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BANK FAILURE IN INDONESIA: AN ANALYSIS OF THE CENTURY BANK CASE AND THE POTENTIAL OF ISLAMIC BANKING

Kusnan

Universitas IBA Palembang, Indonesia

Corresponding author: kusnan@iba.ac.id

Received February 27, 2025; Accepted April 15, 2025
Available online April 16, 2025

ABSTRACT

The inherently risky nature of banking necessitates robust risk management practices. While banks implement risk management frameworks encompassing policies, procedures, and defined limits aligned with established risk management principles across all activities, bank failures, nonetheless, continue to occur. This paper investigates the factors contributing to bank failures in Indonesia, using the prominent case of Bank Century (2008) as a focal point. Through an in-depth analysis of Bank Century's financial performance, management and operations, and legal and compliance adherence, this study aims to identify key vulnerabilities. Furthermore, it explores, from a theoretical perspective, the potential of Islamic/Sharia banking principles to offer mitigating solutions and prevent similar occurrences.

Keywords : Bank Failures, Financial Performance, Macro Economic, Risk Management, Islamic Bank

INTRODUCTION

The relationship between banking crises and the Great Depression remains a subject of scholarly debate. While some economists and historians posit that the banking crisis precipitated the Depression, others contend that underlying economic factors and regional histories were the primary drivers of bank failures (Banking for international Settlement, 2004). As the Depression deepened in the early 1930s, declining agricultural income severely constrained farmers' spending power, triggering a wave of bank failures. This phenomenon is starkly illustrated by the dramatic increase in bank closures.

Throughout the 1920s, an average of 70 banks failed annually across the United States. However, in the first ten months of 1930 alone, 744 banks collapsed – a tenfold increase. By the end of the decade, approximately 9,000 banks had failed, with an estimated 4,000 closures occurring in 1933 alone (Ganzel, 2003). In that year, depositors suffered staggering losses of $140 billion due to these bank failures.

A primary factor contributing to bank failure is often inadequate credit risk management, a core competency expected of all commercial banks (Oyelakun Oyetula, 2023). Institutions lacking proficiency in this area, particularly those operating within geographically stressed markets, become acutely susceptible to failure. Currently, economic pressures related to the energy sector are demonstrably exacerbating the incidence of bank failures within the country's energy belt.

Regionally, several indicators of suboptimal financial performance can create systemic vulnerabilities for banks susceptible to failure. While poor loan performance is a significant indicator, it is crucial to acknowledge the multitude of other contributing factors. In the Indonesian context, for instance, the energy sector, specifically oil and gas, plays a vital role in economic development. The decline in oil and gas prices, coupled with the rupiah's devaluation in 1986, necessitated a series of deregulatory measures by the Indonesian government (Analysis, 2024).

The 1986 banking deregulation package in Indonesia drew considerable criticism, primarily due to three key elements: the easing of licensing requirements for both banks and non-bank financial institutions, the simplification of criteria for establishing a foreign exchange bank, and the substantial reduction of statutory reserve requirements from 15% to 20% (Soesastro, 1989). A further policy shift, which subsequently contributed to the 1997-1998 economic crisis, was the liberalization of foreign borrowing, leading to substantial capital inflows.

More recently, the 2008 Century Bank failure, a high-profile case of national banking scandal, ignited significant political and economic controversy (KHRISNA WIDYA GUNAWAN, 2016). The Century Bank case broadened the understanding of bank failure causation in Indonesia, suggesting that factors beyond internal financial weaknesses or adverse macroeconomic conditions, such as ethical lapses and moral hazard on the part of management, regulators, and policymakers, also play a crucial role.

Bank Indonesia acknowledged that Century Bank had previously experienced liquidity (capital) challenges, which management had initially addressed (Wibowo, 2009). However, the unfolding global financial crisis intensified these pressures. This was compounded by deteriorating public perception of the bank, stemming from the merger of PT Bank Danpac and PT Bank Pikko into PT Bank CIC Internasional Tbk. As Century Bank's condition deteriorated, Bank Indonesia implemented several interventions. These included urging shareholders and management to resolve liquidity issues through the sale of liquid assets, such as securities; placing the bank under incentive supervision; requesting a capital increase from shareholders (executed in June 2007 via a rights issue); facilitating the search for strategic investors; transitioning the bank to special surveillance status; and providing short-term funding facilities (Settlement, 2013).

Therefore, a detailed examination of the Century Bank case is warranted, particularly as a prominent example of bank failure in Indonesia. This analysis will delve into the underlying causes of the failure, focusing on key aspects of banking risk management, including financial performance, management and operations, and legal and regulatory compliance. Furthermore, given the rapid growth of Islamic banking in Indonesia, this case will be considered from an Islamic finance perspective. This comprehensive approach will facilitate the development of robust conclusions regarding the causes and mitigation of bank failures in Indonesia. Ultimately, this analysis aims to promote greater vigilance against the threat of bank failures, particularly those with systemic implications for the national and regional economies, within both conventional and Islamic banking sectors.

