CHAPTER I
INTRODUCTION

1.1. Research Background

There are numerous commercial Banks currently in operation in Indonesia, with some privately run Banks, or the government-run Banks. Commercial banks affect the economy by lending money to both people and businesses in order to generate income. In Choudhry (2018, p. 10), these operations may include disbursement of credit to people, businesses, or other banks, which also has an impact on the investment banking activities of these Banks. Further, Banks are exposed to several risks, which include (and not limited to) market risks, operational risks, and credit risks (Apostolik and Donohue, 2015, p. 17). As Banks hold a significant role in facilitating the daily activities of individuals, it is imperative to understand whether the Banks are working on good health.

Banks are required to exhibit strong and robust performance. A sound bank is one that effectively fulfils its functions, upholds and reinforces public confidence, efficiently facilitates intermediation, contributes to the seamless flow of payments, and serves as a resource for the government in executing various policies, particularly monetary policy (Utami, 2019). Yet, as the world becomes increasingly connected, Banks are also at risk of financial shocks which may impact their performance (Azis et al., 2013). The world has experienced multiple global crises, including the Asian financial crisis in 1997-1998, the financial crises of 2008-2009, and the most recent global shock triggered by the pandemic, and these events had affected Banks highly, causing Bank runs, bankruptcy, among many others. While the Indonesian Central Bank and the OJK had been prudent to maintain the health of Banks especially for the domestically significant Banks, some changes had been implemented to further categorise the Banks and adapt to the increasingly digitised world. Hence, the focus of this research is to examine whether the changes in the grouping of the commercial Banks from BUKU (Bank Umum Kegiatan Usaha) to KBMI (Kelompok Bank Berdasarkan Modal Inti), with a special focus on Banks that are categorised as KBMI 4 Banks, which are Bank Central Asia (BCA), Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Nasional Indonesia (BNI)

This research will focus on Indonesian commercial Banks that are categorised as KBMI 4, which are Bank Central Asia (BCA), Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Nasional Indonesia (BNI). There are also numerous regulations enforced by both BI and OJK to ensure that the Banks are performing well, and for Banks that are more domestically significant to retain significantly more capital buffers, which will be further discussed later on. As these Banks had weathered some policy changes, it is imperative to discern whether the Banks are performing better before or after the implementation of the new categorisation system of KBMI.

1.2. Problem Statement

Moreover, to adapt with the current situation, OJK had implemented a new grouping system for Banks, which is the KBMI grouping. The transition from the BUKU grouping to the KBMI grouping was done in an effort to support the implementation of effective regulations and more efficient supervision towards the bank, especially as Banks are becoming more and more digitised. Moreover, there is a mounting apprehension about potential future global disruptions and occurrences that could potentially impede the operations of the KBMI 4 Banks. The banking system of the country holds great significance as it serves as a source of funding for economic expansion and delivers essential services to its clientele. Thus, it is necessary to discern whether the implementation of KBMI in succession of the BUKU grouping had resulted in increased health and performance in the case of KBMI 4 Banks (BCA, Bank Mandiri, BNI, and BRI)

For that reason, the problem statement of this research could be stated as such:

1. What are the effects of the implementation of KBMI grouping in the RGEC factor of the KBMI 4 Banks (BCA, Bank Mandiri, BNI and BRI)?

1.3. Scope of The Research

The aim of this paper is to discern whether the KBMI 4 Banks, which include Bank Central Asia (BCA), Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Nasional Indonesia (BNI) had significant changes on their Risk Based Bank Rating with the scope of the self-assessment and reported measurements, including the Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital to measure the overall composite rating of the Bank to indicate the soundness level. The Banks analysed will include Banks that are categorised as KBMI 4 in accordance with the regulation of the financial services authority (OJK) Number 12/POJK.03/2021. The Banks categorised in KBMI 4 will be required to have a minimum core capitalisation of Rp. 70.000.000.000.000,00 (seventy trillion rupiah). For that reason, this study will analyse the soundness of Bank Central Asia (BCA), Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Nasional Indonesia (BNI) before and after the implementation of the KBMI categorisation. The scope of the study will be the risk profile of the Banks, Good Corporate Governance, Earnings, and Capital (RGEC), which will be utilised as the indicator of overall soundness of the Bank for the years 2012-2022, which are before and after the implementation of the KBMI grouping.

1.4. Objective of The Research

This study aims to assess the resilience of Indonesian commercial Banks included in KBMI 4, which include Bank Central Asia (BCA), Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Nasional Indonesia (BNI) before and after the implementation of KBMI grouping (from 2012 to 2022), and assess whether the implementation of the KBMI grouping both before and after had brought about changes to the overall soundness of the Banks and the RGEC factors.

1.5. Contribution of The Research

This study seeks to expound on the existing literature by analysing the changes in the overall Bank soundness before and after the implementation of KBMI.

1.6. Writing Structure

Chapter I	**Introduction** This chapter will be dedicated to describing the background information regarding the Banking Industry in Indonesia, the problem formulated, scope of the research, objective of the research, and followed by the writing structure of this paper.
Chapter II	**Literature Review and Hypothesis Development** This part of the study will examine previous literature and relevant theories related to this study. In this section, thorough literature review will be conducted, which will be followed by developing a hypothesis for this paper.
Chapter III	**Research Methodology** This chapter will elucidate on the research method that will be used for the study, which include the population, sample, data collection method, research variables, hypothesis testing, and data analysis method.

Chapter IV **Results and Analysis**

On this chapter, descriptive statistics, inferential statistics, the result, the results after hypothesis testing had been carried out, and the subsequent discussion on the result.

Chapter V **Conclusion**

The last chapter of this research will consist of the conclusion of the research, the limitations of this research, and several suggestions that could be conducted for future research.