

SYSTEMATIC RISK, DEPOSIT, EFFICIENCY, AND INTEREST RATE ON BANKING'S PERFORMANCE

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Abstract

This study aims to analyze the effect of systematic risk, deposit, level of efficiency, and interest rate on Sharia Banking's performance listed in Indonesian Stock Exchange (IDX) for the period of 2014-2017. The analysis technique used in this study is descriptive and verificative approach, by using panel data regression. The population are all Sharia Banks listed in IDX for the period of 2014-2017 by using saturated sample. The result showed that the systematic risk, deposit, level of efficiency and interest rate effected significantly on the Sharia Bank's financial performance. Partially, systematic risk effected negatively significantly, deposit and interest rate effected positive but insignificantly, level of efficiency effected positive significantly on Sharia Bank's financial performance.

Keywords: *systematic risk; deposit; efficiency; interest rate; banking's performance*

INTRODUCTION

Banking has an important role in managing credit activity and service offered in providing necessities in various sector of economy and trading. Bank is a financial intermediary institution established with the authority to accept deposit, credit, and issue promissory notes or banknotes. According to the Regulation No. (21, 2008), Islamic Banking is everything related to Sharia banks and business units, including institutions, business activities, as well as procedures and processes in carrying out their business activities. Bank's continuous profitability is a base of elastic financial system and essential to support economic growth (Sababathy and Shahrudin, 2019) Issues that have often occurred in Sharia Banks is the low financial performance, measured by Return On Assets (ROA). Its condition is shown in Figure 1. Sharia Bank's ROA fluctuated and tended to fall down negatively, which means it is at loss. The reasons are suspected to be due to systematic risk, failure to obtain deposit, inefficient operating costs, and the interest rate set by Indonesian Bank (IB). Criterion set by Indonesian Bank to rate healthy condition of Banking's ROA is above 1,5%.

Banking risk is a potential event, both an anticipated and an unanticipated one, which effect negatively to both income and bank capital. Systematic risk (market risk) relates to the bank asset whose values change due

to systematic factor. This risk also relates to several possibilities occurred on trading transaction in financial markets (Tursoy, 2018). Commercial banks with Sharia principles need to manage market risk associated to the change of exchange rate that can cause bank losses. Indonesian Bank set the provisions for foreign exchange positions with the Net Foreign Exchange Position (NFEP - Posisi Devisa Neto (PDN)) regulation, which is an indicator to measure the size of foreign exchange transactions conducted by banks. The PDN is also the ratio used by bank management to control the position of foreign currency management due to fluctuations in exchange rate changes. The improvement of PDN of Sharia Banks during 2014-2017 can be seen in Figure 2.

The chart of PDN of Sharia commercial bank tends to increase which means that the percentage increase in foreign currency assets is greater than the increase in foreign currency liabilities. (Setiawan, 2017) and (Mansyur, 2018) stated that PDN effected negatively significantly to ROA. This indicated that banks have started to reduce foreign exchange transactions and prefer other channeling instruments such as credit. (Rotinsulu, 2015) stated that market risk effected positively and significantly to the Banking's ROA which indicated that PDN is important for bank to limit the risk due to exchange rate fluctuations.

Sharia banking has important role to collect fund and distribute its financing. One of the functions of

the bank is as agent of trust, which means, in this case, that the bank itself relies on public trust. Funds that are entrusted by the public to banks are known as deposit, which can be in the form of savings, current accounts, time deposit, and other types of Sharia products that intend to attract funds from the public to be entrusted to banks. Deposit constitute the largest portion of bank funding sources. Banking's responsibility is to return either all or part of the deposit requested by customers. Customers always have an interest in their future fund needs and prefer to a short period of time when saving funds (Tursoy, 2018). If the distribution of deposit is high, the ROA itself is expected to increase. The improvement of deposit is shown in Figure 3.

Based on Figure 3, the deposit tends to increase, which means that Sharia commercial bank is entrusted by public to save and distribute their fund. (Jatmiko and Agustin, 2018); (Ayu Kinanti and Purwohandoko, 2017); (Anggreni and Suardhika, 2014) stated that the deposit effected positively to the ROA, because its company assets and net profits will also increase better than operational activities.

