INFLUENCE OF BANK'S HEALTH RATIO ON FINANCIAL PERFORMANCE OF BANKING COMPANIES LISTED ON IDX FOR THE 2018-2020 PERIOD

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ABSTRACT

This study aims to analyze the effect of Non-Performing Loans (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period. The research used descriptive quantitative. The independent variables are Non Performing Loan (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) and financial performance as the dependent variable. Population of financial statements of banking companies listed on the Indonesia Stock Exchange for the period 2018-2020. The sample is 35 companies with purposive sampling method. Multiple regression analysis. The results showed that the partial test between NPL and ROA obtained tcount = -2,953 and sig = 0.004. partial test between GCG and ROA obtained t value = 1.799 and sig = 0.075. partial test between NIM and ROA obtained tcount = 3.078 and sig = 0.003 and partial test between CAR and ROA obtained tcount = 3.644 and sig = 0.000. Based on the results of the study, it can be concluded that partially Non-Performing Loan (NPL), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) have an effect on Financial Performance and the Good Corporate Governance (GCG) variable has no effect.

Keywords: Non Performing Loan (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR)

INTRODUCTION

Developments in the bank's business activities are always exposed to risks related to matters of uncertainty that occur as a result of current decisions and conditions. Therefore, the banking sector must always be monitored regularly for its level of health in order to continue to provide optimal service to customers. The soundness of a bank can reflect the performance of banking institutions in Indonesia and the regulations set by Bank Indonesia are used in assessing this.

Bank soundness level regulations that have been set by Bank Indonesia are expected to be able to become a reference for the banking sector to be able to maintain its health level within normal limits so that it does not harm interested parties related to the banking sector such as owners, bank managers, community users of bank services and the government. (Bank Indonesia).

The results of the assessment will have an impact on public trust. Therefore, success in carrying out its duties as a good quality financial institution can be viewed from the soundness of the bank. Where later it can provide a more precise picture of the current state of banking soundness and at the same time provide convenience in determining future policies.

The phenomenon of the global financial crisis in recent years has become the main reason for changing the CAMEL method to RGEC. This can provide an experience that innovation in banking activities if it is not balanced with the implementation of adequate risk management can indicate problems in the bank and the financial system as a whole (Permana, 2012). Then, the failure of strategies and fraudulent practices until

they are not detected causes the importance of implementing good corporate governance (GCG).

Before the RGEC method was implemented in the banking world, the CAMEL method was known to assess the soundness of commercial banks. Because the CAMEL method is considered less reflective of the actual condition of the bank, a bank health assessment was renewed on January 5, 2011, using a Risk-based Bank Rating with the following assessment criteria: Risk profile, Good Corporate Governance (GCG) , Profitability (earnings), and Capital (capital) which is known as the RGEC method. The reason the researcher chooses the RGEC method is because the parameters for measuring the soundness of banks that have been using the CAMELS method are considered less effective because they only conclude a different assessment (Permana, 2012).

The RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) method is a bank analysis method that has been adapted to increasingly complex banking conditions. The advantage of the RGEC method is that it emphasizes the importance of quality risk management (Permana, 2012). In this method the Risk Profile becomes the most important component, the NPL ratio in it is the most influential factor in the collapse of a bank's condition, namely the NPL. The factors contained in the RGEC method are the assessment of inherent risk, namely the risks contained in the bank's business activities; an assessment of the principles of Good Corporate Governance (GCG) that adapts to the condition of the bank; the profitability aspect is carried out based on structured criteria obtained from the bank's financial statements; Likewise, the capital aspect is carried out based on criteria that have been structured in the financial statements of a bank.

THEORETICAL BASIS

BANK DEFINITIONS

Bank is a company engaged in finance, and banking activities are always related to finance. So discussing the bank can not be separated from financial problems (Kasmir, 2014:24).

FINANCIAL PERFOMANCE

According to Sambiring and Rizal (2015) "financial performance is the result of the company's operating activities presented in the form of financial figures". Financial performance reports displayed by companies generally display financial statements in nominal form. The report can be displayed in the form of certain periods.financial performance proxied by ROA.

(Return On Assets) ROA is a ratio that shows the comparison between net profit after tax and the bank's total assets, this ratio shows the level of efficiency of asset management carried out by the bank concerned (Riyadi, 2015:156) The measurement of this variable uses the formula:

$$ROA = \frac{\text{net income after tax}}{\text{total assets}}$$

RISK PROFILE

Assessment of the Risk Profile factor is an assessment of the inherent risk and quality of the implementation of Risk Management in bank operational activities.risk profile is proxied as NPL. Non-Performing Loan (NPL) is the ratio between non-performing loans to total loans. Non-performing loans are all loans to non-bank third parties with substandard, doubtful, and non-performing collectibility. Total Credit is non-bank third party credit (Larasati 2019).

$$NPL = \frac{\text{Troubled Credit}}{\text{Total Credit}} \times 100\%$$

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a variable that shows the company's management mechanism in regulating and

managing the business to increase the prosperity of banking companies.

