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# MICROPRUDENTIAL ASPECT BEYOND RULE OF THUMB IN RURAL BANK INDUSTRY IN INDONESIA

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**ABSTRACT**

**Objective:** This research aims to examine the microprudential aspects beyond traditional rule of thumb measures in the regulation of Rural Banks in Indonesia, particularly focusing on the implications of recent regulatory changes that have prompted Rural Bank mergers.

**Theoretical Framework:** This research utilizes a framework that incorporates financial ratios as critical indicators of bank performance and health. It considers the influence of regulatory frameworks—especially those outlined in POJK regulations—on the operational effectiveness and stability of Rural Banks. Related to the forced corporate action, reason that administrative reform may not have increased merger activity as expected is that larger, combined activities are likely to be more readily able to absorb the significant costs of complying with administrative reform than smaller Rural Bank.

**Method:** This research methodology used is a qualitative descriptive method. In conducting this study, researchers used primary data and secondary data. Primary data obtained from the results practitioners' perspective of interviews (in-depth interviews) with experts and practitioners, who have an understanding of the issues discussed in Rural Bank Industry so that we can presumably determine the real current situation using a Qualitative Descriptive method with a Phenomenology study approach. While secondary data was complemented by data collected from literature studies, from the Financial Service Authority (OJK) official website, Several Rural Bank Performance Report and Financial Report during 2019 - 2023, scientific articles, books, information from the mass media and other relevant sources of information.

**Result and Discussion:** This study highlights that reliance solely on the rule of thumb can be misleading in assessing bank health. It shows that a detailed analysis of various financial ratios—such as capital adequacy, asset quality, earnings, and liquidity—provides a more comprehensive understanding of a bank's performance and risks associated with mergers. The banking industry those had time to familiarize itself with the subject and to put legislation into concrete action. Other findings indicate that the enforcement of regulations aimed at increasing capital adequacy and reducing systemic risk has led to forced mergers among Rural Banks.

**Research Implication:** The study underscores the importance of integrating microprudential regulations into the operational frameworks of Rural Banks. It suggests that regulators should prioritize comprehensive assessments based on financial ratios rather than simplistic heuristic methods, especially in the context of forced mergers driven by regulatory pressures. Effective and appropriate use of the merger strategies forced by regulator (OJK) have not facilitated Rural Banks' efforts exactly to earn above-average returns. However, even when pursued for value-creating reason, merger strategies are not problem-free. Reason for the use of merger strategies and potential problem with such strategies are suboptimum goals

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congruence because of management control problem – include lack of direction, motivational problem, and personal limitation (Merchant et al, 2017).

**Recommendation:** The research recommends that Rural Banks systematically evaluate their financial health using detailed financial ratios and adapt to the new regulatory landscape that encourages mergers. It also urges regulators to refine their guidelines to include these metrics as essential tools for ongoing performance assessment. Enhanced training for bank management on interpreting and applying these financial ratios can improve overall operational effectiveness, particularly in the context of mergers. Merger is not just about consolidating financial aspects, but also harmonizing the combination of tangible (Numbers on Balance Sheet) and intangible assets (Human capital aspect).

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**ASPECTO MICROPRUDENCIAL ALÉM DA REGRA GERAL NO SETOR DE BANCOS RURAIS NA INDONÉSIA**

**RESUMO**
**Objetivo:** Esta pesquisa tem como objetivo examinar os aspectos microprudenciais além das medidas tradicionais da regra prática na regulamentação dos bancos rurais na Indonésia, com foco especial nas implicações das recentes mudanças regulatórias que levaram às fusões de bancos rurais.
**Estrutura Teórica:** Esta pesquisa utiliza uma estrutura que incorpora índices financeiros como indicadores críticos do desempenho e da saúde do banco. Ela considera a influência das estruturas regulatórias - especialmente aquelas delineadas nas regulamentações da POJK - sobre a eficácia operacional e a estabilidade dos bancos rurais. Em relação à ação corporativa forçada, o motivo pelo qual a reforma administrativa pode não ter aumentado a atividade de fusão como esperado é que as atividades maiores e combinadas provavelmente serão capazes de absorver mais prontamente os custos significativos do cumprimento da reforma administrativa do que os bancos rurais menores.
**Método:** A metodologia de pesquisa utilizada é um método descritivo qualitativo. Ao realizar este estudo, os pesquisadores usaram dados primários e dados secundários. Os dados primários foram obtidos a partir da perspectiva dos resultados das entrevistas dos profissionais (entrevistas em profundidade) com especialistas e profissionais, que têm uma compreensão das questões discutidas no setor de bancos rurais, de modo que podemos presumivelmente determinar a situação real atual usando um método descritivo qualitativo com uma abordagem de estudo fenomenológico. Enquanto os dados secundários foram complementados por dados coletados de estudos de literatura, do site oficial da Autoridade de Serviços Financeiros (OJK), vários Relatórios de Desempenho de Bancos Rurais e Relatórios Financeiros durante 2019 - 2023, artigos científicos, livros, informações da mídia de massa e outras fontes de informação relevantes.
**Resultado e Discussão:** Este estudo destaca que a confiança apenas na regra geral pode ser enganosa na avaliação da saúde do banco. Ele mostra que uma análise detalhada de vários índices financeiros - como adequação do capital, qualidade dos ativos, lucros e liquidez - proporciona uma compreensão mais abrangente do desempenho de um banco e dos riscos associados às fusões. O setor bancário teve tempo para se familiarizar com o assunto e colocar a legislação em ação concreta. Outras descobertas indicam que a aplicação de regulamentações destinadas a aumentar a adequação do capital e reduzir o risco sistêmico levou a fusões forçadas entre bancos rurais.
**Implicações para a Pesquisa:** O estudo ressalta a importância da integração das regulamentações microprudenciais nas estruturas operacionais dos bancos rurais. Ele sugere que os órgãos reguladores devem priorizar avaliações abrangentes baseadas em índices financeiros em vez de métodos heurísticos simplistas, especialmente no contexto de fusões forçadas motivadas por pressões regulatórias. O uso eficaz e adequado das estratégias de fusão forçadas pelo órgão regulador (OJK) não facilitou os esforços dos bancos rurais exatamente para obter retornos acima da média. Entretanto, mesmo quando buscadas por motivos de criação de valor, as estratégias de fusão não estão livres de problemas. A razão para o uso de estratégias de fusão e o possível problema com essas estratégias são a congruência de metas abaixo do ideal devido a problemas de controle gerencial - incluindo falta de direção, problemas motivacionais e limitações pessoais (Merchant et al, 2017).
**Recomendações:** A pesquisa recomenda que os bancos rurais avaliem sistematicamente sua saúde financeira usando índices financeiros detalhados e se adaptem ao novo cenário regulatório que incentiva as fusões. Ela também pede que os órgãos reguladores aperfeiçoem suas diretrizes para incluir essas métricas como ferramentas essenciais para a avaliação contínua do desempenho. Um treinamento aprimorado para a gerência do banco sobre a interpretação e a aplicação desses índices financeiros pode melhorar a eficácia operacional geral, especialmente no contexto de fusões. A

fusão não se refere apenas à consolidação de aspectos financeiros, mas também à harmonização da combinação de ativos tangíveis (números no balanço patrimonial) e intangíveis (aspecto do capital humano).

