

Analysis of Bank Soundness Using the RGEC Method in State-Owned Banks Listed on the Indonesia Stock Exchange 2015-2018

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ABSTRACT : Bank Indonesia (Central Bank of Indonesia) instructed all banks in Indonesia to maintain their soundness level under the standards given based on economic development to create renewable standards through PBI No. 13/1 / PBI / 2011 replacing the previous PBI No. 6/10 / PBI / 2004 concerning Bank Soundness Level Assessment System. The soundness level of a bank is one of the most important benchmarks of a bank's financial performance because the results of this assessment can reveal the performance and professionalism of the bank. Based on Financial Services Authority Regulation No.4 / POJK. 03/2016 concerning Assessment of Commercial Bank Soundness Level, Bank Soundness Level is the result of an assessment of the Bank's condition which is carried out on the risk and performance of the Bank. The purpose of this study was to analyze the soundness level of state-owned commercial banks using the RGEC method, namely the Risk Profile, Good Corporate Governance (GCG), Earnings and Capital. This research uses a quantitative descriptive approach. The results show that during the 2015-2018 period, state-owned commercial banks were ranked 2 with good criteria so that they were considered capable of facing significant negative effects from changes in business conditions and other external risk factors.

Keywords: Banks, RGEC, state-owned bank

I. INTRODUCTION

The trust of the Indonesian people in banking had decreased during the 1997-1998 monetary crisis. This crisis was preceded by a fluctuation in the exchange rate which resulted in national banking experiencing liquidity difficulties (Paramartha & Darmayanti, 2017). In September 2008 there was a crisis of public trust towards national banks, this crisis occurred as a result of the economic crisis experienced by America and spread to various countries in the world, including Indonesia (Yuliawati & Dana, 2020)

Banks need to apply the prudent banking principle so that they can identify problems early, carry out appropriate and quick repairs, and be more resilient in facing crises (Brastama & Yadnya, 2020). Banking currently faces competition in gaining public trust, therefore the soundness of the bank must always be maintained by the management so that public trust can be maintained, the intermediation function can be carried out properly, payment traffic runs smoothly and can carry out various policies from the government, especially policies monetary (Pramana & Artini, 2016).

Bank Indonesia took strategic steps in encouraging the implementation of risk management as stipulated in Bank Indonesia Regulation No. 13/1 / PBI / 2011 concerning Assessment of the Soundness of Commercial Banks with a risk approach that includes an assessment of Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital, hereinafter referred to as with RGEC(Nicola et al., 2017).. The complete calculation guideline is stipulated in Bank Indonesia Circular Letter No. 13/24 / DPNP dated 25 October 2011 concerning Assessment of the Soundness of Commercial Banks(Sari & Abadi, 2016)

Bank Indonesia wants all banks in Indonesia to focus on long-term growth, implement risk management to support the stability of the banking industry, and maintain financial system stability (Swandewi & Purnawati, 2021). There are eight types of risk assessed, which are credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, and reputation risk. The Good Corporate Governance factor assesses the quality of bank management on the implementation of the GCG principles set by Bank Indonesia. The Earning Factor assesses a bank's ability to generate profits in one period. The Capital factor is an evaluation of the adequacy of capital management(Kurniawan & Utama, 2019)

According to POJK No.4 / POJK.03 / 2016 concerning Assessment of the Soundness of Commercial Banks, the Financial Services Authority is the supervisor of banking and bank financial institutions that carry out self-assessments of the soundness of their banks (Suryaningsih & Sudirman, 2020). Currently, four banks are included in the list of Stated-Owned Banks, including Bank Rakyat Indonesia (BRI), Bank Negara Indonesia

46 (BNI 46), Bank Tabungan Negara (BTN), and Bank Mandiri. The soundness level of state-owned commercial banks seen from the aspect of RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) during 2012-2016 was in Composite Rank 1 (Dewi & Badjra, 2020)

Given the importance of maintaining public trust in banks, an assessment of the soundness of a bank must be carried out so that public trust is maintained (Defung et al., 2019). A good bank soundness level will provide an advantage for the bank to gain customer trust, besides that the soundness level of the bank is also useful as a means for banks to evaluate the conditions and problems faced by the bank and determine follow-up actions in overcoming bank weaknesses and problems, (Kadim et al., 2018). Increasingly tighter competition in the banking sector, public trust is one of the keys to success in encouraging the advancement of banking companies (Daryanto et al., 2018).

