COMPARATIVE FINANCIAL PERFORMANCE OF REGIONAL DEVELOPMENT BANKS (BPDS) AND THE BANKING INDUSTRY IN INDONESIA

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ABSTRACT

Regional development banks (BPDs) are essentially designed as regional development agents and dedicated to create employment, alleviate poverty, and reduce disparity at the regional level. In the context of banking operations, BPDs are expected to become regional champions in their respective regions. This expectation can be met only if BPDs are able to compete with the other types of commercial banks and non-bank financial institutions, including rural banks and financial technology companies. This research was aimed at comparing the financial performance of BPDs and the banking industry in Indonesia. A descriptive approach was used to analyze the current secondary data gathered from the Indonesia Financial Services Authority (OJK). The results have shown that, in general, the average financial performance of all BPDs was lower than that of the banking industry. However, the group of smallest BPDs had a higher growth compared to the banking industry.

Keywords: *Banking Industry, Financial Performance, Regional Development Banks.*

1. INTRODUCTION

The banking industry in Indonesia can be basically classified into two, namely commercial banks and people's credit banks (BPR). There are currently 114 commercial banks and 1.597 BPRs recorded (OJK, 2019). Among the 144 commercial banks are 27 regional development banks (BPDs) spreading throughout Indonesia. A total of 26 BPDs have met the whole criteria as regional development banks, while Bank Banten has a slight difference. This bank is not owned directly by the provincial and regency/city government, but through Regional-Owned Enterprises (BUMD). In addition to BPDs and BPRs, the banking industry in Indonesian is also completed by banks owned by State-Owned Enterprises (BUMN), national private banks, and foreign banks. All banks constantly strive to improve their service coverage and financial performance so they can continue to grow in competitive and highly dynamic banking industry.

When compared with other banks, BPDs have unique and special characteristics, particularly in terms of the ownership and the vision and mission carried. Besides, BPDs' customers are dominated by civil servants working in local governments (captive market). BPDs' shares are not the assets of individuals or private companies owned by the regional governments and regency/city government. BPDs' visions and missions are not entirely directed to generate profits or increase the value of the company to the highest level, as well as to win shareholder loans at other commercial banks, but to further enhance their roles as regional development agents. This means that the performance of BPDs should be able to be achieved by participating in solving various development problems, such as unemployment, poverty, social gap, particularly in the respective operational areas. The question is, has this ideal been successfully brought into reality?

BPDs' efforts to continue growing in the banking industry are encountered by various challenges, both internal and external. These challenges generally relate to the aspects of human resources, product and service development, information technology and management information systems, as well as governance, risk management, and regulatory compliance. In addition to the challenges related to banking technical matters, BPDs' management and leadership practically often face challenges in the forms of interventions from local politics that greatly disrupt BPDs' operations (Akyuwen and

Mangowal, 2019). For example, changes to the BPDs' commissioners and directors are relatively faster when compared to other banks, and in many cases are marked by the short-term interests of the shareholders, in this case, the governor or regent/mayor. This condition will surely interfere with the convenience of the BPDs' staff in running their duties. Another example is the obligation to carry out government programs through massive lending or financing to particular customers who may not or have not fully complied with the banking eligibility rules.

However, in addition to the numerous problems encountered, BPDs have advantages or strengths attached to them from the aspect of the locality. This type of bank is better known by the community at the local level, becoming a preference for regional civil servants and plays a role as a financial institution that manages local government budgets/finances, sourced either from the Regional Revenue and Expenditure Budgets (APBD) and the State Revenue and Expenditure Budgets (APBN).

The data available at the Financial Service Authority (OJK) have shown that the majority of civil servants in the regions rely heavily on financial products and services from BPDs that operate in their respective regions, even though their use is mostly to meet consumptive needs. The combination of these challenges and advantages greatly improves the development of BPDs' financial performance, and therefore, BPDs are interesting to be studied by comparing them with the national banking industry.