**Palavras-chave:** Microprudencial, Regra de Ouro, Índices Financeiros, Regulamentação, Banco Rural.

**ASPECTO MICROPRUDENCIAL MÁS ALLÁ DE LA REGLA GENERAL EN EL SECTOR DE LA BANCA RURAL EN INDONESIA**

**RESUMEN**

**Objetivo:** Esta investigación tiene como objetivo examinar los aspectos microprudenciales más allá de las medidas tradicionales de la regla del pulgar en la regulación de los Bancos Rurales en Indonesia, centrándose particularmente en las implicaciones de los recientes cambios regulatorios que han impulsado las fusiones de Bancos Rurales.

**Marco Teórico:** Esta investigación utiliza un marco que incorpora los ratios financieros como indicadores críticos del rendimiento y la salud de los bancos. Considera la influencia de los marcos reguladores -especialmente los descritos en los reglamentos de la POJK- en la eficacia operativa y la estabilidad de los bancos rurales. En relación con la acción corporativa forzosa, la razón por la que la reforma administrativa puede no haber aumentado la actividad de fusión como se esperaba es que las actividades combinadas de mayor tamaño probablemente puedan absorber más fácilmente los costes significativos de cumplir con la reforma administrativa que los Bancos Rurales más pequeños.

**Método:** La metodología de investigación utilizada es un método cualitativo descriptivo. Para llevar a cabo este estudio, los investigadores utilizaron datos primarios y datos secundarios. Los datos primarios obtenidos de la perspectiva de los profesionales de los resultados de las entrevistas (entrevistas en profundidad) con expertos y profesionales, que tienen una comprensión de los temas tratados en la Industria de la Banca Rural para que podamos presumiblemente determinar la situación real actual utilizando un método cualitativo descriptivo con un enfoque de estudio de la fenomenología. Mientras que los datos secundarios se complementaron con datos recogidos de estudios bibliográficos, de la página web oficial de la Autoridad de Servicios Financieros (OJK), Varios Informes de Rendimiento de los Bancos Rurales y el Informe Financiero durante 2019 - 2023, artículos científicos, libros, información de los medios de comunicación y otras fuentes de información pertinentes.

**Resultado y Discusión:** Este estudio pone de relieve que confiar únicamente en la regla empírica puede ser engañoso a la hora de evaluar la salud de los bancos. Demuestra que un análisis detallado de diversos ratios financieros -como la adecuación del capital, la calidad de los activos, los beneficios y la liquidez- proporciona una comprensión más completa de los resultados de un banco y de los riesgos asociados a las fusiones. El sector bancario ha tenido tiempo de familiarizarse con el tema y de concretar la legislación. Otras conclusiones indican que la aplicación de la normativa destinada a aumentar la adecuación del capital y reducir el riesgo sistémico ha provocado fusiones forzosas entre bancos rurales.

**Implicaciones de la Investigación:** El estudio subraya la importancia de integrar la normativa microprudencial en los marcos operativos de las Cajas Rurales. Sugiere que los reguladores deberían dar prioridad a evaluaciones exhaustivas basadas en ratios financieros en lugar de métodos heurísticos simplistas, especialmente en el contexto de fusiones forzosas impulsadas por presiones regulatorias. El uso eficaz y adecuado de las estrategias de fusión forzadas por el regulador (OJK) no ha facilitado precisamente los esfuerzos de los Bancos Rurales por obtener rentabilidades superiores a la media. Sin embargo, incluso cuando se persiguen por motivos de creación de valor, las estrategias de fusión no están exentas de problemas. La razón para el uso de estrategias de fusión y el problema potencial con tales estrategias son la congruencia de objetivos subóptima debido al problema de control de gestión - incluyen la falta de dirección, el problema motivacional y la limitación personal (Merchant et al, 2017).

**Recomendación:** La investigación recomienda que los Bancos Rurales evalúen sistemáticamente su salud financiera utilizando ratios financieros detallados y se adapten al nuevo panorama regulatorio que fomenta las fusiones. También insta a los reguladores a perfeccionar sus directrices para incluir estas métricas como herramientas esenciales para la evaluación continua del desempeño. Una mayor formación de los directivos de los bancos sobre la interpretación y aplicación de estos ratios financieros puede mejorar la eficacia operativa general, especialmente en el contexto de las fusiones. La fusión no consiste sólo en consolidar los aspectos financieros, sino también en armonizar la combinación de activos tangibles (cifras del balance) e intangibles (aspecto del capital humano).

**Palabras clave:** Microprudencial, Regla de Oro, Ratios Financieros, Regulación, Banca Rural.

## 1 INTRODUCTION

An Important element of the microprudential aspect in banking industry is its measurement of financial performance. The measurement can be illustrated as financial ratios that is able to empower all resources possessed by bank to achieve the certain goals, target or missions which are intended to be accomplished by a bank, that is to prosper its people.

Microprudential regulation is the approach to financial regulation that purpose to mitigate risk to the financial system as a whole (or "systematic risk"). Microprudential regulation or Microprudential Supervision is firm level oversight or financial regulation by regulators of financial institution (Financial Service Authority/OJK), "enduring the balance sheets of individual institution are robust to shocks."

In 2020, the Indonesian economy also experienced instability due to the COVID-19 pandemic. It has significantly impacted various sectors ranging from health and social to economic in all countries, including Indonesia. Currently, Rural Bank industry is still struggling to survive due to the long impact of the previous Covid-19 and focus to have the appropriate capital set by regulators. Many BPRs, due to their small business scale, small capital, and limited resources, have difficulty in meeting the Capital Adequacy. This has led to corporate actions through mergers in this industry as a solution.

Therefore, OJK issued **POJK No.5/POJK.03/2015** concerning Minimum Capital Provision Obligations and Fulfillment of Minimum Core Capital of Rural Banks (*Bank Perekonomian Rakyat* – BPR). In a**rticle 13 paragraph 2** states that the minimum core capital of BPR is set at IDR6,000,000,000.00 (six billion rupiah) with the provision no later than December 31, 2024. And **article 14 paragraph (1)** states that fulfillment of the minimum core capital obligation as referred to in Article 13 is carried out, among others, through profit growth, additional paid-in capital, **mergers**, **consolidations or take overs**.

