

THE INFLUENCE OF BANK HEALTH LEVEL ON STOCK PRICES (CASE STUDY ON THE INDONESIAN STOCK EXCHANGE)

¹Yenny Verawati, ²I Putu Mega July Semara Putra

^{1,2} Faculty of Economics and Business, Mahasaraswati University Denpasar

ABSTRACT

Information regarding company financial data in financial reports can be useful if it can be presented accurately and on time when needed by users of financial reports. The bank's health level will have an impact on decision making by interested parties such as investors. A good level of bank health will have an impact on the value of the company's shares. This research was conducted with the aim of determining the level of bank health using the RGEC method, namely Risk Profile, Good Corporate Governance, Earning, Capital, in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

The population in this research is 47 banking companies registered on the IDX in 2020-2022. The sample in this study was 37 companies with determination based on the purposive sampling method. The analysis technique used is multiple linear regression analysis techniques.

The results of this research show that the Risk Profile variable has a negative effect on share prices, the Good Corporate Governance variable has no effect on stock prices, and Capital while Earning has a positive effect on the share prices of banking companies listed on the Indonesia Stock Exchange in 2020-2022.

KEYWORDS: Risk Profile, Good Corporate Governance, Earnings, Capital.

1. INTRODUCTION

Banks are one of the institutions that take part in capital market activities, especially in the movement of the composite stock price index (IHSG). (Salsabilla et al., 2020). The main activity of the bank itself relies heavily on public trust, therefore to maintain public trust the bank must build and maintain that trust through the level of health of the bank itself. (Anggraeni et al., 2019). A bank can be said to be healthy if the bank can carry out its functions well and can maintain public trust. If a bank can carry out normal banking operational activities and fulfill all obligations properly in accordance with applicable regulations, then the bank is considered to have a good level of health. (Turangan et al., 2022). By assessing the bank's health level, it becomes a means of evaluating the conditions and problems faced by the bank, as well as to follow up on the bank's problems and weaknesses. (Maramis, 2020). The public bank health assessment system itself is written in Financial Services Authority Regulation no. 4 /POJK.03/2016 with this regulation, banks are required to carry out bank health assessments.

Financial Services Authority Regulation no. 4 /POJK.03/2016 states that bank health assessments are assessed using the RGEC method which consists of *Risk profile*, *Good Corporate Governance*, *Earnings*, and *Capital* (Financial Services Authority Regulation Number 4/POJK.03/2016 concerning Assessment of the Soundness Level of Commercial Banks, 2016). The Risk Profile in this study uses credit risk which is represented by Non-Performing Load (NPL), where this risk occurs as a result of the customer's inability to complete their obligations to the bank according to the due date agreed between both parties, which Bank Indonesia determines. NPL safe limit is 5% (Aprilia et al., 2021)

Good Corporate Governance The assessment refers to the quality of the implementation of existing corporate governance. GCG itself has 5 basic principles, namely transparency, accountability, responsibility, independence and fairness. In this research, GCG aspects were obtained from the results of the company's independent self-assessment, which consists of 5 levels (Salsabilla et al., 2020).

Earning (rentability) is a tool used to measure a bank's ability to generate profits, by comparing profits or capital with assets in a certain period.(Pandia, 2012). Profitability can also be an assessment of the company's responsibility with the capital handed over by the capital owner, this is shown by the amount of dividends available, this level of profitability can also reflect the bank's capital capacity, the measurement in this research uses the Return On Assets (ROA) ratio.(Maramis, 2020).

Capital is the final ratio in assessing bank health using the RGEC method. Capital Adequacy Ratio is a ratio used by banks to measure their ability to manage capital in their business activities, the minimum CAR value is 8%(Alyssa et al., 2021). Bank capital functions so that depositors feel calm about depositing their money in the bank, apart from that it is also intended to cover potential unexpected losses (unexpected loss), as well as as a reserve in the event of a crisis at the bank(Indonesian Bankers Association, 2019).

