

Comparing The Evidence of Liquidation Process Between Islamic Rural Banks and Conventional Rural Banks in Indonesia

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Diterima: 05-06-2024

Direvisi: 25-06-2024

Disetujui: 19-07-2024

ABSTRAK

Penelitian ini bertujuan untuk mengkomparasi temuan-temuan yang diperoleh saat proses likuidasi Bank Perekonomian Rakyat Syariah dengan Bank Perekonomian Rakyat Konvensional di Indonesia. Tulisan ini berupaya memberikan pemahaman bagi para praktisi perbankan Syariah dan regulator syariah untuk meningkatkan kerangka peraturan dan praktik operasional Bank Perekonomian Rakyat Syariah di masa depan. Penelitian ini menggunakan pendekatan kualitatif dengan fokus pada kasus-kasus yang ditemukan dalam proses likuidasi bank-bank tersebut. Data dikumpulkan melalui kuesioner yang disebarakan kepada Tim Likuidasi Bank Perekonomian Rakyat Syariah yang ditugaskan oleh Lembaga Penjamin Simpanan untuk melakukan proses likuidasi yang memiliki keahlian serta pengalaman sehingga mampu menjelaskan proses likuidasi Bank Perekonomian Rakyat Syariah. Temuan-temuan utama menunjukkan adanya kesamaan penyebab dilikuidasinya Bank Perekonomian Rakyat Syariah seperti fraud dan kelemahan tata kelola. Namun, Bank Perekonomian Rakyat Syariah cenderung menunjukkan tingkat pengembalian klaim yang lebih rendah pada saat likuidasi dibandingkan dengan Bank Perekonomian Rakyat Konvensional. Kedua jenis bank ini mendapatkan keuntungan dari inovasi LPS yang memfasilitasi proses likuidasi secara efisien dan cepat, sehingga menghasilkan waktu penyelesaian likuidasi yang relatif sama.

Kata kunci: *Bank perekonomian rakyat syariah; Likuidasi bank; Lembaga penjamin simpanan*

ABSTRACT

This research aims to compare the findings obtained during the liquidation process of the Islamic Rural Bank with Conventional Rural Bank. This article seeks to provide understanding for Islamic banking practitioners and regulators to improve the regulatory framework and operational practices of Islamic Rural Banks in the future. This research uses a qualitative approach focusing on cases found in the liquidation process of these banks. Data was collected through a questionnaire distributed to the Liquidation Team of Islamic Rural Banks who were assigned by the Indonesia Deposit Insurance Corporation to carry out the liquidation process and who have expertise and experience in explaining the liquidation process of Islamic Rural Banks. The main findings show causes for the liquidation of Islamic Rural Bank, such as fraud and weaknesses in governance. However, Islamic Rural Bank tend to show lower claim recovery rates upon liquidation compared to Conventional Rural Bank. Both types of banks benefit from LPS innovations which facilitate the liquidation process efficiently and quickly, resulting in relatively the same liquidation completion time.

Keywords: *Islamic rural bank; Bank liquidation; Indonesia deposit insurance corporation*

INTRODUCTION

According to Article 1 number 7 of Law Number 21 of 2008 on Sharia Banking, an Islamic Bank conducts its business activities following Islamic principles. Islamic banks are divided into two main categories: Islamic Commercial Banks and Islamic Rural Banks. Islamic Commercial Bank are Islamic banks that provide services related to payment transactions, whereas Islamic Rural Bank do not engage in payment transactions and are not permitted to collect funds through current accounts. Apart from Islamic Commercial Bank and Islamic Rural Bank, there is also an Islamic Business Unit (UUS) within conventional commercial banks.

Banking and financial institutions fall under the supervision of the Financial Services Authority (OJK) as stipulated in Article 7 of Law Number 21 of 2011. Deposit insurance for banks and insurance companies is regulated by Law Number 24 of 2004 on Indonesia Deposit Insurance Corporation (IDIC/LPS), which was amended by Law Number 4 of 2023 on the Development and Strengthening of the Financial Sector (UU P2SK). Under Article 5 of Law Number 24 of 2004, modified by Law Number 4 of 2023 on the Development and Strengthening of the Financial Sector (UU P2SK), LPS is responsible for formulating, establishing, and implementing policies to address failed banks that do not present systemic risks, as well as managing failed banks that do impact the system. To effectively address these banks, LPS is empowered to undertake resolutions, which may involve the liquidation of failed banks.

Moreover, as outlined in Law Number 24 of 2004, specifically under Article 53 and Article 54, amended by Law Number 4 of 2023, in cases LPS carry out the liquidation of a bank, it may take several measures. These measures include (1) reimbursing deposit insurance claims to depositors, (2) liquidating assets through sales and/or debt collection from debtors, and (3) settling the bank's obligations to creditors following the prescribed priority or transferring the bank's assets and liabilities to other parties with approval from LPS. As of December 2022, LPS has overseen the liquidation of a total of 118 banks, with detailed records available in Table 1.

