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THE COMPETITION AND REGULATION ARE CHALLENGES FOR RURALS BANKS

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Abstract

This type of descriptive qualitative research, which aims to find out and analyze how Rurals Banks (Rurals Bank) who face challenges in the form of competition from non-bank financial institutions and commercial banks engaged in micro and Financial Services Authority Regulation (POJK) No 5 / POJK.03 / 2015 regarding the requirement for minimum capital supply. Respondents from the study were Managing Directors of Rurals Bank from four districts and cities, namely: Sidoarjo, Krian, Gresik and Surabaya. The results of in-depth interviews are known, in the face of challenges used: 1) branding strategies to build a positive image; 2) institutional strengthening and internal reform through: overcoming capital through mergers or inviting new investors; improve governance because success does not depend on the size of the business but depends on the speed in anticipating change; improve the quality of human resources with integrity where thoughts and speech must be the same, and the last to make products and services that are more varied, Ninety-nine percent are the same as competitors but one percent must be different from looking at niche markets

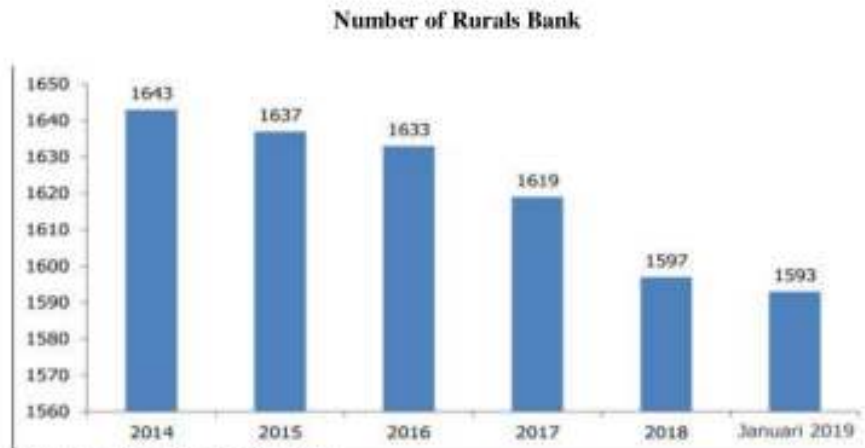
Keywords: Competition, Regulation, Challenges, Rurals Banks (BPR)

1. Introduction

Many Rurals Banks have started to lose their market share, this is the impact of the increasing number of illegal institutions whose players are individuals who are excess funds. Currently, leasing does not only provide financing for new vehicles, but also for new vehicles, so that BPKB guarantees a lot of leasing. The situation is less filtered from the government and banks, even though the practice is detrimental to banks and provides lessons that are not healthy to the public. The practice is certainly detrimental to society, and that is the last alternative. This is related to convenience, in the illegal pawning, BPKB has enough direct liquid funds. Unlike loans in banks, it requires an analysis process, then wait for the disbursement of funds, complete documents which require a long time. Illegal business is growing rapidly because no one has succeeded in stopping it.

In addition, commercial banks began moving in the micro units, to reach customers who were not reached by commercial bank credit. For example: Danamon Savings and Loans Program (DSP); Swamitra (Bukopin); BRI Terrace; BNI with Micro Units; and others. The government program for financing People's Business Credit (KUR) in collaboration with the National Commercial Bank and Regional Development Bank, with the government providing subsidies, and lower interest rates compared to other banks. The community is accustomed to KUR, because of its ease and low interest, and people apply for credit at their distribution banks. With this program, it will narrow the space for Rurals Banks to market their products. Rural bank monitor customers from standing up to developing. OJK released data on the number of Rural Banks from 2014 to January 2019 experiencing a decline and seen the following table:

Figure 1.
Number of Rural Credit Banks
Year 2014-January 2019



Source: Financial Services Authority

Furthermore, the number of 1593 for the next year will still shrink by 40% so around 722 will be forced to cease operations because they have not been able to meet the core capital requirements of Rp. 6 billion - as required by the Financial Services Authority.

Bank Indonesia has actually divided the tasks between each bank, and all planning and authorizing implementation. However, where rural bank are established, there are still micro-business activities so that Bank Indonesia has a share in reducing the number of rural bank.

