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The Financial Performance Comparation of Private and Government Bank: Rural Bank Case

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Abstract

The purpose of establishing rural bank/ Bank Perkreditan Rakyat known as BPR is to improve the regional economy through credit as financial support for inclusive society. Meanwhile, the contribution of BPR/BPRS (Conventional/Sharia) owned by the Local Government to the regional economy is still small in number. It reflected in the share of productive loans/financing channeled by Local Government BPR lower than private BPR/BPRS. This study aims to Analyze Performance Difference in Private Rural Banks and Rural Banks Owned by Local Government in Central Java Province using financial performance ratios. The financial performance ratios were Capital Adequacy Ratio (CAR), Quality of earning assets, Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Return on Assets (ROA). The method used to analyze data is Different Tests using Independent T-test. This study used SPSS Version 23 analysis tool. The sample of this research is BPR owned by Local Government of Central Java, and Private owned BPR in Central Java Province from 2016 to 2019. Selection of sample by using purposive sampling. Based on Independent T-Test, there is a difference in the ratio of Quality of earning assets and LDR between BPR owned by Local Government and Private Rural Bank, while for the ratio of NPL, CAR, and ROA there is no difference.

INTRODUCTION

Banks are one of the financial institutions that carry the most basic basis to collect funds from the public and mobilize public funds by channeling back to the public in the form of activities to utilize funds or investments. The function can be called as a core of economy development of the country. The existence of banks looks very important for a country's economy because banks function to facilitate financial traffic that plays a role in the mobility of a country's economic growth and it is part of a monetary system that has a strategic position as a support for economic development. The size of a country's progress can be reflected in the progress of banks in the country concerned because the greater the role of banks in the country, will encourage the progress of the country. This shows that the role of a bank can affect a country's economy.

In Indonesia there are several types of banks. Banks are divided into Commercial Banks and Rural Credit Banks, but when viewed in terms of ownership. The types of banks classified as Government Owned Banks (Central Government and Regional Governments), National Private Owned Banks, Owned Banks Mixed Private Sector and Foreign Owned Bank.

Rural Credit Bank (BPR) is a bank that runs conventional business activities or is based on sharia principles whose activities do not provide payment traffic services. Bank Perkreditan Rakyat (BPR) carries out business activities such as raising funds in the form of savings, lending, and time deposits, meaning only limited to simple transactions. BPR activities are aimed at serving small businesses and the community

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locally. The main purpose of BPR is to provide services to micro small and medium enterprises, and the sur- rounding community in those regions.

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Rural bank recently concern on delivering entrepreneur credit. Based on Entrepeneur Development Department of Bank Indonesia in 2019, comparing to Regional Bank Government (BPD) the diffirent contribustion number is only around 3%. BPD was on 11.3% while BPR/ BPRS were at 8.31% from total credit. It means Rural bank also hold the important role on contribution regional economic growth.

OJK, as the authority that oversees banks in Indonesia, assesses that the synergy between the Regional Government and BPR /BPRS owned by the Regional Government needs to be realized immediately to improve Governance and improve the Performance of BPR /S owned by the Regional Government. Improvement in Governance can encourage the acceleration of regional development programs through the distribution of Regional Budget Revenues and Expenditures

That remains targeted, particularly through programs related to increasing financial access and community economic empowerment. Meanwhile, increasing the performance of BPR/S owned by the Regional Government can have a positive impact on increasing dividends as one of the Regional Original Revenues.

CAMELS ratios, which are one of the important analysis types for performance assessment in the banking sector, comprise important parameters reflecting the results of banking sector performance (Dincer et al., 2011). Good bank performance, the level of public confidence in the bank increases, but vice versa, if the bank's performance decreases, the level of customer confidence decreases. Roman and Camelia (2013) highlight the strengths and the vulnerabilities of the analyzed banks, underlining the need to strengthen the concerns of the decision-makers from banks to improve and increase their soundness. The procedure for evaluating the soundness of banks in Indonesia is regulated in Bank Indonesia Circular Letter No. 6/23 / DNPN dated May 31, 2004, which refers to the CAMEL elements.

