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THE EFFECT OF RISK BASED BANK RATING ON FIRM VALUE

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Abstract

Bank Indonesia has transforms since 1746 influenced various policies issued by Bank Indonesia, one of which is the policy of assessing the soundness of banks. This policy underwent a change which was originally based on CAMEL, until now it became RBBR. This policy is made to assess the performance of banking institutions which will have an impact on the value of the company. Using panel data regression with a total sample of 15 foreign exchange banks for 5 years of research, this study found that the ratios of RBBR are LDR, PDN, NPL, GCG, ROA, NIM and CAR together have a considerable influence on the value of the company as proxied by Tobin's Q of 76.61%, capital being a variable has a positive and significant effect on firm value.

***Keywords**: risk-based bank rating; firm value; banking institutions; performance; Tobin's Q*

INTRODUCTION

Banks are an essential sector in a country, tightening regulations on bank health assessment procedures from 23/81/KEP/DIR/1991 was changed to 30/11/KEP/DIR/1997, which was changed to 30/277/KEP/DIR 1998, containing Bank soundness rating is based on capital, earning assets, management, profitability and liquidity (CAMEL). In 2004 the addition of the sensitivity variable to market risk in the regulation of SE No. 6/23/ DPNP 2004, (CAMELS). Bank Indonesia has tightened regulations on the procedures for assessing Bank soundness by changing the regulation to 13/1/PBI/2011, which contains an assessment of the Bank's soundness level based on the risk profile, good corporate governance, earnings and capital (RBBR). This rule states that the bank's soundness level is the result of an assessment of the bank's condition on its risk and performance. Thus, the better the soundness of banking institutions, the better the condition and performance of banking institutions will be. (Lechner, et.al 2017) mentions that ERM or enterprise risk management has a huge impact on company value. Credit risk is an important indicator in the health of banking institutions because it can assess the failure or success of the bank. (Al-Najjar, et.al 2014) with an independent director can have a positive impact on the company's performance.

SE BI No.9/12/DPNP issued an assessment rule on banking soundness level adjusted to the RBBR, in the risk profile variable there are three risks that can be calculated quantitatively, namely liquidity risk, credit risk and market risk. (Anisa, et.al 2021) (Abiola, et.al 2014) mentions that the risk profile can be proxied by NPL to assess liquidity risk, other studies say that the risk profile can be proxied by LDR (Anwar, et.al 2016) and (Yulianti, et.al 2015) to assess credit risk, besides that the risk profile can also proxied by PDN (Pradini, et.al 2015), to assess market risk. While on the GCG variable, the assessment has been carried out based on the application of its principles, both individually and in consolidation, (Tao, et.al 2013) da. Earning variables (Singh, et.al 2015), (Abel, et.al 2016), (Ebenezer, et.al 2017) (Chou, et.al 2016), (Sucuahi, et.al 2016), (Chou, et.al 2017), can be proxied by ROA and according to (Novianti, et.al 2020), (Roman, et.al 2013) can be proxied by NIM . Meanwhile, according to (Widyastuti, et.al 2019), (Wasiuzzaman, et.al 2013), (Afriyie, et.al 2013) capital can be proxied by CAR.

Thanh, et.al (2020) states that banks that are not restricted tend to invest in unimportant CSR, so that it can reflect the performance of banks with increasing banking risk. (Chunhachinda, et.al 2016) states that the Tobin's Q ratio is usually used to calculate the value of banking companies. Aliber in (Chunhachinda 2016) has tested in nine industrialized countries and found that the resulting Tobin's Q ratio is almost the same in each country. (Rolle, et.al 2020), (Tan 2014), (Yamori, et.al 2017) (Antoun, et.al 2018) use Tobin's Q ratio to assess banking companies. (Menacer, et.al 2020) states that the ROA variable has an influence on firm value as proxied by Tobin's Q. (Jamil, et.al 2018) states that ROA and ROE have an influence on Tobin's Q.

