THE DETERMINANTS OF MALUS ON REGIONAL DEVELOPMENT BANK IN INDONESIA

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Abstract— This study is based on the Indonesian Financial Service Authority since 2015 regulates that banks must have a policy to defer, or to clawback, or combination of both the variable compensation paid to bank's executive. Since the Indonesian Financial Authority allows banks to choose their compensation scheme, this study is to investigate the factors that influence the choice of the policy. Our study is among few studies that investigate this area because the regulation was enacted in 2017. Data are collected from Regional Development Bank in Indonesia that report their compensation policy since 2017 to 2019. We test financial and nonfinancial factors that may determine the choice of compensation policy. Banks with lower net interest margin tend not to choose malus. The similar conclusion is also given by the variable board of commissioner's tenure. However, commissioner's remuneration suggests a positive relationship with the propensity to choose malus other than other type of compensation policies. We find that net interest margin, board of commissioners tenure, and remuneration of executives are related to choice of clawback or malus. Future researchers may focus on the effect of corporate governance related to local governments-owned banks and remuneration provisions.

Keywords: Clawback; Compensation; Corporate Governance; Holdback; Malus

1. INTRODUCTION

1.1 Background

Studies such as Chou and Buchdadi (2018) and Harymawan et al. (2020) concluded that compensation has a relationship with performance. The provision of benefits that satisfy executives can improve their performance in carrying out their duties. Chou and Buchdadi (2018) conducted study on listed banks in Indonesia capital market. They found that executive compensation has an effect on bank performance. The study is supported by Harymawan et al. (2020), who posits that remuneration has a positive and significant relationship with firm performance in Indonesia. It can be concluded that providing remuneration in accordance with what is expected by the employees may improve their performance.

Based on Financial Services Authority Regulation No. 45/POJK.03/2015, variable remuneration may be given to bank employees. The remuneration is related to performance and risk of the bank, such as the provision of bonuses. In order to anticipate the risks that may occur

in banks, banks are obliged to determine the parties who are material risk takers, as well as defer the payment of variable remuneration to the material risk takers (FSA Regulation No. 45 of 2015 article 22 and article 23). The policy for deferred remuneration to the board of commissioners, executives, and other bank employees is provided in order to reduce the risk that occurs in the bank. Malus is a method of deferred variable remuneration payment that can be used by banks. The application of malus in the payment of variable remuneration is carried out so that in improving performance, the commissioners and other employees still consider the risk in making decisions. Risky decisions will affect the variable remuneration they will receive.

Gillan and Nguyen (2018) state that the company has more control over the holdback. The scheme is different from malus or clawback, since this scheme urges bank to defer compensation until sometime in the future. Therefore, to deter employees to pose a risk to the company, their compensation is deferred. In addition, their research shows that companies use deferred compensation as a contract option if the CEO leaves the company. Executive compensation is paid less by the company if the executive leaves the company without a good reason on a contract basis. Compensation payment that is deferred by using holdback or malus is conducted to reduce the risk, if executives or other employees leave for a bad reason, such as committing fraud. Holdback compensation is given to commissioners and other employees based on the company's future financial performance, so that poor financial performance can reduce their compensation.

Gillan and Nguyen (2016) examine the importance of corporate governance and malus policy. They find that the application of malus to companies in the S&P 500 is influenced by the tenure of board of directors . Companies with a lower board of directors tenure are more likely to use malus. This tendency may be explained by the pressure put by external shareholder.

The application of malus is included in the policy on the implementation of good bank governance in Indonesia. According to FSA Regulation No. 45 of 2015, a good corporate governance is needed to in the provision of remuneration is carried out to maintain the continuity of the bank's business, by encouraging prudent decision making. The use of deferral of variable remuneration payments, such as malus, is one way for banks to maintain their business continuity. The regulation permits banks to choose malus or clawback or both policies on variable remuneration payments to material risk takers. Implied by this regulation is that the choice of compensation scheme may be unique to the bank.

Since the application of the FSA Regulation No. 45 of 2015 has been mandated since 2016, banks in Indonesia must have attached malus or clawback or combination of both into their compensation policy. Since the regulation permits bank to choose which scheme it wants to adopt, it is an interesting issue to investigate why bank choose a certain policy. Moreover, the regulation mandates all banks to adopt the regulation, therefore we investigate Regional Development Bank in Indonesia. Until today, study on malus or clawback is still few. Moreover, no previous study about this topic that uses Regional Development Bank (BPD) as samples. Therefore our study can be considered as the first study on malus policy determination in BPD in Indonesia.

