The Effect of Banking Intermediation, Secondary Reserve, Operational Efficiency, and Credit Risk on Banking Profitability (Study at Regional Development Banks in Indonesia Period 2019 – 2022)

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ABSTRACT

Banks are intermediary financial institutions that collect and distribute funds to the public with the aim of obtaining profitability. The occurrence of the Covid-19 pandemic has affected the economic sector, especially the banking sector. The intermediation function is not running optimally, increasing investment in the form of secondary reserves, decreasing operational efficiency, increasing credit risk, and decreasing bank profitability. This research was conducted with the aim of knowing the effect of Banking Intermediation, Secondary Reserves, Operational Efficiency, and Credit Risk on Profitability at Regional Development Banks in Indonesia for the 2019 – 2022 period both partially and simultaneously. Banking Intermediation is measured by the ratio of credit to total third-party funds (Loan to Deposit Ratio/LDR), Secondary Reserve is measured by the ratio of securities held to third-party funds (TPF), Operational Efficiency is measured by the ratio of operating expenses to operating income (OEOI), Credit Risk is measured by Non-performing Loans (NPLs) and Profitability is measured by Return on Assets (ROA). The research method used is a descriptive method and a verification method with a quantitative approach with secondary data types sourced from published financial reports from 22 Regional Development Banks in Indonesia. The data analysis technique used is multiple linear regression with the classical assumption test first. As for testing the hypothesis used by T-Test and F-Test. The results of the study show that partially LDR has a positive and significant effect on ROA; Secondary reserve has a positive but not significant effect on ROA; OEOI and NPLs ratios have a negative and significant effect on ROA. While simultaneously LDR, Secondary Reserve, OEOI Ratio, and NPLs have a significant effect on ROA.

Keywords: Banking Intermediation, Credit Risk, Operational Efficiency, Return on Assets, Secondary Reserve.