



A Literature Review On Indonesian Banking Architecture (IBA)

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Abstract

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The Indonesian Banking Architecture (IBA) is a strategic policy launched by Bank Indonesia in 2004 to build a healthy, efficient, and resilient national banking system in the face of global economic dynamics. Over the past two decades, IBA has been a guideline for transforming Indonesia's banking sector. The program is designed to strengthen the national banking structure through policies, including banking consolidation, capital consolidation, technological infrastructure development, and improved governance and risk management. As a result of this policy, the quantity of banks in Indonesia has decreased, which is in line with the strengthening of capital quality, thus creating a more solid and integrated banking system. This article explores the benefits of IBA's implementation for the banking industry in the last two decades. This study utilizes secondary data from related academic research.

Kata Kunci: API, Arsitektur Perbankan Indonesia, Indonesian Banking Architecture

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INTRODUCTION

The Indonesian Banking Architecture (IBA) is a blueprint designed by Bank Indonesia in 2004 as a guideline to build a healthier, more efficient, and more stable banking industry in Indonesia. Bank Indonesia (2004) stated that IBA's vision is to generate a banking system that is healthy, strong, and efficient to produce financial system stability to assist encourage national economic growth. IBA is designed with the main goal of creating a resilient banking system in the face of crisis, supporting economic growth, and maintaining public trust in the banking sector. This initiative was motivated by the economic crisis of 1997-1998 (Asian Financial Crisis) triggered by the weakening of the Baht currency after the Thai government was forced to float the Baht after speculative attacks and failed to maintain its exchange rate against the US dollar. This crisis spread to other Asian countries including Indonesia, where many Indonesian companies at that time had a lot of debt in US dollars. When the Rupiah exchange rate plummeted, the debt burden increased dramatically, so many companies failed to pay their liabilities. Indonesia's economy at that time was heavily dependent on foreign debt and commodity exports. When the value of exports falls, the economy will be shaken. At that time, many banks did not have adequate supervision and provided credit without a good risk assessment. This crisis was fueled by over-leveraged economies, weak financial systems, and fixed exchange rate policies. This crisis also revealed fundamental weaknesses in the Indonesian banking sector, such as poor risk management, high reliance on foreign loans, and a lack of strong supervision and regulation. Even though Bank Indonesia started to implement

IBA in 2004, Murdadi (2015) stated that the implementation of IBA has not been fully implemented a decade later, especially the program to strengthen the size of national banking assets compared to the 10 big banks in Southeast Asia.

Bikker and Haaf (2002) claimed that in industrialized nations, where big banks were more competitive, the nature of rivalry in the Indonesian banking sector was different. Rakhmawati and Hermana (2005) stated that the IBA framework groups banks based on their capital capabilities, namely international banks, national banks, banks with focused activities, and banks with limited business activities. However, unfortunately, Murdadi (2015) stated that the categorization of banks by the IBA framework is not yet fully attached to the banks concerned, so the mapping becomes a little blurry. Widyastuti and Armanto (2013) also stated that IBA has not been able to influence all groups of commercial banks to change. Several Regional Development Banks that have niche markets, namely regional governments and their employees, and several joint venture banks that have a permanent market for foreign multinational companies, are not touched by the implementation of IBA. Not only that, Wahyudi et alia (2021) said that Indonesia's banking sector tended to be monopolistic, with many sellers, unique products, unrestricted entry and exit for sellers, and competition in product quality. However, Sinansari et alia (2015) said that the banking sector in Indonesia is organized as an oligopoly, with multiple major banks controlling the market. The factors that affect the structure are the asset, the intensity of sales, and performance. Why IBA has not been able to influence all groups of commercial banks to change? Why several joint venture banks that have a permanent market for foreign multinational companies are not touched by the implementation of IBA? How IBA can influence Indonesia's banking industry from monopolistic to oligopoly and monopolistic again after a decade of implementation? This research will focus on how IBA implementation has transformed and benefited the Indonesian banking industry and banks in general in the last two decades, since its implementation in 2004.