The banking industry is highly required as an instrument of financial intermediation to support the economic growth of a country. Nevertheless, this industry also becomes the cause or the recipient of adverse impacts or negative consequences of the economic crisis as occurring around 1998 and 2008. The close relationship and vital contribution of the banking industry to the economy have led to pretty a lot of research on various aspects of the banking industry, including financial performance. Some researchers have examined the banking industry from several aspects, holistically and comprehensively, while other researchers have only focused their analyses on some aspects to gain a more detailed and in-depth understanding.

The European Central Bank has compiled a report in 2010, which contained an analysis of the bank's performance in terms of capacity to generate profits on a sustainable basis. Profitability is a bank's resilience to contest unexpected losses because it strengthens its capital position and improves its profitability in the future through investments that produce retained earnings. It is explicitly highlighted that an institution that loses continuously will eventually erode its capital base and will place equity and debt holders at risk. Because the ultimate goal of any profit-seeking organization is to secure and generate wealth for its owners, return on equity (ROE) needs to be greater than the costs in order to produce value for shareholders.

Efforts to increase the value of a bank are in line with the development of civilization, the increasing varieties and standards of consumer needs, and the more intense competitions that have caused banking operations increasingly complex through times. However, the elements of performance that are the main concerns remain including revenue, efficiency, and risk management. A bank should be able to generate income, while simultaneously maintaining its volatility. Efficiency refers to the ability of a bank to generate income from a number of particular assets and bring in profits from their sources of income. Risk management is also vital and related to the ability to make various adjustments that are able to secure and prevent the bank from risks. One concrete example is in terms of credit risk.

Nyanga (2009) analyzed the factors determining the performance of a number of commercial banks in Kenya in order to complete a post-graduate thesis. This research was motivated by the phenomenon that the financial performance of commercial banks was a vital subject and played a significant role in the Kenyan economy. Observations were made on 43 commercial banks in December 2011 with the data obtained within the periods between 2001 and 2010. The research methods applied included descriptive analysis, correlation, and regression. It was found that there were no factors that significantly affected the performance of commercial banks, and thus, these banks were recommended to improve their ROE and ROA and increase liquidity. Another study conducted by Raza, Farhan, and Akram (2011) asserted that investment banks were the main contributors to the economic development of the country because they had a wide impact on the capital and credit markets. With this assumption, the three researchers then analyzed financial performance in 7 of 9 investment banks operating in Pakistan in the period of 2006-2009. This study concluded that the performance of investment banks would be different if measured based on several different ratios. The intended ratios consist of efficiency ratios, liquidity ratios, capital ratios, or financial measures.

Meanwhile, Ongore and Kusa (2013) observed the factors affecting the performance of 37 commercial banks in Kenya using panel data for 10 years, from 2001 to 2010. The units of analysis were domestic commercial banks (24 banks) and foreign banks (13 banks) with comprehensive variables involved in the research, including micro and macro aspects. Specific variables of banks cover capital adequacy, asset quality, management efficiency, and liquidity management, while the macroeconomic variables comprise the rate of growth of gross domestic product (GDP) and inflation. Both groups of variables were placed as the dependent variables. The independent variables were bank performance indicators covering return on assets (ROA), return on equity (ROE), and net interest margin (NIM). This study also used moderating variables in the forms of foreign and domestic ownerships. Based on the results of the analysis, this study concluded that the financial performance of commercial banks operating in Kenya was mainly influenced by the decisions made by the board of directors and management, while the macroeconomic factors did not put any effects on the performance.

Furthermore, Haque (2014) conducted a study to compare the financial performance among several commercial banks in India in the 2009-2013 period. The parameters analyzed include ROA, ROE, and NIM, the most common measures employed to see the financial performance of a bank. The results of this study showed that there were no significant differences in profitability in various bank groups in terms of ROA and NIM. However, different facts were found in the context of ROE for similar bank groups.

