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Effect of Bank Health Level (Using Rgec Method) on Profit Growth

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Abstract--- Indonesian banking is faced with various problems. One of them, an increase of 7-Day Reverse Repo Rate (7-DRRR). In May-June 2019, Bank Indonesia (BI) has raised this by using a basic 75 basis points. This increase in benchmark interest will affect the banking business. 7-DRR will affect economic growth. Even though economic growth greatly influences the demand for credit. The increase in 7-DRR encourages banks to increase deposit interest and credit interest (cnbcindonesia.com). When economic growth is weak, credit demand will weaken. The increase in credit interest will also make banks face various problems that will certainly affect profits, because banks are considered not as healthy and in prime condition as usual.

Keywords---Rgec Method, Profit Growth.

I. INTRODUCTION

Indonesian banking is faced with various problems. One of them, an increase of 7-Day Reverse Repo Rate (7-DRRR). In May-June 2019, Bank Indonesia (BI) has raised this by using a basic 75 basis points. This increase in benchmark interest will affect the banking business. 7-DRR will affect economic growth. Even though economic growth greatly influences the demand for credit. The increase in 7-DRR encourages banks to increase deposit interest and credit interest (cnbcindonesia.com). When economic growth is weak, credit demand will weaken. The increase in credit interest will also make banks face various problems that will certainly affect profits, because banks are considered not as healthy and in prime condition as usual.

The assessment of public bank soundness level was refined by Bank Indonesia from CAMELS, namely capital (asset), management (management), profitability (earnings), and liquidity (liquidity), as well as sensitivity to market risk, becoming RGEC. The assessment of the new bank soundness, namely RGEC, assesses taking into account risks, corporate governance, profitability and capital in PBI Number 13/1 / PBI / 2011 date January 5, 2011 concerning Rating of Commercial Bank Soundness. The change in the banking valuation system is expected to identify problems that occur earlier in the company, be more effective and efficient in carrying out follow-up actions, as well as implement more appropriate GCG and risk management so that banks are more resilient in facing crises.

The first component of RGEC is risk profile. Yasa (2015) stated that the placement of risk is mediation because banking is one of the industries that is full of risks, because it starts from directing funds as a source of liabilities, so that lending has costs. The assessment used in the risk profile in this study focuses more on credit risk using the Loan to Deposit Ratio (LDR) measurement. The second component is the determination of the rank of good corporate governance (GCG), which is a system that regulates relationships between stakeholders in order to achieve company goals. In GCG, Self Assessment will be carried out as a measurement measure. The third component is the profitability factor (earnings), which is the company's ability to generate profits from the capital invested in total assets. Measurements are made using the Net Interest Margin (NIM). Finally, the capital factor shows the amount of minimum capital needed to cover the risk of possible losses arising from the planting of risk-bearing assets as well as financing fixed assets and bank inventory, this component is measured by the Capital Adequacy Ratio (CAR).

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II. HYPOTHESIS DEVELOPMENT

II.I. Effect of LDR on Profit Growth

LDR can be used to compare the composition of the amount of credit with the amount of public funds and capital used, it can be concluded how credit to customers can offset the bank's obligation to immediately meet the demand of customers who want to withdraw money that has been used by banks in their credit distribution. The LDR shows the level of liquidity of a bank and shows its ability to carry out its intermediary function in channeling third party funds. If the LDR ratio shows a low number, the bank is in idle money or excess liquidity which will cause the bank to lose the opportunity to get a bigger profit. The size of the LDR is considered to meet the requirements if between 75% and 100% (Dewi, 2012). While according to Kuncoro and Suhardjono (2011) LDR is below the target and limit, it can be said that banks maintain liquid assets that are excessive and this will cause pressure on bank income in the form of high unemployment cash maintenance costs. So that it can be said otherwise the higher the LDR, the profits obtained by the bank will increase (assuming the bank is able to channel its credit effectively so that the expected number of bad loans is low), in other words the LDR can explain the development of profit growth. This is in line with the research of Suryana and Edison (2017). The results of Silaban's research, et al (2018) indicates that the LDR can affect the profit growth of state-owned banks for the period 2007-2016 in a positive direction. That is, bank liquidity increases can increase profit growth. The results of this study are also in line with the results of Tumewu (2014), and Yuliatiningrum (2016).

