



Effect of Third Party Funds and BI Rate on Credit Distribution of BNI



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Abstract

This study aims to examine the effect of third-party funds and BI Rate to Bank BNI lending in the period of 2010 until the third quarter of 2016 with multiple linear regression analysis methods. The results of this research to produce numbers R square of 98.5% means that independent variables can explain 98.5% of the dependent variable and the rest is explained by other variables not examined by the independent variables used simultaneously significant effect on lending. While partially, third party funds and a significant positive effect on credit distribution mean when the deposits rise, the loan portfolio also increased and vice versa. While the BI Rate has no effect on credit in a positive direction. The suggestions that could be recommended include increasing third party funds by improving the performance of employees or gift for the customer in order to get more fund: Optimization lending to the public in accordance with the function of the bank; and using regression analysis with a distributed lag models for further research so that better results.

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1 Introduction

Economic growth is one of the problems macroeconomic will always be faced by a country. Sukirno (2006), define economic growth as development activities in the economy that led to the goods and services produced within the community increases. Meanwhile, Riggs & Bonk (2008), says there are several ways to measure economic growth. It is most commonly performed to measure economic growth is to calculate the total value of goods and services produced within a country. This value is commonly known as the Gross Domestic Product (GDP). Furthermore, Riggs & Bonk (2008), suggest that the rate of economic growth is influenced by several factors. Among these are natural resources, human resources, capital and technology. The first factor is a natural resource that is available to be processed into a product. These factors play an important role in the efficiency and productivity of the economy. Another factor is the human resources focused on the quality of the workforce include education and skills of the human resources. Then there is the factor of capital required for a country to build factories and business facilities, this factor also played a very important role in economic growth. The latter is a factor of technology adoption in economic activities that could increase the potential for economic growth. These factors also play a very important role in economic growth. The latter is a factor of technology adoption in economic activities that could increase the potential for economic growth. The latter is a factor of technology adoption in economic activities that could increase the potential for economic growth.

Factors of natural resources, human resources, capital, and technology are factors that affect the potential for the production of goods and services in a country. These factors can increase or addition of both quantity and quality. Especially human resources can be increased rapidly along with the increase in the number of birth, education and work experience. Likewise, in terms of technological development so rapidly evolving. While the investment will increase the number of capital goods. The problem is the development of the ability to produce goods and services as a result of the increase of production factors, in general, are not always followed by the addition of production of goods and services of the same magnitude. Often the addition of the potential of producing greater than the addition of the actual production (Mehta, 2016; Melaning & Giantari, 2019).

To compensate for the additional potential to produce and increase the actual production will be established macroeconomic policies. The macroeconomic policy carried out among others in terms of the policy that deals with improving the efficiency of corporate activities and employment through the creation of a conducive atmosphere for business development.

The efficient use of manpower and business development could begin by empowering people in entrepreneurial activity both in the micro, small and medium enterprises. Regarding the entrepreneurial activity in the micro and small scale, Sriram & Mersha (2010), says that "Entrepreneurship is lauded as an engine of economic development and job creation, and Small Medium Enterprises (SMEs) Often create most of the new jobs in the economy." In addition to that, Tambunan (2012), says that the characteristics of the Micro, Small and Medium Enterprises (SMEs) are very labor-intensive, and therefore have the potential for growth is huge employment opportunities. The growth of SMEs can be included as an important element of national policies to promote employment and generate income, especially for the poor.

A study offers the perfect solution that can be applied to the government in supporting the growth and development of entrepreneurial micro and small in order to realize the welfare of society as part of the development of the national economy as a whole, "One solution that has recently gained attention particularly subject in the context of developing economies is the concept of microcredit".

Microcredit is loans to micro-entrepreneurs. According to the Banking Act No. 10/1998 definition of credit is the provision of cash or the equivalent, based on agreements between bank lending and other parties who require the borrower to pay off debt after a certain period of time with interest.

Bank became the lender to the debtor (borrower) can not be separated from the function and role of banks proposed by Rival *et al.* (2013), in accordance with Act No. 10/1998, which defines a bank as a business entity that collects funds from the public in the form of savings and channel them to the public in the form of loans or other forms in order to improve the lives of many. Abu & Ezike (2012), said that the role of the bank as a

business entity channeling funds to communities in the form of credit, especially for the development of entrepreneurship is considered very large.

