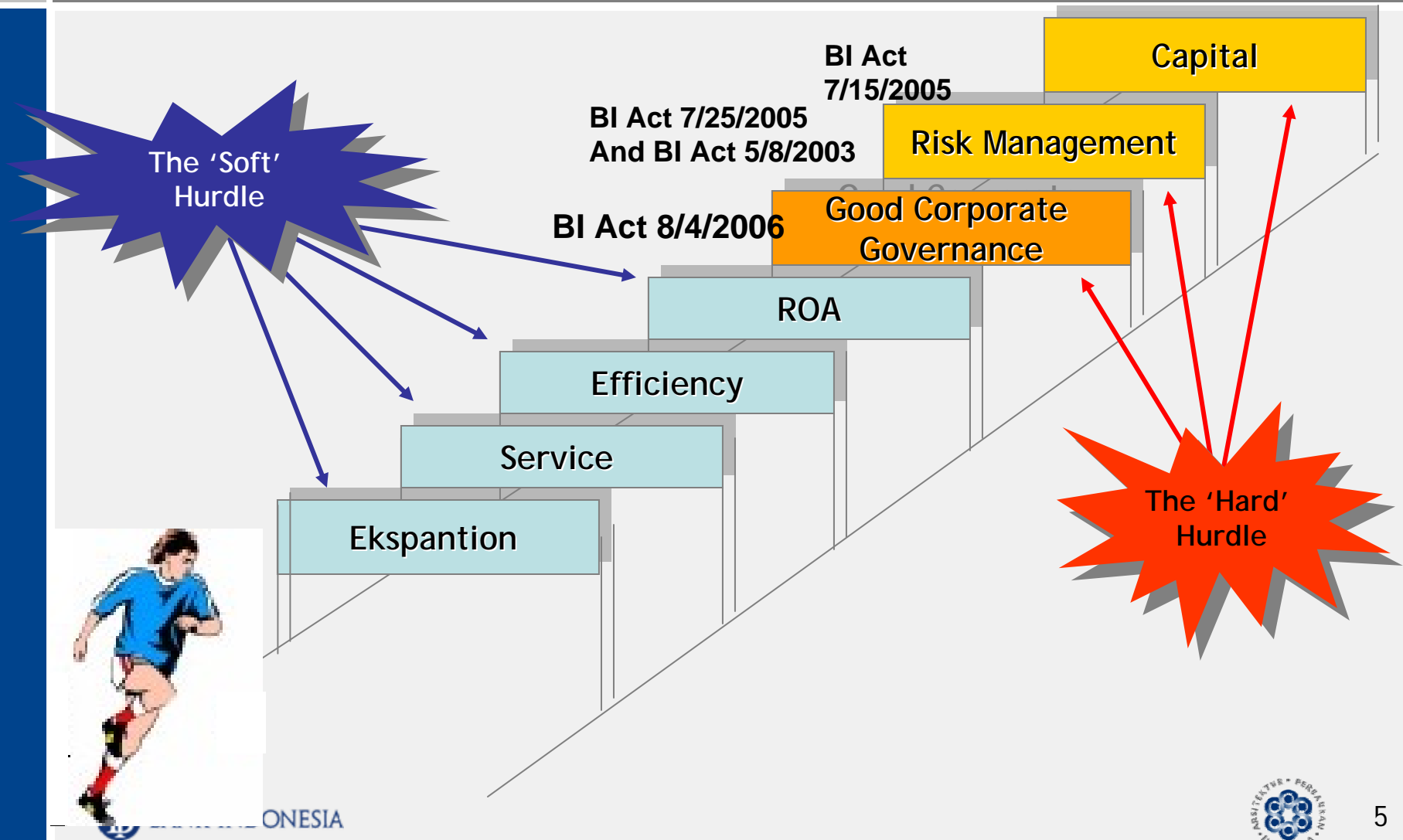
**Governance
Structure**

**Governance
Mechanism**

**Governance
Outcomes**

**Governance
System**

Key Issues in Indonesia Banking Industry



Why GCG is Important ?

Levine (1997, 2004)

Banks are critically important in :

- Financing the expansion of industries
- Facilitating the formation of new firms
- Improving the efficiency of capital allocation
- Monitoring the behavior of firms

Given the importance of banks, the governance of banks themselves assumes a central role – if bank managers do not allocate resources efficiently, borrowers cannot.

