Transparency standards and information disclosure of bank business activities

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Abstract. Medan is one of the major cities in Indonesia, with a population of 2,210,624 people. The high number of population causes more and more people to purchase residential housings. The high costs of these housings have prompted people to use the public housing loan (PHL) program from banks such as BCA, BRI, BNI, Bank Mandiri, Bank Permata, Bank Cimb Niaga, Bank Danamon, Bank Panin, Bank Sumut, and BTN. Details of the PHL financing program are usually known by the customers once they have problems. Bank information disclosure is a defining factor for customers to choose their preferred bank. Increasing the PHL financing program will make the banking sector grow, which will ultimately affect the economic development of Medan. However, there are still many banks who have not implemented the principle of transparency. This will decrease customer trust to use banking products. This research uses the normative juridical method. The results indicate that the principle of transparency and disclosure of bank information in PHL financing program is still not optimal. This will greatly affect sustainable development in Medan because the banking sector relies heavily on customer investments and trust.

1. Introduction
As one of the largest cities in Indonesia, Medan has a significant amount of bank customers. Medan is a densely populated city, home to 2,210,624 people. With a large number of residents, the demand for residential property is increasing. The population can significantly affect economic growth. In general, people cannot afford to purchase residential homes in cash, so they apply for a public housing loan (PHL) program. Banks offering this program in Medan are BCA, BRI, BNI, Bank Mandiri, Bank Permata, Bank Cimb Niaga, Bank Danamon, Bank Panin, Bank Sumut, and BTN. Bank customers are in a disadvantaged position because they often realize the losses incurred during the tenor.

Law No. 21 of 2011 concerning the Financial Services Authority (FSA Law) delegates the FSA to conduct a preventive action to protect customers which includes providing information and education on the characteristics of banking services and products. FSA Regulation No. 1/POJK.07/2013 concerning Financial Services Sector Consumer Protection ensures the rights and obligations that must be conveyed by banks when making agreements with customers and when promoting their services through advertisements either in printed or electronic media.

Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Bank Product Information and Protecting Customer Personal Details specifically clarifies the transparency of information on products and banking services, including product characteristics and personal customer details. A bank offers products and services to gain public funds [1]. The principle of transparency is
one of the factors in increasing bank profit [2]. Transparency can also prevent the bank from offering speculative products that will benefit the bank alone. Banks must provide information on customer rights and bank products/services as clearly as possible without excluding the secret principles of the banking business. Information on business activities such as service products must not be covered up or not well-informed to customers [3].

Banks should provide sufficient and accurate information on the possibility of customer losses arising from transactions relating to their service products [4]. Banks should clearly explain the characteristics of their products, even if not asked by the customer. Customer can lose his trust if the bank does not explain in detail, for example, the administrative fees or interest rate. This paper discusses the principles of transparency and information disclosure of bank business activities in providing PHL funding and how it can maintain customer trust to support housing development programs in Medan.

2. Method
This research uses a normative [5] juridical [6] method by analyzing legal materials in the form of Banking Law and Financial Services Authority Law through a literature review. Then, bank compliance with the laws and regulation regarding the principles of transparency and information disclosure in conducting their business activities in Medan is analyzed.

3. Results and discussion

3.1. Banking product management
Globalization and technological advancements have produced varied and complex banking products that need to be strictly regulated [7]. The banking system is developing to be a more integrated system. Universal banking, for example, produces a hybrid between the products of banks and other financial institutions. These hybrid products are unified in such a way that causes difficulty in determining whether they are banking products or not [8].

Currently, banks have increased their efforts in marketing both for banking and non-banking products. All products are defined as banking products/services including those derived from non-banking financial institutions marketed by banks as marketing agents [9]. While still contributing smaller fund than the banking sector’s, commercial banks in Indonesia have started producing hybrid products. Product innovation in the financial sector has occasionally violated applicable provisions due to the pressure of the intense competition. One of the violations is insufficient information.

Basically, banks should provide detailed characteristics of the products being offered to customers including the product names, types, benefits and risks, requirements and procedures, costs attached, calculation of interest or profit sharing and profit margins, time period, and publishers [10]. Products and services offered by banks require should be closely supervised so that customer rights are protected and their trust can be gained. Integrated comprehensive supervision by the FSA should be made to overcome the complexity of customer fund management.

Banks have several responsibilities to their customers to gain their trust. Banking business activities are funded by customers based on trust [11]. Public trust can be gained if the bank is managed carefully. Careful management includes providing information on the services so that customers have a clear knowledge of them. Transparency of information is an unavoidable requirement to maintain the credibility of banking institutions while protecting customer rights [12]. Trust cannot be gained if transparency does not exist.