This finding was different from the results of research performed by Tomuleasa and Cocris (2014) on a number of banks in Europe in the 2004-2012 period, indicating that all determinants affected bank profitability. Furthermore, it was stated that the business cycle had a positive impact on bank profitability (pro-cyclical). Murerwa (2015) also depicted the same conclusion after examining the financial performance of 43 licensed commercial banks in Kenya using the data as of December 31, 2013.

Banks constantly attempt to survive and even win the market in the banking industry. This effort is obvious from various improvements in their financial performance, which includes liquidity ratios, asset quality ratios or credit performance, and profitability ratios (NPM, ROA, and ROE). This phenomenon was discovered by Adam (2014) in his research on the financial performance of Erbil Bank for Investment and Finance operating in the Iraqi Kurdistan region with an observation period between 2009 and 2013.

With different research objects, Allahham (2015) examined the impact of capital structure on bank financial performance, with a case study on Al Ahli Bank in Saudi Arabia. A number of negative relationships between capital structure and financial performance were found, in which the capital structure in question consisted of capital accumulation and annual investment. As for the context of profitability, it concluded that there were diverse relationships in different aspects.

According to Nagarkar (2015), commercial banks are highly dependent on the performance of various types of deposits and lending. The results of his research on five banks in India consisting of public, private, and foreign banks showed that some commercial banks were dependent on loans for distributing credits. In fact, credit growth was known to slow down in the period of 2004-2012, but it was not reflected in the analysis of bank conditions. This was because banks operating at the national level were better able to adapt to the business cycle than regional banks. Research on banking in India has also been conducted by Chandulal (2016). His comparative study was quite comprehensive because it involved data from all private and public banks in India, which were 20 banks and 26 banks. The study was divided into two major groups, namely evaluation of the financial performance of these banks and the identification of the underlying factors using the secondary data in the period of 2001 to 2013.

Meanwhile, Nuhiu, Hoti, and Bektashi (2017) observed the profitability of commercial banks running their business in Kosovo by analyzing financial performance indicators consisting of the return on average equity (ROAE), return on average assets (ROAA) and NIM. The results of the analysis concluded that the profitability of commercial banks in Kosovo was mainly determined by internal factors, such as capital adequacy, asset quality, and management efficiency. While macroeconomic factors did not appear to affect the financial performance of commercial banks. This latest finding was in line with the conclusion drawn in a study conducted by Ongore and Kusa (2013).

In the references of relevant and recent empirical research, Alex and Ngaba (2018) examined the effects of company size on the financial performance of banks with case studies on 42 commercial banks in Kenya. The observation was carried out within five years, the period between 2012 and 2016, by accommodating macroeconomic and microeconomic factors, such as regulation and technology. It was found that banks with many branch offices as well as large customer deposits, capital base, and loans had positive and high ROA. This condition is different for smaller banks. In addition, banks with larger size had better profitability performance than banks with medium or small size. With a positive relationship between company size and financial performance in commercial banks, efforts to consolidate and merge between medium and small banks were recommended.

2. RESEARCH METHOD

This research was descriptive in nature and conducted to describe the financial performance of BPDs and the banking industry in Indonesia through several relevant indicators. The intended indicators include assets, loans, third party funds (DPK), capital adequacy, return on assets and equity, efficiency, lending or credit distribution, interest margin, income, and non-performing loans (NPLs). The secondary data regarding these indicators were collected from 2016 to 2018 and obtained entirely from the Financial Service Authority (OJK). The financial performance of the banking industry was the average data obtained from 114 banks, while the data on the financial performance of BPDs were obtained from 26 banks. By using three time spans, including the periods of 2015-2016, 2016-2017, and 2017-2018, the growth rates of each indicator for the BPDs and the national banking industry could be compared.