1.2 Theoretical Review and Hypothesis Development

1.2.1 *Corporate Governance*

Corporate governance is related to how a company is regulated and the use of power (Lukviarman, 2016). Corporate governance can regulate the use of power by the parties associated with the company, so that the interests of each party can be maintained and there is no excessive use of power. As stated in Financial Services Authority Circular Letter No. 40 of 2016, improving bank governance is aimed at maintaining the health of the bank by preventing

excessive risk taking by decision makers. Good corporate governance helps to better control and focus the company. FSA Regulation No. 45 of 2015 stated that encouraging prudent risk taking is the goal of improving governance in the provision of remuneration to maintain bank business continuity. The implementation of good and transparent governance can support a better company performance by providing information about company performance.

1.2.2 Executive Compensation

Most of the time the compensation relates to the effort the employees provided. Chalmers et al. (2019) posit that employees must have a contract with its company the compensation to be received. As a tool to increase employee's motivation, the financial reward must be related to the effort to accomplish the task. Dissatisfaction with the compensation scheme will trigger dysfunctional behaviour. Moreover, Eugster & Wagner (2020) provide evidence that compensation as a part of value-based management relates to better company's future performance, as measured by economic value added. Shields et al. (2016) explain that there are three main types of financial rewards, i.e. base pay, performance-related pay, and direct benefits.

Shields et al. (2016, p. 15) explain base pay as a basic component of remuneration and can be increased by increasing the promotion hierarchy based on seniority of the job's salary value. Performance pay refers to incentives given to employees based on their individual or collective performance. Incentives are given to employees based on their past performance in strengthening and improving future performance. The provision of performance pay varies according to the measurement and assessment of the level of performance, where performance has a risky nature, is not fixed or guaranteed. Direct benefits are effectively bonuses on top of base pay. Direct benefits are included in financial rewards, such as employer-funded superannuation, fringe benefits, such as employer-funded health care, life insurance, then the provision of a company car, and others.

1.2.3 Remuneration

Financial Services Authority Regulation No. 45/POJK.03/2015 explains that remuneration is a form of compensation that is determined and given to the managers, board of commissioners, or other eemployees, both fixed and variable in terms of their duties, powers, and responsibilities. Fixed remuneration is compensation that is not related to performance and risks, such as basic salary, facilities, and allowances. Meanwhile, variable remuneration is remuneration related to performance and risk, such as bonuses or other forms of bonuses. In determining the provision of variable remuneration, bank determines the method of measuring performance and types of risk according to the scale and complexity of the bank's business activities.

FSA Regulation No. 45 of 2015 defines malus as "a policy that allows Bank, based on certain criteria, to postpone payments, in part or entirety, of variable remuneration". Therefore, this is a policy that can be used by banks to defer the payment of variable remuneration to an employee. To be able to hold back the variable compensation, bank will set some criteria. The regulation itself defines that the deferment is applied to employee who is characterized as material risk takers. The material risk taker is someone in the bank that his/her decision may affect bank's risk profile and may receive significant amount of compensation.

1.2.4 Hypothesis Development

Freeman (2017) implies that executive compensation must be aligned with value creation for stakeholders. Executive has an important position in value creation in a business enterprise. He/she manages the whole company, orchestrating all resources for the sake of all

stakeholders, not only the stockholders. Since resources are key determinant to output or performance, the output or performance itself is an important factor to remuneration determination.

Edmans et al. (2017) assert that an incentive scheme builds some motives to manipulate performance metric. They argue that an incentive that measure performance only at a point in time will create person with short term vision. On the other hand, an incentive that has long term characteristics will drive people to implement long term strategy. In this case, manager whose performance measures short term performance will be motivated to manipulate profit for his/her own purpose. They posit that, the same manager will be motivated to design long term strategies if his/her performance is measured by appropriate long term performance metrics.

Kroos et al. (2018) study the design of chief financial officer (CFO) bonus plan in relation to the clawback policies made. The CFO is responsible to prepare and file the company's financial report. He/she must also maintain the quality of internal control so that financial report free from material mistakes. Clawback is seen to increase personal misreporting cost because the previously awarded compensation may be taken back should there is an incident of misreporting or fraud. They find evidence that clawback area associated with greater CFO bonus incentives.

