

THE APPLICATION OF CAMEL MODEL ON BANKS LISTED IN INDONESIA STOCK EXCHANGE PERIOD 2008-2010

by:

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ABSTRACT

Bank is an institution that serves as a financial intermediary between the parties who have funds with those who need funds as well as an institution that serves smooth traffic flow payments. The objectives of this research are mostly to analyze the influence of CAMEL model effect simultaneously on earnings and to identify the most significant factor of CAMEL model partially on earnings in go public banks listed on Indonesia Stock Exchange 2008-2010 periods. Meanwhile, types of the research that used in this paper are causal-comparative study and Multiple Linear Regression. Data used in this study is a secondary data that is obtained from the journal of research affiliated with CAMEL ratio such as: Capital Adequacy Ratio (CAR), Asset Quality (AQ), Operating Expense to Operating Income (OEIO), Loan to Deposit Raito (LDR) and the financial statements data from 15 banking companies listed in Indonesia Stock Exchange during 2008-2010. Hypothesis test shows that there are an influence simultaneously and partially of Capital Adequacy Ratio (CAR), Assets Quality, Operating Expense to Operating Income (OEIO), and Loan to Deposit Raito (LDR) on profitability. However, both of every bank managers and the researcher need to recover more indicators to clearly perceive an accurate level of approaches in terms of measuring the bank's healthy.

Keywords: *CAMEL model, profitability*

INTRODUCTION

Research Background

Bank Indonesia (2009), states bank is an institution that serves as a financial intermediary between the parties who have the funds (surplus units) with those who need funds (deficit units) as well as an institution that serves smooth traffic flow payments. The Bank also has a role as a monetary policy implementation and achievement of the stability of the financial system, so we need a healthy banking system, transparent and accountable. Banking is one sector that plays an important role in Indonesia's economy. Since the economic crisis that hit Indonesia in mid-1997 that evolved into the multi-dimensional impact on the destruction of the banking business in Indonesia. This leaves of sizeable of non-performing loans, and to date has not been resolved by the Bank Restructuring Agency (IBRA) and the bank lender, so the impact of the loss of the country and the people are quite large.

The regulation of the rating of the bank there is a difference from the previous regulations in some things that are perfected. In the previous regulations issued by Bank Indonesia through the Decree No. BI Directors. 30/11/KEP/DIR Decree 1997 and the 1998 directors No.30/277/KEP/DIR BI analysis CAMEL (Capital, Asset Quality, Management, Earning, Liquidity) is set as a guide to assess the soundness of the bank.

The measurement results based on the ratio is applied to determine the soundness of banks, which are categorized as follows: healthy, fairly healthy, less healthy and unhealthy. The ratio can be used as a financial indicator that can reveal a company's financial condition and performance of the company has been achieved for a given period.

Recognizing the importance of the health of a bank for the establishment of trust in the banking system and to implement the principle of prudence (prudential banking) in the banking sector, Bank Indonesia feels has to apply the rules on bank health. With the Bank's rules on health, banks are expected always in good health, so it is not harmful to society associated with banking. Banks that operate and relate to the community is expected that banks only truly healthy. The results showed that NPM variables significantly influence earnings growth. Variables significant negative NPM on profit growth. The variable of CAR, RR, NPL, ROA, NIM, ROA, LDR, GWM not significant effect in the profit growth. Several previous studies have described above showed inconsistent results. This study wanted to examine the correlation between the financial performance of banking firms by using financial ratios in its effect on earnings. The number of the theory that the ratio of good financial condition, will bring a positive influence on the financial condition of the company will also have a positive effect on profitability or income changes, in this study will be revisited so what the results of the research will be to reinforce and strengthen the theory there.

Research Objectives

There are specific objectives for this research to analyze the influence of:

1. Capital Adequacy Ratio, Assets Quality, Operating Expense to Operating Income, and Loan to Deposit Ratio on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods, simultaneously.
2. Capital Adequacy Ratio on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods, partially.
3. Assets Quality on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods, partially.
4. Operating Expense to Operating Income on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods, partially.
5. Loan to Deposit Ratio on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods, partially.

THEORETICAL FRAMEWORK

Literature Review

Previous research by Hays, et al. 2009. Efficiency Ratio and Community Bank Performance. This study is development of multivariate discriminate models to distinguish between low-efficiency and high-efficiency community bank (total assets less than \$ 1 billion dollars) by the efficiency ratio, a measure of financial performance that is commonly used is related not having interest expense on total operating revenue. This model includes a proxy variable for banking regulation CAMELS ratings that include: model equity ratio, total asset ratio, net borrowing costs for an average salary of assets, return on average assets, the liquidity ratio and the ratio of GAP one year. Discriminate model was tested using data for 2006, 2007 and 2008. These include high performance and deteriorating industry conditions associated with the current financial crisis. The classification accuracy of the model ranged from 88% to 96% for both the original dataset and cross validation.

