

# **Securitization: Economic Stimulus with Strengthening of Banking Intermediation in Facing the Covid-19 Pandemic**

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## **ABSTRACT**

The function of financial institutions as intermediaries is to fund back from the community in the form of loans or credit to real business sectors in an effort to develop businesses. But, since Covid-19 was confirmed, the role of financial institutions began to weaken. This paper investigates an economic stimulus effort to learn from the experiences and practices of foreign countries. In this paper, the authors suggest implementing credit asset securitization. The research method that will be used in this research is descriptive qualitative method that is used to obtain a comprehensive picture related to the solution to strengthen intermediation and banking performance in the face of slowing economic growth due to the impact of the Covid-19 disease pandemic. This research is a systematic review based on the literature using qualitative descriptive analysis by describing research results through several sources and drawing conclusions from several related articles and journals. So the source of the data obtained from this research is secondary data in the literature review related to banking securitization in an effort to strengthen banking intermediation. From this analysis, the authors conclude and recommend the implementation of asset securitization policies as the right step that securitization which aims to increase credit to businesses that needs and the stability of the banking intermediation function based on the theory of securitization and learning from several countries.

*Keywords: Financial Institutions, Intermediaries, Covid-19, Economic Stimulus, Securitization.*

**ABSTRAK**

*Fungsi lembaga keuangan sebagai intermediasi adalah untuk mendanai kembali dari masyarakat dalam bentuk pinjaman atau kredit ke sektor bisnis nyata dalam upaya mengembangkan bisnis. Tapi sejak Covid-19 dikonfirmasi, peran lembaga keuangan mulai lemah. Makalah ini menyelidiki upaya stimulus ekonomi untuk belajar dari pengalaman dan praktik negara asing. Dalam tulisan ini, penulis menyarankan penerapan sekuritisasi aset kredit. Metode penelitian yang akan digunakan dalam penelitian ini adalah metode deskriptif kualitatif yang digunakan untuk memperoleh gambaran komprehensif terkait solusi untuk memperkuat intermediasi dan kinerja perbankan dalam menghadapi perlambatan pertumbuhan ekonomi akibat dampak pandemi penyakit Covid-19. Penelitian ini adalah tinjauan sistematis berdasarkan literatur menggunakan analisis deskriptif kualitatif dengan menggambarkan hasil penelitian melalui beberapa sumber dan menarik kesimpulan dari beberapa artikel dan jurnal terkait. Jadi sumber data yang diperoleh dari penelitian ini adalah data sekunder dalam tinjauan pustaka terkait sekuritisasi perbankan dalam upaya memperkuat intermediasi perbankan. Dari analisis ini, penulis merekomendasikan implementasi kebijakan sekuritisasi aset sebagai kebijakan yang tepat pada saat ini dimana sekuritisasi yang bertujuan untuk meningkatkan kredit kepada bisnis yang membutuhkan dan stabilitas fungsi intermediasi perbankan berdasarkan teori sekuritisasi dan pembelajaran dari beberapa negara.*

*Kata Kunci: Lembaga Keuangan, Intermediasi, Covid-19, Stimulus Ekonomi, Sekuritisasi*

*JEL Classification: E51; G20; G21*

## **1. Introduction**

### **1.1. Background**

In an economic system, the main role of financial institutions is to carry out their functions as an intermediary institution. The function of financial institutions as intermediaries is to fundings back from the community in the form of loans or credit to real business sectors in an effort to develop businesses. In other words, through its intermediation function, the financial sector must act as an agent in accelerating development and increasing economic growth of a business which will ultimately improve the welfare of market participants.

Economy is an important factor in life. It can be ascertained that in everyday human life is always related to the economy because the economic existence can provide opportunities for humans to meet their daily needs such as food, drinks, clothing, shelter, and so forth. However, since the emergence of a virus in December 2019, its emergence which has now been named the Covid-19 pandemic has had a very serious impact on almost all aspects of human life on earth, especially in the economic sector.

The detrimental impact of the Corona virus (Covid-19) in the health side has also affected the economies of countries around the world, including Indonesia. The global economy has experienced a downturn, followed by a decree by WHO which established the Corona outbreak as a pandemic affecting the business world. The virus that began to spread around the Wuhan region and has now infected more than 100 countries in various parts of the world poses a serious threat to the global economy because its widespread spread will prolong the period of collapse of the world economy. The crippling of economic activity due to physical distancing as a policy in breaking the chain of the spread of this virus causes economic growth to be hampered. One of the impacts is banking business activities, especially in maintaining credit collectability. The problem comes when informal businesses have credit at the bank and there

are difficulties in paying credit to the bank because the business sector is not running. Whereas the soundness of a bank is strongly influenced by the value of a bank's bad credit. This decline in bank performance means that the bank's function as a financial intermediary system has weakened.