Financial Service Authority (OJK) regulation aims to strengthen banking sector (such as Rural Bank, commercial bank) in Indonesia by ensuring that these banks have sufficient capital to operate sustainably. To realize a good healthy, strong and productive Rural Credit Bank industry, adjustments are needed to the capital structure to be in line with best practices. Most of the captive market of Rural Banks are Micro, Small, and Medium Enterprises (MSMEs). They have an important role in the Indonesian economy, including a means of equalizing the economic level of the common people, eradicating poverty, and a means of foreign exchange income for the country. However, this role is much more massive in reaching uncertainties such as the monetary crisis or recession in 1998, which was a step in restoring the national economy (Sulastri, 2022).

The involvement of regulator in supporting the success of government heavily depends on the characteristic of its banking community. While good measurement become the main tool to manage banking in the more global world, reform in rule of thumb in the development of financial performance is a very crucial factor to achieve the ultimate goal of microprudential.

Defining the right performance dimensions is crucial because the goals which are set and the measurement that are made shape employees' views of what is important. In the terms often heard is business organizations "what you measure is what you get." (R.S. Kaplan et al, 2005). What is worrisome is that employees work to improve the areas which are measured regardless of *whether or not the measurement dimensions are defined correctly.* If the measurement dimensions are not defined correctly; that is, if they are not congruent with the organization's objectives or agreed upon strategies, the result controls with actually encourage employees to do wrong things.

The regulator movement as an administrative reform is better than policy enforcement act. It is also an act of culture change reflecting and challenging basic financial performance value. Related to the forced corporate action, reason that administrative reform may not have increased merger activity as expected is that larger, combined activities are likely to be more readily able to absorb the significant costs of complying with administrative reform than smaller Rural Bank.

This study found several critical issues related to regulations issued by authorities to improve the performance of Rural Banks with corporate actions through mergers. Currently, many Rural Banks are still struggling to have the appropriate capital set by regulators due to the impact of the previous Covid-19. This study seeks to provide several recommendations to evaluate current regulations for Rural Banks which seem to be the same as commercial banks even though Rural Banks have unique risks and unique captive markets, the issue of the importance of reviewing Microprudential Regulations, as well as regulatory flexibility.

The research methodology used is a qualitative descriptive method. In conducting this study, researchers used primary data and secondary data. Primary data obtained from the results practitioners' perspective of interviews (in-depth interviews) with experts and practitioners, who have an understanding of the issues discussed in Rural Bank Industry so that we can presumably determine the real current situation using a Qualitative Descriptive method with a Phenomenology study approach. While secondary data was complemented by data collected from literature studies, the Financial Service Authority (FSA) official website, several Rural Bank performance report and financial report during 2019 - 2023, scientific articles, books, business information from the mass media. Rural Banks in Indonesia are currently facing more complex issues, not only related to the measurement dimension, but also corporate actions – mandatory mergers amongst Rural Banks due to strengthen the capital of Rural Banks, the implications of which are actually contra productive for the bank that merge.

## 2 LITERATURE REVIEW

Paul Kibathi Kagecha (2014) "Bank Performance: Does Bank Size Matter?

> From the results of the study, we have established that bank size, capital adequacy, liquidity, age and asset quality do not count in determining bank profitability in Kenya.

Performance is the end result of an activity. Managers are concerned with bank performance – the accumulated results of all the bank's work activities. It's a multifaceted concept, but managers need to understand the factors that contribute to bank performance. After all, it's unlikely that they want (or intend) to manage their way to mediocre performance. They want their bank, work units, or work groups to achieve high levels of performance.

All managers must know which measures will give them the information they need about bank performance. Productivity is the number of services produced divided by the inputs needed to generate that output. Bank and individual work units want to be productive. They want to produce the most services using the least number of inputs. Output is measured by the revenue a bank receives. Input is measured by the costs of acquiring and transforming resources into outputs.

It's management's job to increase this ratio. Of course, the easiest way to do this is to raise prices of the outputs. But, in today's competitive environment, that may not be an option. The only other option, then, is to decrease the inputs side by being more efficient in performing work and thus decreasing the bank's expenses.

Bank effectiveness is a measure of how appropriate bank goals are and how well those goals are met. That's the bottom line for managers, and it's what guides managerial decisions in designing strategies and work activities and in coordinating the work of employees.

Bikker et al (2008), Bank Performance;

The appropriate definition of output in banking has been a frequent topic of discussion, the two mainstreams being the intermediation approach and the production approach. The former assumes that a bank attracts deposits and other funds and transforms them into loans and securities (investments), using inputs such as labor, capital and materials. Interest payments are seen as part of the costs and the corresponding dual cost function includes not deposits but the interest rate paid on deposits as an input factor. Loans and investments are the output components. Examples of this view are found in Altunbas et al. (1994, 1995) and Barr et al. (1994). The latter approach assumes that a bank provides services related to loans and deposits. In this view, interest payments are not regarded as banking costs. The output components comprise loans and deposits. Examples of this approach can be found in Swank (1996), Resti (1997), and De Young et al (1997), among others. Since operating costs appear to make up the bulk of banks' cost inefficiency (Berger et al, 1991), this analysis, in line with most of the literature, takes the production approach.

## 3 METHOD

To support this research, research methodology used is a qualitative descriptive method. In conducting this research, researchers used primary data and secondary data. Primary data obtained from the results practitioners' perspective of interviews (in-depth interviews) with experts and practitioners, who have an understanding of the issues discussed in Rural Bank Industry so that we can presumably determine the real current situation using a Qualitative Descriptive method with a Phenomenology study approach.

Through **phenomenology approach,** this research seeks to understand the lived experiences and perspectives of professionals who directly involved in the Rural Banking industry as they navigate regulatory challenges. By focusing on how experts and practitioners perceive and interpret regulatory challenges and operational realities, the researchers aim to uncover the essence of these experiences, moving beyond mere facts to the underlying meanings behind them. This method does not simply ask "what" the challenges are but also "how" these challenges are experienced on a day-to-day basis.

**Primary Data Collection, by In-depth interviews** were conducted with key **experts and practitioners** in the Rural Bank industry. These individuals were chosen based on their deep understanding of the industry, and the interviews were used to gain insights into current issues, operational challenges, and the impact of regulations like the **Financial Services Authority (OJK) Regulation**. The interviews allowed for a nuanced understanding of how these stakeholders view the industry's current situation and future trajectory. The open-ended nature of these interviews allows interviewees to provide detailed explanations, share personal experiences, and offer in-depth perspectives on the Rural Bank industry.

**Secondary Data Collection,** by **c**omplementing the primary data, this research utilized **secondary data** from various reliable sources, including: a) **Financial reports and performance reports** of Rural Banks (2019-2023), providing quantitative data to assess the financial health and trends in the sector, b) **Regulatory documents** and literature, including information from the Indonesia's' Financial Services Authority (OJK) official website to understand the regulatory framework and global perspectives. c) Also from Scientific articles, books, and mass media reports, which helped contextualize the findings within broader industry trends and regulatory developments.

