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Research Article

Basel Internal Control As Corporate Governance For Bank

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Abstract

This research aims to explain how the implementation of Basel internal control as corporate governance for banks can become a supervisory system related to banking. The descriptive approach was adopted in this study through a collection of previous literature on Research *basel internal control* as corporate governance for banks.The results found that in that the implementation of Basel I was effective in increasing the capital ratio and or reducing the credit risk ratio of banks, then Bank Indonesia should focus this regulation on banks that lack capital and improve banking management related to monitoring the implementation of Basel I. In addition to strengthening capital, banks national governments must prepare themselves for the fulfillment of good information technology (IT) and human resources (HR) to seek business and asset growth through the application of risk management which must be implemented with reference to Basel II. full implementation of Basel III, according to the target time and consistently, is seen as very fundamental to building a solid financial system,

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1. INTRODUCTION

The Bank as a company that carries out the function of financial intermediary, if it fails, the impact will be wide and will affect the problems and other financial institutions whose funds are in the Bank. ImpImplementation of risk management at banks in Indonesia is directed in line with the new global standards issued by the Bank for International Settlement (BIS) with a new capital concept where the capital calculation framework is more risk sensitive and provides incentives for improving the quality of risk management in banks. or better known as Basel II (a refinement of Basel I). Intermediaries are free to determine their own management capital of their own organization and producers used for assumptions and risk management. This approach was reinforced by the transition from Basel I to Basel II. Then in 2004 BCBS re-announced the Basel II framework which focused on three pillars, namely, pillar I on minimum capital requirements, pillar II on regulatory oversight, and pillar III on market discipline to encourage healthier banking. Basel I was motivated byconcerns over the Latin American debt crisis (Brazil, Argentina, Mexico) in the early 1980s which could increase international banking risk. Basel II was motivated by changes in the banking industry and financial markets including the financial crises that occurred in Southeast Asia and South Asia in 1997-1998. Basel III was motivated by the Global Financial Crisis that occurred in 2007-2009 (POJK, (2017)).

In Trung's research, (2021) explains that the effectiveness of management needs to be improved in the internal control system of commercial bank credit operations because creating a comprehensive control culture in the organization is very necessary. Amelinda (2021) explains that companies need to optimize the implementation of Good Corporate Governance in company management. Because good corporate governance will attract investors to invest in the company.

According to Mulyani, (2019) Assessment of bank financial performance cannot be separated from the soundness of the bank. Weak corporate governance is one of the causes of the economic crisis, so it can be concluded that good corporate governance is an important factor in recovering from the economic crisis, considering that GCG is the most important tool in creating an efficient and effective organization (Wahyuningsih, 2020). In the European Union, this has led to legislation on banks. Governance under the so-called CRD IV (Capital Requirements Directive), which has been amended into the laws of member states. The legal literature dealing with this is mostly doctrinal and deals with the supervision of national banks (Hopt, 2021). In Astuti's research, (2021) explains that every year Islamic commercial banks publish a GCG Report: an analysis of the assessment of the application of AAOIFI standards. Islamic banking in Indonesia has been running very well, especially at Bank BCA Syariah and Bank Syariah Mandiri.

*Basel is used as an internal control in the banking sector with the aim of determining*n banking regulatory standards and as a forum for cooperation related to banking supervision in order to create a healthy bank. Internal control systems are fundamental factors in the safe and sound management of the banking industry, their role operates at several levels: as a corporate management tool, as an aid in risk-based oversight, and finally as a general mechanism for corporate and stakeholder protection. The API that adopts the Basel Accord is designed to maintain the sustainability of bank operations in Indonesia with six pillars, namely structure, regulation, supervision, management, infrastructure, and customer protection (Suryanto, (2019)).

In Maski's research (2011), Basel I has no effect on capital targets and credit risk targets for banks. Therefore, the implementation of Basel I will be effective if it is focused on banks that lack capital and improve banking management related to the supervision of Basel I implementation. no significant effect on profitability..