Table 1. Data on The Number of Liquidated Banks

Bank Category	Amount
Commercial Bank	1
Conventional Rural Bank	106
Islamic Rural Bank	11
Total	118

Source: LPS Annual Report (2022)

The resolution of failed banks, including Islamic banks, overseen by LPS, is guided by specific regulations governing bank resolution. LPS led bank resolutions aim to maintain essential banking functions such as protecting deposits, ensuring the continuity of payment systems, safeguarding financial stability, and restoring the operations of banking institutions, either fully or partially. Deposit Insurance functions generally emphasize principles aimed at maintaining public confidence in the banking system (Acharya & Yorulmazer, 2008) because there are institutions that guarantee bank customer funds if the bank fails. Maintaining public trust will prevent the impact of contagion which can disrupt other financial institutions (Parigi, 2014) due to the spread of information about bank failures from one customer to another (Allen & Gale, 2000), the existence of direct interdependence between one bank and another bank (White & Yorulmazer, 2014) or financial transactions with external parties or affiliated parties. Deposit insurance institutions also play a role in mitigating the possibility of negative impacts resulting from the sale of problematic bank assets (Ragalevsky & Ricardi, 2009), overcoming irregularities committed by bank owners and administrators, and preventing moral hazards committed by banking actors, especially in failed banks (Brunnermeier & Pedersen, 2009).

Ashari & Nugrahanti (2018) investigated the liquidation of Conventional Rural Banks (BPR), focusing on critical issues such as fraud before liquidation, deficiencies in the flow of documentation and information provided to the Liquidation Team, and gaps in supervision during the asset distribution phase. These challenges significantly affect the repayment rates of claims and the residual assets in Conventional Rural Bank liquidations. Given the similarities in operational structure, similar

challenges may arise in the liquidation processes of Islamic Rural Banks. Therefore, there is a necessity for conducting comparable research on the liquidation procedures of Islamic Rural Bank in Indonesia.

Building on the context provided, this study centers on examining evidence encountered by the Liquidation Team when distributing assets in the liquidation of Islamic Rural Banks. The research seeks to investigate the following questions: (a) What is the Islamic Rural Bank liquidation process? ; (b) What types of fraud occur in Islamic Rural Bank that are found in the liquidation process which will increase the difficulty in disbursing Islamic Rural Bank assets?; (c) What is the rate of claim recovery in Islamic Rural Bank liquidation?; (d) What is the period for implementing Islamic Rural Bank liquidation compared to Conventional Rural Bank liquidation?; (e) What are the keys to the successful liquidation of Islamic Rural Bank in Indonesia?

There has not been much research regarding the liquidation of Islamic Rural Bank. Most studies highlight the causes of financial difficulties in Conventional Rural Bank. Mayes (2005) examines the ideal conditions that must be implemented by resolution authorities so that banks can quickly resume their business, pay attention to claim priorities, and no other parties are affected. Meanwhile, Bennett (2003) found that deposit insurance authorities in several countries experienced difficulties in liquidating failed bank assets due to non-performing loans which resulted in low recovery rates (liquidation return rates). Apart from that, Macey & Miller (1988) conducted research stating that two main sources can limit management activities, namely the market that controls the company and various contractual provisions. The absence of market discipline and violation of contracts will result in fraud.

Based on research written by Ashari & Nugrahanti (2018), several factors influence the rate of return of claims and remaining liquidated assets during the liquidation process: a) The duration it takes to submit troubled banks to LPS increases the risk of potential fraud within the bank, b) The deterioration in the quality of the bank's assets during liquidation, and c) The duration of the liquidation process itself. This research contributes to the development of governance theories tailored to Islamic Rural Bank and provides practical insights valuable for banking professionals, regulators, and observers of Islamic banking. These insights are intended to strengthen adherence to industry regulations and enhance operational practices within the Islamic Rural Bank sector.

METHOD

This study employs qualitative research methodology utilizing the case study approach. The research report is organized in a flexible structure (Creswell, 2009), incorporating diverse interpretive techniques to describe, decipher, translate, and contextualize its findings within everyday social contexts (Cooper & Schindler, 2011). Thus, the study adopts an interpretive and naturalistic approach to investigate the researched problems, aiming to understand and interpret phenomena based on societal meanings (Wahyuni, 2015).

The data utilized in this study comprises both primary and secondary sources. Primary data were directly obtained from respondents who were also subjects of the research (Sugiyono, 2014). Data collection involved surveys and behavioral observations about the variables under study (Cooper & Schindler, 2011). Questionnaires were administered to informants who were selected from members of the Liquidation Team or Public Accountant Office partners directly involved in the liquidation process of Islamic Rural Bank under Liquidation. Additionally, this research incorporates secondary data sourced from scientific journals, mass media, and other relevant documents about Sharia and banking governance in Indonesia and other jurisdictions, aligned with the research themes (Sugiyono, 2014). The study was conducted in 2023, focusing on the Islamic Rural Bank liquidation processes over the preceding five years until December 31, 2022. During this observational period, 10 Islamic Rural Banks underwent liquidation overseen by OJK and facilitated by LPS, as detailed in Table 2.