Therefore, there should be a great support for OJK's policy to provide economic stimulus to businesses, including micro, small and medium enterprises (MSMEs) aimed at saving all parties from the onslaught of the corona virus (Covid-19), both business actors as a debtor or banking and finance as a creditor. In addition to OJK Regulation No. 11 / POJK.03 / 2020, the government has also pursued a policy of economic recovery through Government Regulation in Lieu of Law (PERPU) No. 1 of 2020 concerning State Financial Policies and Financial System Stability for Handling Pandemic Coronavirus Disease 2019 ( COVID-19) and in the Context of Facing Threats that Endanger the National Economy and Financial Stability established on 31 March 2020.

In order to support the OJK policy and an effort to maintain economic stability over the conditions of limited access to finance, in this case the author will conduct an in-depth discussion related to securitization of credit assets as an alternative to increase the availability of credit in Indonesia. Asset securitization practices have been implemented in many developed countries such as France, Japan, the United States, and Germany. Central banks in France, Europe and Japan are known to play a role in encouraging the securitization of credit assets in their countries.

For example, the Asset-Based Securities (ABS) outright purchase scheme by the Bank of Japan is designed to reinvigorate Japanese economic activity by encouraging functional interactions between the financial markets, the banking sector and the real sector. This is done because the monetary transmission mechanism does not work at the time of deflation or economic slump. European Central Bank (ECB) also uses the securitization of SME credit assets as a tool to

improve monetary policy transmission. The malfunctioning of credit lines has several undesirable consequences for the real sector and causes a reduction in outstanding SME loans. This is the background of the ABS SME purchasing program in September 2014. However, the experience of the 2008-2009 crisis in the United States teaches us that asset securitization also has risks that have a systemic impact on the financial sector and the economy as a whole. In general, asset securitization contains several risks such as credit risk, market risk, liquidity risk, operational risk and legal risk.

This study analyzes the potential for securitization of credit assets so as to improve bank capacity when demand for credit is high with limited funding capacity. To support this, there are several literature studies that explain the securitization of credit assets. Some aspects analyzed in this study are aspects of BI's tasks in the monetary and macroprudential fields and the mechanism or scheme of securitization of credit assets in Indonesia.

## **1.2. Research Questions**

1. How is the implementation in a policy of credit asset securitization carried out by the Central Bank in other countries to encourage financing?
2. What are the recommendations for Indonesia economic stimulus in the face of Covid-19 through credit asset securitization?

## **1.3. Research Objectives**

1. Study the policy and implementation of credit asset securitization carried out by the Central Bank in other countries in order to encourage financing.
2. Formulating recommendations related to economic stimulus efforts in the face of Covid-19 through securitization of credit assets by Bank Indonesia.

## **2. Literature Review**

### **2.1. Asset Securitization**

According to Presidential Regulation No. 19/2005 amended by Presidential Regulation No. 1/2008, asset securitization is a transformation of illiquid assets into liquid assets by purchasing financial assets from original creditors and issuers of Asset Backed Securities (EBA). Then according to Bank Indonesia Regulation (PBI) No.7 / 4/2005 concerning Prudential Principles in Asset Securitization Activities for Commercial Banks, asset securitization is defined as the issuance of securities by the issuer of EBA based on the transfer of financial assets from the original creditor followed by payment originating from the sale of EBA to the capital owner. According to Bapepam Regulation No.IX.KI, EBA is a securities issued by KIK-EBA whose portfolio consists of financial assets in the form of bills arising from commercial paper, credit card bills, future bills (future receivables), lending including housing or apartment ownership loans, debt securities guaranteed by the Government, Credit Enhancement or Cash Flow facilities, as well as equivalent financial assets and other financial assets related to these financial assets. Then according to OJK Regulation No.23 / POJK.04 / 2014 secondary financing is the organization of medium and / or long-term fund distribution activities to the original creditor by purchasing a Collection of Original Creditor Receivables and selling it through the issuance of EBA-SP; or purchase of Origin Creditors Receivables Collection from the issuance of EBA-SP.

Lumpkin (1999) defines asset securitization as a more specific structured finance where it says that asset securitization is a "structured finance" because it is a collection of a number of assets with relatively the same characteristics and then is repackaged by adding features in the form of certain interest rates and profits Other economies are then sold to investors as third parties. This opinion was strengthened by Bank For International Settlements (BIS, 2005)

which said that structured finance instruments can be defined through three key characteristics:

- (1) pooling of assets (either cash-based or synthetically created);
- (2) tranching liabilities that are backed by the asset pool (this property differentiates structured finance from traditional “pass through” securitizations);
- (3) de-linking of the credit risk of the collateral asset pool from the credit risk of the originator, usually through use of a finite-lived, stand-alone Special Purpose Vehicle (SPV).

