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Customary Village Responsibility for the Protection of Customer Deposits in Village Credit Institutions in Bali

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ABSTRACT

Customary village responsibility, Village Credit Institutions, deposit protection, and rush money are key issues in the governance of community-based finance in Bali. This article examines the protection of customer deposits in Village Credit Institutions (LPD) and the responsibility of LPD management when simultaneous withdrawals occur. This research applies empirical legal research with statutory, socio-legal, and customary law approaches. Primary data were obtained through interviews at LPD Desa Adat Mengwi, LPD Desa Adat Kesiman, and LPD Desa Adat Semaon, while secondary data were collected from legislation, scholarly literature, and institutional documents. The findings show that customer deposit protection is implemented through internal supervision, external audit, customary village assemblies, liquidity control, and the normative force of awig-awig and pararem. However, the absence of a mandatory and uniform deposit guarantee scheme creates legal uncertainty because customer protection still depends heavily on institutional soundness, customary trust, and the willingness of customary village authorities to intervene. In rush money situations, desa adat functions as an institutional buffer that restores public confidence, mediates disputes, and demands accountability from LPD managers. This article argues that a hybrid protection model is required by combining customary supervision, prudential governance, mandatory LPD-specific deposit guarantee standards, and clear civil or criminal liability for managerial misconduct.

Keywords: *Customary Village; Deposit Protection; Legal Certainty; Rush Money; Village Credit Institution*

INTRODUCTION

The responsibility of customary villages to protect customer deposit funds in Village Credit Institutions constitutes a distinctive issue of economic law within the Indonesian legal system. This distinctive character arises because Village Credit Institutions, known as Lembaga Perkreditan Desa (LPD), do not merely operate as financial institutions that collect deposits and distribute credit but also function as economic institutions owned by customary villages that support the social, religious, cultural, and economic life of krama desa or customary village members. Therefore, the protection of customer funds cannot be understood solely as a private contractual relationship between LPD management and customers. It must also be viewed as an issue of authority, supervision, and the responsibility of customary villages as owners and social controllers of institutions.

The existence of the LPD is normatively grounded in the state's recognition of customary villages and their traditional rights. Law Number 6 of 2014 concerning Villages recognizes the existence of villages and their rights of origin, while Bali Provincial Regulation Number 4 of 2019 concerning Customary Villages in Bali affirms the position of customary villages as customary law communities that possess territory, authority, assets and customary institutions. Bali Provincial Regulation Number 3 of 2017 concerning Village

Credit Institutions further positions LPD as financial business entities owned by customary villages and directed toward the interests of customary village members. Under this construction, the LPD exists at the intersection of state law, customary law, and community trust.

The main problem arises because LPD receive public funds in the form of savings and time deposits, but these funds do not automatically receive protection equivalent to bank deposits under the Deposit Insurance Corporation scheme. In national banking law, bank deposit insurance is governed by a specific statutory mechanism, whereas customer deposits in LPD still depend on the strength of internal governance, customary village supervision, protection funds, and customary mechanisms. Adnyana and Sudantra (2020) emphasize that the unclear status of a deposit insurance institution for LPD creates a problem of legal certainty. Setyaningsih, Sumertajaya, and Priscyllia (2022) also show that the deposit guarantee scheme for LPD customers has not yet provided comprehensive protection because the guaranteed amount, participation requirements, and claim mechanisms have not been structured uniformly and mandatorily.

This regulatory gap is not merely conceptual but has real-world implications. Various LPD cases in Bali demonstrate that weak governance, abuse of authority, fictitious loans, unrecorded loans, and ineffective supervision may cause losses to both customers and customary villages. Padmawati (2022) links the potential economic losses of LPD to legal protection, managerial competence, governance, community participation, and internal supervisory bodies. Rahayu and Diatmika (2023) show that good governance is associated with fraud prevention in the LPD. These findings indicate that the protection of customer funds cannot rely solely on dispute settlement after losses occur but must also involve preventive measures through prudent, transparent, and supervisable management standards.

A more acute problem arises when rush money occurs, namely, large-scale and simultaneous withdrawals caused by customers' loss of confidence in the ability of LPD to return deposits. Theoretically, this phenomenon resembles a bank run. Diamond and Dybvig (1983) explain that deposit-taking institutions are vulnerable to mass withdrawals when depositors expect other depositors to withdraw their funds first. However, in the context of LPD, rush money has a distinct sociological character because panic may spread through family networks, village markets, customary conversations and local rumors. Therefore, liquidity crises in LPD cannot be separated from customary leadership, legal communication, and social trust.

