

CHAPTER I

INTRODUCTION

A. Background

One of the foundations that works to increase economic stability and national progress with the aim of improving the quality of life of the wider community is banking. (Astari,*et al.*, 2021). By acting as an intermediary institution, the banking sector in Indonesia has the most important function as an institution in collecting and distributing funds to the community and assisting national development.

One of the parameters used in assessing banking institutions in the eyes of the public and investors is assessing information about the performance of the bank itself. Bank performance evaluations not only look at how much money they make, but also look at how efficiently and effectively they use their resources.

Bank performance is correlated with its level of health; increased performance reflects optimal levels of health, while decreased performance indicates decreased levels of health. Considering that bank performance has a major impact on various interested parties, it is very important to evaluate their performance. Because banks have strong relationships with communities and are responsible for customer funds, their survival is critical to maintaining community trust.

Financial reports are documents that describe the financial performance of an entity or company over a certain period of time, usually a fiscal year or a quarter. This financial report includes various financial

information that shows how well a company manages its resources and achieves its goals. Financial reports usually consist of several main parts, such as a balance sheet, notes to financial statements, profit and loss statements, and cash flow statements.

In addition, financial reports help in monitoring the bank's financial health periodically and detecting potential financial problems before they become serious problems. All financial transactions at a bank are recorded in financial reports, providing important evidence for internal and external audits as well as maintaining accurate records of the bank's assets and liabilities.

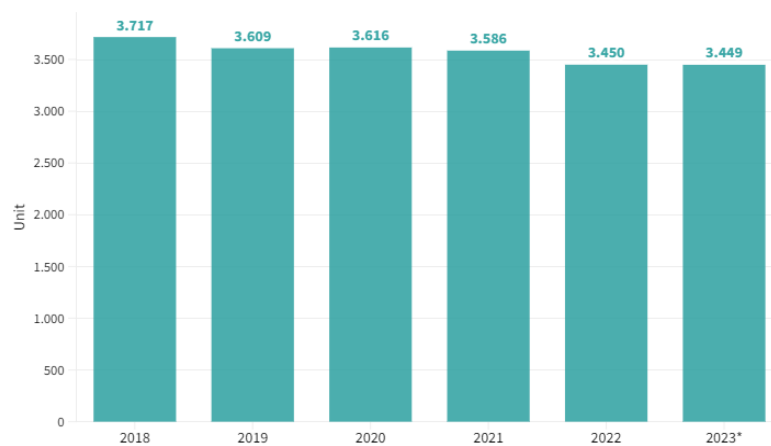
Gaining trust from the public can be achieved by maintaining the health of banking institutions. Banks that are in a healthy condition are banks that are able to carry out their intermediation role appropriately, facilitate the smooth flow of payments, and can play a role in implementing monetary policy in synergy with the government.

Therefore, assessing the level of bank health has very important significance. This allows parties who have an interest in decision making to determine whether the bank is in a healthy condition, pretty healthy, unhealthy, or even poor. This assessment has major implications for bank performance and can pose risks for customers who have entrusted their funds to the bank.

Currently, the banking sector is experiencing rapid progress and transformation into sophisticated and modern technology. Apart from that, this phenomenon has also triggered increasingly fierce competition in the

banking industry. Many banks are now actively carrying out continuous evaluations and improvements to improve the quality of service to customers and maintain alignment with ongoing changes in time.

Figure I. 1
Number of Commercial Bank Branch Offices in Indonesia
(2018-2023)



Source: Financial Services Authority (OJK)

According to the Indonesian Banking Statistics report released by the Financial Services Authority (OJK), until June 2023, there will be 3,449 commercial bank branch offices in Indonesia. This number has decreased by 104 units compared to the number in June the previous year, which reached 3,553 units in June 2022. Geographically, the DKI Jakarta region recorded the highest number of bank branch offices in June 2023, namely 447 units, followed by East Java and West Java with 392 units and 377 units respectively.

The trend that can be observed is the decline in the number of bank branch offices in Indonesia over the last five years. Even though there was an addition of seven units in 2020, the number decreased again to the previous year. The largest decline occurred in the previous year, with the number of bank branch offices decreasing by 136 units to 3,450 units at the end of 2022. Many banks have reduced the number of branch offices in response to developments in digitalization, which has resulted in an increase in the frequency of customer transactions via various digital platforms.

