Ilkogretim Online - Elementary Education Online, 2020; Vol 19 (Issue 4): pp.3531-3534 http://ilkogretim-online.org doi: 10.17051/ilkonline.2020.04.764752

THE NEED OF COORDINATION BETWEEN FINANCIAL AND MONETARY AUTHORITIES IN INDONESIA

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Abstract - A strong legality framework requires good coordination between authorities. The role of authority is vital in the midst of an increasingly complex global financial system, with very close links between financial systems. A more integrated and independent implementing and supervisory authority for financial institutions are needed. Cooperation in regulatory development is needed to encourage innovation in financial service products. This study uses qualitative descriptive analysis to emphasize the problem of coordination between monetary and financial authorities. Several countries with macroprudential and microprudential authorities experienced significant disruptions in preventing and overcoming financial crises. This is due to the difficulty of inter-agency coordination, where accurate and timely information is not well communicated. In other words, coordination at the macro (system) level is much more important and more difficult than coordination at the micro (individual) level. Good coordination between regulators is needed to resolve problems related to prudential standards in the market and the supervisory function.

Keywords: financial, monetary, qualitative descriptive analysis

I. INTRODUCTION

The Indonesian economy is faced with external challenges. Global challenges in the form of pandemics, competition, and economic fluctuations. It takes a strategy for implementing the right economic policies to overcome these problems. The policies carried out will affect the macro indicators of a country [21] [22]. Effective policies to overcome these problems are monetary and fiscal policies. The complexity of the relationship occurs in monetary policy between the Central Bank and the Financial Services Authority. The Indonesian central bank (Namely BI) carried out macroprudential policy management and microprudential policy management by the Financial Services Authority (Namely OJK). The job and responsibilities can be seen in the following table 1:

Tabel 1, Macroprudential And Microprudential Policies in Indonesia

Macroprudential Policies	Microprudential Policies
- Monetary policy - Financial System Safety Net - Deposit Insurance - Fiscal policy - Monitoring Relationships and Linkages Between Financial Institutions	- Market Discipline - Supervisor of Individual and Institutional Health - Prudential Regulation - Official Communication

Source: BI

Each country has differences in the management of macroprudential and microprudential policies [1]. During the 2008 economic crisis, several countries separated the regulatory-supervisory function, and Indonesia explored this possibility for implementation in Indonesia. In 2012, Indonesia established the OJK to handle the supervisory function, while BI focused on the regulatory function. In the fluctuating global financial development, several countries with their own powers, namely macroprudential and microprudential regulations, have experienced significant obstacles in preventing and overcoming financial crises in their countries. In other words, coordination at the macro (system) level is much more important and more difficult than coordination at the micro (individual) level. This is due to the difficulty of inter-agency coordination, where accurate and timely information is not well communicated [3] [4]. Several countries have problems with financial conglomerates and their derivatives [7]. Solving this problem requires cooperation between authorities. This synergy is expected to solve financial problems,

encourage the growth of Gross Domestic Product (GDP), reduce unemployment and inflation [19]. Global financial conditions also influence the direction of policy development by the authorities. BI is projected to hold its interest rate policy until 2022, and the Financial Services Authority will continue the stimulus for credit easing. This is to anticipate the impact of the movement in the Fed's interest rate.

Microprudential countries managed by the Central Bank experienced small losses due to the financial crisis [15]. This experience prompted countries such as the UK to change the single financial services supervisory authority to become closely related to the Central Bank, so that the UK re-integrated the coordination of the microprudential supervision function with the central bank, among others in the form of a subsidiary or under the Central Bank. Indonesia has macroprudential and microprudential powers and has different targets, so it is difficult to coordinate between institutions.

Monetary policy is concerned with regulating price changes that do not occur immediately or are sticky (sticky prices). The monetary stream emphasizes three propositions in overcoming these problems [2], namely:

1. Whereas the development of product development is an important element in development, employment opportunities, and prices.
2. Whereas increasing the amount of money below is the most reliable element in monetary development.
3. The fact that the authority detemines the increase in money measured in conjunction waves.

The authority that implements monetary policy in Indonesia is Bank Indonesia [9]. The Central Bank Law concerning the duties and responsibilities of Bank Indonesia independently has the task and authority to achieve and fulfill the rupiah value's stability. These duties are stipulated in Law No. 23 of 1999 [10]. In 2004, the Bank Indonesia Law was amended about the implementation of duties and authorities of Bank Indonesia. The next amendment occurred in 2008, the issuance of a Government Regulation instead of Law no. 2 of 2008 concerning the Second Amendment to Law no. 23 of 1999. This amendment states that Bank Indonesia also plays a role in maintaining financial system stability [11] [12].

The Financial Services Authority functions like a banking supervisor. The formation of the OJK is a mandate of Law no. 23 of 1999, which states that banks' duties and supervision will be carried out by an independent financial services sector supervisory institution, which is established by law. Establishment of the OJK by passing Law No. 21 of 2011 and the transfer of responsibilities of the Ministry's Bapepam-LK to OJK on 31 December 2012, and the transfer of banking regulation and supervision functions from BI to OJK on 31 December 2013 [13].