Previous research by Valentina Erista Ika. D, 2010. Analysis of Effect of CAR, AQ, NIM, ROA, LDR, and Sensitivity Against Market Risk To Banking Profitability Level (Case Study Private National Bank Foreign Exchange in Indonesia from 2005 to 2008). This study aimed to analyze the effect of CAR (Capital Adequacy Ratio), KAP (earning assets), NIM (Net Interest Margin), ROA (Operating Expenses to Operating Income), LDR (Loan to Deposit Ratio), and Sensitivity to Market Risk for level of profitability. The population is the object of this research is the National Private Commercial Bank Foreign Exchange in Indonesia 2005-2008. The number of samples used were 20 foreign private banks in Indonesia. The research sample was taken by purposive sampling to certain criteria, namely banking companies belonging to foreign private banks and still standing during the observation period and the bank publishes its financial statements in the media 2005-2008. The method of analysis used in this study is a multiple regression analysis, hypothesis testing determinant coefficient, F test, and the test T. The results showed that the variables ROA significantly influence the profitability of banks. Variables significant negative BOPO the level of bank profitability. The variable CAR, AQ, NPL, NIM, LDR and Sensitivity to Market Risk no significant effect on the profitability of banks.

Bank Definition

Law. 10 of 1998, defines concerning the main points of Banking, the definition of a bank is a financial institution that provides credit and the main business services in payment traffic and circulation. Financial institutions here are all entities through its activities in the financial sector, to withdraw money from the public and distribute it back to the community.

Bank Indonesia (2009), states bank is a business entity which collects funds from the public in the form of deposits, and distribute it to the public in the form of loans and or other forms in order to improve the standard of living of the people. Inferred from the above definition that the primary function of banks is to collect funds from the public and distribute it as a loan to the public. Banking has a strategic position, namely as a support payment system, the implementation of monetary policy and the achievement of financial system stability, so that the required sound banking, transparent and accountable.

Financial Performance Banking

Big Indonesian Dictionary, said performance can be defined as something that is achieved or performance shown. Keown, et al. (2005:71), said performance measurement is a qualifying performance measurement and efficiency or effectiveness of the company or segment of the business operation. Performance appraisals can be used as a guide for the business service or financial performance. To carry out the analysis of the financial performance expressed in percentage. Keown, et al. (2005:77), said that the financial performance of the company is the result of many individual decisions made on a continuous basis by management. To assess the financial performance of a company, need to be involved and the cumulative financial impact analysis of economic decisions and consider using a comparative measure.

Keown, et al. (2005:80), states in discussing the company's financial performance assessment methods should be based on published financial data is made in accordance with generally accepted. This report is the most common data available for this purpose, although often not representative of the results and economic conditions. The financial statements referred to as a "scorecard" that includes periodic investment and corporate finance operations, the focus will be on relationships and financial indicators that enable analysis of past performance and projections of future results which will focus on the benefits and limitations contained there.

Profit

Rose & Hudgins (2010:562), explained that every effort is formed because there is something to be achieved, namely money. Of money, a person is said to have disposable income. For companies, the money is described as profit, namely the difference revenues (incomes) minus costs (expenses) happens. In order to know clearly the company generated profits and assess its performance, the earnings limit is given within a certain time period, for example, within 1 (one) year, so we can look at the income statements. Kouser & Saba (2012), explained that profitability ratio compares components of income with sales. It give an ideas of what makes up a company's income and are usually expressed as a portion of each dollar of sales.