METHODS

This is a quantitative study using secondary data obtained from several official websites (bi.go.id, ojk.go.id, idx.co.id, bps.go.id) and several websites of banking institutions that meet the sample criteria. This study has a sample of 15 and uses the panel data regression method. After testing the model, this study uses a fixed effect model, which is because the fixed effect model has a different intercept and the same slope, because in practice, banking institutions have different organizational cultures and have the same way of calculating performance according to rules set by the central bank (Bank Indonesia) and its supervisory Financial Services Authority (OJK). Hypothesis testing is done by calculating the value of the f-test, t-test and coefficient of determination which are processed in the e-views 12 application.

RESULTS

Processing data from 15 samples of banking institutions listed on the IDX that issue annual reports containing the required information from 2015-2019, after testing the model with the Chow test and Hausman test, the model produced in this study is the fixed effect model. (Widarjono 2018), the intercept of each company is different with the same slope value. The difference in intercepts faced is because each company has a different corporate culture, while the slope is the same because between times each company has a calculation of the bank's condition assessment of the risk and its performance is the same because it has been regulated in Indonesian bank regulations.

Simultaneous test results by looking at the value of prob. (f.-statistics) states that there is a simultaneous significant effect between all variables X on variable Y, the magnitude of the effect is through the interpretation of the coefficient of determination model, looking at the Adjusted R-Squared value of 0.766137 or 76 ,62% explained that the variation of the Y value was explained by 76.62% of all X variables, while the partial significant effect was only hypothesis seven which was accepted and the rest was rejected. The equation of the dependent variable (Y) in this study is Tobin's Q which is influenced by several independent variables (X), namely loan to deposit ratio (LDR), net foreign exchange earnings (PDN), non-performing loans (NPL), good corporate governance (GCG). , return on assets (ROA), net interest margin (NIM) and capital adequacy ratio (CAR).

The influence between all variables X on Y which can be seen through the value of the coefficient of determination adjusted R-squared has a value of 76.61% so that it concludes that all X variables (LDR, PDN, NPL, GCG, ROA, NIM and CAR) have an influence of 76, 61% of the firm value, while 23.39% is influenced by other variables. This means that all X variables (LDR, PDN, NPL, GCG, ROA, NIM and CAR) can be used as a reference for investors to see the success of the bank, the stock price is directly proportional to the value of the company (Irianti, et.al 2017).

Table 1. Model Test

Dependent Variable: TQ
Method: Panel Least Squares
Date: 04/15/21 Time: 14:54
Sample: 2015 2019
Periods included: 5
Cross-sections included: 15
Total panel (balanced) observations: 75

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.632579	0.392807	1.610406	0.1132
LDR	0.221434	0.315298	0.702301	0.4856
PDN	-0.093886	0.670458	-0.140032	0.8892
NPL	-1.444092	1.582194	-0.912715	0.3655
GCG	0.055880	0.050704	1.102088	0.2754
ROA	-0.355392	2.654312	-0.133892	0.8940
NIM	-3.530641	3.203740	-1.102037	0.2754
CAR	1.836990	0.750738	2.446914	0.0178

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	0.086455	R-squared	0.832503
Mean dependent var	1.081813	Adjusted R-squared	0.766137
S.D. dependent var	0.212668	S.E. of regression	0.102845
Akaike info criterion	-1.471715	Sum squared resid	0.560587
Schwarz criterion	-0.791919	Log likelihood	77.18933
Hannan-Quinn criter.	-1.200280	F-statistic	12.54401
Durbin-Watson stat	1.982062	Prob(F-statistic)	0.000000

DISCUSSIONS

In the panel data regression equation on Table 1, it shows that LDR has no significant effect on firm value, this is in accordance with (Yulianti 2015) and (Anwar 2016). The decrease in the LDR value is one of the many aspects for consumers to assess the value of banking companies, this is because a low LDR value will increase or increase the value of the company. The high value of the LDR can indicate that the banking institution is not liquid, because more funds are needed to meet credit financing and will affect the possibility of bad credit risk. In research (Yulianti 2015), (Anwar 2016) and (Sriharti 2015) it is stated that LDR is not the main benchmark in assessing firm value in banking institutions. This is what causes investors not to consider LDR too much in assessing a banking institution.

