

“Perspectives from the Indonesian Media: Domestic and Foreign Affairs”

An Open Forum With

Shanti Ruwyastuti

Deputy News Director, MetroTV

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On March 31, **Shanti Ruwyastuti** of MetroTV provided a comprehensive explanation of the events involved in the current Bank Century scandal to an audience of USINDO and The Asia Society members. Speaking as a representative of the media, Ms. Ruwyastuti offered a unique perspective and clarity to the topic.

In the fall of 2008, Minister of Finance Sri Mulyani discussed the U.S. and European financial crisis and its implications on the Indonesian finance sector with the Indonesian Parliament. According to Minister Mulyani, approximately 20 Indonesian banks were at risk of collapse. In response to these impending failures, which many believed would have a systemic effect on the Indonesian financial system, the Indonesian Parliament drafted a bill that would raise the guarantee on accounts up from Rp 100 million to Rp 2 billion per customer. This bill however, was eventually rejected by Parliament on December 18, 2008.

Bank Century, a mid-sized bank, faced a run on deposits in September of 2008, and was near collapse. The decision to bail out Bank Century was discussed and finalized while the overall bank guarantee bill was being debated in Parliament and while President

Yudhoyono was abroad for the G20 conference; Vice President Jusuf Kalla in charge. Pursuant to articles in the expected bill, a Financial Sector Stability Committee was formed, chaired by Sri Mulyani as Finance Minister, and consisting of current Vice President Boediono, then Governor of Bank Indonesia, the Chairman of Lembaga Penjamin Simpanan (LPS), the organization responsible for bank account insurance, and the Chairman of the Institution for Capital Investment (BAPEPAM).

On November 21, 2008, the Committee met to discuss Bank Century. The minutes provided for this meeting show that while the Committee concluded that failure of Bank Century would not affect the entire banking system, the public perception at the time expected such a failure to have widespread impact, and thus agreed that Bank Century had to be bailed out in order to prevent contagion and a systemic failure of the banking system.

Sri Mulyani sent a text message to Vice President Kalla and President Yudhoyono, alerting them to the outcome of the meeting and filed a formal report on November 24. Kalla, who has stated from the beginning that he did not believe that the U.S. financial crisis would affect Indonesia and therefore

did not support the bank guarantee bill, says he did not receive the report until November 25.

The bailout money was transferred between November 23 2008 and February 3, 2009 in three installments. The first installment was for Rp2.776 trillion via LPS to raise Bank Century's Capital Adequacy Ratio (CAR) to the required 8 percent. The CAR is the ratio of a bank's capital to its risk. On October 21, Bank Indonesia reported that Bank Century's CAR was 2.2 percent, when in actuality it was -3.25 percent.

The second installment occurred on December 5, 2008 in the amount of Rp2.201 trillion to cover bank liquidity through December 31. The final installment of Rp1.55 trillion occurred on February 3, 2009 and was to meet the CAR based on Bank Indonesia's assessment and the calculations of the Board of Directors for Bank Century. It was at this time that Sri Mulyani asked the head of Bank Mandiri for advice on the situation and whether or not he would take over the bank if it failed. According to him, the president of Bank Century did not have a good reputation as a banker amongst his peers.

Amongst Bank Century's high profile customers is Budi Sampoerna, whose family sold its tobacco empire, PT Hanjaya Mandala Sampoerna, to Philip Morris for \$2 billion, who was asked to transfer his funds from a branch office to Jakarta to help save the bank. Before transferring the funds Sampoerna asked Susno Duadji, an inspector in the National Police, to write him a letter stating he would get his money back. On a tapped phone call, Duadji was quoted as saying "I'm going to get 10 percent of that money". Later, he claimed to be joking and that he knew the phones were tapped.

After the transfers to Bank Century, Parliament set up an investigative committee to determine whether or not someone needed to resign over this incident. The investigative committee held hearings that included every stakeholder in the investigation. Interviews with the bankers, however, took place very late at night when only a few Members of Parliament were present. As a result, their testimonials supporting the actions made by Boediono and Sri Mulyani were not widely discussed.

During the testimonials there were rumors, particularly in the Asian Wall Street Journal, that Aburizal Bakrie, the chairman of the political party Golkar, was an enemy of Sri Mulyani due to personal resentment over policies she had enacted during her previous term as Finance Minister. Such rumors accused Bakrie of heading the investigation and keeping it alive in order to fulfill a personal vendetta.

It was during this time that the press, according to Ms. Ruwyastuti, softened Sri Mulyani's public image. Mulyani, who had a reputation of being unfriendly to the press, suddenly warmed up to the press and participate in more interviews and public appearances in order to get her side of the story told fairly.

Ms. Ruwyastuti also described how Vice President Boediono had no one to support him publicly. Where Sri Mulyani had support from certain political parties, Boediono was at the mercy of everyone in Parliament; parties were disrespectful considering his position.

At the conclusion of the hearings, Parliament agreed to transfer the decision of what to do with Sri Mulyani and Boediono over to the executive branch. In a speech soon after, President Yudhoyono announced

that he fully supported and endorsed both Mulyani and Boediono. As a result, it is very likely that they will both remain in their current positions.

Questions:

Q: There have been rumors that there were points in the scandal where, due to lack of evidence, the story should have died, but was instead continued and revived by the Indonesian media. What is your reaction to this?

A: Sri Mulyani was the one who often contacted the press to set up a meeting or interview and she was very limited in where she could go. Aburizal Bakrie owns both TVOne and ATV, and therefore she could not risk appearing on either of those stations. Secondly, this scandal has received very high ratings across the board. People were genuinely curious and involved with this case in a way they have not been in the past.

Q: Since this scandal and the potential crisis was made public, why wasn't there a run made on the banks of everyone withdrawing their money?

A: There was no run on the banks because the government came forward very quickly and intervened and because they had people like Boediono and Sri Mulyani in charge whom the people trusted. Even though the Parliament rejected the bank guarantee bill, the central bank (Bank Indonesia) still had the capacity to recapitalize smaller banks.

Q: Is Bank Century expected to pay the money back?

A: Yes, it is expected to pay the money back.

Q: Now that the decision of what to do has been given to the executive branch, what comes next?

A: The case is currently with the Corruption Eradication Commission (KPK) but there have been indications that this case will not be given high priority, which suggests that nothing will happen.