2. Literature Review

2.1. Policy

The way to act, leadership, plans in carrying out the work required a series of concepts that become guidelines called policies. Governments, organizations and private sector groups, and individuals implement it. The important thing in governance in regulating life is to make policies that can provide hope and guarantee for every citizen. There are several types of policies issued by the government, among others: Finance, Monetary and Fiscal.

2.2. Definition of Strategy

With the issuance of policies by the authorities, the company needs to make a strategy. The implementation of ideas, planning and execution in activities that have a certain period of time is often called a strategy. The success of the strategy depends on the coordination of the work team, has a theme, and identification of supporting factors based on rational and efficient implementation. And Schendel and Charles Hofer, Higgins (1985) released four levels of strategy (Master Strategy): 1) Enterprise Strategy, indicating public response. 2) Business Strategy, explains how the market was captured 3) Functional Strategy. The success of other strategies depends on this strategy.

2.3. Financial Services Authority (OJK)

Law Number 21 Year 2011 states that OJK is an institution that functions to organize a system of regulation and supervision of the activities of the financial services sector and non-

financial services sector consisting of the banking sector, capital market, insurance, pension funds, financial institutions and other financial service institutions. OJK, is expected to be able to develop the financial services sector and be able to compete. OJK has authority: Supervision and Regulation of Financial Services Institutions (banks and non-banks).

2.4. Bank Financial Institutions

The development of bank financial institutions is in line with economic and business developments. The function of bank financial institutions is as a community intermediary in conducting transactions, both business transactions and daily needs transactions. Lusy and Setyowati (2019) explained that there are three types of financial institutions, namely: 1) Central Bank, tasked with controlling the monetary system by controlling the value of the rupiah. Bank Indonesia is designated as a bank that carries out the functions of the Central Bank; 2) Commercial banks have activities that are directly related to the public, such as raising funds, lending, foreign exchange, managing pension funds, etc.; 3) Rural Credit Banks (RURALS BANK) businesses run are narrower when compared to commercial banks. RURALS BANK activities only accept deposits in the form of savings, time deposits and lending, in general RURALS BANK customers are MSMEs. The characteristic of Rural Banks is that they have an emotional closeness with their customers because of their personal and intense approach, in addition to being able to reach household businesses in remote areas.

2.5. Non-bank financial institutions

The fundamental difference between bank financial institutions and non-bank financial institutions is the way to raise funds. Collecting funds directly is not done by non-bank financial institutions, but is done by issuing securities and providing loan services to the community, both individuals and the government. The Minister of Finance regulates all activities carried out by non-bank financial institutions, and can be divided into: insurance companies, capital markets, financial institutions, and pawnshops.

2.6. Previous Research

Yuniarti, S (2011) explained the Adaptive strategy carried out by RURALS BANK in order to maintain its existence and increase the distribution of industrial infrastructure networks.

Wihara and Haqqi Research (2017) explains about how RURALS BANK strategies must be taken to deal with commercial banks that are engaged in the micro sector. The strategy used is the diversification and differentiation of products, services and brand preferences that make Rurals bank competitive.

Yuningtyas and Purwanto's (2016) research explains RURALS BANK can be grouped into: ability to manage assets, risk and operations. Camel analysis is an internal factor causing an increase in lending. While economic growth, unemployment, competition and inflation are external factors that increase lending.

Azriani et al's research (2008) explains the role of Rural bank in extending credit to MSMEs that has an impact on increasing business turnover, net income and working capital turnover

The growth of MSMEs in Indonesia is urgently needed to open employment and economic services to the wider community. The spearhead in MSME financing is highly dependent on the role of Rural bank.

3. Research Methods

3.1 Types of Research

Qualitative descriptive research is a form of this research because it aims to resolve problems related to RURALS BANK strategies in the context of facing competition from: 1) other Rurals bank; 2) non-bank financial institutions; and regulations issued by the government

Symptoms that are holistic (comprehensive, inseparable) are qualitative research approaches, research is not only based on research research variables, but the overall social situation studied synergistically (Sugiyono: 2014: 32). So the object in this study is the Rural Credit Bank in **four districts and cities: Sidoarjo, Krian, Gresik and Surabaya**. Quality actors or sources will greatly affect the disclosure of information needed, how to choose quality sources needed to disclose competition and regulations from the Financial Services Authority is a challenge for Rurals bank, especially in East Java.