LITERATURE REVIEW

The Indonesian banking system is based on the comprehensive architecture known as IBA (Indonesian Banking Architecture). For the next five to ten years, it gives Indonesia's banking sector structure, direction, and form (Bank Indonesia, 2004). IBA is a continuation of the banking restructuring program that has been running since the 1998 crisis due to speculative attacks on Asian currencies that caused sharp devaluations and financial instability. IBA is the direction and form that national banking is aiming for. With this banking architecture, national banking will have strong fundamentals over the next ten years in terms of capital structure, regulation, supervision, infrastructure, banking operations, and customer security. Sugiarto (2003) stated that the IBA is not only a policy recommendation for the national banking industry but also a policy direction which means IBA is a design concerning the future structure of the Indonesian banking industry. Christinawati (2021) stated that the formation of banking mediation institutions must be encouraged by the Banking Association to prevent state losses in the context of resolving disputes between banking entrepreneurs and customers mediated by Bank Indonesia. She argues that the establishment of a banking mediation institution is very important in efforts to realize an IBA that is independent and based on economic and juridical aspects. One of IBA's activity programs is a program to improve the quality of banking management and operations. The current IBA's structure was unable to adequately explain each bank's performance and risk levels. The structuration theory states that each bank's performance and risk should be taken

into account when determining the new IBA's structure. As a result, the current IBA's incapacity to characterize a bank's performance and risk suggests that its structure is inadequate. Sari (2012) stated that solving this program can be carried out by implementing risk management in banking in 4 ways, namely identifying, measuring, monitoring, and controlling risk. The benefit of implementing this program is that it can increase shareholder value and increase bank competitiveness. Sari (2012) also stated that the impact of implementing risk management is having very positive effect on the pillars of IBA, where the banking structure becomes healthy, the supervisory system becomes independent and effective, the banking industry becomes more competitive, and customers are protected.

METHODS

This study utilizes the literature review method in the objectives of explore how far the development of Indonesian banking architecture has been since its implementation in the last two decades. Ridwan et al. (2021) stated that a Literature Review is a summary obtained from several reading sources relevant to the research topic. Literature Review serves as the basis for data collection preparation. The data utilized in this study was gained through a review of several journals found in Google Scholar. The keywords utilized to search the journal are "Indonesian Banking Architecture, Arsitektur Perbankan Indonesia, API". The journal search results are selected based on predetermined criteria (Maulida, 2020).

Data Analysis Technique

According to Dang and Pekkola (2017), data analysis refers to the process of systematically gathering and compiling information obtained from the vary of other sources so that it is easy to understand and the results can be conveyed to others. Information from each source is then compared and combined to produce a comprehensive understanding. This research fully uses secondary data obtained from relevant and reliable reference sources, such as scientific journals and website articles.

RESULTS

Indonesian Banking Architecture (IBA) has improved the fundamentals of the Indonesian banking industry in the last two decades. Bank Indonesia (2004) stated that IBA's vision is to generate a banking system that is healthy, strong, and efficient to create financial system stability to assist encourage national economic growth. Medyawati and Hermana (2010) support Bank Indonesia's statement and state that banking development can influence economic growth through increasing credit and assets, although the percentage is relatively small. The challenge to increase the percentage of economic growth is high interest rates and weak purchasing power. Therefore, Bank Indonesia as a central bank and the government needs to maintain macro stability conditions and take into account the impact of economic policies on the efficiency of financial intermediation banking.

Rakhmawati and Hermana (2005) stated that grouping banks according to the IBA framework shows that banks with focused activities, with capital above IDR 100 billion, show higher efficiency, percentage of productive assets, and profit levels than banks with limited business activities. Yuniarti (2008) supported this statement and stated that banks that have small core capital of less than IDR 100 billion tend to show very low-efficiency performance. A decline in the efficiency and profitability of a bank can increase the percentage of non-performing loans. This could happen because the increase in capital capacity was accompanied by a decrease in the percentage of the bank's productive assets to total assets. This condition means that the capital increase is not accompanied by the

distribution of bank funds to the bank's productive assets which include deposits in other banks, securities, credit, and capital investments. Medyawati and Hermana (2010) stated that this condition indicates banking disintermediation, where credit distribution faces obstacles, namely high loan interest rates and weakening people's purchasing power. It can be said that the banking industry is an industry that is very sensitive toward government policy.

