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The Influence of Non Performoing Loan, Third Party Fund, Credit Growth, and Credit Risk on Profitability

(Study on the Listed Banking in Indonesia Stock Exchange Period 2016-2018)

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Abstract---*This research aims to test the influence of the third-party funds, credit growth, and credit risk on profitability in banking were listed on the Indonesia stock exchange period 2016-2018. The data used are secondary data. Sample withdrawal technique using a census techniques that use the entire population. This study are the eksplanatory reseach. Data analysis used is a regression analysis of data panels. The results show that the variable of third-party funds, credit growth, and credit risk has influence to return on asset. The results on the determination of the coefficient in the regression model that the influence of variables third-party funds, credit growth, and credit risk on profitability is 51% while the rest of 49% explained by variables other than the regression model.*

Keyword---*Non Performing Loan (NPL), Third Party Fund (TPF), Credit Growth, Credit Risk, Profitability*

I. Introduction

Profitability is the most appropriate indicator to measure the performance level of an entity, which is aimed at the large level of profit gained. It is important for the entity to maintain the level of profitability in order to remain stable even increase to fulfill obligations to shareholders and attract prospective investors to invest in the company.

Companies with good profitability demonstrate the company's ability to maintain the company's long-term sustainability. The profitability of an entity greatly affects the country's economy, one of which is a banking sector that has a significant role in supporting the economy of a country. Nowadays, among companies as well as the Community requires banking role in activities related to its finances. Therefore, it is important for banking to be able to maintain the level of profitability.

Performance assessments through profitability can be reflected in each bank's financial statements. Baseline performance assessments can be assessed through ratio calculations in financial statements. The measurement of profitability in the banking industry can be by using Return On Assets (ROA) to assess the bank's management ability to manage the assets and investments it has to generate profit.

In 2018 the majority of the performance of large banks is still under expectation. Recorded from 10 major banks, the performance of six banks are still below expectations are BTN, Bank Panin, Bank Danamon, Bank BCA, Bank Permata, and BRI. The good performance is achieved by Bank BNI, Bank Mandiri, and Bank BTPN which achieve the growth of the profit above the projected previous banking profit growth of about 14-15%. Then, the Bank managed to reach profit growth target of 5%. Unlike the increase in profit achieved by Bank BTN only reached 12% of the specified target of 27-

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29%. Similarly, the Bank BCA and Bank BRI only recorded a profit increase of 8% and 11%, which should be able to record the profit higher. While bank Panin, Bank Danamon, and Bank Permata have decreased net profit. The performance of several banks that have not been expected is due to the reliability indicators of profit, credit, bank Third party Fund (TPF) not yet optimal.

Third-party funds of banks that have not been optimal or low show that the ability to struggle at the time of loss is also low. The source of funding from this community is the most important source of funding for bank operations. The higher the third party funds collected by the bank, the higher the bank opportunity to redistribute in the form of credit. The distribution of this credit will contribute interest income to banks that will impact the increase in profitability.

One of the main activities of the Bank is to distribute funds in the form of credit. The higher the volume of credit channeled or credit growth, then the profit obtained by the bank will also grow because it gets a loan interest from the credit. The higher the credit growth, the better the quality and quantity of credit, the higher the bank opportunity to re-distribute the funds to the community or debtor, so that the opportunity to earn profit is increasingly greater (Saudi, 2018).

One of the risks faced by the bank is the risk of not being paid for credit that has been given or credit risk. If the customer is unable to return the loan, the bank will suffer losses because the funds are not able to be refunded and the bank fails to obtain interest income, thereby lowering the profitability of the bank. The Non Performing Loan (NPL) is a ratio used to measure how banks ability to minimize problematic credit is encountered.

Theoretical basis

Profitability

Profitability according to Munawir (2010:33), the ability of the company to generate or earn profit during a certain period by using productive assets or capital, both capital as a whole and own capital. One of the profitability ratios is Return on Asset (ROA).

Return On Asset (ROA) is the ratio used to measure the bank's ability to yield relative profitability compared to its total assets. This ratio measures the company's ability to generate net profit based on a certain asset level (Hanafi & Halim, 2012:81).

Non Performing Loan

The measurement of a bank’s business risk ratio that shows the amount of credit risk problem caused by uncollectible doubtful of loan and interest payment (Darmawi, 2011).

Third Party Fund

Third party funds according to Budisantoso and Nuritomo (2015:124), the source of funds from the community can be a demand deposit, saving deposits and time deposits from individual customers or agencies.

