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THE IMPACT OF NON-PERFORMING LOAN, LOAN TO DEPOSIT RATIO, AND OPERATIONAL COST TO OPERATING INCOME RATIO ON FINANCIAL PERFORMANCE

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ABSTRACT
Various events can pose risks to the quality of Islamic banking, both globally and bring improvements and enhancements to the quality of Pandemic Covid-19, which was identified entering Indonesia since March 2, 2020, has significantly reduced economic activities, especially with the implementation of Large-Scale Social Restrictions (PSBB) since April 10, 2020. The objective of this research is to understand and analyze the impact of non-performing loans, loan to deposit ratio, operational cost to operational income on financial performance. The method used in this research is quantitative data method with hypothesis testing, employing multiple linear regression using cross-data and time series. Data management in this research is assisted using the Statistica Program for Social Science (SPSS) Version 23. The research results show that Non-Performing Loan (NPL) has a negative impact on Return On Asset (ROA), Loan to Deposit Ratio (LDR) negatively influences Return On Asset (ROA), Operational Cost to Operational Income (BOPO) has a positive impact on Return On Asset (ROA), and simultaneously the variables Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Operational Cost to Operational Income (BOPO) affect Financial Performance (ROA) in Islamic Commercial Banks from 2018 to 2021. Islamic Commercial Banks are expected to be more cautious in providing financing, as the researched data shows that the level of Non-Performing Loan (NPL) ratio significantly affects the financial performance (ROA) of Islamic banks.

Keywords: non-performing loan, loan-to-deposit ratio, operating costs, operating income, financial performance.

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INTRODUCTION

Banks, as financial institutions, are very vulnerable to various risks, especially in the development of Islamic banking, both internal and external (Fauziah et al., 2020). Various events can put the quality of Sharia banking at risk globally and improve the quality of banks. 2018 - 2021, various events impacted banking financial performance, including the Covid-19 pandemic. The COVID-19 pandemic, which was identified as entering Indonesia on March 2, 2020, caused economic activity to reduce significantly, especially with the implementation of Large-Scale Social Restrictions. (PSBB) since April 10, 2020. The pandemic, faced by almost the entire world, has also reduced interaction between countries. This caused a decline in several economic indicators (Bidari et al., 2020). So, it is unsurprising that this has resulted in Indonesia entering a recession. A recession is a condition where Gross Domestic Product (GDP) experiences a decline or negative growth in the real economy for two consecutive quarters. In the third quarter of 2020, Indonesia's economy was minus 3.49%, continuing the economic rate in the second quarter of 2020, which was recorded at minus 5.32%. Apart from Indonesia, several countries are also experiencing a recession due to the COVID-

19 pandemic, which has hit almost all countries worldwide. However, it should be noted that Indonesia is not only feeling this economic contraction. The effects of the pandemic are also impacting the growth of other countries that are experiencing even deeper contractions, such as India, which experienced a contraction of up to 24% in the second quarter of 2020. Several other countries have also experienced a recession, including the United States, Singapore, South Korea, Australia, the European Union, and Hong Kong. The COVID-19 pandemic has directly impacted real sector activities, so it also impacts the performance of Sharia banking, whose operational activities rely on the real sector (Ronny & Pertiwi, 2022). The impact includes increased liquidity risk in Sharia banks, considered lower quality. There is the potential for funds to shift from low to high-quality banks amidst uncertainty (KNEKS, 2021).

