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The Effect Of Third Party Funds, Capital Adequacy, Credit Risk, And Credit Interest Rate On Profitability In LQ45 Index Company Companies In 2005-2018

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Abstract:

The purpose of this study was to determine: (1) the effect of third party funds, capital adequacy, credit risk, and credit interest rates simultaneously on profitability in LQ-45 Banking Sector companies. (2) the effect of partial third party funds on profitability in LQ-45 Banking Sector companies (3) the effect of partial capital adequacy on profitability in LQ-45 Banking Sector companies (4) the effect of partial credit risk on profitability at LQ-45 companies Banking Sector (5) partially affect credit interest rates on profitability in the Banking Sector LQ-45 company. This research was conducted at the Indonesia Stock Exchange (BEI) which is located at Jalan Jenderal Sudirman Kav. 52-53, Jakarta 12190. The population and sample in this study were 5 banking sector companies in the LQ45 index. This study uses financial statement data for the past 14 years with 70 units of analysis to be used. The results showed that third party funds, capital adequacy, credit risk, and lending rates jointly affect profitability, third party funds affect profitability, capital adequacy affects profitability, credit risk affects profitability, and lending rates affect towards profitability in the LQ45 index banking sector company.

Keywords: Third Party Funds; Capital Adequacy; Credit Risk; Loan Interest Rates; Profitability.

1. Introduction

The LQ 45 index is created and published by the Indonesia Stock Exchange. This index consists of 45 stocks with high liquidity selected through several selection criteria. LQ 45 index as one of the stock index indicators on the IDX that can be used as a reference as a material for assessing stock trading performance.

Among the stocks on the Indonesian capital market, LQ 45 shares on the Indonesia Stock Exchange are in great demand by investors. This is because LQ 45 shares have high capitalization and high trading, thereby increasing growth and finance. Interestingly, this index only consists of 45 stocks that have been selected after going through a selection preference for stocks with high liquidity. One of the sub-sectors included in the LQ 45 index in 2010-2018 is the banking sector which supports 5 companies, namely Bank Rakyat Indonesia (Persero) Tbk, Bank Negara Indonesia (Persero) Tbk, Bank Tabungan Negara (Persero) Tbk, Bank Mandiri (Persero) Tbk, and Bank Central Asia Tbk.

Banking has an important role in the development of the Indonesian economy, especially in the face of the era of the free market and globalization, both as an intermediary between the deficit sector and the surplus sector and as an agent of development, which in this case is still charged to government banks. The banking industry sector is considered a prestigious company profile and a credible company due to very strict banking operations regulations governed by the Financial Services Authority. The health of the banking system and the stability of its financial system will always be monitored by the Financial Services Authority. This stability is what makes investors interested in investing their capital in the banking sector. (Anggreini, 2014).

Company's profit is the company's ability to fulfill obligations for its funders which shows the value or prospect of the company in the future. Therefore, investors will only invest funds in companies that have a good reputation. A company that has a good reputation is a company that is able to increase company profits and provide constant dividends to shareholders (Hery, 2016). The increasing profits achieved by the company, the higher the company's stock price. Following is the development of the list of banking company profits listed in LQ 45.

Based on the release of financial statements, the performance of LQ45 issuers in 2017 and 2018 in the banking sector, BMRI's profitability growth increased by 0.45% from 2.72% in 2017 to 3.17% in 2018. Profitability growth was also obtained by BBNI which increased by 0.1% from 2.7% in 2017 to 2.8% in 2018. Likewise, BBCA grew by 0.1% from 3.9% in 2017 to 4.0% in 2017. in 2018. While the decline in profitability experienced by BBRI fell by 0.01% from 3.69% in 2017 to 3.68% in 2018.

Company profits are influenced by several factors, namely third party funds, capital adequacy, credit risk, and loan interest rates. Third party funds are funds originating from the public which are collected in the form of demand deposits (savings deposits), savings (saving deposits), and deposits (timedeposit) that come from individuals or entities (Nuritomo, 2014). These funds will be used by the bank to be able to be empowered so as to produce and can be used to finance the bank's operational activities.

The bank will use these third party funds in the form of sales of services in the form of lending to parties who need credit capital. In addition to obtaining interest income on loans, this is done to prevent the occurrence of the deposition of funds, namely an imbalance between the funds that have been collected and the loans extended by banks.

