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Credit Disposement and Its Internal Determinants

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Abstract

The purpose of this research was to find out the effect of third-party funds, capital adequacy ratio, loan to deposit ratio, return on assets, non-performing loan and operating expense ratio on credit disposementof PD BPR BKK Purbalingga It needs to be explored more deeply about the effect of these variables on credit disposementto get more complete evidence. The data in this study were quarterly financial reports of PD BPR BKK Purbalingga during the period of 2011-2018. Data anaysis method used was multiple regression method using SPSS 24. Based on the data analysis, it can be concluded that (1)Third-party funds have positive effect on credit disposementof PD BPR BKK Purbalingga, (2)Capital adequacy ratio has positive effect on credit disposement of PD BPR BKK Purbalingga, (3)Loan to deposit ratio has positive effect on credit disposementof PD BPR BKK Purbalingga, (4)Return on assets does not have positive effect on credit disposementof PD BPR BKK Purbalingga, (5)Non-performing loan does not have negative effect on credit disposementof PD BPR BKK Purbalingga, (6)Operational expense ratio has negative effect on credit disposement of PD BPR BKK Purbalingga.

Keywords

Third-Party Funds, Capital Adequacy Ratio, Loan to Deposit Ratio, Return on Assets, Non-Performing Loan, Operating Expense Ratio, Credit Disposement

INTRODUCTION

According to Law No. 10 of 1998 concerning banking, it can be concluded that the banking business includes three activities, namely collecting funds, channelling funds, and providing other bank services. The activity of raising thirds party funds with collecting funds from the public in the form of current account, time deposits and savings. Usually to give an attractive service the bank give policy such as higher interest as a stimulus for the community.

Alfian (2015) said that third party funds have a positive and significant influence on credit. Amelia and Murtiasih (2017) found that the capital adequacy ratio has a positive and significant effect on credit disposement. The statement is also found in the study of Triasdini and Arfianto (2010) which concluded that CAR had a positive influence on credit disposement. But, according to Usman (2018), CAR had no effect on credit disposement.According to Riyadi (2018) LDR positively and significantly affected toward BPD bank credit disposementacross Indonesia. But according to research conducted by Supriadi and Eko (2016) there is no variable partial influence Loan Deposit Ratio to credit disposement.

According to Darmawan et al (2017) Return on Assets has a positive and significant effect on Credit Disposement. In contrast to the results of the research by Febrianto and Muid (2013) which stated that ROA does not have a significant effect on loans channelled by banks in Indonesia.From several indicators of the health of the quality of bank assets, there are indicators that the author took to be studied, namely non-performing loan. NPL is a basic financial ratio that can provide information about capital conditions, profitability, credit risk, market risk and liquidity. The opinion of Putri and Akmalia (2016) states that the NPL ratio has a significant negative effect on lending.And according to Darmawan (2018), NPL has no effect on credit disposement.

According to research conducted by Febrianto and Muid (2013), the value of OER does not affect the amount of bank credit.

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Bank efficiency that generates profits for parties does not have to be allocated by banks to increase the amount of credit extended to the public. Therefore, there are some research gaps in previous studies which indicate that the results of previous studies are still inconsistent. Thus, the research gap and inconsistency support the author to conduct this research. So, based on the background above, the author conducted the study entitled "The Determinant of Bank Internal Factors on Credit Disposement (Case Study on PD BPR BKK Purbalingga)".

This research aims to examine and provide empirical evidence about several independent variables of the determinant of bank internal factors on credit disposement. The object of this research is the PD BPR BKKin the Purbalingga. The data in this study are secondary data, which is collecting data from financial report.

LITERATURE REVIEW

Theory Of Bank Liquidity

Theory Trade-off between Liquidity and Profitability. This theory develops in the world of Islamic banking where there is a conflict of interest between liquidity and profitability. Banks must be able to maintain their liquidity levels by increasing cash reserves. The addition of cash reserves to maintain liquidity can reduce the level of profitability because the funds are not used. Conversely to obtain high profitability, the bank must reduce its cash reserves, which means the level of tire liquidity will decrease.

