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Analysis of Banking Profitability Influenced By Company Financial Factors on the Indonesia Stock Exchange 2016-2018

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Abstract:

Analysis of banking profitability is very important to study because there are many factors that affect profitability, including exchange rates, and interest rates which have an impact on profitability. For this reason, this study will discuss the interrelationships of all variables that can influence it. Observations were made on banking companies on the Indonesia Stock Exchange in 2016-2018. The sample was selected by determining the criteria so that 27 companies were netted by purposive sampling. After downloading the data sourced from wwwIDXx.co.id. Multiple regression analysis shows the test results at a significance of 5%, namely the Capital Adequacy Ratio (CAR) and Non-Performing Loans can affect Profitability with projections on ROA. Thus it can be concluded that partially or simultaneously all variables have a significant effect on the profitability of the banking company. This result is understandable because these two variables in theory can strengthen the increase in profitability. However, this study has limitations only on testing two variables for that future research is advised to add other non-financial variables that are predicted to strengthen banking profitability.

Keywords:

CAR; NPL; Profitability

I. Introduction

Banking functions as an intermediary or intermediary for receiving funds from customers. The failure experienced by the bank will have a wide impact so it affects the trust of customers and institutions that save or invest their funds in the bank. Therefore, the role of the bank is very important so it must be managed properly. Customer trust must be maintained because if the customer does not believe it once, it can disrupt the bank's operations. One measure of bank performance achievement is profitability. This is stated by Brigham (2010) which whoes that ratios such as ROE, ROA and debt ratios are widely tested to see profitability. Theoretically what Brigham (2010) said is true because strong profitability will increase public trust in the community. Some examples of banking cases that occurred in Indonesia were in 1997 the monetary crisis caused several banks to go bankrupt and those that we're able to survive had to merge due to liquidity difficulties. This incident was repeated in the Century Bank in 2008 which was caused by internal problems and the global economic crisis that impacted many banks at that time. Another thing Bank Indonesia also refers to is profitability which includes capital adequacy and disbursed credit performance (NPL). As for Non-Performing Loans (NPL) according to Wicaksono (2016), Brastama (2020) will be good if the loans disbursed are not problematic, the same thing was also stated by Masyud (2004).

In 2016-2018 43 banking companies sold their shares on the IDX. However, because many banks prefer to save money in the form of Bank Indonesia certificates and also do not want to take the risk of bad credit, there is a decline in profitability and financial performance

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achievements. A study by Ni Made (2016) related to profitability proved to have a significant effect. On the other hand, Deden (2016) shows that there is an insignificant LDR variable and in general it can be understood that liquidity has an effect onaffectswhile working capital efficiency has no effect on profitabdoes not affecting to several previous studies, there is still a research gap related to the determinants of profitability, Therefore, in this study, CAR and NPL were re-examined on profitability by asking research questions that linked the two independent variables to the dependent variable. This test is expected to make a good contribution to strengthening banking performance in Indonesia.

II. Review of Literature

2.1 Profitability

By the principle of the profit motive, a business that is run must aim to generate profit. Two approaches to generating profit are to increase revenue or reduce costs. A company such as a bank must be able to reduce operational costs because as a company engaged in services, profits can be high profitability and vice versa can also be a trigger for losses. Maximum profit achievement is also expected to contribute to shareholders, consumers, employees, services, business continuity and even expansion. According to Kasmir (2012), this is where management plays an important role in formulating a strategic business plantoo achieve the set targets. In general, profitability is measured by the rate of return equity (ROE).

2.2 Capital Adequacy Ratio (CAR)

CAR is a ratio that is always a measure of the strength of existing capital so that if a loss occurs, the loss is expected to be resolved. According to (Almazari, 2012: 284) if a bank has a very good CAR, then the condition of the bank can be said to be healthy and not vulnerable to losses if it occurs. The CAR ratio is also regulated in the regulation issued by Bank Indonesia Number 10/15/PBI/2008 article 2 paragraph 1 which states that banks are required to provide a minimum capital of 8% of risk-weighted assets (RWA). Of course, this regulation, strengthens the confidence of customers to keep their money in the bank, because the 8% limit can at least guarantee customer money whenever it is needed to be withdrawn. Apart from these regulations.

