CHAPTER I

INTRODUCTION

1.1 Background

One of the factors that contribute into successful economy development is the banking sector stability. Banking sector mainly comprised of bank activities, which include services such as deposit and loans (Helaz, 2014). In accordance to its main function as collector and distributor of funds, banks will always interact with parties with surplus funds and also parties that lacks or in need of funding (creditor). Bank as an intermediation institution holds an important role in mobilization of people's fund to be circulated as one of the main funding source for business world, either for investment or production, in order to support economy development. Aside from their main function as stated before, as profit oriented institution, banks will also try to utilize those collected funds to earn profit for their own.

Rapid development in banking sector in Indonesia creates a tight competition among them (Setiaputra, 2014). As a result, every bank is demanded to give their best services for their customers through their products that give many privileges without abandoning the survival of their own. In order to do that, a bank needs to show their best performance, have a sense of competitiveness, and also able to maintain level of healthiness by optimally increasing their services in order to gain public trust. In real practice, banks will be faced with many kinds of issues along the main function of banking.

Indonesian banks in doing their business activity, which is fulfilling their main function, still experience numerous basic problems even nowadays. There is still considerable amount of banks that unable to maximally utilize their resources. For example, in one side banks that experience under-liquid will find difficulties in doing their business activity maximally because the lack of capital as their base of operation. Meanwhile in the other side, banks that experiencing over-liquid will also facing some issues, it will be difficult for them to distribute those funds and risk uncollected credit.

In Indonesia, banks commonly categorized into 2 types, state-owned banks and private banks. State-owned banks is a financial institution that are owned in majority (more than 50% share) by a state (government). State-owned banks is an example of state-owned. A state owned bank is not the same as other commercial banks because state owned banks are concern with government's monetary policy. On collecting and distributing funds, a state owned bank must compete with private banks, therefore to be able to stay level on the competition with other banks, a state owned bank must be able to maintain its liquidity level by keep controlling its financial performance.

As a state-owned enterprises, state-owned banks hold a dominant role in Indonesian economy. It is one of the main source of income for the government, through foreign exchange and earned profit. State-owned banks is the lead actor in every economy sector, such as banking sector or financial sector. State-owned banks function as tools for government to upheld fairness in economy sector, and mainly founded to improve people's welfare and prosperity. State-owned banks also have some privileges such as better liquidity, more stable business condition, and powerful legal force.

Marina, Wahjono and Fahmi (2013) reviewed that state owned banks hold an important role for national banking. State owned banks are very effective on funds management, shown from the comparison of Total Asset which only amount to 35,29% but still able to contribute net income of 43,97%. Meanwhile for the efficiency of banking resource management, 4 state owned bank in average scored more ratio of asset (ROA) of 2,65% compared with ROA of other banks which is 2,17%. In the present, there exist 4 bank which is categorized as state-owned banks, which are PT. Bank Rakyat Indonesia (Persero) Tbk also called BRI, PT. Bank

Negara Indonesia (Persero) Tbk also called BNI, PT. Bank Mandiri (Persero) Tbk, and PT. Bank Tabungan Negara (Persero) Tbk also called BTN.

OJK (The Indonesian Financial Services Authority/Otoritas Jasa Keuangan) also stated that from 120 banks which operates in Indonesia, all of these banks still considered to be healthy based on fluctuation of Rupiah Exchange Rate and IDX Composite (IHSG). This banking supervision agency also consider most of these 120 banks belongs to rating II which categorized as “good” and the rest of them still on rating III which is “standard”. Many experts on banking consider that the amount of banks in Indonesia which reaches 120 banks tends to be inefficient. (www.bi.go.id)

In the past, the government may be forced to take direct action in the case of economy emergency, such as the formation of BPPN (Indonesia Bank Restructuring Agency/Badan Penyehatan Perbankan Nasional). This agency is formed in direct response to the banking and economy crisis which emerged following the Asia Monetary Crisis in mid-1997. The drastic depreciation of the Rupiah reduced bank liquidity by a large margin, causing the loss of public trust toward the banking system in general. The main role of BPPN is to increase the healthiness of banking system, taking care of troubled assets, and to try returning government money which distributed within the banking system. One of the action of BPPN is the merger of several national banks including Bank Ekspor Impor, into one bank which now known as Bank Mandiri, following the monetary crisis in 1998. In establishing BPPN, the Indonesian Government were effectively establishing a “bad credit”. The BPPN closed down in 2004, in which role is now taken by a state-owned company named PT. PPA (Assets Managing Company/Perusahaan Pengelolaan Aset), which manage all assets owned by the government, including banking sector.