Bank

According to Law Number 10 of 1998 concerning banking, by type is grouped into commercial banks and rural credit banks. Commercial banks provide all available banking services and have a range of operational areas that can be carried out in all regions.

The function of BPR includes efforts to collect and dispose funds with the aim of getting profit. BPR benefits derived from the spread effect and interest income. The BPR businesses are:

a. Collecting funds from the public in the form of deposits in the form of time deposits, savings, and / or other forms equivalent.
b. Give credit.Provide financing for customers based on profit sharing principles in accordance with the provisions stipulated in Government Regulations.
c. Placing funds in the form of Bank Indonesia Certificates, time deposits, certificates of deposit, and / or savings at other banks. Bank Indonesia Certificate is a certificate offered by Bank Indonesia to an RB if an RB experiences over liquidity or excess liquidity.

Credit

Credit provided by banks or financial institutions is based on trust. In granting credit must be seen from various elements of credit. The elements of credit according to Kasmir (2010) are:

a. Trust

   A belief from lenders that the credit to be given will really be accepted again in the future. This trust is given by companies, which have previously conducted research investigations about customers both internally and externally. Research and investigation of past and present conditions of credit applicants.

b. Agreement

   Besides the element of trust, credit also contains an element of agreement between the lender and the credit recipient. This agreement is stated in an agreement where each party signs their respective rights and obligations.

c. Duration

   Every credit given has a certain period, this period includes the agreed credit repayment period. The time period can be in the form of short term, medium term or long term.

d. Risk

   A grace period for repayment will cause an uncollectible risk or loan default. The longer the credit, the greater the risk and vice versa. This risk is borne by the bank, both intentional risk by negligent customers, and by unintentional risks such as natural disasters or bankruptcy of the customer's business without any other intentional elements.

e. Reply Services

The advantage of providing a credit or service known as interest. Repayment in the form of interest and credit administration costs is a benefit company.

Thirds Party Funds

Third party funds are funds raised from the community in the form of savings, current accounts, and time deposits. Where third party funds are a source of funds that are very relied upon by banks to carry out their operational activities. The bank can utilize this fund in activities that can generate income or profits, one of which is disposement of credit.

Capital Adequacy Ratio

Capital Adequacy Ratio is a ratio that shows how far all bank assets that contain risks (loans, investments, securities, bills at other banks) are financed from the bank's own capital funds in addition to obtaining funds from sources - sources outside the bank, such as funds from the public, loans, etc. CAR is an indicator of a bank's ability to cover a decline in assets as a result of bank losses caused by risk assets.

Loan To Deposit Ratio

Loan to deposit ratio or LDR is used to measure the level of bank liquidity or how far the bank's ability to meet its short-term obligations. LDR is a ratio that compares the number of loans extended by banks with the amount of funds raised by banks. According to Bank Indonesia, the LDR ratio for banks in Indonesia is expected to be in the range of 85% -100%.

Return On Assets

ROA is used to measure the ability of bank management in obtaining overall profit. Profit is the main goal in the business, including in banking company. The reason for the achievement of banking profits can be in the form of adequacy fulfil the obligations of shareholders, assess the performance of leaders, and can increase power attract investors to invest their capital. ROA is an internal factor in carry out lending that can be used to measure profitability in banking. High profits make banks gain the trust of the public allows banks to raise more capital so that banks get wider lending opportunities (Simorangkir, 2004 in Triasdini, 2010).

Non-Performing Loan

According to Bank Indonesia Circular Letter No.8 / 30 / DPBPR / 2006, what is meant by Non-Performing Loans (NPL) is a comparison between loans and the number of loans granted. BPR credit quality categories consist of: current category, substandard category, doubtful category, and bad category. A high NPL results in the non-functioning of the bank intermediary function optimally because it decreases the circulation of bank funds, thereby reducing the opportunity for banks to earn income.

Operational Efficiency Ratio

Operational Efficiency Ratio is calculated using a comparison between operating expenses for 12 months against operating income in the same period or what is often referred to in Indonesia as BOPO. This ratio is used to measure the level of efficiency of a bank (Bank Indonesia Circular Letter N0.15 / 8 / DPBS dated March 30, 2013).Operational Efficiency Ratio is one indicator in measuring the soundness of a bank, because this is related to the ability of banks to obtain profits.