This approach allows the researchers to not only describe the current state of the Rural Bank Industry but also interpret it through the lens of those actively engaged in the sector. The combination of qualitative insights from experts and quantitative data from financial reports gives a well-rounded perspective on the challenges and regulatory impacts, particularly those arising from the **Capital Adequacy Ratio (CAR)** / *Kewajiban Penyediaan Modal Minimum* and related policies.

## 4 MEASURING PERFORMANCE

Many different results measures can be linked to rewards. Many objective financial measures; such as net income, earnings per share, and return on assets, are in common use. So are some non-financial measures; such as market share growth (in units), and the timely accomplishment of certain tasks. Some measurements involve subjective judgements.

Evaluators may be asked to judge whether a manager is "being a team player" or "developing employees effectively" and to record their judgments on a measurement scale from 1 (poor) to 5 (excellent).

This discontinuity between financial and operational performance measures creates a critical pivotal point in the management hierarchy which one set of researches called a *hinge*. At some critical middle organizational level, often a lower-profit-center level, managers must translate financial goals into operational goals. These managers' goals are primarily defined in financial terms, so their communications with their superiors are primarily in financial terms. Because their subordinates' goals are primarily operational, their download communications are primarily in operational terms.

If managers identify more than one result measure for a given employee, they must attach relative importance weightings to each measure so that the judgments about performance in each result area can be aggregated into an overall evaluation. The weightings can be addictive; for example, 60 percent of the overall evaluation is based on return on assets and 40 percent is based on interest revenue growth. The weightings can also be multiplicative; for example, Browning Ferris Industries multiplies a score on achievement of profit and revenue goals by a score assessed based on environmental responsibility. If the environmental responsibility score is less than 70 percent, the multiplier, and hence, the resulting bonus, is zero.

Sometimes, such as in the examples presented above, the Rural Bank makes the weightings of performance measures explicit to the individuals being evaluated. Often, however, particularly where performance evaluations are done somewhat subjectively, the weightings are partially or totally implicit. Leaving the weighting implicit blurs the communication from superiors to subordinates about what results are important. Employees are left to try and infer what results will most affect their overall evaluations.

## 5 PRUDENTIAL POLICY

Indonesia has taken several reform steps in the banking sector. These steps include the regulator/administrator being divided into two - Macroprudential under the control of Bank Indonesia (BI) and Micro prudential under the supervision of the Financial Services Authority (OJK).

### 5.1 MACROPRUDENTIAL

Bank Indonesia (BI) is firmly committed to creating and maintaining rupiah stability through monetary and payment system management as well as financial system stability. Those three aspects are managed through policies instituted by Bank Indonesia and operationalized through various instruments optimized for the specific task at hand. Find out more on Bank Indonesia's policies and national economic indicators through: a). Monetary, b). Financial System Stability, c). Payment System and Rupiah Currency Management. Bank Indonesia’s activities such as controlling interest rates, exchange rates, inflation, money supply and payment systems.

## 5.2 MICROPRUDENTIAL

Microprudential is a policy in supervising and protecting individual financial institutions from systematic risk and preventing the emergence of other risks (Financial Stability Review, 2014). In Indonesia, the Financial Services Authority (OJK) performs/runs this function by directly going to the field to ensure that the Health Level of a financial services institution can be monitored, its risk management is running well, and customer interests are protected. One of the financial institutions supervised by OJK is BPR – Rural Bank. Although its core business spirit resembles a commercial bank, its target market is more directed towards the informal sector, especially MSMEs.

As we know, the Micro Small Medium Enterprises (MSMEs) is a diverse sector in the economy. SMEs range micro businesses of three or five people to businesses employing up to 70 people. The SME sector is characterized by a wide diversity of responses to strategic and planning needs and to organizational issues. Many do not plan, but there is evidence to advise that their planning are not the same as those of larger businesses.

Another thing to note is that products, markets and financial institution are more closely connected by the new financial innovations that have been created. At the same time, the worldwide ramifications of such development are not sufficiently transparent to both market participants and Supervisory Authorities (OJK). The reason is, amongst other things, international differences (IFRS) or “loopholes” in regulatory frameworks, as well as differing transparency standards-consider, for examples, conduits and similar arrangements.

On the date 1st of April, 2015, the Financial Authority Service has issued a policy/regulation contained in Financial Services Authority Regulation (POJK) Article 13 POJK Number 5/POJK.03/2015 concerning Minimum Capital Provision Obligations (Capital Adequacy Ratio - CAR). The essence of this POJK is that Rural Banks whose capital has not reached IDR 6 billion are required to increase their capital, or withdraw from the commercial bank competition arena (Rural Banks). In addition, OJK has determined to reduce the number of Rural Banks so that people's economic banks are expected to operate more efficiently. The main message of the scenario above is that for Rural Banks whose assets have not reached IDR 6 billion as of December 31, 2024, they must merge (forced merger). Is this corporate action easy to execute? The merger of two entities into one is not a simple issue, because the merger issue is not limited to the consolidation of figures in financial reports, but the suboptimal human capital aspect after the merger can hinder the realization of goal congruence at the Rural Bank concerned.

## 5.3 THE ESSENCE OF RATIO'S BANK ANALYSIS

Ratio analysis is a powerful tool of financial analysis. A ratio defined as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things." In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a Rural Bank. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a Rural Bank. An accounting figure conveys meaning when it is related to some other relevant information. The relationship between two accounting figures, expressed mathematically, is known as a financial ratio (or simply as a ratio). Ratios help to summarize the large quantities of financial data and to make qualitative judgement about the Rural Bank's financial performance. For example, consider loan to the deposit ratio, it is calculated by dividing loan exposure by third fund (current account, saving deposit, time deposit), the ratio indicates a relationship - a quantified relationship between earning assets and funding exposure. This relationship is an index or yardstick which permits a qualitative judgement to be formed about the Rural Bank's ability to meet its current obligations. It measures the Rural Bank's liquidity. The greater the ratio, the greater the banks earning assets depend on short-term fund. . The point to note is that a ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgement. Such in the nature of all financial ratios.

## 5.4 FINANCIAL CONTROLS

Every bank wants to earn a profit. To achieve this goal, managers of banks need financial controls. For example, they might analyze quarterly income statement for excessive expenses. They might also compute financial ratios to ensure that sufficient cash is available to pay on going expenses, that funding levels haven't become too high, or that assets are used productively.

Bank managers use conventional financial measures such as ratio analysis and budget analysis. As below, summarizes some of the most popular financial ratios.

