The Impact of Financial Conglomeration on Risk and Return Performance in Indonesia Banking Industry

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Abstract - **There is a tendency in financial market that occurs in many countries, in which some financial institutions are formed to be a financial conglomeration. The financial conglomeration is driven by the trend of globalization of trade, the development of technology and deregulation that led to the consolidation of cross-sector businesses. Conglomeration of financial institutions also occurred in Indonesia with the holding, usually the bank holding company (BHC). According to Financial Services Authority (FSA), currently there are 31 financial institutions conglomerate operating in the Indonesian and control 77% of the financial institutions' total assets.**

The Indonesian financial conglomeration's performance will be examined by using the TOPSIS method (Technique For Order Preference By Similarity To An Ideal Solution), by looking at the differences in term of the TOPSIS Score between financial conglomerate (C) and focus bank companies (F). Based on the TOPSIS models, the analysis performance of 29 financial conglomerate and 29 focus bank in Indonesia as emerging financial market will be conducted. The models suggest that financial conglomerates have a better financial performance than the focus bank.

Keywords - *Financial conglomeration, Bank Holding Company, Single Bank Companies, Performance, TOPSIS*

1. Introduction

There is a financial market phenomenon that occurs in many countries at the moment. Financial institutions tend to be a financial conglomeration. Financial institutions conglomerate formed by combining a variety of financial services including commercial banking, insurance and securities businesses into one company. The financial conglomerate is driven by the trend of globalization of trade, technological developments and deregulation that led to the consolidation of cross-sector businesses. On one hand, the financial conglomerates can increase revenue and save costs, but on the other hand the financial conglomerate can cause problems include the conflict of interest, market concentration, and the risk of bankruptcy (Lelyveld & Schilder, 2002).

The growth of financial institutions conglomerates is strongly influenced by the changing of the deregulation of financial services in many countries, especially in 1999 when the United States issued the law about financial deregulation, the Gramm-Leach-Bliley (GLB) Act, which allows financial institutions to conduct business in multiple financial services, including banking, insurance and securities.

According to the study of De Nicolo et al (2003), it is known that there is a trend in the improvement of financial performance of world financial conglomerates institutions between 1995 and 2000 that can be seen in Table 1. The table shows the data of 500 large financial institutions in the world that are taken from Worldscope database. The financial institution asset share conglomerate in 2000 increased significantly compared to 1995 in most areas. The increasing asset occurred mainly in Asia and Africa. In 1995 the conglomerate of financial institutions in Asia controls 31.20% of total assets, and it grew to be 68.4% in 2010. This means that financial institutions conglomerate has a very significant role in the financial industry.

Meanwhile, in Table 2 it is presented information about the composition of assets per financial institution conglomerate listed in Table 1. The data per financial conglomerationto provide additional information related to the number of financial institutions and the percentage control of assets per financial conglomeration consisting of banks, insurance and agencies other financial (securities, finance companies, leasing, etc.). Based on these data, it can be known that the banking industry assets amounted to 74.5% of total assets of financial institutions in 2000, followed by the insurance industry and other financial institutions that each hold 18.5% and 7%. Based on the total assets, the bank conglomerate control of 86.5%.

The increasingly competitive environment of the financial institutions encourages the financial institutions to form a conglomerate through action of Merger and Take-over. Factors that support corporate to take such action are including the existence of financial sector deregulation, technological developments, globalization of trade and the easier access to the capital market. According to Masaharu (2007), the banking conglomerate in the United States posted a financial performance increased in the period of 2001-2005 after mergers and acquisitions. In that period, Citicorp net income increased by 39%, while Bank of America and JP Morgan Chase increased respectively by 142% and 393%. The increasing profit is supported by the increase in assets owned by each bank. In 2005, Citicorp recorded assets of US $ 1,494 (billion) rose by 42% from the assets in 2001, while Bank of America and JP Morgan Case recorded assets respectively amounted to US $ 1,292 (billion) and US $ 1,199 (billion) or rose by 108% and 78% in the same period. The increasing percentage of net profit recorded by Bank of America and JP Morgan Case were greater than the increasing percentage in the assets resulted in a very significant percentage of ROA. In 2001, Bank of America ROA was 1.1% rising to 1.4% in 2005. This is also reflected in the JP Morgan, ROA increased from 0.2% in 2001 to 0.7% in 2005. However, the opposite occurred in Citicorp ROA that decreased from 1.5% in 2001 to 1.3% in 2005.