H1 = LDR has a significant effect on profit growth

II.II. Effect of GCG on Profit Growth

GCG implementation is one of the provisions that is increasingly emphasized in banking companies (Saudi, 2018). It is intended that management of investor funds can be managed properly and correctly by company management will create added value for all stakeholders (Kaihatu in Trimurti, 2014). GCG implementation includes supervision of manager's performance. With the existence of good supervision from management, it is expected that the bank will provide benefits to the owners of the company and is also intended to improve the bank's financial performance, including increasing profits. The results of Silaban's research, et al (2018) show that Good Corporate Governance (GCG) has a significant positive effect on Profit Growth. That is, that the factor of GCG implementation carried out by BUMN Banks is able to increase profit growth.

H2: GCG has a significant effect on profit growth

II.III. Effect of NIM on Profit Growth

According to Pandia (2012: 71)NIM can be used to measure to find out how bank management can manage productive assets to produce net interest income. NIM, in other words, can find out how banks get interest income by looking at the performance of banks in lending, bank operating income is very dependent on the difference in interest from loans channeled. Income obtained from interest received from loans given is reduced by interest costs from the source of funds collected, so that an increase or decrease in NIM will affect the increase or decrease in profits. NIM is obtained from the ratio between bank interest income (credit interest income minus deposit interest) on outstanding earning assets. The greater the NIM ratio then increases interest income on earning assets, so the more effective the bank is in the placement of company assets in the form of credit. With increasing interest income can contribute profit to the bank. It can be concluded that the greater the NIM of a bank,with increasing profits. based on journal literature, NIM can explain profit growth in accordance with the results of research from Hutagalung and Ratnawati (2013). This can be hypothesized as follows:

H3 = NIM has a significant effect on profit growth

II.IV. Effect of CAR on Profit Growth

Capital Adequacy Ratio is a ratio that measures all bank assets that can be a guarantee of risk (credit, participation, securities, bills on other banks) which are obtained from the bank's own capital funds other than sources outside the bank, such as public funds, loans (debt), etc.The greater the capital adequacy of a banking company, the greater the profit growth generated by the company. According to Bank Indonesia Regulation Number 15/2 / PBI / 2013, the value of the Capital Adequacy Ratio (CAR) of banking companies is equal to or greater than 8% (eight percent). CAR is an indicator of a bank's ability

H4 = CAR has a significant effect on profit growth

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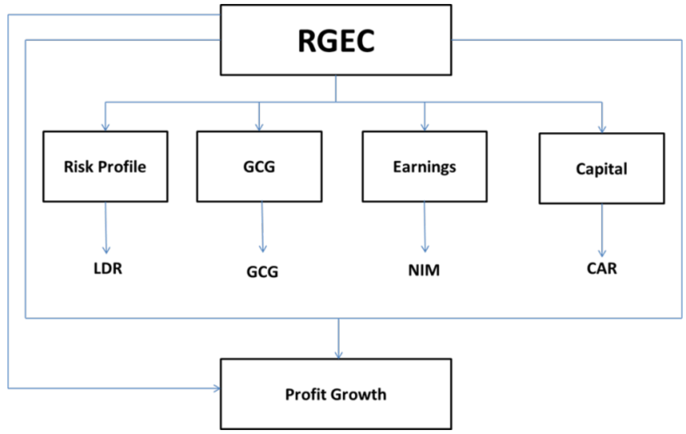
II.V. Framework



III. RESEARCH METHODS

All banks listed on the Indonesia Stock Exchange (IDX) in 2013 to 2017 for 5 years are the population in this study.. The technique of determining the sample in this study used the Non Probability Sampling technique. According to Sugiyono (2012: 22) Non Probability Sampling is sampling that does not provide equal opportunity or opportunity for each element or member of the population to be selected as a sample. In this study the Non Probability Sampling technique used is Purposive Sampling. The total number of banking sectors listed on the Indonesia Stock Exchange (IDX) is 43 banks, but only 31 banks meet the criteria. So that can be used as a sample in this study are as many as 31 banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2013 to 2017. The analysis technique used is the analysis of panel data regression data (Hussain et al., 2018).

Table 1: *Operational Variables*

No	Variabel	Dimension	Formulation	Skala
1	*Loan to Deposit Ratio* (X1)	The ratio that states how far the bank has used deposit money to provide loans to its customers (Pandia, 2012: 128)	Kredit / DPK+Surat Berharga yang Diterbitkan X 100%	Rasio
2	GCG (X2)	GCG factor assessment is an evaluation of the quality of the Bank's management in implementing GCG principles. The principles of GCG and the focus of assessment on the implementation of GCG principles are guided by Bank Indonesia regulations regarding GCG Implementation for Commercial Banks by taking into account the characteristics and complexity of the Bank's business. (Bank Indonesia Circular Letter No. 13/24 / DPNP / 2011)	Nilai Komposit = Bobot Aspek x Peringkat	Rasio