**Table 1**

*Financial Benchmark*

| Objectives | Ratio | Healthy Regulator Criteria | Calculation | Meaning |
|---|---|---|---|---|
| Liquidity | Loan to Deposit Ratio (LDR) | 110% | Loan / Deposits | Test the banks' ability to cover short Liability |
| Capital Adequacy | Capital Adequacy Ratio (CAR) | Min. 12 % | Net Worth / Risk Weighted Asset | Equity Capacity to buffer Risks |
| Efficiency | Operating Efficiency Ratio (OER) | 93.52 % | Operational Expense / Revenue | Test the bank ability to operate efficiency |
| Credit Problem | Non-Performing Loan (NPL) | <5% | Bad Debt / Lending (Credit) | Test the bank ability to know potential loss of credit exposure |
| Profitability | Return on Asset (ROA) | 1.5% | Earning Before Tax / Assets | Measures the efficiency of assets to generate profits |

Sources: Compile by Researcher from OJK regulations, 2024

The above ratios are applied equally by regulators between commercial banks and Rural Banks. Even though both are essentially banking whose core business is collecting and distributing public funds, they have very different target markets. Rural Banks' main target is Micro Small Medium Enterprises (MSMEs) which have the stigma of not being bankable because many of them are not yet orderly in their administration, so they do not have formal financial reports. On the other hand, commercial banks have not yet netted their corporate customers and require formal financial reports to make them data that can be analyzed whether the customer's credit application is accepted/rejected.

Ironically, regulators force these financial ratios to be adopted and implemented in Rural Banks as indicators of their Health/performance. Besides that, OJK also require the implementation of qualitative benchmarks for their human capital, such as the obligation to pass a fit & proper test for administrator Board of Director and Commissioner (BOD and BOC). This coercion could actually reflect the lack of adequate guidelines to assess the performance/health of Rural Bank. Or regulators could also take shortcuts to facilitate their accountability as regulators of financial institutions.

## 5.5 CAUTIONS IN USING RATIO ANALYSIS

The ratio analysis is a widely used technique to evaluate the financial position and performance of a business. But there are certain potential problems in using ratios. The analyst should be aware of these problems. The following are some of the limitations of the ratio analysis.

1. it is difficult to decide on the proper *basis of comparation;*
2. the comparison is rendered difficult because of *differences in situations;*
3. of two banks or of one bank over years;
4. the *price level changes* make the interpretations of ratios invalid;
5. the *differences in the definitions* of items in the balance sheet and the profit and loss statement make the interpretation of ratios difficult;
6. the ratios calculated at a point of time are less informative and defective as they suffer from *short-term changes*;
7. the ratios are generally calculated from past financial statements and, thus are *no indicators of future;*
8. determining the benchmark of ratios (CAR = 12%, NPL < 5%) not yet through adequate studies.

***Standards for comparison.*** Ratios of a company have meaning only when they are compared with some standards. It is difficult to find out a proper basis of comparison. Usually, it is recommended that ratios should be compared with industry averages. But the industry averages are not easily available. In India, industry data on financial ratios are available from: (i) finance institution studies conducted by the Reserve Bank of India and published in RBI Bulletin; (ii) studies, entitled *Financial Performance of Companies*, published annually by ICICI since 1972, and (iii) industry ratios, published by IDBI in *Operational Statistics.*

***Bank differences.*** Situations of two companies are never same. Similarly, the factors influencing the performance of a company in one year may change in another year. Thus, the comparison of the ratios of two companies becomes difficult and meaningless when they are operating in different situations.

***Price level.*** The interpretation and comparison of ratios are also rendered invalid by the changing value of money. The accounting figures, presented in the financial statements, are expressed in the monetary unit which is assumed to remain constant. In fact, prices change over years which affects accounting earnings. At least three effects of inflation can be identified. *First*, the nominal value of collateral increases on account of rising or dismount prices. This results into “collateral profit.” A Rural Bank will lose in real terms if the general price level increases faster than appreciation in the value of collateral. *Second*, assets are stated at original cost (less depreciation) in the balance sheet. Because of inflation, their current value or replacement cost will be much higher than book value. Thus, depreciation calculated on book value will be very low. *Third*, inflation affects accounting profits of the firms which borrow. If the interest rate is fixed, shareholders gain at the cost of lenders. The real value of the lenders' obligation is reduced by inflation. The accounting profit does not recognize the gain from borrowing arising due to inflation. Since firms will differ in terms of the nature of their receivable, age and type of assets and debt policy, inflation will affect them differently.

***Different definition.*** In practice, differences exist as to the meaning of certain terms. Diversity of views exist as to what should be included in net worth or shareholders' equity, current assets or current liabilities. Whether preference share capital and current liabilities should be included in debt in calculating the debt-equity ratio? Should intangible assets be excluded to calculate the rate of return on investment? If intangible assets have to be included, how will they be valued? Similarly, profit means different things to different people.

***Changing situations.*** The ratios do not have much use if they are not analyzed over years. The ratios at a moment of time may suffer from temporary changes. This problem can be resolved by analyzing trends of ratios over year. Although trend analysis is more useful but still the analysis is static to an extent. The balance sheets, prepared at different points of time are static in nature. They do not reveal the changes which have taken place between dates of two balance sheets. The statements of changes in financial position reveal this information.

***Past data.*** The basis to calculate ratios are historical financial statements. The financial analyst is more interested in what happens in future, while the ratios indicate what happened in the past. Management of the Rural Bank has information about the Rural Bank's future plans and policies and, therefore, is able to predict future happening to a certain extent. But the outside analyst has to rely on the past ratios, which may not necessarily reflect the firm's financial position and performance in future.

## 5.6 RULE OF THUMB AS BEST PRACTICE

The rule of thumb should identify various benchmarks, the standards of excellence against which to measure and compare. As a tool for monitoring and measuring bank performance, the rule of thumb can be used to identify specific performance gaps and potential areas of improvement. But best practices aren't just found externally.

Sometimes those best practices can be found inside the bank and just need to be shared. Research shows that best practices frequently already exist within a bank but usually go unidentified and unnoticed. In today's environment, banks seeking high performance levels can't afford to ignore such potentially valuable information.

Rule of thumb in Rural Bank now focuses on the accuracy of what's reported and reliability of the information – gathering processes. Because of rule of thumb, Rural Banks must implement internal and external controls (Regulation fair disclosure) and processes that ensure the accuracy of reported results.

## 6 CORPORATE ACTION

The corporate action desired by FAS in order to fix Rural Banks is a merger between Rural Banks. The main mission of this merger is to strengthen its capital. In reality, the capital aspect in Rural Banks is mostly vulnerable due to its relatively small amount. It cannot be denied that this is because historically the permit to establish a Rural Bank with a small capital is set banking POJK No 21/POJK.03/2019.