This paper, therefore, has two primary objectives:

1. To evaluate the financial, managerial, operational, and compliance conditions of Bank Century within the context of its risk management framework at the time of its failure in 2008, coinciding with Indonesia's most severe economic crisis.
2. To comprehensively analyze the potential of Islamic banking principles to address the challenges highlighted by the Century Bank case, and other conventional bank failures, particularly those related to ethical lapses and moral hazard

In pursuit of the stated research objectives, this study aims to answer the following questions:

1. Did Century Bank's financial, management, operational, and compliance practices in 1998 meet the requirements for robust risk management?
2. Can the principles of Islamic banking offer solutions to the recurring problem of bank failures in Indonesia?

LITERATURE REVIEW

1. Bank Failure Concept

This study begins by defining "bank failure" as the state of a financial institution being unable to meet its financial obligations. This condition typically arises from a confluence of factors, notably a high volume of non-performing loans and inadequate internal risk management practices. These internal vulnerabilities are often exacerbated by external pressures, including adverse macroeconomic conditions within the bank's operating region. This concept was put forward by Calomiris and Wilson (2004), essentially this perspective emphasises that bank failures often stem from underlying financial problems (Wilson, 2004).

Why Do Bank Failure?

According to Santono Basu (2003) the failure of a bank in principle arises from the fact that a bank cannot, or does not, adequately observe the credit standard requirements. The financial sector operates in the presence of uncertain and non-uniform (or asymmetric) competitive conditions. The presence of uncertainty suggests that lenders should always introduce credit standards to ensure that borrowers fail to pay loans. There are still alternative ways to return loan capital (Santoso, 2003).

Still according to Santoso Basu, in the conditions of non-uniform competition in which the financial sector operates, it is not always possible under all circumstances for bankers or lenders to introduce uniform credit standards to protect their entire loan capital portfolio. This means that one spectrum of the loan portfolio carries zero credit risk, while another spectrum of loan portfolios carries high credit risk. Thus, the element of fragility is always present in the system.

In this situation, liberalizing the financial system means increasing the fragility of the sect. In the absence of regulation, as competition increases, the ability of bankers to maintain minimum credit standards is often eroded. This minimum credit standard is a prerequisite for bankers to survive if these borrowers default on loans. In other words, under a liberalized system, bankers must carry a higher level of credit risk than they do under a non-liberalized system. This may initially increase bank profitability, but it is this high exposure to credit risk that causes banks to collapse when these borrowers default on loans.

Meanwhile, Hempel, et al (1994) wrote that Failing Bank tends to be distorted by their aggressive positions in brokered deposits. Presumably, these banks are forced to replace losses in core deposits with purchased money. The average 1.94 percent of deposits that failing Banks take through broker is not major funding source. But, given the virtual absence of such funds among top performing banks. The presence of brokered deposit seems clearly associated with troubled banks (Hempel, 1994).

The Determinant of bank Failures

Further about the Determinant of Bank Failure Alexander Babansky (2012) through the results of his research on Determinant of Bank Failure di Rusia menyimpulkan bahwa that profitability, liquidity and capital financial ratios are highly important for description of bank's health. Namely, such variables as return on assets, return on capital, loans to assets and capital to deposits are found to be significant determinants in prediction of bank defaults. It should be noticed that return on capital and capital to deposit ratios are found crucial in booming period, while return on assets and loans to assets ratios indicate their importance in the period of impending world financial crisis. Contrary to expectations, the size of the bank's assets and cash to assets ratio are found insignificant for the probability of default in both periods. Although this research takes the case of banks in Russia, it seems that it can be applied in general to all countries (Babansky, 2012).

Ultimately Failures can be classified in many ways, including according to the type of risk, the type of shock that triggered a failure or crisis, the state of the banking system, which part of the banking system is affected, how the crisis was resolved, and whether the failure resulted in a change in regulation. While the experiences of each country have unique characteristics, being seen across banking crises can help reveal patterns of bank failure. For example, Spain, Norway, Sweden and the US had very similar experiences when they liberalized the financial system (Honohan, 1997).

In addition, in countries where there are a large number of defaults, real estate loans play a major role. Credit risk, especially real estate loans, causes widespread banking problems in Switzerland, Spain, UK, Norway, and Sweden. Japanese and U.S. market risks was the leading cause of failure in isolated failures in Herstatt (Germany). Market risks also lead to tranche US Savings and Loans defaults. Financial liberalization (deregulation) is a common feature of major banking crises and this is often combined with supervisory systems that are not adequately prepared for change.

In 1974, the German Herstatt Bank failed due to massive losses in the bank's foreign exchange operations. The bank was speculating on the foreign exchange market which had been converted from a fixed exchange rate regime to a floating rate regime by the collapse of the Bretton Woods System. The Herstatt flop was well known in international finance. Bank Herstatt is closed at the end of the working day in Germany, while payments to banks in other countries are suspended. This bank experienced a market loss experienced by its subsidiary (R.Schenk, 2014).

In Singapore. A senior trader hides a loss until the loss is so great that the banking organization fails. It is clear that the internal control and management structure of the bank are clearly inadequate and this in fact drives the bank to failure.

