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ANALYSIS FINANCIAL PERFORMANCE OF RURAL BANKS IN INDONESIA

Mohammad Sofyan
STIAMI Social Science and Management Institute, Jakarta – Indonesia
Email: sofyan@stiami.ac.id

Abstract **:** During the period 2006-2019 many rural banks were liquidated by Indonesia Deposit Insurance Corporation (LPS) which have an impact on the performance of rural banks. This study aims to determine the effect of CAR, LDR, OCOI and NPL on the ROA of Rural Banks in Indonesia. The research method used is quantitative which emphasizes the theory testing through the measurement of CAR, LDR, BOPO and NPL variables to determine the effect on ROA in Indonesia. The results of the study show that CAR, LDR, and OER have a significant effect on ROA. Every increase in operating costs will result in a decrease in pre-tax profit which results in a decrease in ROA. NPL has no significant effect on ROA because rural bank has a large CAR ratio to cover credit risk.

Keywords *: Rural Banks, CAR, LDR, OCOI, NPL, ROA*

1. Introduction

Based on Law of the Republic of Indonesia No.10 of 1998 concerning changes to Law Number 7 Year 1992 concerning Banking, bank financial institutions consisting of Commercial Banks and Rural Banks. The increasingly widespread non-bank financial services providing convenience and speed of credit disbursement for the community to meet financial needs, making rural banks to remain in the financial industry. Likewise with commercial banks and foreign banks that are intensely expanding the micro credit sector is a mainstay of rural banks (Sofyan, 2019).

Banks is an assessment of the bank's performance through assessment and quantitative or qualitative assessments. Quantitative assessment of the factors of capital, asset quality, management, earnings, liquidity and sensitivity to market risk. Quantitative Assessment is an assessment of the position, development, and projected financial ratios of the Bank. While the qualitative assessment is an assessment of the factors that support the results of the quantitative assessment, risk management, and compliance of the Bank.

Profitability of banks in the economy can be determined on a micro and macro level. At the micro level, profit is a determinant and is needed for every competitive banking institution. At the macro level, the banking sector must be able to absorb negative external shocks and to achieve financial system stability (Al-Homaidi, Tabash, Farhan, & Almaqtari, 2018). Profitability describes the ability of banks to generate profits through all available capabilities and resources such as cash, capital, employees, and branches. Previously research measures the level of profitability with ROA and ROE (Al-Homaidi et al., 2018; Chowdhury & Rasid, 2015; Gul, 2017; Yahya, Akhtar, & Tabash, 2017).

ROA is a ratio that shows how much the net profit is obtained by the company when measured by the value of assets. the higher the ROA shows the better company performance. This value reflects the return of the company from all assets given to the company. The LDR is the ratio between the total amount of credit given by the bank and the funds received (Dendawijaya, 2009). an increase in LDR affects credit and the growth of third party funds. credit increases interest income while growth in third party funds increases interest costs. Operational Expenses Ratio (OER) is a ratio used to measure the comparison of operating costs or intermediation costs to operating income obtained by the bank (Harjito & Martono, 2014). The smaller the of OER, the better condition of the bank. NPL which is the ratio between non-performing loans to total credit (Taswan, 2010). This ratio indicates that the higher the NPL ratio indicates the worse the credit quality. NPL is a risk faced by banks in order to increase the credit portfolio. Therefore, to be able to make the bank's financial performance remain good, it must maintain a maximum NPL position of 5%.

2. Literature Review

Rural banks have limited transaction activities, including collection of funds in the form of savings, time deposits and lending. This limitation is related to the main service objectives for Micro, Small and Medium Enterprises and the surrounding community (Bank Indonesia, 1998). ROA is a ratio used for the results of the total assets used by the company (Kasmir, 2014). This ratio measures the return on investment that has been done using all assets owned.

CAR is a ratio that shows how much the total assets of a bank contain elements of risk which are also funded from the bank's own capital, in addition to obtaining funds from other sources (Dendawijaya, 2009). If the CAR is too high, there are idle funds that affect the decline in profits and have an impact on decreasing profitability. The results of previous studies state that the higher the CAR ratio, the rural bank profitability increases, so that the capital of a bank can be said to be stronger (Agustini & Budiasih, 2014). But the results of different studies show that CAR variables have no significant effect on ROA (Winarso & Salim, 2017). Different results also state that CAR has a negative and significant effect on ROA (Wardana & Widyarti, 2015).

LDR is a liquid measure in the form of a loan to deposit ratio (Darmawi, 2011). LDR is a ratio that measures the ability to repay funds withdrawals with credit as a source of liquidity. Research conducted by Winarso & Salim (2017: 382) shows that NPL has a significant and negative effect on ROA. The high NPL ratio causes a reduction in the amount of capital owned which results in reduced customer confidence (Agustini & Budiasih, 2014). NPL did not affect ROA (Mahardian, 2008; Raharjo, Setiaji, & Syamsudin, 2014).