The essential issue if the merger between Rural Banks becomes mandatory is the potential for major problems, several illustrations as below:

1. rural bank A with a fairly good lending exposure is required to merge with Rural bank B whose lending exposure is relatively bad. Doesn't this affect the work culture of its account officers?
2. the Board of Director of Rural Bank X is accustomed to accommodating conflicts of interest with the operating mode of providing credit to the BOD or BOC family. On the other hand, Rural Bank Y holds the taboo principle of conducting transactions that lead to conflicts of interest;
3. the use of information technology, Rural Bank AA adopts adequate IT, on the other hand, Rural bank BB always uses IT that is not yet optimal because the consideration is that the BOD emphasizes minimizing capital expenditure.

Effective and appropriate use of the merger strategies forced by regulator (OJK) have not facilitated Rural Banks' efforts exactly to earn above-average returns. However, even when pursued for value-creating reason, merger strategies are not problem free. Reason for the use of merger strategies and potential problem with such strategies are suboptimum goals congruence because of management control problem – include lack of direction, such as direction from Director to Manager, motivational problem, such as employee demotivation because of changes of organization structure, and personal limitation because of competence limitation.

Research suggests that perhaps 20 percent of mergers are successful, approximately 60 percent produce disappointing results, and the remaining 20 percent are clear failures, evidence suggests that technology acquisitions have even higher failure rates (Zaks, 2016). Considering the high-level implication of merger as well as the management's respective responsibilities, it is advisable not to begin with technicalities, however. What is required is the application of a top-down approach.

And there are still many more critical issues that are not easy to decide which of course result in a counterproductive managerial aspect so that Goal Congruence is far from reach throughout the Rural Bank's business journey.

## 7 RESULT AND DISCUSSION

This approach adds depth to the findings by uncovering **how regulations are interpreted** by those directly affected. The findings highlight that **practitioners feel pressure to merge** due to capital requirements, and they may express a sense of urgency or frustration as they try to maintain operational stability. One key insight might be that some practitioners view the capital adequacy ratio (CAR/KPMM**) regulation** as necessary for long-term stability, while others may feel it disproportionately harms smaller institutions. This phenomenological analysis reveal that practitioners feel a strong **disconnection between regulatory intent and practical realities**, particularly in rural areas where economic conditions do not align with the broader national-level rules. We found main findings such as;

**Table 2**

*Negative impact potential of rural bank merger*

| MAIN FINDINGS | Sub-Finding | |
|---|---|---|
| **Disconnection between regulatory intent and practical realities** | Limitations of Rule-of-Thumb Regulations | One-size-fits-all regulatory frameworks between Rural Bank and commercial bank in Indonesia's. These "rules of thumb" may include standardized capital adequacy requirements or liquidity ratios, which might not fully address the risks specific to Indonesian Rural Banks, particularly in diverse regional economies. |
| | Unique Risks in Indonesian Rural Banks | Indonesia's Rural Banks (often called *Bank Perekonomian Rakyat and Bank Pembangunan Daerah*) face unique operational risks, including dependency on local government projects, economic fluctuations in specific regions, and political factors. The study likely emphasizes that traditional regulations are insufficient for dealing with these localized risks. |
| **Regulation** | Regulatory Gaps and Improvements | This research also discusses the gaps in the current regulatory framework in Indonesia, suggesting that while national banking laws apply, they often overlook the specific nature of Rural Banking |

| MAIN FINDINGS | Sub-Finding | |
|---|---|---|
| | | activities. The findings could call for regulatory reforms to account for local economic and governance structures. |
| | Regulatory flexibility | That makes it easier to make changes or adaptations according to conditions and developments in banking industry. |
| **Minimum Capital Requirement** | Increased Minimum Capital Requirement: | The CAR regulation set higher capital requirements for BPRs, compelling smaller Rural Banks to either raise additional capital or consider merging with other BPRs. The aim was to increase their financial resilience and improve their ability to handle risks. |
| | Consolidation in the BPR Industry | As a direct consequence of the regulation, the number of BPRs began to decrease due to consolidation. Mergers became the most common solution for BPRs that were unable to meet the CAR requirement on their own. This consolidation process has helped create stronger, more capitalized Rural Banks, though it also reduced the overall number of individual BPRs operating across Indonesia. |
| | Strengthened Financial Stability | The regulation helped improve the overall stability of the Rural Banking sector by ensuring that banks with stronger capital foundations remained operational. By raising capital adequacy standards, the OJK aimed to reduce the likelihood of bank failures and protect depositors' funds. |
| **Potential Rural Bank merger negative impact** | Negative impact from Rural Bank merger | Potential for negative impacts will occur due to the OJK regulations related to the merger agenda of Rural Banks that have good performance and capital with Rural Banks that have poor performance and capital. |
| **Rural Bank's Merger** | Challenges for Small BPRs | Many smaller BPRs lacked the financial capacity or market access to quickly raise the required capital. For these banks, mergers became a necessary strategy to comply with the regulation and avoid closure |
| **Dilution of Financial Strength** | Impact on Capital Adequacy and Liquidity | A strong Rural Bank might see its **capital diluted** or weakened when merging with a low-performing Rural Bank. If the weaker bank has a poor asset quality (e.g., high levels of non-performing loans), the combined entity may inherit financial risks, which can reduce its overall capital adequacy ratio and impair liquidity. This could undermine the financial stability of the previously strong bank. |
| **Integration and Operational Challenges** | Cultural and Management Conflicts | Merging a well-managed, successful bank with a poorly performing one can lead to operational difficulties. The **corporate cultures** of the two banks may clash, particularly if management styles, business strategies, and risk appetites differ significantly. This can lead to inefficiencies, slow decision-making, and management conflicts. |
| | Operational Disruptions | Integrating IT systems, accounting procedures, and internal controls from a poorly performing bank into a successful one can cause operational disruptions. If the weak bank had poor **internal governance** or lacked compliance with regulatory standards, the combined entity might face difficulties in aligning systems and processes. |