The existence of banking problems as described before, indicate that the trust level of public as the source and destination of the funds collected by bank undergo an unstable and ever-changing process. Public trust toward banking is very influenced by the performance level that has been achieved by the banking world itself, and how the effort of banking management to anticipate every change which occurred in their sector be it nationally or globally. These changes include the issue of information technology, government and monetary authority policy or regulation, and consumer demand which grows vary. Aside from that, the rapid development of banking industry, especially the provided product and serviced which becomes more complex and diverse will also increase the exposure of risk which faced by bank.

Trust can be gained by maintaining the health level of bank. A healthy bank is a bank that able to do its functions well, or in other words, healthy bank is a bank that can hold and maintain public trust, able to do intermediary function, able to help smooth payment traffic as well be able to be the subject for the government in executing their policy, especially the monetary one (Permana, 2012:2).

Bank healthiness is the condition that shows the capability of bank in doing their operational banking activity normally and fulfilling their responsibilities well by methods that conform to the applicable banking law (Susanti, 2015). The final result of bank health assessment can be used by the bank as one way to decide business strategy in the future period, while for Bank Indonesia it can be used as a method of determination and implementation of bank supervising strategy by Bank Indonesia.

One of the common way to measure bank's healthiness is based on their financial statement. According to Kasmir (2012), banks financial statement shows a bank financial condition as a whole. From financial statement, a bank actual condition will be known, including their strength and weakness. This statement also shows banks management performance during the time period. The main benefit of this financial statement is that the management side can improve on their weaknesses while retaining their strength. Aside from that, several ratio that commonly used as the base for a bank health assessment can be calculated based on data from a financial statement. These ratio imply the overall performance of a bank, which later will be used to determine a bank healthiness.

To measure bank healthiness based on financial statement, the most common technique is the analysis ratio. Analysis ratio is the most appropriate indicator to measure a bank financial performance. The percentage of analysis ratio becomes the main indicator of a bank performance because financial ratio is resulted from several policy and decision that made by banks management. Factors that influence the income of a bank may had source from several financial ratio which shown by several indicator within the respective bank financial statement and commonly used as the base for bank health assessment. These ratios include factors such as liquidity, earning, operational, and capital that will be presented as percentage, such as Current Ratio, Loan-to-Deposit Ratio, ROA, BOPO, CAR, etc.

Following the trends, Siregar (2016) stated banks business activity always been faced with risks that strongly related their function as a financial intermediation institution. Risk is defined as an uncertainty which occurred as a result from a decision from current condition. Risks that banks normally faced as a financial intermediation institution are Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Law Risk, Strategic Risk, Compliance Risk, and Reputation Risk. The complexity of risk in banks business activity in the end forces a perfection on the method for banks health assessment using risk approach.

The rising amount of bank industry causes the increase of needs for some kind of control toward those banks performance. Bank Indonesia as a central bank hold a degree of control toward banks to find out about their financial condition as well as the business activities for each bank. Banking-related policy which issued and executed by Bank Indonesia in theory is dedicated to create and maintain healthiness, for individual or banking as a system.

The benefits of this research for both customer and investor is to provide material for consideration of both customer and investor during decision-making of choosing bank. By choosing a healthy bank, hopefully both customer and investor may avoid risks that normally faced by banks. This assessment is meant to determine whether a bank belong in the category of healthy bank or unhealthy bank if reviewed using RGEC factors. Banks which managed to obtain the predicate of healthy are obliged to maintain their healthiness, meanwhile banks with predicate of unhealthy are obliged to improve their healthiness as soon as possible. Banks which belong on the category of unhealthy banks will have their Board of Directors, Committees, and/or investor obliged to present their action plan to Bank Indonesia (BI Regulation PBI No. 13/1/ PBI/2011).