One of the goals the bank gave credit for customers by Rival *et al.* (2013), is as a medium for the banks in contributing to the development. In addition, Rival *et al.* (2013), says that the function of credit provided by the bank is a bridge to increase national income. The existence of the bank very close to the people. Banks were able to reach more levels of society. According to Stuart in Rival *et al.* (2013), the bank is an entity that aims to satisfy the needs of the credit, either by means of their own payments, with the money he earned from others, as well as with the tools circulate the money changers in the form of demand deposits. Meanwhile, according to Perry in Rival *et al.* (2013), the bank is a business entity whose transactions related to money,

According to the Banking Law No. 10 of 1998, the credit is the provision of cash or the equivalent, based on agreements between bank lending and other parties who require the borrower to pay off debt after a certain period of time with interest.

In a broad sense definition of credit is defined as belief. Similarly, credit in Latin means "credere" means to believe. The purpose of the trust for the lender is a credit to the recipient's confidence that the distributed credit will certainly be returned as per the agreement. As for credit recipients constitutes acceptance of the confidence that has the obligation to pay the corresponding period

The main purpose of a credit-granting are as follows:

- a) Profit
That aims to gain from granting the credit. These results mainly in the form of interest received by the bank as remuneration and credit administration costs charged to customers. This advantage is important for the survival of the bank. If the bank constantly suffered a loss, it is likely that the bank will be liquidated (dissolved).
- b) Helping the customer's business
Another aim is to help business customers who need funds, both investment funds and funds for working capital. With these funds, the debtor will be able to develop and expand its business.
- c) Assisting the government
For more and more government loans extended by the banking sector, the better, given more credit means an increase in development in various sectors.

The advantage for the government to spread the credit is as follows:

- a) Tax revenue from profits earned customer and the bank.
- b) Employment opportunities, in this case for a new business development credit or business expansion, will require new workers so it can suck the labor force still unemployed.
- c) Increasing the number of goods and services, it is clear that most of the loans will be able to increase the number of goods and services that are circulating in the community.
- d) Save foreign exchange, especially for products previously imported and when they can be produced in the country with existing credit facilities will clearly be able to save foreign exchange.
- e) Increasing foreign exchange, if the product of credit financed for export

Total loans extended by banks to the public according to Sudirman (2013), is one form of use bank funds that generate income in the form of bank lending. Total loans extended by a bank to the public funds sourced from the relevant bank.

Furthermore, Sudirman (2013), argues that bank funds can be differentiated based on their sources and collection. Bank funds by source can be divided into:

- a) Bank funds sourced from outside the bank or from the public is also called a third party or third party funds of funds in the form of current accounts, savings, deposits, and loans, and other forms equivalent. Third-party funds are owed to the bank so that in time the funds will be withdrawn by the public. What is meant by society are individuals, groups and organizations or certain legal entities. What is meant by the institution is a financial institution bank and non-bank financial institutions.

- b) Bank funds sourced from the bank called its own funds in the form of capital subscribed by the owner of the bank or by the bank's shareholders, retained earnings, current earnings, and reserves. Capital subscribed by the bank's owners or shareholders of the bank is the amount of cash held by the bank's owners or shareholders of the bank are sourced from loans not paid in cash in the bank as additional capital and receipt. Retained earnings are the bank's net profit after tax. Profit walking is the bank's profit before closing the books at the end of the calendar year, namely 31 December. The reserve is part of retained earnings is intended as a general reserve as well as a special reserve.

Total Third-party funds collected by the bank are one measure of the success of the bank according to its function as a community fundraiser. Banks have the flexibility to raise funds from the public so that the bank has a high ability to extend credit to the public. A high ability to extend credit to the public is comparable proportional to the number of credits that can be offered by the bank.

In addition to coming from the source bank funds, the BI rate also determines the loan portfolio. Where BI rate will affect interest rates, both the fund's rate and the lending rate. It becomes a factor for people to borrow and distributing the funds to the bank.

The monetary crisis in 1997, has dragged banking in conditions which make the limit on the verge of destruction decreased sufficiently large bank capital (Siamat, 2005). Such activities caused by lending do not effectively thus increasing bad debts in the banking sector makes revenue decline and weakens the ability of the relevant bank liquidity.

