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Developing Stronger Indonesian Rural Banks

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ABSTRACT

The government through Bank Indonesia (BI) as the Indonesian Central Bank has encouraged the role of Indonesian Rural Bank (Bank Perkreditan Rakyat/BPR) in the development of micro, small and medium enterprises (MSMEs) by either appointing BPRs as executing agents or channeling agents in the linkage programs with commercial banks to specifically extend credit to SMEs (Bank Indonesia, 2004). According to the data from DPD of OJK in 2016, the total number of BPRs in Indonesia as of June 2016 is 1,634. The growth rate of BPRs' assets in the period 2011 to 2015 increased by 16%. Although the BPR's growth rate is very good, most BPRs which are 1,184 (68%) are BPRs with limited core capital (CC) of less than IDR 6 billion. The main problem with BPRs with core capital below IDR 6 billion is that the financial performance of those rural banks tend to deteriorate. In this paper, the author tries to get understanding what factors which caused the worsening of financial performance. The author also tries to get understanding what kinds of policies taken by OJK to against that condition. This paper used exploratory and explanatory methods to achieve that goal. The investigation result shows that based on OJK data the worsening of BPRs' financial performance of BPRs with limited core capital (CC) of less than IDR 6 billion were caused by the lack of capital, the lack of management, the lack of governance, and the lack of IT system. To reduce the worsening of BPRs' financial performance by eliminating the causes and to strengthen BPRs' institution, Otoritas Jasa Keuangan (OJK) as the Financial Service Authority has released some OJK regulations since 2015.

Keywords: Rural Bank's Financial Performance, Corporate Governance, Human Resources Management, and Strategic Management

1. BACKGROUND

Micro, small and medium enterprises (MSMEs) - including in this category are Rural Banks (BPR) - have a strategic role in Indonesian's national economic development. The role of MSME is more particularly in terms of economic growth and employment, as well as the distribution of development outcomes. In addition to its strategic role, in terms of resilience, UMKM more resilient to face the crisis compared with large-scale business that is stagnant and even stop its activities during the crisis.

In order to develop MSMEs in Indonesia, BPR is expected to increase its role and contribution (Armanto, 2016). In order for BPRs to play a role in developing MSMEs, the government through Bank Indonesia (BI) has encouraged the banking industry in Indonesia by way of appointment of Rural Banks (BPR) as executing agents or channeling agents from commercial banks to specifically extend credit to MSMEs (Bank Indonesia, 2004). Moreover, The Decree of the Minister of Finance No.1064/KMK.00/1988 on the Establishment and

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Enterprises of Rural Banks states "the duty BPR is directed to support the growth and modernization of rural economy as well as to reduce the practices of debt bonds".

More specific, Bank Indonesia issued Bank Indonesia Regulation (PBI) no. 14/22/PBI/2012 requiring every commercial bank to distribute credit or UMKM financing in 2018 is at least 20% of the total credit or financing discharged. With the issuance of the PBI, for BPRs, it is a challenge, opportunity, and potential to be as the partner of commercial banks in the linkage program.

According to DPD data of OJK in 2016, the total number of Conventional BPRs in Indonesia as of June 2016 is 1,634. The growth rate of BPRs' assets in the period 2011 to 2015 increased by 16% and until the end of June 2016 reached IDR105 trillion. Meanwhile, the amount of third party funds reached IDR70 trillion which is mostly in the form of deposits that reaching 70%. In the case of credit disbursement, as of June 2016 the lending of BPRs reached IDR79 trillion.