RESEARCH METHODS

This type of research according to data analysis was included in quantitative research, namely research that analyzes data in the form of numbers and secondary data. Secondary data is a source of research data obtained indirectly through intermediary media researchers. Meanwhile, according to the characteristics of the problem, this study was included in a descriptive study that was a study of problems in the form of the current facts of a population. The purpose of descriptive research was to test hypotheses or answer questions related to the current status of the subjects studied.

The object in this research is Thirds Party Funds, Capital Adequacy Ratio, Loan to Deposit Ratio, Return On Assets, Non-Performing Loans, and Operational Efficiency Ratio to the dependent variable is Disposement of Credit recorded in the financial statements of the financial services authority.

Data Collection and Instrument Development Technique

Documentation technique is to collect and record data and reports owned by the company related to the problem that will be discussed and used as research objects. The documentation technique is used to collect data on the Financial Statements from PD BPR BKK Purbalingga in 2011-2018.

Literature technique is a technique of collecting data from various research reports and relevant literature. Done by reading books of literature relating to credit and banking.

Data Analysis Technique

This studdy using Multiple Regression Analysis. But Before doing Multiple Regression Analysis we test data with Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Correlation Analysis.

Multiple Regression Analysis

The function of this analysis is to measure the impact of independent variables (Thirds Party Funds, Capital Adequacy Ratio, Loan to Deposit Ratio, Return On Assets, Non-Performing Loans, and Operational Efficiency Ratio) toward dependent variables (Disposement of credit). The formulation for multiple regression is below:

$$DOCt = a + \beta_1 TPF_{t-1} + \beta_2 CAR_{t-1} + \beta_3 LDR_{t-1} + \beta_4 ROA_{t-1} + \beta_5 NPL_{t-1} + \beta_6 OER_{t-1} + e$$

Explanation:

DOCt : Ln Disposement of Credit (t)
TPF_{t-1} : Ln Thirds Party Funds (t-1)
CAR_{t-1} : Capital Adequancy Ratio (t-1)
LDR_{t-1} : Loan to Deposit Ratio (t-1)
ROA_{t-1} : Return on Asset (t-1)
NPL_{t-1} : Non-Performing Loan (t-1)
OER_{t-1} : Operational Efficiency Ratio (t-1)
e : Error (residual variable)

Hypothesis Test

From table 2 and table 3, we know that Thirds Party Funds, Capital Asequancy Ratio, Loan to Deposit Ratio, Operational Eficiency Ratio under level significal 0.05 so that variable is accepted has significant effect. But any two variable are Return on Assets and Net Performing Loans above significal level 005 so that variable is rejected no significant effect .

RESULTS AND DISCUSSION

Descriptive Statistics

The results of processing descriptives statistical data are presented in the Table 1 in the attachment.

Based on Table 1, the results of the descriptive analysis using SPSS 24 show that average value of third-party funds is Rp 258,577,811.800,-. the average value of capital adequacy ratio is 10.98%. The average of capital adequacy ratio is above 8%, it means that the capital adequacy ratio is in the healthy condition.

The average value of loan to deposit ratio is 85.75%. The average of loan to deposit ratio is below 94,75%, it means that the loan to deposit ratio is in the healthy condition. The average value of return on assets is 1.76%. The average of return on assets is above 1,215%, it means that the return on assets is in the healthy condition.

The average value of non-performing loan is 7.03%. The average of non-performing loan is above 5%, it means that the non-performing loan is in the unhealthy condition. The average value of operating expense ratio is 65.12%. The average of operating expense ratio is below 93,52%, it means that the operating expense ratio is in the healthy condition. The average value of credit disposement is Rp 260,961,500.100,-.

Discussion

H_1: Third-party funds have positive effect on credit disposement.