Previous studies have discussed the position of LPD within the microfinance institutional system, the role of customary villages in LPD governance, and the need to strengthen customer deposit guarantee. Hadiati et al. (2021) position customary villages as central actors in LPD governance because the authority of the LPD is rooted in the structure of customary villages. Sudiana et al. (2025) affirm that customary villages play a role not only in formal supervision but also in community-based accountability. Santiari, Hutnaleontina, and Yuliantari (2025) underline the importance of transparency, accountability, responsibility, independence, and fairness in implementing good corporate governance principles in LPD. Nevertheless, further studies are needed to integratively connect the protection of deposit funds as an issue of legal certainty with rush money as an issue of crisis responsibility.

The novelty of this article lies in its empirical legal construction of customary village responsibility in two simultaneous situations: the protection of deposit funds under normal conditions and institutional accountability when simultaneous withdrawals occur. Customary villages are not positioned merely as symbolic owners of the LPD, but as socio-legal institutions that carry out preventive protection through supervision, transparency, and paruman; repressive protection through mediation and access to legal remedies; and crisis protection through the restoration of trust and information control. This construction is important because LPD are neither ordinary banks nor informal customary funds. LPD are hybrid institutions that require harmonization between state law, prudential standards, and customary law within society.

Based on the foregoing explanation, this study addresses two issues. First, we examine how customer deposit funds are protected in Village Credit Institutions in Bali. Second, how LPD management is responsible for customer deposit funds when rush money occurs. The purpose of this article is to formulate a customer fund protection model that is empirically grounded, normatively coherent, respectful of customary village authority, and demands clearer legal standards concerning deposit guarantees, liquidity control, managerial accountability, and dispute resolution.

RESEARCH METHOD

This study employs an empirical legal research method because the issues under examination concern not only written norms but also the way customary villages discharge their responsibilities in practice to protect LPD customer funds. Empirical legal research was selected to reveal how statutory provisions, awig-awig, pararem, and paruman mechanisms function in the everyday lives of customary communities. This approach is appropriate because safeguarding LPD deposits cannot be explained solely through regulatory texts; it must also be assessed through institutional practices, supervisory patterns, relations between LPD managers and customary villages, and community-based methods of settling financial disputes.

Three complementary approaches are applied: statutory, socio-legal, and customary law. The statutory approach reviews Law No. 10 of 1998 on Banking, Law No. 1 of 2013 on Micro-finance Institutions, Law No. 6 of 2014 on Villages, Bali Provincial Regulation No. 3 of 2017 on LPD, and Bali Provincial Regulation No. 4 of 2019 on Customary Villages. The socio-legal approach explores the interaction between legal norms and social practice in LPD governance, while the customary-law approach clarifies the roles of awig-awig, pararem, and paruman as instruments of supervision and dispute resolution within customary villages.

Primary data were gathered through interviews at three research sites: —LPD Desa Adat Mengwi (Badung Regency), LPD Desa Adat Kesiman (Denpasar City), and LPD Desa Adat Semaon (Gianyar Regency). Although each site displays distinct institutional characteristics, all reveal a close relationship among the LPD, the customary village, and the depositors. LPD Desa Adat Mengwi illustrates liquidity supervision, staff training, and external auditing; LPD Desa Adat Kesiman highlights the supervisory and problem-solving roles of paruman; and LPD Desa Adat Semaon underscores the importance of transaction administration, periodic reporting, and strong social ties between managers and krama desa.

Secondary data were sourced from legislation, regional regulations, books, journal articles, previous studies, and relevant institutional documents. All legal materials and empirical data were qualitatively analyzed through the stages of inventory, classification, interpretation, and argument construction. Interpretive techniques clarified the relationship between state law and customary law in protecting LPD customers, while qualitative analysis identified protection field patterns and linked them to theories of legal certainty, authority, legal systems, and legal protection. This method accords with the character of legal research, which not only explains existing norms but also formulates sound legal arguments for concrete issues (Marzuki, 2017; Benuf & Azhar, 2020; Diantha, 2016).