It is important for the bank to keep its operation efficient, because it can be used as a reference for manager to make decision, allocate resources and support bank's financial performance. Bank can overview the efficiency improvement with the ration of Operational Cost on Operational Income (Biaya Operasional terhadap Pendapatan Operasional (BOPO)). The efficiency level of Sharia commercial bank measured by ratio of BOPO during 2014-2017 tend to increase which also means inefficient (Figure 4). The increase would suppress bank profits. Bank should actively take initiatives to reduce business functions, increase automation and invest in information technology (IT) systems and infrastructure to increase operating efficiency and optimize branch networks (Sababathy and Shaharuddin, 2019).

(Kiswanto, 2016), (Yusuf and Surjaatmadja, 2018), and (Rizal, 2016) stated that BOPO effected negatively and significantly to the ROA. If BOPO increased and suppress the profit, ROA would decrease. If the financial system is efficient, profitability will increase and will also increase the amount of funds received and then distributed, as well as better service to customers (Saona, 2011). However, (Abduh, Muhamad and Idrees, 2013) showed that the level of efficiency has no significant effect on profitability.

The external factor assumed to effect bank's financial performance is Indonesian Bank rate: a policy interest rate reflecting the stance of monetary policy set by Indonesian bank and announced to the public. When the rate increase, it will also be allowed by the increase of deposit interest rates which have direct effect on decreasing the source of deposit of Sharia banking deposit. It is because there are many [persons] who move it to the conventional banking to get higher interest rates. Sharia banks can use Indonesian Bank

rate as a basis for determining the ratio for the results. The improvement of Indonesian Bank rate is shown in Figure 5.

Indonesian Bank rate has a downward trend, so normally Sharia commercial banks would also lower their financing price or product. Therefore, customers would not withdraw the funds and move to conventional bank which will affect to ROA. (Sahara, 2013), (Zulfiah and Susilowibowo, 2014) as well as (Anggreni and Suardhika, 2014) stated that the interest rate has negative and significant effect on Banking's ROA.

The purpose of this study is to find out and analyze: (1) The condition of systematic risk, deposit, level of efficiency, and financial performance of Sharia commercial banks for the period in 2014-2017, (2) The condition of interest rate, and (3) how much the effect of systematic risk, deposit, level of efficiency and interest rate on financial performance.

METHOD

This study uses descriptive and verificative method by using data panel regression. The population are all Sharia commercial banks listed in Indonesian Stock Exchange for the period in 2014-2013 as much as 13 samples which were determined by saturated sample. The quantitative data are obtained from official websites, namely www.idx.co.id, www.bi.go.id and www.ojk.go.id. Data used in this study are time series and cross section. Variable Operationalization is shown in Table 1. The Chow Test, Hausman Test and Lagrange Multiplier Test are carried out to determine the precise estimated method. The classical assumption test was also conducted to fulfill the regression analysis requirements.

RESULT

The result of descriptive statistic calculation on 13 Sharia commercial banks is described in Table 2. The condition of PDN in the Sharia commercial bank listed in Indonesian Stock Exchange 2014-2017 tend to increase. It means that the percentage increase in foreign currency assets is greater than the percentage increase in foreign currency liabilities. If the exchange rate increases, the percentage increase in foreign currency income will also be greater than the percentage increase in foreign currency costs, which also means that the market risk would decrease.

The condition of deposit of Sharia commercial banks listed in Indonesian Stock Exchange 2014-2017 tend to increase. It means that it could collect and increase the deposit including current accounts, savings, and time deposit. The condition of level of efficiency for the period of 2014-2017 has a tendency to increase, even more than 100%. The condition of interest rate in 2014-2017 had a downward trend. The condition itself attracted debtors to apply for credit, but not to

save their money in the bank. The ROA of Sharia commercial banks tends to fall down, therefore it is on negative condition/number while the Indonesian Bank set the precise and healthy criteria for this, that is more than 1.5%

Based on the Chow Test, it is found out that the Fixed Effect Model method is more precise to be applied. Hausman Test method clarified that Random Effect Model is more precise to be applied, while Lagrange Multiplier test set that Radom Effect Model is the precise method to be applied as estimation method. Based on the results of the classical assumption test, it showed that the data is normally distributed, multicollinearity does not occur in the independent variables, and heteroscedasticity does not occur. The result of regression analysis is shown in Table 3.