The financial liberalization process (although not financial liberalization itself) was a major factor in Spain, Norway, Sweden and the US S&L crisis. All four countries were helped by pre-crisis interest rate controls, and all four have poor regulatory systems. Be prepared for the crisis that follows, as financial institutions in these countries are also ill-equipped to operate in the newly liberalized environment. Weak oversight made the response to the problem extremely difficult, but Norway, Sweden and Spain have overcome a systemic crisis within five years of its inception. In the U.S., the S&L crisis expanded from 1981 to 1995 and required a lot of effort for legislative reform (Queisser).

This does not mean that in the future bank failures will be caused by things that occur in the present as described above. In the future, credit risk may be reduced by extensively using credit default swaps and derivatives. Meanwhile Liquidity risk can become even more important if banks invest more of their funds in thin trades or illiquid assets. Commercial

banking and investment banking may become more interwoven, perhaps increasing the revenue cycle.

2. Highlight of Bank Century's Case

The chronology of the Century Bank case began in 1989 by Robert Tantular, who founded Bank Century Intervest Corporation (Bank CIC). In March 1999, Bank CIC conducted its first limited public offering and Robert Tantular was declared not to have passed the fit and proper test by Bank Indonesia (BBC News Indonesia, 2014).

In 2002 the auditors of Bank Indonesia (BI or Indonesia Central Bank) found that the capital ratio of Bank CIC had collapsed to -83.06% and CIC lacked capital of IDR 2.67 trillion. In March 2003, CIC bank made its third limited public offering.

In June Bank CIC made its fourth limited public offering. In 2003, CIC bank was also known to have problems which were indicated by the existence of foreign currency securities of around Rp. 2 trillion that had no ratings, had long term, low interest, and were difficult to sell.

BI suggests a merger to solve the irregularities in this bank. In 2004, October 22, Bank Danpac and Bank Picco were merged into Bank CIC. After the merger, the names of the three banks became PT Bank Century Tbk, and Bank Century had 25 branch offices, 31 sub-branch offices, 7 cash offices and 9 ATMs. In 2005, in June, Budi Sampoerna became one of the largest customers of Bank Century, Kertajaya Surabaya Branch.

In 2008, Century Bank experienced liquidity problems because several large customers of Bank Century withdrew funds, such as Budi Sampoerna, to withdraw funds that reached Rp 2 trillion. Meanwhile, the funds in the bank were not available so they were unable to return the customer's money and on October 30 and November 3, US $ 56 million of foreign currency securities matured and failed to pay.

This situation was exacerbated on November 17, Antaboga Delta Sekuritas, owned by Robert Tantular, began to fail to pay its obligations for discreationary fund products sold by Bank Century since the end of 2007.

On 20 November 2008, BI through a Board of Governors Meeting determined Bank Century as a bank that failed to have a systemic impact. The decision was then conveyed to the Minister of Finance Sri Mulyani as Chairman of the Financial System Stability Committee (KSSK). Then KSSK held a meeting on November 21, 2008.
Based on the BPK audit, the closed meeting was attended by Minister of Finance Sri Mulyani as chairman of the KSSK, Raden Pardede as Secretary of the KSSK, Chair of the Presidential Work Unit for Management of the Reform Program (UKP3R) Marsilam Simanjuntak, and BI Governor Boediono as a member of the KSSK.

The meeting was then followed up by a meeting of the Coordination Committee which was attended by the Chairman of the KSSK, the Governor of BI, and the Board of Commissioners of the Deposit Insurance Corporation (LPS). The meeting participants agreed to declare Bank Century as a bank that failed to have a systemic impact and received the flow of funds for the handling of Century Bank through the LPS**.**

At a Financial System Stability Committee (KSSK) meeting, chaired by Minister of Finance Sri Mulyani, to determine the future of Century Bank, Marsilam, though serving as Chairman of UKP3R, participated as an advisor and resource to the Minister of Finance. The committee subsequently authorized a Rp 632 billion capital injection to elevate Century Bank's Capital Adequacy Ratio (CAR) to 8%. Within six days of the takeover, the Deposit Insurance Corporation (LPS) disbursed Rp 2.776 trillion, aiming to raise the CAR to 10%. However, persistent issues led to demands from thousands of Antaboga investors, alleging embezzlement of Rp 1.38 trillion that had been diverted to Robert Tantular. Consequently, on December 5,

2008, the LPS injected an additional Rp 2.2 trillion to ensure the bank's solvency. By the end of December 2008, Century Bank reported a substantial loss of Rp 7.8 trillion.

The bank, which appeared to have received special treatment from Bank Indonesia, was still given a disbursement of Rp 1.55 trillion on February 3, 2009. In fact, this bank was proven to be paralyzed. In June 2009, Century Bank disbursed Rp 180 billion in funds that Robert had diverted to Budi Sampoerna. However, this was denied by Budi, who felt that he did not receive any money from Bank Century. Based on this statement, LPS disbursed another Rp 630 billion to Bank Century to cover CAR. Thus, the total funds disbursed to Century Bank amounted to Rp. 6.762 trillion.

