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RGEC Bank's Performance and Value:

Evidence From Indonesia

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***Abstract*—This research purposes to explore the influence of the healthiness of Indonesian commercial banks to enhance the banks' value using RGEC (Risk, Governance, Earning and Capital) approach. Bank plays a significant role on Indonesian economics; therefore, the sustainability of its value is crucial. Shareholders decide to invest in bank sector due to the financial performance of the company as well as the non-financial information. RGEC approach is one of the methods to measure the bank health level that need to be explored. As an explanatory research using a quantitative approach, this study measures the bank health level using Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), Return on Assets (ROA), Net Interest Margin (NIM) and Capital Adequacy Ratio (CAR) while Firms value is measured by Tobin's Q. 29 Indonesian commercial banks which listed on the Indonesian Stock Exchange in 2015-2019 were selected as samples. The result shows that simultaneously, bank health level has a significant contribution on the improvement of banks value, even though only ROA and CAR partially provide a significant partial influence.**

Keywords—bank assessment system, bank health system, NPL, CAR, firm value

I. Introduction

At the end of 2018, Indonesia experienced a weakening trend in the Rupiah exchange rate, which was almost similar to the depreciation of the Rupiah that occurred during the monetary crisis in 1998. The continued weakening of the Rupiah had potential direct or indirect risks to the financial sector, particularly banks [1]. Banks have an important role in driving the wheels of a country's economy which is closely related to payment traffic and money circulation. Banks can perform this role optimally if the bank has a healthy performance [2], so that a bank's performance assessment is needed to build a better banking system which reflect a healthy economy and potentially provide security guarantees for customers.

Indonesia government through Bank Indonesia issued a bank soundness assessment through regulation Number 13/1/PBI/2011, which called the Risk-Based Bank Rating (RBBR) replaces the CAMELS method (Capital, Asset quality, Management, Earning, Liquidity and Sensitivity to market risk). RBBR has of four elements, Risk Profile, Good Corporate Governance (GGC), Earnings, and Capital, lately it called as RGEC [3].

Besides having a responsibility to perform well based on the RGEC approach, a bank are demanded to increase the value of the company through the share price. The investment from shareholders is one of the main capital sources for banks beside public deposits [4]. Firms' value reflected company's performance in business which potentially influenced the investor perceptions to the company [5]. Firms' value can be judged by its share price, so stock price enhancement can bring benefits to the company and its shareholders and increase the value of the company [6]. In 2018, the banking sub-sector dominated stock transaction activities with an overall transaction value of 25.15 billion Rupiah or 41.3% of the total 10 total transaction value of shares. It indicates that bank's share tends to be attractive to investors that potentially increase the value.

The regulation has pushed the Indonesian Bank to perform based on the RGEC approach, while the investors also demand the Bank to improve their share. However, there is a little evidence that Bank which has a high level of RGEC will perform better than the ones with less performance. Several studies on bank soundness and its share values have been conducted and different results have been obtained. The previous studies from Purwasih [7], Hendrayana and Yasa [8] and Waris [9] showed that bank soundness affected their value. In contrast, research from Natsir [10], Satria and Hatta [11], and Wibisono [12] showed that bank performance had no significant effect on the bank's value. The different outputs of the study caused the question still unanswered whether the bank soundness level is able to influence the value of the company's shares. Therefore, this study was conducted to determine whether the Indonesian Bank which has better performance in RGEC approach provides an impact on their share value.

This paper is constructed as followed. Section I contains the introduction of the problems arise about the bank performance and their responsibility to improve the companies' value, Section II contain the previous studies on bank performance and their value as well as theories that underline the stud, Section III contain the methodology of the study. Then, Section IV contains the statistical result and the discussion of the study, then section V explain the conclusion.

