Management of Default Risk and Reserve Requirement

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ABSTRACT

This study aims to empirically examine the effect of credit risk on bank performance through capital adequacy (CAR) as a mediator. Where capital adequacy (CAR) is a new concept developed from the synthesis of monetary theory, financial intermediation theory, agency theory and bank risk management, as an effort to mediate the research gap between the influence of credit risk on bank performance. This study uses panel data with 35 companies as samples and uses a research period from 2013 to 2020. The analytical tool used in this research is PLS-SEM with WarpPLS 7.0 application. The results of the study explain the two rejected hypotheses, namely the effect of NPL on ROA and the effect of GWM on CAR, but the role of CAR as a mediator of the research gap in this study is the relationship between the effect of NPL on ROA and CAR as a partial mediator.

Keywords: Reserve Requirment, bank risk management, return on asset, financial Intermediation Theory.