In addition, BIS states that asset securitization can transform a group of ordinary assets that are illiquid and risky into larger, more liquid assets, less risk, and easier to market. Thus the final results obtained from the asset securitization transaction process is that the corporation can obtain the proceeds or funds needed by selling its assets and not borrowing funds from other sources outside the company. The results obtained from the asset securitization process are generally known as Asset Backed Securities (EBA).

Based on these definitions, we can generally know that there are 3 (three) main parties involved in the process of asset securitization, namely the originator, issuer, and investor. Originator is an institution that has assets to be moved from on balance sheet to off balance sheet through the process of asset securitization, where in general the originator is a bank / other financial institution. The Originator will then transfer the financial assets held to the issuer which is a Special Purpose Vehicle (SPV) entity with the main task of issuing securities products with collateral in the form of a claim on the portfolio of financial assets transferred by the originator. Securities products formed by the issuer will then be sold on the capital market to be bought by investors.

According to Nassr and Wehinger (2014), asset securitization can be categorized in several main types, namely Mortgage-Backed Securities (MBS), Asset-Backed Securities (ABS), Collateralised Debt Obligations (CDO), and Asset-Backed Commercial Paper (ABCP). The categorization of the types of securitization is based on the nature of the collection of assets pledged and the cash flows generated by the portfolio of assets being securitized.

There are two types of asset securitization, the first being Mortgage-Backed Securities (MBS) and Asset-Backed Securities (ABS). MBS is a type of asset securitization supported by collateral in the form of a collection of housing loans (commercial or residential), while ABS is a type of asset securitization supported by a wider form of collateral including credit card bills, vehicle debt, SME securitization, leasing, and assets other financial bills (other account receivables). SBM is basically a part of ABS, but due to its large volume, especially in the United States, to minimize bias on data often MBS is separated from ABS. The next type is Collateralised Debt Obligations (CDO) is a type of asset securitization supported by collateral in the form of debt instruments such as senior secured bank loans, high yield bonds, credit default swaps (CDS), and collections of leveraged loans. Then Asset-Backed Commercial Paper (ABCP) is a type of asset securitization that is generally used to increase liquidity or short-term financial needs by issuing commercial paper to the capital market with collateral in the form of other financial assets.

Theoretically, asset securitization is a product in the capital market that is useful for bringing together parties who are overfunded with those who need funds. Here are some of the benefits of asset securitization, namely:

- 1) Can change less liquid assets to become more liquid;
- 2) Can change assets that are less attractive to be easier to trade because instruments produced from asset securitization are instruments that are easily traded;



- 3) In order to expand investors to an asset;
- 4) For the originator, asset securitization is a tool to transfer portfolio risk;
- 5) Investors who buy products from asset securitization will benefit in the form of higher interest rates than bank interest.
- 6) Is a suitable source of funding for long-term loans; currently in the banking sector the source of funds used to provide long-term credit is the source of short-term funds originating from deposits and savings, this causes an inadequate source of funding. With asset securitization, companies can match funding to corporate funding strategies;
- 7) Asset securitization can transfer accounts receivable from the original creditor's balance sheet, otherwise known as an on balance sheet transaction. This makes the original creditor not bear the burden of the receivables and reduces the pressure on adjusting the required capital ratio and facilitates the calculation of capital adequacy;
- 8) Makes companies able to withdraw funds by selling their receivables without adding new liabilities. For private companies, asset securitization can be used to issue debt securities without public disclosure;
- 9) Diversification of sources of financing that so far have only come from capital and debt have increased with the securitization of these assets.

## **2.2. Macroprudential Policy**

According to Bank Indonesia Regulation No. 16/11 / PBI / 2014 concerning Macroprudential Regulation and Supervision, macroprudential policy is a policy determined by Bank Indonesia to prevent and reduce systemic risk, encourage a balanced and quality intermediary function, improve financial system efficiency, and financial access in promoting the maintenance of the SSK, and supports monetary stability and payment system stability.

The purpose of macroprudential policy according to Bank Indonesia Regulation No. 16/11 / PBI / 2014 concerning Macroprudential Control and Supervision are as follows: 1) Preventing and reducing systemic risk; 2) Encouraging a balanced and quality intermediary function; and 3) Improve financial system efficiency and financial access. The goal of macroprudential policy is to maintain financial system stability which is a condition that enables the national financial system to function effectively and efficiently and is able to withstand internal and external vulnerabilities so that the allocation of funding sources or funding can contribute to the growth and stability of the national economy.

