Information Management and Business Review (ISSN 2220-3796)
Vol. 9, No. 3, pp. 13-26, June 2017

The Readiness of Indonesia's Banks Facing ASEAN Economic Community (AEC)

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Abstract: The ASEAN Economic Community (AEC) declared in 2003 in Bali has begun in 2015. The main agenda of the AEC is a single market and production base that includes freight traffic, goods, services, investment, labor and capital. The financial sector is a sector whose implementation is allowed to be leased until 2020 before being fully implemented. In the banking sub-sector is agreed a scheme known as the ASEAN Banking Integration Framework (ABIF) in which ASEAN banks that meet the criteria as Qualified ASEAN BANK (QAB) can participate in the ABIF scheme. The QAB criteria are: (i) well managed (ii) have sufficient capital (iii) obtain recommendation from the authorities, (iv) pass the Basel provisions and (v) be considered important banks in the country of origin To see the readiness of Indonesia's banks to participate in the ABIF mechanism, the authors conducted a study to answer the question of whether Indonesia's banks are ready to participate in the ABIF mechanism. The methodologies used by the authors are to determine some criteria against the condition of Indonesia's banks such as financial ratios and bank health, which then the authors compare to the conditions of banks in other neighboring ASEAN countries. The result is that Indonesia's banks in particular the QAB category are ready to participate in the ABIF mechanism whose implementation will begin in full by 2020.

Keywords: *Readiness, Indonesia's banks, ASEAN, Return on Equity, Return on Assets*

1. Introduction

The ASEAN Economic Community (AEC) was first proclaimed in Bali on 17 October 2003 (Bali Concorde II). The goal is to create a single market and production base, with freer flow of goods, services, investments, skilled labor and capital movement. The AEC has begun to be implemented by the end of 2015. However, for banks, particularly ASEAN-5, liberalization or elimination of restrictions is targeted by 2020. At the ASEAN Economic Ministers Meeting (AEM) August 2006 in Kuala Lumpur, a blueprint was developed to follow up the formation of AEC. The blueprint identified AEC traits and elements by 2015, consistent with the Bali Concord II and the setting of clear targets and timelines and pre-agreed flexibility to accommodate the interests of ASEAN member countries. One of the AEC's agenda is the implementation of ASEAN Banking Integration Framework (ABIF) through Qualified ASEAN Banks (QABs)[1]. This means that by the end of 2015 bank liberalization has begun to be implemented by ASEAN countries already in place. As for the State that is not ready, the implementation can be done starting in 2020, when the liberalization of banking has been fully implemented. The question is, are Indonesia's banks ready to face competition with the banks from other ASEAN countries, such as banks from Singapore, Malaysia and Thailand, when the AEC is fully implemented? Research on the readiness of Indonesia's banks to face AEC is important because banks are at the heart of a country's economy. If the Indonesia's banks are not ready, then the joining of Indonesia's banks in the ABIF scheme will cause a disruption of the economy both from the demand side (customers) and from the supply side (domestic banks). Therefore, this study will focus on the readiness of Indonesia's banks to follow the ABIF scheme by comparing some relevant variables between Indonesia's banks and several other ASEAN member countries, especially Singapore, Malaysia, Thailand and the Philippines (ASEAN five). The results will be used as a tool to measure the readiness of Indonesia banks in facing ASEAN banking integration through the ABIF scheme as a follow-up to the AEC agreement on the financial sector.

Problem Statement: In line with the implementation of ABIF and the target of making some Indonesia's banks into QABs, the authors feel the need to analyze the readiness of Indonesia's banks to deal with the agenda. The author tries to analyze the readiness from various aspects related to the condition of Indonesia's

[1] Banks categorized as QAB receive special treatment in the form of ease of operation in other ASEAN countries within the framework of ABIF.

banks and several banks from ASEAN countries nowadays. 1). Is the readiness of Indonesia's banks adequate, viewed from various aspects such as: growth of equity and assets, financial ratios such as: return on assets (ROA), return on equity (ROE) and health parameters of a bank such as: capital adequacy ratio (CAR), net interest margin (NIM) and non-performing loans (NPL)? 2). What problems are still encountered by Indonesia's banks to compete with other ASEAN countries banks?

Objectives:

- Assessing the readiness of Indonesia's banks in dealing with ASEAN banking liberalization in 2020 by looking at various aspects, particularly several parameters such as asset value, financial ratios, bank's health parameters and matter related with banking condition
- Identifying the existing problems of Indonesia's banks that can disrupt banks readiness in dealing with ASEAN economic integration (AEC).

2. Literature Review

The ASEAN Economic Community (AEC) is the realization of the ultimate goal of economic integration as set in the vision of ASEAN 2020, namely to achieve a stable, prosperous, high-competence ASEAN (Declaration of ASEAN Concord II / Bali Concord II). AEC is one of the three pillars to be implemented by the end of 2015, including the ASEAN Security, Political Community and the ASEAN Socio-Cultural Community. Using the analogy of the threads that hold a piece of cloth together, building the ASEAN Economic Community in the framework of economic stability and ensuring sustainable economic growth will contribute to peace, security and social progress and thereby linking the region together (Plummer and Chia, 2009). The integration of banks in ASEAN has been agreed by the central bank governors of ASEAN through a mechanism called ASEAN Banking Integration Framework (ABIF) in April 2011. The objective is to achieve regional financial stability and liberalization of the banking sector (commercial banks) multilaterally by 2020 (Wihardja, 2013). ABIF is an ASEAN banking liberalization mechanism (including market access and national treatment) through Qualified ASEAN Banks (QABs). ABIF also keeps in mind the prudential host country requirements and the existence of QAB, so ABIF will not increase the number of QABs in a host country in a "large scale" (Bank Indonesia, 2015)[2]. ABIF Principles: (i) reciprocal: The flexibility given to QABs is based on the reciprocal principle between home and host country (ii) outcome driven: ABIF is intended to facilitate regional financial integration, maintain regional financial stability and promote growth and prosperity (iii) comprehensive: ABIF focuses on four important elements to support integration, namely, prudential principles, financial stability infrastructure, capacity building and QAB criteria (iv) progressive and country readiness: The implementation of ABIF adopts a flexible approach, based on country readiness by 2020 as a settlement target (v) inclusive and transparent: involves and benefits all ASEAN Member States and disclosures related to the integration process. Deal with the implementation of ABIF, the Indonesia's banking authorities considered it necessary to prepare Domestic banks face one of the banking liberalization agenda.