The results of hypothesis testing with SPSS show that third-party funds have positive and significant influence on credit disposement. According to Law No. 10 of 1998 concerning banks is a business entity that collects funds from the public in the form of deposits and channel them back to the community in the form of credit and other forms in order to improve people's lives. It can be concluded that third party funds are the largest source of bank funds used to carry out bank tasks, namely credit disposement.

H_2: Capital adequacy ratio has positive effect on credit disposement.

The results of hypothesis testing with SPSS show that capital adequacy ratio has positive and significant influence on credit disposement. CAR is the bank's performance ratio to measure the bank's capital adequacy to support assets that contain or generate risk, such as credit disposement. According to Bank Indonesia (Number 9/13 / PBI / 2007), CAR is the provision of minimum capital for banks based on broad risk assets, both assets listed in the balance sheet and administrative assets as reflected in liabilities that are still dependent and / or commitments given by banks for third parties or market risk. Completion of the International Bank stipulates a minimum capital requirement of 8% of ROA for banks in Indonesia. From this statement, CAR affects credit because the bank has sufficient predetermined CAR and allocates funds for credit disposement.
amount of capital and low risk possessed by the bank is able to finance operational activities and provide a sizeable contribution to profitability, thus allowing banks to be able to dispose more credit.

H_3: Loan to deposit ratio has positive effect on credit disposement.

The results of hypothesis testing with SPSS show that loan to deposit ratio has positive and significant influence on credit disposement. Loan to deposit ratio is a ratio that measures the ability of banks to meet short-term obligations by dividing total loans by total third-party funds. Banking liquidity needs to be managed to meet needs when customers take their funds and dispose credit loans to borrowers (debtors). If the LDR value is too high, it means that the bank does not have enough liquidity to cover its obligations to customers. Conversely, if the LDR value is too low, it means that the bank has sufficient liquidity but may have lower income, because as is known, the banking world gets income through credit disposement.

H_4: Return on assets has positive effect on credit disposement.

The results of hypothesis testing with SPSS show that return on assests has negative and not significant influence on credit disposement. ROA is a ratio that measures the ability of banks to generate profits (can be called profitability) by comparing net income with resources or total assets owned. Its function is to see how effective banks are in using their assets in generating income. The greater the value of ROA means the better the bank's ability to generate profits. One of the profits generated comes from customer interest income (derived from credit disposement). The study of Febrianto and Muid (2013) states that the effect of ROA on the volume of credit given has a significant positive effect, meaning that if there is an increase in ROA, it will be followed by an increase in the volume of credit disposement and vice versa.

H_5: Non-performing loan has negative effect on credit disposement.

The results of hypothesis testing with SPSS show that non-performing loan has positive and not significant influence on credit disposement. The main objective of the bank is to provide credit to the debtor, that is the debtor can return all loans in accordance with the promised period. Credit is one of the main activities of banks, interest from credit activities is the main income in generating bank profits. But, if the credit given is problematic in the sense that it can be in a substandard category, it is doubtful that even bad credit will affect the bank's performance. As a result of high NPL, banks must provide more reserves so that bank capital is also eroded. Though, the amount of capital greatly affects the amount of credit expansion. The amount of NPL is one of the causes of the difficulty of banks in channelling credit (Sentausa, 2009).

H_6: Operational expense ratio has negative effect on credit disposement.

The results of hypothesis testing with SPSS show that operating expense ratio has negative and significant influence on credit disposement. Operational efficiency ratio is a ratio that describes the efficiency of banks in carrying out their activities. Considering that the main activity of a bank is acting as an intermediary, i.e. collecting and disposing funds, the bank's operating income is dominated by interest from the credit disposement.

Implication

Based on the conclusions of the research results, there are some suggestions that may be useful for the management. Results of this study can be used as a reference for management who manage the company. For PD BPR BKK Purbalingga, it can be used as a record / correction to maintain and improve its performance, while improving if there are shortcomings. The results of this study are expected to be used as a reference or consideration for managing the business. Management of the company must pay attention to the financial performance of the company they manage to avoid business failures. Financial performance indicators that need to be taken into account are third-party funds, capital adequacy ratio, loan to deposit ratio and operating expense ratio. Based on this research, these ratios have significant influence on credit disposement. The company must also have a benchmark company in order to find out their financial position. Private companies or banks can be used as a benchmark because they can maintain and improve their business.

