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Implication of Liquidation Method to Recovery Rate and Residual Asset: The Case of Rural Banks in Indonesia

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Abstract

Bank liquidation is one method of bank resolution conducted by resolution authority. The bank's resolution occurs when the authority establishes a bank declared/tends to fail and there is no private sector intervention that can restore the bank's ability in a short time for normal procedures. This study aims to explain the application of liquidation on rural banks liquidated by Deposit Insurance Corporation. Indonesia (IDIC) as well as its implications for recovery rate and residual assets resulting from the liquidation process. The methodology in this research is qualitative and the nature of this research is descriptive analysis. The authors used two different types of sources. First, direct observations to IDIC office. Second, Semi-structured interviews were conducted with the chairman of liquidation team of rural banks, the official of IDIC and Auditors who engage audit on or attestation on the liquidated bank, which time informal interviews were conducted, and documents were also collected. Based on the result of this research, it is concluded that with the implementation of liquidation method, there are critical *issues* that require IDIC attention, *such as the fraud rate that occurred before the bank was liquidated,* time of submission of problem banks from Bank Supervisory Authority (BSA) to IDIC, and decrease of asset quality and *flow of documentation and information of failed bank, personnel readiness, supervision, handling of liquidation assets and limitations of liquidation guidelines.* The critical problem faced above will ultimately affect the recovery rate and residual assets after the liquidation process ends.

Keywords: Liquidation; Recovery Rate; and Residual Asset

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1. Introduction

The acceptance and management of financial risks are attached to the bank's business and the role of banks as financial intermediaries. Despite the fact that banks in the business take risks, the Bank must accept risks that are uniquely a part of the bank's service. However, banks should avoid accepting unnecessary risks or attempt to make them absorbed by risk transfer to other parties by Nugrahanti [1]. While government through independent body performs its role by assuming risks that would be experienced by depositors within the Bank in Indonesia Known as Indonesia Deposit Insurance Company (IDIC).

In accordance with Articles 53 and 54 of the Deposit Insurance Corporation. Indonesia (IDIC) Law, in the process of liquidation carried out against the failed banks, the IDIC makes payment of guarantee claims to depositors, conducts the liquidation / disbursement of assets and / or collections of receivables to debtors, and subsequently pays the bank liabilities failing to the creditor in sequence according to the preferences of the creditor the bank fails, or the transfer of assets and liabilities of the bank to another party with IDIC/Lembaga Penjamin Simpanan approval in Indonesia.

The order for payment of bank liabilities to the IDIC from the disbursement and collection results is done after the bank's obligations related to salary and severance pay, fees, selling/auction fees, and office operating expenses are settled. According to Article 54 of the IDIC Law, IDIC is a priority creditor. Acceptance of payments for a refund of fees incurred or payment of a claim that must be paid by IDIC is called the rate of return of liquidation or recovery rate.

In the liquidation process carried out, there is a possibility that: all assets can be liquidated / receivable can be collected entirely and then become refund of payment to IDIC through the disbursement of assets and collection of receivables/credits, however there is also the possibility of assets that cannot be liquefied / bad debts due to poor asset quality. Such an immovable asset is called a residual liquidation asset.

Of the 74 rural banks and one commercial bank that had been liquidated, 55 rural banks have been completed. Recovery rates received by IDIC vary greatly, ranging from 0% (nil) to 100%. Total recovery rate received by IDIC is

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17%. In general, the recovery rate is classified as low. The low recovery rate received by IDIC is unexpected. Although IDIC is a non-profit (non-profit) government institution, maximizing the recovery rate of liquidation of bank assets liquidated by IDIC is a matter to be done in order to foster a guarantee reserve fund to finance failing banks and face possible banking crisis risks future.

Of 55 rural banks that were liquidated only 18 rural banks or 33% which had recovery rate greater than or equal to 50%. The condition is not profitable for IDIC, so in order to optimize the recovery rate, IDIC needs to identify the cause of the low recovery rate, so that in the future things that hamper the achievement of recovery rate can be anticipated as early as possible. Of the 55 rural banks that have been completed liquidated, assets that had not been able to be disbursed are relatively high at an average of Rp120 billion or 63% of bank assets fail. Meanwhile, 33 rural banks liquidations or 60% have residual liquidation assets greater than 50%. The high residual asset causes the number of assets that LT loses and causes a low recovery rate.

Based on World Bank [2] research, in middle-income countries the simplest liquidation procedure provides the most benefits for all parties, including employees and creditors, while in countries that are categorized as "poor country" (poor country), the liquidation procedure provides a higher yield rate than the restructuring with a significant difference. Whereas in rich countries the opposite result is recovery rate for restructuring higher than liquidation [1]. The World Bank's research is in accordance with research in some countries such as USA, UK, Finland, and Sweden which comparing the mechanism of liquidation and restructuring/ reorganization, it is also found that the value of recovery rate of liquidation process is lower compared to recovery rate if restructuring as described by Couwenberg and De Jong, [3].

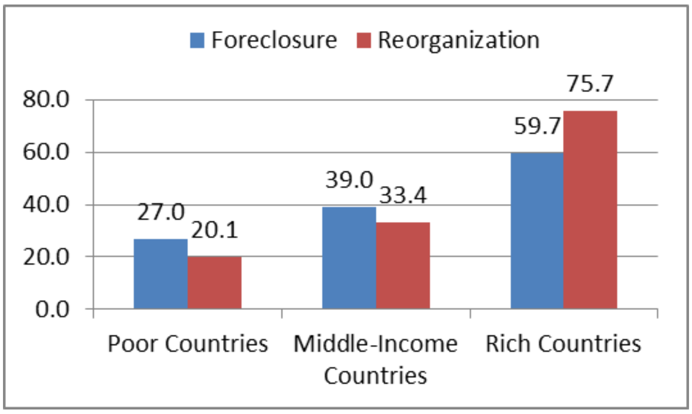

Fig 1. Recovery Rate in Other Countries, source: World Bank (2007)

From Figure 1 above, it is known that the average recovery rate of companies in the poor country and the middle-income country that perform liquidation are 27% and 39% respectively. Therefore, according to the data referred to the recovery rate on the liquidation of rural banks implemented in Indonesia from 2006-2016 which is currently at 17% is still below the average liquidation result of other countries.