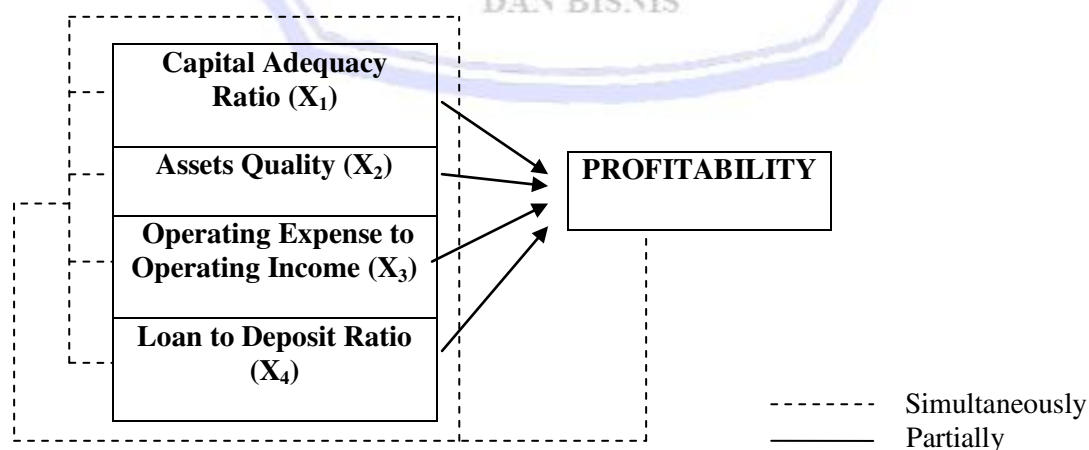


Figure 1. Conceptual Framework

Source: Theoretical Review

Hypothesis

Based on the basic theory and problems of the hypothesis of this study are:

- H₁ : Capital Adequacy Ratio, Assets Quality, Operating Expense to Operating Income, and Loan to Deposit Ratio influences simultaneously on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods.
- H₂ : Capital Adequacy Ratio influences partially on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods.
- H₃ : Assets Quality influences partially on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods.
- H₄ : Operating Expense to Operating Income influences partially on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods.
- H₅ : Loan to Deposit Ratio partially on profitability of banks listed in Indonesia Stock Exchange 2008-2010 periods.

RESEARCH METHODS

Types of Research

In the world of education in the knowing of study of educational research, it is intended that in future education research are expected to use appropriate and effective method to process data. There are two types of research namely, qualitative and quantitative research.

Sekaran & Bougie (2009:180) defined qualitative research is rip if desk and data collected over take the form of words or pictures rather than numbers. Meanwhile, quantitative research and statistical analysis of data collected over taking a form that can be calculated (numeric). Quantitative research is divided into experimental studies, correlation descriptive, and causal comparative evaluation.

This type of research in this paper is a causal-comparative study. In Sekaran & Bougie (2009:181), Causal-comparative research is a type of research the characteristics of the problem in the form of cause and effect between two or more variables. With the possibility of causation, we also can know the effect of the relationship between one and the other variables.

Data and Data Sources

The data used in this study is a secondary data is data that has to do with the issues, obtained from the journal - the journal of research that has to do with research that is CAR, KAP, ROA and LDR are also present in the ratio of CAMEL. Required data in the form of financial statements 15 banking companies listed on the Indonesia Stock Exchange in 2008-2010. List of banking companies collected from Indonesian Capital Market Directory (ICMD) from 2008 to 2010 and from www.idx.com also from www.bi.go.id. In this study, the authors use the financial statements of 15 banking companies that have been published in 2008-2010. With a list of banking companies and data comparison ROA as follows:

Table 1. List of Banking Companies Listed in Indonesian Stock Exchange Year 2008 - 2010

No.	Company List	No.	Company List
1.	Bank Central Asia Tbk.	9.	Bank Permata Tbk.
2.	Bank Negara Indonesia (Persero) Tbk.	10.	Bank Capital Indonesia Tbk.
3.	Bank Mandiri (Persero) Tbk.	11.	Bank ICB Bumiputera Tbk.
4.	Bank Rakyat Indonesia (Persero) Tbk.	12.	Bank Mutiara Tbk.
5.	Bank Bukopin Tbk.	13.	Bank Tabungan Pensiunan Nasional Tbk.
6.	Bank Danamon Indonesia Tbk.	14.	Bank Ekonomi Raharja Tbk.
7.	Bank CIMB Niaga Tbk.	15.	Bank Kesawan Tbk.
8.	Bank Internasional Indonesia Tbk		

Sources: IDX and ICMD Year 2008-2010

Population and Sample

The population in this study is a banking company listed on the Indonesia Stock Exchange 2008-2010 period. The sampling method in this study is the purposive sampling technique. The sample was 15 banking companies. Selected samples of a company that has the following criteria:

1. Banking companies listed on the Indonesia Stock Exchange from January 2008 to December 2010.
2. Banking companies that issue financial statements for at least 3 years in a row (during the period 2008-2010).
3. Banking companies that issue financial statements show a profit in the year 2008-2010.

