Bank Perkreditan Rakyat (BPR)  
Local Banks in Indonesia

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Consultant, 2014
Bank Perkreditan Rakyat (BPR)  Local Banks in Indonesia

The following informs about

~ 1,800 BPRs
with ~ 5,000 outlets
serving ~ 3 million debtors
administering ~ 10 million deposit accounts
managing assets of ~ USD 7 billion

Main data sources:
BI, Perbarindo (BPR Association)
(some data from the same source may differ according to place and date of publication)
Indonesia’s local banks are

**Bank Perkreditan Rakyat (BPR)**

literally “People’s Credit Bank”

Bank Indonesia (BI, central bank, regulator and supervisor until 2013) uses the term “Rural Bank”.

BPRs operate in rural areas and in cities, including the capital Jakarta.

BPRs are local banks:
- The Law on Banking limits their activities to the province.
- Typically, BPRs have no to up to three outlets within their regency.
Objectives

Financing Indonesia’s more than 50 million micro, small and medium businesses, in particular the informal sector

Income generation for owners, both government and other parties
History of local banks in Indonesia

1895  The first local bank founded by a Javanese Aristocrat and a Dutch Colonial Administrator
      **Objective:** offering an alternative to money lenders

1905  Village Bank (Bank Desa) development starts

1929  Regulation of Village Credit Agencies (Badan Kredit Desa, BKD)

-1954  Revival and growth of BKDs from 1,769 to 4,640 institutions

1967  Law on Banking: various bank types according to function: General Bank, Development Bank, Savings Bank, Employees Bank, etc. and also Market Bank and Village Bank
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Local Banks in Indonesia

1967-1970  Private parties and regional governments establish local banks

1970-1988  No new bank licenses. Regional governments establish “Rural Fund and Credit Institutions” (generic name)

1988  Indonesia’s “Big Bang” in banking deregulation (“Pakto 88”)  
Legal framework for BPRs, regulated local banks under BI supervision.  
Village Banks and Credit Institutions now “old-style” BPRs irrespective of their size.  
Special “new style” BPR feature:  
Minimum capital: ~ USD 30,000 (equivalent to USD 60,000 in 2014)
Bank Perkreditan Rakyat (BPR)  Local Banks in Indonesia

**BPR activities** are limited:
- mobilizing funds from the public as savings and term deposits
- providing loans
- placing funds with central bank (BI) and other banks

Nos for BPRs:
- cheque accounts
- participation in the transfer clearing system
- forex activities
- capital investment
- insurance business
**Bank Perkreditan Rakyat (BPR)** Local Banks in Indonesia

**Organization**

- Board of Commissioners: min. 2 persons “fit and proper”
- Board of Directors: min. 2 persons “certified”
- Staff: Administration, Funding, Marketing (loans and loan collection), min. 3 persons, typically 10 – 50 persons
- IT: PC, internet, individual BPR software offered by several software developers
**Bank Perkreditan Rakyat (BPR)**

**Local Banks in Indonesia**

**Institutional support**

BI continuously adjusting the legal and regulatory framework

- Blueprints: scheduled BPR strengthening and development
- Capacity building of BPR management
- Certif: agency for BPR professionals certification
- Access to Credit Information Bureau data
- Linkage Program: Commercial Banks lend to BPRs
- Apex banks as lender of last resort, professional support

**Deposit Insurance Corporation**

- Deposits covered up to IDR 2 billion (~ USD 160,000)
- BPR deposit interest cap: 10.25% > Commercial Banks: 7.75%
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1991 1,008 applications for “new style BPRs” (until July)
1992 Law on Banking distinguishes Commercial Banks and BPRs
1997 Asian financial crisis: few new licenses until 2003
2000 2,427 BPRs
2013 1,635 conventional BPRs and 160 Sharia BPRs

Reasons for drop in number of BPRs:
- Initially, existing BPRs had to adjust the capital just to maintain soundness, not to the minimum for new BPRs
- Mergers of small regional government-owned BPRs forced by higher min. capital requirements, (number of outlets increased!)
- Liquidation: 0.4% p.a. (2006-2013: 54 BPRs)
**Bank Perkreditan Rakyat (BPR)**

Local Banks in Indonesia

### Legal form and ownership

<table>
<thead>
<tr>
<th>Year</th>
<th>Conv. BPRs</th>
<th>Offices</th>
<th>PT Ltd</th>
<th>PD Gov</th>
<th>Cooperative</th>
<th>Sharia (offices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,427</td>
<td></td>
<td>1,431</td>
<td>932</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>2,144</td>
<td>2,400</td>
<td>1,322</td>
<td>765</td>
<td>57</td>
<td>82</td>
</tr>
<tr>
<td>2005</td>
<td>2,062</td>
<td></td>
<td>1,263</td>
<td>497</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>1,817</td>
<td>3,250</td>
<td></td>
<td></td>
<td></td>
<td>114 (185)</td>
</tr>
<tr>
<td>2013</td>
<td>1,635</td>
<td>4,678</td>
<td>1,378</td>
<td>225 (385)</td>
<td>32</td>
<td>160 (399)</td>
</tr>
</tbody>
</table>


