Assessment of Bank's Financial Health Using Risk Profile, Good Corporate Governance, Earnings, Capital (RGEC) Analysis

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ABSTRACT

This current situation in the banking world in Indonesia is experiencing increasingly fierce competition, increasingly difficult and open economic conditions. This study aims to determine the financial health of General Bank in Indonesia 2016–2020 using the RGEC method. This study uses quantitative qualitative research method. The data analysis technique used is descriptive analysis. The results show in terms of the Risk Profile that the NPL ratio in the 2016–2019 period is categorized as "Healthy", and in the 2020 period it is categorized as "Sufficiently Healthy". Furthermore, the LDR ratio in the 2016–2019 period is categorized as "Sufficiently Healthy", and in the 2020 period it is categorized as "Healthy". From the GCG aspect, it shows that in the 2016–2020 period it is categorized as "Healthy". In terms of earnings, the ROA ratio in the 2016–2019 period is categorized as "Very Healthy"; and ROA in the 2020 period is categorized as "Healthy". Furthermore, the NIM ratio in the 2016–2020 period is categorized as "Very Healthy". From a capital perspective, the CAR ratio in the 2016–2020 period is categorized as "Very Healthy". In terms of RGEC method, overall BRI, BNI, and BMRI banks in the 2016–2019 period were categorized as "Very Healthy", while in the 2020 period they were categorized as "Healthy".

Keywords: Bank’s Financial Health, Capital, Earnings, GCG, Risk Profile.

I. INTRODUCTION

The existence of banks in the community plays an important role in the economic process. In general, banking institutions are the pillars of each country's financial system. A bank is a place for storing funds for companies, government agencies, the private sector, and everyone through credit services provided by banks. Banks also provide services to meet financing needs and encourage the stages of payment systems in various economic sectors. This phenomenon exists because the bank is an institution whose main task is as a financial intermediary between groups that have funds and groups that need funds, as well as entities that encourage the smooth flow of payments. Therefore, for the bank itself, it is important to maintain the trust of the people who deposit funds in the bank to maintain a balance of liquidity, so that the bank itself can obtain higher profitability (Lizbeth, 2018).

The Indonesian banking industry is vulnerable to disruption of the stability of the open financial system, one of which is the emergence of the COVID-19 pandemic. Coronavirus is also known as Coronavirus Disease 2019 or Covid-19, the chain of virus distribution has spread to various parts of the world very quickly starting in Wuhan City, Hubei Province, China in December 2019 (Arifia Nurriqli, 2021). This virus is very dangerous for human health. In a short time, this virus has not only claimed thousands of lives in China but has spread to claim thousands of lives in all countries including Indonesia (Wong & Wong, 2020). This also affects the economy of countries around the world, including Indonesia. The current fact is that the Indonesian economy is weakening and is on the verge of a recession due to restrictions on activities to control the spread of Covid-19. Every decision of the central government that is taken carefully has a major impact on survival amid a pandemic because it is uncertain when the pandemic will end. The government continues to maintain that industrial production can continue in the hope that the wheels of the economy will continue to spin under more stringent and massive social restrictions (Sagala, 2020).

The continued strength of the banking industry is encouraging news because this pandemic has suppressed almost all sectors of the economy, and the ability of the banking industry to survive the crisis remains strong. The banking industry has learned a lot in reducing risk and becoming more adaptable in finding opportunities. Likewise, banking regulators are also more vigilant to strengthen the banking industry so that it does not falter. Indonesian Central Bank has issued a monetary policy aimed at increasing liquidity through the purchase of long-term securities of conventional banks to increase the money supply and encourage lending and investment. The main source of the bank is an increase in Third Party Funds (TPF) can be used for investment purposes, where banks can place these funds into productive assets called credit, then the dependence on TPF is so great. Given that the banking system is complex, problems arising from the operations of some banks will lead to distrust of the bank as a whole, resulting in sudden withdrawals of customer funds. Several policies, such as credit easing and credit restructuring, are expected to help
reduce pressure on banking performance. Relaxation also helps reduce the burden on debtors whose incomes are lower than usual so that their businesses can continue to operate during the pandemic.