RESULTS AND DISCUSSION

Legal Status of Lpd as a Customary Village Financial Institution

The first finding shows that an LPD cannot be reduced to an ordinary bank, a cooperative, or a micro-finance institution. Functionally, an LPD mobilizes deposits and extends credit, yet institutionally, it is owned by the customary village and fulfils socio-economic functions for krama desa (village members). Article 39(3) of Law No. 1 of 2013 on Micro-Finance Institutions recognizes the existence of LPD and similar entities founded on customary law; thus, an LPD is not fully subject to the general micro-finance regime. Bali Provincial Regulation No. 3 of 2017 further confirms the LPD's status as a financial enterprise owned by a customary village. Consequently, an LPD occupies a hybrid legal position: it is bound by state law but operates under the legitimacy and oversight of customary law.

This status has two implications. On the one hand, its customary base provides the LPD with strong social capital. Trust between krama desa and the customary village lowers transaction costs, broadens access to financing, and brings LPD closer to local economic needs. Purnama and Wirawati (2024) show that cultural values such as Tri Hita Karana can be linked to LPD financial performance when translated into governance. Dewi, Dewi, and Sari (2024) likewise connect LPD financial management with Catur Purusa Artha as an ethical framework for balancing economic and social goals.

However, this special status may create a protection deficit if it is not matched by adequate prudential standards. Because an LPD lies outside the banking regime, its customers cannot automatically rely on the national deposit-insurance mechanism available to bank clients. However, an LPD is not an informal customary fund, so the community is entitled to professional, transparent, and accountable management. Legal certainty is crucial in this regard. Friedman (1975) explains that a legal system functions through its structure, substance, and legal culture. In the LPD context, structure comprises the customary village, LPD managers, supervisory bodies, and local government; substance comprises provincial regulations, awig-awig, pararem, and operating rules; and legal culture comprises villagers' trust and obedience to customary decisions.

Field data indicate that LPD Desa Adat Mengwi, LPD Desa Adat Kesiman, and LPD Desa Adat Semaon all rely on both formal state law and customary law. Management refers not only to provincial regulations but also to awig-awig and pararem as the village's internal norms. Awig-awig provides a general foundation, whereas pararem supplies technical rules tailored to local needs. This combination is a strength because customary norms are readily accepted by villagers; however, it also poses challenges when pararem do not spell out detailed protection standards, —such as minimum liquidity ratios, mandatory audits, managerial sanctions, or customer-claim procedures.

Preventive Protection through Supervision, Audits, and Village Paruman

The second finding reveals that the protection of LPD customer funds is pursued mainly through preventive measures aimed at avoiding losses before any failure to repay occurs. These measures include internal supervision, external audits, periodic reporting, staff development, credit control, and village paruman (council meetings).

- LPD Desa Adat Mengwi – Interviews show attention to liquidity oversight, staff training, sound financial management, and the use of external auditors to maintain objectivity. This practice indicates that customer protection rests not only on trust but also on verifiable technical instruments.
- LPD Desa Adat Kesiman:— Customer-fund protection is closely linked to village supervision and paruman. When problems arise, the customary village does not stand outside the LPD; it becomes a forum for discussing managerial accountability, customer rights, and recovery steps. A paruman serves a dual function: (1) transparency, because managers report institutional conditions to village officials and residents, and (2) accountability, because key resolutions can be deliberated collectively.
- LPD Desa Adat Semaon:— This case highlights the importance of transaction recording, periodic financial reporting, and direct oversight. Each deposit and withdrawal is formally logged, financial statements are submitted to the village, and lending decisions consider the debtor's capacity. In the case of late repayment, an initial family-based approach is adopted. Thus, close social ties help in early problem detection, although they must be managed to prevent supervisory laxity or kinship-based lending.

From a legal-protection standpoint, these practices constitute preventive protection because they aim to forestall loss. Such protection requires monitorable governance standards rather than mere goodwill. Santiari et al. (2025) stress that transparency, accountability, responsibility, independence, and fairness are the core principles of good corporate governance for LPD. Rahayu and Diatmika (2023) show that good governance helps prevent fraud. Accordingly, customary oversight must be reinforced with modern managerial tools, such as accurate record-keeping, periodic audits, credit controls, and risk reports.