The level of bank health is closely related to share prices on the market. Investors tend to prefer share prices with a stable level of development and decline because this can minimize the risk of loss. Investors and companies must pay attention to share price movements.(Salsabilla et al., 2020).

The level of bank research itself has been studied by several other researchers, including by(Mubarok et al., 2021)And(Alyssa et al., 2021)which states that assessing bank health using the RGEC method has a significant effect on prices.(Salsabilla et al., 2020)states that NPL, ROA, CAR are not significant to share prices while GCG has a significant effect on share prices.(Maharani & Iradianty, 2021)stated that the RGEC method did not have a significant effect on BPR share prices.(Anggraeni et al., 2019)states that NPL and ROA have a significant effect on share prices, while GCG and CAR have an insignificant effect on share prices.

Research on the level of bank health that influences share prices with the latest regulations currently has not yet shown consistent results, thus motivating the author to provide further evidence regarding this phenomenon.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signal Theory (Signaling Theory)

Signal theory (*signaling theory*) was first put forward by(Spence, 1973). Where in this theory it is stated that the sender or party who has the information will provide a signal in the form of information where the information can reflect the condition of the company which will be useful for the recipient or potential infestor. Signaling theory is an approach used in discussing the influence of bank health on stock prices. Where in this condition internal parties or companies will publish their financial reports to external parties to provide signals about the company's condition through their financial reports which are freely accessible via the company website or on the Indonesian Stock Exchange.

The Effect of Risk Profile on Stock Prices

Based on signal theory, internal parties in companies share or publish their financial reports voluntarily to external parties in the company with the aim of gaining profits back in the form of trust which can make external parties want to invest their capital in the company. Non-performing loans is a ratio used by banks to measure the bank's ability to manage problem loans. Problematic credit consists of bad, substandard and doubtful credit. A bank's NPL value is said to be good if it is below 5%. A value above 5% is a concern that the bank will have problems with its credit which will affect the reduction in profits it will earn(Alyssa et al., 2021)

A high level of bank risk profile can mean that the bank is facing risks from its operational activities but the implementation of risk management is less effective. This high risk can result in investors being afraid to invest in the company, which will reduce investors' interest in investing in the company, resulting in a decline in the company's share price. Previous research was conducted by(Prabawati et al., 2021), states that NPLs have a negative effect on share prices,(Atiningsih, 2018)And(Junaidi & Setiawan, 2022)states that NPL has no effect on share prices

H1: Risk Profile has a negative effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

The Influence of Good Corporate Governance on Share Prices

Influence *good corporate governance* on share prices is explained by signaling theory, where signaling theory explains why companies have incentives to report their reports to external parties without any coercion from any party with the aim of reducing the uncertainty of existing information. One of the measurements used to measure Good Corporate Governance is using Independent Commissioners.

In banks, independent commissioners act as supervisors in management who can balance the interests of minority shares with other parties who have an interest in decisions taken by company management. Where the existence of independent commissioners is able to encourage the company to be highly trusted and implement good corporate governance (Febiola et al., 2019). Results from previous researchers (Alyssa et al., 2021), (Atiningsih, 2018) and (Prabawati et al., 2021) states that GCG has a positive effect on share prices.

H2: Good corporate governance has a positive effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

The Effect of Earnings on Stock Prices

Profitability used as a bank reference to measure the ability to earn profits during a certain period. Profitability itself can be measured through Return on Assets (ROA) (Prabawati et al., 2021). Return on assets (ROA) is a ratio that shows the company's ability to earn profits by utilizing existing assets (Pasaribu, 2021) ROA itself can reflect a bank's effectiveness in managing its assets, so ROA is often used to measure bank performance. The minimum value of the ROA ratio is 1.25% (Salsabilla et al., 2020). With the signal theory, companies can publish their financial reports to make it easier for investors to obtain information related to ROA in a company so that it can be a consideration for potential investors. In line with this research (Alyssa et al., 2021), (Hayati et al., 2019), (Atiningsih, 2018) and (rahayu, 2022) has conducted research which states that ROA has a positive effect on share prices.