Credit Growth

Credit pursuant to Kasmir (2017:82), the provision of money or bills that can be likened to, based on the consent or borrowing agreement between banks with other parties that require the borrower to settle the loan after a period of time given interest.

Credit Risk

Credit risk According to Masyhud Ali (2006:27) risk of the occurrence of bank losses as a result of not repaid credit provided by the bank to the debtor or other counterparty. Non performing loan is one of the risk ratios of the bank's business which shows the magnitude of the risk of problematic credit in a bank (Darmawi, 2014:61).

The Non performing loan (NPL) is a ratio that shows the ratio of problematic credit to total credit. The larger NPL indicates that the more the credit is problematic, and the higher the risk that the bank faced (Sudirman, 2013:204)..

II. Research Methodology

This research uses secondary data obtained from the banking sector listed on the Indonesia Stock Exchange. The secondary Data used is the company's yearly financial statements in the period 2016-2018. The population in this study is 41 conventional banks with observation data of 123 conventional Bank financial statements listed on the Indonesia Stock exchange period of 2016-2018.

The dependent variables in this study are profitability. While the independent variables in this study are:

X1: Non Performing Loan

X2: Third party funds

X3: Credit growth

X4: Credit Risk.

III. Research Result

Model Test

Hausman Test

Table 1: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.535354	3	0.9111

Source: Eviews 10 Output result

The Hausman test results indicate that probability value (Prob.) Cross-section random 0.9111 whose value is > 0.05 so it can be concluded that the selected model is Random Effect.

Classic Assumption Test

Multicollinearity Test

Table 2: Multicollinearity Test

Variance Inflation Factors			
Date: 10/31/19 Time: 08:48			
Sample: 1 123			
Included observations: 123			
Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.06E-05	4.285638	NA
X1	0.007363	1600504.	2.546655
X2	2.78E-05	1.316388	1.313107
X3	0.000127	1.566011	1.230590
X4	0.005288	3.779752	1.255635

Source: Eviews 10 Output result

The test results show no strong correlation between independent variables, where the VIF value of the three independent variables is smaller than 10 to be inferred there are no symptoms of multicolinearity among the three independent variables.

Autocorrelation Test

Table 3: Autocorrelation Test

R-squared	0.517862	Mean dependent var	0.003523
Adjusted R-squared	0.505708	S.D. dependent var	0.017014
S.E. of regression	0.011962	Sum squared resid	0.017027
F-statistic	42.60581	Durbin-Watson stat	1.892857
Prob(F-statistic)	0.000000		

Source: Eviews 10 Output results

The autocorrelation test aims to test whether in a linear regression model there is a correlation between disruptor errors in the T-period with disruptor errors in the T-1 period (formerly). The results of the study showed that DW obtained was 1.8929. Because the value of d_L< DW<4 – d_U. or 1.6561 < 1.8929 < 4 – 1.7559 Then it can be concluded that there is no autocorrelation.

Heteroscedasticity Test

Table 4: Heteroscedasticity Test

Heteroskedasticity Test: WHITE			
F-statistic	1.435915	Prob. F(9, 95)	0.1838
Obs*R-squared	12.57320	Prob. Chi-Square(9)	0.1829

Source: Eviews 10 Output result

This test aims to test whether the regression model occurs a variance inequality of the residual one observation to another observation. Based on testing it can be concluded that the regression model is free of heteroskedasticity problems. The result is indicated by a probability value of F greater than 0.05, so that the test of heteroskedastisity to be performed regression testing has been fulfilled.

Panel Data Regression Analysis

Table 5: Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.021479	0.003563	6.027801	0.0000
X1	-0.255430	0.077559	-3.293372	0.0014
X2	0.014057	0.004145	3.391246	0.0009
X3	0.028474	0.009786	2.909672	0.0043
X4	-0.482397	0.069823	-6.908826	0.0000

Source: Eviews 10 Output result

Regression Equation

Random Effect Model

$$\mathbf{Y = \alpha + \beta1\ X1 + \beta2\ X2 + e}$$

$$\mathbf{Y = 0.0214 -0.2555430X1+ 0.0141X2 + 0.0285X3 - 0.4824X4}$$

1. α = .0214 means that, if the TPF variable, credit growth, and credit risk are equal to zero or constant then the profitability has a value of 0.0214 times.
2. β1=-0,2555 means that when NPL has increase of one unit, and the value of another variable is constant or equal to zero, the value of the profitability variable will be predicted to decrease by 0.2555 times.