Similar conclusion on the effect of the adoption of clawback scheme is made by Kubick et al. (2020). They provide evidence suggesting that managers reduce income tax accrual to increase earnings after the adoption of clawback provision. This result implies that managers do find ways to tackle the possibility of compensation decrease. In this case, it is the variable remuneration that concerns them.

Allena and Thompson (2019) find the effect of using the variable pay on leverage. They conducted the study to examine the relationship between risk of layoffs, salary structure, and leverage. It shows that companies use variable payments to reduce operating leverage in increasing the amount of subsidized debt they can receive. Grabner and Martin (2021) also found that providing incentives based on individual performance have an effect in encouraging employee efforts. Their research concluded significant results from individual incentives to performance. Besides, the difference in pay has an effect on the relationship between incentives and performance.

Abdalkrim (2019) conducted a study to examine the relation between CEO compensation and organizational performance and the effect of corporate governance mechanisms on this relation. He obtained a positive relationship between CEO compensation and company performance such as ROA, ROE, and Tobin's Q, and also found that corporate governance have a positive and significant effect on the relation between CEO compensation and performance.

Hodge and Winn (2012) found that executives did not make risky reporting choices after restatement, whether the compensation contract contained a clawback or holdback clause. Relatively conservative executives, who are included in a clawback or holdback clause, reduce the risk to the least amount of their reporting choices. Then, they also show that holdback clauses are easier to implement and tend to encourage executives to choose reporting options that are less risky more effectively.

Rayhan (2020) conducted a study to examine how the influence of corporate governance and corporate risk taking regarding a company's tendency to choose malus as an executive compensation policy. He found that corporate governance, as measured by the independent board of commissioners and the number of board of commissioners meetings, had a negative

influence on the tendency of choosing malus. In addition, the company's risk taking behaviour have an affect on the company to prefer malus as an executive compensation policy.

Gillan and Nguyen (2018) describe holdbacks as deferred compensation that has been accrued, but the compensation has not yet been paid to executives. This study found that 70% of the sample from S&P 500 firms have used holdbacks or malus. The use of holdbacks has been widely used by companies in solving problems that have occurred, such as the occurrence of financial errors and in financial reports. Holdback or malus is one of the policies related to remuneration. The use of malus in variable remuneration payments is used by the company to anticipate risks that occur or that may occur within the company.

Previous studies imply that firm's performance may influence the decision whether to choose malus or other schemes. Moreover, as predicted by agency theory, corporate governance mechanism may also affect the decision. Therefore, we propose our hypothesis as follows.

Ha: Financial performance and corporate governance may affect the likelihood of banks to choose malus or clawback.

2. RESEARCH METHOD

This research is to determine the determinants of malus on Regional Development Bank (BPD) in Indonesia. The population was 26 banks, but the final samples were 25 Regional Development Banks (BPDs). One sample out of 26 BPDs cannot be included into the analysis because of incomplete data on variables studied. Data on remuneration scheme, corporate governance structure and practices, and on financial data are collected from annual reports of Regional Development Bank (BPD) in Indonesia, from 2017 to 2019.

The dependent variable is the remuneration provision chosen by sample. If a BPD adopts malus in a year, we label it as 1 and 0 if otherwise. We test the relationship of thirteen indicators related to bank performance and corporate governance to the remuneration scheme chosen.

To test the hypothesis we apply logistic regression. The response variable in logistic regression is a binary random variable that takes values 1 and 0 (Ott and Longnecker, 2010, p. 701). The regression model used in this study is as follows.

$$M = \frac{\text{Exp}(\beta_0 + \beta_1 LDR + \beta_2 CAR + \beta_3 ROE + \beta_4 BOPO + \beta_5 NIM + \beta_6 NPG + \beta_7 NPN + \beta_8 BCT + \beta_9 FBC + \beta_{10} RBC + \beta_{11} ET + \beta_{12} FE + \beta_{13} RE\ )}{1 + \text{Exp}(\beta_0 + \beta_1 LDR + \beta_2 CAR + \beta_3 ROE + \beta_4 BOPO + \beta_5 NIM + \beta_6 NPG + \beta_7 NPN + \beta_8 BCT + \beta_9 FBC + \beta_{10} RBC + \beta_{11} ET + \beta_{12} FE + \beta_{13} RE)}$$

Whereas:

M	=	Malus
β 0	=	Coefficient
β n	=	Regression coefficient
LDR	=	Loan to deposit ratio
CAR	=	Capital adequacy ratio
ROE	=	Return on equity
BOPO	=	Ratio of operating expenses to operating income
NIM	=	Net interest income
NPG	=	Non-performing loans - Gross
NPN	=	Non-performing loans - Net
BCT	=	Board of commissioners' tenure
FBC	=	Female on board of commissioners
RBC	=	Remuneration of board of commissioners
ET	=	Executives' tenure
FE	=	Female executive

RE = Remuneration of executives

3. RESEARCH RESULTS AND DISCUSSION

3.1 Sampling and Samples

Our samples are Regional Development Banks in Indonesia. Out of 26 Regional Development Banks in Indonesia, the Regional Development Bank of Yogyakarta must be excluded from the sample because the incompleteness of data needed. Our samples are in Table

Table 1. Research Sample

No	Name of the Company
1	PT. Bank Aceh Syariah
2	PT. Bank Pembangunan Daerah Bali
3	PT. Bank Pembangunan Daerah Bengkulu
4	PT. Bank DKI
5	PT. Bank Pembangunan Daerah Jawa Barat dan Banten Tbk
6	PT. Bank Pembangunan Daerah Jambi
7	PT. Bank Pembangunan Daerah Jawa Tengah
8	PT. Bank Pembangunan Daerah Jawa Timur Tbk
9	PT. Bank Pembangunan Daerah Kalimantan Barat
10	PT. Bank Pembangunan Daerah Kalimantan Selatan
11	PT. Bank Pembangunan Daerah Kalimantan Tengah
12	PT. Bank Pembangunan Daerah Kalimantan Timur dan Kalimantan Utara
13	PT. Bank Pembangunan Daerah Lampung
14	PT. Bank Pembangunan Daerah Maluku dan Maluku Utara
15	PT. Bank Pembangunan Daerah Nusa Tenggara Barat Syariah
16	PT. Bank Pembangunan Daerah Nusa Tenggara Timur
17	PT. Bank Pembangunan Daerah Papua
18	PT. Bank Pembangunan Daerah Riau Kepri
19	PT. Bank Pembangunan Daerah Sulawesi Selatan & Sulawesi Barat
20	PT. Bank Pembangunan Daerah Sulawesi Tengah
21	PT. Bank Pembangunan Daerah Sulawesi Tenggara
22	PT. Bank Pembangunan Daerah Sulawesi Utara
23	PT. Bank Pembangunan Daerah Sumatera Barat
24	PT. Bank Pembangunan Daerah Sumatera Selatan dan Bangka Belitung
25	PT. Bank Pembangunan Daerah Sumatera Utara

3.2 Descriptive Data Analysis

Table 2. Descriptive Statistics (N = 75)

Variable	Minimum	Maximum	Mean	Std. Deviation
LDR	0.633	1.198	0.90901	0.128702
CAR	0.158	0.355	0.22459	0.041096
ROE	0.044	0.257	0.16569	0.052254
BOPO	0.665	0.944	0.77419	0.060886
NIM	0.050	0.109	0.06885	0.011641
NPG	0.003	0.147	0.02655	0.022110
NPN	0.000	0.038	0.00929	0.008992
BCT	0.417	7.667	3.16499	1.555585
FBC	0	2	0.20	0.465
RBC(*)	610.133	37,184	8,715	6,283
ET	0.500	5.750	2.56897	1.124313
FE	0	3	0.57	0.756

RE(*)	2,170	121,856	20,391	19,230

*: in million Rupiahs

Table 2 shows the sample statistics of 25 BPD from 2017-2019. The loan to deposit ratio (LDR) the minimum and maximum values are 0.633 and 1.198, with an average value of 0.909. This implies that, on average, the proportion of loan to deposits is 91%. The capital adequacy ratio (CAR) variable has a minimum value of 0.158 and a maximum value of 0.355. The average values of CAR as much as 22% implies that all banks maintain their capital as required by the relevant regulation. The return on equity (ROE) has the minimum value of 0.044 and the maximum value is 0.257. The average value of ROE indicates that banks have 17% profit based on their total equity.