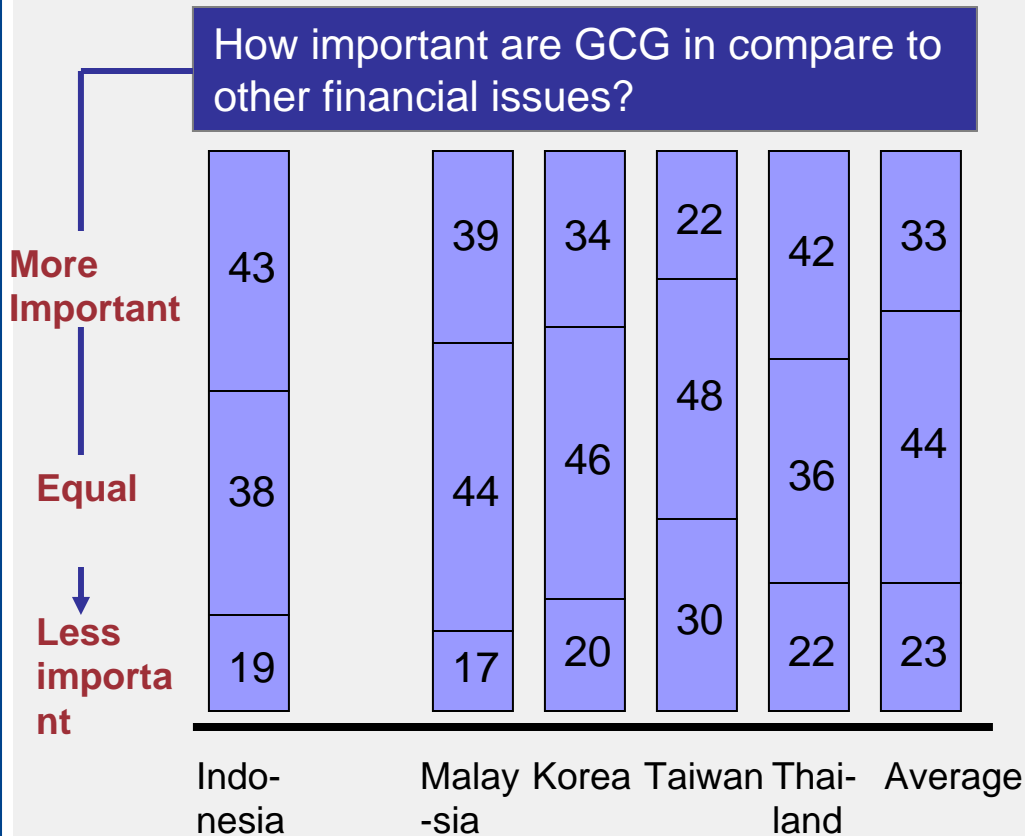
GCG is Important for Banking Industry

Banking industry characteristic → effect GCG implementation

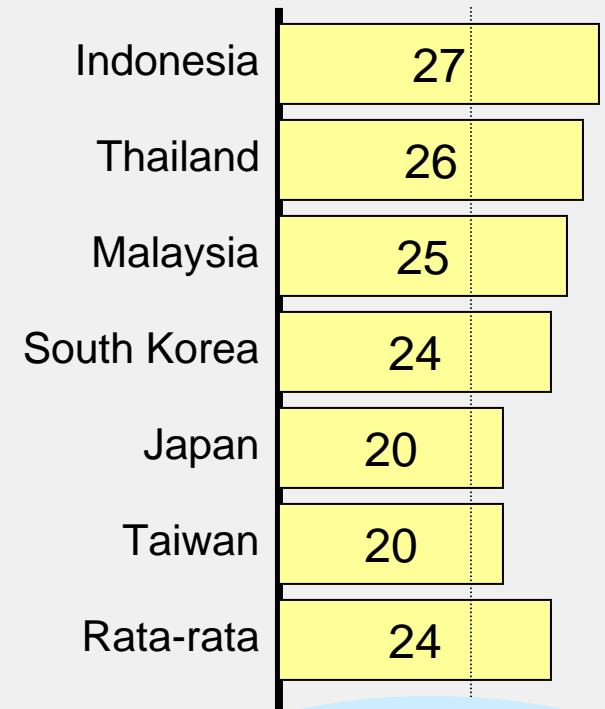
- Banks are highly leveraged
(Diamond & Dybvig, 1983)
- Banks are opaque → information asymmetry
(Furfine, 2001)
- Banks are highly regulated
(Skeel, 1999)
- Banks are subject to public scrutiny

Survey

Importance of GCG (Persen respons)



Average premium for well governed company (Persen)



Average premium in US Companies = 18%

Several Main Challenges

- ❑ The industry has to apply GCG since it could reduce the operation cost relating with the moral hazard and asymmetric information.
- ❑ GCG also requires not just the clear job description of the management but also the competency of the management in conducting business especially during this global crisis.
- ❑ Supervision has to be improved not just by the commissioners but also by the committee in order to establish the proses of check and balance in conducting their functions.
- ❑ The law enforcement of GCG implementation in order to encourage all parties to perform market discipline which finally would give a better economic results

Several Main Challenges

- we could proposed that GCG is not just required to be implemented but also a “MUST” to be exercised and monitored, however it has to also considered about :
 - The cost to implement GCG
 - The Coordination among the financial institutions, such as banks, capital market, insurances, leasing companies and others, in order to introduce the same standard for GCG implementation.

End of Presentation

Thank you