Besides using aggregated data from all BPDs, this study analyzed the development of BPD groups' performance based on the business classification in the core capital context. As stipulated in the Regulation of Financial Service Authority (OJK) Number 6/POJK.03/2016 concerning Business Activities and Office Networks Based on Bank Core Capital, there are four classifications of banks in Indonesia. Commercial Banks based on Business Activity 1 (BUKU 1) are banks with core capital of less than IDR 1 trillion, BUKU 2 is a bank with core capital of at least IDR 1 trillion to less than IDR 5 trillion, BUKU 3 is a bank with core capital of at least IDR 5 trillion to less than IDR 30 trillion, and BUKU 4 is a bank with a core capital of at least IDR 30 trillion. Until today, four BPDs are included in BUKU 1 category, 17 BPDs are classified as BUKU 2, and five BPDs fall into BUKU 1 category. There are no BPDs with core capital reaching BUKU 4.

The followings are the formulas of several ratios used to describe the financial performance of BPDs and the banking industry in Indonesia.

$$OCOI = \frac{Operating\ Cost}{Operating\ Income} x\ 100\% \tag{1}$$

$$CAR = \frac{Equity\ (Core\ Capital + Complementary\ Capital)}{RWA\ (Active\ Balance + Administrative\ Balance)} x\ 100\% \tag{2}$$

where, RWA = Risk-Weighted Assets

$$LDR = \frac{Total\ Loans}{Total\ Deposits} x\ 100\% \tag{3}$$

$$NIM = \frac{Net\ Interest\ Income}{Productive\ Balance}\ x\ 100\% \tag{4}$$

$$NPL = \frac{Non-Performing\ Loans}{Total\ Credit}\ x\ 100\% \tag{5}$$

$$ROA = \frac{Net\ Income}{Total\ Assets}\ x\ 100\% \tag{6}$$

$$ROE = \frac{Net\ Income}{Equity}\ x\ 100\% \tag{7}$$

3. RESULTS AND DISCUSSION

3.1 Assets

The total assets of the banking industry in Indonesia amounted to IDR7,373,511 billion in 2017 and then increased to IDR8,061,783 billion in 2018. This denotes an increase of IDR688,272 billion or equivalent to 9.33 percent. This figure is greater than the increase in total assets of BPDs by 8.33 percent in the same period. BPDs' total assets in 2017 were recorded at IDR596,783 billion and subsequently increased by IDR49,694 billion to IDR646,476 billion in 2018. The percentage increase in BPD assets in 2017-2018 was lower if compared to the percentage increase in assets in 2015- 2016 and 2016-2017, which were 10.25 percent and 13.85 percent, respectively. This fact needs to get the attention of the parties concerned, especially BPDs' management and regulators.

Table 1. Total assets of BPDs and banking industry in Indonesia in 2017-2018

No.	Category of Bank	Total Assets (IDR Billion)		Increase in Assets	
		Year 2017	Year 2018	Amount (IDR Billion)	Percentage (%)
1.	Banking industry	7,373,511	8,061,783	688,272	9.33
2.	All BPDs	596,783	646,476	49,694	8.33
3.	BUKU 1 BPDs	29,816	33,438	3,622	12.15
4.	BUKU 2 BPDs	292,831	314,583	21,751	7.43
5.	BUKU 3 BPDs	274,135	298,455	24,320	8.87

Source: Financial Service Authority (OJK) (2019), processed.

The share of assets of all BPDs in 2018 was 8.02 percent compared to the total assets of the national banking industry. The share was the contribution of five BPDs belonging to BOOK 1, BOOK 2, and BOOK 3 categories. The total assets of BOOK 1 BPDs increased IDR3, 622 billion, or equivalent to 12.15 percent, from IDR29, 816 billion in 2016 to IDR33, 438 billion in 2018. In other words, the assets of BUKU 1 BPDs increased higher than the average of all BPDs and the national banking industry in the 2017-2018 period. However, the share of assets of BUKU 1 BPDs was very small in 2018, which was only 5.17 percent of all BPDs and 0.41 percent of the national banking industry.