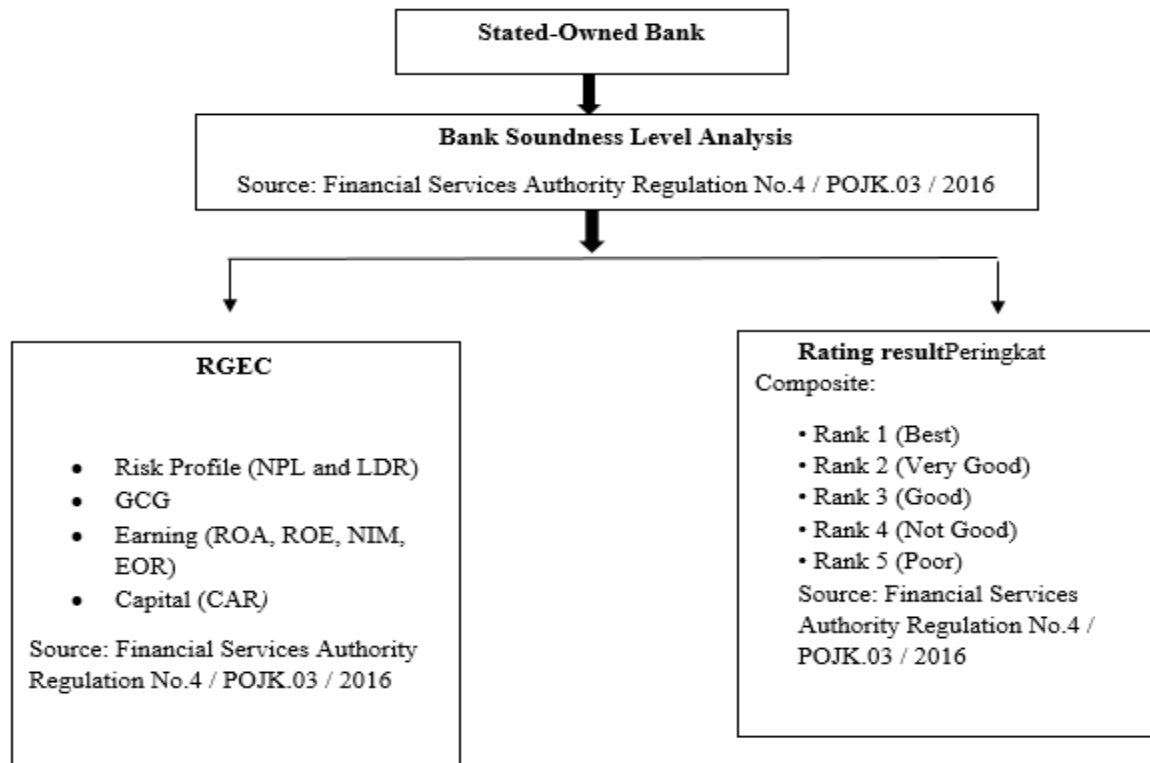


Fig. 1 Conceptual framework

II. RESEARCH METHODS

2.1 Research Design

This research is a descriptive study. The data collection technique used is documentation, namely how to find data or information from books, notes, transcripts, newspapers, magazines, inscriptions, minutes of meetings, ledgers, agendas, and others. The analysis technique in assessing the soundness level of a bank with descriptive analysis refers to Bank Indonesia Circular No. 13 / 24DPNP / 2011 and Circular Letter of the Financial Services Authority No.14 / SEOJK, 03/2017 concerning Assessment of the Soundness of Commercial Banks. Data was obtained by downloading the consolidated Bank Annual Report which was sampled during the 2015-2018 period on the website of each Stated-Owned Bank.

2.2 Operational definition of the variable

2.2.1 Risk Profile

Credit Risk (NPL)

$$NPL = \frac{\text{Non Performing Credit}}{\text{Total Creditst}} 100\%$$

Liquidity Risk (LDR)

$$LDR = (\text{Total Credit}) / (\text{Third Party Fund}) 100\%$$

Table 1. Risk Profile Rating Criteria

Rank	Description	NPL	LDR
1	Very Adequate	0% <NPL ≤ 2%	50% <LDR ≤ 75%
2	Adequate	2% ≤ NPL ≤ 5%	75% <LDR ≤ 85%
3	Fairly / Quite Adequate	5% ≤ NPL ≤ 8%	85% <LDR ≤ 100%
4	Not Adequate/Inadequate	8% <NPL ≤ 11%	100% <LDR ≤ 120%
5	Poor	NPL > 11%	120% >LDR

2.2.2 GCG (Good Corporate Governance)

The assessment of the GCG factor uses a self-assessment system where each bank calculates its own GCG component (Irawati et al., 2019). The assessment of the GCG factor is used to measure the success and quality of bank management in implementing the principles set by Bank Indonesia (Stella & Puspitasari, 2019).