Masaharu's research results mentioned above support the results of research conducted by Boyd and Graham (1988) which stated that the bank conglomerate in the USA was able to maintain a relatively low volatility of earnings after mergers and acquisitions, but this was not happening in the insurance company. Based on these findings, Boyd and Graham do not recommend the bank to conduct mergers and acquisitions of insurance companies because it will increase the earnings volatility.

Studies conducted by Malkonen (2004) to the financial conglomerates in Finland found that banks that acquired the insurance company to obtain some of the benefits include the expansion of the customer, reduced costs and reduced credit monitoring market risk. Therefore, the regulator recommended to lower the percentage of minimum capital for the financial institutions conglomerate than a single financial institution, because the risk is more diversified.

Asset growth conglomerate of financial institutions in the Czech Republic also have an upward trend. According Valihorova and Muzakova (2012), asset conglomerate of financial institutions in the Czech Republic in the period 2007-2011 grew by about 10%. However, the development of the conglomerate of financial institutions led to the deconcentrating market.

Hahm and Kim (2004) studied the conglomeration of financial institutions in South Korea. The result was that the mining conglomerate financial institutions gained a decreased risk due to the regional diversification, product diversification, and market expansion. However, others warned of the potential risks associated to financial institutions conglomerate were the moral hazard that related to the expectations of "To Big To Fail" of the managers and systematic risk. Therefore, the Korea Financial Services Supervisory Authority (the Financial Supervisory Service (FSS)) to oversee the conglomerate's financial institutions carefully.

The above research results support the thesis about the advantages or benefits of a conglomerate. According to Copeland and Weston (1992), there were three rationals to explain the advantages that obtained by the company to form a conglomeration with the way of merger and acquisition. They are the Theory of Efficiency, the Theory of Market Power and the Theory of Internal Capital Market.

According to the theory of efficiency, a conglomeration of a company's resource allocation can be performed optimally. Efficiency can be explained through the theory that if there are two companies in the same industry, namely A and B, and A is more efficient than B, then A can improve the efficiency and level of efficiency of B equivalent to A through takeovers. In other words, by forming a conglomerate, the risk will be diversified. Besides, with conglomeration, the company could control the quality, price, and supply products as a direct result of the scale of its operations. Due to mergers and acquisitions promising rapid growth for the company, then it can be seen as a strategy to expand its control over the geographical area and a broader product and increase the volume of trade. Besides, by forming a conglomerate, the overall financing needs can be met from internal sources and obtained a low cost.

However, research conducted by Lang and Stultz (1994) showed different results. Conglomeration does not provide added value for shareholders because the value of shares were dropped. The financial performance of the conglomerate is lower than that of a single company. The opinion is in line with the opinion of the scholars in Corporate Finance such as Ross (1999) and Brealey and Myers (2000). Theoretically it can be explained that in the conglomeration, the cost will be greater in the cost of agency (Agency hyphothesis) and misallocation of investment occured between business segments (the capital misallocation hypothesis), so that the financial performance was not optimal.

Jensen and Murphy (1990) provided the empirical support base of the agency hyphothesis through research on the structure of compensation of more than 2,000 CEOs in 1,300 companies in the USA during the period 1974-1986 and found that there were weakening and declining of the relationship between performance and the salaries of the CEOs that it identifies the agency problem.