II. METHODS

This study used a qualitative descriptive method by analyzing information through literature and journal studies related to financial authorities in several countries. The analysis was carried out based on data and theoretical linkages to optimize the inter-agency coordination function. The consideration of using a qualitative methodology is to be able to interpret a phenomenon. The qualitative methodology also gives the researcher to explain and interpret the phenomena being studied. The collection and analysis of data is mainly in the form of sentences, is inductive rather than deductive, and pays attention to micro-social processes [18]

III. RESULTS AND DISCUSSION

The monetary policy policies of several countries depend on the regulations that apply to those countries. Some countries have a single authority in implementing prudential macro-micro policies, and some other countries have more than one authority. Integration of supervisory institutions and financial institution regulation, namely coordination and exchange of information, is more efficient than the two separate institutions. In the conglomeration era that gets stronger in the situation, finance supervision becomes more efficient because it can fill the group/conglomerate. Harmonization of regulations between different subsistence industries will be easier to avoid arbitration opportunities [14].

Operational costs, especially supporting costs and infrastructure such as information technology and administration, can be more efficient through the principle of economies of scale [20]. Requests for accountability are easier to do and are seen as more transparent because the public can see the work of institutions that help and assist financial institutions. These independent institutions can reduce political intervention and promote effective policies.

The weaknesses that can occur if the regulation is centered on one authority is that the supervision and regulation of financial institutions is not optimal, the responsibilities are unclear, not transparent, and the

regulation of financial institutions tends to be less efficient. The size of the regulatory and supervisory organizations can result in a long bureaucracy so that the work process tends to be less efficient. The concentration of supervision and regulation in one institution that is not independent creates vulnerability for political intervention from parties with an interest in financial institutions. In addition, the check and balance function tends to disappear due to the centralization of power [5].

There is no guarantee that the financial system's supervision and regulation under one authority will be more coordinated, efficient, and effective. There is no guarantee that the financial system's supervision and regulation under one authority will be more coordinated, efficient, and effective. Failure to supervise one financial institution in the financial subsystem that assigns the authority in charge of the financial system reduces public confidence as a whole. With the establishment of Integration, the supervisory will not automatically solve the problems that occurred in the previous multi-agency supervisory system. This structural change will not correct the problems of prudence standards in the market, supervision, and legal deterrence [17].

Several researchers support the interaction of the Central Bank in supervision. When bank supervision is with the central bank, there will be a good synergy between banking and monetary policies [6]. This is driven by the need for information on banking conditions when deciding on monetary policy, particularly about cash flows, interest rates, and market liquidity, which have a direct monetary relationship. The Central Bank also needs information on banking capabilities in a smooth payment system. Therefore, sufficient information is needed regarding the condition of individual banking. It is necessary under the auspices of an independent Central Bank to protect the banking industry from policy intervention that may originate from parties interested in the banking business. The reason is mainly that the central bank is considered to have adequate resources (human and financial).

Some researchers do not support the interaction of the Central Bank in supervision. There will be a Moral Hazard for financial institutions that are supervised by the Central Bank because they can help banks experiencing liquidity difficulties [8]. There is a conflict of interest between bank policies. The greater the Central Bank interaction with the bank, the greater the risk of conflict of interest. Different patterns of monetary policy and banking policymaking. The decision-making process is generally based on open (public) information. On the other hand, in bank supervision, information and decisions are generally confidential and individual in nature. This contraction of decisions could make it difficult for decisionmaking bodies at the Central Bank.

An example of a Central Bank that is not involved in bank supervision is the Bank of England, while those involved but limited to bank financial institutions, namely Bank Indonesia. Malaysian state banks are involved in banking and insurance supervision, while the Singapore monetary authority is involved in meetings and financial institutions (Bank, Insurance, and Capital Market). The differences between several countries in monetary policy settings related to microprudential and macroprudential [16]:

1. Countries with one financial system supervisory authority are South Africa, South Africa, Australia, Austria, Bahrain, Belgium, Bermuda, Cayman Island, Denmark, Estonia, Germany, Gibraltar, Guernsey, Hungary, Iceland, United Kingdom, Ireland, Japan, Kazakhstan, Republic of Korea, Latvia, Maldives, Malta, Netherlands, Nicaragua, Norway, Singapore, Sweden, United Arab Emirates.
2. Countries with the cooperation of two types of financial institutions or markets (banks and securities companies) are Finland, Luxembourg, Mexico, Switzerland, and Uruguay.
3. Countries with two types of financial institutions or markets (banks and insurance institutions) are Canada, Colombia, Ecuador, El Salvador, Guatemala, Malaysia, Peru, Venezuela, and Bolivia.
4. Countries with the desire for two types of financial institutions or markets (securities companies and insurance institutions) are Bolivia, Bulgaria, Chile, Jamaica, Mauritius, Slovak Republic, and Ukraine.
5. Countries with multi-agency financial systems (At least 1 for banks, 1 for securities companies and insurance institutions): Albania, Argentina, Bahamas, Barbados, Bostwana, Brazil, China, Croatia, Cyprus, Czech Republic, Egypt, France, Greece, Hong Kong, India, Indonesia, Israel, Italy, Jordan, Lithuania, New Zealand, Panama, Philippines, Poland, Portugal, Russia, Slovenia, Sri Lanka, Spain, Thailand, Tunisia, Turkey, Uganda, and the United States.

There is a need for improvement in the current coordination/function where the government and related authorities need to be rearranged regarding the division of tasks and responsibilities. Inter-institutional coordination also needs to involve banking association institutions in banking policies to be pursued, and involve institutions related to banking-finance and ensure that each institution carries out its activities effectively and efficiently.

IV. CONCLUSIONS

Policies related to macroprudential and microprudential policy targets are needed to tackle global financial problems by enhancing the banking sector's role. A powerful legality framework shows that these two institutions' existence is necessary for carrying out their roles amid the increasingly complex global financial system, with very close interconnectedness between financial systems. This research has limitations. It is hoped that future research will be carried out, involving the Financial System Stability Committee's involvement in the effectiveness of Indonesia's monetary policy.

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