The minimum value of the ratio of operating expenses to operating income (BOPO) is 0.665 and the maximum value is 0.944. The average value of BOPO is 0.774. We can conclude that, in average, banks' operating expense is dominated by interest expense. On the contrary, the net interest margin (NIM) variable has a minimum value of 0.05 with a maximum value of 0.109 and the average value is 0.069. The BOPO and NIM indicators imply that the spread between interest expense that bank pays and the interest revenue that bank earns is thin. The stiff competition between regional banks with national and international banks operated in Indonesia push the margin between interest expense and revenue to the minimum level. The samples show that the ratio of their gross non-performing loans to their total loans is 2.7%. Meanwhile, the average BPD has a net non-performing loan ratio of 0.9%.

The variable of tenure of the board of commissioners (BCT) has a minimum value of 0.417 year and a maximum value of 7.667 years, with an average value of 3.165 years. These results indicate that on average the board of commissioners of BPD have served for 3 years. The minimum value female on the board of commissioners (FBC) is 0, while the maximum value is 2. Thus, we can conclude that most of BPDs have zero female members of board of commissioners.

The variable of remuneration for the board of commissioners (RBC) indicates the minimum value is Rp610 millions and the maximum value is Rp37 billions with an average value of 8.7 billions. This discrepancy is quite wide since two of our samples are already public companies and it may cause their remuneration to be higher than other banks in our samples. Similar conclusions can also be found for executives' compensation (RE). The minimum value of is Rp2.1 billions and the maximum value is Rp121.9 billions with an average value of Rp20.4 billions.

Our samples indicate that the minimum value of executive tenure (ET) is 0.5 year and the maximum value is 5.75 years. This gives us an average value of 2.569 years. Some of our samples do not have a female executive (FE) but one bank has as many as three women.

3.3 Hypothesis Testing Result

Table 3 Hypothesis Test Results

Variable	B	S.E.	Wald	df	Sig.		Exp(B)
Constant	-60.916	29.839	4.168	1	0.041		0.000
LDR	0.633	1.198	0.90901	1	0.117		0.000
CAR	0.158	0.355	0.22459	1	0.101		0.000
ROE	0.044	0.257	0.16569	1	0.719		0.000
BOPO	0.665	0.944	0.77419	1	0.743		0.014
NIM	-116.502	52.857	4.858	1	0.028	**	0.000
NPG	0.003	0.147	0.02655	1	0.882		4416.504
NPN	0.000	0.038	0.00929	1	0.364		0.000
BCT	-0.592	0.285	4.305	1	0.038	**	0.553
FBC	0	2	0.20	1	0.432		0.325
RBC	8.785	10.570	9.84347	1	0.103		2491.526

Variable	B	S.E.	Wald	df	Sig.		Exp(B)
ET	0.500	5.750	2.56897	1	0.197		0.395
FE	0	3	0.57	1	0.528		0.622
RE	5.169	1.445	12.788	1	0.000	***	175.706
Model Chi-square							0.000
Nagelkerke R square							0.684

, * Indicates the significance at 5% and 1%, respectively.

In table 3, two variables show significance value at 5%, i.e. net interest margin and the board of commissioner's tenure. The net interest margin (NIM) indicates a negative relationship with the likelihood of bank to choose malus. The results indicate that higher net interest margin urges bank not to choose malus as its compensation scheme.

The board of commissioner's tenure (BCT) variable has a negative and statistically significance value. It indicates that the board of commissioner that has a longer service may incline to choose other remuneration scheme than malus or just malus without combining it with other scheme.

The other variable that has a statistically significant relationship with the decision to choose malus is the executive remuneration (RE). The variable shows a positive and statistically significant relationship with the choice of remuneration scheme. The positive sign indicates that bank tend to choose malus/clawback the higher the remunerations paid to its executives.

The other variables, i.e. loan to deposit ratio (LDR), capital adequacy ratio (CAR), return on equity (ROE), operating expenses to operating income (BOPO), non performing loans - gross (NPG), non performing loans - net (NPN), female on board of commissioners (FBC), remuneration of board of commissioners (RBC), executive tenure (ET), female executives (FE) do not imply a significant relationship with the tendency to choose a remuneration system.

4. CONCLUSION, SUGGESTIONS, AND LIMITATIONS

Our research is based the regulation that requires banks to implement a remuneration strategy to mitigate risk caused by bank employees. The regulation allows banks to choose between malus, clawback, or a combination of both. Since banks are allowed to choose their own remuneration provision, then the question that needs to be answered is the motives of a bank to choose a provision. The answer to this question is important both for the sake of practice and academic interests.