The conceptual framework in this research can be explained as (a) Liquidity and capital issues in Islamic banks lead to bankruptcy, potentially due to fraud as discussed by Macey & Miller (1988), and ineffective implementation of corporate governance as highlighted by Suwandi et al. (2019) and Bawono & Setyaningrum (2018), (b) The Deposit Insurance Corporation (LPS) functions as a state-established authority responsible for deposit guarantee activities and ensuring banking system stability, (c) LPS has the mandate to resolve bankrupt or failed banks by overseeing the liquidation

process of banks whose licenses have been revoked by the OJK, (d) During bank liquidation (BDL), the bank's closing balance sheet is prepared as of the date its license is revoked by the OJK. Subsequently, the Liquidation Team, appointed by LPS, manages the disbursement of assets from the date of license revocation until the completion of the liquidation period, (e) The Liquidation Team aims to expedite the liquidation process to prevent deterioration in asset quality during liquidation (Ashari & Nugrahanti, 2018) and (Mayes, 2005) and to maximize recovery of liquidated assets (Bennett, 2003).

Table 2. Data on Islamic Rural Bank Business License Revocation

No	Name of Islamic Rural Bank	Date of License Revocation
1	PT BPRS Babussalam	May 1st, 2009
2	PT BPRS Syarif Hidayatullah	July 29th, 2011
3	PT BPRS Hidayah Jakarta	June 19th, 2015
4	PT BPRS Al Hidayah	April 25th, 2016
5	PT BPRS Shadiq Amanah	September 1st, 2016
6	PT BPRS Jabal Tsur	January 21st, 2019
7	PT BPRS Safir Bengkulu	January 30th, 2019
8	PT BPRS Muamalat Yotefa	May 15th, 2019
9	PT BPRS Hareukat	October 11th, 2019
10	PT BPRS Gotong Royong	June 5th, 2020
11	PT BPRS Asri Madani Nusantara (DL)	September 15th, 2021

Source: OJK Press Release (2023)

