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Indonesia Deposit Insurance Corporation

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Abstract

To address the risk of capital flight to neighboring countries during the Global Financial Crisis, the Indonesian government raised the limit on insured deposits 20-fold from IDR 100 million to IDR 2 billion per account (about USD 200,000). The President issued two government regulations on October 13, 2008. The first was an emergency decree that authorized the government, in consultation with the Indonesian Parliament, to alter the limit in times of systemic financial distress. The second was a government regulation enacting the actual increase, which has remained in effect since the crisis. All banks operating within Indonesia, including branches of foreign banks conducting business in the country, were required to be members of the IDIC and therefore covered by the guarantee. Covered forms of deposit accounts included current accounts, term deposits, certificates of deposit, savings accounts, and Sharia-based (Islamic) accounts. As a direct result of the insurance increase, total insured deposits doubled to IDR 957.4 trillion between October and December 2008. By year-end 2009, the IDIC had paid out IDR 557.6 billion to eligible depositors at 21 relatively small liquidated banks. Evaluations of the program were mixed: although the intervention was seen as having contributed to the stabilization of the banking system, some commentators suggest that the government should have enacted a blanket guarantee for all deposit accounts, which had been in place between 1998 and 2006.

Keywords: Account guarantees, Global Financial Crisis, Indonesia, Indonesia Deposit Insurance Corporation, Lembaga Penjamin Simpanan

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

The Global Financial Crisis (GFC) of 2008 severely impacted economies and financial systems around the world, causing widespread market liquidity shortages, bank failures, and precipitous declines in public confidence. Although none of Indonesia's banks were directly exposed to US subprime mortgage markets, the global contagion prompted an unexpected decline in interbank lending, the depreciation of the Rupiah, and a contraction in non-oil and gas exports (Saheruddin 2017; Asian Development Bank 2009). The government acted swiftly to bolster the central bank's lender-of-last-resort functions, ease liquidity through monetary expansion, and strengthen the administrative and coordinating capacities of the Ministry of Finance, Bank Indonesia, and the Indonesia Deposit Insurance Corporation (IDIC) (Asian Development Bank 2009).

These interventions, however, did not completely address the risk of capital outflows from Indonesian banks to neighboring jurisdictions such as Singapore, Malaysia, Australia, and Hong Kong, whose governments had increased their deposit insurance coverage during the crisis (Kariastanto 2011; Hadad et al. 2010). To promote confidence in domestic banks, the Indonesian President issued two regulations on October 13, 2008. The first was an emergency decree allowing the government to alter the cap on insured deposits in the case of a substantial threat to the financial system (GoI 2008a). The second raised the limit from IDR 100 million to IDR 2 billion (about USD 200,000)[3] per deposit account (GoI 2008b; GoI 2008b).

Key Terms

Purpose: To preserve public confidence in the domestic banking sector, prevent capital flight to neighboring countries, and otherwise preempt the potentially severe impacts of the Global Financial Crisis on the Indonesian economy (IDIC 2009; Hadad et al. 2010)	
Launch Dates	Announcement: Oct. 13, 2008 Authorization: Oct. 13, 2008 Operation: Oct. 13, 2008
End Date	Permanent change to the deposit insurance system
Eligible Institutions	All banks that operate within the territory of the Republic of Indonesia
Eligible Accounts	Current accounts, term deposits, certificates of deposit, savings accounts, and similar Islamic accounts
Fees	Existing insurance premium of 0.1% of the average six-month balance of total monthly deposits; no additional fees
Size of Guarantee	IDR 2 billion
Coverage	At year-end 2008, 82.6 million deposit accounts covered, worth IDR 957.4 trillion
Outcomes	IDR 557.6 billion paid out to depositors at 21 banks by the end of 2009
Notable Features	The government created the legal authority to alter the deposit insurance limit in response to systemic risk

[3] On Oct. 1, 2008, 1 USD = IDR 9,824, per Yahoo Finance.

Because IDIC membership is compulsory for all banks operating within Indonesia, including branches of foreign banks that conduct business in the country, the deposit insurance increase was involuntary and applied to over 82.6 billion deposit accounts worth IDR 957.4 trillion (IDIC 2009). Eligible accounts included current accounts, term deposits, certificates of deposit, savings accounts, and similar Sharia-based (Islamic) accounts (IDIC 2009). The IDIC was initially funded in 2005 with a founding capital injection of IDR 4 trillion. It also collects mandatory membership fees and quarterly insurance premiums, and earns investment returns on its insurance reserves (IDIC n.d.b). Depositors in failed banks could exercise the guarantee by following the procedures normally used in non-crisis times, which could result in payments taking up to 90 days (IDIC n.d.e).