Based on the provisions of Bank Indonesia presented in the Bank Supervision Report (2012:36) the governance structure includes the implementation of the duties and responsibilities of the Board of Commissioners and the Board of Directors as well as the completeness and implementation of the duties of the committees. The GCG report is guided by Bank Indonesia Regulation No.13/1/PBI /2011 by looking for the published annual report and then determining the assessment carried out by the bank based on the self-assessment system.

Net Profit Margin (NIM)

Net Profit Margin (NIM) is a ratio that describes the level of net interest income obtained by using productive assets owned by the bank. The greater this ratio, the higher the interest income on productive assets managed by the bank, so that the probability of the bank being in a problematic condition is getting smaller (Amalia and Herdiningtyas, 2015).

$$NIM = \frac{\text{Net Interest Income}}{\text{Average Earning Assets}} \text{ x } 100\%$$

Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a capital adequacy ratio that shows a bank's ability to maintain sufficient capital. In this variable, the formula used is by comparing own capital to risk-weighted assets (RWA) as follows (NurAini, 2013):

$$CAR = \frac{\text{Bank Capital}}{ATMR} X \text{ } 100\%$$

HYPOTHESES
1. The Effect of NPL on Financial Performance

The risk profile factor measured in this study used a Non-Performing Loan (NPL). NPL reflects credit risk, the lower the NPL, the more profitable the bank will be, so that the bank's performance is getting better, and vice versa if the NPL level is high, the bank will experience losses due to the rate of return on bad loans (Ariyani, 2010). Therefore, banks must bear losses in their operational activities so that it affects the decline in profit (ROA). In addition to this, the high quality of bad loans also results in a decrease in bank profits or profits so that the value of the company will also experience the same thing (decrease). (Anggarsini and Herkulanus, 2018:1316). Research conducted by Wulandari and Made (2017) explains that NPL has a significant negative effect on financial performance. Based on research conducted by (Almunawwaroh&Maliana, 2018) and (Rahmat, Arfan, &Musnadi, 2014) NPL has a negative effect on Financial Performance (ROA). However, the results of research from (Yusuf, 2017) state that non-performing loans have a positive effect on ROA.

H₁: It is suspected that NPL (Non-Performing Loan) has an effect on Performance

2. Effect of GCG on Financial Performance

GCG is a variable that describes healthy corporate principles that need to be applied in the management of the company to safeguard the interests of the company in order to achieve the company's goals and objectives (Decree of the State Minister/Head of the State-Owned Enterprises Investment and Development Agency No.23/MPM.PBUMN/2000 concerning development GCG practice). Previous research that is in line with this has been conducted by Dian Prasinta (2012) with the results of the analysis stating that there is a positive effect of GCG on ROA and the results show that GCG has no effect on ROA. This can be seen from the significant value indicating that GCG has no positive effect on ROA. The results of this study state that GCG does not significantly affect the company's financial performance.

H₂: It is suspected that GCG (Good Corporate Governance) has an effect on performance Financial Banking Companies Listed on the IDX for the 2018-2020 period.

3. The Influence of NIM on Financial Performance

Earnings are measured in this study using the Net Interest Margin (NIM). NIM is a ratio that measures the ability of earning assets to generate net income. According to the existing theory, the greater the NIM, the greater the operating income of a bank on assets managed by the bank, so that the condition of problematic banks is getting smaller. Based on research conducted by (Rahmat, Arfan, &Musnadi, 2014) which obtained the results that Net Interest Margin has a negative effect on financial performance (ROA).

H₃: It is suspected that NIM (Net Interest Margin) has an effect on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.

4. Effect of Capital on Financial Performance

Capital Adequacy Ratio (CAR) is the risk of capital adequacy, which means the amount of own capital needed to cover the risk of losses arising from investing in risky assets and financing all fixed assets and bank inventories. The greater the CAR, the greater the bank's profit. In other words, the smaller the risk of a bank, the greater the profit earned by the bank (Kuncoro, 2002). With the increase in profit, the bank's performance will improve. Therefore, it can be concluded that the greater the CAR, the greater the ROA so that financial performance will increase. Based on research conducted by (Yusuf, 2017) which obtained the results that CAR had a positive effect on financial performance. However, from the results of research conducted by (Almunawwaroh&Maliana, 2018) CAR has a negative effect on ROA. Research by Anggarsini and Herkulanus (2018) states

that CAR (Capital Adequacy Ratio) has a significant positive effect on financial performance.

H₄: It is suspected that CAR (Capital Adequacy Ratio) affects the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.

METHOD

The research method uses descriptive quantitative. The independent variables are Non Performing Loan (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) and financial performance as the dependent variable. Population of financial statements of banking companies listed on the Indonesia Stock Exchange for the period 2018-2020. The sample is 35 companies with purposive sampling method. Data analysis used multiple regression analysis.