With the worsening of the crisis, intermediation activities in the financial sector, especially banking hiccup. This resulted in a contraction of economic activity experienced a sharp so that overall GDP in 1998 dropped sharply to -13.68% compared to 1997 which reached 4.65%. The fragility related to macroeconomic conditions unstable particularly turbulent exchange rate and high-interest rates (Siamat, 2005).

The same pattern is also the time of the global crisis in 2008 that led to macroeconomic indicators such as rising inflation followed by BI rate so the impact on the increase or decrease in lending. In monetary policy, the bank has a very important position in the Indonesian economy as a whole dominates the financial sector both in terms of asset ownership, fund-raising and distribution of funds (Pohan, 2008).

Economies that have a profitable banking sector will be better able to withstand negative shocks and make a positive contribution to the stability of the financial system. However, in practice, banks are classified as a business that has a high level of risk because of the nature of his business by borrowing, require in-depth management and control over the various activities involved in the success of the performance. The bank is an institution with high leverage and increased levels of borrower's default will impact the capital decline rapidly (Agbaeze *et al.*, 2017; Chanana & Gupta, 2016; Hardanto, 2006).

In the macroeconomy, inflation and BI rate also affect the increase or decrease in public deposits and lending. If the inflation rate is high and cannot be controlled, banking efforts in raising public funds impaired that lending activity hiccup.

Make stagnating lending bank earnings declined. Because the main source of bank revenue mostly comes from lending. With high inflation, the government addresses the increased circulation of money by raising its benchmark interest rate (BI Rate) which resulted in increased deposit rates and lending rates followed by (Waljianah & Wulandari, 2012).

The high deposit rates offered course will attract the public desire to save their money in the bank, so will a lot of credit that can be channeled. While high-interest payments set aside an impact on the profits impact the decline in lending. Because the decision will lead to increasing non-performing loans so that banks are reluctant in extending credit.

Based on the existing background, the researchers decided to do research with the title "Effect of Third Party Funds and BI Rate against Lending at Bank BNI"

Formulation of the problem

Based on the description contained in the above background, it can be identified problem this study as follows.

- a) How will the third party and the BI Rate on lending at Bank BNI simultaneously?
- b) What is the impact of third party funds against lending at Bank BNI partially?

Research Objectives

The objectives to be achieved in this research are based on the formulation of the problems being discussed.

- a) To determine the effect of third-party funds and BI Rate on lending at Bank BNI simultaneously.
- b) To determine the effect of third-party funds against lending at Bank BNI partially.

However, the result of this study is expected to be able to give some benefit for those who are concerned with this research such as: (1) for students, this research is expected to be useful as a material to increase knowledge and insight and to apply the knowledge gained, elaborated and simultaneously respond to an incident, to contribute ideas and solutions; (2) for companies, This research is expected to be useful to provide insights and considerations faced by the company; and (3) for the readers, This is expected to be useful provide additional knowledge and as reference material in conducting similar research

Literature Review

Definition of bank

According to Law No. 10/1998 on banking, the bank is a "business entity that collects funds from the public in the form of savings and channels them to the public in the form of credit and other forms in order to improve the standard of living of the people." Definition bank overpressure that the bank's main business is to collect funds in the form of deposits which is a source of bank funding. Similarly, in terms of the distribution of funds, the bank should not solely derive maximum benefits for the owners but also its activities should be directed at improving standards of living (Siamat, 2005; Daniyan-Bagudu *et al.*, 2017; Emmanuel *et al.*, 2017). "The Bank is a financial institution whose main activity is to collect funds from the public and distribute the funds back to the community as well as provide other services".

Third-party fund

In order to support the operational activities of the bank are related to the distribution of funds, banks need to obtain sufficient financial resources to support these activities. One is the community fund which is the majority of all funds raised by banks in their daily business activities (Kuncoro & Suhardjono, 2011). In other words, third-party fund acts as an input to extend credit.