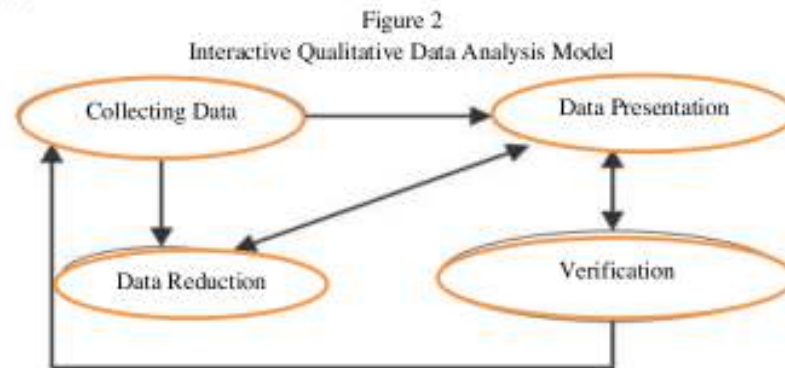
Sugiyono (2014: 59) mentions the researchers themselves who become instruments in qualitative research. Researchers conducting research in the field must be able to understand the real conditions, qualitative research methods, mastery of insight into the field under study, the readiness of researchers to enter the object of research both academically and logistically. In this research, the instrument is Rurals Bank in East Java: Sidoarjo, Krian, Gresik and Surabaya.

3.2 Data collection techniques

Is the most strategic step in this research, because the main purpose of the study is to obtain data (Sugiyono: 2014: 62). Data collection in this research was conducted: 1) direct interviews with related informants namely 4 (four) Rurals bank from Regency: Sidoarjo, Mojokerto, Gresik and Surabaya as banks that had to face competition, 2) literature study to find out regulations on RURALS BANK, 3) Observation of Rurals Bank location

3.3 1.3 Data Analysis Techniques

Mathew B Miles and A Michael Hubermen found a data analysis model, presented in Figure 2 as follow:



Source: Soegiyono Quantitative, Qualitative and R&D Research Methods

The explanation of the data analysis model above:

1. Data collection

Researchers obtained data through interviews with the help of questionnaires as a guide so that interviews are more targeted and targeted. Interview techniques are carried out in-depth through asking questions on the problems that are the focus of this research. Literature study techniques are also carried out to find out the regulations issued by the government regarding RURALS BANK. Furthermore, to find out the location of RURALS BANK, observation is needed.

2. **Data reduction**
The reduction in the data referred to by the researcher sorts out and simplifies the data obtained from in-depth interviews with the help of questionnaires to make the interview more directed.
3. **Presentation of data.**
Researchers present data based on the results of interviews conducted carefully and deeply. So that the real situation can be presented and determined actions must be taken.
4. **Conclusion Withdrawal**
The final stage of all the data analysis. In order for consistency, the researcher needs to double check the results of the interview with the results of the researcher's notes.

4. Description of Results and Discussion

4.1 Description of Results

Competition and regulation are challenges that must be faced by Rural bank today, which have been greatly developed and even experienced in all business sectors, currently very few companies, including Rural Banks, are free from competition and challenges except for businesses that are truly unique. But the situation will not last long, because in a short time there must have been someone who copied it, especially the business is very promising. The development of Rural bank with challenges is directly proportional, meaning that the more Rural bank develop, the greater the challenges. Many Rural bank managed to get out of trouble and be able to make challenges an opportunity. Of course it really depends on the condition of the Rural Bank.

Rural Bank competition comes from:

1. **Inter (Rural Bank) data issued by the Indonesian FSA until January 2019**
amounted to 1593 Rural bank, of which 559 Rural bank are in East Java Generally Rural bank are engaged in:
 - a. **Savings in the form of Savings**
Banking Law No. 10/1998 explains that deposits taken under agreed conditions are not allowed to be withdrawn by check, giro / or other equivalent instrument called savings in the form of savings.
 - b. **Deposits in the form of deposits**
Deposits and withdrawals can only be done at a certain time, that's what is called deposits in the form of deposits. In general, withdrawals before maturity will be subject to penalties. Deposits Deposits have the following characteristics: first, there is a minimum deposit that must be paid first. second: The time period for withdrawal is the third time period: The period for disbursement of funds must be in accordance with the initial choice, if it will not be subject to penalties; Fourth The deposit rate is higher than the savings interest rate, however it is adjusted to the policy of the Deposit Insurance Corporation (LPS); fifth: As the sixth Loan Guarantee: Interest on Deposits is also Taxable.
 - c. **Give credit**
Law No. 10 of 1998 states "credit is based on mutual agreement, between the borrower and financial institutions to pay off obligations at a certain time period and interest.