H3: Earnings have a positive effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

The Influence of Capital on Share Prices

CAR (*capital adequacy ratio*) is a ratio used to assess capital adequacy. Banks use this ratio to minimize credit losses. Bank Indonesia itself has determined CAR as the minimum capital obligation ratio (KPPM) that banks must maintain. According to ("Bank Indonesia Regulation No.10/15 /PBI/2008 Concerning Minimum Capital Requirements for Commercial Banks," 2008) The minimum CAR value is 8% of RWA.

With the signal theory, companies will publish their financial reports to make it easier for investors to find out the CAR value of the company, which means that a higher CAR value can reflect that the bank is healthy, because this ratio shows the bank's ability to bear the risk of credit losses, which means the bank can maintain liquidity and stability in bank operations which can increase investor confidence. Research conducted by (Junaidi & Setiawan, 2022), (Prabawati et al., 2021) and (Alyssa et al., 2021) which states that CAR has a positive effect on share prices.

H4: Capital has a positive effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

3. RESEARCH METHODS

This research was carried out at the Indonesian Stock Exchange which is located at Jalan. Gen. Sudirman Kav 52-53 South Jakarta 12190, Indonesia. And the data is accessed via the Indonesian Stock Exchange website, namely www.idx.co.id. The research object used in this research is the annual reports of all banking companies listed on the Indonesia Stock Exchange for 2020-2022, by looking at Risk Profile (NPL), Good Corporate Governance (GCG), Earnings (ROA), Capital (CAR). There was a population of 47 banking companies which were then selected using purposive sampling which resulted in a sample of 37 companies, with an observation year of 3 years. The data analysis used is multiple regression analysis.

The share price is proof of ownership of a company from a person or entity that applies in the Indonesian capital market and is the closing price (*closing price*) which is formed on the stock exchange. (Febiola et al., 2019). Where the data used in this research is closing stock price data obtained from the annual report of the relevant company.

One ratio that can represent risk profile factors is NPL (Non Performing Loan). The measurement for this asset quality variable is by using Non Performing Loans (NPL). "This can show the percentage of the amount of credit disbursed that is experiencing problems regarding the failure of the debtor to fulfill its obligation to pay the agreed principal installments and interest. This ratio is formulated as follows:

$$NPL = \frac{\text{Kredit Bermasalah}}{\text{Total Kredit}} + 100$$

The board of commissioners is the core of corporate governance which is tasked with ensuring the implementation of company strategy, supervising management in managing the company, and requiring accountability. Where the board of commissioners can also represent GCG principles in accordance with FCGI. The Board of Commissioners can be measured by the number of members in the Corporate Governance Report. This variable is calculated using a formula (Anggraeni et al., 2019):

$$GCG = \frac{\text{Jumlah Dewan Komisaris Independen}}{\text{Jumlah Dewan Komisaris}} \times 100\%$$

Return on assets is the ratio used in this research where this ratio measures the ability of bank management to obtain overall profits. The net profit used in this ratio is the net profit before tax calculations. A high ROA will reflect the high value of the company and the presence of a high company value can cause potential investors to be interested in investing (Maramis, 2020). ROA is part of the profitability ratio in financial report analysis or company performance measurement. This ratio is formulated as follows:

$$ROA = \frac{\text{Laba Sebelum Pajak}}{\text{Total Aset}} \times 100\%$$

CAR is a ratio that can be useful in assessing capital adequacy. A higher CAR means that the bank's ability to deal with risks is stronger and will have an impact on public confidence in the bank's performance. So the CAR gets bigger then (Febiollla et al., 2019). According to (Financial Services Authority Regulation Number 4/POJK.03/2016 concerning Assessment of the Soundness Level of Commercial Banks, 2016) explains that banks are required to provide capital of at least 8% of risk-weighted assets (RWA). A bank's CAR can be calculated as follows:

$$CAR = \frac{\text{Modal Bank}}{\text{Total Aktiva Tertimbang Menurut Resiko}} \times 100\%$$

