

THE EFFECT OF NON-PERFORMING LOANS ON PROFIT ABILITY IN CONVENTIONAL BANKS LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACTION

This study aims to determine the effect of non-performing loans (NPL) on the profit ability of conventional banks. The population in this study were all conventional banks listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. This study used a purposive sampling method, and obtained 30 companies with a total sample of 90. The analysis technique in this study used the regression analysis method. simple. The results of this study indicate that non-performing loans have a negative effect on profit ability.

Keywords: *Non performing Loan, Profit ability*

ABSTRAKSI

Penelitian ini bertujuan untuk mengetahui pengaruh *non performing* loan (NPL) terhadap profit ability bank konvensional. Populasi dalam penelitian ini adalah seluruh bank konvensional yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2018 sampai dengan tahun 2020. Penelitian ini menggunakan metode purposive sampling, dan diperoleh 30 perusahaan dengan jumlah sampel 90. Teknik analisis dalam penelitian ini menggunakan metode purposive sampling. metode analisis regresi. sederhana. Hasil penelitian ini menunjukkan bahwa kredit bermasalah berpengaruh negatif terhadap kemampuan laba.

Kata kunci: *Non performing Loan, Kemampuan Laba*

INTRODUCTION

The economic development of the Indonesian state cannot be separated from the banking sector, because the banking sector itself has an important role in the country's economic growth. In everyday life, people are no stranger to hearing the word "bank" or even they are customers of a bank. Indonesian banking has the main function as a collector and distributor of public funds (Law of the Republic of Indonesia Number 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking, 1998). Banking also has a very appropriate role to support the implementation of national development. The national development in question, among others, increases the distribution of development, economic growth and also national stability so that it becomes better (Sabir M et al., 2012). Currently, there is a lot of intense competition between the banking industry. This tight competition occurs because of the developments made by banking

companies. This intense level of competition itself will be a challenge that banking companies need to face in order to remain competitive and also maintain survival.

One of the main objectives of banking is to achieve maximum profit ability. We can analyze the health of a bank through its financial statements by looking at the profit ability ratios of the bank (Putrianingsih & Yulianto, 2016). Profit ability is the company's ability to generate profit (profit) in a certain period (Utami & Putra, 2016). The higher the profit ability of a company, it can be said that the better the company is. ROA (Return On Assets) is one indicator that can be used to measure the level of profit ability (Suryani, 2012). ROA is important for banks because ROA is used to measure the effectiveness of the company in generating profits by utilizing its assets. ROA can also show the financial performance of a company, where the higher the ROA value, the better the company's performance (Handayani, 2018).

One of the main activities of banks as financial institutions is providing credit. In fact, many of the customers of each bank have taken advantage of the credit services provided by bank companies. So, it can be said that credit is the main income of a bank company. Banks have the largest source of income consisting of credit and credit interest. Credit and loan interest are also the largest asset accounts for banks (Sari et al., 2012). Banks in carrying out their role will not be separated from the name non-performing loans. Banks have a source of income that comes from the difference between credit interest and customer deposits. So, in these conditions credit risk needs to be the main focus for banks (Priatna, 2017). Loans disbursed by banks must be managed properly to avoid the risk of credit losses because loans that are not managed properly will lead to non-performing loans (non-performing loans). Credit that is not managed properly can have a negative impact on bank profit ability. Credit that is not managed properly will cause non-performing loans (NPL) to continue to increase. An increase in non-performing

loans (NPL) in large numbers will cause problems for the health of banks such as reduced bank income. The reduced income will also directly affect the level of profit ability received by the bank, which could make the bank lose money or even go bankrupt. NPL can cause a decrease in bank income due to costs that must be incurred when there are bad loans. These costs will reduce the bank's income indirectly (Sari et al., 2012). Reduced bank income will affect the level of profit ability received by the bank.

In 2021, the ratio of non-performing loans or non-performing loans (NPLs) of banks will increase. The reason is, there are some of the credit restructuring affected by COVID-19 that have high risks and are difficult to get up even though they have been given relaxation. The Financial Services Authority (OJK) recorded a non-performing loan (NPL) ratio of 3.35% as of July 2021, which increased from the previous month in June with an NPL ratio of only 3.24%. When compared to December 2020 the NPL ratio was 3.06% and in July 2020 it was 3.22% (Walfajri, 2021).