II. Related Work

The concept of an efficient market was conceived and popularized by Fama in 1970. Beaver in William and West [13] defined an efficient market as the relationship between the prices of securities with information. Efficient Market is an exchange market where the traded securities reflect all information that may occur quickly and accurately [14]. Kofarbai and Zubairu [15] also explained Efficient Market Hypothesis (EMH) as a rational market where all relevant information is reflected very quickly on prices.

Fama in Gumanti and Utami [16] presents three important forms of market efficiency based on 3 (three) types of information, namely: (1) Weak form market efficiency if the prices of the securities fully illustrate the past information. (2) Semi-strong form market efficiency, if the prices of securities fully describe all published information including information released in the published company annual report, financial statement as well as companies' websites. (3) Strong form market efficiency, if the price of securities fully reflects all available information including private information. EMH theory related to the relationship of financial information to the stock price of banks has been widely used in some of the most recent studies, there are Purwasih [7], Takarini and Putra [17], Setyawan [18], and Sari [19].

Banks is identified as having a low risk and performing well when they carry out its company's functions and responsibilities correctly. According to the Financial Services Authority Regulation N0. 04 of 2016, The bank soundness level is the result of an assessment related to the bank performance including how they manage the risks. According to Financial Services Authority Regulation, banks are required to carry out an assessment of the bank soundness level using a risk-based bank rating, both individually and on a consolidated basis. RBBR is a method of assessing the bank healthiness level in terms of a risk approach, in which banking companies are considered as the most vulnerable companies to encounter the risk [20]. The RBBR method has a range of assessments based on factors, according to Bank Indonesia Regulation No. 13 of 2011 concerns to the Mechanism of Assessing the Bank Health Level, these factors consist of Risk Profile, GCG, Earning, and capital, then called as RGEC approach.

III. Methodology

Research type used in this research was an explanatory with quantitative approach. Population in this research were conventional bank companies listed in Indonesia Stock Exchange during the periods of 2015-2017 which comes to 42 companies and the amount of samples in this research are 29. The RGEC approach was measured using four (4) elements, such as (1) Risk profile using credit risk and liquidity risk (2) Good Corporate Governance (3) Earning using Return on Assets / ROA and Net Interest Margin / NIM and (4) Capital using CAR or Capital Adequacy Ratio. Furthermore, Firms' value is measured by Tobin's Q. Due to the availability of data, GCG in this study was eliminated.

IV. Results and Discussion

After passing the classical assumption test that were multicollinearity test, heteroscedasticity test, autocorrelation test, normality test and linearity test; the multiple linear regression was conducted using F test and T test.

TABLE I. F TEST RESULTS

ANOVAa						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	7,597	5	1,519	2,787	,023b
	Residual	44,156	81	,545		
	Total	51,752	86			
a. Dependent Variable: Q						
b. Predictors: (Constant), CAR, ROA, NIM, NPL, LDR						

Table 1 shows that Probability or sig. F was 0.023 ($P < 0.05$), it means the results of the regression analysis are significant. This number shows that the NPL, Loan to Deposit Ratio (LDR), ROA, NIM, and CAR variables simultaneously have a significant influence on Tobin's Q.

This result is consistent with semi strong form of EMH which states that the price of securities fully reflects all published information including the information in financial statements issued by the companies [10]. These results also support the previous studies, Purwasih [7], Setyawan [18], Waris [9], and Satria and Hatta [11] which states that simultaneous NPL, LDR, ROA, NIM and CAR has significant influence on firms' value. However, the different result was found by Agustina [21] and Oktaberiana [22] where the bank's financial ratios have a low relationship with firms' value.

Firms' value is the value that must be maintained by a company because in addition to providing prosperity for shareholders, high firms' value can also maintain market confidence for investors and the market [23]. In banking companies, the availability of information bank soundness level through the ratio of NPL, LDR, ROA, NIM, and CAR becomes crucial and potentially influence the views of the public, especially investors who will invest in the company.

After conducting F test to check whether all variables together have a significant impact on Bank's Tobin's Q, the t test was undertaken to find the partial contribution of the variable to the link.