The world financial crisis in recent years has taught a valuable lesson, if innovation in banking products, services, and activities is not in line with the implementation of adequate risk management, it will bring about various fundamental problems in the banking system and financial system. In addition, the occurrence of strategic errors and fraud by top management is not detected and leads to the importance of implementing good corporate governance with GCG. The experience of the world financial crisis has prompted the need to increase the effectiveness of the implementation of Risk Management and GCG. The goal is that banks can detect problems early, make appropriate and faster follow-up improvements, and implement better GCG and risk management so that banks can be more resilient in dealing with crises.

According to Thorik (2020), financial stability is related to the health of the economy. In such an economic condition, banks must be able to maintain the level of financial health of the Bank to maintain a good condition. Facing economic difficulties, banks and other financial institutions must play a bigger role in helping revitalize the economy. In general, a healthy bank is a bank that can carry out its normal functions, which must have sufficient capital, maintain good asset quality, carry out good management and operations following prudential principles, generate sufficient profits to maintain business continuity, and maintain liquidity to meet obligations at all times (Purwati, 2019). The financial statements that are published regularly are a source of information such as the financial status of the bank, the operational performance of the bank, and the cash flow of the bank that reflects the actual status of the bank. The main source of information used to assess the soundness of a bank is the financial statements of the bank concerned. Banks whose condition is not healthy can endanger various parties with an interest in financial statements, including managers, investors who have invested now, the government (government), creditors (lenders), suppliers (suppliers), customers, and institutions that other related issues (Oldekop, 2020).

The RGEC method emphasizes the importance of the quality of bank management performance itself. Quality management will certainly raise the income factor and also the capital factor directly or indirectly. The RGEC method has determined the rules and conditions in which a bank can be said to meet the requirements as a healthy bank, and does not have a negative impact on stakeholders (Dachlevie et al., 2020).

The principle of assessing the health of the banking industry according to SEBI No.13/24/DPNP/2011 dated October 25, 2011, the RGEC method is a method of analyzing banking health based on risk-oriented, proportionality, materiality, significance, comprehensiveness, and structure. With this regulation concerning the financial health of the Bank, we hope that the banking industry will always be in a healthy condition so that it does not harm parties related to the banking industry. The RGEC method has been effective since January 1, 2012.

Several studies related to the level of the financial health of the Bank using the RGEC method have been carried out, such as research on the level of health in state-owned banks in the 2016–2018 period (Fanureka, 2020), assessment of the health level of BRI for the 2015–2017 period (Fahrina, 2020), assessment of financial health in BTN for the period 2015–2019 (Kawengjian et al., 2019), Assessment of the soundness level of BNI for the period of 2013–2017 (Ghozali et al., 2019), Financial Health assessment of the BMRI for the period of 2015–2017 (Maramis, 2019), Assessment of health financial services at the eleven best Indonesian banks for the 2013–2017 period (Rezaqi, 2019). Assessment of the soundness level of state-owned banks listed on the Indonesia Stock Exchange for the period 2013–2016 (Anastasia, 2018).

The average value of the profitability of the financial sector for the 2016–2020 period in the banking industry is listed on the IDX (Indonesian Stock Exchange). The average ROA from 2016–2020 shows a downward trend, without any increase. The average ROA in 2016 was 0.02818, the average ROA in 2017 was 0.02047, the average ROA in 2018 was 0.01986, the average ROA in 2019 was 0.01782, and the average ROA in 2020 is 0.01694. This is a decrease in profits in banking companies due to poor or less effective financial performance, the financial health of the Bank is considered unhealthy and unable to carry out normal business activities.

The level of corporate liquidity in state-owned banks listed on the IDX from the 2016–2020 period, the industry average with the LDR proxy shows a downward trend in 2020 to 91.65. The liquidity problem is a dilemma faced by every bank. In addition to liquidity, the problem often faced by banks is credit (Otoritas Jasa Keuangan, 2021). The average development of total assets at state-owned banks has increased in the 2017–2020 period. Total assets of state-owned banks increased by an average of 5% from 2017 to 2018, 10% in 2019, and 11% in 2020. State-owned banks with the highest total assets owned by BRI amounted to 5,063,116 million, followed by BMRI of IDR. 4,979,669 million, BNI total assets are IDR. 2,905,082 million, 1,206,854 million. BRI's total assets are higher than other state-owned banks (Otoritas Jasa Keuangan, 2021).