Table 2. Composite Rating of GCG Implementation Factors Assessment

Composite Value	Composite predicate
Composite Value <1.50	PK-1 (EXCELLENT/VERY GOOD)
1.50 ≥ Composite Value <2.50	PK-2 (GOOD)
2.50 ≥ Composite Value <3.50	PK-3 (QUIET GOOD)
3.50 ≥ Composite Value <4.50	PK-4 (NOT GOOD)
4.50 ≥ Composite Value <5.00	PK-5 (POOR)

2.2.3 Earnings

ROA (Return On Asset)

ROA is the ratio used to measure the success of management in generating profits (Ratih & Candradewi, 2020).

$$\text{ROA} = (\text{Profit Before Tax}) / (\text{Total Assets}) \times 100\%$$

ROE (Return On Equity)

ROE is a profitability ratio that shows the comparison between profit after tax and the bank's core capital (Nadyayani & Suarjaya, 2021)

$$\text{ROE} = (\text{Profit After Tax}) / (\text{Total Equity}) \times 100\%$$

NIM (Net Interest Margin).

This ratio is used to measure the performance ability of bank management in extending credit, considering that bank operating income is highly dependent on the difference between the interest rate for loans and the interest rate on deposits received (Pradnyawati & Widhiastuti, 2020).

$$\text{NIM} = (\text{Net Interest Income}) / (\text{Productive Assets}) \times 100\%$$

EOR (Efficiency Operational Ratio).

EOR is an efficiency ratio used to measure the ability of bank management to control operating costs against operating income and also to compare Operating Expenses and Operating Income (Lotto, 2019).

$$\text{EOR} = (\text{Operating Expenses}) / (\text{Operating Income}) \times 100\%$$

Table 3. Criteria Matrix of Earnings

Rank	Description	ROA	ROE	NIM	EOR
1	Very Adequate	ROA > 1,5%	ROE > 23%	3% > NIM	EOR ≤ 83%
2	Adequate	1,25% < ROA ≤ 1,5%	18% < ROE ≤ 23%	2% < NIM ≤ 3%	83% < EOR ≤ 85%
3	Fairly / Quite Adequate	0,5% < ROA ≤ 1,25%	13% < ROE ≤ 18%	1,5% < NIM ≤ 2%	85% < EOR ≤ 87%
4	Not Adequate/Inadequate	0 < ROA ≤ 0,5%	8 < ROE ≤ 13%	1% < NIM ≤ 1,5%	87% < EOR ≤ 89%
5	Poor	ROA ≤ 0%	ROE ≤ 8%	NIM ≤ 1%	EOR > 89%

2.2.4 Capital

The ratio to assess this capital is the Capital Adequacy Ratio (CAR). CAR is a ratio that shows how much all bank assets contain an element of risk (Anggari & Dana, 2020)

$$\text{CAR} = \text{Capital} / (\text{Risk Weighted Assets}) \times 100\%$$

Table 4. Capital Rating Criteria

Rank	Description	CAR
1	Very Adequate	CAR \geq 11%
2	Adequate	9.5% \leq CAR < 11%
3	Fairly/quite Adequate	8% \leq CAR < 9.5%
4	Not Adequate/Inadequate	6.5% \leq CAR < 8%
5	Poor	CAR < 6.5%”

III. RESULTS AND DISCUSSION

Table 5 BRI Soundness Level Assessment

Component		2015		2016		2017		2018	
Factor	Ratio	%	Rank	%	Rank	%	Rank	%	Rank
Risk Profile	NPL	1.16	1	1.06	1	1.10	1	1.17	1
	LDR	86.93	3	87.84	3	88.18	3	89.58	3
GCG	-	1.15	1	2.00	2	2.00	2	2.00	2
Earning	ROA	2.62	1	2.46	1	2.36	1	2.35	1
	ROE	19.99	2	16.57	3	13.57	3	13.67	3
	NIM	4.99	1	5.25	1	4.00	1	4.73	1
	EOR	60.17	1	57.86	1	56.30	1	56.51	1
Capital	CAR	20.59	1	22.91	1	22.96	1	21.21	1
		1 (Excellent)		1 (Excellent)		1 (Excellent)		1 (Excellent)	

The financial performance of Bank Rakyat Indonesia using the RGEC method shows that the soundness predicate of BRI for the 2015-2018 period with a composite rating of 1 is Excellent. This reflects the condition of the Bank which is generally very good and is considered very capable of dealing with significant negative impacts from changes in business conditions and other external factors. If there are weaknesses, in general, these weaknesses are not significant.

