Efficiency of the Intermediation Function of Regional Development Bank (BPD) in Indonesia

Alamsyah Yasir(✉), Muhammad Ali, Muhammad Sobarsyah, and Abdullah Sanusi

Hasanuddin University, Makassar, Indonesia
alamsyahyasir@gmail.com

Abstract. The purpose of this study is to analyze the efficiency of the intermediation function of Regional Development Banks throughout Indonesia by looking at the development of the level of Loan to Deposit Ratio (LDR). This study uses a quantitative approach by descriptively explaining the results and analyzing the efficiency of the intermediation function of Indonesia's regional development banks (BPD) over the period 2021 using Loan to Deposit Ratio (LDR) analysis. This study uses a sample of all Indonesian Regional Development Banks (BPD). Data from this survey were collected from Bank Indonesia and Financial Services Authority (OJK). The results of this study indicate that the Loan to Deposit Ratio (LDR) of Regional Development Banks in Indonesia during the study period was very good because it did not exceed the maximum limit set by Bank Indonesia of 110%, but there was a decrease every year during the time this research was conducted.

Keywords: Efficiency of Intermediation Function · Loan to Deposit Ratio

1 Introduction

Banking is a financial institution that has a role as an intermediary or financial intermediary. In the changing economic environment and developments in the financial market, the banking intermediation function also changed. Developments that occurred, especially in information technology, deregulation, liberalization, and internationalization, caused the theory of financial intermediation to be considered irrelevant to the current situation in the banking industry. This resulted in the intermediation function shifting to the capital market and other financial institutions such as insurance. The liberalization of financial institutions can be seen from their operating system in facilitating the public to save assets and make investments and causing disintermediation in the banking industry.

The main function of a bank is that of a financial intermediary, acting as an intermediary for parties with surplus funds to those in need of funds. This intermediary function arises from high oversight overhead, liquidity costs, and price risks due to information asymmetries between fund owners and fund users, and requires an intermediary to coordinate the needs of both parties [5].

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The role of banks as financial intermediaries is expected to support the economic development of both domestic and regional economies. As part of the financial system, banks' contribution to the economy can be measured by the degree of economic progress and the extent to which banks can act as financial intermediaries. Bank contribution can be measured as the percentage of credit the banking sector provides through loans, asset purchases, and other claims. Bank Indonesia's Circular Letter (2011) states that the functioning of bank intermediation can be measured by the loan-to-debt ratio (LDR). This ratio indicates a bank's ability to redirect existing funds to the bank.

Banking efficiency is one of the key performance indicators to consider when measuring a bank's ability to become a sound and sustainable financial institution. Efficient banking can maintain customer loyalty, so banking efficiency is generally measured by the ability of a bank to optimally perform its intermediation function by lending cheaply.

[6] distinguishes efficiency into two types, namely technical efficiency from a microeconomic perspective and economic efficiency from a macroeconomic perspective. Technical efficiency states the relationship between inputs and outputs in a production process. Whereas in economic efficiency, companies must choose a combination of input and output levels such as minimizing costs (input approach) or maximizing profits (output approach) to optimize economic goals.

Efficiency in the banking industry needs to be done to improve banking performance. These results will be a stimulus for banks to compete with each other in achieving optimal performance. [2], considers that banking efficiency cannot be done partially, such as sales per employee or profit per employee, but is carried out comprehensively by taking into account all inputs and outputs that maximize profits.

[3] divides efficiency into two parts. Technical efficiency, which represents the firm's ability to produce the maximum output from various kinds of predetermined inputs, and allocative efficiency, which represents the firm's ability to use various kinds of inputs in an optimal production scale.

2 Method

This study uses a quantitative approach by descriptively explaining the results and analyzing the efficiency of the intermediation function of Indonesia's regional development banks (BPD) over the period 2021 using Loan to Deposit Ratio analysis. This study uses a sample of all Indonesian Regional Development Banks (BPD). Data from this survey comes from Bank Indonesia and Financial Services Authority (OJK).

3 Result and Discussion

3.1 Result

The Table 1 shows the development of intermediation efficiency of Regional Development Banks throughout Indonesia in 2017–2021 fluctuating and still in the efficient category in accordance with Bank Indonesia circular letter No. 3/30 DPNP dated December 14, 2001 regarding the amount of Loan to Deposit Ratio.

Table 1. Loan to Deposit Ratio calculation results Regional Development Banks in Indonesia (2017–2021)

Year	Total Loans (Juta) (1)	Deposits from Customers (Juta) (2)	Loan to Deposit Ratio (1:2) x 100%
2021	153,629,268	191,918,749	80.05
2020	189,387,858	236,881,290	79.95
2019	181,370,881	213,771,637	84.84
2018	164,367,114	188,687,807	87.11
2017	122,796,499	128,997,618	95.19

Source: Processed Data

The loan-to-deposit ratio (LDR) is the ratio of the total loan amount to the customer's deposit. The loan amount determines the bank's profit. If a bank is unable to disburse a loan despite having a large number of funds raised, the bank will end up incurring losses.

3.2 Discussion

After calculating the efficiency of the intermediation function of regional development banks throughout Indonesia, the overall efficiency is very high. We can see that his LDR calculation for regional development banks across Indonesia was 95.19% in 2017, but has been declining year by year.

The results of this study are consistent with studies conducted by (Hidayah, 2014), who also reached the same conclusions as this study. Overall, this indicates that traditional banking is superior to Islamic banking. Similarly, a study by (Saeed, 2013) shows that traditional banks outperform Islamic banks.

4 Conclusion

Loan-Deposit Ratio (LDR) Regional Development Banks across Indonesia performed very well during the period, staying within the 110% set by Bank Indonesia. Similar to Deposits from customers (DPK) successfully collected by regional development banks across Indonesia, loans disbursed decreased each year in the loan-to-deposit (LDR) ratio during the study period 2017–2021. It shows a trend. The highest LDR score was 95% in 2017. This proves that regional development banks across Indonesia are transforming intermediary efficiency for the better by increasing the number of loans disbursed year-on-year. 75%–110%

The role of banks as intermediaries is expected to remain stable even when the country is hit by economic turmoil. Because bank liquidity is fragile and can be suddenly withdrawn from the bank. Sudden changes (shocks) can lead to the emergence of liquidity spirals, causing banks to lose liquidity and leading to financial crises. Historically, the main cause of banking crises that have occurred has been the liquidity squeeze in banks, which has resulted in banks being unable to meet most of their obligations.

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