Qualified ASEAN Banks (QABs) are banks in ASEAN countries that are considered qualified by meeting five general criteria established: (i) well managed, (ii) having enough capital (iii) obtain the recommendations by authorities, (iv) pass the Basel provisions and (v) considered as important banks in their home country (Alamsyah, 2016) [3]. The Qualified ASEAN Bank (QABs) is part of an agreement between the ASEAN financial authorities in the ASEAN Banking Integration Framework (ABIF) which adopts the reciprocal principle whereby the QABs bank can enter the nine ASEAN countries and be treated as a domestic bank in the country. With this ABIF also, local Indonesia's banks who want to open branches abroad did not have difficulty in obtaining permits either increase the number of branch offices and access in the network of automated teller machines (ATM) in the country concerned (Siregar, 2013).[4] Since QAB is a prerequisite for a bank can participate in the ABIF, then Indonesia's banks should be ready to achieve bank targets with Qualified ASEAN Bank (QAB) qualification. However, bank readiness alone is not enough but government support is also needed to banks. Government support is needed both in terms of regulation making, negotiating in the making of agreements with other countries or agreeing on a rule that will be applied to ASEAN member

[2] Macro prudential Policy Department,
[3] Deputy Governor of BI (Seminar on Readiness of Human Resources and Banking in order to face AEC 2015).
[4] Deputy Commissioner of Banking Supervision I, Authority Financial Services / OJK).

countries, also concerning the addition of capital through state equity participation for state-owned banks (BUMN) . This is because; there are interconnections between one party and the other. Thus, in order to realize the expected results together, it cannot be denied if the Indonesia's banking industry cannot move alone, and need support from various parties (Rismawati, 2013). Reciprocal or equivalence is one of the conditions proposed by Indonesia in the agreement of establishing Qualified ASEAN Banks (QABs). With this reciprocal principle, the number of QABs from Indonesia that will expand to other countries has the same amount as QABs of other countries that have already operated in Indonesia. For example, QABs from one of the ASEAN countries already exist three in Indonesia, then the country should not increase QABs in Indonesia until the number of Indonesia's QABs in the country reached three as well (Siregar, 2013) [5].

Indonesia's Government can play an important role in increasing the equity of state-owned banks through Government Equity Participation (GEP) which is the process of separating state assets into capital in the company of either state-owned enterprises (SOE), local government own enterprise (LGOE), foreign companies, or companies owned by international institutions[6]. Government Equity Participation (GEP) can be in the form of cash or state rights assessed with money. In revise State budget 2015[7] the number of GEP is the largest number, or a significant increase compared to the previous year. Giving a significant amount of GEP to SOEs shows the government's commitment to budget efficiency while increasing production spending (DPR, 2016). The Government Equity Participation (GEP) mechanism is considered to be more effective in fiscal use compared to the spending mechanism. In addition, GEP is able to provide multiplier effect, without spending big cost. This happens because the process of giving GEP is a process of separation of state assets to be managed by SOEs, without removing the assets of the country. SOEs are expected to increase their role as agent of development which plays an active role in supporting the program of national priority.

In terms of bank's performance there are several things that need to be seen to measure whether a bank performs well or vice versa. Operating Cost to Operating Income is the operating efficiency measured by comparing total operating costs with total operating income (Rusdiana, 2012). Operating Cost to Operating Income ratio shows bank efficiency in running its main business, especially credit, where until now the income of banks in Indonesia is still dominated by loan interest income. The smaller Operating Cost to Operating Income shows the more efficient the bank in running its business activities. The higher the cost of income then the bank becomes inefficient so that the Return on Asset (ROA) is smaller. In other words, Operating Cost to Operating Income negatively related to the performance of the bank so predicted also negatively affect the ROA (Suyono, 2005), in his research examined the effect of Operating Cost to Operating Income on ROA in Indonesia commercial banks period 2001-2003 showed that Operating Cost to Operating Income has a negative effect on ROA of 0.1 percent at 5% significance level. Capital Adequacy Ratio (CAR) is showing the bank's ability to maintain sufficient capital and bank management capability in identifying, measuring, supervising and controlling risks that may arise due to the influence of a bank's performance when generating a profit and maintaining the amount of capital owned by banking companies (Wulandari and Sudjarni, 2014). Non-Performing Loans (NPLs) are credit in congestion due to deliberate or external factors (Wulandari and Sudjarni, 2014; Kaluge et al., 2016). Non-Performing Loans are defined as the percentage of the value of the loan not paid by the customer for three months or more (Ahmad, 2007). Return on Equity (ROE) is the ratio used to measure the profitability of a capital owner's investment and is calculated based on the division between net income (net profit after tax) and own capital (Rahmawati, 2010). Return on Assets (ROA) is the ratio used to measure the overall effectiveness of available assets in generating profits (Rahmawati, 2010). Net Interest Margin (NIM) is the difference between Interest Income and Interest Expenses. NIM demonstrates the bank's ability to generate interest income by looking at bank performance in lending. This is because bank operating income is highly dependent on the spread of the loan[8]. Net Interest Margin (NIM) is the annual quarterly net interest income (interest income minus interest expense) as the ratio of average income (Hanweck, 2005).