Furthermore, in 2018, the share of assets of 17 BOOK 2 BPDs reached IDR314,583 billion or 48.66 percent of all BPDs and 3.90 percent of the national banking industry. BOOK 2 BPDs' assets were known to increase by IDR21,751 billion between 2017-2018, which was equivalent to 7.43 percent. These increases in these assets were lower if compared to the increases of assets of BUKU 1 BPDs, the accumulation of all BPDs' assets, as well as the assets of the national banking industry.

The total assets of BUKU 3 BPDs amounted to IDR298,455 billion in 2018. The share of assets of BUKU 3 BPDs in the same year was known to be 46.17 percent of the total assets of BPDs and 3.70 percent of the total assets of the national banking industry. The total assets increased by IDR24,320 billion from IDR274,135 billion in 2017. In other words, during the 2017-2018 period, there has been an increase in BUKU 1 BPDs' assets by IDR24,320 billion or 8.87 percent. This increase in assets was higher if compared to the assets of BUKU 2 BPDs and the accumulative assets of 26 BPDs throughout Indonesia, but lower than BUKU 1 BPDs and the national banking industry.

3.3 Credit Distribution (Lending) and Non-Performing Loans

The increase in accumulative BPDs' credit distribution or lending tended to fluctuate from year to year. An increase in credit distribution by 7.86 percent occurred in 2015-2016 and this became higher into 8.65 percent in 2016-2017.

However, the performance of BPDs' credit distribution declined slightly 8.02 percent in the 2017-2018 period. The increase in accumulative BPDs' lending was lower than the increase experienced by the national banking industry, which was 11.82 percent between 2017 and 2018. In 2018, the total credit distributed by BPDs and the national banking industry increased IDR30,908. billion and IDR559,518.00 billion, respectively.

Table 2. The credit (lending) of BPDs and banking industry in Indonesia in 2017-2018

No.	Category of Bank	Credit (IDR Billion)		Credit Increase	
		Year 2017	Year 2018	Amount (IDR Billion)	Percentage (%)
1.	Banking industry	4,734,918	5,294,436	559,518	11.82
2.	All BPDs	385,263	416,171	30,908	8.02
3.	BUKU 1 BPDs	29,816	33,438	3,622	12.15
4.	BUKU 2 BPDs	292,831	314,583	21,751	7.43
5.	BUKU 3 BPDs	274,135	298,455	24,320	8.87

Source: Financial Service Authority (OJK) (2019), processed.

Viewing the proportions, lending distributed by all BPDs in 2018 was known to have a 7.86 percent share, which was relatively low, considering the number of BPDs that reached 26 banks, equaling to 22.81 percent of commercial banks in Indonesia, which reached 114 banks. It was recorded that the total distributed credit of commercial banks reached IDR5,294,436 billion in 2018, while the total distributed credit of BPDs was IDR416,171 in the same year. This fact should become a stimulus for BPDs' management to spur their lending which can be pursued through innovative development of various new products and services, in addition to optimization of the products and services that have been served.

BPDs' contributions in the aspect of lending were varied depending on the business categories. The credit share of BUKU 1 BPDs was 5.34 percent of the total share of all BPDs, and only 0.42 percent of the total share of all commercial banks. Furthermore, the credit share of BUKU 2 BPDs was more than half, 50.17 percent, towards the credit share of all BPDs, and 2.94 percent towards the credit share of the national banking industry. The contribution BUKU 3 BPDs' credit was 44.49 percent of the total BPDs' credit and 3.50 percent of credit distributed by all commercial banks in Indonesia.

Table 3. The development of NPL of BPDs and banking industry in Indonesia in 2018

No.	Category of Bank	Total Credit (IDR Billion)	Total NPL	
			Amount (IDR Billion)	Percentage (%)
1.	Banking industry	5,294,436	124,817	2.36
2.	All BPDs	416,171	10,965	2.63

Source: Financial Service Authority (OJK) (2019), processed.