The results of the panel model test in this study indicate that PDN does not have a significant effect on firm value, this is in accordance with (Pradini, et.al 2015). PDN that does not have a significant effect on firm value can be caused by many factors that can affect the exchange rate, both fundamentally, market sensitivity, consumer psychology, and rumors, so that due to too many sources, it is difficult to predict PDN with certainty, so it cannot be predicted. become a big benchmark to represent the variable value of the company. This is what causes investors not to consider PDN too much in assessing a banking institution.

NPL or non-performing loan is one of the assessments of firm value, but in this study NPL does not have a significant effect on firm value, this is because investors and consumers do not see the NPL proxy as a problem in the company because the level is still below 5%. The rules made by Bank Indonesia and the OJK are very strict regarding the business activities of financial institutions, which is one of the reasons why banking institutions in Indonesia are decreasing in number because they cannot carry out their business activities properly, and have the effect of not being able to follow the rules set by the bank. Indonesia and OJK. This is in accordance with research (Irianti 2017), (Yulianti 2015), (Repi, et.al 2015), (Maryadi, et.al 2020), and (Anwar 2016). This is what causes investors not to consider NPL too much in assessing a banking institution.

ROA or return on assets in this study does not have a significant effect on firm value, this is because in several periods of business activity, banking institutions increase total assets, but the returns or profits obtained actually decrease, which concludes that the performance of banking institutions can said to be lacking, this is in accordance with (Azzahra 2008) and (Sondakh, et.al 2019). This is what causes investors not to consider ROA too much in assessing a banking institution.

NIM or net interest margin has no significant effect on firm value. This is because the NIM information provided is not sufficient to produce an investor's decision to assess a banking company. (Irianti 2017) states that the high NIM is because the bank's main income comes from credit interest, while in credit activities, of course it requires large operational costs so that it does not necessarily have a large enough profit and has a negative effect on company value, apart from the results of data collection If this is done, the NIM of each banking institution has a value of more than 5%, so that according to bank Indonesia regulations No. 13/1/PBI/2011 assesses that all NIMs in banking institutions in Indonesia are still above the standard set. . Bank Indonesia and the OJK, which oversees the business activities of financial institutions, are also very strict in supervising the implementation of regulations. This is what causes investors not to consider ROA too much in assessing a banking institution.

GCG or good corporate governance, is a variable that does not have a significant effect on firm value. Several studies mention the result of the absence of a significant influence between the GCG variable and the firm value variable. (Purbopangestu 2014) mentions the possible causes of the ineffectiveness of GCG value on the value of the company, which is made possible by the lack of concern from the management in the aspect of share ownership, because the management has low company shares, resulting in the management not paying attention to the progress of the company which can affect on the value of the company, (Permanasari 2010) mentions another possible cause of the ineffectiveness of GCG value on the value of the company, namely investors who tend to own majority shares, often compromise with the company and ignore minority shareholders, resulting in negative responses from investors who affect the value of the company. This is what causes investors not to consider GCG too much in assessing a banking institution.

CAR or capital adequacy ratio, is a variable that has a significant influence on firm value. (Murni, et.al 2018) explained that CAR has a significant influence on firm value because it is one of the main attractions for investors to assess a company, because the higher the CAR value, the higher the firm value. As we know, a bank is an institution that collects funds from the public which are then channeled back to the community in other forms to improve the standard of living of many people (Law Number 10 of 1998 concerning banking), so it is necessary for banking institutions to maintain an adjusted level of health. with Indonesian bank regulations. Meanwhile, the rules of Bank Indonesia regarding banking institutions that must maintain their health level were first made in 1991 in the rule 23/81/KEP/DIR/1991, called CAMEL, starting with C, namely capital which is an important aspect in seeing the level of banking health, which continues to be updated until the latest regulation of Bank Indonesia Regulation number: 13/1/PBI/2011 capital ratio is required to assess the soundness of a banking institution. This is what causes investors to consider CAR in assessing a banking institution.

CONCLUSIONS

It can be concluded that RBBR has an effect on firm value simultaneously, but partially only capital variable affects firm value. With more and more information shown, it will have a good effect on the value of the company, which is why RBBR simultaneously has an influence on the value of the company and has a fairly large value and can be considered because it has a value of 76.61%.

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