

Analysis of Risk-Based Bank Ratings in Banking Companies before and After Merger: Case Study Indonesian Banking Industries

Salsa Selviana

Universitas Peradaban, Indonesia
selviana.salsavina@gmail.com

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ABSTRACT

The difficulties experienced by banks in Indonesia appear to be very prolonged, even though Bank Indonesia has carried out its duties as lender of last resort namely the inherent function of protecting the bank in the event of liquidity difficulties. This banking crisis ultimately led to the liquidation of many banks and mergers. The purpose of this study is to analyze the health of banks in banks that carried out merger actions from 2015 to 2019 and banks listed on the IDX. Research was analyzed using the RBBR method (Risk Based Bank Rating). The method in this study was conducted based on credit risk and liquidity risk as measured using the NPL ratio (Non Performing Loan) and LDR ratio (Loan Deposit Ratio). GCG factors are measured by GCG composite ratings published by banks, factors earnings calculated using the ROA ratio (Return on Asset) and NIM (Net Interest Margin). Factor Capital calculated by CAR ratio (Capital Adequacy Ratio). The results of the RBBR analysis show that in general, almost all assessment factors have decreased, except for factors capital just.

Keywords: Risk Analysis, Financial Statements, Bank Health, Mergers, Financial Performance

INTRODUCTION

One company that sells services is a company engaged in banking or better known as a bank. Banks are business entities that collect funds from the public in the form of deposits. The banking industry is an important component in maintaining the stability of the national economy. Banks carry out their functions as intermediary institutions, namely by collecting funds from the community and channeling these funds back to the community and providing other bank services (Agustini & Sulindawati, 2020).

At the time, inflation had soared to 70% and the economy had contracted 13%. During this period until 2004, Indonesia then experienced a banking crisis. Banks in Indonesia are experiencing liquidity, quality difficulties, assets decreased, unable to create learning and finally the capital is drained with a very fast time. The difficulties experienced by banks in Indonesia appear to be very prolonged, even though Bank

Indonesia has carried out its duties as lender of last resort namely the inherent function of protecting the bank in the event of liquidity difficulties. This banking crisis ultimately led to the liquidation of many banks and mergers.

Merger is one of the future business strategies aimed at strengthening company capital or for the purpose of owning a company with majority share control (Astuti & Drajat, 2021). Mergers in the banking sector have been regulated by the Financial Services Authority or OJK with OJK Regulation Number 41/Pojk.03/2019 concerning Mergers, Consolidations, Acquisitions, Integrations and Conversions of Commercial Banks. Since the implementation of this POJK, the number of National and Foreign Private Banks in Indonesia has decreased, until February 2021 the number of national private banks registered with the OJK was 68 banks, a reduction of around 9.3% compared to the number of national private banks in February 2017, namely 75 banks. Foreign private banks have also decreased by one to 8 banks in the last five years. Meanwhile, the number of regional development banks (BPD) and state-owned banks has not changed at all since February 2017, where the number remains at 27 banks and 4 banks respectively.

Integration and Conversion of Commercial Banks. Since the implementation of this POJK, the number of National and Foreign Private Banks in Indonesia has decreased, until February 2021 the number of national private banks registered with the OJK was 68 banks, a reduction of around 9.3% compared to the number of national private banks in February 2017, namely 75 banks. Foreign private banks have also decreased by one to 8 banks in the last five years. Meanwhile, the number of regional development banks (BPD) and state-owned banks has not changed at all since February 2017, where the number remains at 27 banks and 4 banks respectively.

The merger was carried out with the aim that the bank could become stronger in terms of capital and a wider office network. In addition, the bank resulting from the merger is also expected to contribute to the economy in Indonesia to create a more competitive and advanced financial sector. The success of the merger objective can only be seen by assessing the health of the banks that have carried out the merger. Bank health is the bank's ability to carry out banking operations normally and be able to fulfill obligations properly and in ways that are in accordance with applicable banking regulations (Armaya, et, al., 2021).

