

ABSTRACT

The objective of this study is to examine the role of corrective dynamic market discipline as a mediating factor of the influence of deposit insurance system on moral hazard and its impact on bank risk in Indonesia dual banking system. This research uses the data of conventional and sharia commercial banks from Bank Indonesia database over the period 2005-2011. The research model is using path analysis and the data is processed with AMOS 21.0

The study results several findings that support proposed hypotheses. First, deposit insurance system based on paid premium ratio has a negative influence on the solvency ratio. The result indicates the presence of moral hazard behavior. Second, deposit insurance system based on maximum coverage also negatively affects on solvency ratio and it indicates the presence of bank moral hazard. Third, deposit insurance system based on paid premium ratio has negative influence on corrective dynamic market discipline. The result shows market sensitivity on the scheme of deposit insurance premium change. Fourth, corrective dynamic market discipline has a positive effect on bank risk. Fifth, moral hazard in solvency ratio has a negative influence on bank risk so that support to put option theory. While deposit insurance system based on paid premium ratio dan deposit insurance system based on maximum coverage do not affect on the solvency ratio and bank risk.

This research also finds the influence of mediating factors. First, corrective dynamic market discipline mediates the influence of deposit insurance system based on paid premium ratio to bank risk. Second, moral hazard in solvency ratio mediates the influence of deposit insurance system based on paid premium ratio to bank risk. Third, moral hazard in solvency ratio mediates the influence of deposit insurance system based on maximum coverage to bank risk. While corrective dynamic market discipline does not mediate the influence of deposit insurance system based on paid premium ratio on moral hazard in solvency ratio. Corrective dynamic market discipline and moral hazard in solvency ratio simultaneously do not mediate the influence of deposit insurance system based on paid premium ratio into bank risk. The result of this research also recommend to the implementation of risk-based deposit premium in order to alleviate moral hazard and bank risk so that bank with high risk have to pay higher deposit premium than bank with lower risk.

Keywords: Deposit Insurance, Moral Hazard, Market Discipline, Bank Risk