Preliminary Study on Corruption Case in the Indonesian Banking Sector: Overview of the Fraudster, Loss, and Fraud Modes

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ARTICLE INFORMATION

ABSTRACT

The banking sector is the area with the most corruption on a global and national scale (ACFE, 2021; ACFE Indonesia Chapter, 2020). The banking sector itself is a sector that is rigid in terms of regulation and places great emphasis on prudential aspects in its business processes. Bahoo (2020) in his paper states that corruption in the banking sector raises considerations for building an anti-corruption architectural system within banks to eradicate corruption. This preliminary study will describe cases of corruption in the banking sector in Indonesia in a limited period of time. This study uses data from court rulings related to banking corruption cases registered in 2020. The overview of corruption cases shows the central tendency related to the profile of fraudsters, the value of state finance loss, court imprisonment, and the modus operandi of fraud/corruption committed by the perpetrators. The findings show that corruption in the banking sector in Indonesia occurs at State-Owned Enterprises and Local Government-Owned in the form of commercial banks, rural banks and sharia rural banks. The data indicates that in terms of gender, the fraudsters, although still dominated by the male gender, are relatively equal with the female gender where ratio of the male and the female is 6:4. Furthermore, the data indicates that in terms of position or rank of the fraudster, the higher the position of the bank's internal employee, the greater the value of state finance loss incurred. The results of this study also show that the modus operandi of crimes that often occur is borrowing the name of the debtor, fictitious credit, and collusion in applying for credit. The repeated modus operandi is a challenge for policy managers in designing better systems and governance to eliminate the level of corruption in the banking sector. In the future, it is necessary to expand and enrich data collection and data analysis of corruption cases in the banking sector in Indonesia so that it can provide a better picture.

Keyword: Corruption, Banking, Loss, Modus Operandi.

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1. INTRODUCTION

The banking sector is the sector most prone to corruption. The Association of Certified Fraud Examiner/ACFE (2021) in Report to the Nation shows that fraud can be found in various industries, including the banking and financial services industry which accounts for the highest cases. Based on the Report to the Nation, there are three sectors that contribute to the largest reporting fraud: (1) banking and financial services with 386 cases, followed by (2) government services and public administration with 195 cases, and (3) manufacturing services with 195 cases. More specifically, fraud in the banking sector is carried out using various fraud schemes. Corruption accounts for 40% of fraud cases in the banking and financial sector, while financial statement fraud, skimming, non-cash and cash larceny each contribute 10%, and several other fraud schemes. At the national level, the ACFE Chapter Indonesia (2020) in the 2019 Indonesia Fraud Survey stated the same thing that the parties most disadvantaged due to fraud were the financial and banking industries at 41.4%.

The high number of fraud cases in the banking sector is very interesting to study considering that the banking sector is a sector that is very rigid in regulation and places great emphasis on prudential aspects in its business processes. The Financial Services Authority of Indonesia (OJK), as a regulator, continuously strengthens regulations in the banking sector to prevent fraud in the banking industry and avoid systemic impacts ("*Cegah Fraud Perbankan, OJK Punya Pengawasan Berlapis*", 2020). According to Firsanty et. al., (2018), the banking industry has taken preventive and repressive measures to minimize corruption cases, both internally and externally.

Based on the description above, where the banking sector is the dominant business sector in corruption cases both at the national and global levels, this research is conducted as a preliminary to cases of fraud in the banking sector in Indonesia based on court rulings registered in 2020. The discussion of banking cases is described after discussion of the initial understanding of corruption and corruption in the banking sector. From the findings obtained, conclusions and recommendations will be made.

2. LITERATURE REVIEW AND HYPO-THESIS

Corruption in the Banking Sector

Based on their ownership, banks can be divided into several groups, such as state-owned banks, regionally-owned banks, national private-owned banks, foreign-owned banks, and jointly owned banks. Deviations that occur and are found in the banking sector are not always in the form of corruption. Firsanty et al. (2018) states that if a banker is found to have violated regulations, such as the Circular Letter of Bank Indonesia (BI) or the OJK Regulation, a legal process will be carried out by the competent authorities.

Furthermore, Firsanty et. al., (2018) also state that a banker in a State-Owned Enterprises (SOEs) can be a suspect in a corruption case investigated by the authorities. SOEs are within the scope of state finances, so Local Government-Owned Enterprises are also part of the scope of regional finance. Thus, investigations into alleged corruption cases in the banking sector will not only be carried out at State-Owned Banks but also at Local Government-Owned Banks. Saragih (2017) wrote about the financial performance of the Regional Development Bank (BPD) as a Local Government-Owned Bank. In his writings he states that Local Government-Owned Banks can maintain business stability, improve competitiveness and financial performance through the implementation of compliance with banking regulations, such as the application of the principles of good corporate governance (GCG). Furthermore, Saragih (2017) reveals that the risks faced by relatively small banks, such as Regional Development Banks (BPD) and Rural Banks (BPR), will

be higher considering that prospective customers who apply for credit to the BPD and BPR are mostly prospective customers who are more at high risk than prospective customers who choose the type of safer financing.