The aforementioned highlights underscore the complex nature of the Century Bank case. Initially perceived as a matter of liquidity challenges and deteriorating financial performance, the situation evolved into Indonesia's most prominent banking scandal. This escalation stemmed from the government's repeated injections of liquidity assistance into a demonstrably insolvent institution, occurring amidst a global monetary crisis. Thus, the Century Bank failure transcends mere financial insolvency, encompassing issues of moral hazard and the influence of prevailing macroeconomic conditions.

3. Risk Management Tools Analysis (Simpli Learn, 2025)

Financial risk

Financial Risk arises from any business transaction undertaken by a bank, which is exposed to potential loss. This risk can be further classified into credit risk, market risk, liquidity risk, and interest rate risk, divided into sub-categories relative to the specific events that cause losses. Credit risk. Bank for International Settlements BIS (defines credit risk as the possibility that the borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. Credit risk is most likely caused by loans, acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. Credit risk management aims to increase the adjusted rate of return for risk and reduce risk by maintaining exposure to credit in accordance with accepted standards (Kwabena, 2014).

Tools of credit risk management:

Review/renewal

Multi-tier credit approving authority, discriminatory time schedule for review/renewal, Hurdle rates and criteria for fresh exposures and periodicity for renewal are formulated based on risk rating. And according to BIS, banks should have a clearly established process in place for approving new credits as well as the amendment, renewal and refinancing of existing credits (The Institute of cost Accountant in India, 2021).

Risk rating model

In principle, risk rating models are designed to help assess the likelihood of default. These expected outcomes typically are presented on a numerical or quantitative scale, which enables a bank to rank and compare the relative risks associated with various borrowers.

Risk based scientific pricing

Risk-based pricing in the credit market refers to the offering of different interest rates and loan terms to different consumers based on their creditworthiness. Risk-based pricing looks at factors such as a consumer’s credit score, adverse credit history (if any), employment status and income.

Exposure ceilings

Credit exposure is a measure of the maximum limits that the bank can bear in the event the borrower creates the payment. Banks are constantly trying to count their credit exposure by avoiding credit to customers with a low credit rating and tend to give it to customers with a high credit rating. If the customer is exposed to pressures and unexpected financial problems, the bank will seek to reduce its credit exposure in order to reduce potential losses.

Credit portfolio management (CPM)

It is important to reduce the potential negative impact as a result of the concentration of borrowers or industry exposures, and to improve the benefits from diversification. As well as specifying a quantitative ceiling for total exposures to specific taxonomic categories, to ensure the distribution of borrowers from various industries and businesses, and permanent review of the portfolio. CPM relies on the entire credit book, as opposed to the credit management functions that look at individual deals or borrowers

Loan review mechanism (LRM)

It is an important method for continuously evaluating the quality of the credit book and bringing about qualitative changes in credit management. Then banks should set up a proper loan review mechanism for broad value accounts. LRM's aim is to identify problem accounts early and reduce possible losses by either loan restructuring or ending poor quality loans. Market risk indicates the potential loss to the bank as a result of fluctuations and changes in market variables. Market risk depends on the length of time taken to sell the assets, as the magnitude of market fluctuations tends to increase over longer periods of time.

The liquidation period is lower for instruments that are readily exchanged in active markets, and longer for exotic instruments that are exchanged bilaterally (OTC). Market risk is a price risk for traded instruments. Instruments that are not exchanged on regulated exchanges are marked-to-market because their gains or losses are compensated for as fluctuations in value whether or not they materialized by a sale. To measure market risk, investors and analysts use the value-at-risk (VaR) method. Interest rate risk is the risk of a reduction in net interest income or interest income minus interest costs due to interest rate changes.

Most bank balance sheet loans and receivables, and term or savings deposits, generate revenue and interest rate-driven costs. Cash flows, earnings, the value of assets and liabilities are affected by changes and fluctuations in interest rates. Earnings are calculated through the formula: the increase in net interest income in relation to the difference between net interest income and its total expenses Liquidity risk is generally defined as the risk of not being able to raise enough cash when needed. Banks raise cash by borrowing or by selling financial assets in the market. There is no single statistical method to assess liquidity risk.

Banks use a broad variety of tools to monitor their liquidity risk profiles. Also banks mainly use three metrics to quantitatively manage liquidity risk namely balance sheet liquidity, cash capital and maturity mismatch analysis. Non-financial risks refer to the risks that are not measured by their direct impact on the bank’s profits, but on the bank’s business growth, and on its failure to implement strategies aimed at business growth. The causes of non-financial risks arise from operating challenges, technology, mismanagement, low ability to provide services and other factors. Nonfinancial risk has a large downside.

Operational risk.

The Basel Committee defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk”. Maintaining capital

to face losses arising from operational risks is not an option in Basel II, but rather is an essential part of it. The approach used to measure the capital required to meet operational risks depends on the degree of development and statistical (Bank for international Settlement, 2025).