According to Bank Indonesia Regulation No.16 / 11 / PBI / 2014 concerning macroprudential regulation and supervision, it is explained that there are several instrument provisions used, including the following: 1) Regulatory instruments strengthen capital resilience and prevent excessive leverage; 2) Manage the intermediation function and control credit risk, liquidity risk, exchange rate risk, and interest rate risk, as well as other risks that have the potential to become systemic risk; 3) Limiting exposure concentration; 4) Strengthening financial infrastructure resilience; and 5) Improve financial system efficiency and financial access.

### **2.3. Coronavirus 2019 (Covid-19)**

The Coronavirus Disease 2019 outbreak was first confirmed in Indonesia on March 2, 2020. This condition gave rise to shocks not only in the world of health but the economy was also not free from its effects. Various Economic Stimulus policies have been issued by the Financial Services Authority as an economic rescue measure at this time. In order to face the impact of the distribution of Coronavirus Disease 2019, OJK issued Regulation of the Financial Services Authority Number 11 Year 2020 Regarding National Economic Stimulus as

Countercyclical Policy on the Impact of Spreading Coronavirus Disease 2019 (POJK Stimulus of Impact Covid-19). This policy must have a direct impact on the banking sector in Indonesia, which is an intermediary institution.

Covid-19 is a disease caused by the SARS CoV-2 virus and has symptoms similar to the common cold, which can lead to severe illness and inflammation of the lungs or also called pneumonia, causing breathing difficulties. The World Health Organization (WHO), as a world reference source in dealing with Covid-19, has released several basic protective measures for individuals in dealing with this Pandemic. Some of them are keeping hands clean by diligently washing hands with soap and running water or with alcohol-based liquids, maintaining social distancing by keeping a distance of at least 1 meter from other people or anyone who coughs or sneezes, avoid touching eyes, nose and mouth, because all three are the pathway for the virus to enter the body, maintain respiratory hygiene by covering the mouth and nose with a tissue or with elbows when coughing and sneezing, if you have a fever, cough and difficulty breathing, seek medical care as soon as possible, and keep looking for information and following the advice given by your local health service provider. However, this policy also had an impact on the global economy which affected 3 sectors, namely the stock market, bonds, and the value of gold, and also on the domestic economy.

### **Capital Market Sector**

Corona Virus has made investors run wild from the global stock market. Global equity markets are moving with very high volatility. This is reflected in the volatility index (VIX) output of the Chicago Board Options Exchange at its highest level in five years. This means that Corona Virus has a pretty serious impact. It also affects the level of investment decisions of several investors so that the impact is seen so significant. Corona virus also makes the mental state of investors panic and makes the global stock market under intense pressure. If

calculated since the beginning of the year, the performance of the global stock market is still weakening.

### **Securities Trading**

US 10-year bonds are at their lowest level in history. US government bond yields for 10-year tenors were at the level of 0.7070% on Friday (03/06/2020). This means that investors in the last 3 years have made a sudden decision amid the Corona Virus (Covid-19) by deciding not to be interested in debt securities issued by the US. Corona virus swiftly devoured the economic sector in the US quickly.

### **Gold trading**

Gold prices bounced back and set a record high in seven years. Gold which was originally only categorized as a safe haven or assets with minimal risk has become an investment container that is quite attractive. This can be seen in gold trading in the spot market which continues to experience a surge amid the Corona Virus siege.

### **Domestic Economy**

Various policies were carried out by Indonesia in order to deal with the global economic conditions caused by the Corona virus. The movement of exchange rates and oil prices continuously requires the government to immediately take policy. Among the government policies are interest rates and discounted airplane ticket prices so that people remain interested in making tourist visits to several tourist destination cities. Variation of stimulus to reduce the pressure experienced and high volatility in the stock market in the country, the stock exchange authorities decided to stop short selling transactions in the midst of panic conditions like now. In this case covid became a major concern

for the Indonesian people because of the problems that it continues to cause due to losses that have an impact on the Indonesian economy.

### **3. Data and Methodology**

#### **3.1. Data**

This research is a systematic review based on the literature using qualitative descriptive analysis by describing research results through several sources and drawing conclusions from several related articles and journals. So the source of the data obtained from this research is secondary data in the literature review related to banking securitization in an effort to strengthen banking intermediation.

#### **3.2. Methodology**

The research method that will be used in this research is descriptive qualitative method. This method is used to obtain a comprehensive picture related to the solution to strengthen intermediation and banking performance in the face of slowing economic growth due to the impact of the Covid-19 disease pandemic.