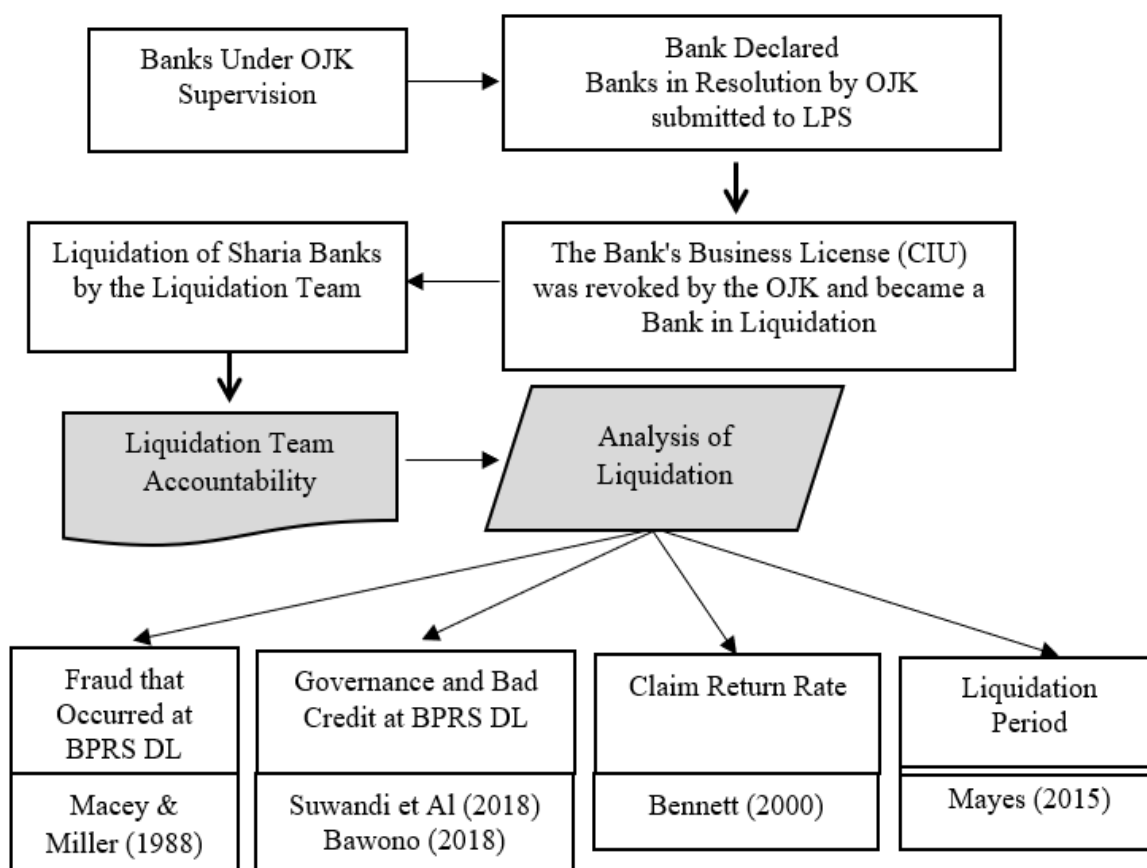


Figure 1. Conceptual Framework

Source: Processed by Author

RESULTS AND DISCUSSION

Respondents' Profile

This research questionnaire was delivered to respondents in the form of a Google form to 5 (five) members of the Liquidation Team (LT) who had handled audits of 11 liquidated Islamic Rural Banks with profiles as presented in Table 3.

Table 3. Interviewees' Profile

Criteria	Description	Freq.
Number of Assignment as LT	One time	1
	2 to 3 times	2
	4 to 5 times	1
	> 5 times	1
	Amount	5
Number of Assignment as Head of LT	One time	1
	2 to 3 times	4
	4 to 5 times	0
	> 5 times	0
	Amount	5
Length of Assignment as LT	0 to 2 years	1
	2 to 5 years	2
	5 to 10 years	1
	More than 10 years	1
	Amount	5
Last Education	D3	1
	S1	4
	S2	0
	Amount	5

Source: Processed by Author

All respondents stated that they had worked in the banking industry and according to Table 3, it is known that respondents had experience in carrying out assignments to carry out the liquidation of failed banks. This was proven until June 31, 2023 when this questionnaire was circulated, it was known that a) four out of five LT people had carried out assignments as LT more than four times, b) four out of five LT people had experience as LT Chair at least twice, c) four out of five LTs have been assigned as LTs for more than two years. According to the profile Tabel 3, it can be concluded that the Liquidation Team which is the resource person in this research has sufficient competence and capability so that it is worthy of being a reference in this research.

Islamic Rural Bank Liquidation Process

The procedures for liquidating Islamic Rural Bank adhere to general banking liquidation regulations stipulated under LPS Regulation number 1/PLPS/2022 regarding Bank Liquidation. Upon revocation of a failed bank's business license by the Financial Services Authority, LPS assumes responsibility for safeguarding the assets of the failed bank before commencing the liquidation process. These responsibilities encompass asset control and management, oversight of bank obligations, and coordination with Bank Indonesia, bank supervision authority, police, and other relevant agencies. Following the license revocation, LPS assumes the rights and authorities of shareholders, including those typically exercised during general meetings of shareholders (GMS). This approach aligns with the International Association of Deposit Insurers' guidelines on managing bank failures (IADI, 2005).

The next bank liquidation business process is that first the Bank's Directors prepare a Closing Balance Sheet and submit it to the Liquidation Team no later than 15 days after the license is revoked. If the time limit is exceeded, LPS appoints a public accounting firm or government audit agency to prepare the Closing Balance Sheet. Subsequently, LPS dissolved the bank's legal entity, formed a Liquidation Team, determined the bank's status as "Bank under Liquidation" and deactivated all directors and board of commissioners.

After deactivating the directors and commissioners, the liquidation team carries out the following: a) carry out an inventory of the bank's assets and liabilities including problems, b) appoint a public accountant to examine the closing balance sheet, c) group assets based on the inventory results, d) prepare a temporary liquidation balance sheet. e) Carrying out disbursement of assets and/or collection of receivables, f) Opening an account in the name of the Bank under Liquidation at a Commercial and/or Islamic Bank to settle assets and liabilities, g) Carrying out payment of obligations to creditors and, h) Entrusting the portion that has not been taken by creditors to LPS. Ultimately, liquidation is terminated if one or more conditions are met: a) all bank obligations under liquidation have been paid; b) there are no more assets or potential disbursement of assets that can be used to pay liabilities; and/or c) the end of the liquidation implementation period (2 years and can be extended twice a year).

Regulations about bank liquidation are governed by the Deposit Insurance Corporation (PLPS). The PLPS regulations have undergone revisions five times, with the most recent being PLPS No. 1 of 2022. The following outlines the amendments made to the PLPS concerning bank liquidation can be seen in Table 4.

Table 4. Changes in Bank Liquidation PLPS

No	Date	Title
1	December 09 th , 2005	PLPS No.2/PLPS/2005 Concerning Bank Liquidation
2	October 31 st , 2008	PLPS No.2/PLPS/2008 Concerning Bank Liquidation
3	August 19 th , 2010	PLPS No.1/PLPS/20010 Concerning Bank Liquidation
4	September 29 th , 2011	PLPS No.1/PLPS/20011 Concerning Bank Liquidation

Source: lps.go.id (2023)

Regarding bank liquidation, LPS plays a crucial role. LPS is empowered to assume control over and exercise all rights and authorities of shareholders, including those related to general meetings of shareholders (RUPS). This authority enables LPS to effectively and efficiently manage the process of resolving assets and liabilities of banks whose licenses have been revoked, following relevant regulations. LPS aims to optimize the return rate of guarantee funds issued, independent of shareholder intervention.