2. Non-Bank Financial Institutions

Non-bank financial institutions include:

a. Pawnshop

Article 1150 of the KUUHP regulates pawning, a business entity that is officially granted a license to make payments and channeling funds to the public, is a pawnshop. Pawn shops in general, require movable property as collateral

b. Capital market

Securities trading transactions, and professional institutions related to securities are regulated in Law No. 8 of 1995. The function of the capital market is to highlight the transfer of funds from investors to companies.

c. Financial institutions

Institutions that are regulated through Presidential Regulation No. 9 of 2009, function to provide funds or capital, generally in the form of PT or cooperatives. Financing Institutions can be owned by Indonesian citizens, or joint ventures with foreign business entities with a capital requirement of a maximum of 85%

d. Insurance company

An insurance policy issued by an insurance company is a guarantee or protection for customers against several receipts, for example accidents, old age, education, etc.

3. Commercial Banks

Very close to the needs of the community because of the facilities and products they have. Commercial banks provide transactions: accept deposits in the form of savings and deposits, provide loan facilities, issue debt securities, receive deposits and bills. In addition, it is also engaged in foreign exchange and pension funds

4. Regulation

OJK issued regulation No 5 / POJK.03 / 2015 regarding the minimum amount, which gradually increased. Until 31 December 2019 core capital paid up to rural bank managers amounted to Rp 3 Billion, the amount will increase to Rp 6 Billion by 2024. Regulation was launched by OJK with the aim of protecting customers and expanding the services that rural bank can offer. Rural Banks In order to meet these regulations, Rural Banks operating licenses will be revoked. OJK is currently issuing data on the number of Rural bank 1593, the number of which has not met the minimum capital requirement of 722 Rural bank.

4.2 Discussion

Rural bank will face competition from fellow Rural bank, Sharia Rural bank, non-bank financial institutions and from umm banks engaged in micro. All are engaged in the same field, namely savings deposits, deposit deposits and providing credit (Siamat 2005). According to the East Java Central Statistics Agency JumalhRural Bank as many as 319 banks and Islamic Rural Bank as many as 28. Competition with non-bank financial institutions, in terms of interest rates on Rural Bank loans is cheaper but in terms of service, non-bank financial institutions are faster.

Rural Bank Strategies to Face Challenges

1. Using Branding Strategies,

Branding strategies to encourage a positive and professional image of Rural Bank so that it is more adaptive to developments in the community.

Basically, the function of branding is to build images and images for consumers and society. With branding it is hoped that brands and brands will remember for a long time. Neumeier (2003: 41) explains that in forming brands there are three objectives: 1) forming images, building trust and loyalty. Basically the branding function is: 1) to differentiate from competitors' products; 2) as a means to introduce 3) as information about products 4) as a means of warning to competitors. Brand elements generally consist of: name, logo, design, slogan and tag line.

2. Strengthening Institutional and Internal Reform:

a. Limited Capital (Herdinata, 2010)

This capital limitation will have an impact on a number of things including limitations in business expansion, HR management and the provision of IT infrastructure that is not optimal, resulting in weakening the competitiveness of Rurals bank with other financial service institutions.

Rurals Bank strategies to overcome capital that are still limited include a merger. Meger is the merging of two or more companies into one. However, after the merger does not mean there are no problems, new problems arise: 1) The implementation of the merger / acquisition requires substantial costs, including the cost of a notary or legal consultant, costs for financial consultants, closing costs for branch offices, etc. Forced mergers require large costs. The condition is that the bank resulting from the merger increases the LDR / loan to deposit ratio. Therefore, strengthening bank capital must be directed to increase intermediation capacity. 2) Occurrence of Worker Rationalization, based on the experience of mergers of banks is often followed by dismissal actions that cause considerable unemployment. 3) Corporate collision due to different cultures. In every merger effort, there is always a problem with the differences in corporate culture and the reluctance of bank owners to become number two. There is a certain pride if someone owns a bank so they are reluctant to merge. Bankers feel it is better to be number one in a small bank than in a bank that results from being merged into a second person. Thus, banks with the same share ownership will be easier to consolidate compared to banks with different shareholders. But even if ownership is the same as a merger from a bank, it is not easy. In addition to the unwillingness of the directors of each bank, the corporate culture of each bank is different. In the merger process, there can then be attraction between the various interests in each bank to maintain its corporate culture. All of the above obstacles are certainly things that must be considered before the Rural Bank merges.