Profitability is the most important indicator to measure the performance of a bank. The main objective of bank operations is to achieve maximum profitability. The determinants of profitability can be seen from its internal factors, which include capital adequacy, operational efficiency, liquidity, and asset size. Research conducted by Rashid and Jabeen (2016) that operational efficiency, reserves and overhead are significant determinants of conventional bank performance. Research conducted by Ramlan and Sharrizat (2016) to assess the profitability of both Islamic banks and conventional banks using ROA and ROE.

In determining the soundness of a bank, Bank Indonesia is more concerned with valuing Return on Assets (ROA) rather than Return On Equity (ROE) because Bank Indonesia prioritizes the profitability of a bank as measured by assets whose funds mostly come from public savings funds so that ROA more representative in measuring the level of profitability of banks.

The profitability used in this study uses ROA because it can take into account the ability of bank management to manage their assets to generate income. The greater the ROA of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use.

NPL or called Non-Performing Loans reflect credit risk, the higher the level of NPL, the greater the credit risk borne by the bank. As a result of the high NPLs, banks must provide greater reserves so that in the end, the bank's capital will also be eroded. Research conducted by (Partovi & Matousek, 2019) NPLs greatly affects efficiency in the banking sector.

Capital Adequacy Ratio is a capital ratio that shows the ability of banks to provide funds for business development needs and accommodate the possibility of loss risk caused by operational banks. Banks may strengthen their solvency through increased capital in response to the illiquidity risk associated with liquidity creation, and higher capital enhances the ability of banks to create liquidity (Zheng et al., 2019)

Quality of earning assets (KAP) is the ratio between classified Earning Assets (APYD) and Total Earning Assets. APYD is productive assets that have or do not have the potential to provide income or cause losses, while the Total Earning Assets total investment of bank funds in the form of credit, securities, investments, and other investments intended to obtain income. Based on research conducted by (Hindarto, 2011) in banks with total assets below 1 trillion, it shows that KAP variables affect bank performance.

Based on the phenomena and previous research above, this research is entitled "The Financial Performance Comparation of Private Bank and Government Bank: Rural Bank Case"

Hypotheses Development

Financial performance is a formal effort that has been carried out by a company that can measure the company's success in generating profits so that it can see the prospects, growth, and the potential for good development of the company by relying on existing resources. A company can be said to be successful if it has achieved the standards and objectives set. The sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees, and whole economy as well (Sangmi & Nazir, 2010).

CAMELS is a method that is used to analyze the performance of the banks. It was generated by regulatory authorities in the United States in the 1970s. The main purpose of this analysis is to control, supervise and follow performance of the banks. In addition to this situation, this analysis also helps to understand whether banks adopt related laws and regulations and create an effective internal control system (Yuksel, 2015). The CAMEL rating is done to determine the bank's overall condition financial and operating and managerial efficiencies (Arti et al., 2014).

Non Performing Loan

Non-performing loans (NPL) are one of the key indicators to assess the performance of bank functions because high NPLs are indicators of failures in managing a business, such as liquidity problems (inability to pay third parties), profitability (non-collectible debt), and solvency (reduced capital). High bad loans in the banking sector will have an impact on the global crisis (Us, 2016). Therefore bad loans are an important factor affecting bank performance (Zhu et al., 2015)

H1: There is a difference between NPL owned by private BPR and BPR owned by local governments.

Capital Adequacy Ratio (CAR)

CAR is a ratio that shows the amount of capital adequacy owned by banks. The more efficient bank capital used for operational activities results in banks being able to increase lending so that it will reduce the level of risk that occurs in a bank. By knowing the importance of the CAR, the bank management needs to pay attention to the ideal CAR size because if it is too high, it will cause an increase in idle funds, and if it is too low it will have an impact on the loss of public trust.