In Indonesia, the timeframe for conducting bank liquidation must be completed within 2 years from the establishment of the liquidation team. However, this timeline can be adjusted based on the specific requirements of the bank and with approval from LPS. The process of bank liquidation is extensive and involves settling the bank's liabilities, which includes selling its assets to fulfill these obligations.

The liquidation of Islamic banks is governed by PLPS Number 1 of 2020, which pertains to the Guarantee and Resolution Implementation for Islamic Banks ("PLPS Syariah"). This regulation outlines the procedures and guidelines for conducting the liquidation of Islamic banks. Generally, regarding internal bank resolution, Article 11 paragraph (1) of PLPS Number 1 of 2020 specifies that "Resolution of Islamic Banks Facing Solvency Issues is conducted through a) transferring some or all of the assets and/or liabilities to the Recipient Bank; b) transferring some or all of the assets and/or liabilities to the Intermediary Bank; c) temporary capital participation; or d) liquidation."

Furthermore, under Article 15 of PLPS Number 1 of 2020, it is stipulated that "In the event of liquidation as referred to in Article 11 paragraph (1) letter d, the following provisions shall apply: a. Fixed assets and inventory used in the operations of Islamic Banks may be transferred under the principle of sale and purchase (*bai'*); b. Ownership of financing assets may be transferred through a sale and purchase mechanism (*al-bai'*); c. Ownership of receivable financing assets may be transferred through a sale and purchase mechanism by receiving goods (*'ain*) of equivalent value (*tsaman*); d. The combined transfer of assets as mentioned in points a, b, and c may be conducted through a sale and purchase mechanism (*al-bai'*) provided that the value of the assets in points a and b constitutes at least

51% (fifty-one percent) of the total valuation of the assets being sold; and e. If the value as described in point d is less than 51% (fifty-one percent) of the total valuation of the assets being sold and meets the criteria of *dharurat/hajiyat*, the liquidation team via the Deposit Insurance Corporation shall seek the opinion of the sharia committee regarding the contract structure used."

Fraud in the Islamic Rural Banks May Increase the Difficulty in Disbursing Assets

Generally, instances of fraud typically stem from inadequate hiring procedures, insufficient training for employees, excessive workloads, inadequate internal controls, and a lack of adherence to regulations among bank managers and staff (Bhasin, 2015). These factors collectively contribute to vulnerabilities within financial institutions, increasing the likelihood of fraudulent activities occurring. Meanwhile, based on research related to ethics and fraud in banking, it was found that ethical values have a negative effect on employee fraud (Said, et al., 2017). Apart from that, Suh & Nicolaides (2019) stated that the risk of failure in management control is a more serious risk than collusion within the bank.

In previous research conducted by Ashari & Nugrahanti (2020b), several violations occurred in Conventional Rural Bank management which caused the bank to fail. Sequentially, ethical violations that occur in Conventional Rural Bank are violations of governance, violations of transparency aspects, and violations related to commitment to customers. This research was conducted on failed Conventional Rural Bank, so it can be concluded that ethical violations contributed to bank failures. Violations that occurred at failed Conventional Rural Bank are suspected to have also occurred at Islamic Rural Bank. The results of the questionnaire in this study show that the violations/fraud that occurred at Islamic Rural Bank under liquidation were sequentially (1) One-sided taking of customer deposits by the management, (2) Ceiling, and (3) use of credit for bank interests and fraud. Complete data from LT-can be seen in Table 5.

Table 5. Fraud in Islamic Rural Bank

Items Violations Discovered in The Audit	Frequency of Findings	LT Who Found
a. Unilateral disbursement by the Management/Owner	4	4 LT
b. Ceiling	2	2 LT
c. Utilization of credit for the benefit of the bank and employees	2	2 LT

Source: Data processed by author

From the results of the questionnaire, it was found that violations/fraud at Islamic Rural Bank were caused by poor governance implemented by bank owners and/or management. The governance principles that according to the Liquidation Team lead to bank failure include a lack of caution in disbursing credit, credit management that does not comply with standard operating procedures, the existence of high-risk financing, a lack of knowledge and capability of human resources, and a lack of the 5 C principles (character, capacity, capital, collateral, and conditions) in granting credit as well as management's interests. These things cause financing problems to occur. The financing problems that are often encountered are financing without collateral, *murabahah*, and ceilings. These findings regarding poor governance and fraud are in line with cases found in Conventional Rural Bank as per research from Suwandi et al. (2019), Bawono & Setyaningrum (2018), and Ashari & Nugrahanti (2018).