These are the equation of panel data regression.

$$Y = -10,07616 - 0,283086X_1 + 0,135962X_2 + 1,706070X_3 + 0,343859X_4 \dots\dots\dots(1)$$

Based on the result of simultaneous test, it is obtained that the systematic risk, deposit, level of efficiency, and interest rate had significant effect on financial performance, with the effect contribution as much as 20,85%. Based on the result of partial effect, it is obtained that systematic risk (PDN) had negative and significant effect, level of efficiency (BOPO) had positive significant effect, deposit and interest rate had positive insignificant effect on financial performance (ROA).

DISCUSSION

The condition of systematic risk (PDN) in Sharia commercial banks for the period of 2014-2017 fluctuated with a tendency of increasing movement. The PDN was dominated by Bank of Aceh Syariah because it kept increasing, which means that the bank has bigger increase in foreign currency assets than in the currency liabilities. Therefore, the market risk decreases. The changing of systematic risk was caused by the currency exchange rate/ foreign currency. If the foreign currency increases, rupiah will be depreciated. Therefore, the market target will also be low and effect to the change of banking foreign exchange position.

The condition of deposit in Sharia commercial banks for the period of 2014-2017 kept improving. The high score of deposit is owned by Bank of BRI Syariah. Sharia commercial banks are demanded to keep customers' trust and attract new depositors to save funds, also by developing the offered Sharia products. (Yousuf et al., 2014) stated that the most effective factor for Sharia banking to attract customers is their loyalty to run Sharia principle. A convenience of opening an account or the quality of service does not have a major effect on the customer's decision to choose the Sharia banking system.

The condition of level of efficiency (BOPO) on 13 Sharia commercial banks had tendency to increase, even more than 100% which also means inefficient. This was because of Indonesian Bank has made standard criteria for the bank to have the ratio of BOPO for as much as less than 94% to be considered as efficient. The high percentage of BOPO showed that bank's inefficiency because of its poor input utilization (Banya, Roland and Biekpe, 2018).

The condition of interest rate had downward trend. Although Sharia commercial banks do not refer to the interest rate but rather to profit-sharing, the customers of conventional bank are reluctant to deal with high interest rates when applying for credit and choose to switch to Sharia banks. On the other side, investors would also prefer other alternatives to invest instead of investing their fund in the bank.

The financial performance (ROA) of Sharia commercial bank in 2014-2017 had downward trend, near to negative which also means a loss. Sharia banks have not already completed to maintain their deposit optimally yet. The high percentage/score of ROA is owned by Bank of BTPN Syariah in 2016 for as much as 9,00%, which means they have run their financial performance pretty good.

Systematic risk, deposit, level of efficiency and interest rate had effected on financial performance (ROA) as much as 20,85%. The systematic risk had negative significant effect on ROA. This result contradicted to the research of (Ekinci, 2016), as well as (Mansyur, 2018) and (Setiawan, 2017), who stated that NOP has a positive and significant effect on ROA. A systematic risk arises from a discrepancy between assets and liabilities are valued in domestic currency which causes the bank to experience losses or gains due to exchange rate movements, when the bank has positions of off-balance-sheet.

Deposit had positive insignificant effect on ROA. This result contradicted to the results carried out by (Setiawan and Indriani, 2016), (Murdiyanto, 2018), (Jatmiko and Agustin, 2018), (Ayu Kinanti and Purwohandoko, 2017), and (Anggreni and Suardhika, 2014), as well as (Afrizal, 2017), (Parenrengi and Hendratni, 2018), who stated that the deposit had positive significant effect on ROA of Sharia banks. If the bank has more customers to collect deposit, it will increase bank's profits so that its financial performance would also be getting better. However, this does not occur in Sharia banks, which means the deposit has not been distributed effectively to the costing. The research carried out by (Ahmad, Uus, 2017) stated that a higher deposit will not increase the ROA because it is also followed by the increase of Non Performing Financing (NPF). It would also create and cause bad credit and hamper the income receive, thus affecting the financial performance of the bank.

Level of efficiency (BOPO) had partially positive and significant effect on ROA. This result supported the research of (Hamid, 2015), (Parenrengi and Hendratni, 2018), (Sudarsono, 2017), and (Yusuf and Surjaatmadja, 2018). It means that BOPO became a guideline for bank management to influence ROA through financing. These results contradicted to the research of (Dawood, 2014), (Sohilauw, 2016), (Kiswanto, 2016), (Yusuf and Surjaatmadja, 2018), (Yao et al., 2018) and (Rizal, 2016) who stated that the efficiency of operation had negative effect on profitability. (Teng et al., 2012) stated that the profitability could be increased by decreasing operating expenses and human resources, namely by reducing excessive labor and maintaining those with good performance.