To be able to maintain the source of funds sourced from the public, the bank must maintain the trust of its customers on the funds deposited. Banks must maintain liquidity stability in order to remain safe and achieve a maximum Return on Assets (ROA) level. Third Party Funds can be utilized to be placed in posts that generate income for banks, one of which is in the form of credit.

To be able to maintain the source of funds sourced from the public, the bank must maintain the trust of its customers on the funds deposited. Banks must maintain liquidity stability in order to remain safe and achieve a maximum Return on Assets (ROA) level. Third Party Funds can be utilized to be placed in posts that generate income for banks, one of which is in the form of credit.

Research on the influence of third party funds on profitability has been conducted by Anggreini (2014) where the results of the study indicate that third party funds have a positive and significant effect on profitability. Another study, Febri (2015) also showed that third party funds had a positive effect on the company's financial performance. Positive influence shows that the greater the third party funds, it will increase the profitability of the company.

The next factor is the company's capital adequacy which can be assessed from the Capital Adequacy Ratio (CAR). Capital Adequancy Ratio (CAR) is a ratio related to bank capital factors to measure the capital adequacy of banks to support assets that contain risk. CAR is an indicator of a bank's ability to cover a decline in assets due to losses suffered (Mudjarad and Suhardjono, 2011). If the capital owned by the bank is able to absorb losses that cannot be avoided, then the bank can manage all its activities efficiently, so that the bank's wealth is expected to increase and vice versa (Pramudhito, 2014: 7).

Capital adequacy in the banking sector LQ45 fluctuations during the 2014-2018 period. The most significant decrease occurred in BBTN where in 2014 the ROA figure reached 18.54, but decreased by 1.43 points to 17.11 in 2018. This decrease in CAR has an effect on the decline in corporate profitability which also decreased in the same year. The opposite was experienced by BMRI, BBRI, BBNI, and BBCA which experienced an increase in CAR from 2014 to 2017.

Research on the effect of capital adequacy on profitability has been conducted by Perenrengi (2018) where the results of the study show that capital adequacy has a positive effect on profitability. Another study, Setiawati (2017) also shows that capital adequacy has a positive effect on the company's financial performance. A positive effect indicates that the greater the capital adequacy, the higher the profitability of the company.

The next factor is credit risk that can be assessed from Non-Performing Loans (NPLs). NPL is used to measure the ability of bank management in managing non-performing loans provided by banks. Credit risk accepted by banks is one of the business risks of banks, which results from uncertainty in repayment or resulting from non-repayment of credit given by banks to debtors. According to Ismail (2013: 224), non-performing loans is a situation where the customer is unable to pay part or all of his obligations to the bank as agreed.

Each bank must be able to manage credit well in giving credit to the public and in returning credit according to the terms and conditions that apply so as not to cause problem loans. According to Ismail (2013: 226), "NPLs (Non Performing Loans) are loans that are in arrears for more than 90 days in which NPLs are divided into Sub-Standard, Doubtful, and Bad Credit. The higher this ratio, the worse the quality of bank credit that causes the number of problem loans is greater and causes losses, conversely if the lower the NPL, the profit or profitability of the bank will increase.

The NPL in the LQ45 banking sector was fluctuating during the 2014-2018 period. The biggest increase in NPL occurred in BMRI where in 2017 the NPL figure reached 2.79, up 1.13 points from the position in 2014. The increase in NPL was also experienced by BBRI and BBCA. In contrast, BBTN and BBNi experienced a decline in NPL from 2014 to 2018.

Research on the effect of non-performing loans on profitability has been done by Yusuf (2018) where the results of the study show that non-performing loans negatively affect profitability. Another study, Badawi (2017) also shows that non-performing loans negatively affect the company's financial performance. The negative effect shows that the greater the non-performing loan, it will reduce the company's profitability

2. Literature Review

2.1. Profitability

According to Hery (2016: 192) that profitability ratios are ratios used to measure a company's ability to generate profits from its normal business activities. Irham Fahmi (2015: 81) defines profitability ratios are ratios that measure overall management effectiveness aimed at the size of the profit gained in relation to sales and investment. The better the profitability ratio, the better the ability or high profitability of the company.