The ratio of regulatory capital to risk-weighted assets forms the basis to measure the capital adequacy of banks. The regulator's aim has been to match risk-based capital requirements to the real risk of banks (Abou-el-sood, 2016). Conclude that a higher capital adequacy ratio may also reduce the incentive of banks to take on excessive risk (Baldwin et al., 2019). CAR ratio affects the performance of banks in India (Kumar et al., 2012). Research conducted by (Jaffar & Manarvi, 2011) Islamic banks in Pakistan has better capital than conventional banks.

H2: There is a difference between CAR owned by private BPR and BPR owned by local governments.

Loan to Deposit Ratio (LDR)

LDR is a financial ratio related to liquidity aspects. The high level of bank liquidity shows low LDR. If the level of liquidity is too high, it could potentially harm the bank because idle funds become too large so that it will increase the cost of funds and ultimately will increase the financial risk of the bank. The higher the LDR ratio, the higher the credit given. The higher the credit given, the more the potential for credit risk (default), and if the LDR is too high, the bank may experience problems in the form of liquidity difficulties. Loans to deposits ratio and commitments to lend to total assets are used to measure the liquidity position of a bank (Baral, 2005). Research conducted by Echekoba and Egbunike (2014) state that liquidity has a significant impact on the bank's profitability.

H3: There is a difference between LDR owned

by private BPR and BPR owned by local Government.

Quality of Earning Assets (KAP)

Earning Asset Quality is the ratio between classified earning assets (APYD) to total earning assets. APYD is productive assets that have or do not contain the potential to not provide income or cause losses, while Total Earning Assets are the total of the Bank's investment in the form of credit, securities, investments and other investments intended to obtain income so that the smaller Quality of earning assets shows the more effective performance of the Bank to suppress the APYD and enlarge the total productive assets that will increase revenue so that the resulting profit increases.

Research conducted by Lestari (2016) found that there are differences in the performance of Earning Asset Quality between BPR Sleman and BPR Magelang, while according to the research conducted (Subuh et al., 2016) revealed there were no differences in the financial performance of Earning Asset Quality between National Banks and Foreign Ownership Banks.

H4: There is a difference between the Quality of earning assets owned by private BPR and BPR owned by local governments.

Return on Asset (ROA)

Return on Assets (ROA) can measure the company's ability to generate profits in the past and then projected in the future. Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate dividend to its shareholders (Nimalathasan, 2008).

H5: There is a difference between ROA owned by private BPR and BPR owned by local governments.

METHOD

Sample

This study uses secondary data in the form of annual financial reports, both Rural and Private BPR of Central Java Province, in 2016-2019. The data source comes from the OJK official website, http://www.ojk.go.id. The sample of this research is BPR, both Private and Regional Government (Provincial Government, Regency Government, City Government). Sample selection using purposive sampling. With the following criteria: BPR reports its financial statements on the OJK website, Private Rural Banks and Regional Government Owned BPRs in Central Java Province for the 2016-2019 Report Period, The financial statements contain the variables studied, has the ten biggest assets in Central Java.

Data analysis method

This research uses the Independent Sample T-test analysis tool because it uses two groups that are not paired with the SPSS 23 application program.

Table 1. Descriptive Statistic Test

Group Statistics

	BPR	N	Mean	Std. Deviation	Std. Error Mean
NPL	BPR PEMDA	30	5.1925	3.40445	0.62156
	BPR SWASTA	29	3.6928	2.40517	0.44663
CAR	BPR PEMDA	30	19.1427	4.84277	0.88416
	BPR SWASTA	29	19.5393	9.66357	1.79448
LDR	BPR PEMDA	30	74.0633	7.42548	1.35570
	BPR SWASTA	29	81.6793	12.17717	2.26124
KAP	BPR PEMDA	30	5.4563	2.91109	0.53149
	BPR SWASTA	29	3.3500	1.87003	0.34726
ROA	BPR PEMDA	30	3.3767	0.55895	0.10205
	BPR SWASTA	29	3.4841	1.29296	0.24010

RESULT AND DISCUSSION

Descriptive Statistic

In this study, one outlier data was found, thus making the research sample which previously amounted to 30 samples for private BPR to 29 samples, while for regionally owned BPRs, there were still 30 samples. The results of descriptive statistical testing can be seen in the following table.

