Toward the Mutual Evaluation Review:

Are Indonesian Banks Healthy?

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Abstract—**This research aims to describe the level of banking readiness to face the Mutual Evaluation Review based on their banking financial performance. The method used is a descriptive quantitative. Results showed both conventional and syaria banks were healthy. However, due to the range of the bank healthy ration, the syaria banks were less healthy than the conventional banks. It concludes that the conventional banks are more prosperous than the syaria banks toward the next mutual evaluation review. Due to the limitation of the scope, it suggests to include the last published financial reports for further studies.**

Keywords: mutal review, healthy banks, financial ratio

I. INTRODUCTION

Bankings, in Indonesia, dominate the financial sectors [1]. Therefore, it is reported that the development of the bank and other financial services face the more complex risks than the last decade [2]. In the fact that Indonesia has successfully managed the financial crisis, however some factors are still burdened. This, as the enactment of the Bank Indonesia regulation No. 13/1/PBI/2011 about the assessment of the conventional bank health, played important roles in handling the crisis of the country financial crisis. Thus, this is important to provide all stakeholder information about the bank performance to have the minimum risks.

The terms of the implementation of the financial and banks regulation, the Bank Indonesia not only activates the risk profile, good corporate government but also runs, but it also earning and capital assessment. Learning from the late 90s' crisis, transparency is a must [3]. Thus, this paper is aiming at portraying both conventional and syaria banks' level of their health based on the ratios of the mentioned-financial factors. In the case of the complexity of the financial crisis, Indonesia had successfully implemented what is called as resilience financial system in 2019 [4].

Banks only provides best services when the banks are in the healthy condition. The healthy banks can contribute to the national financial industries. Report revealed the national banks share 93 % total national financial assets in Indonesia [5]. Consequently, the national fiscal will be in risky condition when the banks are not wealthy. Banks will be categorized into healthy banks when they pass the minimum requirements such capital, active assets, rent ability, management, and liquidity [6].

A. Evaluating Healthy Banks

There are two mentioned methods for assessing the healthy banks: CAMEL and RGEC. CAMEL method measures healthy bank from the performance of their capital, asset quality, management, earnings, and liquidity. The second method measures bank healthy based on the results of evaluation related to *Risk Profile, Good Corporate Governance, Earnings,* and *Capital* [7]. Good corporate governance manages the interaction among the stakeholders in realizing the target of the organization, e.g. banks [8].

B. Common Rations used in Evaluating Healthy Banks

The healthy banks are required to pass all the several measurements such as Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Return on Assets (ROA), Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), *Biaya Operasional terhadap Pendapatan Operasional* (BOPO), Return on Equity Ratio (ROE), *Kualitas Aktiva Produktif* (KAP) and Current Ratio (CR)

Different from the conventional banks, syaria banks are measured their bank health using the ratios of Capital Aduquacy Ratio (CAR), Return on Assests (ROA), *Biaya Operasional terhadap Pendapatan Operasional* (BOPO), Non-Performing Financing (NPF), Net Operating Margin (NOM), and Financing to Deposit Ratio (FDR).

Research on the financial performance of the conventional and syaria banks in Indonesia has been conducted. However, research which involve larger participants is still rare. Even a case study has indicated that syaria banks have better performance than the conventional financial activities. At their research, the performance of Syaria Banks is better than the conventional banks in terms of NPL, LDR, and BOPO. However, not to the CAR and ROA indicators. In these indicators, conventional banks have better performance [9]. Thus, this research findings, i.e. the performances of the both conventional and syaria banking in relation to toward the mutual evaluation review which benefit not only for the banks themselves but also for public.

II. METHODS

The current study employed a descriptive research design. The data were collected through the online banking data report

served by the Otoritas Jasa Keuangan (Indonesian financial authority). These data were collected and accessed in the 2014 too 2017 periods.

The SPSS package was employed for the data analysis. All data set was analyzed in terms of CAR, ROA, NOM, NPF, FDR, and BOPO as the indicators for the performances of either conventional and syaria Banks.

III. RESULTS AND DISCUSSION

A. Conventional Banks' Financial Performance Toward the Mutual Evaluation Review

The following is the financial banking performance as calculated and statistically analyzed.