Kasmir (2013: 184) defines profitability ratios as ratios to assess a company's ability to seek profits or profits for a certain period. This ratio also gives a measure of the level of effectiveness of a company's management which is shown from profits generated from sales or from investment income.

2.2. Third-party funds

Basically, a bank has four alternatives to raise funds for business purposes. Namely own funds (first party funds), loan funds (second party funds), funds from depositors (third party funds), and other sources of funds. The ability of banks to obtain the desired source of funds greatly affects the continuation of the bank's business. In looking for sources of funds, banks must consider several factors such as the ease of obtaining them, the duration of the source of funds and the costs that must be incurred to obtain these funds.

According to the Law of the Republic of Indonesia Number 10 of 1998 concerning Banking referred to third party funds, namely funds entrusted by the public to banks based on fund storage agreements in the form of demand deposits, deposits, certificates of deposit, savings, and other forms. According to Ismail (2013: 43), third party funds or community funds are funds collected by banks that come from the community in the broad sense, covering individual communities, or business entities, so third party funds are funds obtained from the community, in the sense of the community as individuals, companies, governments, households, cooperatives, foundations, etc. which are stored in the form of savings, current accounts and deposits. In most or every bank, these public funds are the largest funds owned by banks. This is in accordance with the function of banks as collecting funds from the public.

2.3. Capital Adequacy

Capital shows the ability of banks to maintain sufficient capital and the ability of bank management to identify, monitor, and control risks that arise that can affect the amount of bank capital (Sufa, 2008). For people who intend to save their funds in banks, the bank's capital position is very important. With the existence of a capital deposit from shareholders, the public will trust to keep their money in the bank.

According Mudjarad Kuncoro and Suhardjono (2011, 519) Capital Adequacy is capital adequacy that shows the ability of banks to maintain sufficient capital and the ability of bank management in identifying, measuring, monitoring, and controlling risks that arise that can affect the amount of bank capital.

According to Dietrich et al., (2009) banks with high capital are considered relatively safer compared to low capital banks, this is because banks with high capital usually have lower needs than external funding. The Capital Adequacy Ratio (CAR) can be formulated as a comparison between bank capital and risk-weighted assets. Provisions regarding minimum capital for commercial banks that apply in Indonesia follow the standards of the Bank for International Settlements (BIS). This provision is stipulated in Indonesia by the Financial Services Authority, as stated in the Financial Services Authority Regulation No. 34 // POJK.03 / 2016 concerning the obligation to provide minimum capital for commercial banks, where banks must determine capital adequacy in accordance with the Bank's risk profile and determine strategies to maintain capital levels.

2.4. Credit Risk

Credit risk is the risk of failure or inability of the customer to return the loan amount received from the bank along with the interest in accordance with a predetermined or scheduled period of time (Siamat, 2010: 32). In this study, credit risk is reviewed from non-performing loans (NPLs).

According to the Financial Services Authority No. 18 // POJK.03 / 2016 concerning the application of risk management for commercial banks, Credit risk is the risk due to failure of other parties to fulfill obligations to the Bank, including Credit Risk due to debtor failure, credit concentration risk, counterparty credit risk, and settlement risk .. Credit risk or often referred to as non-performing loans can be interpreted as loans that have difficulty paying off due to intentional factors or due to external factors outside the debtor's control ability (Siamat, 2010) ..

2.5. Interest Rates

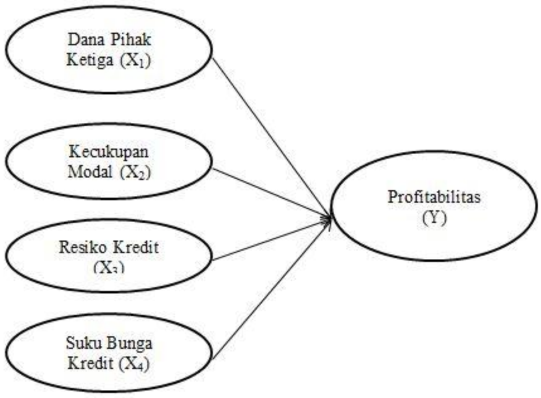
Kasmir (2013: 133) that the interest rate is the price that must be paid to customers (who have deposits) and the price that customers must pay to banks (customers who get loans). According to Sunariyah (2013: 80) that the interest rate is expressed as a percentage of the principal perunit time. Interest is a measure of the price of resources used by debtors paid to creditors. Based on the definition by the authors above it can be concluded that the interest rate is a remuneration that must be paid from the use of money for a certain period.