The widespread of services accompanied by an increase in the volume of BPR business, the risk of BPR is greater (OJK, 2015). Although the BPR's growth rate is very good, most BPRs that are 1,184 (68%) are the BPRs with limited core capital (MI) of less than IDR6 billion, even 16 BPRs have the core capital of less than IDR3 billion. The main problem with BPRs with core capital below IDR6 billion is thet the financial performance of banks tend to deteriorate. The worsening of their financial performances is reflected in: (1) higher Non-Performing Loans; (2) higher Operational Cost compared to Operating Income Ratio (OCOI); and (3) lower Return on Assets (ROA) from year to year. Referring to the data from DPIP OJK and supported by Bureau of Research and Conventional BPR Statistics (BI, 2016), BPR financial performance condition until June 2016 when compared with BPR 2012, 2013, 2014 and 2015 financial performance shows the worsening evidence. Comparison of BPRs' financial performance from 2012 to June 2016 can be shown in the following table:

Table 1: The Worsening BPRs Financial Performance, the data are from DPIP OJK supported by Bureau of Research and Conventional BPR Statistics (BI, 2016)

Financial Performance Indicators	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016 (till June 2016)
NPL (%)	4.75	4.45	4.76	5,40	6,20
OCOI (%)	77.77	77.65	80.30	81.77	82.42
ROA (%)	3.46	3.38	2.99	2.69	2.61

In this paper, the author tries to get understanding what factors which caused the worsening of BPRs' financial performances. The study is concentrated in the case of Conventional BPR, the most common form and the biggest number of rural banks in Indonesia. The author also tries to get understanding what kinds of policies have been taken by Otoritas Jasa Keuangan (OJK) as the Financial Service Authority to against that condition. This paper used exploratory and explanatory methods to achieve that goal.

2. INDONESIAN RURAL BANKS AND THEIR DEVELOPMENTS

Relating to Law number 10/1998, Indonesian Rural Bank (Bank Perkreditan Rakyat/BPR) is a Bank thta conducting business in a conventional or sharia-based manner, in which its activities do not provide services in the payment traffic. BPR activities are much narrower than those of commercial banks because BPRs are prohibited from receiving demand deposits, foreign exchange activities, and insurance. The Business Activities of Rural Banks are:

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1. Collecting funds from the public in the form of deposits as well as time deposits, savings, and/or other similar forms.
2. Giving credit.
3. Provide financing and placement of funds based on Sharia Principles, in accordance with provisions stipulated by Bank Indonesia.
4. Placing funds in the form of Bank Indonesia Certificates (SBI), time deposits, certificates of deposit, and/or savings at other banks.

In the beginning era of BPR development, BPR are developed mostly from rural credit unions and/or other financial institutions commonly found in villages, and the others are built in the form of cooperatives or limited companies with the regulations are set by the Indonesian Government. Today, there are 1.634 Conventional BPRs and 163 Sharia BPRs in Indonesia (DPD data of OJK, June 2016). As stated before, according to DPD data of OJK in 2016, the total number of Conventional BPRs in Indonesia as of June 2016 is 1,634. The growth rate of BPR-BPR assets in the period 2011 to 2015 increased by 16% and until the end of June 2016 reached Rp105 trillions, while the amount of third-party funds reached Rp70 trillions which mostly in the form of deposits reaching 70%. In the case of credit disbursement, as of June 2016 the lending of BPRs reached Rp79 trillions.

3. BPRS' ISSUES

There are several issues faced by BPR. These issues clearly affected to the worsening of financial performance. The worsening of financial performance is reflected in: (1) higher Non-Performing Loans; (2) higher Operational Cost compared to Operating Income Ratio (OCOI); and (3) lower Return on Assets (ROA) from year to year. Referring to data from DPIP OJK re-processed by Infobank 2016 Bureau of Research and Conventional BPR Statistics (BI, 2016), BPR financial performance condition until June 2016 when compared with BPR 2012, 2013, 2014 and 2015 financial performance shows worsening evidence. The worsening of BPRs financial performance mostly happened to the BPRs which are have core capital less than Rp6 millions. The numbers of BPRs which are have core capital less than Rp6 millions are 1.184 or 68% from the total BPRs in Indonesia.