The development of state-owned bank net profit in the 2017–2020 period. It can be seen that the net profit of state-owned banks experienced fluctuating growth, it can be understood that the net profit of state-owned banks was 16% in 2017–2018, 5% in 2019, and -42% in 2020. The state-owned bank with the highest net profit was BRI, IDR. 83,045,210 (in millions), followed by BMRI in the amount of IDR. 69,71,327 (in millions). BNI's net profit is IDR. 38,117,909 (in millions), followed by BNI in the amount of IDR. 38,117,909 (in millions). That the state-owned bank that has the largest net profit is BRI (Otoritas Jasa Keuangan, 2021).

This research will focus on the analysis of three state-owned enterprises engaged in the banking industry, the first is PT. Bank Rakyat Indonesia, PT Bank Negara Indonesia (Persero) Tb, and PT. Bank Mandiri (Persero) Tb. The reason for choosing Banks BRI, BNI, and BMRI as objects in this research is because they are government-owned financial services companies that play a very large role in encouraging and saving the Indonesian economy in every time of world crisis. It is hoped that Bank BRI, BNI, and BMRI will be able to increase or maintain their maximum performance so that it will have a positive effect on the national economy as a
whole. This research can provide scientific contributions in the field of accounting, namely analyzing the financial performance of banking companies as intermediary institutions (agents of service), trust institutions (agents of trust), and institutions that contribute to community economic development (agents of development). Based on the above background, the novelty of this research is that there are still few studies that adopt the Indonesian Central Bank Regulation No. 13/1/PBI/2011 regarding the assessment of the level of the financial health of BRI, BNI, and BMRI Banks in using the RGEC method for the last five years. The selection for the 2016–2020 period was carried out so that the data obtained were more relevant to ongoing research because the data is relatively new so that the value of bank financial performance can be seen more clearly and accurately.

A. Agency Theory

Agency theory linking aspects of human behavior explains that a company that separates the management and ownership functions will be vulnerable to agency conflict caused because each party between the agent and the principal has conflicting interests, namely trying to achieve their prosperity at the expense of their interests. Agency theory is concerned with solving problems that arise in the relationship between agents and principals. An agent is a person in management who is authorized by the shareholders to run the company while the principal is referred to as the shareholder. The importance of analyzing the level of the financial health of the Bank is related to the agent's obligation to provide transparent information regarding the bank's performance to the principal. In connection with conflicts and agency problems, financial statements are often made in such a way as to display the figures desired by management through various manipulation actions. This is done on the company's income statement because profits are very vulnerable to changes in accounting methods. A supervisory mechanism is needed for the management of the company. GCG is a system that provides guidelines and principles to align different interests, especially the interests of managers with the interests of shareholders (El-Chaarun, 2014). One of the mechanisms used is the principles of GCG which function as a tool in disciplining managers so that with a good governance mechanism, agents are expected to act following the interests of the owner, namely increasing company returns so that company performance increases. When a contract violation is found by an agent, there will be sanctions given by the principal as the party delegating authority to the agent.

B. Stewardship Theory

Stewardship theory is an alternative theory that arises from the existence of agency theory that has been present in the relationship between agents and principals in a company or organization. Stewardship Theory departs from the perspective of management accounting thinking which is based on many psychological and sociological theories of human nature. Designed to describe situations in which stewards as managers do not prioritize their interests and act according to the interests of the institution and the wishes of the principal. In managing Stewardship Theory, the banking industry focuses on harmonization between stewards (capital managers) and principles (capital owners) in achieving common goals. Stewardship theory in accounting explains a form of leadership pattern and communication relationship between shareholders and management, or it can also be a relationship between upper management and lower managers in a corporate organization with situational mechanisms that include management philosophy, differences in organizational culture, and leadership in achieving goals, together without interfering with their respective interests.

In the theory of stewardship, managers behave according to common interests, are trustworthy, can act responsibly, have integrity and honesty in providing satisfaction to the interests of shareholders. When the interests of the stewards and principles are incompatible, the stewards will try to cooperate rather than oppose them, because the stewards feel that common interests and behaving under the owner's behavior are rational considerations to achieve organizational goals. Stewards who can successfully improve the company's performance can be able to satisfy most other organizations because most of the shareholders have interests that have been served well through increasing the prosperity achieved by the organization. Stewardship theory assumes a strong relationship between organizational success and owner satisfaction (Löhde et al., 2021).