The things discussed in this research are: (1) how is the application of liquidation method of the liquidation process of rural banks by IDIC? (2) how are the recovery rate and the residual assets generated in the liquidation process? Limits of research are the liquidation process undertaken by IDIC and the application of accounting for the liquidation process of IDIC. This research also discussed the factors that affect the recovery rate of liquidation of failed banks and the residual assets that occurred in handling liquidation process of banks by IDIC. This study focuses on rural banks that have been liquidated by IDIC between 2006 up to 2016 and the process has been completed in September 2016.

2. Review Theory and Conceptual Framework

The Residual Equity Theory was first introduced Staubus[4], is further developed by other accounting experts, among them the Theory of Residual Equity was supported by Chatfield and Vangermersch [5], Van Mourik [6] and Blessing and Onoja [7]. The common shareholder obtains a claim on the retained earnings of the company after the claim to the bondholder and preferred shareholder has been fulfilled. However, in the case of a very large corporate loss condition causing a very low equity value or a company in bankruptcy proceedings, the common shareholders' equity may be lost, so that preferred shareholders or bonds may become residual shareholders.

Understanding the recovery rates according to Grunert and Weber [8], the recovery rate is the nominal / discounted rate of return of bonds/credit or cash/ securities obtained by creditors from the settlement of bankruptcy issues made through closure or corporate restructuring.

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Residual assets are listed in the Nasdaq Glossary, the Legal Dictionaries of the Encyclopedia of Law Project, and the Farlex Financial Dictionary. The definition of a residual asset is an asset that belongs to a person or a company after all liabilities paid by the company or excess assets after all claims of the principal creditor have been met. In this paper the definition of the residual asset specifically in the context of the deposit insurance, the remaining liquidated bank assets that have not been sold or collected by liquidation team until the liquidation process ends.

Asset quality is contained in Bank Indonesia Regulation Number 7/2 / PBI / 2005 concerning Asset Quality Rating for Commercial Banks, and Decree of the Board of Directors of Bank Indonesia no. 31/1 47 / KEP / DIR in 1998, productive assets are all bank assets in both rupiah and foreign currency invested in credit, securities, inter-bank placements and other assets performed for the purpose of obtaining income for banks.

The terms of the obligations are contained in the Statement of Financial Accounting Concepts no. 6 - Financial Accounting Standards Board (FASB) [9]. The International Accounting Standard Board (IASB) paragraph 49 (b) [10] furthermore, the definition of IASB adopted by the Indonesian Institute of Accountants in the Basic Framework of Preparation and Presentation of Financial Statements (KDPPLK) stipulated by Indonesian Institute of Accountants (IAI) [11] effective January 1, 2017, namely: Liabilities are the existing corporate debt arising from past events, the settlement resulted from the discharge of corporate resources containing economic benefits in the form of cash flows, services or other assets transferred to other entities that are expected to occur in the future.

Liquidation according to [12] is a process that involves converting a non-cash asset into cash, recognizing profit or loss from the process of converting a non-cash asset into cash, paying off the company's liabilities and ultimately dividing all cash held to the respective owners of the company/allies according to their capital balance. Bank liquidation is one method of bank resolution. The bank's resolution occurs when the authority establishes a bank declared/tends to fail and there is no private sector intervention that can restore the bank's ability in a short time of normal procedures [13].

Variations required in the implementation of bank resolution to liquidation, open-bank assistance (OBA), open market and so on average settlement take 5 years, according Mason [14] and while average 12.5 years in Warner [15], or average to 2.5 years by Weiss [16]. Bank failures can cause a major upheaval for a large number of individuals and businesses when they cannot instantly access funds, make payment transactions, or withdraw credit [17] and the time required to resolve legal issues will take longer [18].

Fail bank according to Federal Deposit Insurance Corporation / FDIC [19] and [20] are banks that have gone bankrupt, economic failure due to insufficient capital and failed to fulfil its obligations. Article 2 Central Bank Regulation (PBI) Number 8/18 / PBI / 2006 dated October 5, 2006, stipulates that a rural banks required to provide a minimum capital of 8% (eight percent of risk-weighted assets) The provisions of Article 2 in the PBI above are valid up to 31 December 2019, then January 1, 2020, will enter into force of Article 2 of the Financial Services Authority (OJK) Regulation Number 5 / POJK.03 / 2015 dated March 31, 2015, concerning the Minimum Capital Adequacy Requirement and the Fulfillment of Minimum Capital of Rural Banks In case of insufficiency of Rural Banks / it will cause the bank to suffering to failed because it does not have the ability to fulfill its obligations to its customers and/or its creditor.

The main cause of the large number of rural banks liquidated is due to the deterioration of bank performance due to fraud by bank managers (Financial Services Authority / OJK, 2016), namely: misuse / theft of funds / property (34%); breach of contract (26%); unlawful accounting (26%); fraud / cheating (22%); misstatement (19%); and conspiracy (15%) and other reasons up to 100% (International Association of Deposit Insurers/IADI [21]. Fraud is interpreted as all forms of fraud that occur to the organization of the organization including those that occur on its resource in Umar [22]. In addition Umar [22] state that fraud occurs among others to the presentation of information that is not qualified.

Handling of the failed bank by IDIC is mentioned in IDIC provisions for bank resolution. The purpose of bank resolutions is to ensure the sustainability of important functions of the bank as a means of saving money, and payment systems, maintaining financial system stability and restoring the continuity of all or part from the institution of the resolved bank [13], maintaining public confidence in the banking system [23], takes into account the principle of preventing disruptions to other financial institutions due to the contagion effect by White and Yorulmazer [24], direct exposures due to mutual interconnections by Allen Gale and Freixas [25], information transmission by Acharya and Yorulmazer [26], preventing negative impacts on the sale of low-cost assets, irregularities and moral hazards by Brunnermeier and Pedersen [27].