Interest rate had positive insignificant effect on financial performance. These results contradicted to the research of (Sahara, 2013), (Zulfiah and Susilowibowo, 2014), (Anggreni and Suardhika, 2014), and (Cahyani, 2018), as well as (Prastowo et al., 2014), (Hidayati, 2014), and (Fathoni, 2017) who stated that the interest rate had negative significant effect on ROA. This was because of implementation of Sharia banking business does not refer to the interest rate. Therefore, regardless of the high interest rate, it will not affect the ROA of Sharia banks themselves.

CONCLUSION

The condition of systematic risk on Sharia commercial banks listed in Indonesian Stock Exchange for the period of 2014-2017 tend to increase. It means that the increase percentage in foreign currency assets is higher than the increase percentage in foreign currency liabilities. The deposit tend to increase as well, which means that Sharia commercial banks have not worked efficiently. The interest rate had a downward trend, which means that the investors preferred to apply for loans and expanded their business, as well as were less interested in investing their funds in the banks. The financial performance had a downward trend, even negative, which means it was not able to make profits.

In addition to that, the systematic risk, deposit, level of efficiency and interest rate had significant and positive effect on financial performance in Sharia commercial banks listed in Indonesian Stock Exchange for the period of 2014-2017 as much as 20,85%. Partially, the systematic risk had negative significant effect and level of efficiency had positive significant effect on financial performance. Meanwhile, the deposit and interest rate had positive insignificant effect on financial performance.

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- www.ojk.go.id

Table 1. Variable Operationalization

Variable	Definition	Measurement	Scale
Systematic Risk (X_1)	Systematic risk is a risk that cannot be eliminated by diversifying, because the risk fluctuation is influenced by the market as a whole. (Hartono, 2015)	$PDN = \frac{(aktiva\ valas-pasiva\ valas) + selisih\ off\ balance\ sheet}{modal} \times 100\%$ (13/1/PBI/2011, 2011)	Ratio
Deposit (X_2)	Deposit are funds entrusted by the public to a bank based on a deposit agreement in the form of current account, deposit, certificates of deposit, savings, and other forms. (Law of Banking No. 10 of 1998)	Deposit = Current Accounts + Savings + Time Deposit (Law of Banking No. 10 of 1998)	Ratio
Level of Efficiency (X_3)	Efficiency is a measure of level of source usage in the whole process. The more efficient or less the resource is used, the more efficient the the process is (Sedarmayanti, 2014)	$BOPO = \frac{\text{Operating Expense Total}}{\text{Operating Revenue Total}}$ (Indonesian Bank, 2013)	Ratio
Interest Rate (X_4)	An interest rate referred to Indonesian bank is policy interest rate reflecting the stance of monetary policy set by Indonesian bank and announced to the public (Indonesian Bank, 2013)	$\text{Proceeds} = \frac{\text{nilai nominal} \times 360}{360 + (tk.\text{diskonto} \times \text{jumlah hari jatuh tempo})} \times \text{Pembeli}$ (Indonesian Bank, 2013)	Ratio
Banking Performance (Y)	Financial performance can be evaluated by using a financial ratio. Financial ratio helps to identify few deficiency and advantages of a company (Brigham, Eugene F and Houston, 2013)	$ROA = \frac{\text{Earning Before Tax}}{\text{Average of total asset}}$ (Brigham, Eugene F and Houston, 2013)	Ratio

Source: Processed, 2019

Table 2. Descriptive Statistics

	Financial Performance (ROA)	Sistematic Risk (PDN)	Deposit (DPK)	Efficiency Rate (BOPO)	Interest Rate
Mean	0,10	2,65	4.196.738,35	99,72	6,11
Median	0,75	1,73	1.924.929,50	94,13	6,65
Maksimum	9,00	37,48	26.373.417,00	217,40	7,04
Minimum	-20,13	-37,54	162.46,00	66,47	4,08
Std. Dev.	4,33	8,12	6.086.759,62	27,68	1,20
Observations	52	52	52	52	52

Source: Processed by Eviews 10

Table 3. Panel Regression Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10,07616	4,011436	-2,511858	0,0155
X ₁	-0,283086	0,131211	-2,157492	0,0361
X ₂	0,135962	0,142329	0,955267	0,3443
X ₃	1,706070	0,702628	2,428127	0,0191
X ₄	0,343859	0,616820	0,557470	0,5799