Another is fraud experienced by failed banks which causes bank losses due to the large number of non-performing assets. Another difficulty faced when disbursing Islamic Rural Bank's assets by the Liquidation Team is the poor governance that occurs in management at Islamic Rural Bank. In sequence, the governance aspects that cause difficulties in disbursing assets are a) Credit agreements that do not comply with the prudential principle, b) Collateral is problematic because it is not fully secured or there is no collateral. c) Incomplete financing documents and d) Financing restructuring is not following the provisions. Apart from that, other things were also found which were other factors related to the debtor's internal ability to repay/repay at the same time letter e and external factors when the debtor was billed by the debtor, a non-governmental organization (NGO), or a lawyer. More details are listed in Table 6.

Table 6. Poor Governance in Failed Islamic Rural Bank

Items	Response Frequency
a. The Credit agreement does not comply with prudential principle	2 LT
b. Collateral is problematic because it is not tied by law perfectly or there is no collateral	2 LT
c. Incomplete financing documents	2 LT
d. Financing restructuring is not following provisions	2 LT
e. The debtor is unable to repay	3 LT
f. Debtors when charge use a Non-Governmental Organization or lawyer	1 LT

Source: Data processed by researchers

Poor Islamic Rural Bank governance not only results in violations/fraud but also results in other knock-on effects. The results of the questionnaire show a) Fraud that occurs in Islamic Rural Bank makes it increasingly difficult to disburse Islamic Rural Bank's assets (score 4.8 out of 5 = very difficult), b) the disbursement of Islamic Rural Bank's assets under liquidation is relatively low (score 4 out of 5 = very low), c) the level of the difficulty of disbursing Conventional Rural Bank and Islamic Rural Bank's assets is relatively the same (difficulty score 4 out of 5 = very difficult), d) Poor governance that occurs in Conventional Rural Bank makes it increasingly difficult to disburse Islamic Rural Banks assets (score 4.2 out of 5 = very difficult), and e) The high level of non-performing financing in Islamic Rural Bank makes it increasingly difficult to disburse Islamic Rural Bank assets (score 4.2 out of 5 = very difficult).

Claim Recovery Rate in Liquidated Islamic Rural Banks

Research respondents stated that the difficulties in disbursing Islamic Rural Bank's assets were also the same as the difficulties in the asset disbursement Conventional Rural Bank was carried out by The Liquidation Team. However, there are specific difficulties experienced by Islamic Rural Bank, namely: a) the debtor asks for a reduction in the principal debt because according to Sharia this is permitted b) related to the transfer of financing which cannot be done immediately but must first be converted into gold commodities, and c) the debtor does not understand the type of financing that constitutes the financing agreement. These results are in line with quantitative data related to claims, namely claim payment data and claim return rates in the annual report published by LPS. In the LPS financial report, information was obtained that overall payment of bank claims, from 2005 to 31 December 2022, LPS had made payments of IDR 1.476 trillion out of IDR 1.729 trillion or 82% of the total deposits in liquidated banks to 267,759 accounts or 93% of the total accounts after taking into account the maximum LPS guarantee value of IDR 2 billion.

Specifically for Conventional Rural Bank, claim payments have been made in the amount of IDR1,326,500,828 and the total claim return value is IDR557,383,129. A total of IDR 356,094,061 came from Conventional Rural Bank claims and IDR 57,998,580 from claims from Islamic Rural Bank, not including one Islamic Rural Bank those liquidation has not yet been completed in 2022. The recovery rate value of each Islamic Rural Bank under liquidation varies. In general, the average recovery rate for claim payments is 31.22%.

Table 7. Data on Recovery Rate of Liquidated Islamic Rural Bank

Name of Islamic Rural Bank	Claim Payment (IDR)	Recovery Rate (IDR)
BPRS Babusalam	632,759	21,331
BPRS Syarif Hidayatullah	3,222	3,222
BPRS Hidayah	125,279	601
BPRS Al Hidayah Jawa Timur	13,496,226	3,641,494
BPRS Shadiq Amanah	98,487,088	19,019,677
BPRS Hareukat	6,806,788	1,162,259
BPRS Jabal Tsur	9,383,103	3,818,395
BPRS Gotong Royong	9,817,829	4,426,027
BPRS Safir Bengkulu	100,300,000	25,905,574
BPRS Muamalat Yotefa	713,211	0
Total	239,765,505	57,998,580
% Recovery Rate		24.19%

Source: LPS Annual Report (2022) processed by the Author

When comparing the recovery rate of Conventional Rural Bank and Islamic Rural Bank claims, claim recovery of liquidated Islamic Rural Bank is relatively low as we can see in Table 8.