II. METHODOLOGY

Based on the problems studied, this research is classified as secondary data that is already available as qualitative research which is quantified by converting qualitative data into quantitative data by determining category weights. Control is intended to explain fuzzy events using values in the range of numbers [0, 1] that express opinions qualitatively. This study uses a descriptive approach to analyze and describe financial statement data to determine the category of the financial health of Banks at BRI, BNI, and BMRI which will later be analyzed using the RGEC method. The analysis is only up to the descriptive level so that it is easy to understand and conclude the facts systematically. The data collection method used in this study is a non-participant observation method with library research and documentation methods. The data analysis technique used in this research is the descriptive data analysis technique.

III. RESULTS AND DISCUSSION

A. Risk Profile

This study to determine credit risk is calculated using the NPL ratio. The NPL ratio is obtained from non-performing loans, namely loans to non-bank third parties which are classified as substandard, doubtful, and bad debts divided by total loans to non-bank third parties.

The average NPL values of BRI, BNI, and BMRI from 2016–2020 are 2.99%, 2.61%, 2.27%, 2.43%, and 3.51%, respectively. The average for the 2016–2019 period is in second place, which means that the NPL ratios of BRI, BNI, and BMRI are in the healthy category. On average, in the 2020 period, the NPL ratios of BRI, BNI, and BMRI again experienced a decline in the Composite Ratings to rank three, in the fairly healthy category. The first best NPL values in the 2016–2020 period were BRI at 2.03%, 2.10%, 2.14%, 2.62%, and 2.94% with an average of 2.36%. The second best NPL values according to the Indonesian Central Bank Regulation No. 13/1/PBI/2011 for the last five years were BRI at 2.03%, 2.10%, 2.14%, 2.62%, and 2.94% with an average of 2.36%.
value in the 2016-2020 period was BNI at 3.00%, 2.30%, 1.90%, 2.30%, and 4.30% with an average of 2.76%. This shows the ability of BRI and BNI management in managing non-performing loans is good. BRI and BNI have managed to better manage the quality of loans provided in selecting prospective borrowers so that the number of loans classified as substandard, doubtful, and bad is reduced. The smaller the value of the NPL ratio indicates that the company is getting better at minimizing credit disruptions.

The lowest NPLs in the 2016-2020 period was BMRI at 3.96%, 3.45%, 2.79%, 2.39%, and 3.29% with an average of 3.17%. This shows that BMRI's management ability in managing non-performing loans is less good than BRI and BNI. This higher NPL value indicates that the number of non-performing loans is increasing from the total loans granted. BMRI's performance in managing the quality of loans provided has decreased in selecting prospective loans so that the number of loans classified as substandard, doubtful, and bad is increasing.

The risk that occurs as a result of the bank's inability to meet its maturing obligations. In this study, the liquidity ratio is calculated using the LDR ratio. This financial ratio explains that LDR is used to assess the liquidity of a bank by comparing the amount of credit granted by the bank and TPF, including loans received, loans not including credit to other banks.

The average LDR values of BRI, BNI, and BMRI from 2016-2020 respectively are 88.01%, 87.28%, 91.27%, 91.48%, and 84.80%. The average for the 2016-2019 period is ranked 3, which means that the LDR ratio of BRI, BNI, and BMRI is in the fairly healthy category. However, caution must be exercised because this condition is the impact of a more rapid increase in loans disbursed compared to the increase in deposits from customers. This shows that the average LDR value in the 2016-2020 period tends to fluctuate. On average, in the 2020 period, the NPL ratios of BRI, BNI, and BMRI again experienced an increase in the Composite Rating to second place, in the healthy category.

The best LDR values in the 2016 and 2020 periods were BMRI at 85.86% and 83.46%, respectively. For the 2017-2018 period the best LDR was BNI at 85.60% and 88.80%. In the 2019 period, the best LDR was BRI at 88.64%. The percentage change for each period in that period did not have a negative impact because it was still in the fairly healthy category. Although in general, the LDR ratio is quite healthy, BRI, BNI, and BMRI must also be careful to pay attention to the amount of credit that must be disbursed so that it does not exceed the DPK collected. A large amount of credit is not matched by a large depositor collection resulting in the bank having a high LDR ratio. The smaller the LDR value, the bank is considered to be more capable of fulfilling its obligations in increasing TPF that exceeds the total amount of credit.