Complexity in the operations and activities of the bank, and it is calculated in several methods, including:

1. The basic indicator approach. According to this approach, capital requirements are calculated based on one indicator, which is the total income of the last three years.
2. Standard approach. Here the capital requirements are calculated based on several indicators (the total income of the business units) so that the sources of exposure are classified according to the banking units (services) and the banking services provided (Business Lines).
3. An advanced measurement approach: in which the exposure to operational risks is measured through the internal measurement system used by the bank, and the use of this approach needs the approval and approval of the regulatory authority.

Techniques of banking risk management:

1. Risk Adjusted Rate of Return on Capital (RAROC). It is an integrated risk management tool, and is commonly used in financial analysis, as it can be used to estimate the capital requirements for operational risks, credit and the market. It is important because it indicates the amount of economic capital required by companies and banks.

   To calculate RORAC bank’s net income is divided by risks-weighted assets. Another statistic similar to RORAC is the risk-adjusted return on risk-adjusted capital (RARORAC). This statistic is calculated by taking the risk-adjusted return and dividing it by economic capital, adjusting for diversification benefits. It uses guidelines defined by the international risk standards covered in Basel III.
2. Value at Risk (VaR). This metric clarifies the financial risks in the portfolios, as it measures the potential value that the bank can lose or profit during a specific period. This metric is most commonly used by investment and commercial banks to determine the extent and occurrence ratio of potential losses in their institutional portfolios. VaR used to measure many risks, not just market risks, such as stocks, commodities, and foreign currencies.
3. GAP analysis is a method of asset-liability management that can be used to assess interest rate risk (IRR) or liquidity risk, excluding credit risk. It is a simple IRR measurement method that conveys the difference between rate-sensitive assets (RSAs) and rate-sensitive liabilities (RSLs) over a given period of time. Thus, if the calculated difference is negative, this means that an increase in the interest rate in the future will lead to a decrease in net interest income and vice versa.
4. Sensitivity analysis determines how different values of an independent variable affect a particular dependent variable under a given set of assumptions. In other words, sensitivity analyses study how various sources of uncertainty in a mathematical model contribute to the model's overall uncertainty. This technique is used within specific boundaries that depend on one or more input variables. Sensitivity analysis determines how different values of an independent variable affect a particular dependent variable under a given set of assumptions. In other words, sensitivity analyses study how various sources of uncertainty in a mathematical model contribute to the model's overall uncertainty. This technique is used within specific boundaries that depend on one or more input variables.
5. The internal classification system manages and aggregates the creditworthiness of borrowers and the quality of credit transactions. This technique enables the bank to

monitor and manage credit risks resulting from lending operations other than operations.

6. Securitization is the process of taking illiquid assets or a group of assets and, through financial engineering, converting them into securities. The bank is able to reduce its exposure to risk and raise new funds by securitizing its assets and loans. Mortgage-backed securities (MBS) are the typical example of securitization, and it is a type of collateral that is backed by assets and secured by a set of mortgages. By selling these securities, the bank transforms the illiquid assets into securities backed by negotiable assets.

Risk management and its techniques has helped in improving banks' financial and operational performance. In addition, risk management depending on its techniques and tools underlines the fact that the success of company depends heavily on its ability to predict and plan for change, rather than just waiting and reacting to change

METHODOLOGY

We use Both Qualitative and Quantitative Approach in this case:

1. CAMELS Approach to Describe Bank Financial statement.

The CAMELS method will also analyze indications of fraud in Bank Cenutry's financial statements so that the government provides a Bail-Out which in turn will indicate fraud in management and moral hazard.

CAMELS is a method for assessing the soundness level of a bank that is in accordance with the provisions of Bank Indonesia, where the Camels assessment method has indicators to measure the financial statements of a bank with the ratios contained in the factors of Capital, Asset Quality, Management, Earning, Liquidity, and Sentivity to Market Risk, so that it can be determined that the bank is in a healthy or unhealthy condition (rostami, 2015). The variables of CAMELS are as follows:

Table 1. CAMELS Variables

Indicator	Measurement	Measurement Formula (x100%)	Purpose
Capital (C)	CAR (Current Asset Ratio)	(Capital / RWA)	Capital adequacy assesses an institution's compliance with regulations on the minimum capital reserve amount
Asset Quality(A)	NPF (Non Performing)	(Total NPF/Total Financing)	This category assesses the quality of a bank's assets. Asset quality is important, as the value of assets can decrease rapidly if they are high risk

Indicator	Measurement	Measurement Formula (x100%)	Purpose
Management (M)	NPM (Net Profit Margin)	(EAT/Operstionsl revenue)x100%	Management capability measures the ability of an institution’s management team to identify and then react to financial stress
Earnings/Rentability	ROA (Return on Asset)	ROA =EBT/Toal Asset	Earnings help to evaluate an institution’s long term viability
Liquidity	LDR (Loann to Deposit Ratio)	Total Financing/Total Third Funding	This category of CAMELS examines the interest rate risk and liquidity risk
Sensitivity	IER (Interest Expense Ratio)	Interest Paid/Total Deposits	measures an institution’s sensitivity to market risks

Source: Processed by the author

For each category, a score is given from one to five. One is the best score and indicates strong performance and risk management practice within the institution. On the other hand, five is the poorest rating. It indicates a high probability of Bank failure and the need for immediate action to ratify the situation. If an institutions current financial condition falls between 1 and 5, it is called a composite rating.

