

FACTORS THAT AFFECT THE PROFABILITY OF CONVENTIONAL BANKS OF BATAM CITY

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Abstract: *The main purpose of this study is to analyze factors that affect the profability of conventional banks of Batam city with the influence of capital adequacy ratio, non performing loan, loan to deposit ratio, BOPO, and net interest margin of return on asset during of period 2014-2019. This study is quantitative method from secondary data with the object of research as many as 27 banks conventional of Batam city. The result in the study stated that variable capital adequacy ratio has significantly effect on ROA, variable non performing loan has significantly effect on ROA, variable loan to deposit ratio has not significant effect on ROA, variable BOPO has significantly effect on ROA, and variable net interest margin has not significantly effect on ROA.*

Keywords: *Return on Asset, Bank Conventional, Profability*

1. Introduction

Conventional Banks is a financial institution that regulates receiving deposits such as deposits, savings, and channeling funds (Perbaindo, 2018). Rural Banks play a role in encouraging the micro community enterprises sector by providing financial services to the public. Therefore, the health performance of a rural conventional banks is very important for the community and micro enterprises. The current economic condition in Indonesia has been declared to be deteriorating in recent years. In 2019, according to the Central Statistics Agency (BPS Data), society of house manage consumption growth had a level of 5.01% in the third quarter of 2019, whereas in the previous quarter household consumption growth reached 5.17%. Several components such as transportation and communication in 2019 decreased by 0.34%, from the previous quarter to reach 4.35%. Due to these factors the decline in the domestic economy could have negative consequences for the domestic conventional banks because it could lead to a decrease in people's purchasing power. If the people's purchasing power decreases, then conventional banks may experience a greater risk of bad credit, which can reduce bank profitability. In the last few years, the profitability of banking in Batam city has decreased, based on the official website of the Financial Services Authority in the profitability of asset returns in conventional banks in the 2014 period was 1.964% and in 2015 there was an increase in asset returns to 0.7% to 2.66%, then in 2016 there was an increase to 2.73% return on assets, in 2017 it fell to 2.50% and in 2018 it fell back to 2.37% and the return on assets in 2019 declined again to 1.93% which is down around 0.44% as a result of the economic downturn. This is of course a problem for conventional banks in Batam city, which is affected by the increasing number of non-performing loans, as well as the increasing operating cost per income (BOPO) ratio. It is known that during the second quarter of 2017 there was an economic slowdown which caused non-performing loans. NPLs in banks in the Riau Islands Province rose to 2.70%, previously the NPL level was only 1.91%. This slowdown condition also causes the loan to deposit ratio or the ability of banks to provide funds to debtors to decline. Based on data taken from Bank Indonesia (BI), it shows that LDR fell 77.93% in the first quarter to 76.66% in the second quarter. Therefore, the economic slowdown caused bank credit to grow at a slow pace of 3.3% compared to the previous quarter. The number of non-performing loans at banks in Batam city during June 2017 increased again to 6.37%, previously the safe period was set at 5%. This phenomenon is a

disruption to the performance of conventional banking in general, when customers experience bad credit which is quite high, so that the rate of return on banking assets becomes less efficient in 2017.

2. Research Method

The research uses quantitative methods using descriptive statistics to analyze the data in the study. This research data collected by using a financial reports of conventional banks of Batam city during period 2014-2019 of secondary data download. The variables composing this study are the dependent variable called return on asset. The independent variables are capital adequacy ratio, non performing loan, loan to deposit ratio, BOPO, and net interest margin. This research has a basic research, according to Indriantoro and Supomo (2013), the purpose of conducting research is to describe and analyze a problem that is theoretical and does not have a direct influence on policy making, and certain performance.

3. Results and Discussion

3.1. Results

Direct effect

This effect study is conducted to according the effect or direct relationship between the independent variables on the dependent. In this study, there are 5 independent variables and 1 dependent variables.

a. Method of Fixed Effect Model

This relation between of CAR, NPL, LDR, BOPO, and NIM of ROA has a significant and not significant effect, if the score probability is $< 0,05$ value.

Dependent Variable: ROA

Method: Panel Least Squares

Date: 11/13/20 Time: 19:29

Sample: 2014 2019

Periods included: 6

Cross-sections included: 27

Total panel (unbalanced) observations: 156

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.131163	0.023022	5.697226	0.0000
CAR	0.132920	0.021902	6.068965	0.0000
NPL	-0.114573	0.035287	-3.246913	0.0015
LDR	-0.005374	0.009736	-0.551919	0.5820
BOPO	-0.101925	0.005320	-19.15976	0.0000
NIM	0.008307	0.085412	0.097259	0.9227

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.007573	R-squared	0.916998
Mean dependent var	0.019463	Adjusted R-squared	0.896247
S.D. dependent var	0.026371	S.E. of regression	0.008494
Akaike info criterion	-6.518175	Sum squared resid	0.008947
Schwarz criterion	-5.892563	Log likelihood	540.4176
Hannan-Quinn criter.	-6.264079	F-statistic	44.19152
Durbin-Watson stat	1.634763	Prob(F-statistic)	0.000000

