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LDR, BOPO, and ROA as Predictions of Financial Performance of National Private Commercial Banks

Ismiantika[1], Noviansyah Rizal[2], Heni[3]

Department of Management, Institut Teknologi dan Bisnis Widya Gama Lumajang, Indonesia[1]
Department of Accounting, Institut Teknologi dan Bisnis Widya Gama Lumajang, Indonesia[2,3]

Corresponding Author: ismiantika6@gmail.com

Abstract

National private commercial banks are banks that contribute to the weakening of national banking industry credit. Social restrictions due to the Covid-19 pandemic affect the intermediation performance of the banking industry. Financial performance refers to the extent of the company's ability to analyze financial performance according to good and correct rules. With a total of 58 banks, the goal of this study is to investigate and demonstrate changes in the financial performance of national private commercial banks before and during the Covid-19 pandemic in terms of liquidity ratios, cost ratios, and profitability ratios. The loan to deposit ratio, operating expenses as a percentage of operating income, and return on assets are used in this study to gauge financial success. The paired sample t-test is being used in this quantitative study. According to the study's findings, there is a difference between the Loan to Deposit Ratio before and during the Covid-19 epidemic. Operating Cost of Operating Income and Return on Asset, however, are not affected by the Covid-19 epidemic.

Keywords: Financial Performance, Loan to Deposit Ratio, Operating Expenses Operating Income, Return on Asset

INTRODUCTION

National Private Commercial Banks and Foreign Banks are two banking groups that contribute to the deteriorating creditworthiness of the national banking sector. Customers of the two banking groups are still hesitant about expansion plans. Annual growth in bank credit in September 2020 amounted to 0.12 percent, far below August 2020's annual growth of 1.04 percent. The decline was mainly due to slowing credit growth at banks (Kompas, 2020).

Based on OJK data, national private commercial bank lending as of September 2020 contracted by 2.61 percent in a year, to IDR 2,399.7 trillion. If calculated from the beginning of January to September 2020, lending grew negatively by 3.69 percent. Based on OJK data, national private commercial bank lending as of September 2020 contracted 2.61 percent on year, to IDR 2,399.7 trillion. If calculated from the beginning of January to September 2020, lending grew negatively by 3.69 percent. Meanwhile, foreign bank lending grew negatively by 5.24 percent on an annual basis as of September 2020, to IDR 230.9 trillion. However, if calculated since January 2020, foreign bank lending in Indonesia grew slightly, namely 0.27 percent. This decline was due to a decrease in business activity during the pandemic. Private sector still cautious in responding to future outlook (Kompas, 2020).

The impact of the Covid-19 pandemic that causes the economy to grow negatively is usually more severe, pushing it to the brink of recession (Native Kontan, 2020). As a result, many banks are forced to take compensation policies and write-off loans that have long been classified as bad debts. In response to these conditions, OJK issued stimulus measures in the banking sector, capital market, and non-bank financial sector to maintain financial services stability and promote economic recovery. Social restrictions due to the Covid-19 pandemic affected the intermediation performance of the banking industry (Infobanknews, 2020).

The degree to which a corporation examines financial implementation while following the regulations is reflected in its financial performance (Fahmi, 2015). Meanwhile, according to Karyoto (2017) financial performance is the display of financial data that comes from the business's operational activity. Solvency ratios, profitability ratios, liquidity ratios, and other metrics are used to gauge financial success (Kasmir, 2012), cost ratios, market value ratios and profitability ratios (Muhamad, 2015). Liquidity ratios, as measured by the Loan to Deposit Ratio (LDR), cost ratios, as measured by Operating Costs and Operating Income (BOPO), and profitability ratios, as measured by Return on Asset (ROA), are the variables employed in this study as predictors of financial success.

The Loan to Deposit Ratio (LDR) is a ratio used to determine how much own capital was spent in comparison to public funds (Kasmir, 2012). To assess the effectiveness of bank operations, cost ratios are comparisons of operating expenses and operating income (Muhamad, 2015). Return on Assets (ROA), the ratio of profit and total assets that measures the productivity of banks in managing funds to generate profits (Muhamad, 2015). Some previous studies agree with the variable relationship between Loan to Deposit Ratio (LDR), operating cost-operating income ratio (BOPO), and Return on Assets (ROA) profitability ratio. Among them are research by Surya and Asiyah (2020), Gianni and Aprila (2020), Amalia, Budiwati, and Irdiana (2021), Ilahude, Maramis, and Untu (2021), Puspitasari, Aprilia, Mentarie, and Bilkis (2021). This study was carried out at a national private commercial bank because, based on the data gathered, the bank had seen a decline in the demand for loans.