Previous research on the causes of bank failure by some researchers, namely: (a) fraud and self-dealing crime is the main cause of bank failure by Macey and Miller [28]. There is the long-term correlation between bank failures due to the non-performing loan with industrial stability banking with Nigeria by Uche [29]. Referring to Mayes [30] concludes that the handling of bank failures by the resolution authority should be fast enough in order for the bank to resume its business immediately, pay claims, ensuring that no insolvency party is worse off. In relation to asset increases, expectations of asset price increases may provide reasonable assurance for liquidation team (LT) to delay rational liquidation and incur higher costs by Mason [14]. The bank's resolution to the banking industry crisis period, the cost of resolution to the private sector is higher than liquidation by Bennett and Unal [31]. In relation to the recovery rate, according Bennet [32] concluded that the

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difficulties in liquidating assets of the failed bank due to non-performing loans, while Couwenberg and Jong [3] concluded that the recovery rates were influenced by the asset structure and capital structure.

Based on the theories and literature that had been submitted, the conceptual framework of this paper can be explained as follows:

a. The occurrence of weak supervision, fraud, poor governance and improper practices in the bank causes the bank which originally a healthy bank to be a problem bank.
b. Banks experiencing problems with Banking Supervisory Authority (BSA) will be included in the status of Special Surveillance (SS), and if in a certain period cannot be rescued, banks will be declared the failed bank.
c. Bank had been declared as failed bank will be handled /settled by the bank resolution authority/IDIC through one of two resolution methods of the IDIC ACT that is Open Bank Assistance (OBA) or liquidation method.
d. Things that can be reviewed for the application of liquidation method the process of bank liquidation from beginning to end based on IDIC Act, so that IDIC receives a refund from the result of liquidation (recovery) and the residual asset.
e. Variables studied in this research are the Influence of:
   1) Fraud (which occurs before the bank is declared a failed bank) to the recovery rate and the rest of the liquidation asset.
   2) Changes in asset quality (which occurred before the bank was declared a failed bank) to the recovery rate and the rest of the liquidation asset.
   3) The time period of problems bank submission from Banking Supervisory Authority (BSA) to IDIC against recovery rate and residual liquidation asset.
   4) Time Period of Liquidation failed banks against recovery rate and residual liquidation asset.