B. Good Corporate Governance

Assessment of the GCG factor is an assessment of the quality of bank management on the implementation of GCG principles as regulated in BI Regulations, GCG is based on 3 main aspects, namely Governance Structure, Governance Process, and Governance Outcomes. The average GCG values for the 2016-2020 period is 1.66; 1.66; 1.66; 1.66; and 1.66, respectively. The average for the 2016–2020 period is in second place, which reflects that the management of BRI, BNI, and BMRI has implemented the GCG ratio in general, both in the very healthy category. In the 2016–2020 period, from the results of the GCG self-assessment analysis, the best ranking was BMRI at 1:1:1:1:1. This shows that the management of BMRI has implemented very well corporate governance principles. so that for the 2020 period, BMRI is classified as a trusted bank. The smaller the number obtained, the better the corporate governance.

Then the lowest GCG values in the 2016-2020 period was BRI and BNI at 2.2.2.2.2. This shows that the management of BRI and BNI have implemented the principles of good corporate governance and still have to monitor the GCG rating ratio because the composite rating of 2 (two) still has weaknesses. If there are weaknesses in internal control that are still weak and must be improved, such as discipline to all employees, attention must be paid to internal fraud, employee compliance problems, and violations of bank regulations by employees, looking for solutions to the human error factor and system error, can happen anytime. In general, these weaknesses can be resolved with normal actions by the management of BRI and BNI. Implementation of a good governance system to produce the expected outcome.

C. Earnings Factor

The first ratio is the ROA ratio. This ratio is calculated to measure the success of management in generating profits. The smaller this ratio means that bank management is less able to manage assets to increase income. The average ROA values for the 2016-2020 period was 2.83%, 3.03%, 3.21%, 2.97%, and 1.37%, respectively. The ROA ratio in the 2016-2020 period has increased and decreased but is still in a very healthy condition where it is ranked 1 (one) composite.

The first best ROA values in the 2016-2020 period were BRI at 3.84%, 3.69%, 3.68% 3.50%, and 1.98%. In the 2016-2020 period, the ROA ratio has decreased in value every year. This shows that the ability of BRI's management to generate profits is very good because it has the highest ROA value compared to BMRI and BNI banks. The second best ROA values in the 2016-2020 period were BMRI at 1.95%, 2.72%, 3.17%, 3.03%, and 1.64%. This increase indicates that BMRI's ability to earn profits by relying on its assets is getting better. A higher ROA value indicates a healthier bank condition.

The lowest ROA values in the 2016-2020 period were BNI Bank at 2.70%, 2.70%, 2.80%, 2.40%, and 0.50%. This shows that BNI's management ability to generate profits is also very good because it is included in the very healthy category. The ROA values owned by BRI, BNI, and BMRI banks compete with each other. The greater the ROA value shows the bank can manage assets so that profits can increase revenue.

The second ratio is the NIM ratio. The financial information needed to calculate this ratio is net interest income and the average total earning assets. Meanwhile, earning assets that are considered are earning assets that generate interest (Interest-bearing assets), namely earning assets classified as Current Under Special Mention. The average NIM values for the 2016-2020 period were 6.83%, 6.35%, 6.09%, 5.64%, and 5.12%, respectively. During the
2016–2020 period, the NIM ratio of BRI, BNI, and BMRI Banks was at a composite rank of 1 (one) in the very healthy category.

The first best NIM values in the 2016–2020 period were BRI at 8.00%, 7.93%, 7.45%, 6.98%, and 6.00%. BRI obtained the highest NIM score. The second best NIM value in the 2016–2020 period was the BMRI of 21.36%, 21.64%, 20.96%, 23.28%, and 19.90%. This shows that BRI and BMRI in generating net interest income have been very good, as evidenced during this period BRI and BMRI experienced a positive trend. A higher NIM value indicates a healthier bank condition.

The lowest NIM values in the 2016–2020 period was Bank BNI at 6.20%, 5.50%, 5.30%, 4.50%, and 4.90%. This also shows that BNI's bank in generating net interest income is good because it has the title of Very Healthy. Where overall Bank BRI, BNI, and BMRI are ranked 1 in the very healthy category. The management of BRI, BNI, and BMRI Banks have good capabilities in managing their productive assets so that they can generate optimal net interest income.