In terms of regulation, corruption in the banking sector generally refers to the Law on the eradication of criminal acts of corruption and specifically to regulations/ stipulations in the banking sector.
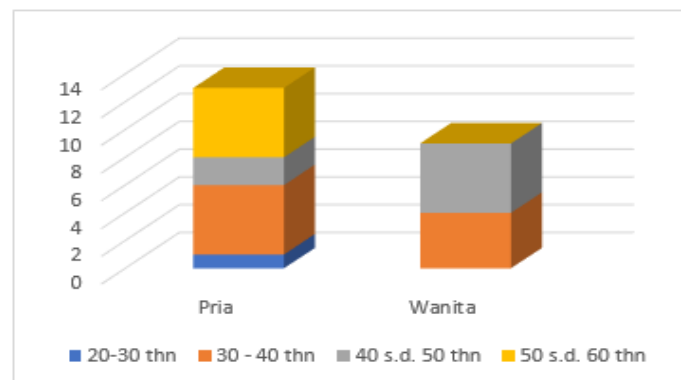
Law Number 20 of 2001 concerning Amendments to Law Number 31 of 1999 concerning Eradication of Criminal Acts of Corruption stipulates that criminal acts of corruption are as follows:

a. Any person who unlawfully commits an act of enriching himself or another person or a corporation that can harm state finances or the state economy (article 2 paragraph 1).

b. Any person who has the aim of benefiting himself or another person or a corporation, abuses the authority, opportunity or facilities available to him because of his position or position that can harm state finances or the state economy (article 3).

Financial Services Authority (OJK) Regulation Number 42/POJK.03/2017 dated 12 July 2017 concerning Obligations to Prepare and Implement Credit or Bank Financing Policies for Commercial Banks.

Ministerial Regulation (Permen) of State-Owned Enterprises (BUMN) Number Per-01/MBU/2011 dated August 1, 2011 concerning the Implementation of Good Corporate Governance in SOEs.

Meanwhile, according to ACFE (2021), corruption is part of fraud in addition to misappropriation of assets and fraudulent financial statements. Corruption includes violations such as bribery, conflicts of interest, gratuities and economic extortion. In practice, the perpetrators of corruption are more likely to commit fraud in the form of misappropriation of assets and fraudulent financial statements.

One of the banking corruption researchers Bahoo (2020) conducted a review of 819 articles between 1969 and 2019. He found that there were 6 streams of research related to the review of corruption in the banking sector and proposed a number of further research questions. Bahoo in his conclusion states that corruption in the banking sector is a managerial and business issue outside the technical subject of finance and raises considerations for establishing an anti-corruption architectural system within the bank itself to eliminate corruption.

3. METHODS
**Overview of Banking Corruption Cases in Indonesia**

In order to obtain an overview of banking corruption cases in Indonesia, data collection is carried out using a court approach to corruption cases at the first level or district courts in Indonesia. The consideration is that action at the first level provides an initial but complete understanding of indications of corruption in the banking sector. Data is obtained from the Directory of Court Decisions

Figure 1. **Distribution to Gender**

Source : Data Processed

Figure 2. **Distribution to Entity Locus of Corruption**
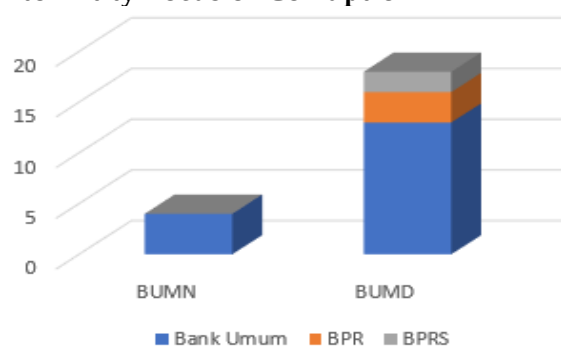
Source : Data Processed

