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The Function of Deposits Insurances Institutions to Create a Solid Banking System For The Sake Of Continuity of Infrastructure Development in Indonesia

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The monetary crisis that hit Indonesia in 1998, which resulted in the liquidation of 16 banks, has made public confidence in the banking sector decreased. To resolve this, the Government has issued a policy giving a guarantee for the entire banks obligations towards its customers, including savings societies (blanket guarantee). Blanket policies guarantee can improve public confidence towards banking, through a solid banking system and trust of the community to the Agency bank, the banking institutions can provide support to project infrastructure in Indonesia, as in any workmanship infrastructure projects definitely need the financial support of banking institutions. In line with this, it is a refinement of the basic rules of the banking system devices, especially in the field of guaranteeing deposits. This refinement aims to create a reliable banking sector and create a healthy banking system, which is efficient and competitive and is expected to be spared from systemic risk and can support infrastructure development in Indonesia.

Key words: *Deposit Insurances Institutions, Banking, Infrastructure Project.*

Introduction

The Organization of the economy is inseparable from the conduct of the banking system in Indonesia. This is very important considering the function of intermediary banking agencies that connects communities who have surplus funds to the General Fund deficit. However, the Organization of the banking system alone is not enough, a system that guarantees deposits is also needed, so that society can entrust their funds to the bank. A form of institutional guarantor of deposits is an embodiment of the role of the State to protect the people. This is because, when the country is experiencing a crisis, the community will get protection from the State so that it can minimize the impact of a crisis. For example, the monetary crisis that hit Indonesia in the year 1998, which resulted in the liquidation of 16 banks, has made public confidence in the banking sector decreased. To resolve this, the Government has issued a policy giving a guarantee for the entire banks obligations towards its customers, including savings societies (blanket guarantee).

Blanket policies guarantees can improve public confidence towards banking, but the scope of the guarantee that is too broad has been weighing down the financial state and can give rise to moral hazard for the principals of banking and customers. Therefore, having regard to the negative side of one of the blanket guarantees and after considering other factors as well as the improving condition of the blanket guarantee policy on banking, eventually the government decides to end the guarantee. But the Government argued that guaranteeing deposits is still needed to maintain public confidence towards banking and to minimize the risk of burdening the State budget or risk incurring moral hazards. So, the guarantee with a very wide scope is replaced by a limited guarantee system (Mahrinasari et al., 2019).

Based on the experience of Indonesia, in 1998 it formed the Deposit Insurance Corporation (LPS), which is an independent institution established by law Number 24 year 2004, about the LPS (LPS law) is modified with Act No. 7 of the year 2009. The government enacted the Act of 22 September 2004 and entered it into force 12 months after its promulgation, i.e. on 22 September 2005. A significant change in the guarantees through the LPS is the abolition of the blanket guarantee, i.e. a guarantee on the entire liability of the bank, without any limit (Abdul Hadi et al., 2018). Based on the law, the LPS is a functioning independent institution that guarantees the customer deposits and undertakes to actively maintain the stability of its banking system in accordance (Zhang, Ji & Ren 2017). Conventional bank deposits guaranteed by the LPS shaped savings, checking, deposits, certificate of deposit, and others. In addition, the LPS guarantees customer deposits also present in Islamic banks in the form of wadiah current accounts, savings: *wadiah mudharabah* savings, and deposits *mudharabah* (Hussain et al., 2019).

Result/Discussion

The LPS has long been known in the banking system. It has been known in the United States since the year 1993 through the Federal Fair Deposit Insurance Corporation (FIDIC). The FIDIC is an agency that will replace the funds deposited by the customer if the bank is liquidated. By providing a guarantee to the customer, the FIDIC can prevented the onset of a nationwide panic. Until now, every banking crisis in America was always resolved through the FIDIC. The FIDIC was established with the Banking Act of 1930 with the aim of helping to stabilize the banking system, motivated by the experience of the economic devastation due to the economic depression in the early 1930s.[1]

An example of countries guaranteeing deposits can be found in Thailand, from the crisis in 1983. The Government rescued the banking system of Thailand by providing assistance to banks through funds collected by the banking (pooling fund) for corporate securities. The Government and members of the Thai Bankers Association (TBA) set up a Liquidity Fund of 5 billion Bhat. These funds are used to help troubled financial institutions and are managed jointly managed by representative of the TBA, Ministry of finance, and the Bank of Thailand (BOT). In 1985, when it lost the trust of the community, The Financial Institution Devolepment Fund (FIDF) was founded. Meanwhile in Germany, the guarantee on deposits is applied through the insurance deposits for private banks founded by the German Bank Association.