Ezeddin et alia (2014) stated that there was an improvement in financial performance in ROA, CAR, and NIM ratios in several banks after the implementation of IBA. Meanwhile, the BOPO and LDR ratios have not experienced significant changes, which shows that good and correct banking efficiency and governance are not in line with IBA's spirit of creating a strong and highly competitive banking industry. Widyastuti and Armanto (2013) also stated that the whole performance of commercial banks improved and was more stable after 3 years of IBA being launched. They also stated that commercial banks were in a monopoly or collusive oligopoly situation after the IBA emerged, and previously were in a situation of monopolistic competition in the time of the consolidation period. The Indonesian government spearheaded the country's consolidation agenda by enacting the IBA, which successfully pushed small and medium-sized banks to combine. This decreased market concentration and enhanced market share distribution (Mulyaningsih and Daly, 2011).

An excellent accomplishment has been made as a result of the process of reforming and consolidating Indonesia's industrial banking structure. The ability of financial banks to withstand the chaos of the 2008 global financial crisis shows that their performance has been comparatively stable. The number of network bank deposits continuously increased even while the number of banks shrank as a result of the merger to comply with the single presence policy. Increasing capital, selling shares, and/or investor acquisitions are the primary ways that commercial banks will meet their minimum capital requirement of IDR 100 billion by the end of 2010. In terms of the bank's ownership structure, Indonesian domestic parties continue to hold a higher share than international ones. Additionally, foreign ownership is still growing, even in mixed banks. The banking sector is still able to expand lending while maintaining a sufficient degree of profitability, so banks continue to play a role in promoting economic expansion. Consolidation will have the effect of boosting competition (Gelos and Jorge, 2002).

The banking industry's market structure is categorized as monopolistic competition. Research using the structural approach of SCP aligns with findings from the non-structural approach, such as the Panzar-Rosse model (PR-model). Studies by Daryanto et al. (2011), which estimated the income and cost functions of banks from 1999 to 2009, revealed input elasticity ranging from 0.70 to 0.97, confirming the monopolistic competition structure. Similarly, Athoillah (2010) and Mulyaningsih and Daly (2011) concluded that Indonesia's banking structure operates within monopolistic competition.

The banking market structure is significantly influenced by industry performance and structural factors like BSZ characteristics and MS. While general consolidations and mergers typically increase market concentration, IBA-driven consolidations instead reduce it. Macroeconomic variables also play a role; inflation tends to increase concentration, while economic growth reduces it. Moreover, consistent monitoring by monetary authorities and KPPU prevents excessive concentration or monopolistic power.

Policy implications for the banking structure can be summarized in two key areas. First, regulations under the IBA policy package, such as minimum capital and single presence policy, have driven mergers, acquisitions, and capital increases, leading to reduced market concentration and heightened competition, which aligns with monopolistic competition

theory. Second, economic stabilization policies—low inflation and high economic growth—affect the dynamics of the banking industry’s structure, behavior, and performance.

Regarding micro-level factors, Asngari et al. (2018) identified CAR and NPL as having significant effects on intermediation efficiency. However, reliance on partial financial ratios limits the reflection of actual bank performance. Thus, further development of IBA’s good-performance bank and anchor bank criteria is necessary to enhance intermediation functions and achieve efficiency goals. Noerlina and Gautama (2005) emphasized the importance of anchor banks in consolidating the banking industry through acquisitions across various capital levels.

Lastly, macroeconomic variables generally exert more influence on financial intermediation efficiency than micro variables. Therefore, Bank Indonesia and the government should focus on maintaining macroeconomic stability and carefully consider the implications of economic policies on the banking sector’s intermediation efficiency.

CONCLUSIONS

This research shows that the implementation of IBA over the past two decades has brought significant changes to the Indonesian banking industry. In the context of implementation, IBA aims to create a stronger, more competitive, and globally competitive banking industry. In terms of benefits, this policy has succeeded in improving operational efficiency, strengthening the resilience of the financial system, and expanding access to banking services. However, this success is inseparable from the ever-evolving challenges, such as cybersecurity threats and competition from fintech. Going forward, Indonesian banks need to focus on digital innovation, collaboration with fintech, and increasing financial inclusion to remain relevant in the era of digital transformation.

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