This research uses The multiple linear regression equation is shown by the following equation:

$$y = \alpha + \beta_1 NPL + \beta_2 GCG + \beta_3 ROA + \beta_4 CAR + e$$

4. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive Statistics Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
NPLs	111	0.00	3,336	0.3545	0.72267
GCG	111	0.07	0.75	0.5644	0.10385
ROA	111	-0.18	0.04	0.0032	0.02919
CAR	111	0.11	168.80	9.8381	24.52576
HS	111	50.00	33850.00	2355.8649	4053.30644
Valid N (listwise)	111				

Source: data processed 2024

The standard deviation value is greater than the average, meaning that the NPL, GCG, ROA, CAR, HS data varies/there is a large gap.

Multiple Linear Regression analysis test

Multiple Linear Regression Test Results

Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1.	(Constant)	3335,680	2508,123		1,330	0.186
	NPLs	-1356,559	593,146	-0.255	-2,287	0.024
	GCG	-1765.018	4198,345	-0.045	-0.420	0.675
	ROA	33223,136	12878,543	0.239	2,580	0.011
	CAR	39,716	16,009	0,240	2,481	0.015

Source: data processed 2024

Based on the table above, the following regression equation is obtained:

$$HS=3335,680-1356,559NPL-1765,018GCG+33223,136ROA+39,716CAR$$

Classic assumption test

Based on the results of the normality test, the value is *Kolmogorov-Smirnov* (KS) is 0.180 and the significance level is $0.90 > 0.050$, so it can be concluded that the data in the regression model is normally distributed and can be continued for further analysis. Based on the results of the multicollinearity test, it can be seen that all tolerance values for all independent variables are more than 0.1 and the VIF value is less than 10. So, it can be concluded that the regression model created does not contain symptoms of multicollinearity, thus the model is suitable for use. Based on the results of the autocorrelation test, the Durbin-Watson value was obtained, namely 2.217. It is known that the number of samples (n) is 111 and the number of independent variables (k) is 4 at a significance level of 0.05; then the value obtained is $dL = 1.7657$; $dU = 1.5977$; and the value of $4-dU = 2.4023$. The value of $dU < dW < 4-dU$ is $1.5977 < 2.217 < 2.4023$; So it can be concluded that there is no autocorrelation in the model, and the model is suitable for use.

F test

Based on the results of the F test, the calculated F value was 3.479, with an F significance of 0.010; where the value is greater than 0.050, which indicates that the variables risk profile, good corporate governance, earnings, capital simultaneously influence stock prices

Coefficient of Determination Test (R2)

Based on the results of the coefficient of determination test, the adjusted R square (R2) value was 0.083 or 0.83%. This shows that the influence of risk profile, good corporate governance, earnings, capital is 0.83%; while the remaining 99.17% is influenced by other factors outside the model.

t test

Based on the results of the t test, information is obtained, namely:

1. The NPL risk profile variable has a calculated t value of -2.287 with a significance level of $0.024 < 0.050$, which means that the risk profile has a significant negative effect on stock prices, so H1 is accepted
2. The GCG variable has a calculated t value of -0.420 with a significance level of $0.675 < 0.050$, which means that the risk profile has a negative effect and does not have a significant effect on stock prices, so H2 is rejected.
3. The ROA variable has a calculated t value of 2.580 with a significance level of $0.011 < 0.050$, which means that the risk profile has a significant positive effect on stock prices, so H3 is accepted.
4. The CAR variable has a calculated t value of 2.481 with a significance level of $0.015 < 0.050$, which means that capita has a significant positive effect on stock prices, so H4 is accepted.