[5] Assistant Governor of Bank Indonesia.
[6] Equity is the residual right of the company's assets after deduction of all liabilities (IAI / Financial Accounting Standard 2002, article 49).
[7] Revise state budget is issued by Ministry of Finance Republic of Indonesia.
[8] Syahru Syarif, Diponegoro University (Undip) Semarang, 2006.

The restrictions on foreign banking to enter Indonesia is too low, this is indicated by the lack of foreign banking restrictions to seek in Indonesia. According to a study conducted by the Economic Research Institute for ASEAN and East Asia (ERIA), on the level of banking restrictions in ASEAN countries, Indonesia has the lowest score of 1 (one), while the average score of ASEAN is 43. For regulation or regulation of foreign ownership, Indonesia score 33, while the average score of ASEAN is 36 (Prasetyantoko, 2015). Multiple license is the granting of bank operating license according to business activities and office network based on bank core capital (PBI number 14/26 / PBI / 2012)[9]. Multiple license is a tiered licensing policy as stipulated in Bank Indonesia Regulation Number 14/26 / PBI / 2012 concerning Operations and Office Networks Based on Core Bank Capital which are grouped into four Commercial Business Groups (Buchory, 2015). Multi-licensing Requirements: The granting of a bank license that wants to operate in Indonesia is made based on the category of the bank determined from the amount of core capital of a bank. The amount of bank capital is very important because the amount of bank capital expedite the operational of a bank. If the capital of bank is large, then the amount of credit that can be distributed is also large, otherwise if the capital of banks is small, then the amount of loans disbursed is small (Widiantini, 2010).

Merger is a amalgamate of two firms into one, in which the merging company takes on / buys all the merged assets and liabilities of the company so that the merging company has at least 50% of the shares and the merged company stops operating and its shareholders receive a certain amount cash or stock in the new company (Brealey, Myers, & Marcus, 1999). The definition of another merger is as the absorption of a company by another company. In this case the purchasing company will continue its name and identity. The buyer company will also take both the assets and the liabilities of the company purchased. After the merger, the purchased company will lose / stop operating (Harianto and Sudomo, 2001).

3. Methodology

This study is using descriptive approach, while the data are obtained from secondary sources through journals, books, freelance articles and websites. The analysis was performed using tables, graphics, images and SWOTS namely: Strength, Weakness, Opportunity and Thread. The readiness of Indonesia's banks to compete is measured using several parameters such as financial ratios and health parameters of a bank. Figure 1 shows the framework of this paper.

Figure 1: The readiness of Indonesia's banks

The readiness of Indonesia's banks to deal with the AEC is measured by comparing several factors of Indonesia's banks to the banks of ASEAN neighboring countries covering variables: liquidity, solvency, profitability, efficiency and quality of service as outlined in the figure 1. The result will determine whether Indonesia banks are ready to compete or vice versa to ASEAN neighboring countries banks within ABIF in the framework of ASEAN economic integration (AEC).

[9] Indonesia's Central Bank Regulation.

4. Results

The growth of Indonesia's Banks Asset, Equity and Liabilities: Indonesia's banks can increase their equity by selling shares in the Indonesia Stock Exchange (BEI) or go public as Indonesia's capital market is a potential source of funding for banks as long as they can convince the public that the shares of these banks are profitable shares to buy and trade in BEI.

Table 1: The growth of Assets, Equity and Liabilities of Indonesia's banks (2009-2015)[10]

Asset *)	2009	2010	2011	2012	2013	2014	2015	2015/2009
MANDIRI	394	450	552	636	733	855	910	231%
BRI	317	404	470	551	626	802	878	277%
BCA	282	324	382	443	496	553	594	211%
BNI	227	249	299	333	387	417	508	224%
Equity *)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2015/2009**
MANDIRI	35	42	63	76	89	105	119	340%
BRI	27	37	50	65	79	98	113	419%
BCA	28	34	42	52	64	78	90	321%
BNI	19	33	38	44	48	61	78	411%
Liabilities *)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2015/2009**
MANDIRI	359	408	489	560	644	751	792	221%
BRI	290	367	420	486	547	704	765	264%
BCA	254	290	340	391	432	477	505	199%
BNI	208	216	261	289	339	355	430	207%

Source: Annual Report Bank BCA, Bank BNI, Bank BRI and Bank Mandiri (2009-2014).
*) in trillion rupiah.

Table 1 shows the assets, equity and liabilities of four major banks in Indonesia from 2009 to 2015. Based on the order of assets from the largest to the smallest is Bank Mandiri in the first, Bank BRI is the second, Bank BCA is the third and Bank BNI is at fourth position. As for the highest growth of assets, equity and liabilities achieved by Bank BRI.

Return on Equity (ROE) of Indonesia's banks and ASEAN's banks: Of the 10 banks in ASEAN with the highest Return on Equity (ROE), six banks are from Indonesia. Even Bank BRI ranked first with ROE of 55.91 percent.

Table 2: Return on Equity of ASEAN banks (2013)

Rank	Rank in ASEAN	Bank's Name	Country	ROE (%)
1	12	Bank Rakyat Indonesia (BRI)	Indonesia	55.91
2	86	Malaysia Building Society	Malaysia	55.84
3	126	Acleda Bank	Cambodia	49.48
4	96	Standard Chartered Bank Indonesia	Indonesia	43.46
5	66	Bank BTPN	Indonesia	43.19
6	115	Deutsche Bank Indonesia	Indonesia	43.05
7	13	Bank Central Asia (BCA)	Indonesia	39.52
8	9	Bank Mandiri	Indonesia	39.38
9	34	HSBC Bank Malaysia	Malaysia	37.57
10	10	CIMB Group	Malaysia	36.16

Sources: Brian Caplen (The bankers)

[10] Bank Mandiri, Bank BRI, Bank BCA and Bank BNI is four Indonesia's big banks.

