INDONESIA

Bank ownership: from 99 percent to less than 50 percent

By Bezaliel B. Erlan

Bankers and investors in Indonesia are now restless in the face of growing uncertainty in terms of investment in Indonesian banks and proposed possible limits on shareholding.

This is due to Bank Indonesia's (the Indonesian Central Bank or BI) draft regulation on bank ownership, which is still at a discussion stage. Upon enactment, the proposed changes would (i) limit the maximum ownership of an Indonesian bank to less than 50 percent and (ii) force the existing shareholders of banks to divest their share ownership if their share ownership in an Indonesian bank is at least 50 percent. In other words, if enacted, such regulation will be implemented retroactively and current investors will not benefit from any grandfather clause. For these reasons, investor anxiety is shared equally among both existing and prospective investors, and local and foreign ones. In the draft regulation, the 'divestment' will be implemented within a certain time period, to accommodate the fact that the existing major shareholders need to look for appropriate buyers.

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Rationale

Our research reveals that there are essentially two main purposes for the enactment of such a regulation. Firstly, if the majority of the shareholders in Indonesian banks are not certain families or large international or local banking corporations, then Bank Indonesia believes that the ownership limits may promote improved corporate governance. Improved corporate governance should also, among other things, provide an increased sense of security for the banks' customers as the regulation is also intended to increase prudent banking. Secondly, the proposed rule change is an attempt to bring Indonesian bank ownership rules more in-line with the international banking community. To date, Indonesia, through its prevailing la ws and regulations, has allowed foreign investment for banks up to a maximum ownership of 99 percent of the issued and paid up shares. In many other countries the maximum ownership is much less, even far below 50 percent.

Suspension of bank acquisitions

At the moment, although the draft regulation remains at the discussion level, Bank Indonesia is actually suspending all applications for Indonesian bank acquisitions until the enactment of the above-mentioned draft BI regulation. For example, ongoing acquisitions which have been suspended at this moment include: (i) Affin Holding's (a Malaysian company) intention to acquire Bank Ina Perdana (IDR 390 billion to purchase 80 percent of the shares) and (ii) RHB Capital's (also a Malaysian company) intention to acquire Bank Mestika Dharma (IDR 3,3 trillion to purchase 80 percent of the shares). It remains to be seen how these proposed transactions will fare under the proposed new rules.

Steps forward

As an emerging and strong economy that fared particularly well during the recent global financial crisis, we understand that there is currently significant appetite amongst the international markets to invest in the Indonesian banking sector. The banking and financial community in Indonesia is waiting anxiously for the enactment of the regulation, as well as further clarification regarding its implications, which are expected to be issued by the end of this year.

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