| MAIN FINDINGS | Sub-Finding | |
|---|---|---|
| **Impact to Shareholder** | Reduction in Shareholder Value | **Impact on Stock Price or Equity Value**: Shareholders of the stronger Rural Bank could see a **decline in the value of their shares** following the merger, especially if the low-performing bank's financial problems |
| | Lower Dividends | **Impact on Profitability and Dividend Payouts**: A successful Rural Bank may have provided **consistent dividend payments** to its shareholders. However, after merging with a low-performing bank, profitability could decline due to the need to absorb **losses** or handle **operational inefficiencies**. This could reduce the bank's ability to generate profits, resulting in **lower or suspended dividend payouts.** |
| | Dilution of Ownership | **Impact on Share Ownership Proportion**: Shareholders of the high-performing bank might experience **dilution of their ownership** if additional shares are issued to the shareholders of the low-performing bank as part of the merger process. This would mean that the **proportion of ownership** and voting power of the original shareholders in the stronger bank could decrease. |
| **Performance** | Increased Risk Exposure | **Exposure to Weaker Financials and Poor-Quality Assets**: Shareholders of a strong Rural Bank may find their **investment more risky** after the merger, especially if the low-performing bank has significant **non-performing loans (NPLs)**, weak liquidity, or high operational costs. The overall **risk profile** of the combined entity could increase, making the bank more vulnerable to **economic downturns** or further losses. |
| | Reduced Return on Investment (ROI) | **Impact on Overall Profitability**: A good-performing bank typically delivers a high **return on investment (ROI)** to its shareholders through strong earnings growth and efficient operations. However, when merging with a low-performing bank, the **ROI can decrease** as the merged entity needs to address the financial and operational weaknesses of the weaker partner. This could result in lower profit margins, higher costs, and reduced efficiency. |
| | Operational and Strategic Uncertainty | **Uncertainty Due to Integration Challenges**: Shareholders of a well-run bank might be concerned about the **uncertainty** and challenges involved in integrating the low-performing bank. Mergers often lead to **disruptions in operations**, misalignment in strategy, and potential conflicts between management teams. These factors can affect the long-term strategic direction of the bank, reducing shareholder confidence in future performance. |
| | Damage to Reputation and Brand Value | **Reputational Risk**: If the weaker bank had a poor reputation—whether due to bad customer service, governance issues, or past regulatory problems—the merger might **tarnish the reputation** of the previously strong bank. This can lead to **brand erosion**, making it harder to attract new customers |

| MAIN FINDINGS | Sub-Finding | |
|---|---|---|
| | | or retain existing ones, ultimately affecting the bank's growth prospects and profitability. |
| | Longer Payback Period for Merger Benefits | **Delayed Realization of Merger Synergies**: Mergers, especially between banks with different performance levels, often take time to realize the expected **synergies and cost savings**. Shareholders of the stronger bank might have to wait longer for the merger's benefits to materialize, such as improvements in efficiency, market share, or profitability. This could delay the **realization of value** from their investment. |
| | Higher Capital Requirements Post-Merger | **Need for Additional Capital**: In some cases, the merged entity might need to raise additional capital to strengthen the balance sheet, especially if the weaker bank has significant liabilities or non-performing loans. This could result in the **dilution of existing shareholders' stakes** or the need for **capital calls** or rights issues. |
| **Organization Culture & Employee Work Culture** | Organizational Culture Clash | **Different Management Styles**: The merging banks often have different management approaches—especially between a high-performing bank with a strong organizational culture and a low-performing bank with weaker governance or less effective leadership. This can lead to **cultural clashes**, where employees from each bank struggle to adapt to new leadership styles or management expectations. |
| | Employee Morale and Motivation | **Fear and Uncertainty**: Mergers typically create a sense of **uncertainty** among employees, particularly if they fear job cuts, changes in their roles, or major shifts in management. Employees from both the good and low-performing bank may feel anxious about their job security, which can lead to a drop in morale and motivation.<br>**Reduced Engagement**: This uncertainty and fear can also result in lower levels of **employee engagement** and **productivity**, as workers may focus more on securing their position rather than contributing to the merged entity's success. |
| | Changes in Organizational Structure and Roles | **Job Redundancies and Restructuring**: One of the most common outcomes of a merger is **restructuring**, which can lead to **job redundancies** as the merged entity eliminates overlapping roles. Employees might be forced to take on new responsibilities or be reassigned to different positions within the organization. This can create confusion and dissatisfaction, especially if roles and responsibilities are not clearly defined after the merger. |
| | Resistance to Change | **Employee Resistance**: When two banks with different work cultures merge, there is often **resistance to change** among employees, particularly if one of the banks (typically the stronger one) had a well-established, positive culture. Employees may resist new policies, operational changes, or new leadership styles that come from the other bank. |
| | Productivity Disruptions | **Impact of Operational Integration**: The process of merging two different operational systems (e.g., |

| MAIN FINDINGS | Sub-Finding | |
|---|---|---|
| | | IT systems, accounting processes, HR procedures) can be disruptive. Employees may have to learn new tools, adapt to different workflows, or collaborate with new teams from the other bank, which can result in **productivity losses** in the short term. |
| | Confusion Over Leadership and Decision-Making | **Ambiguity in Leadership**: A merger can lead to **confusion over leadership roles**, especially if both banks' management teams try to assert their authority or if there's no clear direction from the top. Employees may feel confused about who is making decisions and which policies to follow. |
| | Loss of Identity and Corporate Values | **Dilution of Corporate Identity**: Employees from the high-performing Rural Bank may feel a loss of **corporate identity**, especially if the values and mission of the new merged entity do not align with the original values of their bank. This can lead to **disillusionment** or even higher turnover, as employees may feel that the merger has diluted the culture they once thrived in. |
| | Communication Challenges | **Different Work Cultures and Practices**: Employees from each bank may be accustomed to different **work practices** and approaches to customer service, performance management, and internal processes. Integrating these divergent practices can be challenging, leading to friction between employees from the two organizations. |
| | Innovation and Agility Decline | **Slowdown in Innovation**: In the aftermath of a merger, organizations often focus on **stabilizing operations** and managing the integration process, which can slow down **innovation**. Employees may feel stifled if the bank's emphasis shifts from growth and innovation to managing the complexities of integration. |

Source: Researcher, 2024

## 8 CONCLUSION

Corporate actions in Rural Banks cannot yet be considered as optimal efforts in the context of fostering Rural Banks. Regulators must look back (1998) When Indonesia was hit by a major monetary crisis, at that time it was commercial banks that went bankrupt, not Rural Banks. In addition, in its history, there has never been a Rural Bank that was sick (illiquidity problem) facilitated by the regulator (Central Bank/Bank Indonesia) to recovery it. The opposite happened, commercial banks at that time were the ones that received loan facilities from Bank Indonesia which was followed by the revelation of many frauds/corruptions happened. Corporate actions in Rural Banks cannot yet be considered as optimal efforts in the context of fostering Rural Banks.

To minimize these negative impacts, it is crucial for the leadership to:

- **develop a clear and transparent communication plan** that keeps employees informed and engaged throughout the merger process;
- **prioritize cultural integration** by identifying the best practices from both organizations and fostering a unified, cohesive work culture;
- **provide support and training** to employees to help them adapt to new roles, responsibilities, and operational systems;
- **create opportunities for employee feedback** to address concerns and ensure that staff feel heard and valued during the transition.

A successful merger will depend on how well the two different cultures are integrated and how effectively the organization manages change across all levels.

The merger of a **good Rural Bank** with a **low-performing Rural Bank** in Indonesia can have significant implications on the **health level assessment** of the merged entity, especially when evaluated against the guidelines in **POJK No. 3/POJK.03/2022** on the **Assessment of BPR Health Level**. This regulation provides a framework for assessing the health of Rural Banks (BPR) based on several key factors, including capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk, often abbreviated as **CAMELS**.