The position of Bank BRI was followed by two banks from Malaysia and Cambodia. Three and four to eight positions are held by Indonesia's banks, Standard Chartered Bank Indonesia, Bank BTPN, Deutsche Bank Indonesia, Bank Central Asia and Bank Mandiri. Of the top 10 banks with high ROE in ASEAN, there are three major banks from Indonesia, namely Bank BRI, Bank BCA and Bank Mandiri. There is only one non Indonesia major bank that is CIMB group from Malaysia. Looking at the ROE rate above, it can be said that the Indonesia's banks position is quite good and can be an asset in welcoming ASEAN banking Integration in 2020.

Return on Assets (ROAs) of Indonesia's banks and ASEAN's banks

Table 3: Return on Assets (ROAs) of Indonesia's and ASEAN's Banks (2013)

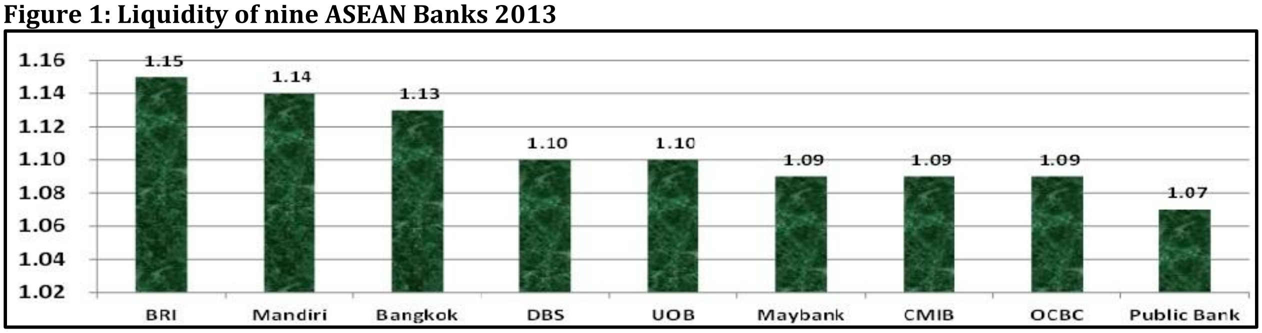
No	Rank in ASEAN	Bank's Name	Country	ROAs (%)
1	143	Baoviet	Vietnam	9.15
2	12	Bank Rakyat Indonesia (BRI)	Indonesia	4.33
3	66	Bank BTPN	Indonesia	4.21
4	126	Acleda Bank	Cambodia	4.13
5	89	ANZ Bank Indonesia	Indonesia	4.07
6	44	Citibank Indonesia	Indonesia	4.03
7	115	Deutsche Bank Indonesia	Indonesia	3.90
8	49	Rizal Commercial Banking Corp (RCBC)	Philippine	3.67
9	148	Korea Exchange Bank Indonesia	Indonesia	3.60
10	146	Bank Aceh	Indonesia	3.53

Source: Brian Caplen (The bankers)

Based on the return of Indonesia's banks to assets or Return on Assets (ROA), there are two major banks in Indonesia that occupy the top ten banks with the highest ROA, namely Bank BRI and Citibank Indonesia. Of the 10 banks with the highest ROA, seven of them are banks from Indonesia, although four of them are mixed banks such as ANZ Bank Indonesia, Citibank Indonesia, Deutsche Bank Indonesia and Korea Exchange Bank Indonesia. The emergence of Bank BRI as one of the major banks in ASEAN with the best ROA reflects that the current banking business in Indonesia is a profitable.

Liquidity of ASEAN Banks

Figure 1: Liquidity of nine ASEAN Banks 2013



Source: 2013 annual data report of each bank (processed).
1 / Liquidity is current assets divided by current liabilities (current ratio)

The liquidity of Indonesia's banks such as Bank Mandiri and Bank BRI is the highest among ASEAN banks, followed by Bangkok Bank of Thailand, while the next are banks from Singapore and the latter are Malaysian banks. So in terms of liquidity, Indonesia's banks are the best performers in ASEAN, while the lowest are Malaysian banks. With liquidity above 100 percent (ratio above one), it means that Indonesia's banks have no difficulty in fulfilling their current liabilities because their assets are higher than their current liabilities.

Earnings Before Tax (EBT) of Indonesia and ASEAN Banks

Table 4: Earning before Tax (EBT) ASEAN banks (2013)

