Credit Risk, Efficiency and Bank Financial Performance Before and Time of The Covid-19 Pandemic

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ABSTRACT
This study aims to examine the effect of covid 19 on financial performance, credit risk and efficiency. The study was conducted on banking companies listed on the IDX in the period 2019 and 2020. The sample was determined using the purposive sampling method, so that a total sample of 21 banking companies was obtained. The analytical method used is multiple regression with fixed effect model. The results of this study show that NPL have no effect on ROA and BOPO has a negative effect on ROA.

Keywords: *Credit Risk, Efficiency, Bank Financial Performance, Covid 19*

1. INTRODUCTION

Every business company wants to have good financial performance so that the company can grow and develop and can provide an optimal level of return for parties with an interest in the company. Banks are financial intermediaries that accept deposits and distribute them in the form of credit (Rose, 2002). Banks according to Law No. 10 of 1998 function as financial intermediaries that collect funds from the public who have excess funds and distribute funds to those who need them. The emergence of covid 19 has had an impact on the business world, including at a later stage affecting the banking industry.

Banking credit growth was 20%-30% in the 2010s, but the coronavirus pandemic made banks even more wobbly (https://keuangan.kontan.co.id/news/begini-nasib-industri-perbankan-di-saat-pandemi-virus-corona -covid-19, Tuesday 20 October 2020). Banking credit growth was only 1.5% compared to last year. (Case: https://www.okezone.com/tren/read/2020/09/24/620/2282901/lesu-hasil-covid-19-credit- banking-only-grow-1-5, Thursday, September 24, 2020).

Credit risk is reflected in non-performing loans. Non-performing loans which are one of the keys to assessing the quality of bank performance. Non-performing loans are the total of all loans that are in the collectibility of substandard, doubtful, and bad loans. Studies on the effect of credit risk on bank financial performance show different results.

Based on the results of research by Iftikar and Mubbushar (2016), NPL has a positive effect on financial performance. Isanzu (2017) found that npl had a negative effect on financial performance, but Buchory (2015) did not find the effect of npl on financial performance. The emergence of the covid pandemic is suspected to have an impact on bank credit risk of banks.

Banks must strive to improve efficiency from time to time so that the company's financial performance can improve. In managing efficiency, banks need to ensure that operational costs against operating income are well controlled. Studies on the effect of efficiency on bank financial performance show different results. According to the results of Syaiful and Ayu's research (2019), it shows that operational efficiency has a positive effect on financial performance. The opposite result was found by Aspal, et al (2019) which shows that operational efficiency has a negative effect on financial performance. The emergence of the covid pandemic is suspected to have an impact on bank efficiency.

Based on the background of the problems above, the following problems can be formulated: 1) Are there differences in the mean financial performance, credit risk, and banking efficiency in the period before and during the COVID-19 period?; 2) Does credit risk have a negative effect on banking financial performance?; 3) Does efficiency have a negative effect on banking financial performance?

2. THEORETICAL REVIEW

Signaling theory is the behavior of company management in providing a clue or information for investors related to management's view on the company's prospects for the future (Brigham & Houston, 2019). This information is very important for an investor because it can influence investment decisions in a company. Managers will provide information in the capital market so that investors can make the right decisions.

Financial statements that reflect good performance are a signal that the company has succeeded in operating its activities well. If the bank has good financial performance, the bank will give a positive signal to the public to instill a good image and gain the trust of the public.

Financial performance is a measure to see how far the success of the company has carried out its activities. One indicator of the company's success is reflected in the company's profit, which in this study is measured by ROA, as a proxy for measuring banking financial performance because return on assets can measure the company's effectiveness in generating profits on its assets. Return on assets is the ratio of net profit after tax that is used to calculate the level of income generated from the assets used by the company (Alexander, 2018). The higher the ratio of return on assets indicates that the better the financial performance of the company.