TABLE II. T-TEST RESULTS

Model	Unstandardized Coefficients		t	Sig.
	B	*Std. Error*		
NPL	-,136	,081	-1,675	,098
LDR	,032	,083	,387	,700
ROA	,243	,105	2,310	,023*
NIM	-,058	,088	-,659	,512
CAR	-,165	,079	-2,103	,039*

*Significant

T test result indicates that the coefficient value of NPL is -1.675 with a significance of 0.098, it means that the NPL has no significant influence on firms' value. These results are in line with research conducted by Satria and Hatta [11] which shows that partially NPL has no effect on firms' value as measured by stock prices. Research conducted by Waris [9] found different results where the NPL variable significantly affected the firms' value. The insignificant influence of NPL might be caused by the perspective of investors to see that the NPL ratio or bad credit as not the main reference to investment decision making. According to Natalia in Alvianji and Soejono [24], credit performance is information that is considered a bit by investors; therefore, loans problem becomes the last alternative information for investors when considering their investments.

T test results show that the LDR coefficient is 0.387 and the significance is 0.700, it means that the LDR has no significant effect on firms' value. These results are in line with research conducted by Purwasih [7], Agustina [21] and Oktaberiana [22] which show insignificant influence of LDR on firms' value. Research by Waris [9] shows different results where the LDR has significant influence on firms' value as measured by stock prices.

T test results describe that the coefficient value of ROA is 2.310 and the significance is 0.023 which means that ROA has positive and significant influence on firms' value. These results are in line with research conducted by Purwasih [7], Waris [9], Hendrayana and Yasa [8], and Indriani and Dewi [25]. In conventional economics, the main motive of shareholders in investing their funds is to gain a maximum profit [7]. It is known that the greater the value of ROA shows the greater profits that is obtained by the company. High profits will directly increase the amount of dividends to be distributed to investors. A high ROA ratio results positive perceptions of investors and the public towards the company, thereby increasing share prices as well as the firms' value.

T test results indicate that the coefficient value of NIM is -0.659 with significance value 0.512 which means that the NIM has insignificant influence on firms' value. These results are in line with research conducted by Waris [9] and Indriani and Dewi [25]. Research conducted by Setyawan [18] provides different results which NIM shows a significant influence on firms' value as measured by stock prices.

T test results show that the CAR coefficient value is -2.103 and the significance value is 0.039, that means CAR has negative significant influence on firms' value. These results are in line with research conducted by Purwasih [7], Hendrayana and Yasa [8], Satria and Hatta [11] and Indriani and Dewi [25], but do not in line with Setyawan [18], Waris [9], and Agustina [21] which show that CAR has no significant influence on firms' value as measured by stock prices.

V. CONCLUSION AND FUTURE SCOPE

According to the results of hypothesis testing, the independent variables in this study (NPL, LDR, ROA, NIM, and CAR) simultaneously show a significant effect on the firms' Tobin's Q. Partially, only ROA and CAR which have a significant effect on firms' value. ROA has a positive and significant effect on Tobin's Q and CAR has a negative and significant effect on firms' value. Whereas NPL, LDR, and NIM partially have no significant effect on the firms' value. Then, the reasons for the insignificance value from these variables include: investors do not see the ratio of NPL as the main reference in investing their capital, the different way of investors in responding high LDR, and the larger of bank operating costs in line with the higher of NIM ratio.

The limitation in this study is that the researcher did not include the assessment of GCG as one of the variables used to measure the bank health level. For the further research, researchers are expected to be able to test the relationship of GCG as part of the RGEC approach to see its relationship to firms' value. Further research can also test other variables beside the variables that have been used to obtain other results that can enrich insights related to what things affect the ups and downs of firms' value, especially in the banking sector. For example, the profitability measurement of a bank is not only measured through the level of ROA and NIM but can use other ratios such as the ratio of Operating Expenses to Operating Incomes (OEOI) and ROE.

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