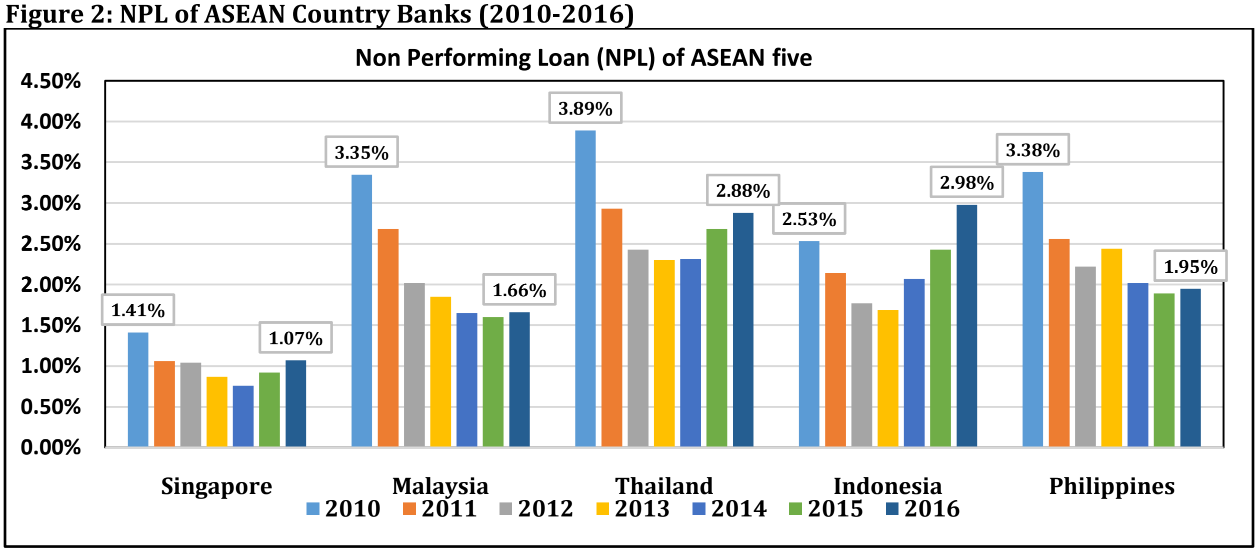
Rank	Bank's Name	Country	EBT (USD billion)
1	Overseas Chinese Banking Corporation (OCBC)	Singapore	4.05
2	Development Bank of Singapore (DBS)	Singapore	3.76
3	United Overseas Bank (UOB)	Singapore	2.74
4	Maybank	Malaysia	2.58
5	Bank Rakyat Indonesia (BRI)	Indonesia	2.47
6	Bank Mandiri	Indonesia	2.11
7	CIMB Group	Malaysia	1.84
8	Siam Commercial Bank	Thailand	1.67
9	Public Bank	Malaysia	1.67
10	Kasikorn Bank	Thailand	1.60

Source: Brian Caplen (The bankers).

Based on the value of profit before tax or earnings before tax (EBT), there are two major Indonesia's banks that enter into the ranks of 10 ASEAN banks with the largest EBT of Bank BRI and Bank Mandiri. Both banks beat Banks with higher capital than those of Public Bank (Malaysia), Siam Bank (Thailand) and Kasikorn Bank (Thailand). This shows that the performance of Indonesia's banks is quite good.

Non-Performing Loan (NPL)

Figure 2: NPL of ASEAN Country Banks (2010-2016)



Source: The Global Economy.com (processed) [11]

Non-performing loans are credits that are classified into non-current loans by the debtor or cannot be collected by the bank. According to Apriani (2011), Non-Performing Loan (NPL) is a condition in which the customer is unable to pay part or all of its obligations to the bank as it have been agreed. According to Rosmilia (2009), Non-Performing Loan (NPL) is a credit with its special mention, sub-standard, doubtful and non-performing loans. Meanwhile, according to Bank Indonesia, non-performing loans are loans classified as Sub-standard, Doubtful and Loss Collectibles[12]. The NPL of Indonesia's banks on average in the last seven years (2010-2016) is 2.23 percent lower than Thailand (2.77 percent) and Philippines (2.35 percent) but

[11] http://www.theglobaleconomy.com/Singapore/Nonperforming_loans/
[12] The package of deregulation policy of May 1993 (PAKMEI 1993).

higher than Singapore (1.02 percent) and Malaysia (2.12 percent)[13]. The position of Indonesia's NPLs is generally low and secure, or not to worry about.

Assets of ASEAN Banks

Table 5: Several Indicators of five major Banks in five ASEAN countries in trillion rupiah (2014)

No.	Country	Value of Asset	Equity	Third Party Fund	Loans
1	Singapore	162.2	15.83	104.36	82.78
2	Malaysia	75.08	6.03	55.55	46.36
3	Thailand	54.42	4.00	39.88	36.98
4	Indonesia	34.94	2.02	28.50	23.43
5	Philippine	16.66	1.31	12.83	7.21

Source: Macro prudential Policy Department, Bank Indonesia

Looking at some indicators in table 5, in general the position of Indonesia's banks asset is only superior to Philippines banks, but still below Singapore, Malaysia and Thailand. This happens because the number of banks in Indonesia is too much that cause the average figures shown in table 5 are low compared to the average assets of Thai banks. So in terms of assets, the performance of Indonesia's banks is quite good although still needs to be improved. The existence of Bank Mandiri, Bank BRI, Bank BCA, Bank BNI and several other large banks have reached a good economic scale and feasible to compete with other ASEAN countries banks.

Restriction: The requirement for foreign banks to operate in Indonesia is very loose; this can be seen from the government's policy of allowing foreigners to own a bank's shares up to 40 percent of its capital. While other ASEAN countries such as Singapore and Malaysia impose strict rules for foreign banks that want to operate in their country. In comparison, Malaysia only encodes itself in Malaysian commercial banks which reach 30 percent, while Singapore 20 percent. Rules from Bank Indonesia that facilitate foreign ownership of Indonesia's banks also resulted in increased foreign ownership in 6 of 10 major Indonesia's banks such as Mauritius ownership of Bank BCA, Malaysia at CIMB Bank Niaga, Singapore at Bank Danamon, Australia at Bank Panin, UK at Bank Permata and Malaysia at Bank BII. This development needs to be anticipated through several strategies and tactics to ensure the health of domestic banks as a whole will increase. First, Bank Indonesia's plan to merge several banks into one larger bank is worth supporting. Second, the application of the principle of reciprocity between the rules of a country is also applied in Indonesia. For example, Singapore's rules on foreign banks wishing to operate in Singapore should be applied by Indonesia to Singapore banks wishing to operate in Indonesia, such as restricted ATM opening rules in Singapore. Third, the application of multiple license to the opening of branches in various regions. Foreign banks that want to open their branches cannot simply open a branch in the region without the need for approval from Bank Indonesia as it has been in the past. According to Kiryanto (2014), foreign banks operating in Indonesia can directly open branches in areas within Indonesia without the need for permission from Bank Indonesia.