In addition to credit growth, the other important concern for bank management and regulators is credit quality, which is reflected in the condition of non-performing loans (NPL). NPL of the national banking industry in 2018 was considered low, which was only 2.36 percent. This percentage was obtained by dividing non-performing loans, IDR124,817 billion, with total loans, IDR5,294,436 billion.

The credit quality of commercial banks was better than that of BPDs. In the same year, the percentage of non-performing loans of BPDs was 2.63 percent. Although this figure was higher than that of the national banking industry, this has shown improvement when compared to the BPDs' non-performing loans in the previous years. In 2016, the NPL of BPDs reached 3.45 percent and then decreased to 3.20 percent in 2017. The trend to decrease needs to be maintained so that funds managed by BPDs can be more productive to support the regional and national economy.

Viewing the categories of business activities, BPDs classified into BUKU 1 and BUKU 3 banks had better credit quality than the other types of BPDs and the national banking industry. The NPL of BUKU 1 BPDs were very low, which was 1.20 percent in 2018, while the NPL of BUKU 3 BPDs was 2.24 percent. The different condition was seen on BUKU 2 BPDs, which appeared to have 3.13 percent NPL in 2018, which was higher than the average NPL of all BPDs and commercial banks. The data have triggered that BUKU 2 BPDs should improve their performance in managing their loans better in the future.

3.4 Third-Party Funds (TPF)

Loans basically are sourced from the liquidity owned by a bank. When the liquidity is loose, a bank will be more flexible to distribute credits to consumers. This liquidity is supported by funds received from various sources, including from TPF. The ability to collect TPF is often seen as a measurement of the ability of bank management because TPF is obtained through heavy competition with competitors in the market.

Table 4. The collection of TPF of BPDs and banking industry in Indonesia in 2017-2018

No.	Category of Bank	Total TPF (IDR Billion)		TPF Increase	
		Year 2017	Year 2018	Amount (IDR Billion)	Percentage (%)
1.	Banking industry	5,289,436	5,630,448	341,011	6.45
2.	All BPDs	443,834	470,817	26,982	6.08
3.	BUKU 1 BPDs	21,060	22,718	1,658	7.87
4.	BUKU 2 BPDs	218,934	233,171	14,237	6.50
5.	BUKU 3 BPDs	203,841	214,927	11,086	5.44

Source: Financial Service Authority (OJK) (2019), processed.

Compared to the national banking industry, BPDs' ability to bring together TPF was indeed lower. Recent data have shown that the increase in the TPF of BPDs was 6.08 percent in 2018, while the TPF of the national banking industry was 6.45 percent. The TPF of BPDs tended to fluctuate in line with the dynamics of the national and regional economies. An increase in the TPF of BPDs by 6.46 percent occurred between 2015 and 2016, while the increase between 2016 and 2017 was quite high, reaching 16.91 percent. The dynamics have confirmed that BPDs' management had the ability to gain higher TPF.