On January 13, 2009, the Indonesian Parliament passed Law No. 3/2009, codifying the government's authority to adjust the limit on insured deposits using the language of the emergency decree (GoI 2009). The IDR 2 billion cap has remained in effect since its establishment (IDIC n.d.a).

Summary Evaluation

While it is difficult to discern the effect of the deposit insurance increase in isolation, sources provide mixed reviews. In a working paper, IDIC employee Herman Saheruddin (2017) said that the central bank believed the increase in coverage had "successfully restored" stability in the Indonesian banking sector during the crisis (2017). However, he finds "some evidence of material increase" in risk-taking by private banks following the government's intervention (2017).

According to another source, the government was not entirely successful in stemming capital outflows (Jameaba 2018). Some commentators therefore called for the adoption of a full blanket guarantee, similar to that enacted in Singapore and Malaysia and to the guarantee Indonesia had in place from 1998 to 2006. Basri and Rahardja (2010) demonstrate that this difference in insurance provision led to arbitrage pressures. The authors also report that Indonesia still experienced "flights to quality" as depositors moved their funds to large private banks and state banks of any size, which deepened the balance of liquidity and fragmentation in the banking system (Basri and Rahardja 2010).

Despite the improvement in bank capital, the decline in non-performing loans, and an influx of third-party deposits, Indonesia's banking assets and liabilities were slow to recover in 2008 (IDIC 2009). The IDIC directly attributed this phenomenon to the increased cap on deposit insurance (IDIC 2009).

Context: Indonesia 2007–2008	
GDP (SAAR, nominal GDP in LCU converted to USD)	\$432.4 billion in 2007 \$532.1 billion in 2008
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	\$1,860 in 2007 \$2,167 in 2008
Sovereign credit rating (five-year senior debt)	Data for 2007: Moody's: Ba3 S&P: BB+ Fitch: BB- Data for 2008: Moody's: Ba3 S&P: BB+ Fitch: BB
Size of banking system	\$147.9 billion in 2007 \$172.3 billion in 2008
Size of banking system as a percentage of GDP	34.2% in 2007 30.6% in 2008
Size of banking system as a percentage of financial system	100% in 2007 100% in 2008
Five-bank concentration of banking system	58.8% in 2007 59.3% in 2008
Foreign involvement in banking system	23% in 2007 23% in 2008
Government ownership of banking system	Data not available for 2007 38% in 2008
Existence of deposit insurance	Yes, in 2007 Yes, in 2008
Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. **Purpose: The Government of Indonesia instituted the deposit insurance increase to preempt bank runs associated with the Global Financial Crisis (GFC).**

Indonesia's President issued two crisis-related regulations to increase the limit on deposit insurance (GoI 2008a; GoI 2008b). Both cited the need to anticipate the effects of the GFC on Indonesia's banking system, including the potential for bank runs due to a loss of public confidence (GoI 2008a; GoI 2008b). Observers considered the measure to be an attempt to prevent further capital flight to neighboring jurisdictions that had decided to temporarily adopt unlimited guarantees on deposits, including Singapore, Malaysia, and Hong Kong (Hadad et al. 2010; Asian Development Bank 2009).

2. **Part of a Package: In addition to raising the limit on deposit insurance, the Government of Indonesia strengthened Bank Indonesia's capacities to act as lender of last resort and eased liquidity strains through monetary expansion.**

Although the direct effects of the GFC on Indonesia's banking system were not as severe as those in neighboring countries, an unexpected squeeze on US dollar lines and large capital outflows did generate some concern about domestic financial stability (Asian Development Bank 2009). Meanwhile, interbank lending suffered from a sharp decrease in market liquidity, share prices dropped precipitously, and the Rupiah's exchange rate tumbled (IDIC 2009). In response, the government enacted a series of stabilization measures over the course of October 2008 to promote confidence in the financial system (Asian Development Bank 2009). The package included strengthening Bank Indonesia's capacity to act as lender of last resort, easing liquidity through monetary expansion, and increasing deposit insurance coverage (Asian Development Bank 2009).

The IDIC was also charged with the resolution and restructuring of PT Bank Century Tbk, a systemically important bank, in November 2008 (IDIC 2009).