One way to assess the soundness of a bank according to the OJK is to use the RBBR (Risk-Based Bank Rating) approach. The RBBR method is a refinement of the CAMELS method (Capital, Asset Quality, Management, Earning, Liquidity, and Sensitivity Of Risk). With the RBBR method, banks are expected to be able to identify problems early on and follow up on appropriate and faster improvements (Dani & Wiarta, 2022). As stipulated in the Financial Services Authority Regulation No.4/POJK.03/2016, commercial banks are required to self-assess the health of their banks using the risk based bank rating (RBBR), both individually and consolidated, by using several factors, namely Risk Profile, Good Corporate Governance (GCG), Profit and Capital or known as RGEC. The RBBR approach is applied to every commercial bank in Indonesia, both domestic and foreign banks.

The Risk Profile is an assessment of inherent risk and the quality of risk management which consists of eight risks (credit, market, liquidity, operational, legal, strategic, reputation and compliance risks). Good Corporate Governance (GCG) is a bank management assessment of the implementation of GCG principles, Earnings is an assessment of the performance, sources, and sustainability of bank revenues, and Capital is the assessment of bank capital adequacy and capital management (Sari & Tasman, 2020).

THEORETICAL BASIS

Financial Management

(Pristianti & Musdholifah, 2020) defines management as a branch of knowledge that seeks systematically to understand why and how humans work together to achieve goals and make this cooperative system more beneficial to humans. In other words, management focuses on utilizing other people in achieving goals. In order to achieve these goals, people in the organization must have clear authority, responsibilities and work assignments. According to (Novira, et, al., 2020) defines finance as an art and science of money management. Truly every individual and organization makes money and spends or invests money. Finance deals with processes, institutions, markets, an instrument involved in transferring money between individuals and between businesses and governments.

The artistic aspect of finance lies in the decision-making process and the application of financial principles to real-world situations. Financial professionals, such as financial managers, analysts, and advisors, often need to use their judgment, creativity, and experience to make strategic financial decisions. This may involve allocating funds, choosing investment options, devising financial plans, and managing financial risks. The art of finance involves understanding the nuances of the financial world, considering human behavior and market dynamics, and finding innovative solutions to financial challenges.

Financial Statements

(Ulhaq & Hasanah, 2022) put forward the notion of financial reports, that is, financial reports are a structure that presents the financial position and financial performance of an entity. The general purpose of these financial reports for the public interest is the presentation of information about financial position, financial performance, and cash flow of an entity that is very useful for making economic decisions for its users. To achieve this objective, financial reports provide information about the elements of an entity consisting of assets, liabilities, net worth, expenses and income (including gain and loss), changes in equity and cash. This information, followed by notes, will help users predict future cash flows (Sunardi, 2020).

Institution Bank Finance

The role of banking is still very much needed by the country's economy at this time so that the running economy remains stable with government policies through the central bank to make banking policies in anticipation of the stability of the economic system (Panjaitan & Silalahi, 2020). (Armando & Kurniawan, 2019) said that a central bank is an institution born because of its function as an agent of frustration and agent of development. As an agent of trust, it is an intermediary institution that is trusted to serve all financial needs from and for the community. Meanwhile, as an agent of development, the Bank is an intermediary institution that can promote development progress through credit facilities and ease of payment and withdrawal in the transaction process carried out by economic actors.

Bank Health

The soundness of a bank is in the interest of all related parties, including the owners, managers (management) of the bank, the public using bank services, and Bank Indonesia

as the bank's supervisory authority. (Inayah, et, al., 2020) the soundness level of a bank is the result of a quantitative assessment of various aspects that affect the condition or performance of a bank through an assessment of capital factors, asset quality, management, liquidity, and sensitivity to market risk, and is used as a quantitative assessment or qualitative after considering the elements judgement.