The fact that the mostly BPRs in Indonesia have core capital less than Rp6 millions become the main issue, because it will affect to the effectiveness operational of BPRs. This lack of capital as the ultimate main issue causes the other main issues as well as lack of management, lack of governance, and lack of IT system that also become the challenge of BPRs. In general, The Challenges of BPRs can be divided into BPRs Challenges from the External and BPRs Challenges from the Internal (Direktorat Penelitian dan Pengaturan BPR Departemen Penelitian dan Pengaturan Perbankan Otoritas Jasa Keuangan, 2016). BPRs Challenges from the external including:

1. The number of micro business units cannot be served by BPRs is still relatively large
2. Tight competition between commercial banks, BPRs, and non-bank financial institutions
3. Service innovations that affect people's preferences / demands on IT-based banking products and services
4. Public understanding and confidence in BPR are still limited

Then, BPRs Challenges from the internal including:

1. Most BPRs have limited capital
2. The commitment of some owners in the development of BPR is relatively low

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3. The quality and quantity of BPR Board of Management and Human Resources is inadequate
4. Governance of BPR is still weak:
   a. Fraud is a major cause the suspending or failure of a BPR
   b. Most BPRs organization structures have not been completed with internal audit function
   c. The Owner is also as the Executive
5. BPRs' competitiveness is still relatively weak because of human resources, products and services, and marketing methods are still limited.

In the next sections, the author will discuss the main issues which are stressed relating to the BPRs Challenges from the Internal because they suppose can be managed by the Otoritas Jasa Keuangan (OJK) as the Financial Service Institutions Authority and BPRs their selves.

3.1. Main Issues of BPRs Challenges from the Internal

There are 4 main issues relating to BPRs Challenges from the Internal: lack of capital (as the ultimate issue), lack of management, lack of governance, and lack of IT system.

3.1.1. Lack of Capital

Relating to the amount of core capital, BPRs are divided into 3 strata: strata 1 for BPRs which are having core capital less than IDR15 billion; strata 2 for BPRs which are having core capital at least IDR15 billion but less than IDR50 billion; and strata 3 for BPRs which are having core capital at least IDR50 billion. As mention before that most BPRs (1.423 BPRs or 87.1%) are in the strata 1. From that number, BPRs which are having core capital less than IDR6 billion are 1.184 or 68% from the total BPRs in Indonesia. BPRs which are having core capital less than IDR6 billion tend to have: (1) higher Non-Performing Loans; (2) higher Operational Cost compared to Operating Income Ratio (OCOI); and (3) lower Return on Assets (ROA) year by year from 2012 till 2016.

The lack of core capital of most BPRs is caused by (OJK, 2016):

1. Lack of majority shareholder's ability to raise capital
2. Majority shareholder is less committed to BPR development
3. Credit expansion is not matched by capital strengthening

This lack of capital condition will cause:

1. BPR inability to recruit qualified human resources and develops human resources with integrity.
2. BPR cannot be able to acquire reliable IT
3. BPR is unable to manage on a regular basis professional / governance
4. BPR is not able to develop competing product and services

Those conditions above can cause mismanagement and fraud. The mismanagement and fraud of BPR can cause worst BPR's financial performance and more over the BPR can be bankrupt.

3.1.2. Lack of Management

The lack of BPR management will cause fraud, mismanagement, and limitation of BPR development (OJK, 2016). In the other word, those fraud, mismanagement, and limitation of BPR development mostly is caused by the lack of control and new ideas to develop BPR because of the lack of management. The data from OJK (2016) this lack of BPRs management are shown that BPRs in the strata 1 which are not have appropriate number of

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directors are 20% and appropriate number of commissioners are 15%. The BPRs in strata 1 also have low average education level of human resources. It is shown by the fact that the 44.8% average education level of BPRs staffs are only from high school graduates.

Beside the lack of management and average level of BPRs human resources, the strata 1 BPRs also face the lack of competency of staffs or staff candidates. In the other hand, the salary of BPRs staffs is also relatively lower compare to commercial bank staffs. Those conditions also affect to the trend that work for BPR is just the second opinion.

3.1.3. Lack of Governance

The worsening of BPR financial performance is pointed out by OJK one of the main causes is the implementation of weak governance. The alleged by OJK is also related to previous studies (Fernandes, 2016 and Zagorchev and Gao, 2015) that the company's financial performance is also influenced by the implementation of governance.