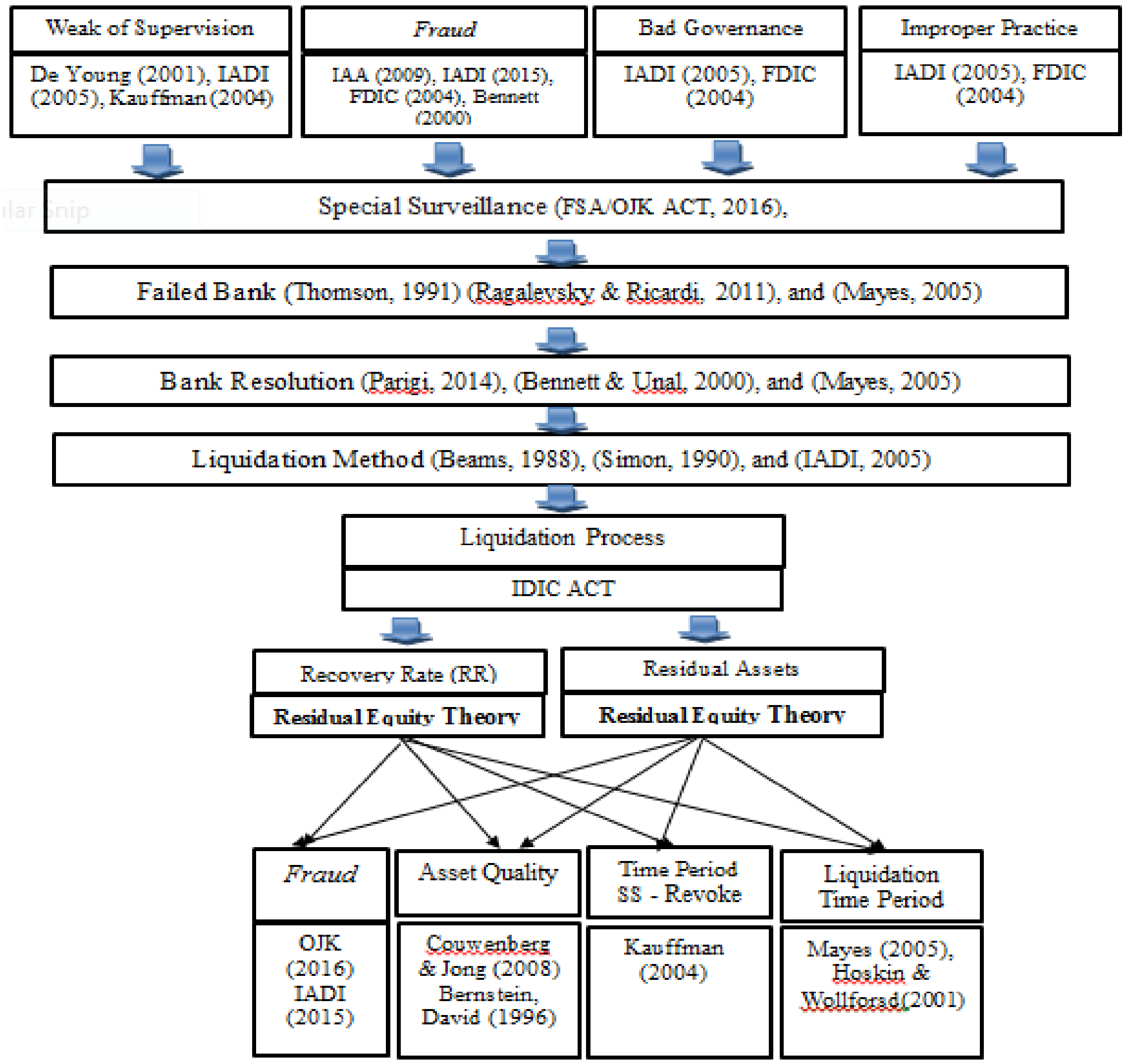

Fig 2. Conceptual Framework

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3. Materials and methods

This research is a qualitative study through a case study of a specific nature, the final report is structured in a flexible writing structure [33], encompassing a series of interpretation techniques to describe, the phenomenon that occurs daily in social life [34], trying to understand, or interpreting phenomena in accordance with the meaning that people understand [35]. The method to this research is the descriptive method, to investigate the condition, or other things already mentioned, the result is presented in the form of report, data collected through a questionnaire survey, interview or observation [36]. Research location as the research object, that is a social situation of research that wants to know [37], so that fulfil three elements, that is the perpetrator, place and observed event [36]. The research was conducted at IDIC office, Equity Tower Building, 20-21 Jl. General Sudirman, Sudirman Central Business District (SCBD).

Primary data source of this research is obtained from the words [38] and Information obtained directly from informants [39], according to the variables studied [36] obtained from the IDIC in the form of interviews with employees or other parties as informants related to the liquidation process of rural banks, that is 2 (two) Heads of Division into Liquidation Group, 3 (three) Chairman of LT who have /is handling bank in liquidation (BDL) and 3 (three) Auditor /Partner of Accountant office (KAP) who has /is conducting to audit / attestation to BDL and data in and 3 (three) Auditor /Public Accountant who has /is conducting to audit /attestation to BDL and data in the form of soft copy of working papers, and other documents.

Sources of secondary data onto this study were obtained from scientific journals related to deposit insurance both in Indonesia and other countries, mass media, and others related to the theme discussed by researchers obtained indirectly or through documents [39]. Data collection techniques in this research through (a) document / library research, (b) interview / interview. Data analysis in this study was obtained from interviews, field notes [39] and involved the collection of open data, based on general questions and data analysis derived from informants [33].

4. Result and Discussion

4.1. Overview of Deposit Insurance Corporation

The liquidation of 16 banks of 1 November 1997 due to the financial and banking crisis that plagued Indonesia made decrease public confidence in the banking system in Indonesia. To overcome the crisis, several policies issued by the government include providing guarantees of the bank's overall payment obligations, which include a blanket guarantee. The policy is set forth in Presidential Decree No. 26 The year 1998 concerning Insurance on Payment Liabilities of Commercial Banks and Presidential Decree No. 193 The year 1998 concerning Insurance For Payments Liabilities of Bank Perkreditan Rakyat (Rural Bank).

The blanket guarantee re-creates public trust in the intermediary banking system. However, in order to provide a sense of security to depositors and to avoid moral hazard in maintaining the stability of the banking system, the blanket guarantee program needs to be changed into a limited guarantee system. Subsequently, on September 22, 2004, the President of the Republic of Indonesia ratified the Act of the Republic of Indonesia Number 24 of the Indonesia Deposit Insurance Corporation. Based on the Act, IDIC is established as an independent institution that serves to insured customers' depositors and actively participates in maintaining the stability of the banking system in accordance with their authority. Act Number 4 of 2004 (IDIC Act) is effective as of September 22, 2005. (http://IDIC.go.id/web accessed January 31, 2017).

4.2. Selection of Bank Resolution Method

Bank resolutions to liquidation method are mostly used by IADI members for consideration of the speed and timeliness of guarantee claims payments that can reduce the contagion effect [21], this is because the resolution authority has had data before the bank revoked its business license, through examination in the bank period under Special Surveillance (SS) status. The liquidation method is used if the requirement to save the troubled bank is not fulfilled, in an example: the bank does not have the systemic impact, the Reimbursement cost higher than Open Bank Assistance (OBA) method, and the bank has no business prospect in according to Article 24 IDIC Act.

4.2.1. Submission of Problem Banks from Banking Supervisory Authority (BSA) to IDIC

A bank that is still in full operational activities is under the supervision of LPP pursuant to Act Number 21 of 2011 on the Financial Services Authority. The BSA establishes three supervisory statuses based on an analysis of the condition of a bank, namely: (1) normal supervisory status (routine), (2) intensive supervision status, and (3) Special Surveillance status. (http://www.ojk.go.id/id/kanal/ banking accessed January 30, 2017). BSA made remedies when problem banks entered into the category of banks under Special Surveillance (DPK). The term of the bank of Special Surveillance status is a maximum of three months (180 days) for banks which not listed in the Capital Market.

4.2.2. Stages of Liquidation

Stages of liquidation of failed banks by IDIC: (1) liquidation preparation, (2) liquidation implementation, and (3) termination of liquidation. In accordance with the results of the interview for Mr YA (Division Head of Liquidation Group), the activity in the liquidation preparation stage is: (1) Preparation, (2) Bank's business licenses revocation failed by BSA, (3) On-site visit to filed bank, (4) Securing of bank assets, (5) General Meeting of

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Shareholders (RUPS), and (6) Preparation of Closing of Balance Sheet (NP). Pursuant to Article 46 of the IDIC Act, the liquidation exercise is carried out by Liquidation Team (LT), LT is authorized to represent the bank in liquidation in the settlement of the rights and obligations of the bank. When the supervision in liquidation process is done, LT uses the asset valuation guideline established by IDIC, namely the Regulation of the Indonesia Deposit Insurance (PLPS) Number 1 / PLPS / 2011 on Bank Liquidation as amended by PLPS No. 1 / PLPS / 2015 and Chief Executive Decree (KKE) Number KEP 084 / KE / XXI / 2008 dated November 5, 2008 concerning Guidelines for Preparation of Balance Sheet While Liquidation.

In liquidation, LT's first step is to dilute a liquid financial asset (cash and bank). If cash is not available, LT may request a loan to IDIC. The loan will be paid by LT at the first opportunity when cash from the proceeds from the disbursement of the asset has been received, the remainder used for the liquidation process (the result of the interview with Mrs Y). The next steps are: mapping and profiling BDL assets and liabilities, appointing Public accounting firm, remunerating employees, assessing assets and liabilities of the liquidated bank, preparing temporary balance sheet (NSLs), disbursing assets, and distributing asset disbursements.