Initially, the bank rating system used the CAMEL method which included: (Capital, Asset Quality, Management, Earnings, and Liquidity). Furthermore, this Bank Indonesia regulation was updated into 6 (six) assessment factors called CAMELS (Capital, Asset, Management, Earnings, Liquidity, and Sensitivity to Market Risks) (Sari, et al., 2022). It is contained in Bank Indonesia Regulation Number 6/10/PBI/2004 dated 12 April 2004 concerning the Soundness Rating System for Commercial Banks. Then refined again and replaced with the latest Bank Indonesia regulation Number 13/1/PBI/2011 concerning the rating system for the soundness of commercial banks.

Merger

Merger is one of the strategies taken by the company to develop and grow the company. Merger is a merger of two or more companies where only one company survives as a legal entity, while the others stop their activities or disband (Faton, 2022). Merger is a legal action taken by 1 (one) company or more to merge with another existing company which results in the assets and liabilities of the merging companies being transferred by law to the company receiving the merger and then the legal entity status of the merging companies, the self ends because of the law (Hikmah & Ritonga, 2021). Companies merge with the aim of creating a synergy, meaning that the results obtained from the merger must be greater than if each company operates separately, or in other words it can be illustrated as $2+2=5$. However, specifically there are several other reasons for companies to merge.

METHOD

This research is descriptive research with a qualitative approach. Qualitative descriptive method is a research method based on the philosophy of postpositivism used to examine the condition of natural objects where the researcher is as instrument the key data collection techniques are carried out by means of triangulation (combined), data

analysis is inductive/qualitative in nature, and the results of qualitative research emphasize meaning rather than generalization.

The data used in this research is secondary data. The source of the secondary data used by the researcher comes from a list of banking companies listed on the Indonesian Stock Exchange website in the form of published banking company financial reports. The data collection technique is a way of writing to capture or capture quantitative information from respondents according to the scope of the research.

Population is a generalized area consisting of objects/subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions drawn. The population in this study are all banking companies listed on the Indonesia Stock Exchange. The total population of this study is 43 companies per year. Determination of sampling in this study using purposive sampling technique.

RESULT

In order to find out the results of the RBBR analysis before and after the merger in banks, it is necessary to have information regarding the comparison of RGEC factors in each bank studied.

RBBR analysis results before and after the merger at the Bank Woori Brothers (BWS)

In maintaining the quality of non-performing loans, BWS is known to consistently monitor non-performing loans in the company and also always optimize collection efforts for its debtors. Therefore, the level of non-performing loans at BWS is very low. The NPLs obtained by BWS at the time before the merger were 1.33% and 0.41% while the NPLs obtained at the time after the merger were 1.54% and 1.26%. Based on the capital adequacy ratio, BWS's Capital Adequacy Ratio (CAR) at the time before the merger and after the merger was also very healthy, with a CAR ratio of $> 12\%$. This shows that the ability of BWS in terms of providing funds used as reserves to deal with possible risks in the future is very good. As for the CAR value obtained by BWS in 2013 and 2014, namely 27.91% and 21.71%.

In general, the performance of BWS in terms of generating company profits was fairly good, the company's ROA and NIM at the time before the merger were always included in very healthy criteria. However, during the first year of the merger, BWS's

performance declined, resulting in ROA and NIM that were included in the healthy and moderate criteria. Nonetheless, BWS continues to make improvements so that in the following year BWS can obtain an ROA of 1.99% with healthy criteria and a NIM of 4.89% with very healthy criteria.

RBBR analysis results before and after the merger at the Bank Danamon

The NPL ratio before the merger at Bank Nusantara Parahyangan and Bank Danamon was at a ratio of 2% $< \text{NPL} < 5\%$, so that they were ranked 2nd with a good predicate. The NPL ratio obtained after the merger at Bank Danamon was also ranked 2nd with a good predicate, namely 3.32% in 2019 and 3.01% in 2020. This shows that before the merger and after the merger these banks had low levels of non-performing loans.

Based on the results Self Assessment (self-assessment) on Bank Nusantara Parahyangan and Bank Danamon before the merger and after the merger received a composite rating of 2 or good. This reflects that these banks have implemented good governance in general and have met the principles of governance adequately.