Table 6 BNI Soundness Level Assessment

Component		2015		2016		2017		2018	
Factor	Ratio	%	Rank	%	Rank	%	Rank	%	Rank
Risk Profile	NPL	2.67	2	2.96	2	2.29	2	1.96	1
	LDR	92.14	3	94.66	3	89.56	3	92.87	3
GCG	-	2.00	2	2.00	2	2.00	2	2.00	2
Earning	ROA	1.71	1	1.77	1	1.79	1	1.78	1
	ROE	11.46	4	10.96	4	11.06	4	10.88	4
	NIM	4.14	1	4.05	1	2.58	1	3.19	1
	EOR	57.94	1	58.27	1	59.16	1	58.85	1
Capital	CAR	19.49	1	19.36	1	18.53	1	18.50	1
		2 (Good)		2 (Good)		2 (Good)		2 (Good)	

The financial performance of Bank Negara Indonesia 46 using the RGEC method shows that the health predicate of Bank BNI 46 for the 2015-2018 period with a composite rating of 2 is Good in conclusion. This reflects the condition of the Bank which is generally good so that it is considered capable of facing significant negative effects from changes in business conditions and other external factors as reflected in the rating of the assessment factors

Table 7. BTN Soundness Level Assessment

Component		2015		2016		2017		2018	
Factor	Ratio	%	Rank	%	Rank	%	Rank	%	Rank
Risk Profile	NPL	3.28	2	2.72	2	2.62	2	2.19	2
	LDR	109.5	4	103.63	4	103.81	4	101.57	3
GCG	-	2.00	2	2.00	2	2.00	2	2.00	2

Earning	ROA	1.10	2	1.19	2	1.12	2	0.87	4
	ROE	11.0	4	12.84	4	11.73	4	9.70	4
	NIM	2.97	2	2.98	2	1.79	3	2.45	3
	EOR	80.74	1	80.17	1	79.67	1	80.86	1
Capital	CAR	17.01	1	20.41	1	18.98	1	18.35	1
			2 (Good)	2 (Good)		2 (Good)		3 (Quite Good)	

BTN's financial performance using the RGEC method shows that the BTN for the 2015-2017 period had a composite rating of 2 with the criteria of "Good", while in 2018 BTN obtained a composite rating of 3 with the criteria Quite Good. This reflects the condition of the bank which is generally quite good and is considered sufficiently capable of facing significant negative impacts from changes in business conditions and other external factors as reflected in the rating of the assessment factors. If there are weaknesses, in general, these weaknesses are quite significant and must be resolved immediately and if these are not resolved immediately by management, it could interfere with the continuity of the Bank's business.

Table 8. BANK MANDIRI Soundness Level Assessment

Component		2015		2016		2017		2018	
Factor	Ratio	%	Rank	%	Rank	%	Rank	%	Rank
Risk Profile	NPL	0.79	1	2.50	2	2.30	2	1.81	1
	LDR	94.27	3	92.49	3	94.99	3	94.27	3
GCG	-	1.00	1	1.00	1	2.00	2	1.00	1
Earning	ROA	2.01	1	1.30	2	1.70	1	1.97	1
	ROE	16.83	3	9.25	4	10.55	4	11.50	4
	NIM	3.55	1	3.76	1	3.08	1	3.33	1
	EOR	61.98	1	59.44	1	61.50	1	60.00	1
Capital	CAR	18.60	1	21.36	1	21.64	1	20.96	1
			1 (Excellent)	2 (Good)		2 (Good)		1 (Excellent)	

The financial performance of Bank Mandiri using the RGEC method that reflects the condition of the Bank MANDIRI which is generally very good and is considered very capable of dealing with significant negative impacts from changes in business conditions and other external factors. If there are weaknesses, in general these weaknesses are not significant (Azeharie & Wahjono, 2017).

IV. CONCLUSION

Although Indonesia state-owned banks are in a good level of soundness, Indonesia state-owned banks still have to fix their deficiencies. BRI and Bank Mandiri need to maintain their performance and improve the profitability aspects, especially those related to the ROE ratio. BNI 46 should improve aspects of profitability and corporate governance related to aspects of GCG. BTN should be more obedient and update to the rules issued by government institutions, BTN also needs to improve its risk and liquidity aspects related to third-party funds. Indonesia state-owned banks are expected to be able to complete data on financial components which are used as indicators for assessing the soundness of banks using the RGEC method.

It is recommended that the Financial Services Authority as a Banking supervisory institution be able to issue regulations regarding the systematics of writing and reporting standardized financial reports so that there will be uniformity in language and writing on bank financial reports so that they are easier to compare and understand. **For further researchers**, it is suggested to expand the scope of research on the analysis of bank soundness by using other financial ratio indicators on the measurement of bank soundness using the latest methods or regulations issued by the Ministry of Finance, Bank Indonesia, or the Financial Services Authority.

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