Table 8. Comparison of Claim Recovery Rates for Conventional and Islamic Rural Bank

Type of Rural Bank	Total Claim Payment (IDR)	Claim Recovery	% Recovery Rate
Conventional Rural Bank	1,086,735,323	356,094,061	32.77%
Islamic Rural Bank	239,765,505	57,998,580	24.19%
Total	1,326,500,828	414,092,641	31.22%

Source: LPS Financial Report (2022) processed by the author

The Period for Implementing the Liquidation of Conventional and Islamic Rural Bank

According to the LPS annual report, it is stated that the liquidation process from start to finish (end to end) consists of 17 stages, which include three main activities, namely stages 1) liquidation planning, 2) liquidation implementation, and 3) liquidation termination. In 2021, LPS has implemented innovations to speed up the liquidation process by developing two methods of accelerating liquidation, namely compact liquidation, and quick liquidation. In the compact liquidation method, the liquidation period is three months faster than the liquidation stage that currently is being carried out. Cuts were made to the period for carrying out the Closing Balance Sheet Audit until the Completion of the Initial Period Net Asset Report (LANAP) Audit, from 320 calendar days to 220 calendar days.

Quick liquidation is an accelerated liquidation implementation so it only requires a liquidation period of three to 6 months, 7 months to 12 months faster than the previous liquidation period, thus having an impact on saving bank under liquidation operational costs which were allocated for 1 to 4 months. (LPS annual report, 2021). The realization of the implementation of Islamic Rural Bank liquidation found that the average implementation of liquidation at Islamic Rural Bank was two years and one month. In general, the liquidation time for Islamic Rural Bank is no different from Conventional Rural Bank, which on average are completed in 2 years and 4 months (Ashari & Nugrahanti, 2020b) for 55 Conventional Rural Banks that completed liquidation by 2017.

Table 9. Islamic Rural Bank Liquidation Period

No	Name of Bank	Business License Revocation Date (CIU)	Date of Completion	Time is Required
1	PT BPRS Babussalam	May 1 st , 2009	April 11 th , 2011	1 year 11 months 11 days
2	PT BPRS Syarif Hidayatullah	July 29 th , 2011	February 14 th , 2012	1 year 6 months 14 days
3	PT BPRS Hidayah Jakarta	June 19 th , 2015	June 3 rd , 2016	1 year 11 months 11 days
4	PT BPRS Al Hidayah	April 25 th , 2016	August 2 nd , 2019	3 years 3 months 7 days
5	PT BPRS Shadiq Amanah	September 1 st , 2016	January 6 th , 2020	3 years 4 months 5 days
6	PT BPRS Jabal Tsur	January 21 st , 2019	April 29 th , 2021	2 years 3 months 8 days
7	PT BPRS Safir Bengkulu	January 30 th , 2019	October 25 th , 2021	2 years 7 months 25 days
8	PT BPRS Muamalat Yotefa	May 15 th , 2019	December 31 st , 2019	7 months 16 days
9	PT BPRS Hareukat	October 11 th , 2019	January 20 th , 2021	1 year 3 months 9 days
10	PT BPRS Gotong Royong	June 5 th , 2020	August 11 th , 2022	2 years 2 months 6 days
11	PT BPRS Asri Madani Nusantara (DL)	September 15 th , 2021	August 31 st , 2023	1 year 11 months 15 days.
Average Liquidation Time				2 years 30 days

Source: LPS Annual Report (2022) processed by the Author

From the implementation of the liquidation of 11 Islamic Rural Banks that has been carried out by LPS, in general, the disbursement of assets is carried out using the principle of sale and purchase, namely bank's assets in the form of fixed assets and inventory (following the provisions in Article 15 paragraph 1 letter a PLPS Liquidation). The author did not receive information on the disbursement of assets carried out using mechanisms other than buying and selling.

The Key to Successful Implementation of Islamic Rural Bank Liquidation in Indonesia

As the results of the tabulation of respondents' opinions in the questionnaire, respondents stated that the key factors for success in liquidating a Islamic bank are three things (1) having insight into Sharia economics, (2) coordinating and synergizing with parties related to the liquidation process, (3)

carrying out approach to customers to provide solutions to settle their obligations. According to the results of this research, it was also found that the role of the Sharia Supervisory Board (DPS) in the liquidated Islamic Rural Bank in overcoming Sharia problems in the Islamic Rural Bank was relatively low, namely getting a score of 2.8 out of 5, apart from the role of the DPS, the role of controlling shareholders in the Islamic Rural Bank was also not optimal, namely only getting “Sufficient” category. This shows that in the event of Islamic Rural Bank problems, DPS and Controlling Shareholders (Pemegang Saham Pengendali/PSP) tend not to carry out their duties well.