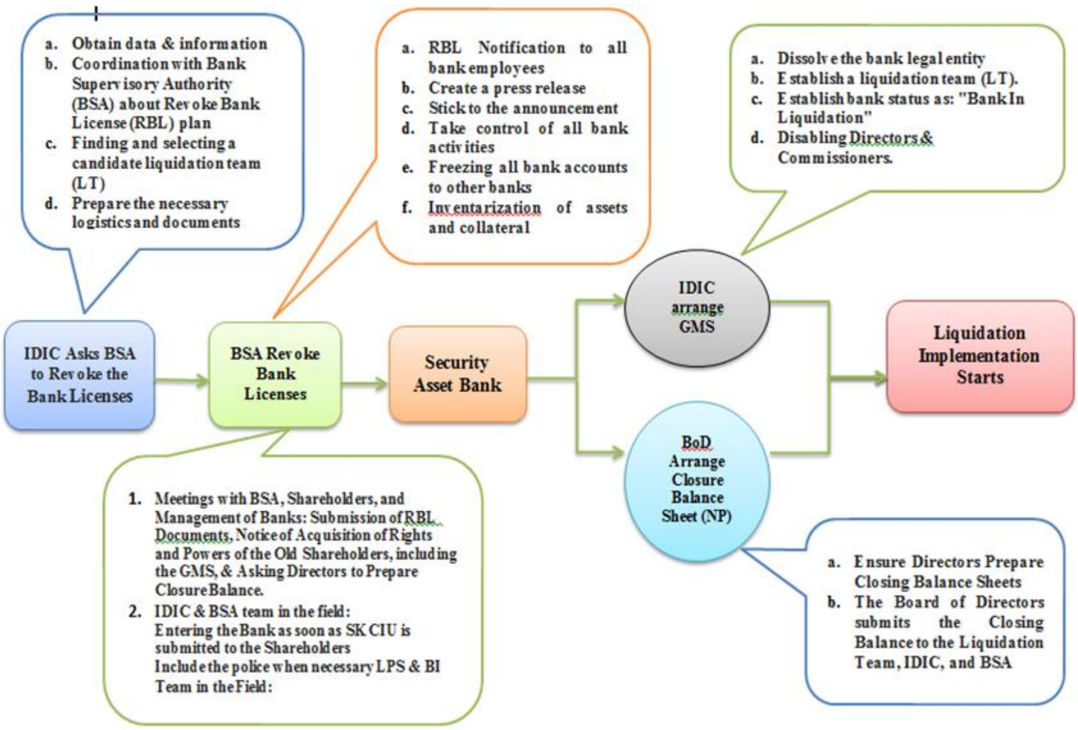

Fig 3. Preparation of Liquidation, source: IDIC (2016)

If the obligation has been completed then the distribution process is completed. In the case of remaining assets, the remaining assets shall be transferred to the old shareholders as holders of residual rights. However, in the case of unfinished liabilities, two alternatives are: (1) in the case of non-cash assets remaining, the non-cash asset is offered to the creditor as payment of bank liabilities fails. If the offer is received then the distribution process is completed or (2) if the creditor refuses the offer of non-cash assets, while the remaining liabilities in accordance with Article 54. Figures (3) of the IDIC Act, the settlement of the remaining liabilities of the bank shall be the responsibility for the old shareholders causing bank failure.

The last stage is the termination of the liquidation, according to information from AW officials in the Liquidation Group, the things that are done by LT are: (a) evaluating the potential for disbursement of assets. If the potential assets still exists, LT proposes an extension of the liquidation time, if there is no potential, LT shall bid the remaining assets (for asset values of NSL = 0 and NSL ≠ 0); (b) offer the remaining non-cash assets to the creditor for the remaining non-cash assets with a value of NSL ≠ 0 and NSL = 0 based on fair value determined by LT. Non-cash assets are offered to IDIC first as a priority creditor. If IDIC is unwilling to give assets, then assets are offered to another creditor; (c) if the asset has been disbursed entirely by cash or noncash, LT prepares the final balance sheet (NAL) and LT accountability report; (d) in the case of non-cash assets remaining not received as payment by the creditor, LT shall write off the remaining non-cash assets at

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NSL = 0, submit to the EPS as a General Meeting of Shareholders (GMS) for the remaining assets that have not been written off and still have value in the NSL (NSL ≠ 0) and further IDIC as GMS removes the remaining non-cash assets; and (e) IDIC as GMS appoints KAP to audit NAL and LT Accountability Report. The results of the audit of Public accounting firm (KAP) become the basis of the IDIC to conduct the liquidation termination meeting in accordance with Article 55 and 56 of the IDIC Act, namely: (i) conducting a liquidation ending action, namely announcing the end of liquidation in the State Gazette of the Republic of Indonesia and 2 (two) newspapers, (ii) notify the competent authorities of the removal of the legal entity status of the bank and that the name of a bank legal entity shall be removed from the list of companies, and (iii) submit all liquidated bank documents to the IDIC.