Based on the background described above, the formulation of the problem proposed in this study is whether non-performing loans have a negative effect on profit ability

Profit ability shows the success of a company in obtaining profit (profit). Banks in carrying out operational activities have one of the main objectives, namely seeking profit or achieving the maximum level of profit ability (Utami & Putra, 2016). Profit ability is the ability of banks to generate or earn profit s effectively and efficiently, and in general the profit s generated by the company come from sales and investment income made by the company (Warsa & Mustanda, 2016). There are several types of profit ability ratios proposed by Kasmir (2016), including:

A ratio that measures the profit margin on sales by comparing net profit after tax with net sales (Kasmir, 2016). A ratio that measures profit s by comparing profit after interest and taxes compared to sales (Kasmir, 2016). The ratio that shows the results (return) on the number of assets used in the company. ROA is also used to measure the effectiveness of the company's overall operations (Kasmir, 2016). Ratio that measures net profit after tax with own capital. ROE is also used to show the efficiency of the use of own capital (Kasmir, 2016). A ratio that measures the success of management in achieving profit s for shareholders. The profit for ordinary shareholders is the amount of profit minus taxes, dividends and minus other rights for priority shareholders (Kasmir, 2016).

Bank Indonesia wrote that non-performing loans (non-performing loans) consist of loans classified as substandard (KL), doubtful (D), and bad (M) (Bank Indonesia, 2020). Non-Performing Loans (NPLs) show the percentage of non-performing loans consisting of substandard, doubtful and bad collectibility of total loans issued by banks (Harun, 2016). A bank can be said to be healthy if the net NPL ratio must be less than 5% (five percent) (Bank Indonesia Regulation Number 15/2/PBI/2013 concerning Status Determination and Follow-Up Supervision of Conventional Commercial Banks, 2013). A large non-performing loan ratio can affect profit ability and is also dangerous for the survival of the bank (Bhattarai, 2016). A bank can be said to be unprofessional in managing its credit if it has a high level of NPL. Indirectly, a high NPL will cause banks to suffer losses (Septiani & Lestari, 2016).

Credit activities carried out by banks carry the risk of non-performing credit payments or non-performing loans which in banking terms are known as the non-performing loan (NPL) ratio (Utami & Putra, 2016). NPLs that experience a significant increase can cause problems for the health of the bank. Banks are required to always pay attention to and maintain that credit is not in a high NPL position (Sari et al., 2012). The high value of NPL can also affect lending by banks so that bank profit ability will decrease (Utami & Putra, 2016). The NPL formula is (Bank Indonesia, 2004

Non-Performing Loans (NPLs) cannot be denied again and will always be experienced by every financial institution, such as a bank (Priatna, 2017). To measure the soundness of a bank, it can be seen from the quality of the credit it provides, namely the ratio of Non performing Loans (NPL).

Non-Performing Loan Ratio (NPLR) is the main indicator of credit risk for commercial banks (Gizaw et al., 2015). The bank's health ratio is measured by how big the level of profit (profit ability). One of the impacts of the existence of an unreasonable NPL is the loss of the opportunity to earn income from the loans

provided, thereby reducing profits and adversely affecting bank profit ability (Dendawijaya, 2005). It was found that the NPLR was statistically significant and had a large negative effect on profit ability as measured by ROA (Gizaw et al., 2015). This is in accordance with previous research conducted by Bhattarai (2016) that non-performing loans (NPL) have a negative and significant effect on bank profit ability as measured by Return On Assets (ROA). Another study conducted by Putrianingsih & Yulianto (2016) also showed that non-performing loans (NPL) had a negative effect on Return On Assets (ROA). From this explanation, the following hypothesis is formed:

Ha: Non-Performing Loan has a negative effect on Profit ability.

This type of research is quantitative research. This research is a quantitative research because this research is used to examine the population or sample of conventional banking companies listed on the Indonesia Stock Exchange, collect data using research instruments in the form of financial reports, quantitative data analysis, with the aim of testing the established hypothesis.

The population is a generalization area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions (Sugiyono, 2019). In this study, the population studied were all conventional banking companies listed on the Indonesia Stock Exchange with annual financial reports published during the period 2018 to 2020.

The sample is part of the number and characteristics possessed by the population (Sugiyono, 2019). The technique used in sampling is purposive sampling. Purposive sampling is a sampling technique with certain criteria where the sample is deliberately selected to represent the population. The criteria for the sample to be used are as follows a bank company which is a conventional bank and is listed on the Indonesia Stock Exchange from 2018 to 2020, conventional bank companies that have published consistent and complete annual financial reports on the Indonesia Stock Exchange from 2018 to 2020 and conventional bank companies that have never experienced losses from 2018 to 2020.

The type of data used in this research is secondary data. The secondary data used in this study is annual financial report data for the period 2018 to 2020 published on the Indonesia Stock Exchange and the company's official website.

The independent variable in this study is non-performing loans (non-performing loans). The dependent variable in this study is profit ability.