The overall average NPL ratio on BPR owned by the regional government is 5.19%, while the NPL ratio on BPR owned by the private sector is 3.69%. Based on the average value of NPLs, it shows that statistically, during the study period, BPR NPL in Central Java met the standards set by Bank Indonesia, which were an average of 5%. The overall average CAR ratio of BPR owned by the regional government is 19.14%, while the CAR ratio of BPR owned by the private sector is 19.53%. Based on the average CAR values, it shows that statistically, during the study period, the magnitude of CAR BPR in Central Java that was sampled has met the standards set by Bank Indonesia, which is a minimum of 12%. So it can be concluded that the capital adequacy ratio owned by BPR in Central Java can be said to be quite high. The overall average LDR ratio on BPR owned by the regional government is 74.06%, while the LDR ratio on BPR owned by the private sector is 81.67%. Based on the average value of LDR, it shows that statistically, during the study period, BPR LDR in Central Java met the standards set by Bank Indonesia, ranging from 80% - 110%. The overall average Quality of earning assets ratio on BPR owned by the local government is 5.45%, while the Quality of earning assets ratio on BPR owned by the private sector is 3.35%. Based on the average Quality of earning assets value, it shows that statistically, during the study period, Quality of earning assets BPR in Central Java met the standards set by Bank Indonesia, namely below 10.35%. The overall average ROA ratio on BPR owned by the local government is 3.37%, while the ROA ratio on BPR owned by the Private sector is 3.48%. Based on the average value of ROA shows that statistically, during the study period BPR ROA in Central Java met the standards set by Bank Indonesia, namely above 1.215%.

Normality Test

In this study, using the Kolmogorov-Smirnov technique in testing data normality. For analysis tools using SPSS Version 23. Test results for data normality can be seen in the following table:

Table 2. Normality Test: BPR owned by Local Government

One-Sample Kolmogorov-Smirnov Test		
		Standardized Residual
N		30
Normal Parametersa,b	Mean	0.0000000
	Std. Deviation	0.92847669
Most Extreme Differences	Absolute	0.091
	Positive	0.091
	Negative	-0.081
Test Statistic		0.091
Asymp. Sig. (2-tailed)		0.200c,d
a. Test distribution is Normal.		
b. Calculated from data		

Table 3. Normality Test: BPR owned by private

One-Sample Kolmogorov-Smirnov Test		
		Standardized Residual
N		29
Normal Parametersa,b	Mean	0.0000000
	Std. Deviation	0.92582010
Most Extreme Differences	Absolute	0.150
	Positive	0.150
	Negative	-0.098
Test Statistic		0.150
Asymp. Sig. (2-tailed)		0.092c
a. Test distribution is Normal.		
b. Calculated from data		

Based on the results of the Kolmogorov Smirnov Normality Test, data show the Asymp value. Sig. (2-tailed) For BPR owned by the Regional Government is 0.200, while for private BPR 0.092, both have values above 0.05. It means that the tested data has a normal distribution.

Independent Sample T-test

The analytical tool used is the Independent Sample T-test with SPSS 23. The following presents data on the results of the Independent Sample T-test as shown in table 4.