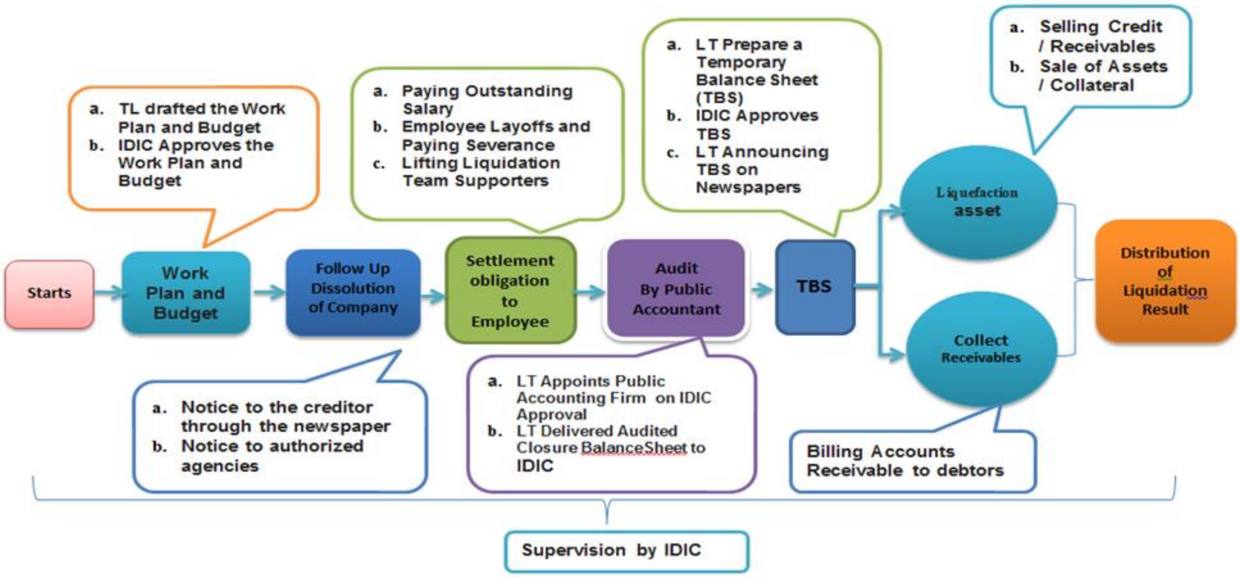

Fig 4. Implementation of Liquidation, source: IDIC (2016)

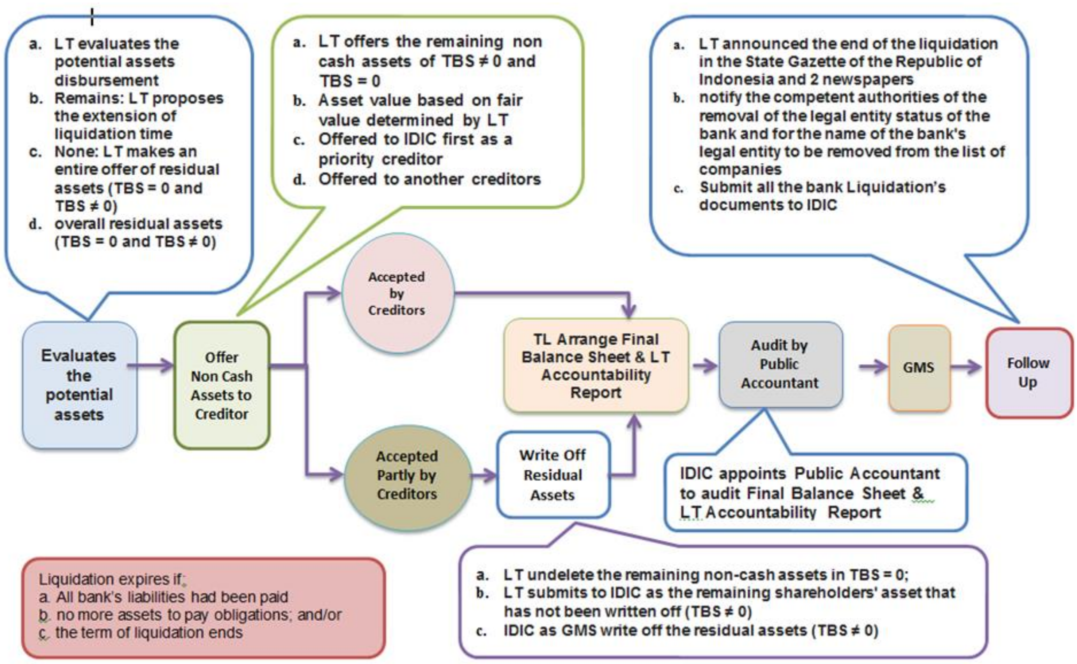

Fig 5. Termination of Liquidation, source: IDIC (2016)

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4.2.3. Problems Encountered In Liquidation Implementation

In the process of liquidation of failed bank, there are critical matters, among others: (a) related data and information: availability, security, confidentiality, data and information flow, (b) debtors: debtor profiling, and debtor distribution, (c) assets and liabilities: asset location, asset mapping, asset remnant, asset deletion and asset transfer to IDIC, (d) Personnel: personnel security, management willingness in preparing the closing balance sheet, and availability of competent LT, (e) No Guidance: (F) evaluation and reporting: uniformity of recording and reporting and evaluation process of termination / extension of liquidation period, and (g) legal issues: acquisition of rights and authority and fraud such as fictitious credit by management / owner of the bank.