Financial Services Authority Regulation No. 34 // POJK.03 / 2017 concerning transparency of information on base lending rates, where the prime lending rate is the lowest interest rate that reflects the reasonableness of costs incurred by the Bank including expectations of benefits to be obtained. Furthermore, the Prime Lending Rate is used as a basis for the Bank in determining the interest rates to be charged to customers.

The Prime Lending Rate (SBDK) is used as the basis for determining the loan interest rates to be charged by the Bank to customers. Prime lending rate does not take into account the estimated risk premium component, the amount of which depends on the Bank's assessment of the risk for each debtor or group of debtors. Therefore, the amount of credit interest rates charged to debtors is not necessarily the same as the prime lending rate.

2.6. Research Framework

Based on the variables used in this study, the framework of thinking is as follows:



Gambar 2.1 Skema Kerangka Pemikiran

3. Research Method

3.1. Research Object and Location

This research was conducted at the Indonesia Stock Exchange (BEI) which is located at Jalan Jenderal Sudirman Kav. 52-53, Jakarta 12190. Retrieval of data on the IDX because the Indonesia Stock Exchange (IDX) as one of the regulators and trading operators in the Indonesian Capital Market provides data in the form of Stock, Bonds and Derivative trading data or known as IDX / IDX Market Data. The data is presented both in Real Time and End of Day. In addition, IDX provides delayed trading data that can be accessed through the Authorized Vendor IDX. Ease of data access is the main factor of researchers choosing the Indonesia Stock Exchange (IDX). In this study, the object of study is the influence of third party funds, capital adequacy, credit risk, and credit interest rates on the profitability of banking companies listed in LQ45 in 2005-2018 .

3.2. Population and Sample

Population can also be defined as a collection of data that might be observed or recorded by a researcher. The population in this study were all LQ45 index companies of the banking sector, amounting to 5 companies in 2005-2018. The type of sample in this study was census technique samples because all populations were used as samples in this study, namely PT. Bank Mandiri (Persero) Tbk, PT. Bank Rakyat Indonesia (Persero) Tbk, PT. Bank Negara Indonesia (Persero) Tbk, PT. Tabungan Negara (Persero) Tbk, and PT. Bank Central Asia Tbk.

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3.3. Data Source

In this study the type and source of data used are secondary data. Secondary data is a source that does not directly provide data to data collectors, for example through other people or through documents (Sugiyono, 2012: 193). Secondary data is generally in the form of evidence, historical records or reports that have been arranged in published and unpublished archives. In this study the data used is panel data. Panel data is a combination of time series and cross-sections. In panel data, the same cross section data units are surveyed continuously for several periods (Gujarati, 2011). In this study the panel data referred to is the balanced panel data ie the same company in some time taken as the subject of observation

3.4. Data Analysis Tools

The analysis was performed using multiple linear regression methods that connect one dependent variable with several independent variables. This analysis aims to look at the effect of third party funds, capital adequacy, credit risk, and lending rates on profitability in the LQ45 index company in the banking sector from 2005 to 2018. Analysis of the data is carried out simultaneously (together) and partially to determine whether the variables independent (significant effect or not on the dependent variable. Data processing is done using SPSS (Statistical Package for Social Science) version 22.

To answer the existing problems and test the hypotheses that have been determined and to obtain a comprehensive picture to find out how much influence the independent variable has on the dependent variable. Then the analysis method used is a multiple regression analysis technique based on Ordinary Least Squares (OLS) which is formulated as follows:

$$Y = a + b1X1 + b2X2 + b3X3 + b3X4 + e$$

Information :

Y	= Profitability
α	= Constant
β	= Regression coefficient
X1	= Third Party Funds
X2	= Capital Adequacy
X3	= Capital Adequacy
X4	= Credit Interest Rate
e	= Error term

4. Finding And Discussion

4.1. Hypothesis Testing Results

In this research, regression analysis is performed to determine whether there is an influence between the independent variables on the dependent variable. Multiple linear analysis is used to obtain a regression coefficient that will determine whether the hypothesis made will be accepted or rejected.