Credit risk is reflected in non-performing loans. Non-performing loans according to BASEL II define that a loan is considered uncollectible if the loan is not repaid for 90 days (Ozatac, 2019). Credit risk or non-performing loans will be faced by banks when customers fail to pay debts or credit they receive at maturity (Sudiyatno, 2013). Based on Bank Indonesia Regulation Number 20/8/PBI/2018, non-performing loans consist of substandard loans, doubtful loans, and bad loans. A bank is said to be healthy if it has a number of non-performing loans <5% of the total loans disbursed.

An efficient company will be able to improve its financial performance. Banking efficiency in its operational activities can be carried out by banks by reducing operating expenses and increasing operating income, or more commonly known as BOPO. Operating expenses for operating income (BOPO) can be measured by dividing operating expenses by operating income. Operational efficiency is considered to have good performance if the value is below 90%. Meanwhile, the efficiency of a bank is said to be low or not good if it is more than 90% and close to 100%. Bank Indonesia sets the standard operating efficiency ratio that is tolerated at a maximum of 93.52%.

The hypotheses in this study were made for, 1) testing the mean difference in financial performance, credit risk, and efficiency before covid 19 and during covid and 2) testing multiple linear regression (Multiple Regression Analysis). The hypothesis for the difference tests are:

Ho : There are no differences means in financial performance, credit risk, and efficiency before and during covid 19.

Ha : There are differences means in financial performance, credit risk, and efficiency before and during covid 19.

To measure the future financial performance of banks, companies must have the right benchmarks in calculating future prospects. This can be done by minimizing the risk of non-performing loans such as substandard, doubtful, and non-performing loans owned by banks. The risk of non-performing loans is the company's benchmark because it is directly related to the soundness of banks. The larger the non-performing loans, the lower the financial performance of banking companies. Therefore, testing multiple linear regression (Multiple Regression Analysis). a hypothesis about NPL is formed:

H1: Credit risk has a negative effect on Banking Financial Performance.

Banks must regulate operational costs against operating income in such a way that there is efficiency and effectiveness in the financing cycle carried out by banks. Operational efficiency greatly affects the financial performance of banks, this is because the greater the costs incurred for banking operational activities (the more inefficient) the bank will experience a decrease in income which has an impact on the decline in banking financial performance. On the other hand, the smaller the costs incurred for banking operations (the more efficient) it will have an impact on increasing the financial performance of banks. Based on this, the hypothesis is formulated as follows:

H2: Operational Efficiency has a positive effect on Banking Financial Performance

3. RESEARCH METHOD

The objects of this research are banking companies listed on the Indonesia Stock Exchange (IDX) in the period before covid 19 and during the covid 19 period, banking companies that publish financial reports using the December 31 financial year, banking companies that have complete data. Sources of research data were obtained from the official website of the Indonesia Stock Exchange www.idx.co.id and the websites of each company. The sample used in this study were 21 banking companies. The method used in the sample selection technique in this study is purposive sampling because the sampling technique used can be adapted to the research objectives based on the criteria established by various considerations. The following are the criteria for selecting the sample in this study:

a. Banking companies that have been listed on the Indonesia Stock Exchange (IDX) in the period before COVID-19, namely 2019 and during the Covid-19 period, namely 2020.
b. Banking companies that have financial statements using Rupiah (IDR).
c. Banking companies that have complete data

This study consists of the dependent variable and the independent variable. In the different test, the dependent variable is financial performance during the COVID-19 period, namely 2020 and the independent variable is financial performance before Covid 19, namely 2019. In the multiple regression test the dependent variable is financial performance, and the independent variable consists of credit risk proxied by Non Performing Loan (NPL) and Efficiency as proxied by Income Operating Expenses (BOPO). The operationalization of the variables is described in table 2 in the appendix of this study. The multiple linear regression equation used is as follows:

ROA = α + β1 NPL + β2 BOPO + DCOVID + ε

4. ANALYSIS AND DISCUSSIONS

The descriptive statistics of this study in table 1 in the appendix show that ROA has an average of 1.274% in the 2019-2020 period, with a maximum value of 4% found at Bank BCA in 2019, while the minimum value is -0.187% found at Bank Harda International. NPL. has an average of 1.92% in the 2019-2020 period, with a maximum value of 4.96% found at bank Victoria in 2020, while a minimum value of 0.4% found at bank BTPN in 2019. BOPO has an average of 82.69% in the 2019-2020 period, with a maximum value of 116.84% found in Harda International bank in 2020, while a minimum value of 33.6% found in QNB bank in 2019.