In Zagorchev and Gao's (2015) study, they found that improved governance was negatively associated with extensive risk taking and positively associated with the performance of financial institutions in U.S. Further, according to Filatotchev and Nakajima (2014), governance that focuses on profit then governance based on financial control or effectively monitor the company's financial performance. Such governance is called long-term sustainability because management does not attach importance to personal performance but management has an interest in value and behavior and distributes behavior and values to stakeholders.

Specifically, Mersland and Strom (2009) assert that external and internal governance have a significant effect on the financial performance of micro banks (in cases in Indonesia are BPRs). The findings, in accordance with the results of Herly and Sisnuhadi (2011), suggest that there is a significant positive relationship if governance is related to performance measurement using accounting / financial (ROA) basis and negative relationship when associated with mixed performance measurement (financial / accounting and market base).

In the case of lack of BPRs governance implementation, there were frauds (fictitious deposits, credit engineering, embezzlement of credit installments, credit engineering, embezzlement of sales of assets that have been taken over). Those frauds are the dominant factors that cause some BPRs to be liquidated. The inappropriate implementation of BPRs governance is mostly reflected by weak internal control and massive majority shareholder interventions.

From the OJK data, it is shown that there are 16 BPRs which were liquidated during 2014 till August 2016. And they were having core capital less than Rp3 billions. The revoking a business license for a problematic BPR is an effort to create a healthy BPR industry so that it can serve the community well.

3.1.4. Lack of IT System

Information Technology Risk Management will be a very important thing to do considering many BPRs are using computerized systems. Relating to OJK Data (2016) the commonly used Transaction and Administration Management System in Rural Banks is computerized. There are approximately 94% of BPRs use computerized systems. Although almost all of BPRs are using computerized systems, some weaknesses are still exist in the IT system that can lead to fraud or error. Those weaknesses are:

1. The system cannot validate the data that has been inputted.
2. The systems still allow to be intervened or to be manipulated.

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3. There is no authorization for both daily and special operations.
4. There is no limit on the number of transactions that the Teller can process them without authorization.

Those weaknesses that have been discussed including lack of capital, lack of management, lack of governance, and lack of IT system will have effect on:

1. The limited range of products and services provided
2. Difficult to get cheap source of fund high cost of fund
3. Not achieving economic of scale causes inefficiency
4. High overhead costs that are due to labor costs

4. OJK'S REGULATIONS TO AGAINST THE BPR'S WEAKNESSES

In order to against the weaknesses that have been discussed in the previous section, Otoritas Jasa Keuangan (OJK) as the Financial Service Authority has issued some OJK's regulations. In this section, the author will discuss some OJK's regulations had been issued to against the weaknesses.

4.1. OJK's Regulation to against the Lack of Capital

By majority operating for the local community, BPR also has to be operated on an economical scale. When achieve economies of scale, BPRs will be able to compete with others in order to serve the community. In order to achieve economies of scale, BPR is required to have a certain amount of capital (OJK, 2015). In fact, the BPR's core capital is not always sufficient to achieve the economies of scale. If the BPR experiences a loss so it is necessary to establish a minimum core capital for the BPR. In order to improve the ability of BPR to absorb risks, an increase in the capital quality of BPR, the addition of core capital instruments in the core capital is needed. Here the OJK issued the OJK's Regulation number 5/POJK.03/2015.

Relating to OJK (2015), it is necessary to stipulate the amount of capital with strong characteristics to support institutional strengthening and ability to absorb risks for BPR in the form of minimum core capital, then, the OJK's Regulation number 5/POJK.03/2015 is issued under considerations of:

1. realizing a healthy, robust, and productive Rural Bank industry, it is necessary to adjust the capital structure in line with best banking practices
2. the adjustment of capital structure of Rural Bank is intended to improve the ability of Rural Bank in providing funds for the real sector, especially for micro and small enterprises
3. institutional strengthening of Rural Banks needs to be supported with strong capital

The major regulation is stated in article 2 that BPR is required to provide the minimum capital calculated using the lowest KPMM ratio of 12% (twelve percent) of the Risk-Weighted Assets. Risk-Weighted Assets, abbreviated as RWA, are the amount of BPR balance assets that are given weight according to the level of risk attached to each item of asset in accordance with the provisions. While in article 4, it is stated that The BPR is required to provide the lowest core capital of 8% (eight percent) of the RWA.