To maintain the trust between the customer and the bank, there are rights and obligations that must be fulfilled by both parties. Among them are the right of customers to be provided with security and comfort, to choose products, to obtain clear and accurate information, and to be served properly and honestly [13]. Security and comfort are the most important factors in shaping the banking economy so that people become more confident in buying the products/services.
3.2. The principle of transparency in the banking business

Transparency of information is needed to provide good governance in the banking sector. However, customers are often given information on the benefits while the details of said benefits that might not be entirely beneficial to the customer, the risks and costs inherent which include administration, provision, or penalty fees are not thoroughly explained.

FSA Regulation Number 1/POJK.07/2013 requires banks to provide and deliver accurate, honest, clear, and undeceiving information about their services and products. Banks should make the customer aware of their rights and obligations as well as the costs for each bank product/service. Banks are not allowed to upgrade automatic facilities, which will result in additional costs without written consent from the customer.

Compared to banks, customers lack in information. Requirements regarding transparency and disclosure of information on banking products and services must be set before a contract agreement. For example, font sizes in the prospectus, brochures, and booklets containing information about the products cannot be too small and must use the Indonesian language. Thus the customers can see clearly and understand them thoroughly.

The principle of balance in the banking sector is to provide protection to customers including (i) transparency and disclosure of benefits, risks, and costs for bank products and/or services; (ii) responsibility in assessing the conformity between the type of products and/or services and the risks faced by customers; (iii) simple and easy procedures for customers to submit complaints and settle disputes over bank products and/or services.

The customers should be provided with complete information on their rights and obligations of a banking product including but not limited to administration cost, provision fee or penalty when they are entering an agreement or when the bank presents advertisements through printed or electronic media. before the signing of a service/product agreement, the bank must provide a document containing the terms and conditions of the service/product. The terms and conditions should cover at least detailed costs, benefits, risks, service procedures, and resolution of complaints.

3.3. Implementing the principles of transparency and information disclosure of bank activities in Medan

Many banks in Medan have not implemented information transparency on their products and services. Customers are often informed of additional fees, such as administrative fees or interest only after they have been deducted. The customer's understanding of interest calculation is only limited to flat interest, where the amount of interest stays the same from the beginning until the end of the credit period. However, flat interest is rarely used for PHL funding; most banks apply annuity or floating interest rates in a certain period. Bank Tabungan Negara (BTN) is known as one of the pioneers of PHL programs in Medan. The results showed that in 2016, BTN PHL products had the highest customer complaints, reaching 42% of the total number of customers [14].

The FSA is promoting transparency and information availability on financial service products to increase public trust [15]. Information transparency is an essential component in the banking sector because it is the foundation for establishing a relationship of trust between the customer and the bank [16].

Transparency does not only benefit the customers, but also the bank. Besides helping customers in choosing suitable financial service/product, it can also increase competition among banks in offering better quality financial services.

Reputation risk (bank credibility) emerges from the declining trust of stakeholders and customers caused by a negative perception of a bank. This can cause both financial and non-financial losses [17]. However, it can be prevented if all bank employees comply with applicable internal and external provisions. All customer complaints that can increase a bank reputation must be immediately addressed. Operational risk is inherent in all bank products, services, and activities. Therefore, banks must be able to identify its causes and consequences. The lack of transparency can negatively impact the perception of customers towards the bank.
The discrepancy of information, characteristics of bank products, and the administrative fees imposed on customers can cause disputes between the banks and the customers. Also, it opens up opportunities to deviations of business activities that can harm customers. Legal provisions regulating transparency and disclosure of information on bank business activities must be conveyed to customers.

The essential information is often known by the customer only after entering an agreement with a bank. Banks should explain in detail the interests that occur even if not asked by the customer. Transparency of products and interests, in addition to increasing customer trust, will also improve legal certainty, convenience, and security of customers to follow through with PHL financing. The banking sector, especially the housing loan subsector, has a large impact on the economic growth of Medan.

The PHL financing program in Medan has not reflected the principle of transparency. The growing banking sector will have an impact on the economic growth of Medan. Therefore, transparency should be able to attract people applying for PHL financing. The lack of information will arouse doubts in investing and dealing with banking products, which will contribute negatively to the development of Medan. The banking sector, which is very closely related to community investment-based development programs, should apply the principle of transparency.

4. Conclusion
The PHL financing program has not successfully implemented the principle of transparency and information disclosure. Transparency of bank management is a benchmark for customers to choose a reputable bank, which will ultimately affect the economic development of Medan. Providing customers with complete and accurate information on PHL financing will increase transparency, which will contribute positively to the development of Medan. The banking sector, which is very closely related to community investment-based development programs, should apply the principle of transparency.

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