### **4. Results**

#### **4.1 Implementation of Securitization in Other Countries**

##### **Securitization Practices in Malaysia**

The Secondary Mortgage Market in Malaysia began with the operation of Cagamas Berhad in 1987. Cagamas Berhad was established to function as an intermediary between the primary lender (Primary Lender) and long-term investors with guarantees of securities that generate fixed income, by means of which the company will buy bills on housing mortgages and other mortgages

for the issuance of debt securities that will finance the purchase of mortgages. Initially Cagamas was established with three objectives, namely to reduce liquidity problems due to differences in the maturity structure of the source of funds with the structure of the maturity of housing loans, to reduce the interest rate risk faced by major lenders by creating a fixed interest rate during long-term financing, and to help the financial sector create investment options in the form of fixed income securities.

### **Securitization Practices in Spain**

Securitization in Spain is motivated by the scarcity of credit which has a significant impact on the economy in Europe. Policy makers choose asset securitization as the main instrument in reactivating credit as a monetary policy transmission mechanism. Before the crisis, policymakers were more focused on contributing to market development and several laws relating to the framework of asset securitization. The process of asset securitization in Spain follows the traditional model, which is an easier structure and securitized assets are high quality assets. In the traditional model, the originator transfers the pool of assets to the SPV which will issue its securitization product to the market. Asset securitization in Spain is more likely to aim as a credit mechanism compared to risk transfer instruments. This asset securitization policy shows a positive impact on the economy by reactivating previously sluggish loans and contributing to improving lending.

### **Securitization Practices in China**

In 2005, China conducted an asset securitization pilot project for the first time to expand funding instruments. China Construction Bank and China Development Bank won the inaugural project of asset securitization and Mortgage Backed Security. In 2009, the project was halted due to the subprime

mortgage crisis, but in 2012 the program was revived and in 2013 the state council expanded the program. The mechanism used for asset securitization is the originator as a financial institution and EBA can be traded on the National Inter-Bank Bond Market. Central banks and banking regulators speed up the process by allowing issuers to sell EBA freely after registering with regulators. Previously, every EBA issuance had to get approval based on deals.

In this case asset securitization helps banks and finance companies free up capital to be used in lending. The development of formal market securitization of assets that invites broader participation of market participants and is governed by clear and consistent arrangements has brought significant benefits to the Chinese economy.

### **Securitization Practices in Japan**

The malfunctioning of the monetary transmission mechanism in Japan has resulted in quantitative easing conducted by the Bank of Japan (BOJ) being less efficient in achieving its targets to improve economic conditions that experience deflation and low growth. Accumulated credit risk, which is related to NPL problems, has resulted in a more limited banking intermediation function. Japanese SMEs face financing constraints due to asymmetric information and collateral limitations. Generally, SMEs in Japan use additional collateral in the form of land and government guarantees. The BOJ cooperates with relevant authorities and government financial institutions and only accepts publicly offered ABS that is more transparent in information than private ABS.

The impact obtained from asset securitization in Japan is the transfer of MSME credit risk to banks, investors, BOJ, and several other sectors of public institutions. This policy can increase ABS market liquidity schemes, thereby reducing costs and increasing funding availability. This policy paved the way for

providing access to new financing for MSMEs, contributing to strengthening the monetary policy transmission mechanism.

### **Securitization Practices in the United States**

The emergence of asset securitization in the United States was driven by a government program that sought to increase the liquidity of the housing finance market or what is commonly called a residential mortgage with the aim of the banking sector to obtain cheaper funding. In 1932, the government formed the Federal Home Loan Bank which provided housing credit facilities for the American public. Then the government formed the secondary mortgage market, namely FNMA, GNMA, and FHLMC. In 1968, the first time asset securitization in the form of Mortgage Backed Securities with underlying assets in the form of mortgages was issued in America in 1968 through GNMA.

### **Securitization Practices in Indonesia**

Credit assets in Indonesia began to be practiced in 1994 through the securitization of credit card bill assets that were implemented by Citibank Jakarta. The next milestone in asset securitization in Indonesia was in 2009, namely the securitization of mortgage loan assets by Bank BTN. However, asset securitization activities have not yet developed optimally in Indonesia, as reflected in the still limited types of assets being securitized and the minimum volume of transactions and market participants both in the primary and secondary markets participating in this asset securitization. The government has supported the development of asset securitization by establishing a State-owned Special Purpose Vehicle (SPV) or also called Government Sponsors Entity (GSE) specifically mandated to develop the secondary market for KPR asset securitization as well as an institution that can issue asset securitization products called PT Sarana Multigriya Financial (PT. SMF).