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List of Tables

Table 1. Descriptives Statistics

	TPF (in Thousand Rupiah	**CAR**	**LDR**	**ROA**	**NPL**	**OER**	**CD (in Thousand Rupiah**
Mean	258,577,811	10.98%	85.75%	1.76%	7.03%	65.12%	260,961,500
Standard Deviation	65,399,855	1.80%	10.42%	0.79%	3.47%	8.03%	46,604,557
Maximum	367,737,790	15.24%	105.65%	3.17%	13.52%	78.90%	304,164,641
Minimum	138,854,667	7.63%	66.94%	0.32%	3.22%	54.09%	136,228,550

Source: Result Research 2019

Table 2. Multiple Regression Analysis Result

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-0.721	0.443		-1.628	0.116
TPF	0.987	0.022	1.290	45.585	0.000
CAR	0.011	0.002	0.098	6.771	0.000
LDR	0.011	0.000	0.557	23.673	0.000
ROA	-0.007	0.004	-0.027	-1.985	0.058
NPL	2.625	0.002	0.000	0.015	0.989
OER	-0.001	0.000	-0.044	-2.533	0.018

a. Dependent Variable: COD3

Table 3. Hypothesis Testing Result

No.	Hypothesis	Statement	Result
1	H_1	TPF ->COD.	Accepted
2	H_2	CAR ->COD	Accepted
3	H_3	LDR ->COD	Accepted
4	H_4	ROA ->COD	Rejected
5	H_5	NPL ->COD.	Rejected
6	H_6	OER ->COD	Accepted

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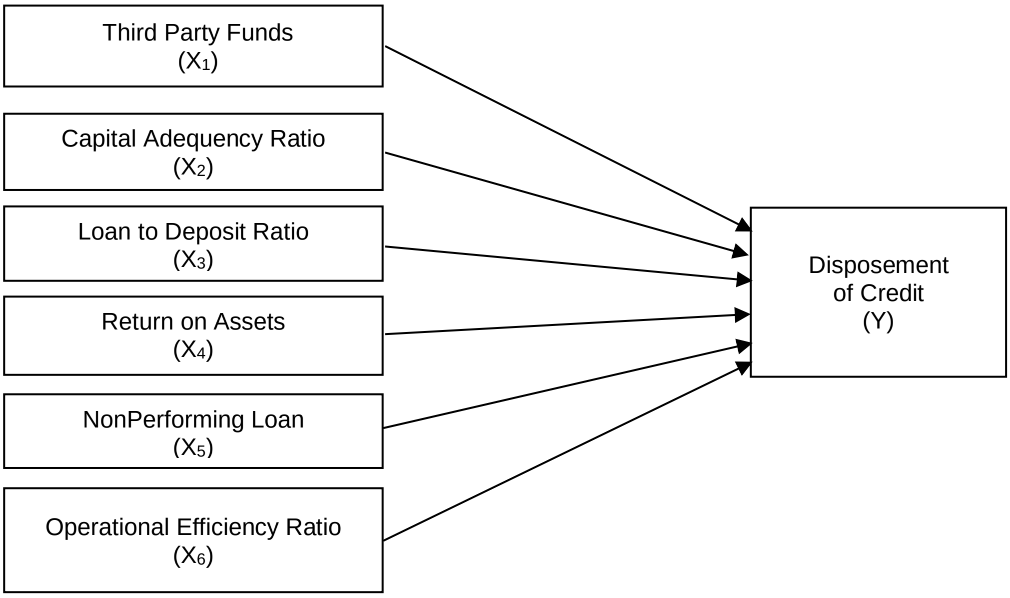
Figure 1. Model Test


Third Party Funds
(X_1)
Capital Adequency Ratio
(X_2)
Loan to Deposit Ratio
(X_3)
Return on Assets
(X_4)
NonPerforming Loan
(X_5)
Operational Efficiency Ratio
(X_6)
Disposement
of Credit
(Y)