3. β2 = 0.0141 means that when the TPF has an increase of one unit, and the value of another variable is constant or equal to zero, the value of the profitability variable will be predicted to increase by 0.0141 times. The table showed that significant rate of 0.0009 wich is smaller than 0.05 then H0 is rejected or in other words third party funds affect the profitability.

4. β3 = 0.0285 means that if the credit growth has increased by one unit, and the value of another variable is constant or equal to zero, the value of the profitability variable will be predicted to increase by 0.0285 times. The table showed significant rate of 0.0043 wich is smaller than 0.05 then H0 rejected or in other words the growth.

1. β4 =-0.4824, meaning that when credit risk is increased by one unit, and another variable value is constant or equal to zero the value of profitability variable will be predicted will decrease by-0.4824 times. The table showed significant level of 0.000 wich is smaller than 0.05 then H0 rejected or in other words the credit risk affects the profitability.

Hypothesis Test (F test)

Table 6: Simultaneous Hypothesis Test (Uji F)

R-squared	0.517862	Mean dependent var	0.003523
Adjusted R-squared	0.505708	S.D. dependent var	0.017014
S.E. of regression	0.011962	Sum squared resid	0.017027
F-statistic	42.60581	Durbin-Watson stat	1.892857
Prob(F-statistic)	0.000000		

Source: Eviews 10 Output result

According to table 6, the calculated result in table Anova shows the value F count of 42.60581 where the rejection criterion is H_0 if F count is greater than the F table or F_0 is greater than Fα 1. n-1. By taking a significant level (α) by 5% then from the distribution table F obtained the value F table for $F_{0.05.3.123-3-1}$ = 2.68.

Due to 42,605 > 2,681 and F significance amounting to 0.000, H_0 was rejected. It means that it can be concluded that there is a significant influence between the TPF variables, the credit growth and the credit risk of profitability**.**

Coefficient of Determinations Analysis (R^2)

Based on table 6, the coefficient of determination is obtained by 0.5057. That is, from the above analysis it can be seen that the size of deposits, credit growth and credit risk to profitability of 50.57% while the remaining 49.43% is influenced by other factors not examined by the author.

IV. Discussion

The Influence of Non Performing Loan on Profitability

The result of this study are consistent with the theoretical foundation which states that the higher non performing loan, the lower profitability and vice versa. The higher the NPL ratio shows the worse the credit quality (Taswan, 2010). A high NPL also indicates that the financial performance is not good and can lead to the possibility of a bank in a more difficult condition. This indicates that the risk that must be borne by the bank due to high non-performing loans is even greater.

The Influence of Third Party Funds on Profitability

Based on statistical analysis of t test for third party funding (TPF) variables indicates that the coefficient value is 0.014057. The probability value indicates a number of 0.0009 whose value is smaller than $\alpha = 0.05$. This probability value indicates that a third-party fund variable has an influence on profitability, so that the first hypothesis states that third-party funding affects the profitability received. That is, TPF in the sector of the general bank in 2016-2018 has a contribution to increase the profitability of the bank, because the value of the regression coefficient that shows positive results means that the increased TPF will increase profitability.

The Influence of Credit Growth on Profitability

Based on the statistical analysis of t tests for credit growth variables indicates that the coefficient value is 0.028474. The probability value indicates a number of 0.0043 whose value is smaller than $\alpha = 0.05$. This probability value indicates that a credit growth variable has an influence on profitability, so a second hypothesis that states that credit growth affects the profitability received. That is, the credit growth in banking in the year 2016-2018 has a contribution to increase profitability according to the value of a regression coefficient that shows positive outcomes means that increased credit growth will increase profitability.

The Influence of Credit Risk on Profitability

Based on a statistical analysis of the t test for a credit risk variable indicates that the coefficient value is -0.482397. The probability value indicates a number of 0.0000 whose value is smaller than $\alpha = 0.05$. This probability value indicates that the credit risk variable has an influence on profitability, so the third hypothesis stating that the credit risk affects the profitability received. That is, the credit risk in banking in 2016-2018 has an impact on the decline in profitability, because the value of a regression coefficient that shows negative outcomes means that increased credit risk will lower profitability.