>> “Bhinneka Tunggal Ika” = “Unity in Diversity” <<
**EUROPEAN MICROFINANCE WEEK 2014**
**DEVELOPING BETTER MARKETS**

**Bank Perkreditan Rakyat (BPR)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Sumatra</th>
<th>Lampung</th>
<th>Java</th>
<th>Bali</th>
<th>Kalimantan</th>
<th>Sulawesi</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>18%</td>
<td>3%</td>
<td>57%</td>
<td>2%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Outlets</td>
<td>10%</td>
<td>1%</td>
<td>75%</td>
<td>6%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Assets</td>
<td>12%</td>
<td>9%</td>
<td>58%</td>
<td>10%</td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>USD mio.</td>
<td>771</td>
<td>556</td>
<td>3,757</td>
<td>643</td>
<td>161</td>
<td>298</td>
<td>261</td>
</tr>
</tbody>
</table>
Bank Perkreditan Rakyat (BPR)  

Local Banks in Indonesia

Growth of Commercial Banks and BPRs
Based on assets in IDR (2002=100%)

2002 - 2013:
Nominal GDP growth: 14.4%

The BPR share in the total banking doubled from 0.8% to 1.6%.

Commercial Banks: 14.5% p.a.

BPRs: 24.0% p.a.
From USD 0.5 billion to USD 6.3 billion
**Bank Perkreditan Rakyat (BPR) | Local Banks in Indonesia**

**BPR: Minimum Capital**

- **Prov. Capitals in Java, Bali**
- **Other Prov. Capitals, rural Java, Bali**
- **Other rural areas**

<table>
<thead>
<tr>
<th>Year</th>
<th>USD Milliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>29</td>
</tr>
<tr>
<td>1996</td>
<td>21</td>
</tr>
<tr>
<td>1999</td>
<td>70</td>
</tr>
<tr>
<td>2004</td>
<td>54</td>
</tr>
<tr>
<td>2014</td>
<td>42</td>
</tr>
</tbody>
</table>

New regulations in 1999, 2004
Drops in USD due to X-rate
US inflation 1988-2014: 101%
Real minimum BPR capital in 2014 lower than in 1988!
Most new BPRs start with higher capital: >\(\pm\) USD 150,000
Strengthening BPRs

No. of BPRs according to asset ranges

- **IDR**:< 1 billion, 1 - 5 billion, 5 - 10 billion, > 10 billion
- **USD**: < 100,000, up to 500,000, up to 1 million, > 1 million (+/- 20%)
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**BPR Assets**

- From < IDR 1.0 billion (USD 100,000)
- To > IDR 1,000.0 billion (USD 100 million) (5 BPRs)
- Top 6% (<100) account for 50% of assets.
- Average assets of 94%: IDR 25 billion (USD 2.5 million)
- Typically: IDR 5 billion to IDR 50 billion
  (USD 500,000 to 5 million)
**Bank Perkreditan Rakyat (BPR)**  
Local Banks in Indonesia

**Asset composition**

- **Interbank ass.**
- **Loan portfolio**
- **Others after LLR deduction**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interbank ass</th>
<th>Loan portfolio</th>
<th>Others after LLR deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>21.7%</td>
<td>74.0%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>19.9%</td>
<td>76.4%</td>
<td></td>
</tr>
</tbody>
</table>
Bank Perkreditan Rakyat (BPR)  Local Banks in Indonesia

**BPR loan portfolio composition**

- **Total consumption** 48%
- **Trade** 24%
- **Agriculture forestry** 6%
- **Other working capital** 16%
- **Investment (all sectors)** 6%

**Business model**

Monthly installment loans, tenor 6 – 24 months, to the informal sector, self employed and micro enterprises, weak business documentation (if any), collateral value often questionable.

High risk, high interest (~20% to >40% eff. p.a.)