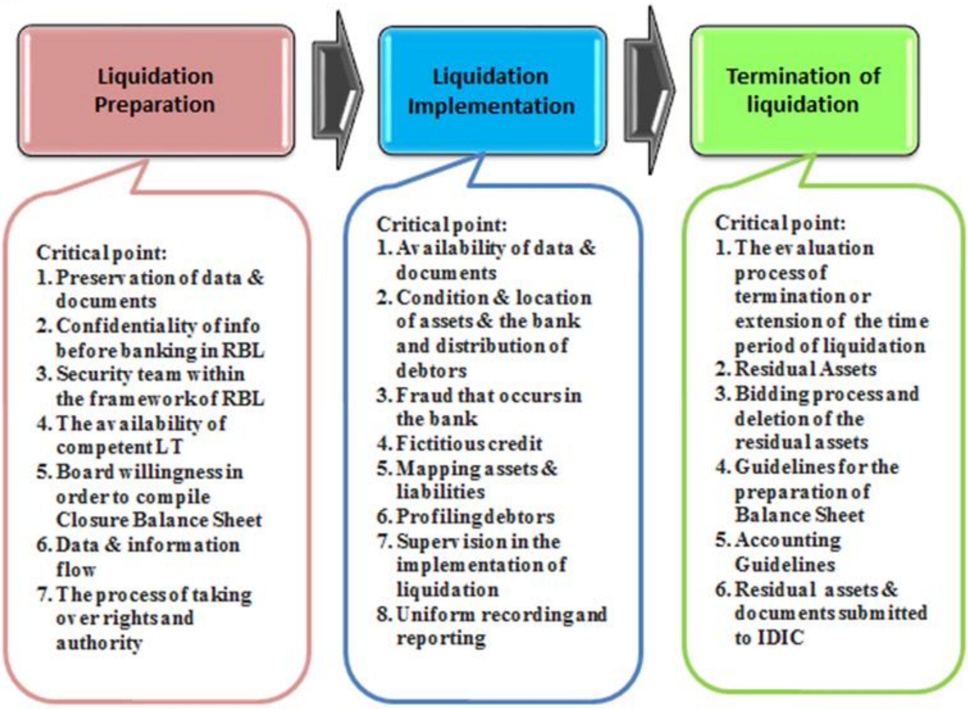

Fig 6. Critical Point to Liquidation Process, source: IDIC (2016)

4.2.4. Recovery Rate and Residual Assets

The time of liquidation in accordance with the provisions of Article 48 of the IDIC Act shall be no more than 2 (two) years from the date of establishment of LT and can be extended at most 2 (two) times for no longer than 1 (one) year, so that the implementation of the longest liquidation is 4 (four) years. With the authority set forth in Article 6 Paragraph (2) of the IDIC Act, IDIC has the right of subrogation such as preferred shareholder. IDIC has the first right to receive recovery from liquidation proceeds pursuant to Article 54 of the IDIC Act. Arrangements in the IDIC Act are in line with the Patron Residual Equity Theory by Staubus [4].

The recovery rate of bank liquidation is very important to IDIC to cover the cost incurred by IDIC, considering that if IDIC suffers from operational losses/deficit, the losses will be absorbed by IDIC by using the IDIC Guarantee Reserve accumulation. In the event that the loss is not fully absorbed by the Guaranteed Reserve, the rest will reduce the Earning Capital of the IDIC originating from the Government of the Republic of Indonesia which currently amounts to Rp4 trillion. Pursuant to Article 85 of the IDIC Act, in the case that IDIC Capital is less than the Initial Capital, the Government with the approval of the House of Representatives (DPR) must cover the shortage of capital.

4.2.5. Analysis of Causes of Low Recovery Rate and High Residual Assets

According to the results of interviews for IDIC employees, auditors and the Head of Liquidation team (TL), the causes of the low recovery rate and the high residual assets of liquidation are: (1) fraud in failed banks, (2) the quality of assets, low / no value, not fully tied (3) slow delivery of failed banks from BSA to resolution authorities / IDIC, and (4) length of time of liquidation due to legal matters. Meanwhile, the causes of high residual assets: (1) poor asset quality, among others due to damage,

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(2) long time bidding/selling process, among others because the price offered is too high, and (3) the existence of bank legal problem. Based on the results of the above interviews, the authors analyzed the quantitative data onto 55 rural bank that had been revoked, namely: (1) asset and liability data in NP, NSL and NAL, (2) data recovery rate, (3) data residual assets (4) data on the time of liquidation settlement (5) data since the bank entered the Special Surveillance up to the revoke of business license, (6) data fraud, (7) Capital Adequation Ratio (CAR) data, (8) asset data abolished, and (9) others . The author will describe in the sequence of interview results: (1) fraud level, (2) asset quality, (3) term of bank submission, and (4) time of liquidation.

(1) Fraud

According to data obtained from 75 rural banks that have been liquidated by IDIC, found fraud on 74 banks of 239 cases of fraud with a value of Rp1.15 trillion. The two main cases of fraud that occurred were credit misuse (31%), and fraudulent financial reporting (26%). The fraud data is similar to the survey conducted by IADI (2015) in IADI member countries, the example there are 2 (two) main types of fraud, namely misuse of funds (34%) and unlawful accounting (26%). The fraud data (which is the fraud ratio divided by the bank's assets fails within the Temporary Balance Sheet (TBS or NSL)) with recovery rate and the rest of the liquidation asset at 55 rural failed banks as shown below.

Table 1
Fraud, Residual Assets and Recovery Rate

No	Classification	Number of Failed Banks	%		
			Average Fraud	Residual Assets	Recovery Rate
1	Fraud <= 100% Asset TBS	16	55%	104%	57.92%
2	Fraud 100% s.d. 500% Asset TBS	19	236%	140%	39.37%
3	Fraud > 500% Asset TBS	20	2772%	186%	24.72%
Total		55			

Source: IDIC (2016), processed by Author

If further analysis is done by classifying the fraud value of three sections, as shown above, it can be concluded that: (a) The higher the fraud the lower the recovery rate (b) The higher the fraud the higher the residual asset will be. The above facts are in accordance with the results of interviews conducted to Auditors and in harmony with Macey and Miller's [28] research, that fraud and self-dealing are the main causes of bank failure.

(2) Asset Quality

After deducted by liquidation cost, the recovery rate earned by IDIC up to September 30, 2017, amounted to Rp99.06 billion and the remaining asset that cannot be cashed (sound assets) of Rp119.85 billion. In addition, significant asset losses were found at Rp342.55 billion between Closure Balance Sheet (CBS) and audited CBS. The decrease is due to the low quality of credit due to the poor condition of the assets so that it is abolished. According to data until September 2016, IDIC has made write-off of assets in the form of the credit of Rp320.98 billion from 10,220 debtor customer accounts. The abolition of credit assets due to damaged collateral, not marketable and illiquid.