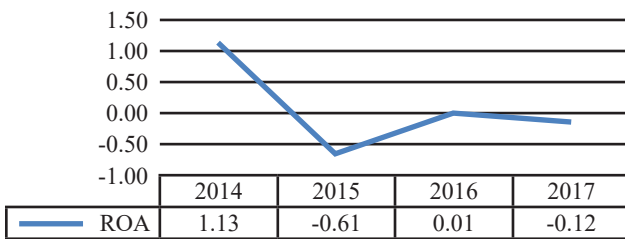
Effects Specification

	S.D.	Rho
Cross-section random	1,184887	0,5979
Idiosyncratic random	0,971661	0,4021

Weighted Statistics

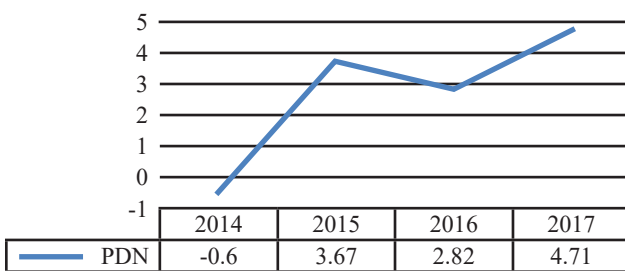
R-squared	0,208503	Mean dependent var	0,018079
Adj.R-squared	0,141142	S.D. dependent var	1,028041
S.E. of regress.	0,952733	Sum squared resid	42,66191
F-statistic	3,095290	Durbin-Watson stat	1,684842
Prob(F-stat)	0,024232		

Source: Processed by Eviews 10



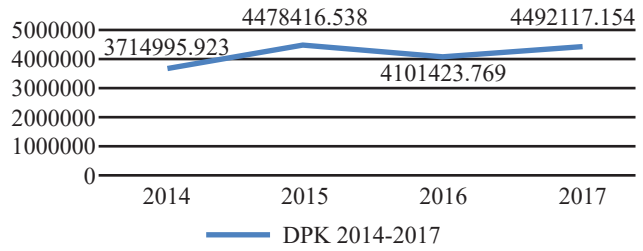
Source: www.ojk.go.id (Processed 2019) in percentage

Figure 1. ROA of Sharia Banks 2014-2017



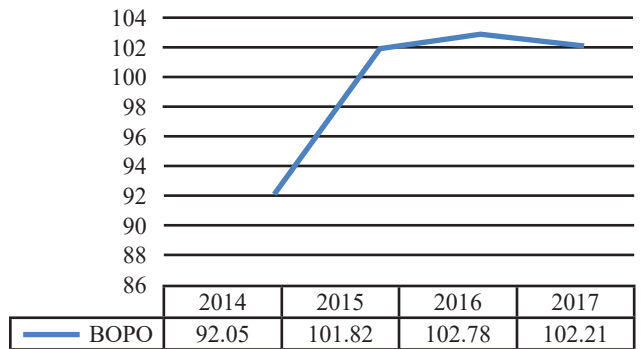
Source: www.ojk.go.id (Processed 2019) in percentage

Figure 2. PDN of Sharia Banks 2014-2017



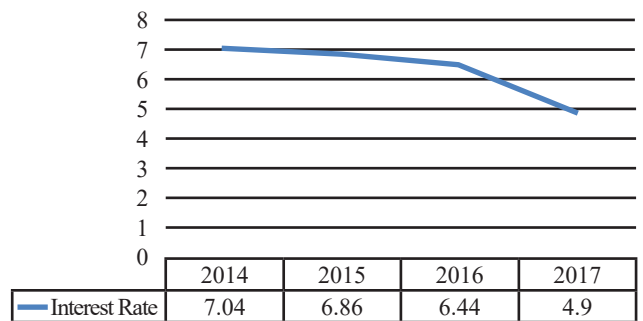
Source: www.ojk.go.id (Processed 2019) in billion

Figure 3. Deposit of Sharia Banks 2014-2017



Source: www.ojk.go.id (Processed 2019) in percentage

Figure 4. BOPO of Sharia Banks 2014-2017



Source: www.ojk.go.id (Processed 2019) in percentage

Figure 5. Interest Rate 2014-2017