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3	*Net Interest Margin* (X3)	NIM is a comparison between Interest Income (bank interest income earned) minus Interest Expenses (bank interest costs which are a burden) divided by Average Interest Earning Assets (average productive assets used) (Riyadi, 2012: 223)	$\frac{\text{pendapatan Bunga Bersih}}{\text{Outstanding Credit}}$ X 10(	Rasio
4	*Capital Adequacy Ratio* (X4)	The bank's performance ratio to measure the capital adequacy of the bank to support assets that contain or produce risks, for example loans given (Kasmir, 2012)	(Modal) /Aktiva Tertimbang Menurut Risiko (ATMR) X 100%	Rasio
5	Pertumbuhan Laba (*Profit Growth*)(Y)	Profit growth is a change in the percentage increase in profits earned by the company (Ramadaniar, 2013)	(Laba Bersih Tahun$_t$ - Laba Bersih Tahun$_{t-1}$) / Laba Bersih Tahun$_{t-1}$	Rasio

IV. PANEL DATA REGRESSION ANALYSIS

In this study using panel data because it is a combination of time series data and also crossection, Winarno (2015: 9). After obtaining the best model, then hypothesis testing is done through partial testing (t test) and test the coefficient of determination (R2).

V. DISCUSSION

After testing the model to find out which model is the best that can be used to discuss the hypothesis, it was found that the random effect model is better used than the other two models, then the tabulated data is tested using classical assumptions to ensure that the data is feasible and the result is worthy.

Table 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAR	42.87109	17.02252	2.518492	0.0128
NIM	-72.63415	46.65577	-1.556810	0.1216
LDR	-1.904197	6.844582	-0.278205	0.7812
GCG	-14.00894	3.478815	-4.026930	0.0001
C	8.947284	8.132058	1.100248	0.2730
R-squared	0.648682			
Adjusted R-squared	0.549234			
F-statistic	5.146700			
Prob(F-statistic)	0.000650			

After obtaining a decent model, then the next answer to the hypothesis that has been stated earlier, is done as follows, to test the hypothesis proposed in the study or to see the effect of each individual independent variable on the dependent variable. then the criteria used in the t test are if tcount> t table or –thitung <-table, then there is a significant effect of the independent variable on the dependent variable. Based on the table above shows that table and t count for CAR, NIM, LDR, and GCG are obtained as follows:

1. Variable Capital Adequacy Ratio (CAR)

   Based on the test criteria described earlier, it can be seen that the tcount of the CAR variable is 2.5185 and ttable is 1.9758, then (2.5185> 1.9758). This indicates that H0 is rejected and H1 is accepted, meaning that the CAR variable has a partially significant effect on Profit Growth.
2. Variable Net Interest Margin (NIM)

Based on the test criteria described earlier, it appears that the value of the NIM variable is -1.5568 and the table is -1.9758, then (-1.5568> -1.9758). This indicates that H0 is accepted and H1 is rejected, meaning that the NIM variable has no partial significant effect on Profit Growth.

3. Variable Loan to Deposit Ratio (LDR)

Based on the test criteria described earlier, it can be seen that the value of the LDR variable is -0.22782 and the table is -1.9758, then (-0.2782> -1.9758). This indicates that H0 is rejected and H1 is accepted, meaning that the LDR variable has no partial significant effect on Profit Growth.

4. GCG Variables

Based on the test criteria described earlier, it can be seen that the tcount of GCG variable is -4.0269 and t table is -1.9758, then (-4.0269 <-1.9758). This indicates that H0 is rejected and H1 is accepted, meaning that the GCG variable has a partially significant effect on Profit Growth.

V.I. Determination Coefficient Test (R2)

The coefficient of determination test is done to measure how much the ability of the model or independent variable in explaining changes in the dependent variable. Based on the table above obtained (Adjusted R-squared) of 0, 549234 or 54.92% shows that CAR, NIM, LDR, and GCG have an influence of 54.92% on Profit Growth. While the remaining 45.08% is influenced by other variables not observed in this study.

VI. CONCLUSION

After going through the discussion based on output data, it is known that only the CAR and GCG variables that influence earnings growth, while the LDR and NIM variables have no effect on profit growth in the banking sector listed on the IDX during the period 2013-2017.

VII. SUGGESTION

taking into account the results of the previous discussion, researchers with limitations exist, the bank is expected to be able to maintain the health of the bank by paying attention to profit growth, because from this study can be seen if the bank has not been able to optimize the profit growth credit distribution is not problematic, besides, for investors it is not the level of profit sought but how banks can provide security and comfort with the level of capital owned and good governance. Investors are expected to first analyze the level of health and financial performance of the bank first. Facebook can be used to assess financial performance and the level of banking health.

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