The preventive model's limitation lies in its dependence on each LPD's quality and the village's commitment to it. Healthy, transparent LPD under active supervision can provide depositors with security, whereas managerial weakness, low transparency, or excessive kinship influence expose LPD to loss. Therefore, preventive protection needs to be standardized: the customary village remains the supervisory center, but audit requirements, reporting formats, liquidity thresholds, and credit-control rules must be clarified so that protection levels do not vary excessively across LPD.

Table 1. Empirical Construction of LPD Deposit-Fund Protection and Responsibility under Rush-Money Conditions

Dimension	LPD of Desa Adat Mengwi	LPD of Desa Adat Kesiman	LPD of Desa Adat Semaon	Legal Implications
Normative Basis	Provincial regulations, awig-awig, and pararem serve as the institutional governance framework.	Provincial regulations and written customary rules underpin the existence and management of the LPD.	Provincial regulations and village customary norms serve as the operational guidelines for the LPD.	The protection provided by an LPD depends on the interaction between state law and living customary law.
Preventive protection	Liquidity planning, staff training, internal oversight, and external audits strengthen public trust.	Customary-village supervision and paruman function as instruments of control and accountability.	Transaction recording, periodic reporting, and credit-risk analysis reinforce prudential management.	Preventive protection requires minimum standards for auditing, reporting, liquidity, and credit control.
Dispute resolution	Customary deliberation is prioritized before resorting to formal legal proceedings.	The customary village paruman deliberates managerial responsibilities and customer rights.	Family-based settlement is employed for late-payment issues and community disputes.	Customary mediation is valuable, yet civil and criminal proceedings remain necessary to restore rights.
Rush-Money Response	Restoring trust, liquidity discipline, and clear communication form the core of crisis prevention.	Customary-village authority acts as an institutional buffer whenever public confidence weakens.	Close community ties help detect rumors early, but they also allow panic to spread rapidly.	Crisis responsibility must combine managerial accountability with customary-village intervention.

Repressive Protection and Customer Dispute Resolution

Customer-fund protection does not end with prevention. Once a dispute arises, depositors require a clear mechanism to restore their rights. In LPD practice, disputes are generally addressed first through customary deliberation (musyawarah) or village paruman. This mechanism suits the LPD's character as a community-based financial institution: customary settlements are usually faster, closer to the community, and more socially acceptable than litigation. However, customary processes must never deprate customers of their right to pursue formal legal action if deliberation fails or if a criminal act is suspected.

In cases of default or late loan repayment, a family-based approach remains appropriate, provided that it is transparent and does not disadvantage deposit-holding customers. However, when abuses of authority, bookkeeping manipulation, fictitious loans, or embezzlement occur, customary resolutions alone are insufficient. Fadhilah and Fatahillah (2023) stressed that LPD disputes may be resolved through both customary sanctions and court proceedings, depending on the nature of the case. Suarjana (2025) likewise emphasizes that an LPD has business-law aspects that demand professional management within customary-village empowerment; kinship values must therefore operate alongside legal accountability.

Repressive protection requires distinguishing between normal business risks, managerial negligence, and unlawful or criminal conduct. Losses arising from prudently managed business risks cannot be equated with losses caused by the abuse of office. Where losses stem from duly analyzed non-performing loans, solutions may include restructuring, collection or institutional recovery. If losses result from managerial negligence, civil liability may be invoked. Where losses arise from embezzlement, corruption, or manipulation, criminal proceedings must be followed. This differentiation makes legal responsibility proportionate and prevents every loss from being abstractly imposed on the customary village.

Customary villages play a strategic role in repressive protection. It may facilitate mediation, summon managers, demand accountability reports, and impose customary sanctions under the awig-awig or pararem. However, mediation outcomes must be documented to ensure certainty. Paruman minutes should record core issues, the parties' positions, decisions, recovery schedules and consequences for non-compliance. Thus, a paruman functions not only as a social mechanism but also as an instrument of accountability.

LPD Managers' Responsibilities during Rush-Money Episodes

A rush-money episode is a crisis that tests both LPD management integrity and the customary village's capacity to act as an institutional buffer. Under normal conditions, managers are responsible for administering deposits, extending credit, maintaining liquidity, preparing reports, and complying with the internal rules. During a rush money event, those duties escalate: any managerial action can hasten confidence recovery or intensify the panic. Managers must provide accurate information, prevent discriminatory payments, uphold priority obligations to depositors, and cooperate with supervisors and the customary village council.