Third-party funds are funds of public deposits in the form of demand deposits, savings and time deposits. With these resources, banks use it as a field that can generate revenue for the bank, one of which is lending. Ismail (2010) said that the source of funds from third parties, among others.

a) Clearing

Demand deposits represent deposits derived from third party funds may be withdrawn at any time by means of the withdrawal of a check, giro, and other withdrawal means. The clearing is very beneficial for the community in conducting business transactions because it provides its own convenience. Having a checking account, the same as having cash. Due to the nature of the demand deposit account can be withdrawn at any time.

b) Savings

According to Law No. 10 of 1998 concerning banking, that savings are deposits that can be withdrawn only under certain conditions that have been agreed upon but cannot be withdrawn by check, bank draft or other instruments that can be equated with that.

c) Deposit

A type of savings deposits that can be withdrawn only in accordance with the time period has been agreed between the bank and the customer. Deposits divided into three types, namely: deposits, certificate of deposits and call deposits. Time deposits are time deposits that can be withdrawn in accordance with the agreed period. Holders of deposits will receive a deposit slip as proof of their ownership rights. Certificate of Deposit is a deposit in the form of certificates of deposit that evidence

storage can be transferred or sold. While Deposit on Call is the type of the withdrawal of time deposits need to notify in advance to the issuing bank deposits on call. Deposit on Call is published on behalf of, and cannot be traded.

BI rate

According to Bank Indonesia pages (BI.go.id) BI Rate is the interest rate that reflects the attitude of policy or monetary policy stance set by Bank Indonesia and announced to the public. BI Rate announced by the Board of Governors of Bank Indonesia every [Board of Governors Meeting](#) monthly and implemented on monetary operations conducted by Bank Indonesia through liquidity management ([liquidity management](#)) in currency markets to achieve the operational target of monetary policy.

Bank loans

a) Definition of credit

In Latin, the credit is called "credere" which means to believe. That is the creditor to the debtor believes that the loans will surely be returned according to the agreement. While the debtor is accepting the trust, so as to have the obligation to repay the loan in accordance with the time period. Based on the Law No. 10 1988 on amendments to the Law No. 7 of 1992 on Banking, the definition of credit is "provision of cash or the equivalent, based on the approval or the borrowing and lending between banks and other parties who require the borrower to repay their debts after a certain period of time with interest," ([Siamat, 2005](#)).

Lending is one of the activities of commercial banks that are sourced from public funds that have been collected in order to carry out his duties as an intermediary institution. Before the loans disbursed to the needy, the bank must first assess the feasibility of the debtors to avoid things such as unwanted emergence of credit risk (nonperforming loans) which can be detrimental to the survival of the bank itself.

b) The basic principle of lending

Credit guarantees given to bank customers are in addition especially to protect the bad loans caused by something. Therefore, the bank should apply the precautionary principle in granting credit. [Ismail \(2010\)](#), states lending principles can be analyzed by 5C is as follows.

1) Character

The character describes the character and personality of borrowers. Banks need to conduct an analysis of the character of prospective borrowers whose aim is to determine that the prospective borrower has the desire to fulfill the obligation to repay the loan until the keel.

2) Capacity

Banks need to know with certainty the ability of prospective borrowers. The better the financial capacity of the debtor, it would be better the possibility of deterioration in credit quality can be ensured where such credits can be paid in a timely manner.

3) Capital

Capital or capital needs an in-depth analysis. Because the greater the capital owned by the debtor would be more convincing banks of the seriousness of borrowers in applying for a loan.

4) Collateral

Collateral is a guarantee provided by the debtor on the proposed loan. Security is the second funding source if the debtor cannot pay the installment. The collateral should exceed the amount of credit granted.

5) Condition of Economic

Banks need to consider the debtor business sectors associated with economic conditions, whether economic conditions will have an effect on the business of borrowers in the future.

2 Materials and Methods

Places and objects research

This research is downloaded from the website of Bank Indonesia in www.bi.go.id page, id and Bank BNI Quarterly Financial Statements downloaded from the website of the Financial Services Authority in the page www.ojk.go.id

Population research

The population is a generalization region consisting of the objects or subjects that are of a certain quantity and characteristics defined by the researchers to be learned and then drawn conclusions (Sugiyono, 2013; Nimbalkar & Deodhar, 2015; Pooranam & Nandhini, 2018). Based on the description of the understanding of the population, the population in this study are Bank BNI Quarterly Financial Reports of 2010 until the third quarter of 2016.

