

COMPARISON OF EFFECT RGEC ON THE PERFORMANCE BEFORE AND AFTER MERGER AS BANK SYARIAH INDONESIA

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ABSTRACT

The merger of major Islamic banks in Indonesia such as Bank Nasional Indonesia Syariah (BNIS), Bank Rakyat Indonesia Syariah (BRIS) and Bank Syariah Mandiri (BSM) have highlighted the Islamic banking sector around the world. For three years, Indonesia's three largest Islamic banks have merged. The purpose of this study was to measure and test the impact of the implementation of RGEC (Risk Profile, Good Corporate Governance, Earning, and Capital) on earnings growth of those three islamic banks before and after the merger into Bank Syariah Indonesia (PT. BSI Tbk). This research used PT BSI Tbk's year-end data and used panel data regression in testing RGEC factor for growth profit on financial performance of Indonesian Islamic banks from 2019 to 2020. Quantitative analysis methods based on documentation and literature collection was used for this research. In addition, researcher used Eviews 10 to analyse data. The findings of this study indicate that the merger resulted in a significant increase in performance. Thus, ROA has significant influence to PG.

Keywords: RGEC, earning growth, merger, sharia bank Indonesia

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INTRODUCTION

In the post-pandemic era, the banking industry faces economic challenges such as rising interest rates, inflation, low income levels, and global economic difficulties, all of which contribute to a decline in banking performance (Wahyudi, 2020), implying that the economic crisis has a negative effect on profitability (Adelopo et al., 2018). Todorof (2018) asserts that Islamic banking similarly suffers customer issues relating to diversity, regulation, and competitiveness with traditional banks. This is verified by (Anwar & Bogor, 2016), who assert that Islamic banking encounters less efficiency and profitability issues than traditional banking. Continue reading Turmudi (2016) continued by stating that Islamic banking carries a higher default risk and a shorter lifespan than conventional banking. Furthermore, the public perceives conventional banking as being comparable to Islamic banking (Harahap & Destiwati, 2018). However, the recent boom in Islamic bank mergers in Indonesia is expected to alter that perspective. Although major regulatory and financial reforms are required. Islamic banks are financially inferior to regular banks, despite the fact that the majority of Indonesia's population is Muslim. According to Doumpos et al.(2017), this is inextricably linked to laws and their

enforcement, which must be reinforced to ensure bank stability and risk reduction (Ibrahim, 2017). Regulations have an impact on the practice of good governance (Syofyan & Putra, 2020). As a result, it is critical to highlight and enforce sound bank performance. So that Islamic banking can compete with conventional banking on an equal footing.

To quantify and assess the dynamics of banking development, including Islamic banking, regulators as well as laws and regulations have been established, including the Otoritas Jasa Keuangan (OJK) and several other laws and regulations, one of which is a Circular Letter. 3/ 24/DPNP 2011 concerning Bank Soundness Level by Bank Indonesia, which includes four factors, namely Risk Profile, Good Governance, Earnings, and Capital (RGEC), which was a Circular Letter. According to Le and Ngo (2020), macroeconomic dynamics are a factor affecting bank profitability across countries. Borio et al. (2017) indicate that ROA is adversely affected when Islamic banking is influenced by economic policies such as timing, extremely low interest rates, and flat terms. Thus, government procedures have an effect on assisting banks in increasing their profitability, allowing for the adoption of strong corporate governance practices that improve operational efficiency and mitigate risk in order to improve the performance of affected institutions (Bitar et al., 2017). Additionally, Bitar et al. (2017) emphasize that while Islamic banks are better capitalized than traditional banks, income remains variable. As a result, Islamic banks are not stable during the capital return procedure. Additionally, banks' profitability is harmed by conventional liquidity difficulties. Sholichah (2021) evaluates RGEC's resistance to stock price fluctuations. On the other hand Supriyanto (2017) studies the profitability of Islamic banks but does not quantify GCG. According to Nugroho et al. (2019), FDR and NPF have an effect on ROA, which is a risk indicator. However, Ulvah Nathasya Aprilia and Dadan Rahadian (2017) concluded that NPLs, LDRs, and CARs had no effect on profit growth. However, little research has been conducted on the performance of Islamic banking prior to and following the merger. Thus, the goal of this study is to examine and test the influence of RGEC implementation on the performance of Islamic banking prior to and following the merger, specifically in terms of profit growth.

