INVESTIGATION OF DEPOSITORS’ MARKET DISCIPLINE AWARENESS IN INDONESIA’S BANKING SECTOR

Paramita Mentari Kesuma Putri  0700704311

Abstract

There is a rising importance of implementing ‘Market Discipline’ in Indonesia’s banking sector, due to the increasing needs to enhance the safety and soundness of banks. As designated by the Basel Committee on Banking Supervision, Market Discipline becomes the Third Pillar in Basel II regulations.

In its Consultative Paper I, Bank Indonesia stated that it will start to implement Basel II regulations gradually in Indonesian banks in 2008. Yet, there is still scarce information on Market Discipline’s effectiveness in Indonesia. Therefore, the author aims to investigate depositors’ understanding of bank risks and concern for banks’ financial information. The relationships between the amounts of deposits, level of education, and age with depositors’ Market Discipline awareness are also investigated.

In order to obtain data for this exploratory study, the author distributed questionnaires to 200 depositors, conducted library research and interviewed an analyst from Bank Indonesia. Convenience sampling was used on the population of BiNus University. Data were analyzed using Independent Samples t-Test and One-Way ANOVA Methods, to test the populations’ means.

The results revealed that the majority of Indonesia’s depositors are not aware of bank risks concept, recent bank regulations and the importance of bank’s financial information. They also have low understanding and concern of banks’ financial information. Furthermore, the author found that one’s deposit amount in a bank, level of education, and ages do not inevitably improve one’s Market Discipline awareness. In conclusion, the Market Discipline awareness of Indonesia’s depositors is still lacking, which implies the deficiency in Market Discipline effectiveness in Indonesia’s banking sector.

Key Words