Table 1. Trend of financial conglomeration in the world

Table 1

Trend of Financial Conglomeration in The World

Area	1995				2000			
	Total		Conglomeration		Total		Conglomeration	
	Number of Business	Asset (US$bil)	Number of Business	Asset Share (%)	Number of Business	Asset (US$bil)	Number of Business	Asset Share (%)
US	102.00	5,327.00	43.00	78.90	109.00	9,624.00	67.00	73.00
Canada	18.00	884.00	11.00	87.40	14.00	1,221.00	10.00	89.60
Japan	127.00	10,012.00	9.00	44.00	119.00	9,327.00	25.00	57.30
Australia	9.00	449.00	6.00	81.60	9.00	670.00	9.00	100.00
East Europe	201.00	15,634.00	124.00	89.40	162.00	22,437.00	119.00	91.60
West Europe	-	-			4.00	61.80	4.00	100.00
South America	3.00	180.00	2.00	64.60	16.00	454.00	15.00	96.30
Asia	32.00	971.00	10.00	31.20	51.00	1,754.00	33.00	68.40
Africa	6.00	144.00	4.00	55.30	16.00	456.00	16.00	100.00
Total	500.00	33,601.00	209.00	72.10	500.00	46,036.00	298.00	80.10
Bank	360.00	26,063.00	156.00	75.10	360.00	34,273.00	243.00	86.50

Source: De Nicolo, et all (2003)

Table 2. Conglomerate per industry

Table 2

Conglomerate Per Industry

Industry	1995				2000			
	Unit Business		Total Asset		Unit Business		Total Asset	
	Qty	%	US$bil	%	Qty	%	US$bil	%
Bank:	**360**	**72.00**	**26,063.10**	**77.57**	**360**	**72.00**	**34,273.10**	**74.45**
- Conglomerate	156	43.30	19,585.90	75.15	243	67.50	29,640.40	86.48
- Non Conglomerate	204	56.70	6,477.20	24.85	117	32.50	4,632.70	13.52
Insurance:	**108**	**21.60**	**5,691.90**	**16.94**	**94**	**670.00**	**8,518.40**	**18.50**
- Conglomerate	40	37.00	3,469.70	60.96	40	42.55	5,604.00	65.79
- Non Conglomerate	68	63.00	2,222.20	39.04	54	57.45	2,914.40	34.21
Financial company								
Others:	**32**	**6.40**	**1,846.40**	**5.50**	**46**	**9.20**	**3,244.40**	**7.05**
- Conglomerate	13	40.60	1,161.90	62.93	15	32.61	1,625.20	50.09
- Non Conglomerate	19	59.40	684.50	37.07	31	67.39	1,619.10	49.90
Total	500	100.00	33,601.40	100.00	500	100.00	46,035.90	100.00

Source: De Nicolo, et all (2003)

The second explanation of why conglomerate is not optimal is the inefficiency of internal capital market (the capital misallocation hypothesis). According to Berger and Ofek (1995), the condition is caused by too much investment in industry segments that are not profitable. Research of Shin and Stulz (1998) provided some evidence, that in the conglomeration, the capital expenditure of a business unit is highly dependent on the cash flow of the segment of other companies. They also found that the transfer of the cash flows of an industry segment to other segments of the industry in one group is not always easy to do.

Based on the above research, it can be concluded that there are differences of opinion on the question whether the conglomerate provide added value for shareholders or otherwise. Therefore, this study is conducted to determine whether the conglomerate, especially in the banking sector and financial institutions in Indonesia would provide adds value or not.

Conglomeration of financial institutions also occurred in Indonesia. According to data from the Financial Services Authority (FSA) in table 3, there are now 31 financial institutions conglomerates operating in Indonesia and in charge of 77% of the total assets of financial institutions, one of which is the Islamic Bank. The conglomerate banks have several subsidiaries engaged in sharia banking sector, securities firms and insurance companies with a composition of different investments.