Liquidity responsibility: LPD must anticipate cash-flow needs and maintain an adequate liquidity ratio. For example, LPD Desa Adat Mengwi pays close attention to withdrawal funding and health management. Liquidity discipline matters because depositor panic often occurs when withdrawal limits are imposed without adequate explanation. Technical liquidity problems can quickly become problems of social trust; thus, managers need contingency plans covering communication, payment priorities, and coordination with the customary village to address these issues.

Information Responsibility. Rush money is often triggered by rumors. In tightly knit customary communities, rumors spread swiftly and can foster a collective belief that the LPD is unsafe. Therefore, managers must avoid concealing institutional conditions and must not issue statements that fuel panic. Information should be factual, measured, and delivered through trusted forums, —chiefly the village paruman. The village has the legitimacy to mediate communication between managers and residents, while managers are obliged to supply honest data on financial status, withdrawal policies, and recovery steps.

Accountability and responsibility. If rush money results from managerial negligence, uncontrolled bad loans, conflicts of interest, or misappropriation of funds, managers cannot hide from community panic. They must answer the institutional weaknesses that triggered mass withdrawals. Accountability may take the form of internal responsibility to the village, civil liability to customers, customary sanctions, or criminal liability if proven illegal. Legal-certainty theory demands that responsibility not rely solely on informal negotiations but rest on predictable norms and procedures.

Non-discrimination responsibility. In a crisis, managers may be tempted to prioritize certain parties—family members, customary leaders, or socially connected customers. Such practices heighten panic and erode public trust in the media. Therefore, payment policies must be transparent, rational, and defensible. If withdrawal limits are unavoidable for institutional survival, they must be openly announced, strictly temporary, and accompanied by settlement timetables. In the absebce of non-discrimination, rush money can escalate into broader social conflicts.

Toward a Hybrid Protection Model

The study findings indicate that protecting LPD customer funds requires a hybrid model. An LPD is rooted in customary law yet manages modern financial risks; thus, relying solely on awig-awig and communal trust is insufficient, while forcing it fully into the banking framework is inappropriate. The hybrid model integrates four elements: strengthened customary oversight, prudential governance, a LPD-specific mandatory deposit-guarantee scheme, and access to formal legal remedies.

Customary oversight was enhanced. Awig-awig and pararem should spell out managers' positions, reporting duties, audit mechanisms, sanctions for abuse of authority, and paruman procedures when problems arise. Oversight must be documented, not merely moral. Every paruman decision involving customer funds should be recorded, signed, and archived as an institutional document, ensuring that customary law remains alive yet administratively certain.

Prudential governance. LPDs require minimum standards for liquidity adequacy, lending limits, collateral evaluation, risk reserves, external audits, and periodic reporting. These standards bridge the gap between customary authority and modern financial responsibility.

LPD-specific deposit guarantees. The absence of a clear guarantee scheme is a core protection issue. A special scheme need not mirror the national banking system but must fulfil the same function: informing customers of coverage limits, claim conditions, funding sources, verification procedures, and payment mechanisms. It must be mandatory, quantifiable, and transparently supervised by the government.

Differentiated legal responsibilities. Not all losses should burden the village, yet the village cannot evade its oversight duties. Business-risk losses call for restructuring or guarantee claims, negligent management invites civil claims, criminal acts require prosecution, and supervisory omission may trigger customary or administrative liability. This model preserves the customary village as the primary authority while preventing autonomy from diluting depositor protections. It also respects state law without forcing LPDs into a banking mold that ignores their social foundations. The future of LPD depositor protection lies in the integration of legal certainty, prudential governance, customary legitimacy, and community trust.

Normative Implications for Regulatory Reform

From a legal-certainty perspective, LPD depositor protection must shift from trust-based to standard-based protection. Customary trust remains a vital social capital; however, it must be translated into clear, testable, and enforceable rules. Customers should know from the outset whether their deposits are guaranteed, to what amount, by which entity, when claims may be filed, and how verification proceeds. In the absebce of such information, the customer LPD relationship relies on the social assumption that the village can always absorb losses an assumption that creates uncertainty when liquidity strains arise or the village lacks recovery resources.

