

Investment Bank Competition in Indonesia

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Abstract :

We collect samples from the annual reports of 5 investment banks in Indonesia from 2000 to 2020 as data and samples from our research. We find that cost has the lowest effect compared to other indicators with a Optimized Weight of 1.8% and market making activity is the most influential indicator of competitiveness with a Optimized Weight of 22.5%. Market making provides the greatest attraction to clients in the investment bank business because in the market business it is the most important thing so that the ability of investment companies in market making to obtain capital for clients is the highest attraction because it can meet client needs related to capital. Costs correlated with reputation and costs in the investment bank business are almost the same from one bank to another so that the efficiency or ability of investment banks in providing the best prices does not provide a strong enough appeal to clients. This is also influenced by the investment bank market segment, which is a company segment that has large enough wealth assets so that costs are not too much of a problem for the client as long as it is rational and profitable.

Keywords: Capital, Indonesia, Investment Bank, Competition

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Introduction

Capital is an important aspect of business and the economy. In supporting the economy, apart from the capital needed in the real sector, stability in the value of money is also important (Sasongko et al,2021). Capital is needed to buy various companies' needs to operate the business, both equipment, and raw materials (Sasongko & Bawono, 2021).

An investment bank is a business that mediates corporations in obtaining capital. Investment Bank is a central factor in today's modern economy. Investment banks must be free from illegal and corrupt activities. Investment banks must maintain the security of their customers in making investments (Gangopadhyay & Nilakantan, 2021).

The underwriter's role is to provide investors with a sense of security for their investment. The security factor is a factor that becomes the competitiveness of the investment bank's business in operating its business. Competition among investment banks occurs in various regions of the world. An investment bank's reputation is the most valuable asset in the investment bank business (Carbó-Valverde et al,2021).

The investment bank business is quite unique because of its specific market and very unique business processes, which are very different from other businesses in general. However, the investment bank

business is a key business in supporting the national economy because the investment bank business supports the financial climate in the real sector, especially large corporations (Shao et al,2021).

Competition in investment banks allows for trade offs. Competitiveness in the investment bank can be used as a measure in measuring the ability to compete in the investment bank industry. Investment bank competition is getting tougher in Indonesia, making research related to the competitiveness and competition of investment banks important not only for investment banks as business actors in the investment bank sector, but also for stakeholders such as customers and the government given the vitality of investment banks in the modern economy (Huyghebaert & Xu, 2015).

Literature Review

Competitiveness is not just financial capability or human capital capability (Widarni & Bawono, 2021). In the investment banking industry, aggressiveness also includes its own competitiveness. In addition to financial and business factors, competitiveness in investment banks also includes service and understanding of investment banks in the client's business (Rau,2000).

Investment bank competitiveness affects investment bank's business performance as well as investment bank's ability to maintain client loyalty. The liquidity capability of investment banks strongly supports the competitiveness of banks, especially in terms of loan services and various other services that require investment bank liquidity (Clifton,2014).

Investment banks are segmented differently from investment banks. Commercial banking is focused on small savers and those in need of financing. Meanwhile, investment banking focuses on large companies. Investment banking aims to negotiate with large corporations and strategic sectors to seek benefits for their clients and shareholders. In addition, investment banks have created their own investment products, placing them through financial markets or directly marketed through their own entities. One of the newest additional and extra services is the management of large assets, through companies, investment funds and so on (Dunbar, 2000).

Data and preliminary analysis: offerings, underwriters, and issuers

We collect samples from the annual reports of 5 investment banks in Indonesia from 2000 to 2020 as data and samples from our research. We focus on researching the competitiveness of investment banks and investigating the competitiveness of prices and services as well as the bank's understanding of its clients. To measure each variable we use a comprehensive measure for each deal (score_i) with the following calculations:

$$Score_i = \beta_0 + \beta_1 Fee_i + \beta_2 Discount_i + \beta_3 Reputation_i + \beta_4 MM + \beta_5 Record_i + \beta_6 Debt$$

We used our calculations as the basis for the panel multivariate regression

Result and Discussion

Our estimation results are presented in table 1.

Score	Fees	Discount	Reputation	Market Making	Recommendation	Debt Relationship
Equal Weight	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%

Optimized Weight	1.8%	13.7%	18.8%	22.5%	17.7%	18.2%
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We find that cost has the lowest effect compared to other indicators with a Optimized Weight of 1.8% and market making activity is the most influential indicator of competitiveness with a Optimized Weight of 22.5%. Market making provides the greatest attraction to clients in the investment bank business because in the market business it is the most important thing so that the ability of investment companies in market making to obtain capital for clients is the highest attraction because it can meet client needs related to capital. Costs correlated with reputation and costs in the investment bank business are almost the same from one bank to another so that the efficiency or ability of investment banks in providing the best prices does not provide a strong enough appeal to clients. This is also influenced by the investment bank market segment, which is a company segment that has large enough wealth assets so that costs are not too much of a problem for the client as long as it is rational and profitable.

Conclusion

The competitiveness of investment banks in Indonesia does not lie in fee or fee competition. However, it lies in the ability of investment banks to print the market to obtain capital for clients. Other indicators almost have a comparable level of competitiveness so the toughest competition in investment banks is how investment banks are able to provide sufficient capital for clients to support the client's business.

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