In Indonesia's context, Bank Indonesia (Indonesia Central Bank) has made a rating for each CAMELS category as follows:

Table 2. CAMELS Indicators

Indicator	Ratio	Scale measurement				
		1	2	3	4	5
Capital	CAR	CAR≥ 12%	9%≤CAR≤12%	8%≤CAR≤9%	6%≤CAR≤8%	CAR≤6 %
Assets	NPF	NPF< 2%	2%≤NPF<5%	5%≤NPF<8%	8%≤NPF<12%	NPF≥12 %
Management	NPM	NPM≥100 %	81%≤NPM<100 %	66%≤NPM<81 %	51%≤NPM<66 %	NPM<51 %
Earnings	ROA	ROA>1.5 %	1.25%<ROA≤1.5%	0.5%<ROA≤1.25%	0%<ROA≤1.25 %	ROA≤0 %

Liquidity	FDR	FDR≤75%	75%<FDR≤85%	85%<FDR≤100%	100%<FDR≤120%	>120%
Sensitivity	IER	Must Below 5%				

Source: Processed by the author

Requirements for each scale:

1. Scale 1: The bank is classified as very good and is able to overcome the negative effects of economic conditions and the financial industry
2. Scale 2: The bank is classified as good and is able to overcome the negative effects of economic conditions and the financial industry but the bank still has minor weaknesses which can be resolved immediately by routine action
3. Scale 3: The bank is classified as good enough but there are weaknesses that could cause its composite rating to deteriorate if the bank does not immediately take corrective action
4. Scale 4: The bank is classified as unfavorable and very sensitive to the negative effects of economic conditions and the financial industry or the bank has serious financial weaknesses or a combination of conditions of several factors that are unsatisfactory, if no effective corrective action is taken, it has the potential to experience difficulties that endanger its business continuity.
5. Scale 5: The bank is classified as bad and very sensitive to the negative effects of the economy and the financial industry as well as experiencing difficulties that endanger its business continuity

2. The Role of Islamic Bank

Compare and Describe on How Islamic Bank sees the Century Bank case in the light of Al-Ghazali Ethics.

3. The role of Central Bank and Financial Services Authority

Analyse what policies were made by Bank Indonesia and the Financial Services Authority after the Century Bank case, from reading the literature.

RESULTS

1. Case Approach of Bank Century Indonesia

Based on the financial statements of Century Bank 2008 (attached) in comparison with the 2007 financial statements, the ratios for each indicator in CAMELS are as follows:

Tabel 3. CAMELS Indicators result

	2007	2008
CAR	35.64%	-18.36%
NPF (Nett)	3.33%	10.24%
Management	Na	na
ROA	-1.43%	-52.09%
FDR	38.49%	93.16%

Source: Processed by the author

Notes: 1. Management is unpredictable because the company has not made a profit in two consecutive years

In 2008, almost all health ratios of Bank Century have decreased dramatically. CAR -18.36%, far below 6%, indicating that the Bank's condition is categorized as an unhealthy bank. NPF / NPL far exceeds the maximum limit of 3%. ROA below 0% also indicates that the Bank's condition is not healthy. FDR is still good enough to place Century Bank in the third category but is said to be a sick bank.

This shows that Century Bank is no longer a bank that can operate normally. This caused Century Bank to be categorized as a bank under Special Supervision (DPK), restrictions on bank operations, and the takeover of Century by the Deposit Insurance Corporation (LPS) by rolling out a number of bailout funds with the approval of BI (Indonesia Central Bank) and the Ministry of Finance (Kemenkeu) to return 'healthy'. The bank.

Some parties stated that the sudden health problems experienced by Bank Centurywere related to the crisis that occurred in 2008. According to Boediono. The former BI governor for the 2008-2009 period, Indonesia's economic conditions in 2008 were almost the same as in 1998, namely the existence of liquidity difficulties. banking was due to a rush of cash transfers from customers (rush), an increase in gold, such as in 1997, and a crisis of trust between banks which resulted in congestion on the bank's money market and difficulties in borrowing between banks. Therefore, BI did not allow any banks to be closed at that time.

This opinion was also supported by the former chairman of the National Bank Association (Perbanas) who stated that it was indeed difficult for banks to obtain liquidity at that time, because there was a crisis of trust between banks that made banks no longer want to lend their cash to other banks.

However, several parties said that the crisis that occurred did not have a significant impact on banking, including the statement that other banks were not nervous or precarious at the time of the crisis. Stated that the failure of Bank Century was not solely caused by the crisis, but the main factor was the damage in the management of Bank Century itself. The Special committee even found some peculiarities that existed from one of the founding banks of Bank Century, namely the CIC bank which from the beginning had been considered problematic (Arto Kovanen, 2001).