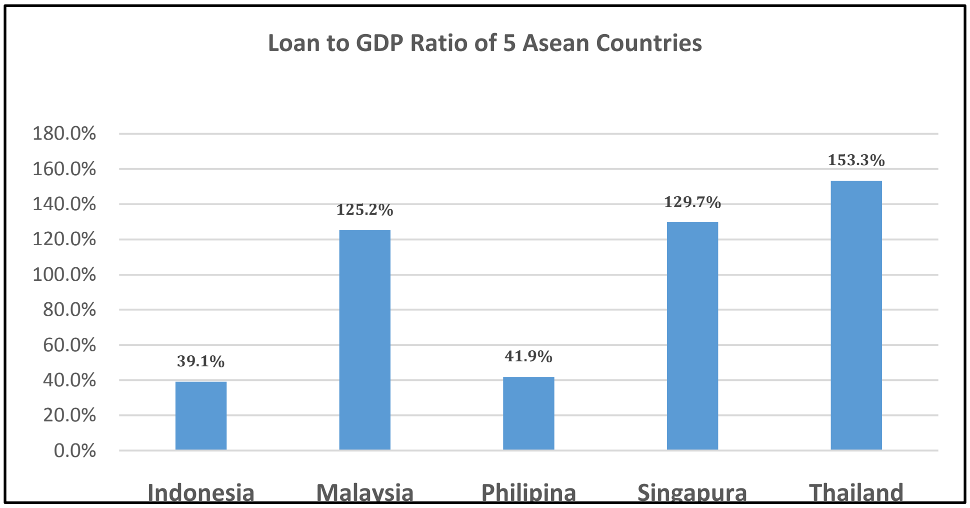
Ratio of Banking Credits to GDP: Of the five ASEAN countries, the ratio of credit to banking loans to GDP Indonesia is the lowest, while the highest is Thailand. This illustrates that in terms of supply the ability of Indonesia's banks to provide loans to customers is still low compared with 4 other ASEAN countries. From the demand side, it is seen that the ability of Indonesia's society to utilize bank funds is still low, which is in line with the low level of literacy of Indonesia's society towards the financial sector.

The low capacity of the community to utilize banking funds is also seen from the low account ownership in formal institutions, while access to finance in the saving sector is 15.3%, and credit access to banks is only

[13] Data is processed from figure 1.

8.5%. This figure is still far behind for example when compared with Malaysia where account ownership is 66.2%; savings have 35.4%, and credit 11.2% (Kiryanto, 2014)[14].

Figure 3: Loan to GDP Ratio of 5 ASEAN Countries (2015)



Source: World Bank. http://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS

Loan and Deposit Interest Rate

Table 6: Loan and deposit Interest Rate of ASEAN Countries (2015)

No.	Country	Loan interest rate	Deposit interest rate 1)
1	Singapore	5.3%	0.2%
2	Malaysia	4,6%	3.1%
3	Thailand	6,6%	1.4%
4	Philippine	5,6%	1.6%
5	Indonesia	12,7%	8.8%

Source: - Elisa Valenta Sari, 2016 (CNN)[15].
- Trading Economics1) [16]

In terms of loan interest rates, Indonesia's banks are still inferior to other ASEAN member countries. This is reflected in the still high interest rate of credit in Indonesia which is about 12 percent, while in other ASEAN countries already under 7 percent. Even for small business loans such as small business loans (*Kredit Usaha Rakyat)*, the interest rate of Indonesia's banks is quite high at around 22 percent - 24 percent. The high loan interest rate has the potential to reduce the competitiveness of Indonesia's banks and reflects the inefficiency of Indonesia's banks compared to the other four ASEAN countries. The high loan interest rate of Indonesia's banks is also caused by the level of inter-bank competition that has not been balanced. Several major banks such as Bank Mandiri, Bank BRI, Bank BCA and Bank BNI dominate the strength of national banking (Wahyudin, 2014)[17]. Another thing to note is that the cost of funds such as the interest rate on deposits of Indonesia's banks is still high due to the high inflation rate, especially with Net Interest Margin (NIM) of Indonesia's banks is still higher[18] compare to other ASEAN countries banks (Hadad, 2016).[19]

[14] Chief economist of Bank Negara Indonesia (BNI).
[15] CNN Indonesia. http://www.cnnindonesia.com/ekonomi/ and World Bank. http://data.worldbank.org/indicator/FR.INR.LEND
[16] https://tradingeconomics.com/singapore/deposit-interest-rate
[17] To overcome this, Bank Indonesia has issued a regulation namely PBI No.14 on Bank Shares Ownership, both foreign and domestic. The objective is to improve the degree of bank Indonesia's openness so that high competitiveness between banks in Indonesia can be achieved. Openness is also expected to reduce the occurrence of cartel which is one of the causes of inefficiency of Indonesia's banks.
[18] Although there is a tendency of inflation rate in Indonesia to decrease at the moment lately.
[19] Net Interest Margin of Indonesia's banks are still 5.3 percent, while Thailand is 4 percent.