Figure 3. **The Defendant's Position**
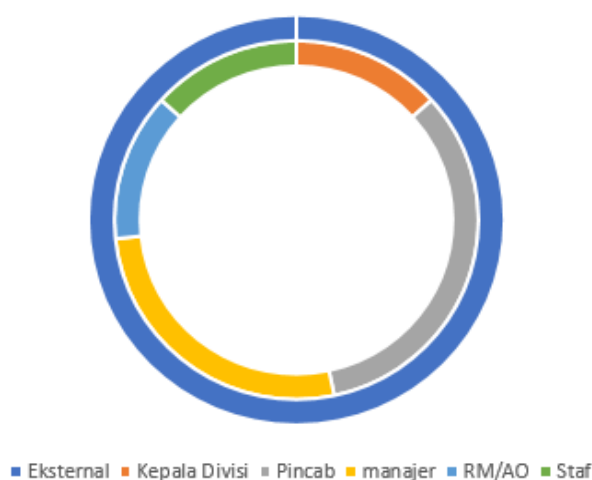
Source : Data Processed

of the Supreme Court of the Republic of Indonesia for cases registered in 2020, which involve decisions from 11 (eleven) district courts, such as Central Jakarta, Pangkal Pinang, Surabaya, Jambi, Ambon, Mataram, Bandung, Kupang, Semarang, Medan and Palembang.

Data Analysis
From all registered case data, after sorting the cases with acquittals, there are 19 cases with 22 defendants for further analysis. Based on these decisions, a descriptive analysis is then carried out using the defendant's approach (in this paper the defendant represents the fraudster). Several findings on data analysis prioritize the perspective of the distribution of the accused.

Based on Gender and Age
From the data, it can be seen that most of the defendants are men. The composition between men and women is in a ratio of 6:4. In terms of age, the highest distribution is in the age group of 30 - 40 years (41%). The distribution is as shown in Figure 1 below.

**Based on the entity locus of corruption**
From the data, it can be seen that most of the locus of decisions on corruption allegations occur in Local Government-Owned Enterprises (BUMD), and a small portion in State-Owned Enterprises (BUMN). As for the locus of Local Government-Owned Enterprises (BUMD), there are two types of commercial banks, BPR and BPRS. The distribution is as shown in Figure 2 below.

Figure 4. **Distribution to the Amount of State Losses**
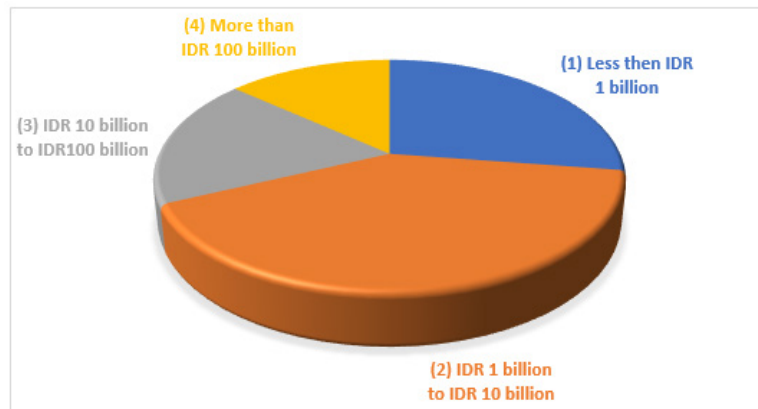
Source : Data Processed

Figure 5. **Based on Criminal Sanctions Imposed**
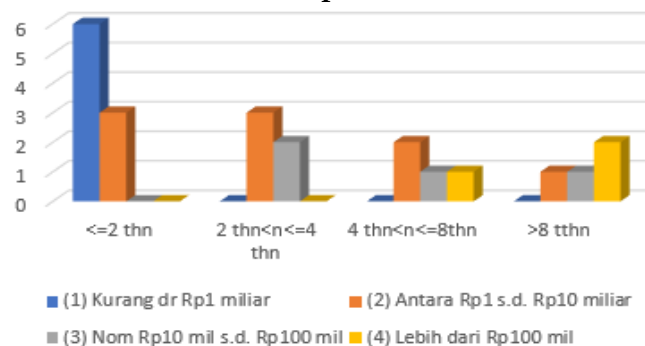
Source : Data Processed

Based on the Defendant's Entity of Origin and Position Level

From the data, it can be seen that 15 of the defendants are employees of State-Owned Enterprises (BUMN) / Local Government-Owned Enterprises (BUMD), while the remaining 7 are from external parties of State-Owned Enterprises / Local Government-Owned Enterprises. The distribution for the position level of employees of State-Owned Enterprises / Local Government-Owned Enterprises is mainly Branch Managers /Managers (total 60%). The distribution is as shown in Figure 3 below.

Based on the Amount of State Financial Losses

From the data, it can be seen that the median value of state financial losses is IDR 5.68 billion (equivalent to ± USD 400,000). From this calculation, it can be seen that the median state loss due to corruption in the banking sector in Indonesia is greater than the median loss due to corruption in the banking sector in the ACFE report (2021) which is USD 100,000. Furthermore, when the loss value is distributed among value groups, the largest loss falls into group 2 between IDR 1 billion and IDR 10 billion (41%). Of the state losses, there are stipulations of compensation for 6 of the 22 defendants (27%). The complete distribution of state losses is shown in Figure 4 below.

