



# **RESOLVING FINANCIAL CRISIS THROUGH BANK RESTRUCTURING PROGRAM: INDONESIAN BANK RESTRUCTURING AGENCY ("IBRA")'S EXPERIENCE**

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# OUTLINE

1. Economic Crisis 1997
2. The Establishment of IBRA
3. Lessons Learned

# 1. ECONOMIC CRISIS 1997 (1)

- IDR depreciated to USD from ( $\pm$ ) IDR1,200/USD became IDR16,000/USD.
- Debtors on USD loan failed to pay the loan to the banks.
- Massive bank runs because of the rumors of the bank failure.
- Thousands workers were dismissed.
- President Soeharto resigned as the president after 32 years in power.
- 72 banks were collapsed and 48 of them were injected by liquidity support (“BLBI”) from the Central Bank.

# 1. ECONOMIC CRISIS 1997 (2)

- Total injected BLBI is (+/-) IDR144.5 trillion.
- The composition of 72 banks is:
  - a. 13 Taken Over Banks (BTO)
  - b. 52 Freezing Banks (BBO/BBKU)
  - c. 7 Recap Banks
- The 72 banks were transferred to IBRA either to liquidate or to restructure.
- Total cost of crisis (+/-) IDR650 trillion.

## 2. THE ESTABLISHMENT OF IBRA (1)

- To handle the failing banks and to pursue the shareholder of the bank's obligations, Gol set up Indonesia Bank Restructuring Agency ("IBRA").
- Lifetime 5 years since 1999 to 2004.
- Legal ground:
  1. Presidential Decree No.26/1998
  2. Presidential Decree No.27/1998
  3. Presidential Decree No.34/1998
  4. Amendment of Banking Law:  
Law No.7/1992 to be Law No.10/1998

## 2. THE ESTABLISHMENT OF IBRA (2)

### GENERAL DUTIES AND FUNCTIONS OF IBRA

- To undertake the blanket guarantee.
- To restructure the banks.
- To liquidate the banks.
- To restructure and to sell the loan portfolio.

## 2. THE ESTABLISHMENT OF IBRA (3)

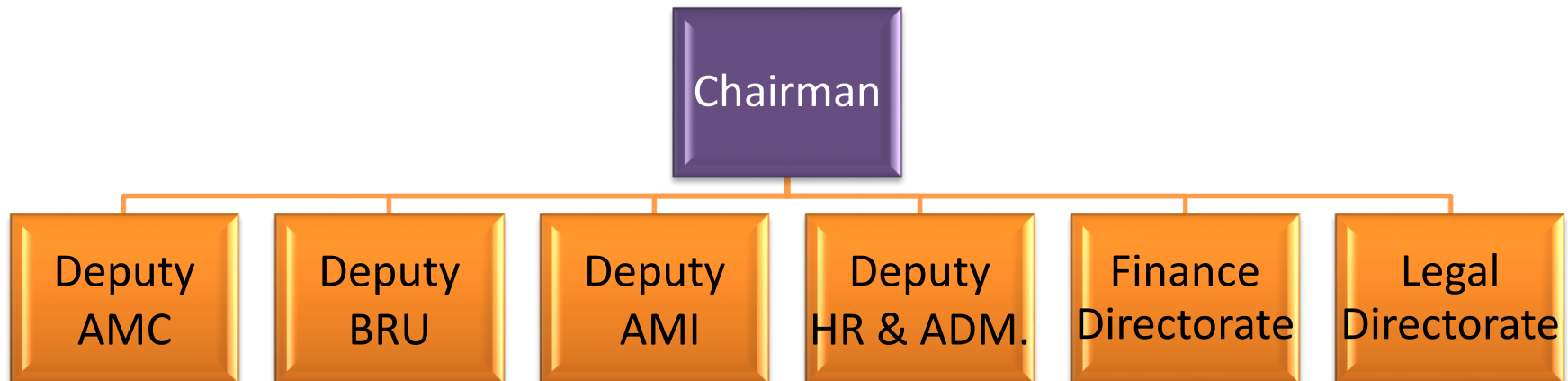
### GENERAL DUTIES AND FUNCTIONS OF IBRA (*CONTINUE*)

- To sell the fixed assets of the bank.
- To dispose/divest the share of IBRA in the restructured banks.
- To collect the obligation of the shareholders of the bank.
- To manage thousand of cases of the bank in various judiciary bodies.