Capital Adequacy Ratio (CAR) at Bank Nusantara Parahyangan and Bank Danamon at the time before the merger received a rating of 1 and received a very good predicate with a CAR ratio of $> 12\%$. Likewise, Bank Danamon's CAR after the merger, the CAR ratio it obtained always increased every year and always received a rating of 1 or very good. Bank Danamon's CAR in 2019 and 2020 was recorded at 24.5% and 25.59%. For Bank Danamon, the bank's high capital level has always been a superior strength, so that the bank will have a good ability in terms of providing funds to overcome the possibility of various risks occurring in the future.

RBBR analysis results before the merger and after the merger at PT Bank OK Indonesia, Tbk

Before the merger, Bank Dinar obtained very healthy criteria with a ratio of $50\% < \text{LDR} < 75\%$. Meanwhile, the LDR at Bank Oke Indonesia before the merger and after the merger received unhealthy criteria with an LDR ratio of $> 120\%$. The average ROA before the merger at Bank Dinar and Bank Oke Indonesia was in the criteria of being quite healthy. Meanwhile, the ROA obtained by OK Bank after the merger in 2019 obtained the criteria of unhealthy and unhealthy in 2020. This shows that OK Bank does not have a good ability to generate profits for the company.

CAR before the merger and after the merger at bank Oke Indonesia always obtained very sound assessment results with a CAR ratio of $> 12\%$. CAR ratio obtained show that with various possible risks that could occur, bank Oke Indonesia still has adequate reserves of funds to be able to cover these risks.

RBBR analysis results before and after the merger at Bank IBK

The decrease in the rating can be seen from the composite rating obtained at the time before the merger, namely at Bank Mitraniaga it was PK 2 (healthy) to PK 3 (fairly healthy) at the time after the merger. In general, almost all of the assessment factors have decreased, except for the capital factor with the CAR ratio. The decline can be seen in the assessment of the ROA ratio obtained by IBK bank after the merger. The ROA obtained was -4.90% in 2019 and -2.12% in 2020. In this case, the company still does not have a good ability to generate profits for the company. Director of Bank IBK Indonesia Alexander Frans Rori stated that until the end of 2020 the losses that Bank IBK earned reached IDR 97.53 billion. The CAR obtained before the merger and after the merger always gets an assessment with very healthy criteria with a CAR ratio of $> 12\%$. CAR ratio obtained show that with various possible risks that could occur, bank IBK still has adequate reserves of funds to be able to cover these risks. In addition, the company's consistency in implementing (Good Corporate Governance) Good GCG also shows that the performance of PT Bank IBK Indonesia Tbk has been carried out well and is expected to grow and develop in a healthy manner.

CONCLUSION

The results of the health assessment of BWS Bank used RBBR analysis at the time before the merger, which was very healthy (PK 1) and the results of the health of BWS bank after the merger, namely healthy (PK 2). This shows a decrease in the bank's soundness rating on BWS.

The results of the health assessment of Bank Danamon using the RBBR analysis at the time before the merger and after the merger were healthy (PK 2). This shows that the assessment of Bank Danamon's health does not increase or decrease in the assessment

The results of the OK Bank health assessment at the time before the merger and after the merger using RBBR analysis, namely the assessment decreased. The composite rating obtained by Bank Dinar and Bank Oke Indonesia at the time before the merger,

namely PK 2 (healthy) decreased to PK 3 (fairly healthy) at the time after the merger. The decline can be seen from the ratio of LDR and ROA obtained by the bank. Before the merger, the LDR was rated very healthy at Bank Dinar and unhealthy at Bank Oke Indonesia

The results of the IBK Bank soundness assessment at the time before the merger and after the merger using RBBR analysis, namely there was a decrease in the assessment. The decrease in the rating can be seen from the composite rating obtained at the time before the merger, namely at Bank Mitraniaga it was PK 2 (healthy) to PK 3 (fairly healthy) at the time after the merger. In general, there was a decrease in almost all factors in the assessment, except for factors capital with the CAR ratio. CAR obtained before the merger and after the merger always get an assessment with very healthy criteria.

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