Based on the Criminal Sanctions Imposed

From the data, there is a penalty of 2 years in prison for cases that cause losses less than or equal to IDR 1 billion, and a sanction of 8 years in prison for cases that cause state losses greater than IDR 100 billion. Thus, the sanctions imposed are in accordance with the losses caused. This is as shown in Figure 5 below.

Based on Modus Operandi

From the data, it can be seen that the modus operandi of corruption in banking occurs in the credit/financing division (81%), followed by misuse of customer deposits by bank employees (5%), customer deposits (5%), and investment management (9%). This fraudulent act occurs mainly because the perpetrators carry out the company's business duties in all these areas without being careful and violating the applicable banking regulations. From the identification of the existing modus, it is found that the modus operandi carried out is not something new, such as:

a. Bank employees apply for fictitious credit;
b. Bank employees disburse credit/ financing without sufficient disbursement files;
c. Bank employees make field visits / on the spot when credit/financing on a pro forma;
d. Employees pass credit/debtors because of an alleged conspiracy with prospective debtors;
e. Bank employees abuse credit customer installments;
f. Bank employees offer fake programs to divert customer funds from deposits; and
g. Bank employees invest in instruments that do not comply with investment guidelines and suffer losses.

4. RESULTS AND DISCUSSION

From the six data analyzes described above, some interesting findings can be seen as follows:

a. Based on gender, the data shows that there is almost equality between male and female fraudsters, with a ratio of 6:4. This is higher when compared to the findings of ACFE (2021) that the gender composition of male and female fraudsters is 7:3. Based on the age of fraudsters, the finding shows the similarities with the data in ACFE (2021) which is in the range of 30-40 years.

b. Based on the locus of corruption, data shows that corruption is more prevalent in Local Government-Owned Enterprises than in State-Owned Enterprises. It is reasonable to suspect that this is due to differences in the level of design and implementation of the anti-fraud system built in Local Government-Owned Enterprises and State-Owned Enterprises.

c. Based on the level of position, the data shows that the level of position that is most closely related to cases of banking corruption is the level of branch leader/manager. It is reasonable to suspect that this is related to the level of authority given in each banking process activity.

d. Based on the amount of financial losses, the data shows that the median value of financial losses found in this study is 4 times as much as the value of losses in the ACFE data (2021).

e. Based on criminal sanctions, the data shows that the length of the criminal sanctions imposed is in accordance with the amount of state financial losses.

f. Based on the modus operandi, the data shows that the modus operandi used is common in banking. Taking into account the locus of corruption, it is reasonable to suspect that the modus operandi is related to the effectiveness of the design and implementation of the anti-fraud system built in Local Government-Owned Enterprises and State-Owned Enterprises as well as the difficulty of anticipating existing collusion.

Based on the findings above, it can be concluded that cases of corruption in the banking sector, both Local Government-Owned Enterprises and State-Owned Enterprises, have relatively the same modus operandi, but with different amounts. From the initial description as a preliminary study using the 2020 register data shows that the number of corruption cases that occur in Local Government-

Owned Banks is more than in State-Owned Banks with relatively the same perpetrator profiles and modes.

This finding is in line with the results of research conducted by Saragih (2017) that the risks faced by relatively small banks such as BPD and BPR will be higher, considering that the majority of potential customers who apply for credit to the BPD and BPR are potential customers who are more at high risk than prospective customers who choose safer types of financing. From this case, it can be seen that potential customers with higher risks and cannot be detected earlier in terms of risk management are actually facilitated by bank employees. This is homework for improvement in the banking sector.

Based on the description above, efforts to improve governance need to be increased not only in large banks such as state-owned banks, but also in smaller banks such as local government-owned banks. The efforts of State-Owned Banks/ Local Government-Owned Banks in building an effective fraud control system (FCS) need to be supported and monitored more consistently.

5. CONCLUSION

Corruption in the banking sector in Indonesia occurs when the criminal act of corruption occurs at the locus of state/ regional wealth such as State-Owned Banks and Local Government-Owned Banks. This corruption occurs in both State-Owned Banks and Local Government-Owned Banks in the form of commercial banks, BPRs and BPRS. The findings show that by gender, the perpetrators of fraud are still dominated by men, with a ratio between men and women of 6:4. Based on the level of position, the higher the position of the bank's internal party, the greater the value of state financial losses incurred. The modus operandi found includes fictitious credit, pro forma analysis, and collusion in credit applications. This preliminary study shows that the problem of corruption in the banking sector is still a challenge for administrators in designing system and governance improvements to eliminate the level of corruption in banking, including designing a capable FCS. The bigger homework is on the construction of FCS in Local Government-Owned Enterprises.

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