3. **Legal Authority: The President of Indonesia issued two regulations granting the government the authority to raise the limit on deposit insurance and then raising it to IDR 2 billion per account. The Parliament formalized this power in 2009.**

On October 13, 2008, the President of Indonesia promulgated Government Regulation In Lieu of Law No. 3/2008,[4] an emergency decree that allowed the government, in consultation with the Indonesian Parliament, to alter the amount of deposits insured if there were a risk that could reduce public confidence in the stability of the financial system (GoI 2008a, 3). In its preamble, the decree cited the necessity of altering the existing law in light of the destabilizing impacts of the GFC (GoI 2008a). It stipulated that the government could alter

[4] A Government Regulation in Lieu of Law is a statutory regulation that can be stipulated by the President of the Republic of Indonesia during a state of emergency (Hamzah, Narang, and Yusari 2021).

the deposit insurance limit in the following situations, after consulting with the Indonesian Parliament:

(a) There are simultaneous bank runs,

(b) There is significant inflation lasting more than a year,

(c) The number of insured depositors accounts for less than 90% of total accounts at all banks, or

(d) "There is a threat of crisis which potentially leads to the decrease of public confidence in banking and could harm the stability of the financial system" (GoI 2008b, 2).

On the same day, the President issued Government Regulation No. 66/2008, indefinitely increasing the limit for each deposit account from IDR 100 million to IDR 2 billion (GoI 2008b, 2).

The Indonesian Parliament voted the emergency decree into law on January 13, 2009, preserving the government's ability to alter the deposit insurance limit as it deemed necessary (GoI 2009). This legislation, Law No. 7/2009, noted that public confidence in banking was critical to the stability of the Indonesian financial system (GoI 2009).

4. Administration: The IDIC was responsible for administering Indonesia's deposit insurance program.

Sources consulted did not specify any coordination between the IDIC and other government agencies or private entities.

5. Governance: The IDIC was governed by a six-member Board of Commissioners and a chief executive officer.

As the decision-making body within the IDIC, the Board of Commissioners was responsible for administering the organization and determining its policies (IDIC 2009). The Board, which was wholly appointed by the President and led by a chairman, consisted of six individuals: three Ex-Officio members, representing the Ministry of Finance, Bank Indonesia, and the Bank Supervisory Institution; and three IDIC officials (IDIC 2009). The chairman of the Board and the chief executive officer were chosen internally among the members of the Board (IDIC 2009).

All divisions of the IDIC were subject to internal examinations conducted by the Audit Committee, as well as reviews by "external counterparts" (IDIC 2009).

Every commercial bank was obligated to submit detailed monthly financial reports, which the IDIC used to calculate individual premiums (IDIC 2009). These reports also included the bank's balance sheet, a profit and loss statement, an administrative account, and a list of liabilities owed to other banks (IDIC n.d.c). Rural banks[5] were similarly required to submit semiannual financial reports detailing balance-sheet information, a profit and loss statement, a list of liabilities owed to other banks, and a list of credits extended (IDIC n.d.c).

Commercial and rural banks were also mandated to submit deposit status reports on a monthly and semiannual basis, respectively (IDIC n.d.c). Additionally, any bank that experiences a change in administration, shareholder structure, or controlling structure must also submit a report to the IDIC (IDIC n.d.c).

6. Communication: It appears that the Government of Indonesia did not widely publicize the deposit insurance increase.

Sources consulted do not describe government communications or public reactions related to the intervention.

In its preamble, Government Regulation in Lieu of Law No. 3/2008 cited the necessity of altering the existing law in light of the destabilizing impacts of the Global Financial Crisis (GoI 2008a). The government later reaffirmed its commitment to maintaining public trust in the stability of the Indonesian financial system in Law No. 7/2009 (GoI 2009).

7. Size of Guarantees: The Government of Indonesia increased the limit on deposit insurance from IDR 100 million to IDR 2 billion per depositor.

The government had implemented a blanket guarantee until March 2006, at which point it gradually lowered the limit to IDR 100 million by March 2007 (IDIC 2007).

The monthly balance of total deposits generally increased throughout 2008 (IDIC 2009). Total insured deposits doubled to IDR 957.4 trillion between October and December 2008, which the IDIC attributed directly to the new insurance limit (IDIC 2009). The IDIC also reported that it had paid out IDR 557.6 billion to depositors at 21 liquidated banks in 2008 and 2009 (IDIC 2010).

In the event of a bank failure, the IDIC calculated eligible insured deposits based on each depositor's balance on the date Bank Indonesia revoked the bank's license (IDIC 2009). The total amount included the initial balance plus interest (or return, in the case of Islamic banks) and, for discount rate-based deposits, the present value with a discount rate as stated on the applicable *biljet* (banknote) (IDIC 2009).

[5] Commercial banks include foreign banks, joint-venture banks, privately-owned local banks, regional development banks, and state-owned banks, while rural banks (Bank Perkreditan Rakyat*)* are microfinance institutions that serve agrarian populations and do not provide payment transfers (IDIC 2009; Wasiaturrahma et al. 2020).

8. Source(s) and Size of Funding: In addition to the government's founding IDR 4 trillion capital injection, the IDIC derived its funding from membership fees, insurance premiums, and earnings on its insurance reserve investments.

