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### Banking: Special Surveillance

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# Special Surveillance



## SPECIAL SURVEILLANCE

### :: Surveillance Strategy of Bank Indonesia

In performing its supervisory function, Bank Indonesia has set three supervisory classifications based on the evaluation of a particular bank. The categories are as follows:

1. Routine Supervision
2. Intensive Supervision
3. Special Surveillance

Bank Indonesia also supervises banks in recovery (BDP), and monitors the liability settlement of frozen banks (BBKU), and liquidated banks (BDL) set by prevailing regulations.

### :: Surveillance Approach of Bank Indonesia

The surveillance approach adopted by Bank Indonesia is split into two activities, namely off-site supervision and on-site examination. Off-site supervision constitutes supervision and analysis based on regulatory reports submitted by a bank, information in the form of other communications, as well as information from third parties. Meanwhile, on-site examination is performed by investigation and evaluating a bank's compliance to prevailing regulations. Both approaches include detailed analyses of a bank's current condition and are forward looking.

#### :: Routine Supervision

All banks are subject to routine supervision. Generally, the frequency of such supervision is on an annual basis.

#### :: Intensive Supervision

Banks suffering a potential threat to their business activity are placed under intensive supervision. The measures taken by Bank Indonesia against a bank under intensive supervision are as follows:

1. Instruct bank to report on specific issues.
2. Intensify the frequency of the work plan assessment and adjust it to meet the desired target.
3. Instruct bank to compile a work plan to overcome its current problems.
4. Place an on-site supervisor or assessor from Bank Indonesia, if necessary.

A bank subject to Intensive Supervision that does not improve in terms of its financial condition and management, or if analysis by Bank Indonesia finds that a bank's business activity is under threat, then such a bank will be placed under Special Supervision status. As required, the intensity of direct examination

may escalate, especially in terms of assessing performance based on existing commitments and the work plan submitted by the bank's management to Bank Indonesia.

### :: Special Surveillance

Special surveillance is applicable to a bank that does not meet the minimum requirements. The measures available to Bank Indonesia under these circumstances are as follows:

1. Instruct a bank and/or its shareholders to submit a written capital restoration plan to Bank Indonesia.
2. Require a bank to fulfill mandatory supervisory actions.
3. Direct a bank and/or its shareholders to:
  - replace the board of commissioners and/or directors;
  - write-off credit or finance considered a loss based on Shariah Principles and calculate the bank's loss with the bank's capital;
  - merge or consolidate with another bank;
  - sell the bank to a buyer willing to accept the bank's liabilities;
  - replace the management as a whole or in part to a third party;
  - sell some or all of the bank's assets and/or liabilities to a third party; and/or
  - freeze the bank's business activity.

Restrictions and limitations for banks under special surveillance include:

1. Bank is not permitted to distribute capital (dividend or bonus);
2. Bank is not permitted to transact with parties stipulated by Bank Indonesia;
3. Bank is sanctioned with asset growth limitation;
4. Bank is not permitted to pay subordinate loans;
5. Bank is sanctioned with compensation limitation to particular parties;

Apart from the limitations listed above, Bank Indonesia will also post a list of banks under special surveillance on Bank Indonesia's website. In contrast, in the interest of balanced public information, Bank Indonesia will publicly announce any bank removed from special surveillance status.

The maximum period of time a bank may be placed under special surveillance is three months for banks not listed on the capital market and six months for listed banks. The time period may be extended but only once and for no more than three months. Extensions are normally granted due to the necessary legal processes, for example budgetary alterations, transfer of ownership, the license process and due diligence.

Generally the frequency and intensity of surveillance and assessment will escalate in order to monitor performance and bank commitment as well as its liabilities as instructed by Bank Indonesia. Based on such analysis and surveillance, if a bank's condition is found to deteriorate the bank will be placed under the auspices of IBRA with two alternative status options: Banks in Recovery or Frozen Banks.

### :: Banks in Recovery (BDP)

Banks can be assigned this status should such a bank be deemed recoverable, especially in terms of its capital. During the recovery process administered by IBRA, communications and collaboration between Bank Indonesia and IBRA are intensive, particularly regarding the development of primary performance indicators, namely capital, the liquidity ratio (reserve requirement), non-performing loans, prudential regulations (BMPK, PDN, PPAP), and work plan achievements. If conditions improve sufficiently and the recovery program is completed and deemed successful, then BDP status is revoked and the bank is reassigned to Bank Indonesia for further surveillance. In contrast, if the bank's condition deteriorates then its status can be downgraded to Frozen.

### :: Frozen Bank

A bank's business activity is frozen should it fail to successfully complete the IBRA recovery process within an agreed time frame. Once IBRA has finished finalizing a frozen bank, the business license of said bank would be revoked, followed by the annulment of the legal institution, and finally liquidation.

Appendix:

1. Procedure of Banks Under Intensive Supervision and Under Special Surveillance (in Bahasa) (<http://www.bi.go.id/en/perbankan/bank-dalam-pengawasan/Documents/ProsedurBankDalamPengawasanKhusus.pdf>)
2. FAQ regarding the placement of Banks Under Special Surveillance Status (in Bahasa) (<http://www.bi.go.id/en/perbankan/bank-dalam-pengawasan/Documents/FAQBankDalamPengawasanKhusus.pdf>)

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