Regulatory reform must also clarify the lines of authority among LPD managers, supervisory boards, customary villages, LPD-empowerment bodies, and local governments. Although many oversight mechanisms already operate, their responsibilities are often vaguely defined. Normative clarity who must audit, receive reports, order corrective action, and answer for ignored recommendations turns authority theory from an academic basis into an operational tool.

Reinforcing regulations should not undermine village autonomy; minimum standards actually strengthen village positions by providing clear guidance for prajuru supervisors. Awig-awig and pararem can still regulate locally specific matters paruman procedures, customary sanctions, moral duties, and communication—while technical financial rules affecting deposit security should share uniform minima (annual audits, public summaries, conflict-of-interest bans, credit documentation, and customer-complaint handling). Thus, customary law works alongside prudential standards, not against them.

Further implications concern legal education and financial literacy in customary communities. Depositors choose LPDs partly for interest rates or convenience, but largely for village-based trust. Trust must be paired with awareness of deposit risks, depositor rights, managerial duties, and dispute pathways. Village-based financial literacy through paruman, regular outreach, simplified financial statements, and product explanations turns depositors into rational, socially responsible watchdogs.

Regulations must also govern crisis-information management. Rush money escalates when unverified or uncontrolled information outruns the objective financial conditions. Each LPD therefore needs a crisis-communication protocol involving managers, supervisors, and the village: who speaks, what data may be disclosed, which forum is used, and how to distribute information fairly. Without such a protocol, rumors trump facts, and social panic accelerates liquidity crises. A sound protocol allows the village to use its legitimacy to calm the public without hiding institutional realities.

Finally, external audits should be a mandatory institutional duty and not an optional managerial choice. External audits temper internal-relation dominance, especially in areas where kinship and deference can blunt oversight. Audit results should not remain confidential to managers but be summarized in accessible language for krama desa, extending transparency beyond technical documents to actionable public information.

While tightening accountability, reforms must also protect diligent managers; not every LPD failure stems from intent or negligence. Some losses arise from economic shifts, liquidity shocks or unforeseeable loan deterioration. Thus, managerial liability standards must be equitable; those who conduct proper credit analyses, record-keeping, reporting, and oversight should not be treated the same as those who misuse their authority.

Digital innovation, such as transaction logging, customer reporting, and record storage, —also fits within this construction. Digitalization can enhance accuracy and service speed but must rest on legal safeguards: data security, layered authorization and technology audits. Because LPDs finance local economies and social-religious village activities, weak depositor protection undermines both individual welfare and community’s legitimacy. Hence, depositor protection should follow staged legal reforms:

1. Strengthen internal standards through pararem, audits, reporting, and addressing complaints.
2. Establish a mandatory and transparent LPD deposit-guarantee scheme.
3. Harmonize provincial regulations, customary laws, and formal dispute mechanisms.
4. Digitalize services and records while ensuring data security and managerial accountability.

These stages keep LPDs rooted in customary villages while better equipping them to face modern financial risks.

CONCLUSION

Customerdeposit protection in Bali’s Village Credit Institutions (LPD) is currently delivered through a combination of internal oversight, customary-village supervision, external audits, liquidity planning, periodic reporting, and customary instruments of awig-awig, pararem, and village paruman. These mechanisms offer meaningful preventive and social safeguards, particularly in LPD that are managed transparently and actively monitored by their customary villages. Nevertheless, they do not yet guarantee full legal certainty because LPD deposits are still not covered by a mandatory, uniform, and measurable deposit-insurance scheme. As a result, the level of depositor protection continues to depend heavily on each LPD’s financial health, the strength of customary trust, and the seriousness with which the village exercises its supervisory role.

During a rush-money episode, LPD managers are responsible for maintaining liquidity, providing accurate information, preventing discriminatory payouts, cooperating with supervisors, and answering for any negligence or unlawful conduct that harms depositors. The customary village carries strategic responsibilities as an owner, supervisor, mediator, and crisis buffer. These responsibilities must be underpinned by clearer legal standards so that depositor protection rests on more than moral trust or informal deliberation. The most appropriate reform is a hybrid protection model that reinforces customary oversight, mandates prudential governance, establishes an LPD-specific deposit-guarantee standard, and preserves access to civil and criminal remedies whenever losses stem from mismanagement or abuse of authority.

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