2. LITERATURE REVIEW

2.1. Legitimasi Theory

According to Amri, (2021) legitimacy can be considered as equalizing the perception or assumption that an action taken by an entity is an action that is desired, appropriate or in accordance with a socially developed system of norms, values, beliefs and definitions. In (Kusumawardani (2017)) mentions that legitimacy theory (Legitimacy theory) focuses on interactions between companies. Legitimacy theory assumes that companies must continuously ensure that they have operated in accordance with existing norms in society and ensure that company activities can be external parties or have in legitimacy.

2.2 Corporate Governance

According to Jaya (2021) Good Corporate Governance is something that is very much needed and required by regulators for companies that have gone public. Its existence is able to have a positive impact in overcoming complex problems of a company. structured system used to manage and direct or lead business and corporate efforts with the aim of increasing corporate values and business continuity.

According to Kusmayadi (2015) and Lores et al (2018), the implementation of Corporate Governance has various purposes. (1) Implementation of the Corporate Governance mechanism is expected to reduce problems that arise as a result of agency problems, (2) awareness of Good Corporate Governance practices will encourage transparencycompany. (3) Investors will appreciate the value of information, (4) increased awareness of corporate governance will increaseappreciation of the importance of the company's shareholder value in achieving the company's long-term goals. (5) The implementation of Good Corporate Governance can also prevent the occurrence of unhealthy practices such as insider trading, internal acquisitions and related transactions that harm minority shareholders, (6) The implementation of the Good Corporate Governance system is expected to increase the value of added for all interested parties (stakeholders).

In Darma's research (2021) prove that Based on the analysis of research results and discussions on the impact of Islamic corporate governance mechanisms and bank risk profiles on the Islamic performance of banks in Indonesia, it can be concluded that the frequency of meetings of the Board of Commissioners, Sharia Supervisory Board, Financing to Deposit Ratio (FDR), and bank size are all has a significant positive impact on the performance of Islamic Banks.

2.3 Basel Internal Control

Basel Standards are banking regulatory standards issued by the Basel Committee on Banking Supervision (BCBS). BCBS is one of the committees within the Bank for International Settlements (BIS) whose role is to set banking regulatory standards and as a forum for cooperation related to banking supervision. (OJK, 2017). Meanwhile, according to Ozili (2021) the Basel accord is a framework for maintaining the stability of the international banking system, and Nigeria adopted the Basel capital framework for capital regulation in the banking sector. The objective of the Basel agreement is to design a framework for maintaining the stability of the international banking system.

In Focused research from Basel III Capital Miller (2021) suggests that regulation, initially increases for reserves after regulatory changes, but then decreases as the treatment effect for Treasuries increases as Treasury yields rise; The effect of treatment for loans is becoming increasingly negative..

The Basel Agreement is a banking regulation consisting of 3 agreements (Basel I, II, and III) established by the Basel Committee on Bank Supervision (BCBS).. The Basel Accord is a set of banking regulations made by the Basel Committee on Bank Supervision (BCBS). The regulations, which currently consist of Basel I, II and III, provide recommendations on banking regulations regarding capital risk, market risk and operational risk. The first Basel Accord, Basel I, was issued in 1988. Basel I's focus is on the capital adequacy of financial institutions. Capital adequacy risk (the risk to be borne by financial institutions against unexpected losses) is categorized into assets which are divided into five risk categories, namely 0%, 10%, 20%, 50% and 100%. This is an update of Basel I. BCBS announced the Basel II framework that focuses on three pillars, namely (1) minimum capital requirements, (2) regulatory oversight and (3) market discipline to promote sound banking. In November 2010, agreement has been reached on the design of the overall package of capital and liquidity reforms known as Basel III. This regulatory framework is a continuation of the three pillars in Basel II with additional requirements and safeguards, including requiring banks to have a minimum general equity and minimum liquidity ratio. Basel III also provides for additional requirements called "systemically important banks" or Systemic Banks, or financial institutions that are considered "too big to fail" (Big brothers, (2021)).