In the hypothesis test above, it has shown that the independent variable Capital Adequacy Ratio (CAR) has a probability value of 0 which is smaller than the 0.05 probability, therefore the Capital Adequacy Ratio (CAR) variable has a significant effect on the dependent variable, namely Return on Assets (ROA). The

second independent variable is Non Performing Loan (NPL) which shows a probability value of 0 which is smaller than the probability value of 0.05, so it is concluded that the NPL variable has a significant effect on the dependent variable ROA. The third independent variable is the Loan to Deposit Ratio, which has a probability value of 0.58 which is greater than the probability value of 0.05, so that the LDR variable has no significant effect on the dependent variable ROA. The fourth variable is BOPO (operational costs / operating income) which shows a probability value of 0 which is smaller than the actual probability value of 0.05, therefore the OEOI variable has a significant effect on the dependent variable ROA. The fifth or final variable is NIM (Net Interest Margin) which has a probability value of 0.92 which is greater than the probability value of 0.05, so that the NIM variable has no significant effect on the dependent variable ROA.

3.2. Discussion

Based on the results of the data analysis above. Here are the results of the author's research model hypothesis testing:

Hypothesis 1

Capital Adequacy Ratio significantly positive affect and have an impact on Return on Asset. this can be concluded that the more positive the capital of conventional banks in Batam city, the higher the return on assets at the conventional banks in batam city, because this is very supportive for continuity of business activities increasingly sufficient on capital then an increasing trend for that profit the yield on assets will also increase. this study provides the same results as the research by Chol (2019), Siregar (2019), Nurlaela et al. (2019), Muhammad (2018), Javaid dan Alalawi (2018), Taipi dan Ballkoci (2017), Hantono (2017), Joyce (2017), Pinto et al. (2017), Risma dan Purwohandoko (2017), dan Menicucci dan Paolucci (2016)

Hypothesis 2

Non Performing Loan significantly negative affects and has an impact on Return on Asset. This is meaning that the lower the non performing loan, this happened because of Bank Indonesia regulations regarding Non The Performing Loan regulates that any increases are outstanding loans granted, must be covered with a reserve of earning assets with way of debiting the cost of allowance for earning assets write-offs, given will add to the cost of reserves for earning assets which will eventually affect Return On Assets, the healthier the return on assets at conventional banks in Batam city, this study provides the same results as the research by Winarso (2017), dan Risma dan Purwohandoko (2017).

Hypothesis 3

Loan to Deposit Ratio has a not significant effect on and has an impact negative on Return on Asset. it shows that the LDR variable has no significant effect on ROA and has a negative coefficient value of - 0.005 on ROA. Loan to deposit ratio possible due to relative always decreasing level of liquidity although in the category still healthy for his LDR, but couldn't simultaneously increase profit by using ROA analysis This means that the higher the LDR variable settlement of short-term obligations, the healthier the profitability of conventional banks in Batam city.

Hypothesis 4

BOPO significantly negative affects and has an impact on Return on Asset. It can be concluded that the lower the BOPO, This condition occurs due to any increase in bank operating costs that are not accompanied by increase in bank operating income which will result in a decrease profit before tax, which in turn will reduce Return on Assets, the healthier the return on assets to profitability at conventional banks in Batam city, this study provides the same results as the research by Nicky dan Siregar (2018), Javaid dan Alalawi (2018).

Hypothesis 5

Net Interest Margin has not significantly affects and has an impact positive on Return on Asset conventional banks of Batam City. More the value of the net interest margin achieved by the bank will increase revenue interest on the earning assets managed by the bank, so that the profit at the bank will be increased It can be

concluded that the higher bank's profit. The results of this study are the same as previous studies conducted by Winarso (2017).

4. Conclusion and Suggestion

4.1 Conclusion

Based on the results of the analysis discussion on the research on factors that influence the profitability of conventional rural banks in Batam City from the 2014-2019 period, includes the following conclusions:

1. Capital Adequacy Ratio significantly positive affect and have an impact on Return on Asset. this can be concluded that the more positive the capital of conventional banks in Batam city, the higher the return on assets at the conventional banks in Batam city.
2. Non Performing Loan significantly negative affects and has an impact on Return on Asset. This is meaning that the lower the non performing loans, the healthier the return on assets at conventional banks in Batam city.
3. Loan to Deposit Ratio has a not significant effect on and has an impact negative on Return on Asset. it shows that the LDR variable has no significant effect on ROA and has a negative coefficient value of -0.005 on ROA.
4. BOPO significantly negative affects and has an impact on Return on Asset. It can be concluded that the lower the BOPO, the healthier the return on assets to profitability at conventional banks in Batam city.
5. Net Interest Margin has not significantly affects and has an impact positive on Return on Asset conventional banks of Batam City. It can be concluded that the higher bank's profit.

4.2 Suggestion

Based on the results of the analysis about suggestion on the research on factors that influence the profitability of conventional banks in Batam city from 2014-2019 period, at the following statements:

1. Banks employees can maximize funds in the Bank in operational activities at the banks.
2. The Banks must increase its profitability in addition to ROA, which can be either ROE.

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