Another Rural Bank strategy to overcome capital is to invite new investors, new investors may only participate in investing but not participate in managing. But there are new investors in addition to investing also managing. In inviting new investors, it must be chosen who has a similar outlook so that it does not become a stumbling block for Rural Bank development.

b. Improving Good Corporate Governance (GCG)

BPR prepares a business plan that is carried out at the end of each year in which includes a BPR road map that is used as a guide in conducting business so that it can know what the right strategy is used every year. For now the business will excel does not depend on the size of the business, but the superior depends on the ability to anticipate and adapt to changes in change

- c. Improving the Quality of Human Resources (HR)
- d. The most decisive capital in business is HR (Dimov, 2010.). The quality of human resources must be improved in order to have integrity, meaning that thoughts and speech must be true. According to Hazudin et., Al (2015) directors must be SMART GOOL (S = Specific; M = Measureble; A = Achievement; R = Realistic; T = Time), meaning that a director in determining the target must be specific, measurable, clear, realistic and the time must be clear, directors not only give direction, motivate but also have to provide strategies so that it can be an energy for employees to work (Triske e., t al 2014). Companies must understand that employees can be categorized into three groups: 1) Job only employees in this category only do their jobs, so employees come and work; 2) career, employees also think about how their careers should improve; 3) Colling, employees will be able to develop if it matches their passion (The right person on the right person). To be able to improve the quality of human resources with integrity, companies must be able to understand which employees belong to the group. The company must really provide opportunities for career and collin group employees, because the group will become an obstacle if they feel that their career cannot develop and does not work in their positions.
- e. Products and services are more varied
Farhan, (2012), explains that one popular strategy for several years is the concept of value-added. Now the main problem is that many products are circulating, so adding value to products or services is a must. There is no denying the lack of added value will the difficulty will win the competition in business. If I only play in margin prices that are only small, the fact that determines long-term success is the success of growth and sale and profitability. It's possible that Ninety-nine percent of the products offered are the same as competitors, but the one percent must be different from competitors, namely regarding leaders from all aspects. Must sort out products and services that are needed by the community, and try to find a niche market or need market. In providing credit to home industries, companies must understand the business cycle of the business to be financed. The hope is that BPRs will not lend to businesses whose life cycle is shorter than the repayment period, if this happens it will certainly cause bad credit.
Rurals Bank strategies to make products and services more varied:
 - 1) Providing advice and services to customers in a professional manner, many consultants and professionalism determine fees based on the advice given. BPR as a professional seller is recommended to provide value to the

product. By giving far better and more complex advice than competitors. Of course authority, wisdom and broad understanding are needed

- 2) Create a special program for loyal customers, the loan amount is increased, the loan interest rate decreases.
- 3) Provide skills training or seminars related to products produced by customers. So that the business can grow and accelerate, it requires additional capital from Rurals Bank loans.
- 4) Faster service to customers is the key to success to beat competitors.

5. Conclusion

- a. With the release of POJK Number 5 / POJK.03 / 2015 if it does not increase the core capital of 722 BPRs, they are threatened to close. Banks with core capital below Rp. 3 billion are 374 banks and those with core capital in the range of Rp. 3-6 billion are as many as 348 banks.
- b. The strategy used by BPR to survive by using several methods:
 - 1) Branding Strategy, which aims to build a positive image on customers with slogans, tag lines.
 - 2) Strengthening Institutional and Internal Reform:
 - Overcoming the limited capital by using two methods, namely conducting a merger and inviting other investors where both there are advantages and disadvantages so they must do a thorough analysis before deciding.
 - Improve governance, by preparing a business plan which is a guideline for determining strategy, because business success is not determined by the size of the company but is determined by the speed of anticipating change.
 - Improving the quality of HR developing HR with integrity means that between thoughts and speech must be the same, by understanding the three HR groups.
 - More varied products and services, the concept of value added, **Ninety-nine percent of products are the same as competitors, but one percent must be different from** finding a **niche** market that is needed by customers.

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