Then, the quality of financial assets, financing, and securities decreased, resulting in decreased profitability due to increased provision and fund costs. Then, the increase in Non-Performing Loans (NPL), which generally occurs in the Micro, Small, and Medium Enterprises (MSME) sector, is financed, while consumer-based financing is relatively safe. The latter impacts difficult business expansion in line with the economic slowdown. However, this impact can be minimized by the existence of policies issued by the Government, OJK (Financial et al.), BI (Bank Indonesia), and other authorities in order to deal with COVID-19. However, based on OJK data, Sharia banking is still showing positive growth despite facing a pandemic. Likewise, the capital aspect is relatively stable and strong. This can be seen from several performance indicators in August 2020. Regarding assets, financing, and Third Party Funds (DPK), Sharia banking experienced growth of 11.2%, 9.5%, and 11.7% year on year, respectively. (yoy). The NPL level also decreased due to relaxation from the OJK, and Sharia banking exposure to industrial sectors such as transportation, accommodation, and restaurants was relatively limited. In Indonesia, the Covid-19 pandemic has weakened the performance and capacity of Islamic banks, especially for debtors. This causes the risk of debtors being unable to pay installments or debts, disrupting the stability of Sharia banking's financial cash flows. Another consequence of the sluggish MSME sector and other industries also impacted the amount obtained from third-party deposits and financing at Islamic banks at the start of the COVID-19 pandemic (Retnosari et al., 2022). 4 Specifically in the banking sector, most indicators also experienced contraction. BPS shows that the average return on assets ratio (ROA) fell to 13.52%, the average loan-to-deposit ratio (LDR) fell by 4.23%, and the average Operating Expenses and Operating Income (BOPO) fell by 3.37 %. Thus, this shows that the Covid-19 pandemic has impacted banking in Indonesia. However, Islamic banking indicators conflict with general data: average ROA (0.62%) and BOPO (0.04%). Meanwhile, the Loan Deposit Ratio (LDR) only fell (by 0.35%) or lower than banking in general (Wijana & Widnyana, 2022). Financial ratios are needed to determine the performance of Sharia banking during the pandemic. Measuring ratios is important because banking performance is one of the benchmarks that underlies the entire performance of a company. In their operations, Islamic banks do not use interest but profit sharing (Gunawan et al., 2022). So, Non-Performing Loans (NPL) is an instrument that can be used to measure Sharia banking performance (A. Putra & Syaichu, 2021). Apart from that, regarding Sharia Commercial Banks's contribution to financing, the total funding in 2018 was IDR. Two hundred two thousand two hundred ninety-eight billion with an NPF level of Rp. 6. 597 billion. In 2019, the total funding was IDR. Two hundred twenty-five thousand one hundred forty-six billion with an NPL level of Rp. 7. 263 billion. At the start of the pandemic, April 2020, total funding was IDR. 227, 438 with an NPF level of Rp. 7,766 billion. In April 2021, total funding of IDR. Two hundred fifty thousand four hundred fifty-four billion with an NPF level of Rp. 8,244 billion. Financing during the pandemic 5 General Sharia Banks was more selective to minimize arrears in payments (Retnosari et al., 2022).

Based on the above background, the objective of this research is to understand and analyze the impact of Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Operational Cost to Operational Income Ratio (BOPO) on financial performance (ROA). This research is beneficial for banks to optimize their financial structure, reduce risks, and enhance long-term financial sustainability. The findings of this study can also assist financial authorities and banking regulators in designing more effective policies. Moreover, this research is not only beneficial for the banking industry itself but also for consumers, borrowers, regulators, and the general public by creating a financial environment that is more stable, secure, and reliable.

METHOD

The type of research in this research is quantitative research, intending to know the influence of Non-Performing Loans (NPL), Loan Deposit Ratio (LDR), and Operational Costs and Operating Income (BOPO) on Profitability Return on Assets (ROA). This research was carried out in order to help related parties see the impact of the influence of Non-Performing Loans (NPL), Loan Deposit Ratio (LDR), and BOPO on the Profitability of Return on Assets (ROA) in Sharia Commercial Banks. The object used is Sharia Commercial Banks in Indonesia, with this research data using the period 2018 – 2021. The population in this research is general sharia banking listed on the Indonesia Stock Exchange for the 2018 - 2021 period. The sample used in this research was 13 Islamic commercial banks in Indonesia until 2021. The sampling technique used was purposive sampling.

The type of data used in this research is secondary data. The type of data used in this research is panel data. There are several characteristics of panel data, such as several objects covering several periods (Wibowo et al., 2019). In this research, the data source is obtained through reports published by the Indonesian Stock Exchange, Bank Indonesia, and the Sharia Commercial Bank referred to in the sample—research via the websites of these agencies.