The influence of Risk Profile (NPL) on share prices

The NPL ratio shows the ability of bank management to manage problem loans provided by the bank. The credit referred to in this case is credit provided to third parties, excluding credit to other banks. The first hypothesis states that risk profile (NPL) has a negative effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022. The test results show that the risk profile has a significant negative effect on stock prices, so H1 is accepted.

This means that the higher the company's risk profile, the higher the share price will fall further. Likewise, if the risk profile is low, it can increase share prices. Because if there are a lot of problematic loans in a banking company, this can reduce interest in buying shares in the company itself. This is in line with research conducted by (Atiningsih, 2018) and (Junaidi & Setiawan, 2022) states that NPL has no effect on share prices.

The influence of GCG on share prices

Corporate governance is a set of regulations that regulate relationships between shareholders, managers, creditors, government, employees and other interested parties, both internal and external, as a system that regulates and controls the company. The assessment of this GCG aspect uses an Independent Commissioner where the Independent Commissioner can represent almost all the principles of GCG in terms of transparency, independence, responsibility and fairness. The first hypothesis states that good corporate governance (GCG) has a positive effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

The test results show *good corporate governance* that good corporate governance has no effect on stock prices, so H2 is rejected. This means that the governance of a company, represented by the board of commissioners and independent commissioners, does not affect share prices. These results are in line with research conducted by (Pardede et al., 2021), (Maharani & Irdianty, 2021), (Anggraeni et al., 2019), and (Devy & Wafiroh, 2022) has no effect on share prices.

The effect of ROA on share prices

Earnings is a tool used to measure a bank's ability to generate profits by comparing profits with assets or capital in a certain period (Maramis, 2020). The assessment of this aspect includes the achievement of ROA (return on assets) which describes the company's ability to generate net profit after tax (Atiningsih, 2018).

The test results show *earnings* ROA (return on assets) has a positive effect on stock prices, so H3 is accepted. This shows that if the company's ability to generate profits gets better, the company's share price will also increase. Likewise, if the company's ability to generate profits is poor, the company's share price will also decrease. These results are in line with research conducted by (Alyssa et al., 2021), (Hayati et al., 2019), (Atiningsih, 2018) and (rahayu, 2022) has conducted research which states that ROA has a positive effect on share prices.

The effect of CAR on share prices

Capital (capital) is money invested by the owner as principal to start a business or to expand the business which can increase wealth. Bank capital also functions so that depositors who save money in the bank feel calm that the money they have deposited will be guaranteed to be returned on time (Maramis, 2020).

The test results show that Capital (CAR) has a negative effect on stock prices, so H4 is accepted. This means that if a company's capital adequacy is higher to accommodate the risk of loss, it can increase the company's share price, and vice versa, if the company's capital adequacy is low, it can reduce the company's share price. These results are in line with research conducted by (Junaidi & Setiawan, 2022), (Prabawati et al., 2021) and (Alyssa et al., 2021) which states that CAR has a positive effect on share prices.

5. CONCLUSIONS AND RECOMMENDATIONS

This research was conducted with the aim of determining the effect of profitability, solvency, company size, auditor reputation and audit opinion on audit delay in banking companies listed on the Indonesia Stock Exchange in 2020-2022. The test results concluded that:

1. Risk Profile (NPL) has a negative effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.
2. Good Corporate Governance (GCG) has no effect on share prices in banking companies listed on the Indonesia Stock Exchange in 2020-2022.
3. Earnings have a positive effect on audit delay in banking companies listed on the Indonesia Stock Exchange in 2020-2022.
4. Capital has a positive effect on audit delay in banking companies listed on the Indonesia Stock Exchange in 2020-2022.

Based on the limitations of the research above, the author can make several suggestions as follows:

1. Future research can use other financial sub-sector companies, for example the insurance sub-sector, or only state-owned companies so that the results of this research are more specific.
2. Further research is recommended to add variable assessments such as LDR, BOPO, NIM.
3. The number of years of observation should be extended to provide more comprehensive research results

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