LITERATURE REVIEW

According to Jaya (2018), the level of bank soundness as measured by the RGEC method analysis indicates that BNI, BRI, and Mandiri banks as a group were very healthy between 2014 and 2016. but not always have a positive financial performance. In comparison, state-owned banks in general have a composite rating (PK-1) with a weighted value of 90% and 86.7 percent, respectively. Thus, the authors are interested in monitoring the financial performance of Indonesian Islamic banks in the current year following the merger decision.

RGEC Factor and Profit Growth

The RGEC analysis, which is based on Bank Indonesia regulations, provides insight into a bank's performance. Risk management is defined in Indonesian Regulation No 5/87/PBI/2005 as a process or methodology for identifying, quantifying, and controlling potential risks associated with bank operations. While regulation 7 paragraph 1 of No 13/1/PBI/2011 states that the credit market, operations, liquidity, legal, strategic, compliance, and reputation are all covered. Bank Indonesia has established standards for measuring a bank's health using the RGEC model, including the following:

Table 1. Standard of bank health predicates of RGEC

| No | RGEC Variables Predicates | | | | | |
|------|---------------------------|------------------------|-------------------------|---------------------------|--------------------------|--------------------|
| 1 | NPF | $0 < \text{NPF} < 2$ | $2 < \text{NPF} < 5$ | $5 < \text{NPF} < 8$ | $8 < \text{NPF} < 11$ | $\text{NPF} < 11$ |
| 2 | FDR | $50 < \text{FDR} < 75$ | $75 < \text{FDR} < 85$ | $85 < \text{FDR} < 100$ | $100 < \text{FDR} < 120$ | $\text{FDR} < 120$ |
| 3 | ROA | $2 < \text{ROA}$ | $1.25 < \text{ROA} < 2$ | $0.5 < \text{ROA} < 1.25$ | $0 < \text{ROA} < 0.5$ | $\text{ROA} < 0$ |
| 4 | GCG | $\text{NK} < 1.5$ | $1.5 < \text{NK} < 2.5$ | $2.5 < \text{NK} < 3.5$ | $3.5 < \text{NK} < 4.5$ | $\text{NK} < 4.5$ |
| 5 | CAR | $12 < \text{CAR}$ | $9 < \text{CAR} < 12$ | $8 < \text{CAR} < 9$ | $6 < \text{CAR} < 8$ | $\text{CAR} < 6$ |
| Rank | | VH | H | EN | LH | U |

Source: Bank Indonesia

The table above summarizes all RGEC variables that have been assigned values and their associated predictions. VH denotes very healthy, H denotes healthy, LH denotes less healthy, and U denotes unhealthy. Then, for the GCG factor, refer to Bank Indonesia regulation No. 8/4/pbi/2006 on the principles of guarantee, responsibility, accountability, fairness, and independence, which establishes the five indicators as the basis for measuring performance in accordance with Bank Indonesia circular letter No. 15/15 DPNP. Following that is income; this factor reflects profit and becomes the primary condition that the bank must meet. This barometer is calibrated in accordance with Bank Indonesia Regulation No. 6/9/PBI/2004.

The next factor is capital, and it is certain that banks require capital in order to operate, and in providing capital equal to at least 8% of risk-weighted assets (RWA), which was later revised in Bank Indonesia regulation No. 13/1/PBI/2011 to require that capital must have a relationship with bank risk; if the bank's risk is less than capital, it must be maintained or increased to ensure the health of banking in providing capital to customers.

RESEARCH METHOD(S)

This study analyzes Islamic banking data from the Indonesian Stock Exchange (IDX) from 2010 to 2018, specifically BNIS, BRIS, BSM, and then BSI from 2019 to 2020. This is done to compare the year prior to and following the merger. In addition, researcher did not take 2021 data because it can not be found. After obtaining financial statements, the RGEC model was calculated and analyzed by using Eviews 10.