The operational definition of variables

An operational variable definition is the definition of a variable with how to give meaning, or specify activity and provide an operationalization to measure these variables. In this study, there are three variables are defined as follows:

- a) Third-Party Funds (X1)
Third-party funds (DPK) is a source of bank funds from the public in the form of savings, current accounts and deposits. In this study of third party funds is the total amount of savings, current accounts and deposits.
- b) BI Rate (X2)
BI Rate is the interest rate that reflects the attitude of policy or monetary policy stance set by Bank Indonesia and announced to the public.
- c) Loans (Y)
According to the Law article 1, paragraph 11 of Law No. 10/1998 about banking, credit is the provision of money or bills that can be equated with that, based on agreements borrowing and lending between banks and other parties who require the borrower to repay the debt after a period of time with particular interest. Dendawijaya (2003) argued that the funds raised from the public can reach 80%-90% of all funds managed by the bank and lending activities reached 70%-80% of the bank's business activities.

Data analysis technique

- a) Multiple Linear Regression Analysis
- b) Classic assumption test
- c) F-test
- d) t-test

3 Results and Discussions

The Bank is a financial institution that has a function as a collector fund from the public and distributing the funds in the form of a credit to the people who need money with interest as the reward. Of these functions can be seen that the greater the public funds that can be collected by the bank, the greater the loan portfolio that can be distributed to the public. And vice versa, if third party funds are declining, lending to the public, is also decreased. This theory is consistent with the results of research that has been done by the results of third-party funds and a significant positive effect on lending at Bank BNI. This result can be the same as the results of previous studies conducted by Siswanto (2013); Astuti (2013); and Norita (2013).

Giri, N. P. R., Purnami, A. S., Jayanti, L. G. P. S. E., & Amerta, I. M. S. (2019). *Effect of third party funds and BI rate on credit distribution of BNI. International Journal of Social Sciences and Humanities*, 3(3), 147-156. <https://doi.org/10.29332/ijssh.v3n3.371>

Apart Third-party funds are distributed to the public, commercial banks also depositing funds are collected to Bank Indonesia. Almost the same as lending to people who receive compensation in the form of flowers, depositing funds into Bank Indonesia also got flowers called BI Rate. BI Rate interest rate is usually lower than the interest rate on commercial bank loans that commercial banks are more interested in distributing the funds to the public even though the risks for distributing the funds to the community is greater than depositing funds to Bank Indonesia. It is also underlying when the BI Rate level has increased the credit to the people declined.

On the results of this study show different things with previous studies, that the influence of the BI Rate on lending at Bank BNI is a positive and significant effect. This proves that there is no influence between the BI Rate by lending at Bank BNI in a positive direction. This means that BNI chose to wait for the response from the community on the BI rate policy so that the BI Rate has no effect on lending at Bank BNI during the study period.

The results of research influence third party funds and BI significantly affect lending at Bank BNI in a positive direction. The purpose of the statement is that if the third party and the BI Rate rises then lending at Bank BNI also rises, and vice versa when the third party and the BI Rate decrease the loan portfolio also decreased.

4 Conclusion

Based on the results of the research and analytical results presented in the previous chapter, the conclusion can be drawn as follows.

- a) Based on the results of the simultaneous regression test (F-Test) it can be concluded that the third party and the BI rate significantly influence the Bank BNI lending in the period of 2010 until the third quarter of 2016.
- b) Based on the results of the partial test (t-test) note that third-party funds significantly influenced by the positive direction of the BNI Bank lending in the period of 2010 until the third quarter of 2016. While the other independent variables that BI does not affect the positive direction towards lending Bank BNI in the period of 2010 until the third quarter of 2016.
- c) Based on the results of research based on coefficient determination is known that the third party and the BI rate can be explained by 98.5% of the loan portfolio in the Bank BNI period of 2010 until the third quarter of 2016, the rest is explained by other variables not studied.

Suggestions

Based on the conclusions above, it can put forward some suggestions are given for consideration in economic activity.

- a) BNI Bank should further enhance the efforts of third-party funds from customers or the public to request loans that can be optimally channeled. The efforts of banks to attract customers is by way of improving the quality of services and the sale and gifts so that customers will deposit the funds of rest on the bank, due to a large number of third party funds that could be collected by the bank allows large also credits that can be provided by banks to community.
- b) Bank BNI should improve further in optimizing lending to customers by leveraging the number of third party funds collected by the community to be channeled as loans without ignoring the precautionary principle which has been applied to every banking company, for loans is a business major activities of bank to earn income through interest, then at least the bank should be keen in providing credit to customers so as to avoid the increased risk of adverse bad credit bank.
- c) For further research should use regression analysis with distributed lag models used so that the data can be better than this study.

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