Fast loan disbursement

Door-to-door service
Bank Perkreditan Rakyat (BPR)

Development of loan portfolio and quality

- MSME loans (IDR trillion)
- Consumer loans (IDR trillion)
- NPL (%)
- NPL (IDR trillion)

Bank Perkreditan Rakyat (BPR)  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans, IDR</td>
<td>20.5 trillion</td>
<td>59.2 trillion</td>
<td>19.3%</td>
</tr>
<tr>
<td>Debtors</td>
<td>2.55 million</td>
<td>3.11 million</td>
<td>3.4%</td>
</tr>
<tr>
<td>Avg. amount, IDR</td>
<td>8.2 million</td>
<td>19.1 million</td>
<td>15.1%</td>
</tr>
<tr>
<td>Avg. amount, USD</td>
<td>900</td>
<td>1,550</td>
<td></td>
</tr>
</tbody>
</table>

Typically 500 to 2,000 debtors per BPR

Competition and saturated markets: The number of debtors declines!
**Bank Perkreditan Rakyat (BPR) Local Banks in Indonesia**

**Funding**

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings deposits</th>
<th>Term deposits</th>
<th>Bank liabilities</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>22,0%</td>
<td>45,0%</td>
<td>6,0%</td>
<td>18,0%</td>
</tr>
<tr>
<td>2013</td>
<td>21,5%</td>
<td>43,8%</td>
<td>15,4%</td>
<td>15,2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>Savings deposits</th>
<th>Term deposits</th>
<th>Bank liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>8,0%</td>
<td>22,0%</td>
<td>45,0%</td>
<td>6,0%</td>
</tr>
<tr>
<td>2013</td>
<td>4,1%</td>
<td>21,5%</td>
<td>43,8%</td>
<td>15,4%</td>
</tr>
</tbody>
</table>

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**DEVELOPING BETTER MARKETS**
Bank Perkreditan Rakyat (BPR)  
Local Banks in Indonesia

### Funding

In IDR million (~USD)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit accounts (s+t), million</td>
<td>8.14</td>
<td>9.82</td>
<td>4%</td>
</tr>
<tr>
<td>Average savings deposit</td>
<td>0.9 (90)</td>
<td>1.8 (180)</td>
<td>14%</td>
</tr>
<tr>
<td>Average term deposit</td>
<td>36.3 (3,600)</td>
<td>77.2 (7,700)</td>
<td>16%</td>
</tr>
<tr>
<td>Interbank liabilities per BPR</td>
<td>2,582 (260,000)</td>
<td>7,765 (7,800)</td>
<td>25%</td>
</tr>
</tbody>
</table>

(s+t: savings and term deposits)

Ratio: >3 deposit accounts = 1 loan account
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Income and costs
(2000 BPRs 12/2005)

Bank interest
4.5%
Others 4.5%
Fees 7.5%

Loan interest income 83.5%

Profit 18.6%

Depreciation 2.3%
B D Reserves 3.6%
Rent, maintenance and repair, others, 8.9%
Goods, services 6.6%
Human resources 22.5%
Interest cost 37.5%

Income, income
Biaya, costs
BPR performance indicators
BI, Statistik BPR Konvensional

EUROPEAN MICROFINANCE WEEK 2014
DEVELOPING BETTER MARKETS

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Performance

<table>
<thead>
<tr>
<th>Aspect</th>
<th>CAR</th>
<th>C/I</th>
<th>ROA</th>
<th>ROE</th>
<th>NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement</td>
<td>23.9%</td>
<td>75.9%</td>
<td>3.8%</td>
<td>30.1%</td>
<td>5.7%</td>
</tr>
<tr>
<td>BI target*)</td>
<td>10%</td>
<td>&lt;92%</td>
<td>1.5%</td>
<td></td>
<td>&lt;5.0%</td>
</tr>
</tbody>
</table>

*) maximum CAMEL score

CAR      Capital Adequacy Ratio
C/I      Cost/Income Ratio
ROA      Return on Assets
ROE      Return on Equity
NPL      Non-Performance Loans
(PAR>90 for monthly installment loans not yet due)
Bank Perkreditan Rakyat (BPR)  Local Banks in Indonesia

Challenges

- Competition for creditworthy borrowers
  - State and private Commercial Banks establish microfinance units
  - Government banks extend loans to “not yet bankable MSMEs” with 80% guarantee, fee paid by government ("Kredit Usaha Rakyat", KUR)
  - The state pawn corporation (~5,000 outlets) extends network and products (small and micro loans without pawn)

- Technology: Participation in transfer/remittance clearing system and affordable access to ATM network

- No balance for local risks (dependency on local environment)

- Reliable lender of last resort (reputation and liquidity risks)

Regulator’s challenge: Stratification to respond to mega BPRs
Bank Perkreditan Rakyat (BPR)  

Local Banks in Indonesia

Rural BPRs, jointly owned by proud members of village communities
Assets: about IDR 30 – 60 billion (~USD 3 – 6 million)

PT BPR LPN Sungai Rumbai

PT BPR LPN Tarantang

Thank you for your kind attention!