TABLE I. CONVENTIONAL BANKS' FINANCIAL PERFORMANCE

Period		CAR (%)	NPL (%)		ROA (%)	NIM (%)	LDR (%)	BOPO (%)
			Gross	*Net*				
2014	Q I	19,57	2,04	0,98	2,85	4,23	89,42	-
2015	Q I	20,98	2,27	1,16	2,69	5,30	87,58	79,49
	Q II	20,28	2,46	1,22	2,29	5,32	88,46	81,40
	Q III	20,62	2,61	1,26	2,31	5,32	88,54	81,82
	Q IV	21,39	2,49	1,14	2,32	5,39	92,11	81,49
2016	Q I	22,00	2,83	1,28	2,44	5,55	89,60	82,96
	Q II	22,29	3,05	1,39	2,31	5,59	91,19	82,80
	Q III	22,34	3,10	1,42	2,32	5,48	91,48	81,70
	Q IV	22,69	2,93	1,24	2,17	5,47	90,50	82,85
2017	Q I	22,88	3,04	1,34	2,45	5,24	88,88	80,68
	Q II	22,74	2,90	1,35	2,47	5,35	89,31	79,00

Even the Net Interest Margine (NIM) and Loan to Deposit Ration (LDR) was less healthy, the rest five out of 7 bank financial performance indicators categorizes the conventional banks as very healthy. This bank financial condition states the conventional banks ready towards the mutual evaluation review.

B. Syaria Banks' Financial Performance Toward the Mutual Evaluation Review

The following is the financial performance summary report of the syaria banks during the year of 2014 to 2019 periods.

TABLE II. SYARIA BANKS' FINANCIAL PERFORMANCE

Periods		CAR (%)	ROA (%)	NOM (%)	NPF (%)	FDR (%)	BOPO (%)
2014	Q IV	15,74	0,41	2,92	4,84	88,03	97,01
2015	Q I	14,43	0,69	0,75	5,35	87,52	94,40
	Q II	14,09	0,50	0,55	5,05	92,06	92,36
	Q III	15,15	0,494	0,52	4,31	89,18	92,83
	Q IV	15,02	0,485	0,524	4,84	88,03	97,01
2016	Q I	14,90	0,88	1,00	5,35	87,52	94,40
	Q II	14,72	1,11	0,78	5,05	92,06	92,36
	Q III	15,43	1,04	0,65	4,31	89,18	92,83
	Q IV	16,63	0,95	0,68	4,16	88,78	93,63
2017	Q I	16,98	1,53	1,26	4,29	87,55	88,58
	Q II	16,42	1,49	-	3,99	87,85	87,13

Syaria banks, like the conventional banks, has also shown good position capitals. The studies also revealed that the only capital which affects the syaria bank performance in Indonesia [10]. It, therefore, provides the syaria banks flexibilities for running their activities. The NPF is also categorized as very healthy. The report shows the risky funding was less than 7 %

from the total funding. However, the *Net Operating Margin indicates the syaria banks are lack of ability for the potential lost prevention.*

At the other side, trends are also found for getting positive improvement in the periods of 2014 to 2017. The Return asset ratio suggests they were able to maximize their capital for gaining more profits. It is, however, BOPO which provides indication for having inefficient activity funding. Thus, instead of this phenomenon, it concludes the syaria banks generally have positive trends of performance. The government transition and its legitimacy are important factors influencing the bank operational practices, e.g. trust [11].

Recently the capital regulation and also capital ration become two factors influencing the measurment of the bank performance [12]. Credit risk management determines the healthy level of the banks [13,14]. Interest rate also has an impact of the bank performance in Indonesia [15]. Moreover, The studies had also uncovered that the syaria financing performance is affected by the bank size [16]. Thus, relating to the findings of this research, Government, on the other hand, has responsibilities to provide relevant and qualified best services in terms of the banking employments since having qualified employees, banks will perform and keep healthy, especially for the conventional banks. This is logical as the 1990's bank crisis was mainly due to the conventional ones [17].

The findings of this research also enlighten the condition of the financing condition. Competition and bank fundamentals, In the terms of the equity financing at Islamic banks, show negative association between them. Islamic bank tends to be stable in the area of competition on equity financing. Meaning that at the equity financing competition decrease, syaria banks are more stable [18].

In other cases, the financial condition is also supported by other factors, e.g. ability of the company for making production diversities [19].

All factors contribute to the development of the national banks [11]. Overall, International report put Indonesia is now in the place of developed countries since the reformed government led by the Joko Widodo as the president [20].

IV. CONCLUSION

It concludes the conventional banks' financial performances are categorized into healthy banks. Thus, these banks are ready towards the mutual evaluation review. At the same time, different from the conventional banks' performance, the syaria banks' financial performances indicate less healthy for a particular case. Therefore, these banks are in the risk condition for the economy barriers.

From the overall analysis, further studies are recommended to investigate the current timeline bank financial reports.

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