2.3 Non-Performing Loan

The definition of NPL is explained by experts as the debtor's inability to pay credit installments. This understanding can refer to the opinion of Rohmah (2013). The same thing was also stated by Dendawijaya (2009) and Saba (2012) regarding NPL which can be used as the basis for policymaking by bank management to overcome the problem loans. It is necessary to ask how much the NPL is understandable and it turns out that Bank Indonesia itself limits the NPL to a maximum of 5%. The larger the NPL, the more it shows that the bank is unable to manage loans given to customers, resulting in payment congestion or what is known as bad credit. Rahim & Irpa (2008) emphasize that high NPL should not be a sign of poor management, lack of professionalism.

2.4 Development of Hypotheses

Based on the definition of the three variables that are related to one another and refer to several previous research results, namely Kasmir (2012), (Almazari, 2012: 284), Rohmah (2013)

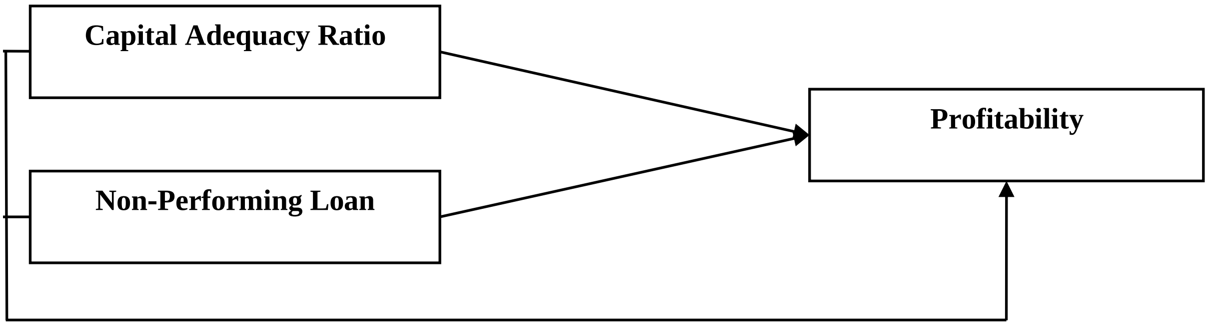
Dendawijaya (2009), Saba (2012), and research by Rahim & Irpa (2008), the hypothesis of this research is stated as follows:

H1: Capital Adequacy Ratio affects Profitability

H2: Non-Performing Loans Affect Profitability

H3: Capital Adequacy Ratio and Non-Performing Loan have a simultaneous effect on Profitability

The conceptual framework in this research is as follows:



Source research model: 2020

III. Research Method

This study will discuss the relationship of all variables that can influence it. Observations were made on banking companies on the Indonesia Stock Exchange in 2016-2018. The sample was selected by determining the criteria so that 27 companies were netted by purposive sampling. After downloading the data sourced from www.IDX.co.id

IV. Results and Discussion

4.1 Hypothesis Testing Results

Hypothesis testing in this study used multiple regression analysis which was tested through SPSS version 21 software. This test was conducted to find research answers through the results of the t-test (partial) and the results of the f-test (simultaneous). Regression testing must also reveal the residual value, this will reveal a normal data distribution (Ghozali, 2011). If the answer is assumed to deviate from the normal data distribution will result in invalid data on statistical testing. From Statisticaling found the results of multiple linear regression in the following table.

Table 1. Multiple Linear Regression Test

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	3.161	3.145
	LOG_car	.183	.326
	LOG_npl	.237	.102

The results of the multiple linear regression test can be explained in the following equation:

Profitability = 3.161 + 0.183 CAR + 0.237NPL + e

The conclusion of the multiple linear regression equation above is as follows:

1. The constant value of 3.161 indicates that if there is no influence of CAR, LDR and NPL then Profitability is 3.161.
2. The regression coefficient value of the negative CAR variable is 0.183, indicating that for every 1% increase in CAR, profitability will decrease by 0.183 and vice versa.
3. The regression coefficient value of the positive NPL variable is 0.237, indicating that for every 1% increase in NPL, profitability will increase by 0.237 and vice versa.

4.2 Partial Test Results (t-test statistic)

Table 2. Partial Test (t-Test)

Model		T	Sig.
1	(Constant)	2,969	.000
	LOG_car	2.118	.003
	LOG_npl	3.179	.000

Source: SPSS Output, 2020

The variables of Capital Adequacy Ratio and Non-Performing Loan have a positive direction coefficient. The table value obtained in this study was 1,994. Therefore, for each hypothesis it can be concluded as follows:

1. With tcount based on the table above of 2.118 with a significant value of 0.003, the conclusions are: tcount > ttable or probability value < level of significant 2,118 > 1,994 or 0.003 < 0.05.
2. With tcount based on the table above of 3.179 with a significant value of 0.000, then the conclusion is: tcount > ttable or probability value > level of significant 3.179 > 1.994 or 0.000 < 0.05

4.3 Simultaneous Test (F Test)

Table 3. Simultaneous Test (Test f)

Model		F	Sig.
1	Regression	13,532	.000b
	Residual		
	Total		

Source: SPSS Output, 2020

From the F test table, the test results can be obtained simultaneously, namely the calculated F value of 13.532 with a significance of 0.000. The significance value (0.000) which is smaller than the expected significance value of (0.05) indicates that the Capital Adequacy Ratio and Non-Performing Loans affect profitability simultaneously in banking companies listed on the Indonesia Stock Exchange for the 2016-2018 period.