The value of the Financing to Deposit ratio reflects the risk profile. GCG assigns a value based on a composite self-administered questionnaire. While return on assets (ROA) reflects the profitability factor, the Capital Adequacy Ratio (CAR) reflects the capital factor, which is then evaluated for profit growth using the results of data processing. then classified using Bank Indonesia's criteria in the indicator table above. Profit growth is calculated by comparing the current year's profit to the previous year's profit and then dividing the difference by the number of years.

Thus, the research model is as follows:

$$PG = a + NPF X_1 + FDR X_2 + ROA X_3 + GCG X_4 + CAR X_5$$

PG stands for profit gain; NPF stands for non-performing financing; FDR stands for debt-to-ratio financing; GCG stands for a combination of GCG principles; ROA stands for return on assets; and CAR stands for the capital that the bank must provide.

FINDINGS AND DISCUSSION

This section explained about result and discussion of this research. This explained each RGEC variable, which serves as a barometer of banking health and profit growth prior to and following the merger of Indonesia's bona fide Islamic banks, namely Bank Nasional Indonesia Syariah (BNIS), Bank Rakyat Indonesia Syariah (BRIS), and Bank Syariah Mandiri (BSM), and finally the merger into Bank Syariah Indonesia (BSI) BSI. In addition, the researcher explained differences of NPF, FDR, GCG, ROA, CAR, PG before and after merger.

Table 2. NPF before and after merger

| No | Name of Bank | NPF (%) | | | | | | No | Name of Bank | NPF (%) | | | |
|---------------|--------------|---------|----|------|---|------|----|--------------|--------------|---------|----|------|----|
| Before merger | | 2016 | P | 2017 | P | 2018 | P | After merger | | 2019 | P | 2020 | P |
| 1 | BNIS | 1,64 | VH | 1,50 | H | 1,52 | H | 1 | BNIS | 1,44 | VH | 1,35 | VH |
| 2 | BRIS | 3,19 | H | 4,75 | H | 4,99 | H | 2 | BRIS | 3,38 | H | 1,77 | VH |
| 3 | BSM | 3,13 | H | 2,71 | H | 1,56 | VH | 3 | BSM | 1 | VH | 0,72 | VH |

According to table 2, the value of non-performing financing (NPF) tends to increase, implying that the overall predicate is healthy. Although there was a decline in 2017, particularly for BNIS, but not for BSM or BRIS. In comparison to other credit indicators, FDR is frequently at risk of being unfavorable, particularly in 2016.

Table 3. FDR before and after merger

| No | Name of Bank | FDR (%) | | | | | | No | Name of Bank | FDR (%) | | | |
|---------------|--------------|---------|----|-------|----|-------|----|--------------|--------------|---------|----|-------|----|
| Before merger | | 2016 | P | 2017 | P | 2018 | P | After merger | | 2019 | P | 2020 | P |
| 1 | BNIS | 84,57 | VH | 80,21 | H | 79,61 | H | 1 | BNIS | 74,31 | VH | 68,79 | VH |
| 2 | BRIS | 81,42 | H | 71,87 | VH | 75,49 | H | 2 | BRIS | 80,12 | H | 80,99 | H |
| 3 | BSM | 76,83 | H | 75,43 | H | 74,89 | VH | 3 | BSM | 75,54 | H | 73,98 | VH |

The value of debt of ratio financing (FDR) for these three banks have decrease from 2016 until 2018. This reduction continues even after the banks got merger.

Table 4. GCG before and after merger

| No | Name of Bank | GCG (%) | | | | | | No | Name of Bank | GCG (%) | | | |
|---------------|--------------|---------|---|------|---|------|---|--------------|--------------|---------|---|------|---|
| Before merger | | 2016 | P | 2017 | P | 2018 | P | After merger | | 2019 | P | 2020 | P |
| 1 | BNIS | 1,81 | H | 1,63 | H | 1,52 | H | 1 | BNIS | 1,58 | H | 1,54 | H |
| 2 | BRIS | 1,60 | H | 1,57 | H | 1,54 | H | 2 | BRIS | 1,66 | H | 1,6 | H |
| 3 | BSM | 1,32 | H | 1,43 | H | 0,59 | H | 3 | BSM | 1,16 | H | 1,02 | H |

The reduction also happened for GCG value, which have decrease from 2016 until 2018 (before merger). In contrast, there is an increase for these three banks after merger.