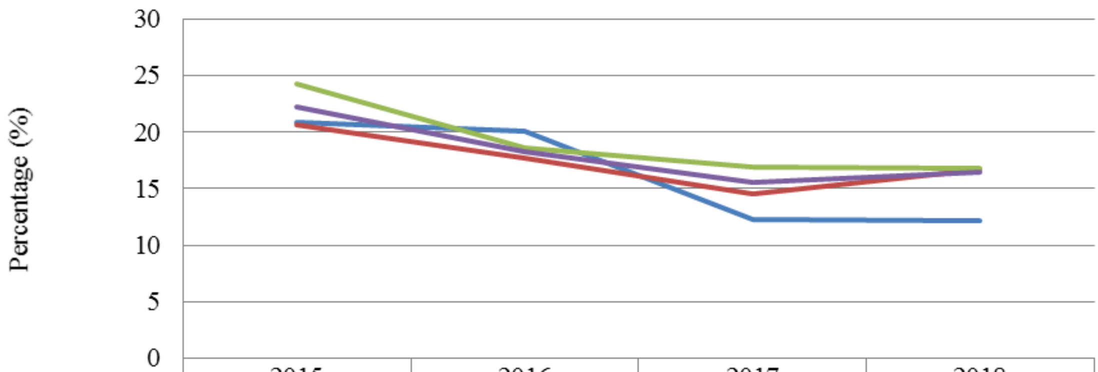
The TPF of the banking industry in Indonesia was recorded to increase IDR341,011 billion, from IDR5,289,436 billion in 2017 to IDR5,630,448 billion in 2018. This figure was far greater than the increase in the TPF of BPDs, which amounted to IDR26,982 billion, from IDR443,834 billion to IDR470,817 billion in the same period. The TPF share of all BPDs was known to be 8.36 percent of the total TPF of all commercial banks in 2018.

An interesting fact to analyze is the rise in the TPF of BPDs based on the categories of business activities. Despite the fact that the TPF of BPDs was in general under the other national banking industry, it turns out that BUKU 1 and BUKU 2 BPDs could upsurge their TPF above the average TPF of all BPDs and the banking industry. During the 2017-2018 period, the increases in TPF of BUKU 1 and BUKU 2 BPDs were recorded at 7.87 percent and 6.50 percent, respectively. Within the same period, the rise in TPF of BUKU 3 BPDs was only 5.44 percent, which means it was lower than the average TPF of all BPDs and the banking industry.

The other aspect of the discussion is the TPF share. Overall, the TPF of BPDs contributed 8.36 percent of the total TPF of the national banking industry. Meanwhile, the TPF share of BUKU 3 BPDs was 45.65 percent of the TPF share of all BPDs and 3.82 percent of that of the banking industry. BUKU 2 BPDs contributed to 49.52 percent TPF to the total TPF of all BPDs and 4.14 percent to the total TPF of commercial banks. The TPF share of BUKU 1 BPDs was equivalent to 4.83 percent and 0.40 percent to the total TPF of BPDs and the banking industry, respectively.

One of BPD's TPF uniqueness lies in its dependence on funding sources from the regional government. Although in general, it had a downward trend, the share of regional government funds in BPDs was still quite substantial. In 2018, the contribution of regional government funds was 16.50 percent of the total TPF of BPDs. This percentage significantly decreased, compared to the condition in 2015, when the contribution was 22.26 percent. The development of the TPF share of BPDs sourced from regional government funds with data per December in each year is demonstrated in Figure 1.

Figure 1. The TPF share of PBDs from regional government funs in 2015-2018



	2015	2016	2017	2018
BUKU 1	20.86	20.08	12.26	12.19
BUKU 2	20.62	17.68	14.54	16.69
BUKU 3	24.28	18.59	16.86	16.75
TOTAL	22.26	18.21	15.50	16.50

Source: Financial Service Authority (OJK) (2019), processed.

The downward trend in TPF was not only found in the aggregated data of overall BPDs but also occurred in all business categories of BPDs, even though with different percentages. BUKU 1 BPDs experienced the sharpest downward trend in TPF sourced from regional government funds, from 20.86 percent in December 2015 to 12.19 percent in December 2018. This was followed by the TPF share of BUKU 2 BPDs obtained from regional government funds, which declined from 20.62 percent in December 2015 to 16.69 percent in December 2018. In the same period, The TPF of BUKU 1 BPDs gained from local government funds decreased from 24.28 percent to 16.75 percent.

3.4 Ratios

Data available until the end of 2018 have shown that BPDs' capital, as shown by CAR was slightly below the national banking industry, remained solid. A similar comparison was also found in terms of profitability (ROA and ROE), which was still lower than the profitability of the banking industry. This condition, although relatively maintained, needs to be improved in the future to develop their competitiveness and increase their contribution to shareholders, including the Regional Own-source Revenue (PAD) in the region.