**Table 3**

*Potential Positive and Negative Outcomes of the Merger on BPR Health Level*

| **Positive Outcomes:** | **Negative Outcomes:** |
|---|---|
| If the **strong bank's management team** successfully integrates the weaker bank and improves its financial position, the merged entity could become **more stable** over time. The larger asset base and customer pool from the merger could improve **economies of scale** and lead to higher profitability in the long run. | If the low-performing bank's **financial problems** are too severe, the merged entity might see a **decline in its health level** across key areas such as capital adequacy, asset quality, and earnings. This could result in regulatory actions if the merged bank falls below acceptable health thresholds. |
| A successful merger might result in the new entity having a **stronger capital base**, a more diversified loan portfolio, and better operational efficiency, which could enhance its health rating in the future. | **Management and cultural integration issues** might lead to operational disruptions, making it difficult for the merged entity to meet the performance standards required for a high health level rating. |

Source: Researcher, 2024

The merger between a **good Rural Bank** and a **low-performing Rural Bank** will significantly affect the merged entity's health level under **POJK No. 3/POJK.03/2022**. While there are risks of declines in **capital adequacy**, **asset quality**, **earnings**, and **liquidity**, effective post-merger management and strategic interventions can mitigate these risks.

To maintain or improve the merged bank's health level:

- the bank must focus on **enhancing capital, reducing non-performing assets**, and improving **governance and risk management**;
- addressing integration challenges proactively and focusing on profitability and operatitonal efficiency will be critical to achieving a positive outcome for the health assessment.

By following the regulatory framework and adopting best practices, the merged entity can navigate the risks and potentially emerge as a **stronger** and more **resilient Rural Bank**.

1. **increased minimum capital requirement:** the Capital Adequacy Ratio (CAR) regulation set higher capital requirements for BPRs, compelling smaller Rural Banks to either raise additional capital or consider merging with other BPRs. The aim was to increase their financial resilience and improve their ability to handle risks;
2. **challenges for small BPRs:** many smaller BPRs lacked the financial capacity or market access to quickly raise the required capital. For these banks, mergers became a necessary strategy to comply with the regulation and avoid closure;
3. **consolidation in the BPR industry:** as a direct consequence of the regulation, the number of BPRs began to decrease due to consolidation. Mergers became the most common solution for BPRs that were unable to meet the CAR requirement on their own. This consolidation process has helped create stronger, more capitalized Rural Banks, though it also reduced the overall number of individual BPRs operating across Indonesia;
4. **strengthened financial stability:** the regulation helped improve the overall stability of the Rural Banking sector by ensuring that banks with stronger capital foundations remained operational. By raising capital adequacy standards, the OJK aimed to reduce the likelihood of bank failures and protect depositors' funds.

**Table 4**

*Conclusion*

| CONCLUTION | DETAILS |
|---|---|
| The importance of reviewing Microprudential Regulations, as well as Regulatory Flexibility. | • The "rule of thumb" approach to regulation may be too simplistic for Rural Banks, and there is a strong case for adopting more nuanced, microprudential measures.<br>• Effective microprudential oversight tailored to local contexts can enhance the financial stability of Rural Banks, thereby ensuring that they can continue to serve their communities without exposing themselves to systemic risks.<br>• Policymakers should shift their focus from blanket regulations to more detailed, institution-specific oversight to foster long-term sustainability in the Rural Banking sector. |

| CONCLUTION | DETAILS |
|---|---|
| **Dilution of Financial Strength** | • **Need for Tailored Microprudential Oversight:** The paper likely concludes that Indonesia's Rural Banks require a more tailored approach to regulation, one that moves beyond generic rules of thumb. Instead of rigid, national standards, regulatory bodies should adopt institution-specific frameworks that reflect regional economic diversity and local governance issues.<br>• **Risk Mitigation Through Enhanced Microprudential Tools:** By focusing on microprudential regulation, Indonesian Rural Banks can better mitigate risks like regional economic downturns or local government financial instability, contributing to the overall financial stability of the country.<br>• **Recommendations for Policy Reform:** The paper likely advocates for policy reforms in Indonesia's banking regulation, emphasizing the need for flexible yet comprehensive microprudential tools, specifically designed for the Rural Banking sector. |
| **Merger between BPRs (Rural Banks) in Indonesia** is largely driven by regulatory requirements, particularly the one issued by the **Financial Services Authority (OJK)** on **April 1, 2015**. This regulation, **POJK Number 5/POJK.03/2015**, introduced the **Minimum Capital Provision Obligations (Capital Adequacy Ratio - CAR)**, which mandates Rural Banks to meet a specific capital threshold to continue operations. | **Merger as a Strategic Solution:** The regulation effectively pushed many BPRs to merge, leading to fewer but stronger and better-capitalized Rural Banks. This shift is intended to improve the resilience of the BPR sector, particularly in times of economic downturn or local crises.<br>**Long-Term Stability and Growth:** The enforcement of CAR aims to foster long-term sustainability in the Rural banking industry by ensuring that only those banks with sufficient capital remain in operation. Merged BPRs are expected to have greater financial strength, operational efficiency, and the ability to support rural economic development more effectively.<br>**Future Outlook:** While the consolidation trend reduces the number of Rural Banks, it also creates a more stable banking environment. The policy's long-term goal is to ensure that BPRs can continue to serve local communities while complying with modern regulatory standards. |
| **Shareholders** | For shareholders of a good Rural Bank with strong performance, merging with a low-performing bank can pose several risks, including **reduced shareholder value**, **lower dividends**, **dilution of ownership**, and **increased exposure to financial risks**. The success of the merger in delivering value to shareholders depends heavily on the **management's ability** to effectively integrate the two entities, manage risks, and realize synergies without compromising the financial stability of the previously stronger bank. Shareholders may need to consider these risks when assessing the potential impact on their investments.<br>To mitigate these risks, **strong due diligence**, a clear **post-merger integration plan**, and **transparent communication** with shareholders are critical steps. |
| | The impacts of a merger between a good Rural Bank and a low-performing Rural Bank on organizational and employee work culture are significant and multifaceted. Key challenges include **cultural clashes**, **decreased morale**, **resistance to change**, and potential **loss of organizational identity**. These issues can lead to **lower productivity**, **job dissatisfaction**, and even higher **employee turnover** if not managed effectively. |

The other conclusion, masterfully narrated here, is not just to fulfill all improvements completely. This would also be possible to do at the value of breaking up a Rural Bank, albeit not punctually. No, it is primary about preserving a Rural Bank, its reputation and thus its on going customer and investor connection.  Otherwise, its business network would be lost, a network built on hard-won trust, sometimes over centuries. Finally, critical thinking can be practiced in a far more constructive spirit. This article is one attempt to suggest how.

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