Table 5. ROA before and after merger

| No | Name of Bank | ROA (%) | | | | | | No | Name of Bank | ROA (%) | | | |
|---------------|--------------|---------|----|------|----|------|----|--------------|--------------|---------|----|------|----|
| Before merger | | 2016 | P | 2017 | P | 2018 | P | After merger | | 2019 | P | 2020 | P |
| 1 | BNIS | 1,44 | H | 1,31 | H | 1,48 | H | 1 | BNIS | 1,82 | H | 1,33 | H |
| 2 | BRIS | 0,95 | EN | 0,54 | EN | 0,43 | LH | 2 | BRIS | 0,31 | LH | 0,81 | EN |
| 3 | BSM | 0,59 | EN | 0,59 | EN | 0,88 | EN | 3 | BSM | 1,69 | H | 1,65 | H |

Rise and fall happened on ROA during before and after merger. Where there is fall on BRIS from 2016 that continues decline until reach the lowest value in 0,31. In contrast, it gets increased until 0,81.

Table 6. CAR before and after merger

| No | Name of Bank | CAR (%) | | | | | | No | Name of Bank | CAR (%) | | | |
|---------------|--------------|---------|----|-------|----|-------|----|--------------|--------------|---------|----|-------|----|
| Before merger | | 2016 | P | 2017 | P | 2018 | P | After merger | | 2019 | P | 2020 | P |
| 1 | BNIS | 14,92 | VH | 20,14 | VH | 19,15 | VH | 1 | BNIS | 18,9 | VH | 21,4 | VH |
| 2 | BRIS | 20,63 | VH | 20,05 | VH | 29,23 | VH | 2 | BRIS | 25,26 | VH | 19,04 | VH |
| 3 | BSM | 14,01 | VH | 15,89 | VH | 16,26 | VH | 3 | BSM | 16,15 | VH | 16,88 | VH |

It is also happened on CAR during before and after merger. It got fall and increase, such BNIS who got increased until 20,14 in 2017 but got fall into 19,15 in the next year. Thus, after merger it got increased into 21,4% after merger.

Table 7. PG before and after merger

| No | Name of Bank | PG (%) | | | | | | No | Name of Bank | PG (%) | | | |
|---------------|--------------|--------|---|------|-------------|-------|-------------|--------------|--------------|--------|---|---------|-------------|
| Before merger | | 2016 | P | 2017 | Ave. growth | 2018 | Ave. growth | After merger | | 2019 | P | 2020 | Ave. growth |
| 1 | BNIS | 277 | - | 307 | 292 | 416 | 361,5 | 1 | BNIS | 603 | - | 505 | 554 |
| 2 | BRIS | 170 | - | 101 | 135,5 | 106 | 103,5 | 2 | BRIS | 74,016 | - | 2,48054 | 38,24827 |
| 3 | BSM | 818 | - | 734 | 776 | 1,012 | 367,506 | 3 | BSM | 2,134 | - | 2,39 | 2,262 |

Not only ROA and CAR, PG also got unstable before and after merger. It could be fall and increase, such BNIS got increase before merger but got increase in the beginning of merger but the next year, it got decrease. Same thing happened to BRIS and BSM.