Operational Definition and Measurement of Variables

- a. Hanne, (2000), *Capital Adequacy Ratio (X1)* is a ratio that shows how much of the total bank assets that contain risks (credit, equity, securities, claims on other banks) took financed from its own capital as well as funds obtained from sources - sources outside the bank. Variable Capital Adequacy Ratio is measured by the ratio of the scale of measurement :

$$CAR = \frac{\text{Capital}}{\text{ATMR}} \times 100\%$$

- b. Hanne, (2000), *Asset Quality (X2)* is used to demonstrate the ability of bank management in managing problem loans granted by banks is by comparing the earning assets to earning assets and compare the ratio of the allowance for earning assets to earning assets. Variable Assets Quality is measured by the ratio of the scale of measurement :

$$\text{Assets Quality} = \frac{\text{Assets Classified}}{\text{Assets}} \times 100\%$$

- c. Hanne, (2000), *Operating Expenses to Operating Income (BOPO) (X3)* was used to measure the ability of bank management in controlling operating expenses to operating income. This variable was measured using a ratio scale of measurement :

$$BOPO = \frac{\text{Operating Expenses}}{\text{Operating Income}} \times 100\%$$

- d. Hanne, (2000), *Loan to Deposit Ratio (X4)* is a ratio to measure the composition of total loans compared with public funds and used their own capital. LDR magnitude according to government regulations the maximum is 110%. The formula to find the loan to deposit ratio is as follows :

$$LDR = \frac{\text{Total Loans}}{\text{Total Deposit} + \text{Equity}} \times 100\%$$

Data Analysis Techniques

To achieve the objectives of this research, the method of analysis used in this study is the Multiple Linear Regression analysis is a statistical method commonly used to examine the relationship between a variable with multiple independent variables.

a. Multiple Linear Regression

Keown, et al. (2005:199), states linear regression is a statistical method used to form a model of the relationship between the dependent variable (the dependent; responses, Y) with one or more independent variables (independent, predictor, X). If the number of variables there is only one, known as simple linear regression, whereas if there is more than one independent variable, called linear regression. The formula of multiple linear regression in general as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Source: Keown, et al. (2005:199)

b. Classical Assumption Test

Classical assumption test is used to determine whether the results of multiple linear regression analysis were used to analyze the study free of irregularities that include classical assumption test for normality, multicollinearity, heteroscedasticity and autocorrelation.

c. Hypothesis Testing

The testing of the hypothesis are Partially and Simultaneously Test.

RESULT AND DISCUSSION

Result

Hypothesis test shows that there are an influence simultaneously and partially of Capital Adequacy Ratio (CAR), Assets Quality, Operating Expense to Operating Income (EOIO), and Loan to Deposit Ratio (LDR) on profitability. It proved by F_{count} greater than F_{table} with a significance value exceeds 95% and the probability of this model calculation mistake <0.05 . Likewise partially $t_{count} > t_{table}$ the significance value exceeds 95% and the probability of this model calculation mistake <0.05 .

Data Analysis

Classical Assumption Test

a. Heteroscedasticity Test

A good regression model is free from the case of heteroscedasticity. Basis for decision-making of a regression model said to be happening heteroscedasticity if there is no clear pattern, and the point spread above and below the number 0 (zero) on the Y axis, does not occur heteroscedasticity.

b. Multicollinearity Test

The purpose was to test the assumption of multicollinearity in the regression model to test whether there is a correlation between the independent variables, namely CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4). A good regression model should be free from the problem of multicollinearity and there is no correlation between the independent variables.

c. Autocorrelation Test

To find a free autocorrelation regression model can be tested on the following criteria :

D-W Value $k-1$, $n-k = 3$ Variable – 1 = 2, 100 respondents – 3 variable = 97

- 1) D-W Value $\leq dL$ (1.3357) = Positive Autocorrelation
- 2) D-W Value between dL (1.3357) until dU (1.7200) = No Definition
- 3) D-W Value between dU (1.7200) until $4-dU$ (2.2800) = No Autocorrelation
- 4) D-W Value between $4-dU$ (2.2800) until $4-dL$ (2.6643) = No Definition
- 5) D-W Value $\geq 4-dL$ (2.6643) = Negative Autocorrelation

d. Normality Test

Testing the normality assumption is to test whether the regression model, The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 has a normal distribution or not.

Unstandardized Coefficient Beta Analysis

From the analysis, obtained by linear regression equation as follows :

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

$$Y = 0.098 + 0,303 X_1 + 0.019 X_2 - 0.134 X_3 - 0.211 X_4 + e$$

Coefficient Correlation (r)

Based on the analysis of correlation (r) is equal to 0.727 indicating that the Correlation of The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 has a strong relationship.

Coefficient Determination (r^2)

R^2 value of 0.747 in this study may imply that the contribution of The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 of 74.7% while the remaining 25.3% is affected by other variables not examined in this study.