The minimum core capital of a BPR is set under article 13 that set at IDR6 billion with the following conditions:

1. Any BPR with a core capital of less than IDR3 billion shall be required to meet the minimum core capital of IDR3 billion no later than December 31, 2019.
2. The BPR as referred to in number 1 shall meet the minimum core capital of IDR6 billion no later than December 31, 2024.

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3. Any BPR with a core capital of at least IDR3 billion but less than IDR6 billion shall be required to meet the minimum core capital of IDR6 billion no later than December 31, 2019.

BPR is required to meet the capital ratios as referred to in Article 2 and Article 4 no later than December 31, 2019 (Article 17). The sanktion of BPR that violating the provisions referred to in Article 17 is regulationd in Article 23. That BPR shall be liable to administrative sanctions in the form of:

a. written warning;
b. declining health levels;
c. ban on opening of office network; and / or
d. temporary suspension of some BPR operations

4.2. OJK's Regulations to against the Lack of Management

4.2.1. OJK's Regulation Relating to Risk Management

The growing development of the financial services provided by BPR and the need for further improvement for its products and services will also increase BPR risks. This Risk Increasing must be offset by an increase in Risk control. Therefore, BPR is required to apply Risk Management. The implementation of Risk Management is not only intended for BPR but also to protect BPR stakeholders (OJK, 2015).

Further, OJK (2015) stated that cconsidering the existence of gaps in the BPR industry, the implementation of Risk Management is differentiated according to the business activities, products, and services as well as the ability of BPR in terms of finance, supporting infrastructure and human resources. The Financial Services Authority set OJK Regulation for Implementation of Risk Management for BPR by POJK number 13/POJK.03/2015 as the minimum standard that BPRs must fulfill in the implementation of Risk Management. This Risk Management is a set of methodologies and procedures used to identify measure, monitor and control Risks arising from all BPR business activities.

This OJK's Regulation is issued under considerations of:

1. the more complex the products and activities of BPR, the more risks faced by BPR;
2. with the increasing risks faced by BPR, there is a growing need for risk management implementation by BPR;
3. the implementation of risk management is one of the efforts to strengthen institutions and enhance the reputation of the BPR industry in accordance with the direction of development policy of BPR;
4. the institutional strengthening and enhancement of the reputation of the BPR industry is expected to create a sustainable and stable financial sector with high competitiveness;

The major regulation for implementation of BPR risk management is set at article 2 in this OJK's regulation, including:

(1) A BPR shall apply Risk Management as stipulated in this regulation of OJK.
(2) The implementation of Risk Management as referred to (1) shall at least include:
  a. Supervision of the Board of Directors and Board of Commissioners.
  b. The adequacy of policies, procedures, and limits are:
    1) Risk Management Policy;
    2) Risk Management Procedures; and
    3) Determination of Risk Limit.
  c. The adequacy of processes and systems are:
    1) Risk identification, measurement, monitoring and control processes; and

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2) Risk Management Information System.

d. Comprehensive internal control system.

Further, in article 3 of this regulation, it is stated that risks that must be managed in the application of Management Risks including:

a. Credit Risk;
b. Operational Risk;
c. Risk of Compliance;
d. Liquidity Risk;
e. Reputation Risk; and
f. Strategic Risk.