Banks are starting to undergo a transformation towards digital due to customer demand for more convenient and accessible banking services, higher operational efficiency, competition from fintech, the need for security and reliability, evolving regulations, and the potential for new product and service innovation. Digital transformation enables banks to optimize operations, improve customer service, and remain competitive in an increasingly connected economy.

In line with this development, Bank Indonesia has issued the latest regulations governing bank soundness levels, which are regulated in accordance with Bank Indonesia Regulation (PBI) No. 13/1/PBI/2011, issued on 5 January 2011. This regulation outlines procedures for assessing the soundness level of commercial banks, which involves the obligation for all commercial banks to carry out their own assessments (self-assessment) on the bank's health level, using a risk-based approach (Risk-based Bank Rating/RBBR), both individually and in consolidation. The calculation refers to Bank Indonesia Circular Letter (SEBI) No. 13/24/DPNP issued on

25 October 2011, with an assessment that includes factors Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC). The RGEC method is an assessment approach that replaces the previous bank assessment method, namely CAMELS.

Many previous studies have discussed evaluating bank health by applying the RGEC method. These studies have been carried out by Pingkan Aprilia Maramis (2019), Novia Dwi Astari, Dadang Hermawan, Rosma Pakpahan (2020), Kripen Kansil, Frendy A.O. Pelleng, Joula J. Rogahan (2020), Febriana Verawaty Siagian, Muammar Rinaldi (2020), Lucky Ayu Stella, Ratih Puspitasari (2020), Nathalia Putri Cantiqka, Henny Rahyuda (2021), Adnan Yudha Permana, I Made Surya Negara Sudirman (2021), Eva Malina Simatupang, Vargo Christian L Tobing (2022), Apriani Anggreini Bangun, Wuri Purnamasari, Gita Asti Diah Aprilia (2023), Moch. Rafli Sadam, Pratama Indra Sutrisno (2023).

Research conducted by Pingkan Aprilia Maramis (2019), an assessment using the NPL ratio was said to be "Healthy" during the 2015-2018 period and received a composite rating of 2. Furthermore, with an assessment of liquidity risk using the LDR ratio it could be said to be "Pretty Healthy" during the 2015-2018 period. Judging from the Self-Assessment on GCG factors during the 2015-2018 period, Bank Mandiri can be considered "Very Good". Bank Mandiri consistently achieves a composite ranking of 1 every year, demonstrating high compliance with GCG principles. The ROA and CAR calculations can be said to be "Very Healthy" during this period and managed to get rank 1.

Research conducted by Novia Dwi Astari, Dadang Hermawan, Rosma Pakpahan (2020), based on an assessment of the Health Level of Commercial Banks at Bank Mandiri during 2016-2020 with the RGEC aspect, this bank consistently obtained Composite Rating 1 (PK-1), reflecting excellent financial health. NPL, LDR, GCG, ROA, NIM, and Capital demonstrated consistency in “Healthy” and “Very Healthy,” confirming strong performance over the period.

Research conducted by Kripen Kansil, Frendy A.O. Pelleng, Joula J. Rogahan (2020), shows that Bank Rakyat Indonesia (BRI) had very good performance during 2017-2019. The Risk Profile, including credit and liquidity risk factors, is in a healthy condition. Evaluation Good Corporate Governance (GCG) shows good implementation of GCG principles, with GCG values in the healthy category. Bank profitability, measured through ROA, NIM and BOPO, is in very healthy condition. Apart from that, Bank Rakyat Indonesia's health level from the RGEC aspect during 2017-2019 received the highest ranking, namely Composite Rank 1 (PK-1).

Research conducted by Febriana Verawaty Siagian, Muammar Rinaldi (2020), based on RGEC analysis in 2014-2016, showed variations in the level of bank health. The Risk Profile was generally pretty healthy in 2014, healthy in 2015, and pretty healthy in 2016. Good Corporate Governance shows health in all three periods. Earnings showed healthy in 2014, pretty healthy in 2015, and unhealthy in 2016. Factors of Capital in all periods obtained the title of very healthy.

Research conducted by Nathalia Putri Cantika, Henny Rahyuda (2021), based on the results of discussions and research, it can be concluded that the health of Bank Bukopin (parent entity) as measured by the RGEC method in 2016 as a whole can be said to be healthy, whereas in 2017 up to 2019 can be said to be healthy and pretty healthy.