Qualified ASEAN Bank (QAB): Some big and qualified banks in Indonesia such as Bank Mandiri, Bank BRI, Bank BCA and Bank BNI can be proposed as Qualified ASEAN Bank (QAB). From the specified requirements, these banks are eligible for inclusion in QAB because it is well managed, the capital is also quite high, pass the Basel provisions, and is an important bank recommended by the government. With the reciprocal principle, these Indonesia's banks will benefit to be freer to operate in other ASEAN countries so as to compensate for the penetration of other ASEAN countries' banks operating in Indonesia. Indonesia's banks with QAB qualifications still lose in total assets and capital compared to other ASEAN country banks such as Singapore, Malaysia and Thailand. One way to increase the capital of these banks is by way of GEP, especially to QAB banks owned by SOEs such as Bank BRI, Bank BNI and Bank Mandiri.

ASEAN Banking Integration Framework ABIF): With regard to the implementation of ABIF, the authors see that there will be positive impacts for Indonesia's banks, especially those that have already held the Qualified ASEAN Bank (QAB), as Indonesia's banks can expand in other QAB partner countries in ASEAN. One of the requirements in this ABIF is that every entry of QAB of a country to another member country must be balanced with the entry of QAB bank from partner country. As an illustration if one QAB from Malaysia goes to Indonesia then one QAB from Indonesia automatically has the right to enter Malaysia vice versa. To enter Malaysia, QAB from Indonesia will improve its quality in order to compete with local QAB in Malaysia; this is the positive impact of the ABIF scheme. On the contrary, there could be negative impact to local QAB in Indonesia when QAB from Malaysia and other ASEAN countries better quality so that the market share that has been owned by local QAB can be taken by QAB from other ASEAN countries. Overall, however, the authors believe that the ABIF scheme will have a positive impact on QAB from Indonesia and Indonesia's banking as a whole.

Government Equity Participation (GEP): As mentioned earlier that Indonesia's Qualified ASEAN Bank (QAB) assets are still under QAB assets from Singapore, Malaysia even slightly below QAB from Thailand. Given the size of these assets are important to maintain market share and also to penetrate the market then QAB of Indonesia should seek to increase their assets. One of the ways is with Government Equity Participation (GEP) to QAB Indonesia, especially state owned banks such as Bank BRI, Bank BNI and Bank Mandiri outside private QAB namely Bank BCA. The government in this case the minister of SOEs, Mrs. Rini Suwandi in 2017 has proposed to the House of GEP additional funds amounting to 43.2 trillion rupiah or equal to USD 3.32 billion but approved by the House only 37.2 trillion rupiah or USD 2.86 billion. It seems difficult enough for the government to convince members of parliament MPs that the addition of QAB Indonesia's assets, especially SOEs, is very important in the face of the ABIF scheme within the framework of the AEC. In authors opinion this is unfavorable for the development of QAB Indonesia's assets in the near future, therefore it takes a tougher effort from the government to convince the House of Representatives regarding the importance of adding QAB assets in the face of the ABIF scheme. Actually this GEP is not something to worry about by the House because QAB is a banking institution that is very prudent in the management of third party funds, moreover the funds coming from the government.

Banking Merger: Corporate mergers including banks are commonplace by companies or banks in many countries. With this merger the company will become bigger in terms of capital and also increase its management expertise, besides each company advantage such as economic scale more global marketing chain. But in terms of banking merger, Indonesia's banking authorities apply different policies to that of neighboring countries such as Singapore, Malaysia and Thailand. The three countries are actively merging their banks into fewer, bigger and stronger banks in terms of capital and assets. While Indonesia still maintains a large number of bank policies, with a small majority of capital. Furthermore, the number of banks in Indonesia on the one hand, is not proportional to the size of the ratio of credit and savings to GDP in the range of 39.1 percent. While neighboring countries (Thailand, Singapore and Malaysia) are above 100 percent (graph 2). For merger, Indonesia's banks are only at number four in ASEAN after Singapore, Malaysia, Thailand) and only better than Philippines. This reflects the shallowness of the financial sector in Indonesia which is still below Singapore, Malaysia and Thailand. This is exacerbated by the number of banks fighting for the potential customers that are still limited, consequently there was a war of interest rates which in a whole not good for the economy because economy must bear higher borrowing costs so as to reduce the competitiveness of Indonesia's companies in the region and the world.

SWOT Analysis (Strength, Weakness, Opportunity, and Thread)

Table-7: Indonesia's Banking Matrix on ASEAN Four Countries Banking

Internal / External	**Strength** • Return on Asset (high) • Return on Equity (high) • Liquidity (high) • Loyalty of Customer (high)	**Weakness.** • Loan to GDP ratio (low) • Interest rate (high) • Asset Value (lower) • Restriction (low)
Opportunity • Expansion abroad • Adopt GCG from Foreign Bank	**Strategy (strength-Opportunity)** • Maintain the strength • Utilize the Opportunity	**Strategy (weakness-Opportunity)** • Improve the weakness. • Utilize the Opportunity
Thread • Big Assets value of other Asean Banks • Other Asean Bank is more professionalism	**Strategy (strength – thread).** • Maintain the strength • Overcome the thread by: Increase bank asset through Government Equity Participation (PMN), IPO through capital market and Enhance The Professionalism.	**Strategy (weakness-thread)** • Improve the weakness • Overcome the thread by: Increase bank asset through Government Equity Participation (GEP), IPO through capital market and Enhance The Professionalism.