This study's objective is to evaluate and demonstrate variations in national private commercial banks' financial performance in terms of their liquidity ratios, cost ratios, and profitability ratios before and during the Covid-19 pandemic.

METHODS

This study explores the similarities and discrepancies between two or more characteristics and facts of the issue under investigation. This quantitative investigation makes use of comparative research methods. All national private commercial banks that were registered with the Financial Services Authority for the 2019–2020 year made up the population for this study. There were 68 banks and 58 bank samples. In this study, deliberate sampling was used in conjunction with non-probability sampling. Data processing (spss 24), doing a classical assumption test (data normality test), performing a paired sample t-test, and collecting financial statement information from businesses are all steps of data analysis.

RESULTS AND DISCUSSION

Data from 58 national private commercial banks registered with the Financial Services Authority were used in this study's Kolmogorov Smirnov data normality test. For symptoms that existed prior to the Covid-19 pandemic and for those that prevailed during the epidemic, data was gathered in 2019 and 2020, respectively. The data normality test indicates that the Loan to Deposit (LDR), Operating Expenses for Operating Income (BOPO), and Return on Asset (ROA) significance thresholds are larger than 0.05 (5%) both before and after the epidemic. As a result of meeting the requirements for normalcy, the data is now thought to be regularly distributed.

Paired sample t-test

Table 1.1 Paired Sample T-Test Results

			t	df	Sig. (2-tailed)
Pair 1	LDR1 - LDR2	14.19604	3.069	29	.005

Pair 2	BOPO1 - BOPO2	2.36373	-.996	29	.327
Pair 3	ROA1 - ROA2	.72852	1.653	29	.109

Source: data processing results using (spss 24)

Based on table 1.1, The Loan to Deposit Ratio (LDR) results from the paired sample t-test show a sig value of 0.005 before and during the Covid-19 epidemic, which is less than the specified value of 0.05 or (5%). The hypothesis (H1), which states that the Loan to Deposit Ratio differs between before and during the Covid-19 epidemic, is accepted in the testing, it may be inferred.

The Operating Cost of Operating Income (BOPO) paired sample t-test results show a sig value of 0.327 before and during the Covid 19 epidemic, which is higher than the planned value of 0.05 or (5%). The operating cost of operating income is not changed before and during the Covid-19 epidemic, which means that hypothesis testing (H2) is not accepted. The Return on Asset (ROA) sample difference test findings show a sig value of 0.327 before and after the Covid 19 epidemic, which is higher than the preset value of 0.05 or (5%). Therefore, it may be inferred that (H3), which states that Return on Asset is not different between before and during the Covid-19 outbreak, is not accepted in hypothesis testing.

Discussion

The financial performance of Indonesian national private commercial banks before and during the Covid-19 pandemic varied, according to this research's hypothesis test. The Loan to Deposit Ratio (LDR), Operating Cost of Operating Income (BOPO), and Return on Asset (ROA) ratios are used to measure this financial performance's liquidity, cost, and profitability.