Research conducted by Adnan Yudha Permana, I Made Surya Negara Sudirman (2021), Indonesian state-owned banks are at a good level of health, but Indonesian state-owned banks still have to improve their shortcomings. BRI and Bank Mandiri need to maintain performance and improve profitability aspects, especially related to the ROE ratio. BNI should improve profitability and corporate governance aspects related to GCG aspects. BTN must be more compliant and updated with regulations issued by government institutions, BTN also needs to improve risk and liquidity aspects related to third party funds.

Research conducted by Apriani Anggreini Bangun, Wuri Purnamasari, Gita Asti Diah Aprilia (2023), from the RGEC evaluation in the 2019-2021 time period, PT. Bank Jago, Tbk shows improvement in its health. In the Risk Profile aspect, NPL received a very healthy rating (PK-1), while LDR received a pretty healthy rating (PK-3). Good Corporate Governance (GCG) obtained the healthy predicate (PK-2). In the Earnings dimension, ROA and ROE received a poor rating (PK-5), while NIM achieved a very healthy rating (PK-1). From perspective of Capital, CAR achieved the title very healthy (PK-1). Overall, Bank Jago is rated as a pretty healthy entity (PK-3) during the 2019-2021 period.

Based on the description stated above, the author is interested in conducting research with the title "*The Analysis of the Health Level of Digital Banks in Indonesia Using the RGEC Method for the 2020-2022 Period (Case Study of Digital Banks Listed on the Indonesian Stock Exchange)*"

B. Research Problems Formulation

Based on the background of the problem that has been described, the formulation of these research problems are:

1. What is the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Risk Profile 2020-2022?
2. What is the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Good Corporate Governance 2020-2022?
3. What is the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Earnings 2020-2022?
4. What is the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Capital 2020-2022?
5. What is the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of aspects? Risk-Based Bank Rating (RBBR) 2020-2022?

C. Research Purposes

Based on the problem formulation above, the aims of these research are:

1. Analyzing the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Risk Profile in 2020-2022.
2. Analyzing the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Good Corporate Governance 2020-2022.
3. Analyzing the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Earnings 2020-2022.

4. Analyzing the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of Capital Year 2020-2022.
5. Analyzing the health level of Digital Banks Registered on the Indonesian Stock Exchange in terms of the 2020-2022 RGEC aspects.

D. Benefits of Research

The results of this research are expected to provide benefits including the following:

1. For The Organization/Company

The findings of this research can serve as considerations for bank management in making informed decisions that can influence the bank's health.

2. For Writers

It is hoped that the results of this research can broaden insight, increase knowledge, develop and improve the author's thinking skills regarding bank health level analysis which can be used as a reference in making investment decisions. Apart from that, it is also one of the requirements for obtaining a Bachelor's degree (S-1) at Mohammad Husni Thamrin University.

3. For Other Researchers

It is hoped that this research can be used as information for researchers and as a reference for further research on the use of the RGEC method in assessing the level of bank health.

4. For the Community or Potential Investors

This research can be used as material for consideration and illustration by investors and potential investors in determining investment decisions, both fund manager in managing portfolios, or other investors in general in order to minimize risks appropriately and obtain optimal profits.

E. Writing System

To be able to provide a general overview of this writing, a systematic discussion has been prepared to clarify the material to be discussed which is divided into each chapter. The distribution is as follows:

CHAPTER I INTRODUCTION

This chapter explains the research background, research problem formulation, research objectives, research benefits and writing systematics.

CHAPTER II THEORETICAL BASIS

In this section there is an explanation of related theories with the topic of the research carried out, with reference to books and resources related to problems in research. And a summary of the review. The literature/theoretical framework is then developed into conceptual framework/framework of thought, where in the framework thinking about the relationship between variables in research which is

compiled based on the theoretical basis of the literature review.

CHAPTER III RESEARCH METHODOLOGY

This chapter describes the time and place of research, types research, research objects, research variables, techniques data collection, and data analysis techniques.

CHAPTER IV RESULTS AND DISCUSSION

This chapter explains the general overview are the objects of this research, namely digital banks and the research variable is the bank's health level. Which become indicator is RGEK which consists of Risk Profile, Good Corporate Governance, Earnings, and Capital.

CHAPTER V CONCLUSIONS AND RECOMMENDATIONS

This chapter will contain the conclusions of the research results obtained from the discussion of previous chapters and will be presented along with suggestions for these conclusions.