Table 3. Financial conglomeration in Indonesia as per 31 December 2014

Table 3		
Financial Conglomeration in Indonesia		
as per 31 December 2014		
Type of Bank	No. Of Banks	Total Asset (Million Rp)
A. Conglomeration Bank		
Government	3	2,073,568,402
Municipal Govt.	2	91,836,891
Private company	12	1,365,836,587
Mix ownership	2	255,516,973
Foreign company	11	549,016,086
Total (A)	30	4,335,774,939
B. Total Bank	119	5,615,150,000
% A/B	25.21%	77.22%
Source: Central Bank of Indonesia		

Based on the above data it can be known that 30 conglomerate bank controls 77.22% of the total assets of national bank with an average ROA of 2.15% and NPL at 2.52% higher than the average of ROA and NPL of the national bank of 2.07% and 2.16%. The higher level of ROA is good, but higher NPL shows that the risk of bank conglomerates is higher than the average risk in national bank. It is worth noting because the high NPL will trigger some bank failures and may ultimately have an impact on systemic risk to the national banking system.

Based on the research background mentioned above, this study would aim to answer the problems by testing whether financial institutions conglomeration have better performance compared to the financial institution that only focus on one main business segment, that is banks.

2. The foundation of theory

In order to develop business, according to Winton (1999), the bank can take two alternative strategies of diversifying in various geographical areas and industrial sectors, or specialize in the relevant sectors. Boyd and Prescott (1986) argues that banks and life insurance companies that have a high leverage level would be more profitable if it diversified to reduce the cost of financial stress (financial distress) which is expensive and also to reduce the cost of monitoring the borrower / debtor. On the other hand, some corporate finance experts argue that any company - the financial institution or other - should focus on one line of business in order to take the greatest advantage of the expertise of management and reduce the agency problem, and asked their investors to diversify their own investment (see Jensen, 1986, Berger and Ofek, 1996, Servaes, 1996, and Denis et al., 1997).

In its development period, a company always tries to maintain a business advantage to increase the value of the company. In the long term the company can undertake the development of the company as well as economies of scale reduction effort. Diversification strategy carried out as a way to expand the business and expand the market. Diversification is a form of developing the business by expanding the number of business in geographical segments and expand market share in existing market, or developing a diverse range of products. This can be done by opening a new business line, expands the existing product line, expand the marketing of products, opening branches, mergers and acquisitions to increase economies of scale and other ways.

In 1994, Montgomery argued that there are three main theoretical perspectives that can be used to explain the motives why some companies choose to diversify namely: agency theory, resource utilization, and market forces. Based on the agency theory, management diversified the business to meet its profits at the expense of the interests of shareholders by (1) raising salaries, power, and prestige (Jensen, 1986); and (2) make the positions more secure by making investments that require their special expertise. Based on the perspective of resource utilization, the diversified companies that have excess capacity of resources and capabilities could be transferred to various industries. For example, companies can use the excess capacity of the excellent marketing division to marketing various goods or services to another company with a diversification. While the latter motive is to gain market power. By diversifying, the company will acquire a strong position in pricing and competition in the market.

There are two types of diversification that can be done by the company, namely related diversification and unrelated diversification (Anthony, 2002). Related business diversification is diversifying the business into some other business that still has a close relationship with the business before, so it can develop a business strategy that is mutually benefited among the businesses. Applying related business diversification has three advantages. First, the strategy of reducing the dependence on the organization's business activities and therefore reduce the risk of the economy. Even if one or two of the company's business suffered losses, the overall organization may still be able to survive as a healthy business, and would generate enough money to support other business. Second, by managing several businesses at the same time, organizations can reduce the overhead costs. Third, related diversification could enhance a company to be able to exploit the power and its ability in more than one business.

Meanwhile, unrelated diversifying is a strategy to diversify business into other businesses that do not have close relationship with the current or existing business. The main reasons for the unrelated diversification is to get the big profit opportunities that can be achieved in certain industries and companies can maintain their financial stability.

2.1 Benefits of Diversification

With the diversification of business, the risk of cash flow will be reduced. In particular, Lewellen (1971) found a reduction in the variance of future cash flows generated from diversification at the firm level serves to increase the diversification of the company's debt capacity so it can be a source of value-added companies.

Other financial implications of the diversification is that the company's cash flow can provide a superior means of some internal capital funding. Internal capital funding may be used to fund the company needs at a cheaper cost when compared to the funds that be raised in the external capital market.