The Influence of Third Party Fund, Credit Growth, and Credit Risk on Profitability

Based on the results of the F test statistical analysis indicates the influence of third-party fund variables, credit growth, and credit risk to profitability simultaneously. This is evidenced by the value of Prob (F-Statistic) which is smaller than 5% ($0.000000 < 0.05$) and the Fcount value is greater than Ftable ($42,605 > 2,681$). This probability value indicates that third-party funding variables, credit growth, and credit risk have an influence on profitability, so the fourth hypothesis that states that third-party funding, credit growth, and credit risk affect the profitability received. That is, the increase in third-party funds & credit growth, as well as a decrease in credit risk jointly in banking in 2016-2018 will increase profitability.

V. Conclusions and Suggestion

Conclusion

Based on the results of research testing and analysis on the influence of third-party funds, credit growth, and credit risk to profitability at conventional banks listed on the Indonesia Stock Exchange period 2016-2018, concluded Following:

1. Non performing loan (NPL) have a negative effect on profitability. For enhance higher profitability, the banks have to corncern about loan distribution and controlled the customer payment. When the NPL decreases, profitability level will be higher.
2. Third party funds (TPF) has an influence on profitability. To obtain higher profitability, banks must obtain higher third-party fund as well, because with increasing third-party funds, the opportunity to disburse credit to earn interest income is also bigger. Credit distribution is a good management of TPF. The better the bank manages the third party funds then the profitability level will be higher.
3. Credit growth has an influence on profitability, this is because the main product of a bank is the credit distribution. This means that the customer's demand for credit is high. The higher the credit growth then interest income or the level of profitability earned by the bank will also be higher if no or low credit is problematic.
4. Credit risk has an influence on profitability. Credit is the main product of the bank that aims to earn income from interest. If the credit is channeled, the customer can not pay the loan, then the bank will likely fail to earn the interest income. Credit risk can be measured with a ratio of Non-Performing Loan (NPL). The bank can maintain its profitability by pressing the NPL level below 5% in accordance with the provisions of Bank Indonesia. The profitability of the bank will be higher if the bank is able to suppress the NPL as small as possible, because the credit that is channeled will have little risk that the customer is not able to pay the loan. Therefore, the higher the credit risk then the profitability is getting lower.
5. Simultaneous statistical test results have the influence of non performing loan, third party funds, credit growth, and credit risk to profitability. Third party fund and credit growth become contributors to increase profitability. While non performing loan and credit risk has an impact on decreased profitability. When third party funding increases, credit growth increases, and credit risk decreases then profitability levels will increase. Conversely, if third party funding declined, credit growth declined, and credit risk increased then the profitability rate would decline.

VI. Suggestion

Based on the results of research and conclusion, researchers can give some advice to be the consideration of the following:

Banking party

a. For banks should be able to raise third party funds (TPF) and can manage them well. Increasing TPF can be done in various ways, such as socialization to the community, produce a diversity of products, cooperate with other companies, or provide facilities that are attractive to customers. Such third party funds must be managed well, especially to earn income, one of them with credit distribution. If the third party funds are not managed then the funds will not provide income to the bank, even if the funds are idle will cause losses, because there is no income entered but the bank must return and pay loans and interest to customers who embed their funds in the bank.

b. For banks should be able to increase credit growth so that the interest income gained is also higher. Increased credit can be done in various ways, such as promotion through various media, improving the services provided, making a diversity of products for each target market, and of course by improving the quality of human resources.
c. For banks should be able to reduce credit risk by minimizing the level of Non Performing Loan (NPL) owned by the bank. The NPL owned by the bank must be under 5% in accordance with the provisions of Bank Indonesia. The NPL can be minimized with supervision in lending, implementing the precautionary principle, and the credit-giving process must be done in accordance with the applicable guidelines. The problematic credit that has occurred can be minimized by means of reschedule, reconditioning or restructuring such as lowering the interest rate, reducing the value of the loan, or increasing the loan term. Other ways such as foreclosures and collateral auctions.

Research parties

a. For future research and researcher that interested in the same field can use other variables such as capital adequacy ratio, loan to deposit ratio, net interest margin to be used as a research variable.
b. Further researchers are expected to add a period of research to provide an overview of the conditions that occur in the future.
c. It is expected that the number of banks used for research is not only conventional banks but also enter sharia bank because with more and more variables and data it will give the research results that can be more generalized.
d. It is hoped that further research can be attributed to the implementation of PSAK 71 on effective financial instruments from 1 January 2020 for in-depth discussions on backups of impairment of financial assets to minimize losses uncollectible loans

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