The alleged fraud that occurred in BC then triggered the DPR (Indonesia Parliement) and KPK (Indonesia Corruption Eradication Committee) to propose an audit of the BPK (Audit Board) investigation on the bank. In the BC 2008 case, the BPK stated that it had conducted two investigative audits, one of which was the initial audit dated November 20, 2009, while the second stage audit tended to describe the findings of the first audit. In a BPK press release (2011), it was stated that a forensic audit was carried out to find transactions that were unreasonable / and / or contrary to laws and regulations that were detrimental to Century Bank (BC) / the state and / or the public, both before and after Bank Century taken over by the Deposit Insurance Corporation (LPS), including disclosing the parties involved in the transaction. The following are nine findings summarized from the BPK Investigative Report (LHP) Phase I:

a. BI is not firm and prudent in implementing the rules and conditions for the acquisition and merger that it has set itself in the merger of Bank CIC, Bank Pikko, and Bank Danpac;
b. BI was not firm in carrying out supervision of Century Bank so that the problems faced by Century Bank since the merger in 2004 were not resolved so that it was finally designated as a failed bank 6 with systemic impact and was rescued by LPS on November 21, 2008;
c. The provision of short-term funding facilities to Century Bank was carried out by BI by changing the provisions and the implementation of the granting was not in accordance with the provisions;

d. The determination of Century Bank as a failed bank with a systemic impact was not based on complete and up-to-date data and information from Bank Indonesia regarding the real condition of Century Bank;
e. Handover of handling of Century Bank to LPS in accordance with Law no. 24 of 2004 concerning LPS and discussion of additional temporary equity participation (PMS) in Century Bank was carried out by the Coordinating Committee (KK) whose institutions were not yet established under the Law, so that they could affect the legal status of the existence of KK and the handling of Century Bank by LPS.
f. The process of handling Century Bank by LPS was not supported by the calculation of estimated handling costs, did not discuss the complete addition of PMS with the Coordination Committee, changes in PLPS which should be presumed so that Century Bank could obtain additional PMS for liquidity needs, and the distribution of PMS to Bank Century since 18 December 2008 has no legal basis;
g. BC paid third party funds related to the bank as long as BC was a bank under special supervision amounting to Rp938, 645 million
h. Embezzlement of foreign currency cash funds amounting to USD18 million and splitting of 247 NCDs each with a nominal value of IDR2 billion;
i. Unhealthy practices and violations by bank management, shareholders, and other parties involved in bank management that harm Bank Century.

The results of the BPK audit in November 2009 revealed that there were many other frauds that had occurred in BC, not only the SSB issue which was widely discussed. As previously mentioned, from the very beginning, Century Bank was not a 'healthy' bank. The LHP Phase I later revealed that the three banks that formed Century Bank not only had health problems, but also had poor track records in their business practices. Experts said, This business practice was 'carried away' until after the formation of Century Bank (Yoz, 2009).

2. The Role of Islamic Bank

As previously mentioned, one of the causes for the fall of BC was the existence of a number of frauds committed by the bank's management. Fraud can difened in two contexts: in a context that is widely known to the public, and specifically in the context of auditing financial statements. In a general context, fraud is defined as an act that is carried out on purpose with the intention of deceiving and obtaining the property or rights of others (Andi Arifwangsa Adiningrat, 2022).

Meanwhile, in the context of audit, fraud is defined as an act of deliberately misrepresenting financial statements. Fraud is different from error, where an error is an error or misstatement of financial statements that is not done intentionally. The 2016 Report to The Nation (RTTN) study belonging to the Association of Certified Fraud Examiners (ACFE) states that the types of organizations / companies that are most involved in fraud cases are banking and financial service companies, followed by government and manufacturing companies afterwards. Fraud that occurred in this sector dominated 22 other types of organizations that were involved in fraud, namely 16.8% with a total of 368 cases and an average loss of $ 192,000. Meanwhile, the dominating fraud scheme is the corruption scheme with a total of 138 cases (around 37.5%) (Association of Certified Fraud Examiners, 2016). The results of this research support Gup's (1990) statement that banking is one of the industrial sectors that is prone to fraud because that's where large amounts of cash are located. (Gup, 1990. See also Sanusi et al., 2015) Rahman and Anwar (2014) state that the consequences of banking fraud are not simple. Bank fraud results in bank failure and difficulties. This can also trigger a country's bankruptcy, such as a crisis (Rasidah Abdul Rohman).

Then what exactly can a banking scandal look like in a bank according to the operational perspective of a sharia bank. Islamic banking structures are based on Sharī'ah objectives as their business model, which differs from the conventional model, as their system is built on interest-free Tran’s action rates. However, several studies find IBs mimicking CBs, especially in the products available from CBs and profit orientation. For instance, El-Gamal (2006) argued that IBs failed to serve Maqhasid al-Shariah objectives since they attempt to replicate the sub stance of conventional financial practices of CBs. Mergaliyev et al. (2019) argued that IBs were strongly criticized for not fulfilling the objectives of Shariah or 'human and social well-being', even though they have been successful in mobilizing financial resources. For example, IBs focused their strategies towards financial returns instead of securing ethical and social objectives, which require them to serve communities and not only ‘markets’, in order to compete with conventional financial institutions. Thus, it is argued that IBs shy away from the true objective of their establishment, which is based on the Maqhasid and instead converge towards the conventional banking system (Salah Alhammadi, 2022). Hence, an IB is expected to maintain justice in its activities, preserve wealth, and continue economic growth as described in the objectives of Shariah, equal with profit orientation.