Simultaneously (F-Test) of The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Listed in IDX Period 2008 – 2010

Hypothesis test is carried out simultaneously by using F numbers in the table. Testing is done by comparing the number of significant level of calculation results with significance level 0.05 (5%) with the following criteria :

- 1) If $F_{\text{count}} (\text{sig}) \geq 0.05$ then H_0 is accepted and H_a rejected
- 2) If $F_{\text{count}} (\text{sig}) < 0,05$ then H_0 is rejected and H_a accepted

Table 2. F-Test Table

Model		ANOVA ^b				
		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.136	4	.034	4.808	.005 ^a
	Residual	1.684	40	.042		
	Total	1.820	44			

a. Predictors: (Constant), Loan to Deposit Ratio, Capital Adequacy Ratio, Asset Quality, Operating Expenses to Operating Income
b. Dependent Variable: Profitability

Source: SPSS 19 Output

Value of 4.808 of F_{count} significant 0.000. Because the $\text{sig} < 0.05$ means the confidence of this prediction is above 95% and the probability of this prediction error is below 5% which is 0.000. Therefore H_0 is rejected and accepting H_a . Thus, the formulation of the hypothesis that The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 Simultaneously, accepted.

Partially (T-Test) of The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Listed in IDX Period 2008 – 2010

Partially test is used to test the effect of each independent variable CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) in Partial Impact of Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 by performing comparisons between the t_{count} values with t_{table} value at $\alpha = 0.05$ or compare the probability of the real level 95% of the partial coefficient (r) so that it can be seen the influence of the independent variables individually. Using the criteria of hypothesis testing by t test as follows:

- 1) $t_{\text{count}} \leq t_{\text{tabel}} (0,05)$, then H_0 is accepted and rejecting H_a .
- 2) $t_{\text{count}} > t_{\text{tabel}} (0,05)$, then H_0 is rejected and accepting H_a .

The data table below shows the t-test partially results:

Table 3. Result of T-Test

Model	Coefficients ^a			t	Sig.	
	Unstandardized Coefficients	Std. Error	Standardized Coefficients			
		B				
1	(Constant)	.098	.237		.412	.683
	Capital Adequacy Ratio	.303	.291	.162	3.039	.005
	Asset Quality	.019	.236	.013	3.079	.009
	Operating Expenses to Operating Income	-.134	.260	-.085	-3.515	.006
	Loan to Deposit Ratio	-.211	.259	-.142	-3.815	.004

a. Dependent Variable: Profitability

Source: SPSS 19 Output

The formulation of the hypothesis that The Influence of CAR (X_1), AQ (X_2), EOIO (X_3) and LDR (X_4) on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 Partially, accepted.

Discussion

The Influence of Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 have a strong relationship with contribution value of Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio on Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010 is 83.7%. Based on the data analysis above, this research found results that Simultaneously and Partially, Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio influenced Profitability (Y) in Banking Company Go Public Listed in IDX Period 2008-2010. It proved by F_{count} greater than F_{table} with a significance value exceeds 95% and the probability of this model calculation mistake <0.05 . Likewise partially $t_{count} > t_{table}$ the significance value exceeds 95% and the probability of this model calculation mistake <0.05 .

This result is supported by a research was conduct by Previous research by Hays, et al. 2009. Efficiency Ratio and Community Bank Performance. This study is development of multivariate discriminate models to distinguish between low-efficiency and high-efficiency community bank (total assets less than \$ 1 billion dollars) by the efficiency ratio, a measure of financial performance that is commonly used is related not having interest expense on total operating revenue. This model includes a proxy variable for banking regulation CAMELS ratings that include: model equity ratio, total asset ratio, net borrowing costs for an average salary of assets, return on average assets, the liquidity ratio and the ratio of GAP one year. Discriminate model was tested using data for 2006, 2007 and 2008. These include high performance and deteriorating industry conditions associated with the current financial crisis. The classification accuracy of the model ranged from 88% to 96% for both the original dataset and cross validation.

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CONCLUSION AND RECOMMENDATION

Conclusion

From the result and discussion, this research finding conclusion as follows:

1. CAMEL Model such Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio simultaneously influence on Profitability in Banking Company Go Public Listed in IDX Period 2008-2010.
2. CAMEL Model such Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio partially influence on Profitability in Banking Company Go Public Listed in IDX Period 2008-2010.

Recommendation

The research that has been made, the researcher want to give recommendation as follows :

1. In managerial role need to see about Capital Adequacy Ratio, Assets Quality, Operating Expenses to Operating Income and Loan to Deposit Ratio that will ultimately influence on Profitability in Banking Company Go Public Listed in IDX Period 2008-2010.
2. For the next researcher may need to add another variable or add an intervening variables to make this study to be more accurate with the level of different approaches - different so that it can assist in the process of further research.

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