Table 4. Independent Samples Test

Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
NPL	Equal variances assumed	3.031	0.087	1.948	57	0.056
	Equal variances not assumed			1.959	52.251	0.055
CAR	Equal variances assumed	12.052	0.001	-0.200	57	0.842
	Equal variances not assumed			-0.198	40.917	0.844
LDR	Equal variances assumed	4.287	0.043	-2.912	57	0.005
	Equal variances not assumed			-2.889	46.007	0.006
KAP	Equal variances assumed	4.130	0.047	3.294	57	0.002
	Equal variances not assumed			3.318	49.669	0.002
ROA	Equal variances assumed	26.602	0.000	-0.417	57	0.678
	Equal variances not assumed			-0.412	37.838	0.683

NPL (Non Performing Loan) Ratio Analysis

Based on the table above the results of the Independent Sample T-test (difference test) NPL financial ratios in BPR owned by local governments and BPR owned by Private have F count of 3.031 with a significance of 0.087, because the significance > 0.05 then Ho is accepted, so the NPL financial ratios between Regional government-owned BPRs and Private BPRs have the same variance, whereas if both variances are the same, in the t-test it would be more appropriate to use the basis of equal variances assumed wherein the NPL statistics are 1.948 with sig (2-tailed) 0.056> 0.05 then Ho is accepted or it can be concluded that the NPL financial ratio between BPR owned by local government and BPR owned by Private there is no significant difference.

CAR Ratio Analysis (Capital Adequacy Ratio)

Based on the table above the results of the Independent Sample T-test (CAR), the financial ratio of CAR in BPR owned by the regional government and BPR owned by Private has an F count of 12,052 with a significance of 0.001, because the significance is <0.05 then Ho is rejected, so the CAR financial ratio between Regional government-owned BPRs and Private BPRs do not have the same variance, so in the t-test it would be more appropriate to use the basis of not assumed equal variances where that t statistic CAR is -0.198 with sig (2-tailed) 0.844 > 0.05 then Ho accepted or it can be concluded that the financial CAR ratio between BPR owned by the regional government and BPR owned by Private there is no difference.

LDR (Loan to Deposit Ratio) Analysis

Based on the table above the results of the Independent Sample T-test (difference test) LDR financial ratios at BPR owned by local government and BPR owned by Private have F count of 4.287 with a significance of 0.043 Because the significance <0.05 then Ho is rejected, so the LDR financial ratio between BPR Local government-owned and private-owned BPRs have unequal variances, whereas if both variances are the same, in the t-test it would be more appropriate to use the basis of equal variances not assumed wherein the LDR statistic t is -2.289 with sig (2-tailed) 0,006 < 0.05 then Ho is rejected, or it can be concluded that the financial ratio of LDR between BPR owned by local government and BPR owned by Private there is a difference.

Earning Assets Quality Ratio Analysis

Based on the table above the results of the Independent Sample T-test (difference test) the financial ratio of Earning Assets Quality in BPR owned by local government and BPR owned by Private has an F count of 4.130 with a significance of 0.047, because the significance is <0.05 then Ho is rejected, so the Earning Assets Quality

ratio between Regional government-owned BPRs and Private BPRs have unequal variances, whereas if both variances are the same, in the T-test it would be more appropriate to use the base of Not assumed equal variances wherein that the Quality of earning assets t statistic is 3.318 with sig (2-tailed) 0.002 < 0.05, then Ho is rejected or it can be concluded that the Earning Assets Quality ratios between BPR owned by local government and BPR owned by Private there are significant differences.

ROA (Return on Asset) Ratio Analysis

Based on the table above the results of the Independent Sample T-test (ROA) financial ratio of ROA in BPR owned by the regional government and BPR owned by Private has an F count of 26.602 with a significance of 0.000. Because the significance is <0.05 then Ho is rejected, so the ROA financial ratio between BPR owned by the regional government and BPR owned by Private has different variances, whereas if the two variances are different, then in the T-test it would be more appropriate to use the basis of equal variances not assumed which is that t ROA statistic is -0.412 with sig (2-tailed) 0.683> 0.05 then Ho is accepted or it can be concluded that the financial ROA ratio between BPR owned by local government and BPR owned by Private there is no difference.