Data management was assisted using the Statistics Program for Social Science (SPSS) Version 23 program in this research. This model is used to test the Dependent variable using the Return On Asset (ROA) ratio, namely Non-Performing Loans (NPL), Loan To Deposit Ratio (LDR), and Operational Costs and Operating Income (BOPO) as the Independent variables. The research methods used in this research include descriptive statistical tests, classical assumption tests, panel data regression estimation tests, multiple linear tests, and hypothesis tests.

RESULTS AND DISCUSSION

The Impact of Non-Performing Loans (NPL) on Return On Assets (ROA)

Based on the results of the t-test, the profitability value of the Non-Performing Loan (NPL) variable shows results that are smaller than the significant level of α 0.000 < 0.05. With a Non-Performing Loan (NPL) regression coefficient of – 3.34, it can be concluded that H1 is accepted, which means the Non-Performing Loan (NPL) variable has a significant negative effect on Return On Assets (ROA). The results of this research show that the higher the level of problematic financing risk (NPL) of a bank will affect the decline in financial performance (ROA) of Sharia commercial banks or vice versa. If the level of problematic financing risk (NPL) is low, it will increase the financial performance (ROA) of Sharia commercial banks.

As in Bank Indonesia Regulation Number 15/15/PBI/2015 concerning Amendments to Bank Indonesia Regulation Number 15/15/PBI/2013, it is stated that the NPL safe limit is 0.01% - 6% (Indonesia, 2015). From the data for this research period, the overall average value of Non-Performing Loans (NPL) is very good, namely 1.82%.

This shows that increasing non-performing loans means banks do not dare to increase their credit distribution. Therefore, the greater the credit problem, which is reflected in Non-Performing Loans (NPL), the smaller the credit the bank can distribute to the public, considering the credit risks that arise. NPL is a loss of opportunity to earn income from credit provided, thereby reducing profits and the ability to provide credit. Failure to fulfill customer obligations to the bank causes losses by not receiving previously estimated receipts. This research is in line with research results (Rahmani, 2022); (Syachreza & Mais, 2020).

The Impact of Loan to Deposit Ratio (LDR) on Return On Assets (ROA)

Based on the t-test, it shows that the profitability value of the Loan to Deposit Ratio (LDR) variable shows results that are greater than the significance level of α= 5%, namely 0.384, so it can be concluded that H2 is rejected, which means that the Loan to Deposit Ratio (LDR) variable does not affect Return On Assets (ROA). This means that the increase in LDR is not accompanied by an increase in financial performance (ROA).

This is because if third-party funds are not channeled effectively by the bank, it can result in losses caused by the bank's inability to utilize these funds, where the bank should be able to make a profit if it can utilize these deposits properly. Relatively large financing by disbursing funds to the public must be balanced by the bank's ability to fulfill its obligations to depositors who wish to withdraw their funds from the bank. The bank concerned must pay attention to the maximum limit for providing credit or financing set by Bank Indonesia (BI).

As in Bank Indonesia Regulation Number 15/15/PBI/2015 concerning Amendments to Bank Indonesia Regulation Number 15/15/PBI/2013, it is stated that the safe limit for LDR is 75% - 100% (Indonesia, 2015). From data from the period of this research, the overall average value of the Loan Deposit Ratio (LDR) is quite good, amounting to 80.09%. However, there are several Sharia banks in certain periods that still have Deposit Ratio (LDR) values above 100%, especially during this pandemic, such as Bank Bukopin Syariah, Bank Panin Dubai Syariah, and Bank Aladin Syariah in 2020 have ratios LDR 196.73%, 111.71% and 162.75%. This shows that the function of banks to channel financing has yet to be carried out well by all the Sharia banks studied. This research aligns with research results (Noor et al., 2018) and (Rahmani, 2022).

The Impact of Operating Costs on Operating Income (BOPO) on Return On Assets (ROA).

Based on the t-test, it shows that the profitability value of the Operating Costs Operational Income (BOPO) variable shows results that are smaller than the significant level α of <0.005. With a regression coefficient of Operating Costs Operating Income (BOPO) – 6.39, it can be concluded that

H1 is accepted. So, it can be concluded that H3 is accepted, which means that the Operational Costs and Operational Income (BOPO) variable hurts Return On Assets (ROA).