This research is currently needed because in investing their funds, the investors or customers will tend to choose bank which categorized as healthy. Bank which healthiness has increase trend from year to year of course will attract more investor and customer. Unhealthy bank besides bringing danger for themselves, may also endanger other parties. Bank health assessment is very important because bank manage funds from people which is entrusted to the bank. People as the funds owner could just withdraw their own funds at any time and banks must be able to return the funds which used by the bank to maintain the trust of their customer.

According to Bank Indonesia Regulation, purpose of the banks assessment is to be used as input in terms of strategy and business plan ahead, and fix weaknesses that could potentially interfere with the performance of the banking system. The method of banks assessment changes from time to time. The changes in banks health assessment method follows the latest development. The development of banks assessment methodology always been dynamic so that the banks health assessment system must represent the current and the future bank condition. In its development, the banking sector performance assessment can be done in several alternative ways, such as by using RGEC method.

Bank Indonesia then perfected a method of rating of commercial banks as established in Bank Indonesia Regulation No. 13/1/PBI/2011 on Assessing the Soundness Level of a Bank with risk approach that includes an assessment of the four factors, Risk Profile, Good Corporate Governance (GCG), Earning and Capital, which referred as RGEC method. Complete calculation guidelines established in Bank Indonesia Circular Letter No. 13/24/DPNP on October 25, 2011 concerning Rating of Commercial Banks. RGEC method has become effective since January 1, 2012 for the bank rating period ended December 31, 2011 and simultaneously remove the CAMELS method (www.bi.go.id).

Mahmud (2016) stated that Indonesia economy condition which currently fluctuating affects the banks are not healthy. The decrease of banks health level is caused by many problems. One of the problem which until now still unable to be solved is the high amount of Non Performing Loans (NPL). One example is bad credits which experienced by almost all banks in Indonesia. Based on OJK release in June 2016, NPL-gross on banking sector stayed in low level, which is 3.11%. This potentially exceed the limit target of OJK which is under 3%.

Table 1.1: NPL-gross level 2011-2015

	2015	**2014**	**2013**	**2012**	**2011**
Bank Mandiri	2.29%	1.66%	1.60%	1.74%	2.18%
BRI	2.02%	1.69%	1.55%	1.78%	2.30%
BNI	2.70%	2.00%	2.20	2.80%	3.60%

Source: Annual Report BNI, BRI, and Bank Mandiri

Moreover with the fluctuating condition of economy, all of banks find difficulties on capital and other aspects. This condition also affect all of bigger banks as well, including the state-owned bank in Indonesia, which are Bank Mandiri, BNI, BRI, and BTN. As these banks hold an important role for national banking, it is an important thing for them to maintain public trust, which can be achieved by maintaining their health level. This issue prompt a question, “How good is the health level of BRI, BNI, and Bank Mandiri for the last few years, based on criteria determined by Bank Indonesia, if compared with each other?”

Based from the background problem, the author intends to start a study entitled “ANALYSIS OF BANK HEALTH AT INDONESIA STATE-OWNED BANK USING RGEC METHOD AT BRI, BNI, AND BANK MANDIRI FOR PERIODS 2011-2015”.

1.2 Problem Statement

Problem statement in this research is:

How to analyze bank health level at Indonesia state-owned bank using RGEC method at BRI, BNI, and Bank Mandiri for periods 2011-2015.

1.3 Research Questions

Based on background, several problem in this study can be described as follows:

1. What is RGEC that is used to analyze of bank health?
2. How to implement RGEC for Indonesia state-owned bank?

1.4 Research Objectives

1. To explain the RGEC method to analyze bank health; and
2. To know the technique of RGEC method for Indonesia state-owned bank.

1.5 Scope and Limitations

The limitations in this research are:

1. The object of research that will be used is BRI, BNI, and Bank Mandiri;
2. The period used in this study were five periods : from 2011 to 2015;
3. This research only examine the percentage of healthiness of banks from Risk Profile (R), Good Corporate Government (G), Earning (E), and Capital (C).

1.6 Significance of the Study

This research is expected to help the readers understand using RGEC method to measure bank’s performance in banking sector in order to gain public trust and to help the implementation of banking management for their strategies for solving existing problems to provide benefits in decision-making, and also to provide information for the management of banks in determining policies, especially regarding financial and other policy primarily based on differences in the bank's financial performance using RGEC. For investors, to provide information for investors to make investment decisions. This study can also help the next researcher to make this study as a reference.