Based on table 7 which contains the SWOT analysis of Indonesia's banks towards banks in four other ASEAN countries (Singapore, Malaysia, Thailand and Philippines). Indonesia's banks have some strengths such as Return on Equity (ROE) and Return on Investment (ROI). The highest in ASEAN. In terms of liquidity or (current ratio) of Indonesia's banks is also higher seen from the value of the above 100 percent, meaning that the bank's liquid assets of Indonesia are higher than current liabilities. Indonesia's banking customers are also loyal to the banks in which they deposit their money and the banks where they used to borrow. On the other hand, some of the weaknesses in Indonesia's banks are the low ratio of the population loan to GDP compared to the four ASEAN countries. This means that the ability of banks to optimize loans to the public is still low, both due to limited banking capital and the condition of society that still cannot be said to be banking literate (banking minded). Another weakness of Indonesia's banks is the high loan interest rate, which certainly can make Indonesia's banks less competitive than other ASEAN countries whose loan interest rate is very low at below seven percent, while Indonesia is at 12 percent. This cannot be separated from the high interest on savings / deposits (cost of funds) that must be paid to the customers. Although not the lowest, the assets of Indonesia's banks are still under the assets of Singapore, Malaysia and Thailand banks, this may also reduce the ability of Indonesia's banks to compete with other ASEAN country banks that have greater assets.

Restrictions on the operation of foreign banks in Indonesia are also looser than Singapore's highly restrictive banks. This can be seen from the ease of foreign banks to open branches in Indonesia, but on the other hand, Indonesia's banks are difficult to open branches in Singapore and Malaysia, even just to make the ATM alone is very difficult permit (case of Singapore). From some of the strengths and weaknesses of Indonesia's banks there are also opportunities and threats (thread) faced by Indonesia's banks in the framework of AEC. There are opportunities to expand into neighboring countries, and there are opportunities to increase competitiveness. With integrated ASEAN banking it will create a working climate with a higher standard in Indonesia's banks in order to balance the performance of Singapore and Malaysia banks. While the threat faced by Indonesia's banks, especially from Singapore and Malaysia banks is the amount of assets of these foreign banks which can certainly make them freer to penetrate the Indonesia's money market. Another thing that could be considered a threat to Indonesia's banks is that Singaporean and Malaysian banks have a higher professionalism than Indonesia's banks especially small and medium one. But the threat is not something that

Indonesia's banking authorities and banks should fear or avoid, because with the harsh efforts of the banking authorities and Indonesia's banks, all the challenges will be overcome.

Indonesia's Banking Readiness based on Performance Indicators: After elaborating and examining extensively on matters relating to the readiness of Indonesia's banks to face AEC through the ABIF mechanism, the authors came up with findings on some parameters that could serve as a gauge of Indonesia's readiness to deal with the agreement. The result is as shown in table 8 below.

Table 8: Indonesia Banking Performance Indicators in ASEAN five[1)] (2013-2014)

No	Performance Indicators	Position (2013-2014)
1	Return On Equity (ROE)	Number 1
2	Return On Assets (ROA)	Number 1
3	Liquidity	Number 1
4	Earnings Before Tax (EBT)	Number 3
5	Non-Performing Loan (NPL)	Number 3
6	Asset	Number 4
7	Banks merger	Number 4
8	Loan to GDP ratio	Number 5
9	Loan and Deposit Interest Rate	Number 5
10	Restriction	Number 5

[1)] ASEAN five (Singapore, Malaysia, Philippines, Thailand and Indonesia)

Is Indonesia's banking ready for the 2015 AEC and especially the ASEAN Banking Integration Framework (ABIF) by 2020? The data in table 8 show several things that can be described as follows: There are seven points (1 to 7) which Indonesia's bank is in a superior and equal position to other ASEAN's banks. However, there are three points (8 to 10) in which Indonesia's bank is in a weaker position compare to other ASEAN's banks, namely loan to GDP ratio, loan and deposit interest rate and loose restriction. With this data, the authors believe that Indonesia's banks are able to compete with other ASEAN member countries when fully implementing ASEAN's financial sector within the framework of the AEC in 2020. With a note that the weakness in points 8 to 10 can be overcome and points 1 to 7 should be maintained even enhanced. There are still about three more years to improve the competitiveness of Indonesia's banks through: (i) increasing the number of assets of Indonesia's banks, e.g. through Government Equity Participation (GEP) and conducting Initial Public Offering (IPO) in the capital market (ii) merger of banks into large banks that can be pioneered by state-owned banks in order to improve efficiency and professionalism (iii) increase the ratio of bank loan to GDP, (iv) lower loan and deposit interest rate (v) apply restriction through reciprocal mechanism to other ASEAN country banks wishing to operate in Indonesia.

5. Conclusion and Recommendations

Based on the discussions conducted using tables, graphics, picture and SWOT analysis, the authors arrive at the following conclusion: First, Indonesia's banks are quite ready to face ASEAN economic integration of the financial sector, especially banking, which will be fully implemented by 2020. Several indicators show the strength of Indonesia's banks such as the high level of Return on Equity (ROE), Return on Assets (ROA), Liquidity and Loyalty of Indonesia's banking customers. ASEAN financial integration through AEC also provides opportunities to Indonesia's banks in the form of: outward expansion and improvement of competitiveness through adaptation with outside competitor's banks. Second, some problems still to be faced by Indonesia's banks compared to neighboring ASEAN countries are: lower loan to GDP ratio, higher loan and deposit interest rates, smaller asset values and lower banking professionalism especially small and medium size.

Recommendations:

- Indonesia's banking authority does not need to be too worried about banking integration and the establishment of ABIF within the framework of the AEC, as the various indicators of Indonesia's banks in both financial indicators and health indicators show that Indonesia's banks are ready to compete with neighboring ASEAN countries when banking integration is fully implemented by 2020.
- There are still some issues that must be overcome by the banking authorities and Indonesia's banks to be the winners in competition with other ASEAN country's tire banks namely: low loan to GDP ratio, higher loan and deposit interest rate, lower asset value, the number of banks that have not been in merge and still lack of professionalism of bank management especially small and medium banks.

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