Finally, diversification of the company can create value for shareholders by reducing product failures, labor, and financial markets. This could be very important for a company to grow in developing countries. According to the research by Khanna and Palepu (1999) that conducted to a diversified company in India, the diversified company can carry out the functions of funding, that is still difficult to obtain from the financial markets in developing countries.

2.2 Cost of Diversification

The cost of diversification should be traced by addressing to the question of “Why must focus on the main business lines?”. This can be explained by the agency theory, in which on the financial literature, theory of agency (agency theory) plays an important role in explaining the relationship between principals and agents in carrying out the functions and authority of each party. Agency conflicts arise because the differences in interests will lead to problems among the various parties involved (Jensen and Meckling, 1976). In the context of a conflict of interest, then diversification as the company's policy to become less optimal. Managers will direct the diversification strategy according to their interests. This is partly attributed to the managerial performance level of sales, thus diversifying be an effective tool to increase the company's turnover. Though these investments do not give an encouraging result of net present value. A diversification strategy would have result of reducing the company value. This phenomenon is also referred to as the diversification discount.

2.3 Financial conglomeration research

Some studies related to financial conglomeration are as follows:

Research conducted by Nicolo, et al (2002) which examined the relationship between consolidating banking and conglomeration of financial institutions and their impact on the risk to the conclusion that the conglomeration of banking in developing countries will increase the risk of funding because funding source is very unstable, the bank conglomerate has the greater operational risk than smaller banks, because the risk factors of managerial, and concentrated banking market structure will lead to higher systematic risk.

Claessens (2002) examines the costs and benefits of financial integration which found that an integrated financial institution may pose an advantage to larger financial sector by providing better service quality, reducing intermediation costs, and lower risk. However, an integrated financial institution can cause a risk, namely conflict of interest and risk behaviors (risk taking) to reduce the tax burden. Complexity of its activities also made a financial institution becomes too complicated to monitor. In addition, the integration of financial institutions will also reduce competition because the increase in the concentration of the financial sector.

Loechel (2009) examines the costs and benefits of financial integration in China concluded that the dominance of the banking institutions nationwide will reduce the role of capital markets in the provision of funds for the company, because the bank conglomerate is able to provide loans, guarantees and brokers under one roof for the customer. Then by combining banking and insurance products through bancassurance, a company could serve better the retail customers for financial planning services to meet social security.

Maksimoc (2013), examined the conglomerate company an concluded that the conglomerate was consistent with efforts to maximize corporate value and to obtain a premium above the price of a single company.

Vennet (1998) derive conclusions from the results of research on banking conglomerates in Europe that financial conglomerates able to earn more revenue more efficiently than its competitors.

Schmid (2008), which examined the conglomerate in the USA in 1985-2004 found that diversification through conglomeration led to financial gain and does not cause problems in the area of new business.

Nomura (2003) who studied banking conglomerate in Japan found that regulators need to loosen policy to more developed financial markets. However supervision still be required so that the benefits and risks of banking conglomerates become more balanced.

Half (2002), which examined the conglomerate supervision of banks in the USA, Europe and the United Kingdom concluded that the imposition of PSB (Prudential Source Book) represents a significant advance in the supervision of conglomerates. The progress of the PSB is an effort to introduce strict risk requirements for banks conglomerate and will conduct supervision across sectors, eliminating the supervision division between banking / securities and insurance.

3. Data Set and Methodology

Data used in this research is secondary data obtained from sources in the bank publication reports the Financial Services Authority (FSA) and Infobank for the period of 2012 - 2014. Data collected includes assets and financial ratios of banks which include CAR, NPL, ROA, ROE, LDR, ROA and NIM. Samples used in this study are 58 banks operating during the period 2012-2014 on the basis of the amount of assets. Banks then grouped into two, conglomerate banks and focused banks. Conglomerate bank is a bank that has several subsidiaries, among others, insurance, securities, and bank, while the focused bank is the bank that runs a business unit of the bank only, does not have other business units. Data conglomerate banks is obtained from the FSA.