Loan to Deposit Ratio (LDR) Differs Between Before and During Covid-19 Pandemic

The Loan to Deposit Ratio (LDR), a measure of financial performance used in the research, shows that there is a significant variance in financial performance. The LDR ratio is frequently used as a tool to measure a bank's financial performance and determine how well it conducts business. By calculating the LDR ratio, the capacity of a bank to acquire and retain customers can also be determined. A continuous increase in a bank's receipt of funds will automatically result in new sources of funds and customers being successfully acquired and retained. A low LDR ratio suggests a lot of unutilized money that hasn't gone into credit, but the liquidity is of good quality. On the other hand, if the LDR ratio is large, the bank's liquidity capacity is poor even while the distribution of money in the form of loan is optimal. Before Covid-19, only 12 national private commercial banks were able to raise their LDR values over the average value; the remainder were below it. During the Covid-19 epidemic, 21 national private commercial banks were able to raise their LDR levels beyond the average value; the remaining banks had LDR values that were below average. Because the cash saved during a pandemic are not best used for credit or credit transactions, there are significant distinctions.This is supported by the conditions during the pandemic, the government issued a new policy, namely restrictions on lending to the public, such as restrictions on consumption lending and this is regulated in Bank Indonesia regulation number 23/2/PBI/2021. This policy was made for an effort to reduce credit risk and pay attention to banking liquidity. In line with research conducted by Tiono and Djaddang (2021) that there are differences in financial performance based on the liquidity ratio (LDR). But it is different from the research conducted by Pongoh, Areros, and Mangindaan (2019) where the results show no difference from the Loan to Deposit Ratio (LDR) variable.

Operating Cost of Operating Income (BOPO) is Not Different Before and During the Covid-19 Pandemic

According to the study's analytical findings, when the cost ratio was determined using Operating Expenses Operating Income (BOPO), there was no appreciable change between the financial performance before and during the pandemic. On the other hand, if BOPO increases, it means that the bank is unable to control the expenditures related to its operating activities. A decrease in BOPO shows that the bank has been successful in streamlining its operational costs. Only 28 national private commercial banks were able to increase their BOPO levels above the average prior to Covid-19; the rest had BOPO values that were below it. During the Covid-19 epidemic, 21 national private commercial banks were able to raise their BOPO levels over the average value, but the remaining banks had BOPO values that were below average. As a result, not many modifications were made from the pre-Covid-19 pandemic state. The maximum BOPO ratio for healthy banks is between 94 and 96 percent (Bank Indonesia Circular Letter No. 6/23/DPNP in 2004). Financial performance before and during the Covid-19 epidemic can therefore be deemed to have been rather satisfactory in this study because it is still below the maximum limit as measured by the BOPO ratio. This is in line with the results of research conducted by Toin (2014) that it is not significantly different from the efficiency of the BOPO ratio. However, it contradicts the research conducted by Fitriani (2020) which shows a significant difference in financial performance on the BOPO ratio.

Return on Asset (ROA) is Not Different Before and During the Covid-19 Pandemic

A comparison of financial performance before and during the outbreak using return on asset (ROA) as a proxy for the profitability ratio indicates no discernible difference. The ROA ratio has an inverse relationship with the bank's capacity to make money from its total assets. According to Bank Indonesia Circular Letter Number: 6/23/DPNP/2004, the permissible ROA value is 1.25%. Prior to Covid-19, 33 national private commercial banks were able to obtain ROA values above the average value; the remaining 16 banks had ROA values below the average**.** 41 national private commercial banks were able to increase their ROA values during the Covid-19 epidemic, but the remaining banks had ROA values that were below average.Because banks' average values were below one both before and during the pandemic, there were no appreciable differences in their financial performance as evaluated by the profitability ratio proxied by ROA. As a result, both before and during financial performance as evaluated by ROA are below the minimum value established by Bank Indonesia. In these two scenarios, it is presumable that banks' financial performance is poor in terms of profitability.This is supported by the income of Asmiyanti, Indiworo, and Utami (2021) in their research results that there are no differences in financial performance as seen from ROA. This result is different from the research conducted by Gianni and Aprila (2020) that there are differences in banking financial performance as seen from the ROA ratio**.**

This discussion focuses on the results of the hypothesis test, which showed that there are differences between financial performance prior to and during the Covid-19 outbreak. The results of the paired sample t-test show that the Loan to Deposit Ratio (LDR), which is used as a proxy for liquidity, shows variability in financial performance.

CONCLUSION

The results of the analysis of banking financial performance before and during the Covid-19 pandemic were observed from the perspectives of the liquidity ratio as measured by the Loan to Deposit Ratio (LDR), the cost ratio as measured by the Operating Cost of Operating Income (BOPO), and the profitability ratio as measured by Return on Asset (ROA). Conclusion: Before and during the Covid-19 outbreak, the Loan to Deposit Ratio (LDR) and Return on Asset (ROA) were equal. However, there are differences between the operational cost of operating income (BOPO) and loan to deposit ratio (LDR) before and during the Covid-19 outbreak.

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