RESULTS AND DISCUSSION
1. Multiple Linear Regression Analysis

Coefficientsª

Model		Unstandardized Coefficients
		B
1	(Constant)	-9.747
	NPL	-.444
	GCG	.100
	NIM	.357
	CAR	.091

a. Dependent Variable: ROA

Source: data processed from SPSS version24 program

It is known that the results of multiple linear regression analysis are:

$Y = -9{,}747\ 0{,}444X_1 + 0{,}100X_2 + 0{,}357X_3 + 0{,}091X_4 + e.$

From the multiple linear regression equation above, it can be explained as follows:

a. The constant value is negative, which is -9.747. This shows that if there are no NPL, GCG, NIM and CAR variables, the ROA value will decrease by 9.747.

b. The regression coefficient for the NPL variable is negative, which is -0.444.

This shows that every time there is an addition to the NPL variable, it will cause a decrease in ROA of 0.444.

c. The regression coefficient for the GCG variable is positive, which is 0.100. This shows that every time there is an additional GCG variable, it will cause an increase in ROA of 0.100.

d. The regression coefficient for the NIM variable is positive, namely 0.357. This shows that every time there is an addition to the NIM variable, it will cause an increase in ROA of 0.357.

e. The regression coefficient for the CAR variable is positive, namely 0.091. This shows that every time there is an addition to the CAR variable, it will cause an increase in ROA of 0.091.

2. Correlation Coefficient

Table 1. Correlation Coefficient Test Results

Model Summary[b]

Model	R
1	.576[ᵃ]

Sumber :The data is processed based on the results *SPSS 20 For Windows*

The table above shows a multiple correlation (R) of 0.576. And the R value can be interpreted that the effect of the correlation between NPL, GCG, NIM and CAR on ROA (Y) is 0.576 which has a strong and significant correlation value.

3. Coefficient of Determination

Table 2. Results of the Coefficient of Determination

Model Summary[b]

Model	R Square	Adjusted R Square
1	.332	.305

a. Predictors: (Constant), CAR, NIM, GCG, NPL
b. Dependent Variable: ROA
Source : The data is processed based on the results *SPSS 20 For Windows*

Based on the results of the Coefficient of Determination test, it is known that the magnitude of the influence of the

independent variable on the dependent variable based on R Square is 0.332 so it can be concluded that 33.2% of ROA is influenced by NPL, GCG, NIM and CAR, while the rest is influenced by other variables not examined in the study.

4. Partial Test (t Test)

Coefficients[a]

Model		T	Sig.
1	(Constant)	-2.195	.030
	NPL	-2.953	.004
	GCG	1.799	.075
	NIM	3.078	.003
	CAR	3.644	.000

a. Dependent Variable: Abs_RES

Sumber: data yang diolah dari program SPSS versi 24

Based on the results of the partial test of the NPL variable with ROA, the value of tcount = -2,953 and sig = 0.004. Because the value of sig 0.004 <0.05, it can be concluded that NPL has a negative and significant effect on ROA. The partial test between GCG and ROA obtained the value of t count = 1.799 and sig = 0.075. Because the sig value is 0.075> 0.05, it can be concluded that GCG has no significant effect on ROA. Partial test between NIM and ROA obtained tcount = 3.078 and sig = 0.003. Because the value of sig 0.003 < 0.05, it can be concluded that NIM has a positive and significant effect on ROA. Partial test between CAR and ROA obtained tcount = 3.644 and sig = 0.000. Because the sig value of 0.000 < 0.05, it can be concluded that CAR has a positive and significant effect on ROA.

5. Simultaneous Test (F Test)

ANOVA[b]

Model		Sum of Squares	F	Sig.
1	Regression	238.625	12.424	.000[ᵃ]
	Residual	480.188		
	Total	718.814		

a. Predictors: (Constan), CAR, NIM, GCG, NPL
b. Dependent Variable: ROA
Source: data processed from SPSS version 24

Based on the results of the F statistical test, the results of data analysis obtained a significant value of 0.000 because the significant value is less than 0.05 then H0 is rejected so that it can be concluded that there is a simultaneous influence of NPL, GCG, NIM and CAR on ROA of Banking Companies Listed on the IDX Period 2018-2020.

CONCLUSION

Based on the research that the author has done, the following conclusions can be drawn:

1. Non-Performing Loans (NPL), Good Corporate Governance (GCG), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) have a positive and significant impact on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.
2. The Non-Performing Loan (NPL) variable has a negative and significant effect on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.
3. The Good Corporate Governance (GCG) variable has no effect on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.
4. The Net Interest Margin (NIM) variable has a positive and significant effect on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.
5. The Capital Adequacy Ratio (CAR) variable has a positive and significant effect on the Financial Performance of Banking Companies Listed on the IDX for the 2018-2020 period.

SUGGESTION

With all the existing limitations, the researcher can give some suggestions as follows:

1. Future researchers are expected to be able to examine other variables such as CR, LDR, BOPO in order to obtain more varied results that can describe financial performance as measured by variables other than Non-Performing Loans (NPL), Good Corporate Governance (GCG).), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR).
2. To be more varied, further researchers can compare financial performance before and after the covid 19 pandemic.

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