Based on, it can be seen that the Non-performing loan (X) variable has the lowest value of 0%, namely Bank Capital Indonesia Tbk (BACA) in 2020. Non-performing loans have the highest value of 7.83%, namely Bank Sinarmas Indonesia Tbk (BSIM) in 2019. Non-performing loans have an average value of 2.92%, with a standard deviation of 1.56%.

Profit ability (Y) has the lowest value of 0.02%, namely Bank Amar Indonesia Tbk (AMAR) in 2020. Profit ability has the highest value of 3.13%, namely Bank Central Asia Tbk (BBCA) in 2018. Profit ability has an average value an average of 1.16% with a standard deviation of 0.85%.

Based on Table 4.3, it can be seen that the Asymp value. Sig. (2-tailed) of 0.077 is greater than 0.05, this means that the regression model in this study has a normal distribution.

Based on, it can be seen that the results of the autocorrelation test statistically show the Durbin-Watson value of 1.055. The DW value of 1.055 is between -2 to +2, so it can be concluded that there is no autocorrelation, which means that it indicates that the research data has no correlation between periods of observation.

Based on Table 4.5, it can be seen that the significance value of the non-performing loan variable is 0.000, which is smaller than 0.05. Meanwhile, the calculated F value for the non-performing loan variable is 27.858, which is greater than the F table ($\alpha = 5\%$) of 3.95. This means that the regression model that has been formed is feasible to use.

Based on, it can be seen that the significance value of the non-performing loan variable is 0.000, which is smaller than 0.05. Meanwhile, the B value of the non-performing loan variable shows the number -0.267 which means that the non-performing loan variable has a negative effect. It can be concluded that, in this study, H_a which states that non-performing loans have a negative effect on profit ability is accepted.

Based on, it can be seen that the value of Adjusted R2 is 0.232 or 23.2%. Adjusted R2 value of 0.232 is closer to zero, which means this research model has a poor ability to explain the influence of non-performing loan variables on profit ability variables. This is because the non-performing loan variable can only explain 23.2% of the profit ability variable. While the remaining 76.8% of profit ability variables are influenced by other variables that are not discussed in this study.

The test results show that the non-performing loan variable has a significance value of 0.000 and is smaller than 0.05, which means H_0 is rejected and H_a is accepted. Meanwhile, the B value of the non-performing loan (NPL) variable shows a number of -0.267 indicating that NPL has a negative effect on profit ability.

In the results of descriptive statistical testing, the average non-performing loan was 0.029247 and the standard deviation was 0.0155808. This shows that the average value is greater than the standard deviation, which means that the distribution of non-performing loans is good.

The regression coefficient on the non-performing loan variable shows a value of -0.267, which means that for every 1% addition to the value of the non-performing loan variable, the value of the profit ability variable will decrease by -0.267.

These results indicate that if non-performing loans increase, it will cause profit ability to decrease, on the contrary if non-performing loans are low, it can increase profit ability for banks. Customers who have been given credit by the bank and cannot pay off or pay their obligations will result in non-performing loans. Credit that is not managed properly will cause non-performing loans (NPL) to continue to increase. Non-performing loans that arise can cause the bank not to get back the funds that have been distributed so that in other words the bank suffers a loss.

Low non-performing loans will have a positive impact on bank profit ability. This is because the low number of non-performing loans can increase income and

return capital for the next loan disbursement. A low non-performing loan (NPL) indicates that the risk level for lending to banks is low enough so that banks will experience profits (Putrianingsih & Yulianto, 2016).

The results of this study support previous research conducted by Bhattarai (2016) and Putrianingsih & Yulianto (2016) which stated that non-performing loans (NPL) had a negative effect on profit ability.

CLOSING

Based on the analysis and discussion described in the previous section, it can be concluded that non-performing loans have a negative effect on profit ability. This shows that the higher the non-performing loan at the bank can cause the bank to suffer losses so that the bank's profit ability decreases.

So, there is an implication that a bank that can maintain a low non-performing loan rate can provide benefits for the bank because credit is the main activity which is also the bank's biggest income. Banks that have a high number of non-performing loans suffer losses because the funds that have been distributed are not returned.

There are several limitations that might affect the results of the research to be achieved that can be corrected in further research, such as the relatively short period of this research, only 3 years, from 2018 to 2020.

Some suggestions that can be given for further research are as follows for further research, you can add other variables such as Capital Adequacy Ratio, Loan to Deposit Ratio, Net Interest Margin, Operating Costs and Operating Income and others so that they can show other variables that affect bank profit ability and further research is recommended to increase the period of research years and replace the object of research other than conventional banks.

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