Variables and weight of each variable used in this study are as follows (table 4):

Table 4. Return and risk indicators

Return and Risk Indicator				
Variabel	Indicator	Code	Weighted	Sign
Return Indicator	Return on Asset (ROA)	X11	12.50%	+
	Return on Equity (ROE)	X12	12.50%	+
	Net Interest Margin (NIM)	X13	12.50%	+
	Market Share (MS)	X14	12.50%	+
Risk Indicator	Loan to Deposit Ratio (LDR)	X21	12.50%	+
	Non Performing Loan (NPL)	X22	12.50%	-
	Capital Adequacy Ratio (CAR)	X23	12.50%	+
	Operating Cost to Operating Income	X24	12.50%	-

Data analysis method used in this study is TOPSIS (Technique For Order Preference By Similarity To An Ideal Solution). This method was developed by Hwang and Yoon (1981). TOPSIS has a concept, that the alternative chosen is the best alternative that has the shortest distance from the positive ideal solution and the farthest distance from the negative ideal solution. In the decision, many factors must be considered and the more difficult to take a decision on an issue. The problems are thus known to the problems of Multiple Criteria Decision Making (MCDM). TOPSIS method is used as a method to solve the problems of MCDM.

The stages of using TOPSIS method to solve a problem is as follows:

3.1 Developing matrix consisting of bank (n) and criteria (m) into a matrix, which is a measurement A_{mn} alternative option of the n-th and m-th criteria. A_{mn} matrix can be seen in the "Eq. (1)" below.

$$\begin{array}{cc} & \textit{M Criteria} \\ & \begin{array}{cccc} C1 & C2 & ..Cj.. & Cm \end{array} \\ A = & \begin{bmatrix} a_{11} & a_{12} & \dots & a_{1n} \\ a_{21} & a_{22} & \dots & a_{2n} \\ . & . & . & . \\ a_{i1} & a_{i2}. & a_{ij} & a_{in} \\ . & . & . & . \\ a_{m1} & a_{m2} & \dots & a_{mn} \end{bmatrix} \begin{array}{l} A1 \\ A2 \\ \\ Ai \\ \\ An \end{array} \left.\vphantom{\begin{array}{c}1\\1\\1\\1\\1\\1\end{array}}\right\} N\ Banks \end{array} \quad (1)$$

3.2 Creating a normalized decision matrix taken from the value of r_{mn} by performing calculations on the basis of the following "Eq. (2)".

$$r_{ij} = \frac{A_{ij}}{\sqrt{\sum_{k=1}^{n} A_{ij}^2}},$$

for $i = \{1,2,\cdots,m\}$ and $j = \{1,2,\cdots,n\}$. (2)

3.3 Creating weighting matrix that has been normalized, ie by multiplying each column of the matrix rij multiplied by the weight (wj) to generate the matrix V_{ij} on the following "Eq. (3)".

$$v_{ij} = r_{ij} \times w_j \quad i = 1, 2,..., m \text{ and } j = 1, 2, ..., n. \quad (3)$$

3.4 Determining the value of a positive ideal solution and negative ideal solution. The ideal solution is denoted A +, while the negative ideal solution is denoted A-. The equation for determining the ideal solution can be seen in the following "Eq. (4)".

$$A^+ = \{(\max_i v_{ij} \,|\, j \in S_B), (\min_i v_{ij} \,|\, j \in S_C)\}$$

$$A^- = \{(\min_i v_{ij} \,|\, j \in S_B), (\max_i v_{ij} \,|\, j \in S_C)\} \quad (4)$$

3.5 Calculating separation distance measure which is a measurement of an ideal alternative solution to the positive and negative ideal solution. The calculation positive ideal solution can be seen in the following "Eq. (5)":

$$S_i^* = \sqrt{\sum_{j=1}^{m} (v_{ij} - v_j^*)^2}, j = 1,2,...,m \quad (5)$$

3.6 While the negative ideal solution calculation can be seen in the following "Eq. (6)":

$$S_i^- = \sqrt{\sum_{j=1}^{m} (v_{ij} - v_j^-)^2}, j = 1,2,...,m \quad (6)$$

3.7 Calculating the value of preference for each alternative in order to determine the ranking of each alternative by calculating in advance the value of the preferences of each alternative. The calculation of the value of the preferences can be viewed through the following "Eq. (7)".