## **The role of Bank Indonesia in the Securitization Scheme**

Bank Indonesia as the central bank in Indonesia currently has two functions, namely Bank Indonesia as monetary controller and Bank Indonesia as macroprudential regulator and supervisor. As a monetary controller in Indonesia, Bank Indonesia can carry out various monetary operations through open market operations (OPT) and standing facilities policies which consist of deposit facilities and lending or financing facilities. Monetary operations carried out by BI are carried out to absorb liquidity or provide liquidity to the financial system through OPT and standing facilities. While as a regulator and supervisor of macroprudential, the role of BI according to PBI No. 16/11 / PBI / 2014 are as follows:

- 1) Prevent and reduce systemic risk
- 2) Encouraging a balanced and quality intermediary function
- 3) Improve the efficiency of the financial system
- 4) Access to finance and MSMEs
- 5) Supports monetary stability and payment systems

Securitization of credit assets as a financial product can be used by BI as an instrument for conducting monetary and macroprudential policies. The existence of securitization of credit assets is expected to encourage banks to extend credit to business sectors that need it. Banks that have limited liquidity in lending can later obtain liquidity from the securitization process. For this reason, Bank Indonesia's participation in building credit asset securitization is not only in accordance with its function, but can also help improve the business sector, which in turn can boost Indonesia's economic growth. The role of Bank Indonesia in developing credit asset securitization, of course, must be adjusted to the functions of Bank Indonesia and existing regulations. There are at least two forms of roles that can be taken by Bank Indonesia related to the development

of credit asset securitization, the first is that Bank Indonesia is involved in the final part of the credit asset securitization process, which is to act as an investor of securities resulting from credit asset securitization and secondly Bank Indonesia can play a role in the process the beginning of securitization of credit assets. The first role requires the active role of Bank Indonesia in conducting transactions such as buying and selling securities as a result of credit asset securitization to increase investor confidence. The role of Bank Indonesia is needed to encourage the running of SME credit asset securitization because the inclusion of Bank Indonesia as an investor will create market confidence in the credit asset securitization product.

By law, the role of BI in securitization is possible both directly and indirectly, but still within certain limits. In accordance with the legislation in force, the three main pillars of BI in achieving and maintaining the stability of the Rupiah are setting and implementing monetary policy, regulating and maintaining a smooth payment system, and maintaining financial system stability. Therefore, Bank Indonesia's involvement in securitization must be in order to achieve the objectives and functions of BI and also within the scope of policies related to the implementation of the three BI pillars. Basically BI itself has the opportunity to have an active role even further in the creation of a securitization system, for example by building an institution that has an SPV function. In accordance with Article 64 paragraph 1 of the Law of the Republic of Indonesia No. 23 of 1999 concerning Bank Indonesia states that Bank Indonesia may conduct equity participation in legal entities or other entities that are indispensable in carrying out Bank Indonesia's tasks and with the approval of the House of Representatives. Paragraph 2 of Article 64 states that the funds for investment as referred to in paragraph (1) can only be taken from the Reserve Reserves.

In Europe, eligible collateral assets are in themselves high quality assets so that in addition to functioning as assets that can be used as collateral to obtain

credit from the central bank, these assets can also be used as collateral assets when applying for credit from other financial institutions. Therefore, aside from being a collateral, the existence of eligible collateral assets in Europe can also ease the function of the central bank in providing liquidity facilities to banks. By having eligible collateral assets, banks can get liquidity from banks and other financial institutions. In its implementation, there are several important issues that are closely related to the two conditions above. The issue is an issue related to the authority possessed by BI as the central bank in Indonesia. Policies related to rating institutions for MSMEs and the availability of SPV as EBA credit issuers are microprudential areas which are the authority and responsibility of OJK so that the achievement of the two preconditions above is very dependent on OJK as microprudential regulator and supervisor. And if it has been fulfilled, the regulation and supervision is also the responsibility and authority of the OJK so that BI must make efforts to communicate and coordinate with the OJK to ensure both conditions preconditions occur. Aside from being a securities repurchased in a lending facility, BI can provide additional incentives by providing a price reduction at the repo discount rate in the lending facility. The discount rate for repos is BI-rate plus a certain margin. If a bank has an EBA of business credit, BI can provide incentives by providing a lower discount rate for banks applying for a lending facility using the EBA of securitization of SME credit assets.