Many scholars have discussed Maqasid al-Sharī'ah; for instance, Chapra (2007) built human development and well-being using Al-Ghazali's classification. Al-Ghazali divided welfare (maslaha) into three categories; necessities (daruriyyat), complements (hajiyāt) and embellishments (tahsiniyat). Al-Ghazali extended necessities into five essential elements, the preservation of al-din (religion), al-nafs (life), al-aql (intellect), al-nasl (progeny), and al-mal (wealth). Thus, according to Al-Ghazzali, Maqasid al-Shariah promotes the well-being of mankind by protecting these five essentials. This framework is widely used in related literature. For instance, Dusuki and Mokhtar (2010), in their appraisal of Sukuk issuance, used Maqasid al-Sharī'ah, as determined by Al-Ghazali (Chapra, 2016). Chapra (1985) reaffirms that the unique features of IBs are not only to avoid usury, but also to promote economic well-being, establish social and economic justice, and promote the equitable distribution of income. Therefore, it is fair to examine whether IBs have adopted the Sharī'ah objectives over time to enhance their unique features such as social justice and economic welfare. IBs are expected to emphasize their socio-economic, social, ethical and environmental performance as institutions of Islamic moral economy (Hakam, 2020).

The above concept in Islamic banking must be manifested in the operations of a bank with transparency, accountability, responsibility, professionalism, independence, and fairness. Everything is manifested in a rule called Good Corporate Governance.

3. The role of Central Bank and Financial Services Authority

The Century Bank case in 2008 triggered policy reforms in the Indonesian banking sector, particularly by Bank Indonesia (BI) and the Financial Services Authority (OJK). BI, as the monetary authority at the time, introduced a number of new regulations to improve the supervision of national banks. One important step taken was the issuance of the Bank Indonesia Regulation (PBI) on short-term funding facilities (FPJP), which had previously been controversial due to the abrupt change in the capital adequacy ratio (CAR) requirement from 8% to only positive (Indonesian Corruption Watch, 2010). In addition, BI also tightened supervision on the use of derivative products and foreign exchange transactions to reduce systemic risk (Ma'ruf, 2009). These policies aim to create a more stable financial system and prevent the recurrence of a similar crisis

On the other hand, the establishment of OJK in 2011 was an important milestone in financial system reform after the Bank Century case. OJK took over the supervisory function previously under BI, focusing on market integrity and consumer protection. Following the case, OJK introduced regulations requiring systemic banks to develop recovery plans to ensure

preparedness for potential crises without relying on government bailouts (Fakulta hukum uI, 2021) . In addition, OJK also plays a role in the implementation of Law No. 9 Year 2016 on Financial System Crisis Prevention and Handling (PPKSK), which provides a legal framework for handling crises in a more measured and transparent manner (Yasin, 2017).

The bailout of Century Bank has been widely criticised as a form of government discretion that was not fully transparent. The rescue of the bank with Rp 6.7 trillion was based on the argument of systemic impact, although investigations showed that the systemic impact was not supported by accurate data. Criticism of this policy has prompted the government and relevant authorities to improve governance in financial crisis decision-making. Harmonisation of laws and regulations is a priority to avoid conflicts between the executive and legislative branches in handling future crises.

Overall, the Bank Century case is an important lesson for BI and OJK in building a more resilient financial system. BI focuses on improving technical supervision and mitigating systemic risk, while OJK plays a role in creating regulations that support long-term stability. These reforms reflect a collective effort to strengthen public confidence in the banking sector while reducing reliance on government intervention in crisis situations.

4. Lesson Learned

The Century Bank case provides a crucial lesson: even with established risk management protocols, managerial negligence and unprofessional conduct can precipitate bank failure. While financial ratio analysis, as evidenced by Century Bank's 2008 figures, is often used to predict failure, the case also underscores the risks inherent in a purely profit-oriented, conventional banking model.

This model's susceptibility to financial engineering and fraudulent practices led to repeated government bailouts. In contrast, Islamic banking, guided by the principles of Maqasid Sharia, mandates transparent and accountable management, aligning with broader sharia objectives.

CONCLUSIONS

The Century Bank case serves as a practical validation of the theoretical framework concerning bank failure developed herein. Financial statements, indeed, provide crucial indicators of a bank's health. However, the Century Bank scandal highlights the detrimental impact of inadequate reporting transparency and professional lapses within both regulatory bodies and bank management. Consequently, the adoption of management principles aligned with Maqasid Sharia, translated into robust Good Corporate Governance practices, becomes imperative for future financial stability. This underscores the potential for Islamic banks to play an increasingly significant role in fostering a more resilient financial landscape.

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