CONCLUSION

The research results shows: first, the liquidation of Conventional and Islamic Rural Bank are relatively similar in terms of The liquidation of Conventional and Islamic Rural Bank are both guided by LPS regulations, namely the latest number 1/PLPS/2022 concerning bank liquidation, the second, Fraud that occurs in Conventional Rural Bank which causes difficulties in the liquidation process also occurs in Islamic Rural Bank, especially in aspects of Islamic Rural Bank management governance which affect the process of disbursing assets during liquidation, third, the claim recovery rate in Islamic Rural Bank liquidation is lower than in Conventional Rural Bank due to debtors requesting reductions in principal debt, transfers of financing that cannot be done immediately, and debtors not understanding the type of financing that constitutes the financing agreement, fourth, the period for completing the liquidation of Islamic and Conventional Rural Bank is relatively no different because it is helped by LPS innovation with quick and compact liquidation methods, and fifth, there are three things to increase the success of Islamic Rural Bank liquidation, namely: the liquidation team has insight into Sharia economics, coordinates and synergizes with parties related to the liquidation process, and approaches customers to provide solutions to settle their obligations.

This study offers practical implications for Islamic Rural Bank managers to enhance management and governance practices, emphasizing adherence to Sharia/Islamic principles to mitigate risks of bank failure. Improvements in precautionary measures and policy alignment among regulatory bodies and stakeholders are crucial. Furthermore, intensified supervision and guidance from the Sharia Supervisory Board and regulatory authorities are recommended for Islamic Rural Bank.

However, this research has certain limitations that warrant attention from future researchers: first, there is a scarcity of existing literature specifically addressing bankrupt Islamic Rural Bank, and then, the analysis is solely based on questionnaire responses from the Liquidation Team involved in handling Islamic Rural Bank. To address these limitations, future research should aim to broaden its data sources by including interviews with various stakeholders in addition to increasing the number of information sources reviewed.

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Appendix

Attachment -Islamic Rural Bank (BPRS) Liquidation Questionnaire

1. Your Age

*

<input type="radio"/>	<=25 years
<input type="radio"/>	between 25 to 35 years
<input type="radio"/>	between 30 to 40 years between 40 to 56 years

2. Education

<input type="radio"/>	D3
<input type="radio"/>	S1
<input type="radio"/>	S2
<input type="radio"/>	S3

3. How long have you worked as a Liquidation Team?

<input type="radio"/>	< 2 years
<input type="radio"/>	Between 2 to 5 years
<input type="radio"/>	Between 5 to 5 years
<input type="radio"/>	>10 years

4. Have you ever worked in a bank?

Yes I have

Never

5. Have you ever worked as an employee in an industry other than banking?

Yes I have

Never

6. How many banks have you worked with as a Liquidation Team?

1

2 to 3

4 to 5

>5

7. From that bank, how many BPRS have you handled as a Liquidation Team?

1

2 to 3

4 to 5

>5

8. Have you ever been a Liquidation Team Leader?

Yes I have

Never

9. If so, how long have you been in the role of Liquidation Team Leader?

10. In your opinion, what problems worsen BPRS performance?

- a. Liquidity problems cause financial difficulties at BPRS
 - b. The issue of efficiency is the most significant variable in predicting financial difficulties in BPRS.
 - c. BPRS is aggressive in distributing financing to micro, small and medium enterprises (MSMEs),
 - d. The highest cost components of BPRS "operational costs" on average are staff or employee and administration costs.?
11. According to your experience as a LT, what are your main problems? met at BPR Syariah which caused BPR Syariah to be liquidated? (There can be more than one answer)
- Fraud
- Governance
- Non-Performing Financing (NPF)
- Another:
- If you answer otherwise, please specify...
12. Please state the type of fraud you encountered at BPRS in the liquidation you handled?
13. Please state the governance weaknesses that you encountered at BPRS in the liquidation you handled?
14. What type of non-performing financing do you predominantly encounter at BPRS in the liquidations you handle?
15. In your opinion, what is the role of the Sharia Supervisory Board in liquidated BPRS in overcoming Sharia problems in BPRS?
16. In your opinion, what is the role of the Controlling Shareholder (PSP) in the liquidated BPRS in overcoming BPR problems?
17. In carrying out his duties as LT BPRS under liquidation:
- a. The level of difficulty in disbursing BPRS assets is low (1 to 5)
 - b. There is no difference in the level of difficulty in disbursing BPRS assets and conventional banks
 - c. The higher the fraud, the more difficult it is to dilute BPRS assets
 - d. The lower the bank governance, the more difficult it is to disburse BPRS assets
 - e. The higher the non-performing financing (NPF), the more difficult it is to disburse it BPRS assets
18. If there are difficulties in disbursing BPRS assets during liquidation, what difficulties do you face?
19. Which agency/private party (other than LPS) plays a role in assisting you in carrying out the liquidation of Sharia BPRS (can have more than one answer)?
20. Are there any Sharia problems that you encounter when disbursing assets?
21. If so, please mention the Sharia problems you encountered?
22. Which private agencies/parties (apart from LPS) played a role in helping you resolve Sharia problems encountered when liquidating Sharia BPRS (can have more than one answer)?
23. In your opinion, what is the Key Success Factor (KSF) in implementing liquidation, especially BPRS?

Thank you for your help