Table 8. FEM Regression Linear Test

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|--------|
| C | -628.8888 | 856.2197 | -0.734495 | 0.4695 |
| NPF | 24.52587 | 56.10045 | 0.437178 | 0.6657 |
| FDR | -1.840866 | 6.036653 | -0.304948 | 0.7629 |
| GCG | 538.4157 | 315.3319 | 1.707457 | 0.1001 |
| ROA | 215.8736 | 104.1584 | 2.072552 | 0.0487 |
| CAR | -3.274770 | 13.46811 | -0.243150 | 0.8099 |

| Effects Specification | | | |
|---------------------------------------|-----------|-----------------------|----------|
| Cross-section fixed (dummy variables) | | | |
| R-squared | 0.396682 | Mean dependent var | 250.0264 |
| Adjusted R-squared | 0.227753 | S.D. dependent var | 251.1318 |
| S.E. of regression | 220.6886 | Akaike info criterion | 13.83860 |
| Sum squared resid | 1217586 | Schwarz criterion | 14.20139 |
| Log likelihood | -220.3369 | Hannan-Quinn criter. | 13.96067 |
| F-statistic | 2.348215 | Durbin-Watson stat | 1.341860 |
| Prob(F-statistic) | 0.054694 | | |

The table above is the results of linear regression test data used Fem test that the researchers did with Eviews 10. There are six variables, namely, NPF, FDR, GCG, ROA, CAR, and PG. Researchers analysed data from three Indonesian Islamic banks (BNIS, BRIS, BSM) from 2010 - 2020 (before and after the merger). A variable has an effect if it has a value less than 0.05.

From these data, it can be seen that the NPF is greater than 0.05 ($0.6657 > 0.05$), so it can be stated that the NPF has no effect on PG. The results of this study contrast with Akhyar (2018) that ROA has not partial effect on PG. Furthermore, the FDR value is greater than 0.05 ($0.7629 > 0.05$), meaning that FDR does not affect PG. This is also the same as GCG and CAR, where the GCG value is $0.1001 > 0.05$ and the CAR value is $0.8099 > 0.05$, which means that GCG and CAR have no effect on PG. In contrast, ROA has an effect on PG where the value is $0.0487 < 0.05$. Meanwhile, The result of R-squared 0.3966 and Adjusted R-squared 0.2277. In addition, the result of F-statistics is 0.0546 it means that has no effect simultaneously.

It can be seen from the hypothesis;

Ho1: NPF has no partial effect on PG

Ho2: FDR has no partial effect on PG

Ho3: GCG has no partial effect on PG

Ho4: CAR has no partial effect on PG

Ho5: ROA has partial effect on PG

Based on the description above, it can be arranged a simple framework about how the influence of each variables on PG. Then the theoretical framework is illustrated:

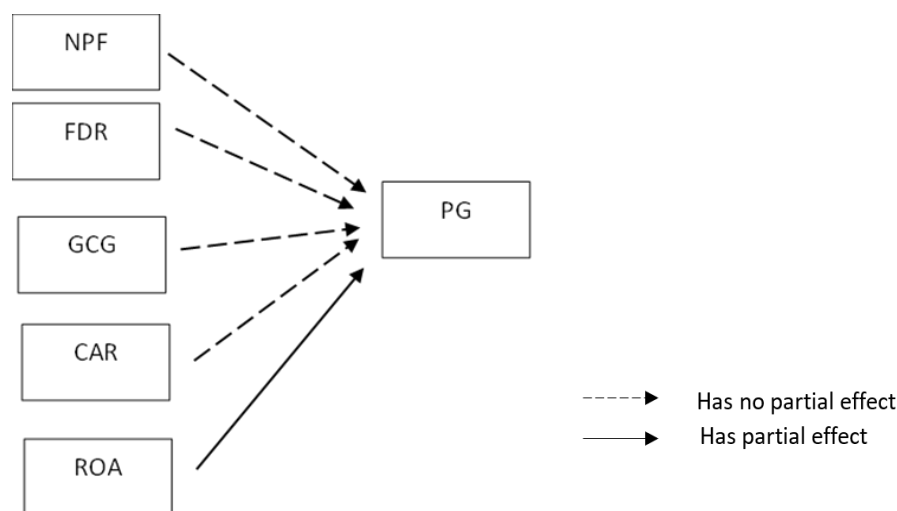


Figure 1. Theoretical Framework

CONCLUSION

BNIS, BRIS, and BSM are three largest islamic bank in Indonesia. in 2019, these three banks merger into BSI (Bank Syariah Indonesia). However, the result of this study stated that ROA has partial effect on Profit Gain. Meanwhile, NPF, FDR, GCG, and CAR have not partial effect on PG.

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