CONCLUSION AND RECOMMENDATION

Based on the Hypothesis Testing that has been done using the Independent Test T-test with the application of the SPSS Ver 23 program, the hypothesis conclusions are:

There is no significant difference in NPL financial ratios between BPR owned by local government and BPR owned by Private. The best standard from Bank Indonesia for the NPL ratio is less than 5%. The average overall NPLs on regional government-owned BPRs and Private-owned BPRs each had an average yield of 5%, namely BPR-owned local government of 5.19%, while the NPL ratio on BPR-owned private-owned was 3.69%. It shows that both rural and regional government-owned rural banks are very concerned about their non-performing loans. Although private BPRs are still better at managing non-performing loans compared to regional government-owned BPRs. But for NPLs on rural banks, the local government is still at 5.19%. There must be a more in-depth evaluation to reduce non-performing loans. There is no difference in CAR financial ratios between BPR owned by local government and BPR owned by Private. But the aspect of average capital adequacy of rural banks owned by local governments is still quite high compared to private banks. This is because the Financial Services Authority is very strict about monitoring rural banks in terms of capital; both private and regionally owned, rural banks by POJK No.5/POJK.03/2015 regarding the Minimum Capital Requirement and Minimum Core Capital fulfillment. There is a difference in the LDR financial ratio between rural banks owned by regional governments and private banks. But the average performance of the BPR LDR ratio of local government is still better than private BPR. The overall average LDR ratio on BPR owned by the regional government is 74.06%, while the LDR ratio on BPR owned by the private sector is 81.67%. Based on the average LDR value, it shows that the BPR LDR ratio in Central Java meets the standards set by Bank Indonesia, ranging from 80% - 110%. This shows that the regional government BPRs have more credit distribution ratio than collecting public funds; this is because BPRs owned by local governments have more cooperation with state agencies to boost their credit. Even so, local government BPRs should be able to find more third party funds to maintain an LDR ratio of 80% - 110%. There is a difference in Earning Assets Quality ratios between BPR owned by local government and BPR owned by Private. The average overall Earning Assets Quality on BPR owned by local government and BPR owned by Private each has an average yield of less than 10.35%, namely BPR owned by the local government that is equal to 5.45%, while the Earning Assets Quality ratio on BPR owned by Private is 3.35%. This shows that private BPRs are still better at managing non-performing loans compared to regional government-owned BPRs. This is because BPRs are more concerned with profit-oriented private banks so that BPRs are more stringent in monitoring their problem loans, the more problem loans will cause banks to form a higher PPAP cost. There is no significant difference in ROA financial ratios between BPR owned by the regional government and BPR owned by the private sector. But the average performance of the ROA ratio of Private BPRs is still better than BPR owned by local governments. Based on the average overall ROA ratio on BPR owned by the local government, that is equal to 3.37%, while the ROA ratio on BPR owned by Private Sector is 3.48%. This shows that there is no significant difference in the ROA ratio of Private BPRs and local governments; this means that both BPR ownership can maximize the assets that can be

used to make a profit. The profitability value of a bank is measured by assets whose funds mostly come from public savings funds, so ROA is more representative in measuring the level of profitability of banks. Based on the average ROA value, it shows that BPR ROA in Central Java meets the standards set by Bank Indonesia, which is above 1.215%.

BPR owned by the Regional Government in Central Java in the aspect of managing problem loans can be seen from the ratio of NPL and Earning Assets Quality ratio, although it is still in the conditions required by Bank Indonesia but still needs to perform maintenance of problem loans on an ongoing basis, by conducting intensive collection of problem loans, if necessary Non-performing loans are restructured, and the credit analysis process must apply the precautionary principle before credit can be realized.

For private RBs in Central Java in terms of capital, must keep in mind from the capital aspect by the requirements of the OJK in POJK No.5/POJK.03/2015 regarding "Minimum Capital Requirement and Minimum Core Capital Fulfillment," if not fulfilled in terms of Rural Bank capital, it is requested to increase Rural Bank Capital within the specified time limit or by conducting a Merger or Acquisition with another Rural Bank.

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