Table 2
Increase / Decrease of Asset Quality against Residual Asset and Recovery Rate

No	Classification	Number of Failed Banks	%		
			Average Asset Increase	Residual Asset /Asset NSL	Recovery Rate
1	Decrease Asset NSL-NP	36	-44%	178%	38%
2	Constant Aset NSL-NP	2	0%	42%	47%
3	Increase Asset NSL-NP	15	73%	94%	39%
	Total	53			

Source: IDIC (2016), processed by Author

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From the table above, it can be concluded that (a) Increase in asset values in NSL due to good asset quality will increase the recovery rate. (b) An increase in asset value in NSL due to good asset quality reduces the level of residual assets. The above conclusions are in line with the results of a survey conducted by Federal Deposit Insurance Corporation (FDIC) by Bennett [32] and Uche [29] research that non-performing loans caused bank failures and Bernstein [40] that the quality of bank assets proved to affect the cost banks, and Couwenberg and Jong [3] which concluded that the recovery rate is affected by the asset structure.

(3) Time Period from Status of Bank under Special Surveillance (SS) until Declared to Revoke Business License (RBL) or CIU.

About 55 rural banks whose liquidation process has been completed on September 30, 2016, were found 47 rural banks or 85% exceed the period of Special Surveillance (180 days) as stated in PBI Regulation no. 11/20 / PBI / 2009 concerning Follow Up Handling Against BPR/BPRS Rural Banks) status as the following table.

Table 3
Time Period of SS/DPK to RBL/CIU

No	Description	Number of Failed Banks	%
1	Time Period DPK to CIU <180 days	8	15%
2	Time Period DPK to CIU between 180 -365 days	37	67%
3	Time Period DPK to CIU > 365 days	10	18%
	Total	55	100%

Source: IDIC (2016), processed by Author

The authors took a sample of 37 rural failed banks that entered Special Surveillance that failed to be rescued until the time limit of SSU/DPK, because it has a CAR far below the standard of Bank Indonesia Regulation (PBI) Number 8/18 / PBI / 2006 which is equal to 8%, according to the following table.

Table 4
Data of CAR Increase / Decrease

No	Desription	Number of banks	%	Average Increas/(Decrease)
1	CAR Increase	6	16%	625%
2	CAR Decrease	30	81%	-118%
3	CAR Not Change	1	3%	0%
Total		37	100%	

Source: IDIC (2016), processed by Author

As table 5 below was being found 30 banks that experienced a decline in CAR, 67% had a decrease in CAR by more than 50%. If it is connected to the period since the inception of the bank of Special Surveillance status (DPK) with the decrease of CAR of liquidated bank, and between the period of Special Surveillance to Revoke Business Licenses, recovery rate, and residual assets, it can be concluded that there is no direct relationship between the period of Special Surveillance and CAR / Revoke Business Licenses time, recovery rate and residual assets. This is in line with the results of interviews for auditors that the period of bank transfer of Special Surveillance status to IDIC directly affects the asset as it will reduce the quality of assets and increase the level to fraud.

Table 5
Details of CAR Decrease

No	Desription	Number of Banks	%	Average Decrease
1	Decrease CAR =<50%	10	33%	-24%
2	Decrease CAR between 50% - 100%	6	20%	-74%
3	Decrease CAR >100%	14	47%	-205%
Total		30	100%	

Source: IDIC (2016), processed by Author

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(4) Time Period of Liquidation Process

According to the result of the interview for Mr R, As Chairman of LT, bank liquidation process can be completed more quickly at rural failed banks of the smaller asset, good administration, good cooperation in internal LT and intensive monitoring/ communication with IDIC, so that problem can be solved immediately. Meanwhile, the delay in the liquidation process is mainly due to legal problems that cause the increase in the length of time of liquidation process. This is in accordance with De Luna-Martinez [17] and Mayes [30].

Table 6
Analysis of Liquidation Period to Residual Asset and Recovery Rate.

No	Liquidation Period	Number of Failed Banks	Average Period (Years)	% Residual Asset	% Recovery Rate
1	Up to 2 years	26	1.46	181%	40%
2	Morethan 2 years	29	3.24	115%	39%
Total		55			

Source: IDIC (2016), processed by Author

Based on the above data, it can be concluded that: (1) liquidation time is influential but relatively insignificant to recovery rate. This is due to the effect of additional costs of liquidation of greater than 2 (two) years, and (2) the time of liquidation affects the residual assets of liquidation due to the higher chance of transaction occurrence. This is in line with the results of interviews for three Heads of LT and Mr YA. The liquidation time of failed banks of Indonesia is no different from other countries according to Mason [14] research, and the majority of cases of liquidation are resolved average to 2.5 years Weiss [16].

5. CONCLUSIONS

In the implementation of liquidation method, there are critical issues requiring IDIC attention such as the fraud that occurred before the bank was liquidated, documents and information flow, personnel readiness, supervision, handling of liquidation assets and limitations of liquidation guidelines. Critical problems encountered with will directly or indirectly affect the recovery rate and the residual assets, among them, causing: a) the timing of problematic bank submission from the BSA to IDIC exceeding the provisions increases the potential risk of fraud which may degrade the asset quality and raise the liabilities of failed banks, b) decreasing the quality of bank assets in liquidation, and c) the length of time period required in the liquidation process. This research has limitations: (a) The author does not get data cost incurred by each bank of liquidation because relevant and reliable data is not available (b) data obtained entirely derived from IDIC. Some suggestions may be input to relevant parties in the process of liquidation and subsequent research, namely: (a) Submission of a problematic rural banks of BSA to IDIC to take place at the first opportunity to avoid potential fraud and impairment of asset quality, (b) IDIC to pay attention to matters that can improve the recovery rate and decrease the residual asset such as cooperation with the prosecutor in credit collection, recruitment of competent LT and liquidation supervision through audit to liquidation process, (c) Indonesia Institute of Accountants (IAI) is expected to be immediate establishing a liquidation base of accounting standards. The authors suggest that in the subsequent research can be (a) data should also be obtained from the BSA authority to enrich the analysis, especially related to the timing of the delivery of problem banks from BSA to IDIC. (b) examined on the period of liquidation and operating costs of the most effective and efficient liquidation for IDIC, and (c) in order to be examined on what criteria can be used as the most appropriate criteria for BSA to hand over the troubled bank of IDIC.

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