## 2. THE ESTABLISHMENT OF IBRA (4)

### ORGANISATION STRUCTURE



Notes:

*IBRA was supervised by Independent Review Committee (“KPI”) and Financial Sector Action Committee (“KKSK”).*

## 2. THE ESTABLISHMENT OF IBRA (5)

### THE GENERAL FUNCTION OF AMC

- Restructure commercial and corporate loan portfolio.
- Dispose the structured loans.
- Dispose the unstructured loans.
- Dispose the fixed assets of the bank.
- Total portfolio handled around ( $\pm$ ) IDR346 trillion from ( $\pm$ ) 298,000 debtors.
- Total recovery ( $\pm$ ) IDR48.4 trillion, excluded the proceed of fixed asset sales (non core asset).

## 2. THE ESTABLISHMENT OF IBRA (6)

### THE GENERAL FUNCTION OF BRU/BANK LIABILITIES

- Restructured the 13 BTO.
- Restructured the 7 Recapitalisation Banks.
- Merged the 10 BTO to be Bank Danamon.
- Merged the 4 Recap Banks to be Bank Permata.
- Total Restructuring Cost/Capital Injection is (±) IDR105,710 trillion.
- Disposed the shares of IBRA in the restructured banks. Total recovery (±) IDR20,05 trillion (18.97%).
- Undertook blanket guarantee through the paying banks.
- Liquidated 52 frozen banks.

## 2. THE ESTABLISHMENT OF IBRA (7)

### THE GENERAL FUNCTION OF AMI

- Controlling & managing the obligation of shareholders to IBRA:
 

*MSAA	5 banks	IDR89,875
*MRNIA	3 banks	IDR23,842
*APU	24 banks	IDR18,331
- Collect the obligations of the shareholders and Disposing the assets of shareholders (as non cash settlement).

#### Notes:

*MSAA : Master Settlement and Acquisition Agreement*

*MRNIA : Master Refinancing and Notes Issuance Agreement*

*APU : Acknowledgement of Indebteness*

## 2. THE ESTABLISHMENT OF IBRA (8)

### RECOVERY RATE OF IBRA

Total recovery ratio of IBRA derives from AMC, BRU, and AMI is (+/-) 20 to 25%.

## 3. LESSONS LEARNED (1)

### DOMESTICALLY

#### 1. Strengthen the coordination among banking and financial regulations

Notes:

- *Indonesia currently already has Crisis Protocol as stipulated in Law No.9/2016 regarding Prevention and Mitigation of Financial System Crisis.*
- *Banking supervision handled by Financial Services Authority (“OJK”) by Law No.21/2011 regarding Financial Services Authority.*
- *IDIC/LPS was enacted in year 2005 by Law No.24/2004 to conduct the bank resolution and guarantee the depositors’ money.*
- *IDIC/LPS by Law No.9/2016 is mandated to handle the financial crisis and empowered with specific extraordinary power.*

## 3. LESSONS LEARNED (2)

### DOMESTICALLY (CONTINUE)

2. Strengthen the coordination of banking and financial regulators with any other state agencies that supervise real sectors.

Notes:

- *Members of Financial Sector Committee (“KKSK”) which supervised/produced policy for IBRA comprised of Minister of Industry and Trade, Finance Minister, State-Owned Enterprise Minister, Head of National Development Planning Agency.*
- *Special committee such as KKSK is required to prepare the coordination to handle banking restructuring, so that synchronized with the recovery plan of real sectors.*

## 3. LESSONS LEARNED (3)

### DOMESTICALLY (CONTINUE)

3. Empower & educate the judiciary bodies regarding (i.e.) several extraordinary measurements to handle crisis.

Notes:

- *Avoiding/minimizing IDIC/LPS's power to be contested in court (such as taken over the management of banks, confiscated the uncooperative debtors' assets).*
- *Enabling bankruptcy court to be a medium of sounds loan restructuring among creditors & insolvent debtors.*



## 3. LESSONS LEARNED (4)

### DOMESTICALLY (CONTINUE)

4. Political stability and support are a must, to enable IDIC/LPS in handling crisis swiftly, smoothly, and accountably.

Notes:

- IBRA experienced 5 times replacement of IBRA's chairman with 5 different people and background.
- 5 times of changing organisation structure.
- Changing of deputies for several times.
- Experienced 4 times of presidential succession (President Soeharto, President Habibie, President Abdurrahman Wahid, and President Megawati).
- While the operations of IBRA only lasted for 5 years by law (1999-2004).

## 3. LESSONS LEARNED (5)

### DOMESTICALLY & INTERNATIONALLY

1. Cooperation among the countries through Mutual Legal Assistance (“MLA”) will enable the repatriation of assets.
2. Cross border insolvency such as among ASEAN countries is worthed to be considered to protect banks, depositors, and debtors.
3. Since financial fraud & misrepresentation caused losses to thousands/million of people in the region and effort to recover losses consumed significant cost, there is a notion to applied extraordinary crime/crime against humanity in banking crime, so that the fraudster would be tried in international tribunal and the victim could be indemnified.



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# *Thank You*

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