In September 2005, the government established a new deposit insurance agency, Lembaga Penjamin Simpanan (Indonesia Deposit Insurance Corporation), injecting it with initial capital of IDR 4 trillion in allocated state assets (IDIC n.d.b). The IDIC has since received additional funding from its compulsory one-time membership fees, semesterly insurance premiums, and earnings on its insurance reserve investments (IDIC n.d.b).

The IDIC's goal was to build its deposit insurance fund to 0.5% of estimated insured deposits by 2010, which represented a target of about IDR 10 trillion that shifted each year as it improved its data about banks' risk exposures. The provision for insurance claims—its deposit insurance fund—stood at IDR 5.1 trillion at the end of 2008 and IDR 7.3 trillion at the end of 2009 (IDIC 2010).

The government publicly committed to lending to the IDIC in the case of a liquidity shortage that resulted in its inability to pay deposit insurance claims (IDIC n.d.b). Additionally, with approval from the parliament, the government had the authority to recapitalize the IDIC if it were threatened with insolvency (IDIC n.d.b).

9. Eligible Institutions: All commercial banks operating within Indonesia, including branch offices of foreign banks, were required by law to become members of the IDIC.

The increase in deposit insurance automatically applied to all IDIC members (GoI 2008b). All commercial banks, branch offices of banks domiciled overseas that conduct business within the Republic of Indonesia, and conventional or Islamic rural banks were obligated by the government to maintain membership with the IDIC (IDIC n.d.d). The IDIC does not cover branch offices of banks domiciled in Indonesia that operate outside of the country (IDIC n.d.d).

By year-end 2008, the IDIC had registered a total of 2,047 banks, including 124 commercial banks, 1,792 conventional rural banks, and 131 Islamic rural banks (IDIC 2009).

10. Eligible Accounts: IDIC insurance covered all bank deposits held within current accounts, term deposits, certificates of deposit, savings accounts, and Sharia-based (Islamic) deposits.

Sharia-based (Islamic) deposits could take the form of Wadiah-based current accounts and saving accounts, savings accounts or term deposits that adhered to the principles of Mudharabah Muthlaqah or Mudharabah Muqayyadah and whose risks were borne by the bank, and other Sharia-based deposits approved by both the IDIC and the Banking Supervisory Authority (IDIC 2009).

11. Fees: Participants did not have to pay additional fees beyond the mandatory IDIC membership contribution and insurance premiums.

Each bank pays semiannual premiums equal to 0.1% of the average six-month balance of total monthly deposits (IDIC 2008, 43). The IDIC does not require member institutions to carry co-insurance or pay risk-based premiums (Saheruddin 2017, 5).[6]

12. Process for Exercising Guarantee: The process for exercising the guarantee remained unchanged from non-crisis times and could result in payments taking up to 90 days.

Following the revocation of a bank's license by Bank Indonesia and the submission of an insurance claim on deposits, the IDIC would initiate a verification and reconciliation process for determining each deposit's eligibility for payment (IDIC 2009). The IDIC then had five working days from the starting date of the verification process to begin paying out claims (IDIC 2009). However, the procedure for determining eligibility could take up to 90 working days from the date of license revocation (IDIC 2009). The IDIC was required to announce the date of initial claim submission in at least two nationally circulated publications (IDIC 2009).

According to Law No. 24/2004, as amended by Law No. 7/2009, banks could submit insurance claims to the IDIC up to five years from the date of license revocation (GoI 2009; IDIC 2009). Depositors looking to receive an insurance payout through the IDIC had to provide official documentation to prove their identity and deposit ownership; those who were unable to do so were deemed ineligible to receive compensation (IDIC n.d.e).

13. Other Restrictions on Eligible Institutions/Accounts: Eligible institutions were not expected to adhere to additional restrictions as a result of the increased guarantee.

The IDIC deemed deposits ineligible for payout if the depositor was considered to have benefited "in an unusual manner" from their account—for example, by taking advantage of interest rates that exceeded the IDIC's published rates (IDIC 2009).

A depositor could also be ineligible if it had contributed in any way to the bank's failure (for example, if it was a debtor who held a nonperforming loan) (IDIC 2009). Depositors of failed banks whose shareholders elected to undertake their own resolution and restructuring procedures without IDIC assistance were also not eligible to receive insurance coverage (IDIC 2009).

[6] For more information on the membership contribution, please refer to Key Design Decision 8: Source(s) and Size of Funding.

14. Duration: The Government of Indonesia did not announce an expiration date for the new deposit insurance limit.

The Indonesian program did not specify an end date (GoI 2008b; Saheruddin 2017). As of June 2022, the IDIC's deposit insurance remains capped at IDR 2 billion per depositor (IDIC n.d.a).

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