4.4 Coefficient of Determination (Adjusted R2)

Table 4. Coefficient of Determination

Model	Adjusted R Square
1	,571

Source: SPSS Output, 2020

Based on the test table the coefficient of determination shows the amount of adjusted R2 is 0.571. This shows that the 57.1% variation in the profitability of banking companies can be explained by variations in the Capital Adequacy Ratio and Non-Performing Loans. The remaining 42.9% is explained by other variables not examined in this study.

4.5 Discussion

a. Effect of Capital Adequacy Ratio on Profitability

The results of statistical analysis t for the variable Capital Adequacy Ratio (CAR) it is known that the value with a significance of 0.003. The significance value of the Capital Adequacy Ratio which is smaller than the expected significance value (0.05) indicates that the Capital Adequacy Ratio variable affects the profitability of banking companies on the Indonesia Stock Exchange for the 2016-2018 period, so the first hypothesis is accepted. From the results of this study, it is known that CAR has a significant effect on profitability. From the results of data processing, we can see that the average CAR owned is quite far from the minimum CAR set by Bank Indonesia, which is 8%. Banks can optimize the capital they have. So CAR affects profitability. This is in line with Sitompul (2019), Riadi (2018).

b. The Effect of Non-Performing Loans (NPL) on Profitability

The regression coefficient for the NPL variable is positive at 3.179. The significance value shows 0.000 which is smaller than = 0.05. This shows that the NPL variable affects profitability. This research is in line with the research of Kingu (2018), Bhattarai (2016), and Saba (2012), which suggests that NPL affects profitability. The BI regulation stipulates that any increase in outstanding loans provided must be covered with reserves for earning assets by debiting the reserve cost account for productive assets and editing the reserve for earning assets write-offs so that any increase in loans extended will increase the cost of reserves for productive assets which in the end will affect profitability. Therefore, This process will help Commercial Banks always maintain a maximum NPL of 5% of the total outstanding loans given by banks at the end of the financial reporting period after issuing a reserve account for write-offs and crediting NPL accounts or non-performing loans according to BI regulations. Thus, based on the results of data processing and analysis of empirical conditions, it can be concluded that credit risk proxied by NPL affects profitability.

c. Effect of Capital Adequacy Ratio, and Non-Performing Loan on Profitability

Simultaneous test results that have been stated previously obtained a calculated F value of 0.032 with a significance of 0.991. The significance value (0.9191) is greater than the expected significance value (0.05) this indicates that the Capital Adequacy Ratio, Loan to Deposit Ratio, and Non-Performing Loan have no simultaneous effect on the Profitability of Banking Companies listed on the Stock Exchange. Indonesia for the 2016-2018 period, so H0 is accepted. The results of the coefficient of determination test show that the adjusted R2 is 0.171. This shows that 17.1% of the variation in the profitability of banking companies can be explained by variations in the Capital Adequacy Ratio, Loan to Deposit Ratio, and Non-Performing Loan. The remaining 82.9% is explained by other variables not examined in this study.

V. Conclusion

Based on the results of the research and discussion that have been stated in the previous section, the following conclusion can be drawn:

1. Capital Adequacy Ratio affects the profitability of banking companies, this is evidenced by the acquisition of a significance of 0.003. This means that a large amount of Capital Adequacy Ratio can certainly encourage an increase in the level of profitability.
2. Non-Performing Loans affect the profitability of banking companies, this is evidenced by obtaining a significance value of 0.000. This means that a low number of Non-Performing Loans can push down the level of profitability.
3. Capital Adequacy Ratio and Non Performing Loan have a simultaneous effect on Profitability. Simultaneous test results obtained a calculated F value of 13,532 with a significance of 0.000. The significance value (0.000) which is smaller than the expected significance value (0.05) indicates that the Capital Adequacy Ratio and Non-Performing Loans have a simultaneous effect on the profitability of banking companies listed on the Indonesia Stock Exchange for the 2016-2018 period.

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