The policy for determining business credit ratios is a macroprudential policy related to increasing financial access for MSMEs. In PBI No. 17/11 / PBI / 2015, BI has combined policies related to the reserve requirement, LFR, and MSME credit ratio. The regulation stipulates that banks that have met the minimum MSME credit ratio to total loans and have MSME MSMEs as well as a total NPL below 5% will receive an upper limit incentive from previously only 92% to 94%. With this policy, banks that have channeled MSME loans according to the rules will get additional flexibility to channel funds collected from DPK and securities in

the form of credit to the real sector. With these additional incentives, banks that have difficulty in extending credit due to lack of resources can become credit asset securitization investors so they can continue to participate in increasing financial access for businesses that need it.

Within the macroprudential framework, securitization of SME credit assets can be considered as one of the things that BI can do in carrying out its duties as a macroprudential regulator and supervisor, especially in terms of increasing financial access to businesses and promoting a balanced and quality intermediation function. Through this securitization of credit assets, the source of funds for business loans that require not only come from third party funds but can also come from public funds through capital market mechanisms so that the task of BI in promoting a balanced and quality intermediary function can be achieved. Through securitization, liquidity problems can be overcome and the risk transfer process can also be carried out so that credit risk can be shared jointly by many parties. In addition, securitization of credit assets will also be able to increase lending to businesses that need funds so that BI's task to improve financial access for these businesses can be achieved.

## **5. Conclusions**

Securitization of credit assets has been carried out in several countries, with a relatively similar objective of trying to encourage the entry of credit to business sectors that require business funding. But in practice, there are some differences, of course related to the conditions of each country. Credit asset securitization has the potential to be developed in Indonesia and is expected to provide benefits as in other countries. The potential for business credit itself is very large in Indonesia, especially in the midst of the Covid-19 pandemic conditions which necessitates an impetus for the public to do more business work due to the rise in early layoffs of workers at private companies, and the lack

of ability to pay credit by employers due to reduced input causing a decrease in funding capital for the banking cycle. Securitization of credit assets is expected to reduce the gap between demand and supply of credit, where the existence of credit asset securitization products is expected to increase funds for business credit supply.

The experience of securitizing assets has been owned by Indonesia, especially the securitization of KPR assets which was first carried out by Bank BTN in 2009. Bank BTN securitized KPR bills by registering KIK-EBA transactions at the Capital Market Supervisory Agency which is now known as OJK in 2008 which then listing transactions on the IDX in 2009. Up to 2014, Bank BTN has carried out seven mortgage loan securitization transactions with KIK-EBA transactions totaling Rp5.45 trillion. Then, Bank BTN changed the securitization transaction model from previously KIK-EBA to EBA-SP transaction.

The level of securitization in Indonesia has two modes of choice, namely using the KIK legal entity as SPV or issued in the form of Participatory Letters. KIK-EBA is based on Bapepam-LK Regulation Number IX.K.1 concerning Guidelines for Asset Backed Securities Collective Investment Contract Guidelines. Whereas the EBA-SP is regulated in Financial Services Authority Regulation No. 23 / POJK.04 / 2014 concerning Guidelines for Issuance and Reporting of Asset Backed Securities in the Form of Participation Letters in the context of Secondary Housing Financing. So far, the KIK-EBA system is more widely used in the securitization of KPR assets because the provisions on securitization in the form of EBA-SP were only issued in 2014. It may be that this will change considering that the EBA-SP system is considered to be more concise than KIK-EBA, because parties get involved less. The implication of a more concise EBA-SP process is less cost and shorter time.

During the experience of securitization of financial assets in the form of KIK-EBA and EBA-SP in Indonesia since 2009 until now, there has never been

any legal dispute or dispute from the parties involved in asset securitization. This reflects that the legal institutions in the form of institutions and regulations are sufficient with good implementation. The SME credit asset securitization process can also use the existing legal basis and has been used as a legal basis for mortgage asset securitization. The parties involved in the previous securitization process can also be involved in securitizing SME credit assets. One of the challenges of securitizing SME credit assets on the legal side is to increase understanding of securitization and encourage the birth of the Law on asset securitization needed as a legal umbrella for its users.

It is also necessary to have a policy to encourage the origination of SME credit asset securitization, given the lack of interest and the substantial cost from the originator side, making the originator less interested. The experience of BTN shows the advantages of using asset securitization as a way to obtain credit. So if the bank understands these advantages, then the enthusiasm of the bank to become originator is predicted to increase. One of the challenges to securitization of credit assets is the perception that the credit offered is relatively risky, so it is feared that it will affect investors' perceptions of securities resulting from the credit asset securitization. Socialization and introduction of securitization products need to be done to encourage the presence of investors and as an alternative can be obtained by banks as investors.