D. Capital

The assessment of the capital factor includes an assessment of the level of capital adequacy and the adequacy of capital management. The ratio to assess this capital is CAR. The CAR ratio is used to measure the adequacy of capital owned by a bank to support assets that contain or generate risk. The average CAR value for the 2016–2020 period tends to fluctuate with values of 21.22%, 21.0%, 20.22%, 21.84%, and 19.10% respectively. During the 2016–2020 period, the CAR ratios of BRI, BNI, and BMRI Banks were at a composite rating of 1 (one) in the very healthy category.

The first best CAR ratios in the 2016–2020 period was BRI at 22.91%, 22.96%, 21.21%, 22.55%, and 20.61%. Best CAR value. The second in the 2016–2020 period is the BMRI of 21.36%, 21.64%, 20.96%, 23.28%, and 19.90%. With the same CAR criteria, which is very healthy. The higher the CAR value, the better the capital management company’s capital. The lowest CAR ratios in the 2016–2020 period was Bank BNI at 19.40%, 18.50%, 18.50%, 19.70%, 16.80%, and 92.9%. This has a significant impact because it shows that the capital management capabilities of BRI, BNI, and BMRI Banks continue to increase and are categorized as very healthy, if there is a decrease, it still does not have a negative impact. After all, they are still classified in the very healthy category. This shows that the bank has sufficient capital to cover current risks and anticipate various losses that may occur in the future.

E. Assessment Results of the Financial Health Level of BRI, BNI, and BMRI

The Composite Value of the RGEC method of BRI, BNI, and BMRI Banks for the 2016–2019 period is 86.6%, which indicates a Very Healthy Composite Rating. In the 2020 period, the composite value of the RGEC method of BRI, BNI, and BMRI Banks was 83.3%, which indicates a healthy composite rating. It can be seen that the average composite value of BRI, BNI, and BMRI Banks based on the RGEC method for the 2016–2020 period is in the very healthy category. The results of the analysis of the level of the financial health of Banks BRI, BNI, and BMRI as measured using the RGEC method for the 2016–2020 period show that the financial health of Banks BRI, BNI, and BMRI is in the Very Healthy Composite Rating or obtaining a composite rating of 1 according to SEBI No. 13/24/DPNP/2011. This means that it reflects the condition of Banks BRI, BNI, and BMRI which are generally very healthy so that they are considered very capable of dealing with significant negative influences from changes in business conditions and other external factors as reflected in the rating of assessment factors, including risk profile, implementation of good governance, profitability, and capital which is generally included in the top-ranking category is very good.

IV. Conclusion

In the aspect of assessing the GCG factor using the results of the self-assessment listed in the annual report, BMRI is the most superior among BRI and BNI. As for the aspect of the RGEC method, BRI has the highest profitability and the strongest capital. It can be concluded that in general BRI is the most superior in all aspects. The implementation of this study shows that the management of BRI, BNI, and BMRI still needs to maintain their corporate governance because governance is the key to maintaining customer trust. The phenomenon of fluctuations in bad loans at BRI, BNI, and BMRI needs serious attention by tightening the assessment in credit distribution assessments. Meanwhile, the profitability and capital of BRI, BNI, and BMRI which are very prime need to be maintained continuously, as well as consistency in audits and supervision.

For BRI, BNI, and BMRI, this research is expected to be a reference, information, and consideration that can be used by companies to maintain the ROA, NIM, and CAR ratios to remain at the SS rating, the GCG system in internal control must be improved with a good governance system. To increase the soundness rating to SS and improve the level of the financial health of the Bank by paying attention to the company’s finances with the ratio of NPL, LDR so that the bank is in a healthy condition in every time of world crisis. Bank management should be more selective and careful in lending to customers and follow the credit regulations set by BI to avoid bad loans. Paying more attention to all bank obligations, especially short-term obligations, and trying to balance between lending and the number of funds received from third parties to maintain bank liquidity. Optimizing the use of all assets owned so that they can become productive assets and provide maximum profit so that they can increase banking capital. Additional capital can also be done through optimizing income, depositors, investors, and selling securities.
REFERENCES