2. METHODOLOGY

The descriptive approach was adopted in this study through a collection of previous literature on Research *basel internal control* as corporate governance for banks. Based on the literature review that has been described, this study tries to explain how *basel internal control* from the perspective of corporate governance for banks. The purpose of this journal is to show readers what it is*basel internal control* as corporate governance for banks.

4. RESULT AND DISCUSSION

4.1. Result

In Maski's research (2011) suggests that the implementation of Basel I is effective in increasing the capital ratio and or reducing the credit risk ratio of banks, then Bank Indonesia should focus this regulation on banks that lack capital and improve banking management related to monitoring the implementation of Basel I. Yushita's research (2008) stated that, in addition to strengthening capital, national banks must prepare themselves for the fulfillment of good information technology (IT) and human resources (HR) to seek business and asset growth through the application of risk management which must be implemented with reference to Basel II. By implementing Basel II, it is hoped that national banks will be solid and able to become intermediary agents that will advance the national economy. global banking industry activities.

4.2. Discussion

Yushita (2008), found that Banks have unique characteristics in their role as intermediary institutions as well as agents of economic development of a society. Its unique nature is mainly seen in the capital structure with a level of leverage that is much higher than the leverage formed in companies operating in the industrial sector. High leverage in The banking system was actually formed by taking part in utilizing public funds that trusted the bank. This causes the bank to be in a very strategic position as well as risk-prone.Therefore, Basel was created as an internal control for the banking sector.

The Basel Agreement was introduced by the Basel Committee for Banking Supervision (BCBS), a committee of banking supervisory authorities established by the central bank governors of the Group of Ten (G-10) countries in 1975. The main purpose of this committee is to provide guidance for banking regulations. BCBS has issued 3 agreements called Basel 1, Basel 2 and Basel 3 so far with the aim of enhancing banking credibility by strengthening banking supervision worldwide. The main difference between Basel 1 2 and 3 is that Basel 1 was established to determine the minimum ratio of capital to risk weighted assets for banks whereas Basel 2 was formed to introduce supervisory responsibilities and to strengthen minimum capital requirements. The Basel II framework (Pillar 1, Pillar 2 and Pillar 3) in Indonesia has been fully implemented since December 2012 Elrafa (2010) Basel II is a banking framework that was formed with the aim of increasing the resilience and soundness of the financial system by focusing on risk-based capital calculations, review processes by supervisors and market discipline. there are three main pillars supporting the Basel II framework, namely: (1) minimum capital adequacy pillar, (2) supervisory review process pillar, and (3) market discipline pillar.The Basel III framework has also been implemented in Indonesia for capital and liquidity standards, following several other standards that will be implemented in accordance with the deadline set by the BCBS (OJK (2017)). Basel III is expected to strengthen regulations at the microprudential level to improve the health and resilience of individual banks in the face of crises. In the context of microprudential, the Basel III framework requires a higher definition of quality and level of capital with a focus on the Common Equity Tier 1 (CET1) component (Sugiastutik, (2019))

Background to Basel I: Concerns over the Latin American debt crisis (Brazil, Argentina, Mexico) in the early 1980s that could increase international banking risk. Background: Concerns over the Latin American debt crisis (Brazil, Argentina, Mexico) in the early 1980s which could increase international banking risk Background: Changes that occurred in the banking industry and financial markets including the financial crisis that occurred in Southeast Asia and South Asia in 1997 - 1998.Background: The Global Financial Crisis that occurred in 2007-2009. Started in 2010, Basel III is a regulatory reform in the banking sector in response to the 2008 world financial crisis caused by a lack of capital adequacy, high variations in RWA among banks, very high leverage and a liquidity crunch.

5. CONCLUSION

In this study, we see that the development of Basel 1, 2, and 3 in the banking world is very beneficial for a country, especially for Indonesia. The Basel Committee on Bank Supervision (BCBS) has a very strategic role for the development of banking in various countries. Basel 1, Basel 2 and Basel 3 aim to increase banking credibility by strengthening banking supervision around the world.

Therefore, the banking sector must have a good understanding of Basel 1, 2, and 3 in order to reduce losses, increase banking resilience through increasing capital and encourage continuous improvement in risk measurement and control in the banking world.

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