In terms of credit risk, the average BPDs appeared to have higher risks than the national banking industry in the same period. This phenomenon is obvious in the ratio of NPLs, both gross and net. However, the existing conditions have indicated that BPDs' management was still able to manage their credit risk well because their NPLs were still below 5 percent, used as the benchmark. The efforts to reduce NPLs need to be continued so that the financial condition of BPDs can be healthier and stronger. While the BPDs' liquidity risks seen from the Loan to Deposit Ratio (LDR) were known to be lower than the risks of the national banking industry with a tighter LDR.

For other ratios, it appears that BPDs had higher NIM than the banking industry. Likewise, in terms of efficiency shown by the OCOI ratio, BPDs had higher efficiency than the banking industry. Does this mean that the BPD has operated more efficiently than the banking industry? This needs further examination. Furthermore, it has been identified that BPDs' EBT share was 8.18 percent, which was in line with the share of BPDs' assets to the banking industry of 8.02 percent.

Table 5. The differences in financial ratios of BPDs and banking industry in Indonesia in 2018

Ratio	BPDs**	Banking Industry***
CAR	22.31%	22.89%
NPL Gross	2.63%	2.32%
NPL Net	1.04%	1.00%
ROA	2.38%	2.55%
ROE*	14.39%	52.15%
OCOI	77.50%	77.86%
LDR	88.39%	94.78%
NIM	6.23%	5.14%
EBT	IDR15,285 billion	IDR186,921 billion

Notes: *Conventional BPDs, **26 BPDs, ***100 Conventional Banks.
Source: Financial Service Authority (OJK) (2019), processed.

3.5 BPD Transformation Program

OJK as the banking regulator in Indonesia is known to have made various efforts to improve the performance of BPDs to be more competitive in the financial services industry. One significant attempt was through the launch of the BPD Regional Champion (BRC) Program, which was held from 2010 to 2014 through intensive coordination with the Association of Regional Development Banks (ASBANDA). However, even though a lot of resources have been devoted, the implementation of this program has not produced maximum results. BPDs' performance was poor and tended to fall further behind other commercial banks.

For that reason, since 2015, a new program, the BPD Transformation Program, has started. This program was basically developed from the BRC Program with improvements in various aspects. BPDs throughout Indonesia are guided to go through three stages of performance improvement, namely the stage of foundation building, growth acceleration, and market leadership. To implement this, OJK and ASBANDA have strengthened the institutions and roles of the Project Management Officer (PMO) based in the ASBANDA Office and Change Management Officer (CMO) in each BPD.

Subsequently, six workstreams have been formed, consisting of the representatives from BPDs. The six intended work streams are the BPD Strategic Group Workstream, HR Development, Product and Service Development, Risk Management Development, Information Technology and Management Information System Development, and Sharia. These workstreams work intensively to produce various agendas and outputs, all of which are directed to improve the performance of BPDs throughout Indonesia.

4. CONCLUSIONS

Based on the results of the analyses and discussions, this study concludes that some financial performance indicators have shown that the condition of the BPDs was below the banking industry, but other indicators have indicated the opposite facts. Asset growth, lending (credit distribution), and TPF collection of BPDs were lower than the national banking industry. The credit risk of BPDs was also higher than that of the banking industry. Furthermore, BPDs' capital and liquidity were also known to be lower than those of the banking industry. Conversely, BPDs' interest margins and efficiency were better with lower liquidity risks than the national banking industry.

BPD's financial performance, in general, has continued to improve, but it needs to be encouraged for more rapid improvement to catch up with the performance of other banks and continue to compete in the market. For these reasons, various 'out of the box' efforts are required that are effective in various fields. The BPD Transformation Program initiated by the OJK is a strategic effort to encourage improvement and strengthen the BPDs, and thus, this program should be benefited by all BPDs.

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