This shows that banks with high Operating Costs and Operating Income (BOPO) ratios tend to have low Return On Assets (ROA) ratios. This also means that the level of bank efficiency in carrying out its operations influences the level of profit that the bank will generate. A high BOPO ratio value indicates that the bank has not been able to manage the resources it has to run its business efficiently. Following Bank Indonesia regulations, the ideal Bank Operating Income (BOPO) ratio is between 50% – 87%. In this research period, the average value was 99.81%, which means that the current condition of Sharia banking is not healthy. The large BOPO value is also caused by the high cost of funds collected and the low-interest funding from investing funds. This will reduce profits and Return On Assets (ROA), which can cause BOPO to have a negative effect. This research aligns with the results of (2021), 2022) and 2020).

The Impact of Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), and Operational Costs, Operating Income (BOPO) have a simultaneous effect on financial performance (ROA)

The results of this research show that Non-Performing Loans (NPL), Loan Deposit Ratio (LDR), and Operational Costs BOPO Operational Income simultaneously influence financial performance (ROA), which is shown by the results of the F test with significant results <0.001. This means that the Non-Performing Loan (NPL) variable affects financial performance because debtors cannot pay and is also influenced by strict Bank Indonesia regulations regarding credit classification, which results in debtors previously in the current category being reduced to substandard. The riskier the bank's liquidity conditions, the lower the Loan Deposit Ratio (LDR), indicating the bank's lack of effectiveness in distributing credit. The higher the Loan Deposit Ratio (LDR), the higher the funds channeled to third-party funds.

With increasing profits, Return On Assets (ROA) also increases because profit is a component that forms Return On Assets (ROA). Apart from that, achieving a high level of efficiency is the hope of every bank because achieving efficiency means that the bank management has successfully utilized its resources efficiently. A high Operational Cost Ratio to Operational Income indicates that the bank has not been able to utilize the resources it has or has not been able to carry out its operational activities efficiently, which will result in a decrease in Return On Assets (ROA). The influence of these three variables on Financial Performance (ROA) has a huge impact on Sharia Commercial Banks. This shows that Non-Performing Loans (NPL), Loan to Deposit Ratio (LDR), and Operating Costs Operating Income (BOPO) can explain 93.5% of the influence on Return On Assets (ROA). The remaining 6.5% is explained by other variables not used in this study. This is in line with research conducted (Rahmani, 2022), carried out on Sharia Commercial Banks listed on the Indonesia Stock Exchange in the 2015 - 2020 period.

CONCLUSION

Based on the analysis and discussion that has been carried out in Chapter IV regarding the Influence of Non-Performing Loans (NPL), Deposit Ratio (LDR), and Operational Income Costs (BOPO) on Financial Performance (ROA), the results that can be concluded are as follows: 1) Non-Performing Loans (NPL) have a negative influence on Return On Assets (ROA), H1 in this research is accepted.

The research results show that the higher the Non-Performing Loan (NPL) ratio, the worse the quality of financing the bank provides. So, it can cause a decline in financial performance (ROA). With a high Non-Performing Loan (NPL) ratio, Sharia Commercial Banks will experience problem loans, automatically affecting profitability. 2) Loan to Deposit Ratio (LDR) harms Return On Assets (ROA). H2 in this study contradicts the hypothesis initially predicted by the author, namely that H2 is inappropriate. This means that in this research, the Loan Deposit Ratio (LDR) cannot be a determining factor influencing the financial performance (ROA) of the Sharia Commercial Bank itself. 3) Operational Costs Operational Income (BOPO) has a positive influence on Return on Assets (ROA). H3 in this research is accepted but has a significant negative effect. This research shows that the higher the ratio level in Operating Costs and Operating Income (BOPO), the smaller the profit obtained. So, Sharia Commercial Banks must increase operational costs so there is no decline in financial performance or Return On Assets (ROA). 4) Simultaneously, the variables Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Operating Costs Operating Income (BOPO) influence the Financial Performance (ROA) of Sharia Commercial Banks in 2018 - 2021.

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