4.2.2. OJK's Regulation Relating to Human Resources Management

Banking Human Resource Development to become a professional manpower through continuous education and training requires a long time and a large cost, so that, each bank is required to provide funds for that purpose. Those human resources have very important role to improve the performance and development of BPR industry, so it needs to be well prepared and planned through those continuous education and training (OJK, 2017). That is what is regulated by OJK's regulation number 47 /POJK.03/2017 concerning The Obligation of Education and Training Funding for Human Resources Development of BPR. This regulation is set under considerations of:

a. that to improve performance and develop Industrial BPR, humans are healthy resources need professional human being;
b. that to form professional human resources, BPR is required to enhance their knowledge, capabilities and skills of human resources through continuous education and training;
c. that to carry out the education and training of human resources of BPR, it is necessary to have good and planned cost and preparation;

Article 3 of this regulation stated that BPR is required to meet the obligation to provide Education and Training Funds at least 5% (five percent) annually. In the event that BPR has fulfilled the obligation to provide Education and Training Funds, but not sufficient to include human resources in education and training, BPR shall increase Education and Training Funds so that include at least 1 (one) person in education and training. While, Article 7 stated that the realization of the education and training plan is submitted to the Financial Services Authority in the realization report of the Business Plan and the Business Plan supervision report as referred to in the Financial Services Authority Regulation concerning the BPR Business Plan.

4.3. OJK's Regulation to against the Lack of Governance

OJK (2015) stated that the implementation of Governance is very important because the risks and challenges faced by BPR both from internal and external are more and more complex. Internally, the Board of Directors and the Board of Commissioners are expected to act as role models in order to assure that BPR applies the principles of Good Corporate Governance optimally. Large BPRs that have large business volumes and complex organizational structures should implement full GCG including the fulfillment and completeness of the organizational structure. As for the small BPRs, the implementation of Good Corporate Governance puts forward the implementation of the Good Governance function. The structure of the Board of Directors and Board of Commissioners for a large BPR consists of Independent Parties and parties affiliated with the controlling shareholder. That existence of

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the Independent Party is expected to improve the balance in the implementation of supervision and ultimately can optimize the implementation of Good Corporate Governance.

The Cadburry Committee in 1992 - through what is known as the Cadburry Report - outlined its own definition of GCG. According to the Cadburry Committee, GCG is the principle that directs and controls the company to achieve a balance between the strength and authority of the company in giving accountability to its shareholders in particular, and stakeholders in general. Of course, this is meant to set the authority of the director, manager, shareholder, and other parties related to the development of the company in a particular environment.

The implementation of BPR Good Corporate Governance is regulated by OJK's Regulation number 4/POJK.03/2015.

This OJK's regulation is issued under considerations of:

1. with the increasingly widespread of services accompanied by an increase in the volume of BPR business, it also increases the risk of BPR, so as to encourage the need for the implementation of governance by BPR
2. in order to improve the performance of BPR, to protect stakeholders, and to improve compliance with laws and regulations, and generally accepted ethical values in Banking, BPR should immediately implement governance

The major regulation about Governance for BPR is stated at Articel 2. The articel stated that:

(1) A BPR shall implement Good Corporate Governance in its business activities at all levels the organization.
(2) The implementation of Good Corporate Governance as referred to in paragraph (1) shall at least be realized in the following form:
 a. implementation of duties and responsibilities of the Board of Directors;
 b. the implementation of the duties and responsibilities of the Board of Commissioners;
 c. completeness and execution of duties or functions of the committee;
 d. handling of conflict of interest;
 e. implementation of compliance function, internal audit, and external audit;
 f. implementation of risk management, including internal control system;
 g. the maximum crediting limit;
 h. BPR business plan;
 i. Transparency of financial and non-financial conditions.

The Article 91 of this regulation stated about the Implementation of BPR Good Corporate Governance Reporting. It is stated that:

(1) The report on the implementation of Good Corporate Governance for the position of the final report of December 2016 shall be submitted to the Financial Services Authority.
(2) The report on the implementation of Good Corporate Governance shall be submitted to the parties as regulated and uploaded on the homepage of the BPR since the position of the final report of December 2017.
(3) The imposition of sanctions on the submission of the report on the implementation of Good Corporate Governance shall be applied for the submission of the position report of December 31 of 2017.

4.4. OJK's Regulation to against the Lack of IT System

Refering to OJK (2016), the role of Information Technology for the banking industry, including BPR, is very important and inseparable from the banking operations in serving the

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community of banking service users. Implementation of Information Technology can improve the effectiveness and operational efficiency of BPR. The implementation of Information Technology by BPR is also expected to support the implementation of management information system adequately, including in fulfilling reporting obligation to the authority.