The correlation between variables as shown in table 2 shows a value smaller than 0.8. This means that there is no correlation between the independent variables. In other words, this research is free from multicollinearity symptoms.

The mean ROA in 2019 was 1.3 and in 2020 it was 1.27. Mean NPL in 2019 was 2.03 and in 2020 was 1.8. The mean BOPO in 2019 was 80.53 and in 2020 it was 81.083. It can be concluded that there is a difference in the average (mean) ROA, NPL and BOPO. This results are reinforced by the results of the different tests in tables 3, 4 and 5. Table 3 shows that the probability value is below 5%, so Ho is rejected, meaning that the average ROA before Covid and during Covid is statistically significant.Table 4 shows that the probability value is below 5%, so Ho is rejected, meaning that the average NPL before Covid and during Covid is statistically significant. Table 5 shows that the probability value is below 5%, so Ho is rejected, meaning that the average BOPO before Covid and during Covid is statistically significant.

Multiple linear regression analysis with random effect model is shown in Table 8. The research data were normally distributed and this study was free from multicollinearity, heteroscedasticity and autocorrelation.

Based on the results of the regression equation analysis in the table 6, the following regression equation is obtained:

ROA=0,0768–0,1556NPL–0,0730BOPO-0,0008DCOVID

Based on Table 8 Credit risk as proxied by NPL shows a negative but not significant result on financial performance as proxied by ROA. This means that credit risk as proxied by NPL has no effect on financial performance as proxied by ROA, so H1 is rejected. This shows that the average NPL in 2020 compared to 2019, has not been able to increase banking ROA. NPL has no effect on ROA. The declining mean NPL in 2020 compared to 2019 indicates that banks are following the Financial Services Authority's policy regarding issuing basic policies in the midst of a pandemic to support businesses as well as the banking sector as stated in POJK No. 11/POJK.03/2020 concerning Economic Stimulus as a Countercyclical Policy on the Impact of the 2019 Coronavirus Disease Spread in the banking industry.

BOPO is shown in table 8. It shows a significant negative result on ROA. The smaller the BOPO value, the more efficient banking operations are. This shows that the efficiency proxied by BOPO which has a negative value, which means that the operational efficiency of the bank is positive, affects the financial performance as proxied by ROA, meaning that the more efficient the bank's operations, the higher the financial performance so that H2 is accepted. This study's results are in line with the results of Dewi and Bajra's (2020) research which found that BOPO had a negative effect on ROA.

5. CONCLUSION

The conclusions of this study are as follows:

a. There is a difference in the average (mean) ROA, CAR, NPL, LDR and BOPO before covid 19 with the time of covid 19.
b. Capital adequacy as proxied by CAR has no effect on financial performance as proxied by ROA.
c. Credit risk as proxied by NPL has no effect on financial performance as proxied by ROA.
d. Liquidity risk proxied by LDR has a positive effect on financial performance as proxied by ROA.
e. Efficiency as proxied by BOPO on financial performance as proxied by ROA has a negative effect or the lower BOPO is, the more efficient it is, so efficiency has a positive effect on financial performance.

The limitations of this study are:

a. Not all banks have published financial reports and annual reports for 2020. It is hoped that further research can use more complete data.
b. The variables studied were only CAR, NPL, LDR and BOPO on ROA. It is hoped that further research will use more variables.
c. Only using data before covid 2019 and the period of covid 2020. It is hoped that further research can extend the research period.

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