$$RC_i^* = \frac{S_i^-}{S_i^* + S_i^-}, i = 1,2,...,m \quad (7)$$

3.8 After counting value Ci +, then alternatives can be ranked in order of Ci + so it can be the best alternative, that is an alternative that has the shortest distance from the ideal solution and is furthest from the negative ideal solution.

4. Findings

The first step in analyzing the conglomerate bank's performance compared with the focused bank's performance. Descriptive statistical data variables Banking conglomerate (C) and Focus Banking (F) in Indonesia for the period 2014, 2013 and 2012 are listed in Table 5 below.

Table 5. Return and risk indicators

Table 5			
Statistic Descriptive (Mean in %)			
Type of bank	Year		
	2012	2013	2014
ROA			
Conglomerate	2.39	2.45	1.95
Focus	2.31	1.93	1.87
ROE			
Conglomerate	16.05	15.11	10.52
Focus	19.07	11.77	10.44
NIM			
Conglomerate	5.24	5.43	4.93
Focus	5.64	5.59	5.00
MS			
Conglomerate	3.00	3.00	2.80
Focus	0.01	0.01	0.73
LDR			
Conglomerate	99.50	108.70	111.47
Focus	85.10	105.74	102.46
NPL			
Conglomerate	1.93	1.67	2.27
Focus	2.36	2.53	3.19
CAR			
Conglomerate	20.39	22.81	23.22
Focus	16.37	22.69	19.79
OCOI			
Conglomerate	77.98	78.29	81.76
Focus	79.09	82.00	81.52

Table 6. Bank Ranking 2012-2014

Table 6
Bank Ranking 2012 - 2014

Bank	Type	Rank			Bank	Type	Rank		
		2012	2013	2014			2012	2013	2014
BANK RAKYAT INDONESIA	C	1	1	1	BANK OF CHINA	C	26	29	31
BANK MANDIRI	C	2	2	2	BANK OF AMERICA	C	27	27	32
BANK CENTRAL ASIA	C	3	3	3	BANK DKI	F	46	18	33
BANK NEGARA INDONESIA	C	5	6	4	BANK WOORI SAUDARA INDONESIA 1906	F	-	-	34
THE BANK OF TOKYO-MITSUBISHI UFJ	C	6	5	5	BANK RESONA PERDANIA	C	25	12	35
BANGKOK BANK	F	-	4	6	STANDARD CHARTERED BANK	F	52	55	36
BANK BTPN	C	4	7	7	BANK TABUNGAN NEGARA	F	48	40	37
BANK BPD BALI	F	7	11	8	BANK BUKOPIN	C	44	42	38
CITIBANK	C	12	19	9	BANK ICBC INDONESIA	F	36	45	39
BANK JATENG	F	11	14	10	BANK COMMONWEALTH	C	42	44	40
DEUTSCHE BANK	F	31	38	11	BANK MEGA	C	23	49	41
JP MORGAN CHASE BANK	C	15	13	12	BANK INTERNASIONAL INDONESIA	C	29	36	42
BANK RIAU KEPRI	F	43	34	13	BANK SUMSEL BABEL	F	57	56	43
BANK SUMITOMO MITSUI INDONESIA	C	14	15	14	BANK QNB INDONESIA	F	-	51	44
BANK BPD ACEH	F	35	35	15	BANK UOB INDONESIA	F	33	39	45
BANK JATIM	F	34	30	16	BANK ARTHA GRAHA INTERNASIONAL	F	41	46	46
BANK MIZUHO INDONESIA	C	30	23	17	BANK SINARMAS	C	51	48	47
BANK DANAMON INDONESIA	F	8	9	18	BANK KALTIM	F	56	50	48
BANK ANZ INDONESIA	F	19	31	19	BANK DBS INDONESIA	C	40	43	49
HSBC	C	13	16	20	BANK VICTORIA INTERNATIONAL	C	47	41	50
BANK CTBC INDONESIA	F	17	20	21	BANK EKONOMI	F	37	8	51
BANK NAGARI	F	32	26	22	BANK PAPUA	F	18	28	52
PANINBANK	C	21	32	23	BANK RABOBANK INTERNATIONAL NDONESIA	F	55	54	53
BANK MAYAPADA	F	49	33	24	BANK GANESHA	C	50	52	54
BANK BJB	C	22	22	25	BANK MUAMALAT	F	38	24	55
ROYAL BANK OF SCOTLAND	C	20	21	26	BANK MNC INTERNASIONAL	C	58	57	56
PERMATA BANK	C	16	25	27	BANK PUNDI INDONESIA	C	53	53	57
BANK KEB HANA INDONESIA	F	-	-	28	BANK J. TRUST INDONESIA	F	54	58	58
BANK CIMB NIAGA	C	9	10	29					
BANK OCBC NISP	C	28	37	30					