Just the guarantor deposits in Germany are the highest in the world, both in absolute terms as well as when compared with the average per-capita savings limits. The scope of the guarantor is three times the per capita of GDB. While in Indonesia, the government has already started in 1998, to overcome the crisis that hit Indonesia. When the monetary and banking crisis happened, the Government issued several policies including warranties of all obligations and payments of the bank, including deposits of the community (blanket guarantee). This is defined in presidential decree number 26 of 1998 about the guarantees against the payment obligations of the Bank's, and Presidential Decree Number 193 Year 1998 about security against payment obligations of the Rural Banks.[2]

But the crisis in 1998 was not the last crisis for Indonesia. The global economic crisis that occurred in 2008 actually began in the United States. This economic crisis then spread to

[1] http://winiez.com/2017/05/06/lembaga-penjamin-simpanan-di-negara-lain/ diakses pada tanggal 17 Agustus 2018.
[2] Ibid.

other countries around the world, including Indonesia. The American economic crisis started because of an impetus to consumption (propensity to Consume). The American people live in consumerism beyond the ability of the income received. They live in debt, shopping with credit. As a result, the financial institutions that provide the credit went bankrupt due to loss of liquidity, as the accounts receivable of the company has been mortgaged to institutional lenders. In the end, the companies went bankrupt because they could not pay the entirety of what they owed. The crisis led to the collapse of financial companies, such as Lehman Brothers. The crisis continued to propagate to the real-estate sector and other non-financial sectors worldwide. The financial crisis in the United States in the early and mid-2008 has led to a decrease in the purchasing power of the United States; the USA is known as the largest consumer of top products from various countries around the world. A decrease in absorbance of markets caused the volume of imports to drop dramatically meaning the declining exports of countries that produce various products that are consumed or required by the United States. Due to the fact that the economy of the United States is very large; its impact on all exporting countries around the world becomes serious, especially countries that rely on exports to the United States.[3]

To cope with the possibilities of another crisis, requires the existence of a system which can provide legal protection for client funds. Discussing the forms of legal protection of customer funds, a depository can be categorized into two forms, namely indirectly and direct judicial protection. Indirect protection is a legal protection that is given to the customer at the depository of funds against any risk of loss arising from business activities conducted by the bank, it is embodied in an act of prevention that is internally done by the corresponding bank; the application of the precautionary principle, the application of the maximum limit of granting of credit (BPMK), the obligation to announce the balance sheet and the profit and loss calculation on the implementation of the merger, consolidation and acquisition of the bank. Meanwhile the direct protection is a form of protection provided to the customer directly against the possibility of the incidence risk of business activities of the bank; the granting of the right of preferred clients and deposit insurance agency.[4]

The protection given by the government in ensuring the community's deposits is important, this is the main purpose of the Indonesia banking to support system, the implementation of national development, in order to improve the economic growth and national stability towards the improvement of people's welfare, through any intermediary scheme i.e. gathering

[3] https://elsaryan.wordpress.com/2009/09/08/krisis-ekonomi-global-2008-serta-dampaknya-bagi-perekonomian-indonesia/, diakses pada tanggal 17 Agustus 2018.
[4] Hermansyah, 2005, Hukum Perbankan Nasional Indonesia, Kencana Prenada, Jakarta, h. 147-156.

and distributing funds to the community (Zhang, 2017; Hussain et al., 2019). The exit policy of the banks, as provided for in Article 37 the numbers 2 and 3 of the banking law, is the last effort that can be performed by the central banks, this is due to the fact that liquidation could have a negative impact to the system of the entire national economy. A banking authority should not simply liquidate a bank. Given the impact of liquidation, the governing body should pay attention to all aspects that can promote the stability of the bank. This is the spirit of the LPS in maintaining a climate of stability for the national economy. The emphasis is not only limited to the liquidation of the bank, but the government is also expected to make an effort help the Bank out of trouble in order to protect the interests of the customer.

Conclusion

The importance of the functions of the government in maintaining the stability of the banking system has given rise to the attribution of authority for the government to formulate a policy in maintaining the stability of the banking system; the potential systematic impacts of failing banks is too large to ignore. Therefore, the formulation of policies in an effort to maintain economic stability should be immediately updated and refined, given the very complex issues that can arise in global economic activity. The legislation has given authority for the government to formulate and define policies in an effort to deal with the potential for failed bank, as well as in the maintenance of banking stability, through the instruments of guarantees.

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