Tabel 1
Hasil Uji Analisis Regresi Linier Berganda

Model		Unstandardized Coefficients		Standardized Coefficients	R	R Square
		B	Std. Error	Beta		
1	(Constant)	-7,376	3,747		0,727	0,528
	Dana Pihak Ketiga	0,607	0,185	0,455		
	Kecukupan Modal	0,045	0,065	0,093		
	Resiko Kredit	-0,188	0,148	-0,160		
	Suku Bunga	-0,127	0,084	-0,144		

Sumber: Data Sekunder yang diolah, 2019

Based on the results of statistical calculations using the SPSS program, the multiple linear regression equation is obtained as follows.

.$\mathbf{Y = -7{,}376 + 0{,}607X_1 + 0{,}045X_2 - 0{,}188X_3 - 0{,}127X_4 + e}$

4.2. The Effects of Third Party Funds, Capital Adequacy, Credit Risk and Credit Interest Rates on Profitability

The results of regression testing for the first hypothesis in this study were conducted to determine third-party funds, capital adequacy, credit risk, and credit interest rates have the same effect on profitability. The test results together show the regression coefficient value of third-party fund variables (X1) of β1 = 0.607, the value of the capital adequacy variable regression coefficient (X2) of β2 = 0.045, the value of the credit risk variable regression coefficient (X3) of β3 = -188, and the variable coefficient of credit interest rate (X4) of β4 = -0.127. Hypothesis testing shows that if β1, β2, β3, β4 ≠ 0, then Ha is accepted, meaning that third party funds, capital adequacy, credit risk, and credit interest rates jointly affect profitability.

The coefficient of determination (R2) is 0.528. This means that third party funds, capital adequacy, credit risk, and lending rates are able to explain variations in profitability variables of 52.8% while the remaining 47.2% is explained by other variables not included in this research variable.

4.3. The Effects of Third Party Funds on Profitability

The results of regression testing for the second hypothesis in this study were conducted to determine whether third-party funds affect Profitability. The test results together show the regression coefficient value of third-party variable funds (X1) of β1 = 0.607. Hypothesis testing shows that if β1 ≠ 0, then Ha is accepted, meaning that third-party funds affect Profitability. The coefficient value is 0.607, meaning that third-party funds have a positive effect on profitability. The greater the third party funds, it will increase the profitability of the company.

The test results show that the profitability or financial performance of companies is strongly influenced by the amount of third party funds collected by banks. If third party funds are collected from a large community, the company profits generated will also be even greater. This is because third party funds are needed by the bank to be channeled back to the debtor as credit.

The results of this study are in line with research conducted by Anggreni (2014) showing that third party funds have a positive effect on profitability. This means that the greater the third party funds obtained will increase the company's profitability ratio. The amount of third party funds obtained by the bank will make the bank more stable in managing loans and will have an impact on the bank's profit or profitability ratio.

According to Ismail (2013: 43), third party funds or community funds are funds collected by banks that come from the community in the broad sense, covering individual communities, or business entities, so third party funds are funds obtained from the community, in the sense of the community as individuals, companies, governments, households, cooperatives, foundations, etc. which are stored in the form of savings, current accounts and deposits. In most or every bank, these public funds are the largest funds owned by banks. This is in accordance with the function of banks as collecting funds from the public.

4.4. The Effect of Capital Adequacy on Profitability

The results of regression testing for the third hypothesis in this study were conducted to find out whether capital adequacy affects profitability. The test results together show the value of the capital adequacy variable regression coefficient (X2) of $\beta 2 = 0.045$. Hypothesis testing shows that if $\beta 2 \neq 0$ then Ha is accepted, it means that capital adequacy affects Profitability. The coefficient value is 0.045, meaning that capital adequacy has a positive effect on profitability. The greater the capital adequacy, the higher the profitability of the company.

The test results indicate that the company's profitability or financial performance is influenced by the size of the capital adequacy of the company. If the capital adequacy is large, the company profits generated will also be even greater.

The results of this study are in line with research conducted by Febri (2015) showing that capital adequacy has a positive effect on profitability. This means that the greater the capital obtained will increase the company's profitability ratio. The amount of capital obtained by the bank will make the bank more stable in managing loans and will have an impact on the bank's profit or profitability ratio.