Based on the table 5 above, it can be seen that in the period of 2012 -2014, ROA and ROE achievement of both banks and conglomerates bank and focused bank tend to decrease. On average ROA and ROE conglomerate bank (C) in 2012 was 2.39% and 16.05% respectively decreased to 1.95% and 10.52% in 2014. The same thing happens at the bank focus (F), ROA and ROE in 2012% ie 2.31 and 19.07% down to 1.87% and 10.44% in 2014.

On the other hand at the same period, the bank's risk indicator, the NPL and OCOI, has increased. Bank conglomerate has the level of NPLs and OCOI in 2012 which amounted to 1.93% and 77.98% increase in 2014, respectively to 2.27% and 81.76%. Meanwhile, the focused bank is also experiencing the same conditions. NPL and bank OCOI focus in 2012 is at 2.36% and 79.09% increased to 3.19% and 81.52% in 2014.

Step two in this analysis is to rank the financial performance of conglomerate banks and focused bank by using TOPSIS method. Ranking calculations performed per year with the results that can be seen in Table 6. The table contains the data about the bank name, bank type: whether the conglomerate bank (C) or the focused bank (F), then the ranking of banks for the year 2012 - 2014. In that period, 5 banks with the highest score were held by conglomerate bank with core capital of more than IDR 30 trillion included in category 4. If the amount of the bank's books rank extended up to 10 ranking, it can be seen that there is no bank to focus consistently entered the rankings during the period of three-year, while there are 6 bank conglomerate that consistently entered the top 10 rankings.

In order to determine whether the conglomerate bank has better performance than the focused bank, then we use the average score per group of banks during the period 2012 - 2014 in Table 7. From the table it can be seen that the conglomerate bank was consistently higher for 3 years compared to the focused bank. This means that the conglomerate banks have better financial performance when compared to the focused bank on the period of study.

Table 7. Average Score

Tabel 6			
Average Score			
Type of Bank	Year		
	2012	2013	2014
Conglomerate (C)	0.405	0.570	0.525
Focus (F)	0.359	0.538	0.490

5. Conclusions

Based on the analysis above, it can be concluded that the performance of the conglomerate bank in Indonesia based on the average score of the period 2012 - 2014 is better when compared to the focused bank. If the scores are grouped into 5 large on scale scores, the bank conglomerate is consistently ranked. Banks that enter the 5 major groups, among others, Bank BRI, Bank Mandiri, BCA, BNI and Bank of Tokyo Mistsubishi UFJ Indonesia. If the ranking period extended to 10, it can be seen that there are six bank conglomerate that successively entered the group, but none of the focused banks that successfully entered the group. Then based on the average scores of banks during the period 2012 – 2014, it showed that the conglomerate bank scores were consistently higher when compared with the focused bank. Based on the result above, it can be concluded that the conglomerate banks have better performance thatn the focused bank.

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