OCOI is a ratio that measures the efficiency and ability of a bank to carry out its operations. The greater the OCOI the less efficiency that decreases profitability (Dendawijaya, 2009). OCOI has a significant effect on profitability (Prasanjaya & Ramantha, 2013). OCOI has a significant effect on negative direction (Puspitasari, 2009; Wibowo & Syaichu, 2013). NPL shows the amount of non-performing loan risk at the bank. The cause of problem loans is due to the inability to repay the loan principal and interest (Darmawi, 2011). The higher NPL ratio causes a decrease in profitability. Research conducted by Winarso & Salim (2017) shows that NPL has a significant and negative effect on ROA. The high NPL ratio causes a reduction in the amount of capital owned which results in reduced customer confidence (Agustini & Budiasih, 2014). NPL does not affect ROA (Mahardian, 2008; Raharjo et al., 2014).

3. Methodology

The research method used is quantitative which emphasizes the theory testing through the measurement of CAR, LDR, BOPO and NPL variables to determine the effect on ROA in Indonesia (Pandoyo & Sofyan, 2018). Series data used are the data during 2010-2016. The research data is in the form of ROA, CAR, LDR, OCOI and NPL ratios obtained from https://www.bi.go.id/id/statistik/perbankan/bpr-konvensional/ then processed and analyzed with the financial theory approach and banks to find out the ROA of BPRs in Indonesia. Data analysis is using panel data regression with STATA.

4. Result And Discussions

Table 1. Output Cross-Sectional Time-Series FGLS Regression

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Coefficients:   generalized least squares
Panels:         homoskedastic
Correlation:    no autocorrelation