According to Dietrich et al., (2009) banks with high capital are considered relatively safer compared to low capital banks, this is because banks with high capital usually have lower needs than external funding. The Capital Adequacy Ratio (CAR) can be formulated as a comparison between bank capital and risk-weighted assets. Provisions regarding minimum capital for commercial banks that apply in Indonesia follow the standards of the Bank for International Settlements (BIS).

4.5. The Effect of Credit Risk on Profitability

The results of regression testing for the fourth hypothesis in this study were conducted to find out whether credit risk affects Profitability. The results of the joint testing show the value of the regression coefficient of the credit risk variable (X3) of $\beta 3 = -0.188$. Hypothesis testing shows that if $\beta 3 \neq 0$, then Ha is accepted, meaning that credit risk affects Profitability. The coefficient value is -0.188, meaning that credit risk negatively affects profitability. The greater the credit risk, the lower the profitability of the company.

The test results show that the profitability or financial performance of companies is strongly influenced by the magnitude of credit risk. If the credit risk is small, the company profits generated will also be even greater. This is because if credit risk is large, the bank will back up costs taken from current year's profits, thereby eroding corporate profits.

The results of this study are in line with research conducted by Erma (2017) showing that credit risk negatively affects profitability. This means that the more NPLs obtained will reduce the company's profitability ratio. The size of the NPL at a bank will have an impact on profitability. This is because a large NPL will erode corporate profits to save more profit funds on credit risk.

NPL is a percentage of total non-performing loans (with substandard, doubtful and loss criteria) of the total loans disbursed tires (Siamat, 2010). The smaller the NPL, the smaller the credit risk borne by the bank so that the bank can increase profits and minimize losses borne by the bank. Banks in conducting credit must conduct an analysis of the ability of debtors to repay their obligations. After credit is granted, banks are required to monitor the use of credit and the ability and compliance of debtors in fulfilling their obligations. The Bank conducts a review and binding of collateral to minimize credit risk.

4.6. The Effect of Credit Interest Rates on Profitability

The results of regression testing for the fifth hypothesis in this study were conducted to determine whether credit interest rates affect profitability. The test results together show the value of the regression coefficient variable credit interest rate (X4) of $\beta 4 = -0.127$. Hypothesis testing shows that if $\beta 4 \neq 0$ then Ha is accepted, it means that the credit interest rate affects Profitability. The coefficient value is -0.127, meaning that the credit interest rate has a negative effect on profitability. The greater the credit interest rate, the lower the profitability of the company.

The test results show that the profitability or financial performance of companies is strongly influenced by the magnitude of interest rates. If interest rates are small, the company's profits will also be even greater. This is because if interest rates are small, the credit extended by banks will be even greater. Providing large loans will increase bank profits.

The results of this study are in line with research conducted by Anggreni (2014) which shows that the loan interest rate has a positive effect on profitability. This means that the greater the interest rate set will increase the company's profitability ratio. The interest rate set by the bank will have an impact on the profit or profitability ratio of the bank. Where with a small interest rate will make bank profits increase.

Capital is the transfer of funds from the public, business units and the government to banks or other financial institutions. In this case the bank becomes the creditor in the point of turnover of funds. Funds that have been received from the community will be used to channel back to the people who lack funds. In this case, people who lack funds have an alternative to borrowing funds from banks. Likewise, previously people who have excess funds will save funds to banks or other financial institutions. People who borrow funds are charged interest as the price of the funds borrowed. So, the interest rate is the price of the loan.

5. Conclusion

This study aims to determine the effect of credit risk, interest rates, and third-party fund performance on profitability, using multiple linear regression analysis. Based on the results of the study concluded as follows.

1. Third party funds, capital adequacy, credit risk, and lending rates jointly affects the profitability of companies in the Banking Sector LQ45 Index.
2. Third party funds affect the profitability of the LQ45 Index Banking Sector Company.
3. Capital adequacy affects the profitability of the LQ45 Banking Sector Index Company.
4. Credit risk affects the profitability of the LQ45 Banking Sector Index Company.
5. Credit interest rates affect the Profitability of the Banking Sector LQ45 Index Company.

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