Stockholders expect managers to maximize their wealth. This objective can only be achieved if managers select policies that will result in higher return, but not the other way around. For example, when a bank's manager compensation is based loan approved, one can predict that the manager will be motivated to approve more loans. The more loans approved, the more compensation will be rewarded to him/her. However, encouraging manager to approve more loans brings more risk to the bank and its stockholders. Even though non-performing loan is normal and may be controllable to the bank, but minimizing credit risk is important. Our test shows that bank executives are likely to choose malus (clawback) compensation scheme over other scheme.

The manager choice is rational according to agency theory. This theory predicts that the decision may be related to the interest of the bank's risk takers. Since the compensation is based on something that he/she has control on, the managerial choice made will be based on their interest, i.e. his/her compensation.

We test variables that measure bank performance and corporate governance. Those financial variables are related to the measurement of bank's risk. The Indonesian's FSA

Regulation No. 18/2016, for example, requires bank to apply financial measures to estimate bank's risk.

Our test results show that among those financial measures, only net interest margin (NIM) that has a statistically significant relationship with bank's remuneration provision. The negative sign implies that bank avoids choosing malus/clawback and picking other method instead. The question is why bank avoid choosing a scheme that recovers the payment of variable compensation made to its employees? The answer may be related to the nature of a clawing back itself. Higher NIM brings higher profit, and, higher bonus. However, if the bank pays all the current year's bonus with the assumption that the income is based on a sound credit, while the subsequent fact reveals otherwise, then bank will have some problems in the future when the credit to go into default. By choosing malus or clawback provision, bank must recover some or all of past bonus payment related to the default credit. While, on the other hand, to secure bank's assets from such payment and to deter risky business decision, bank may just has to postpone some or all the bonus until the criteria are met.

The relationship of board of commissioners tenure with the tendency to choose a remuneration system also shows a negative and statistically significant coefficient. A board that has a shorter tenure tends to choose a compensation provision other than clawback. Our finding is similar to that of Gillan and Nguyen (2016). They conclude that, among others, firms that have higher executive replacement cost tend to adopt holdback scheme because holding back some compensation is easier than clawing back the compensation that has been paid. So, it is predictable that when a board of commissioner are new to their job, they tend to choose a compensation provision that is easier and less risky to the bank.

Malus tends to be adopted by banks that pay higher remuneration to executives of the Regional Development Bank (BPD). The positive and statistically significant coefficient indicates that the higher the remuneration provided to bank's executives, the more likely the executives to select malus/clawback remuneration scheme. This finding contradicts to that of the board of commissioners. Banks that pay more to its commissioners tend to choose other scheme other than malus.

The agency theory predicts the behaviour of managers toward the company, and, thus, creating agency problems. However, the theory also proposes ways to mitigate the problems (Pepper, 2018), that is through aligning shareholders' interest with that of managers'. Therefore, the idea behind compensation scheme may be explained by agency theory.

Following some major corporate scandals in the US, the US government, through Sarbanes-Oxley Act (SOX), requires firms to implement more prudent compensation scheme. The spirit of this regulation is to prevent managers from benefiting themselves at the expense of shareholders and other interested parties even tough companies in the US have been implemented clawback/malus before the SOX enacted (Gillan & Nguyen, 2016).

The Indonesian government also decided to take some actions to control managers' opportunistic behaviour that may cause some injury to shareholders and corporate's interests. The regulation that follows tries to mitigate risk-taking behaviour of bank managers. Because it is a regulated industry, then the effect of clawback and/or holdback compensation schemes on mitigating the opportunistic behaviour is an important issue.

This study was conducted to determine the determinants of malus in Regional Development Bank (BPD) in Indonesia. We test several indicators on bank performance and corporate governance. The indicators that have a significant influence are net interest margin (NIM), board of commissioners tenure (BCT), and remuneration of executives (RE). Our study may provide references on the factors that influence the use of malus as a variable remuneration

payment for banks or BPD in Indonesia and provide additional information to BPD and other banks regarding policies on deferred variable remuneration.

This study also has several limitations. The regulation of malus and holdback wee first implemented in 2017, so our samples are limited. Moreover, as our samples are Regional Development Bank (BPD) and as locally operated banks and owned by the local governments, the remuneration provision choice may closely related to the quality of bank's corporate governance. We do not test the relation of compensation scheme to corporate governance practice.

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