Estimated covariances      =         1          Number of obs      =       231
Estimated autocorrelations =         0          Number of groups   =         7
Estimated coefficients     =         5          Time periods       =        33
                                                Wald chi2(4)       =    696.67
Log likelihood             =  718.1186          Prob > chi2        =    0.0000
```

ROA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
CAR	.0235049	.0075739	3.10	0.002	.0086603	.0383496
LDR	.0188232	.0071136	2.65	0.008	.0048809	.0327655
BOPO	-.1617769	.0079376	-20.38	0.000	-.1773344	-.1462194
NPL	.037421	.023956	1.56	0.118	-.009532	.084374
_cons	.1396315	.009468	14.75	0.000	.1210746	.1581884

Figure 1. Percentage of ROA Rural Banks in Indonesia 2010-2016

Average of ROA ratio during 2010-2016. ROA continues to decline to 2.69%. Based on figure 3 below, it shows that the CAR ratio during the 2010-2016 observation period exceeds Bank Indonesia regulations. The results of empirical research prove that CAR variables have an effect on ROA of 0.0235. This means that every addition of 1% CAR affects the increase in ROA of 0.0235%. The results of this study are in line with the research of Agustini & Budiasih (2014). indicates that the existence of funds that cannot be utilized properly by rural bank management in Indonesia in the form of lending to increase profitability.

Figure 2. Percentage of CAR Rural Banks in Indonesia 2010-2016

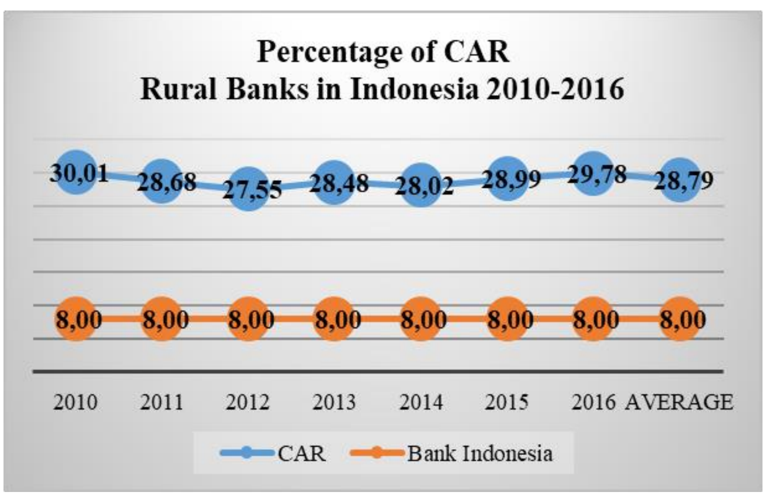

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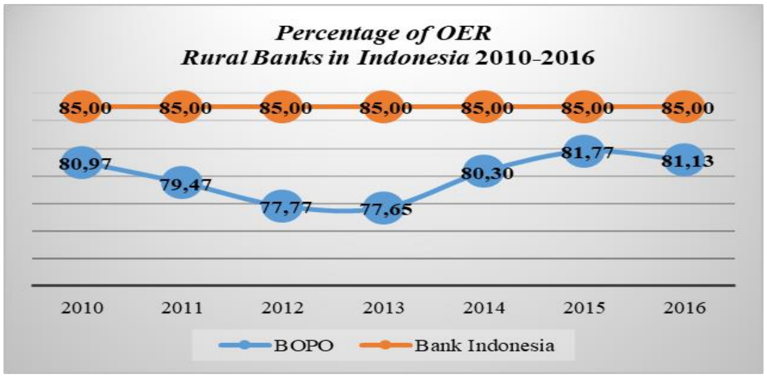
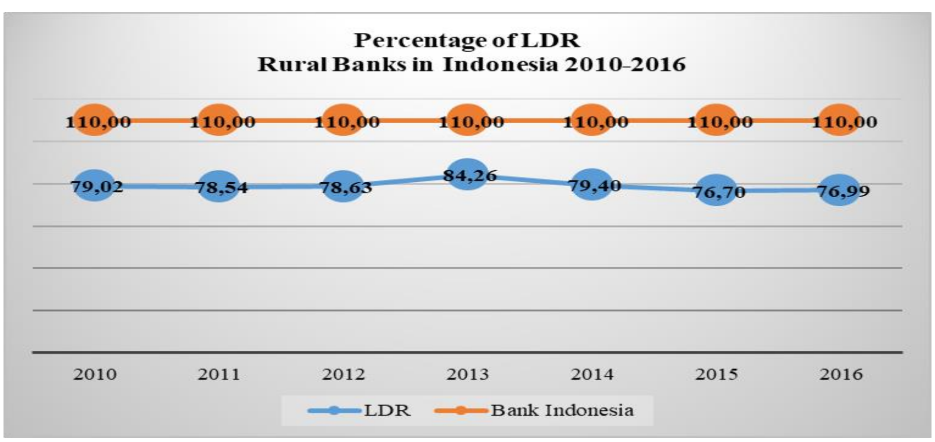
Figure 3. Percentage of OCOI Rural Banks in Indonesia 2010-2016



According to Bank Indonesia, operating efficiency is measured by comparing total operating costs with total operating income (OCOI). So that a logic can be arranged that the OCOI variable has a negative effect on ROA. The results prove that OCOI has a negative effect on ROA of 0.1618. Which shows that every 1% increase in BOPO has an impact on decreasing ROA by 0.1618%. The results of this study are in line with the results of research by Wibowo & Syaichu (2013) and Puspitasari (2009). High OCOI shows that operational rural banks generate income not yet efficiently impacting a decrease in profitability. This is because the profits obtained are used to cover the burden of large operational costs. rural banks must optimize their capital use while their income is relatively low due to the intense competition with micro banking and lenders.

Figure 4. Percentage of LDR Rural Banks in Indonesia 2010-2016



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The period of observation during 2010-2016 shows that the LDR is not good because it is smaller than what was determined by Bank Indonesia (LDR <110%). Empirical research proves that the LDR variable has an effect on ROA of 0.0188. Which means that every 1% increase in LDR results in an increase in ROA of 0.0188%. An increase in LDR shows that banks are less able to fulfill their obligations to pay funds to customers / depositors for distributed loans, besides that the increase in LDR also indicates the amount of lending that is not accompanied by high rates of return or bad credit which results in a decrease in profitability.

Figure 5. Percentage of NPL Rural Banks in Indonesia 2010-2016

The results of empirical research prove that NPL does not affect ROA. The results of this study are in line with the research of Mahardian (2008) and Raharjo, Setiaji & Syamsudin (2014). Credit risk does not affect the net income obtained by shareholders because rural banks have a very high capital ratio that can be used to cover the risk of bad loans that arise.

5. Conclusion

CAR has a significant positive effect on ROA of 2.35%. with CAR above 8%, BPRs expand their business safely. high CAR also has an impact on increasing ROA significantly.

LDR has a significant positive effect on ROA of 1.88%. an increase in the amount of loans channeled has an impact on increasing credit income. this also indicates that BPR's ability to generate profits has also increased.

OCOI has a significant negative effect of 16.18% on ROA. Every increase in operating costs will result in a decrease in pre-tax profit which results in a decrease in ROA.

NPL does not have a significant effect on ROA. The NPL ratio of 6.5% does not affect ROA, because rural bank has a large CAR ratio to cover credit risk.

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