MSME credit has several characteristics that make it not too easy to use as an underlying asset in asset securitization, including a relatively short period of time, relatively heterogeneous or varies both in terms of size, time period, risk profile. Seeing the characteristics of MSMEs, there is a big challenge in making MSME loans can be an underlying asset of securitization. Because securitization requires a homogeneous type of credit, very safe, has a stable cash flow stream and has a relatively long life. Securitization can be started for loans of relatively large size, for example those in the category of small and medium business loans,

or types of loans with relatively large denominations and long tenors. Another alternative that can be done to try to overcome the difficulties in making SME loans as underlying assets for the securitization process is to combine SME loans with other loans that are more suitable for securitization underlying assets, or encourage banks to securitize assets with long-term underlying assets such as mortgages or loans investment, but the funds obtained from the securitization activities can be used for distribution in the form of MSME loans. Each alternative has different advantages and challenges. The role of Bank Indonesia in developing credit asset securitization in Indonesia amidst slowing global economic growth due to the impact of this pandemic, is expected to encourage economic growth in the future.

### **Policy Recommendation**

In general, the discussion of securitization which aims to increase credit to businesses that need and the stability of the banking intermediation function based on the theory of securitization and learning from several countries, illustrates that these objectives can go through two processes:

- 1) The process of initiating or encouraging banks as initial creditors to securitize their credit assets. The results of the securities can provide liquidity for the initial creditor or bank so that they can extend credit to the business party again;
- 2) The process of conducting general securitization is not limited to business debtors, by banks as initial creditors or originators. Where the liquidity resulting from the securitization is used as a loan back to business entrepreneurs by the bank.

The proposed mechanism for the asset securitization process certainly requires the role of Bank Indonesia in the form of socialization, regulations

requiring incentives and other forms to be captured by the market as part of BI's support for development efforts and support to business entrepreneurs. In accordance with the previous discussion related to the BI Macropurdenial function, the incentives provided can be in the form of:

- 1) Making credit asset securitization products as one of the financial instruments that can be subject to repurchase other than SBI, SDBI, and SBN As a form of incentive to banks as investors who have securitization products.
- 2) Determine a cheaper discount rate for banks that apply for a lending facility using the instrument of securitization of business credit assets as a securities subject to repo. If previously the discount rate was BI-rate plus a certain margin, then the discount rate reduction could be done by reducing the BI rate enhancing margin.
- 3) In order for points 1 and 2 to be applied, the product resulting from securitization of business credit assets requires a rating that can be used to determine the credit included in high quality assets. In addition, the availability of SPV for SME credit asset securitization issuers is also needed.
- 4) Banks that have securitized business assets securitized products also get GWMLFR incentives or secondary GWM. BI can also reduce the secondary reserve requirement for banks that have SME loan asset securitization products.

The suggested mechanism for the KIK-EBA scheme is as follows:

1. The bank distributes credit to business entrepreneurs so that they have credit claims against business businesses.
2. The investment manager together with the custodian bank makes a KIK-EBA credit contract and sells the KIK-EBA participation unit to investors.



3. Investors get participation units as proof of their participation in business credit KIK-EBA.
4. The bank sells the credit claim to KIK-EBA credit. In this case the bank acts as the originator as well as the servicer.
5. Proceeds from the sale of KIK-EBA from investors are used by investment managers to buy credit from the originator's bank.
6. Banks as servicer provide credit installments to custodian banks periodically.
7. Custodian banks distribute credit installments to investors in accordance with the size of the investor participation unit in KIK-EBA.

In the KIK-EBA scheme, Bank Indonesia can have two roles, namely the role related to monetary operations and the role of macroprudential. The role related to monetary operations can be performed by Bank Indonesia by providing incentives for banks that become investors as KIK-EBA credit buyers. Bank Indonesia can make a KIK-EBA credit unit certificate as one of the securities that can be subject to repo in open market operations or lending facilities. However, to do this, Bank Indonesia must revise the relevant PBI governing monetary policy. The role related to macroprudential can be done by Bank Indonesia by providing incentives for banks that are originators.

The transaction mechanism with the suggested EBA-SP scheme is as follows:

1. Based on an agreement with the original creditor, the issuer appoints a trustee and custodian bank registered with the OJK.
2. The trustee appoints a service provider for the collection of mortgage loans.
3. Issuer submits EBA-SP issuance public offering statement to OJK.
4. Because through the public offering mechanism, the issuer must show the underwriter in the process of issuing credit asset securitization.

5. Issuer issues EBA-SP and sells it to investors through a public offering. EBA-SP is a proof of investor ownership in proportion to the financial assets.
6. Investors make payments for the purchase of EBA-SP to the custodian bank to be forwarded to the originating creditor at the issuance's instructions.

In the EBA-SP scheme, Bank Indonesia can play a role in providing incentives to originator banks and banks as investors as explained earlier.

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