The OJK's Regulation number 75/POJK.03/2016 is issued under considerations of:

1. the development of information technology is moving dynamically follows the business environment and needs community to banking products and services
2. in order to improve operational efficiency and service quality to the community of banking service users, it is required to provide information technology by Rural Bank and Sharia Rural Bank in an effective and efficient manner;
3. the implementation of information technology effectively and efficiently is the responsibility of management by involving all levels of organization in Rural Banks and Sharia Rural Banks as users of information technology

As stated in article 2 BPR is required to implement information technology at least in the scope of:

1. Banking Core Application and Data Center for BPR having a core capital of less than Rp50 billions; or
2. Core Banking Application, Data Center and Disaster Recovery Center for BPR with core capital of at least Rp50 billions.

BPR may hold Information Technology independently or in cooperation with Information Technology service providers. Implementation of Information Technology in cooperation with Information Technology service providers may be implemented for all or part of the implementation of Information Technology BPR or BPRS covering the implementation of:

a. Core Banking Applications;
b. Data Center;
c. Disaster Recovery Center; and / or
d. Administering other Information Technology in accordance with the provisions of legislation.

5. CONCLUSION, LIMITATION, AND SUGGESTION FOR THE NEXT RESEARCH

5.1. Conclusion

The widespread of services accompanied by an increase in the volume of BPRs' businesses, the greater the risks of BPR (OJK, 2015). Although the BPRs' growth rate is very good, most BPRs (1,184/68%) are BPRs with limited core capital that less than IDR6 billion, even 16 BPRs' is less than IDR3 billion. The main problem with BPRs with core capital below IDR6 billion is that the financial performances of those BPRs since 2011 till 2015 tend to deteriorate.

In this paper, the author tries to get understanding what factors which caused the worsening of BPRs' financial performances. The author also tries to get understanding what kinds of policies have been taken by Otoritas Jasa Keuangan (OJK) as the Financial Institution Authority to against that conditions. This paper used exploratory and explanatory method to achieve that goal.

From the investigation, based on OJK data, result shows those worsening were caused by the lack of capital, the lack of management, the lack of governance, and the lack of IT system. To reduce the worsening of BPRs' financial performances by eliminating the causes

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and to strengthen BPRs' institution, OJK has released some Peraturan Otoritas Jasa Keuangan (POJK) or OJK's regulations since 2015. Those regulations including:

1. Regulation Number 4/POJK.03/2015 on the Implementation of Good Corporate Governance for the BPR
2. Regulation Number 5/POJK.03/2015 on Minimum Capital Requirement and Fulfillment of Minimum Core Capital of BPR
3. Regulation Number 13/POJK.03/2015 on the Implementation of Risk Management for BPR
4. Regulation Number 75/POJK.03/2016 concerning Information Technology Implementation Standards for BPR and BPRS
5. Regulation Number 47/POJK.03/2017 on the Obligation of Provision of Education Funds and Training for Human Resource Development of BPR and BPRS

5.2. Limitation of the Study

Relating to answer the objective of this study to get understanding what kinds of policies have been taken by Otoritas Jasa Keuangan (OJK) as the Financial Service Authority to against the worsening of BPRs' financial performances wich are caused by the lack of capital, the lack of management, the lack of governance, and the lack of IT system, the author stressed on the study of OJK's Regulations which are issued by OJK since 2015 related with those lacks. Those OJK's Regulations major points are mostly gradually implemented for the next comming years and dedicated for the mid and long-term robust BPRs. In general, this condition makes the measurement of the results of the implementations to against the lacks cannot only be seen in the short term after the regulations are issued.

5.3. Suggestion for the Next Researchs

The condition that makes the measurement of the results of the implementations to against the lacks cannot be seen in the short term after the regulations are issued gives opportunity to the next research to study them. Hopefully, from the next comming researchs results can give feedbacks to the OJK as the regulator and the BPRs relating with the implementation of the regulations. Those feedbacks are needed to evaluate whether the regulations are effectively against the lacks or they are needed to be furtherly improved.

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