

The Effect of Financial Institutions Banking Soundness Against Stock Price

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Abstract:

This study was conducted to determine the effect of the soundness of banking financial institutions variable as measured by Return on Assets, Net Interest Margin, and Capital Adequacy Ratio on share prices at government banks in the Indonesia Stock Exchange for the period 2008-2015. The population of this study is the Government commercial banks consisting of BRI Bank, BNI Bank, BTN Bank, and Bank Mandiri. The sample of this study is the assessment of the soundness of government commercial banks on stock prices, with the scope of the assessment covering the factors of ROA, NIM, and CAR. The sample was obtained through the publication of 2008-2015 annual financial statements totaling 32 data. The analysis technique uses multiple linear regression analysis, while the measurement tool uses t test, F test, and the coefficient of determination (R²) test. The results showed that the ROA variable had a positive and significant effect on stock prices, the NIM variable had a negative and significant effect on stock prices, the CAR variable had a positive and significant effect on stock prices at government commercial banks in the Indonesia Stock Exchange.

Keywords:

Bank soundness, stock prices

JEL: G10, G21, H54

INTRODUCTION

Financial institutions have an important task in mobilizing government activities. One such financial institution is banking. Banking has an important role in various economic activities, because through various credit activities or activities, the various service products it provides can help in launching the country's economic and trade sectors. The more advanced globalization and technology, the banking world is very active in various daily activities. This is because banks are institutions that issue funds between units that have increased (due to excess funds) for units that experience deficits (underfunded conditions). Banks can provide information about banks which are the core of the financial system in each country. Banks are financial companies that are engaged in providing financial services that require public trust in managing their funds (Kasmir, 2014); (Kaligis, 2013). Therefore banks must be in good health so as not to harm themselves and other parties (Khalil & Fuadi, 2016); (Williams & Nguyen, 2005); (McGuire & Tarashev, 2008).

Factors that can affect financial performance among banks, among others, are the decline in the rupiah exchange rate (exchange rate), weak internal bank conditions such as inadequate management performance, as well as credit assistance to groups or business groups that

can help the problem of bad loans or fail pay, in addition, increase the business very high, can increase the risks associated with the banking sector, and bank capital that cannot account for the risk-interest caused by banks can cause an increase in the bank (Aebi, et.al, 2012); (Viñals, et.al, 2013); (Berger & Bouwman, 2013). Such conditions must be avoided in order to increase the bank's existence in the long term and increase public confidence in the bank.

Based on the various internal weaknesses of the bank and to find out the financial crisis in the banking sector carried out by the business conducted, it is necessary to establish a monitoring system from the beginning and deal with it more seriously. In addition, in order for banks to be able to trust the public and support the maintenance of monetary freedom, financial institutions in all their activities must continue to improve the soundness of banks.

In general, the more financials a company gets, the more money it gets and the more it can be enjoyed by shareholders. Thus the greater the price to be incurred will be done by the company as well. By increasing a company that is getting better, there will be more investors who are willing to buy shares so that they will also go up. If the company's performance is good, the company's value will be high. With a high company value, investors are eyeing this company to invest their capital so that there will be an increase in share prices. Investment activities are generally carried out on total funds on real assets as well as financial assets. Stocks are one of the most popular investments because they have a certain level of importance.

LITERATURE REVIEW

Bank Health

Bank ability to carry out banking operations normally and be able to fulfill all its obligations properly normally and be able to fulfill all of its obligations properly in ways that comply with applicable regulations. The understanding of bank health is a very broad limitation, because bank health includes the health of a bank to carry out all its banking business activities (Damayanti & Chaniago, 2015).

Health assessment is carried out using the results of financial statements that have been published by banks. Financial statements are information media that aim to provide information about financial position, financial performance, and changes in financial position in the company. Financial reports as a communication tool for parties involved in the company (Padmantlyo, 2011). Stakeholders in the company (stakeholders) include company leaders, shareholders, investors, creditors, suppliers, government, employees (Palepu & Healy, 2013).

Based on Bank Indonesia Regulations for commercial bank health assessment systems, ratios that can be used are assessment of capital, assessing the quality of assets or assets owned, assessing management, profitability or profitability, evaluating liquidity, and sensitivity to market risk.

Return on Asset (ROA)

Profitability is one of the parameters or an appropriate index to measure the performance of financial institutions in this case banking (Syofyan, 2002). In general, tools that serve as benchmarks and parameters of the profitability index are Return On Equity (ROE) and Return On Assets (ROA). Where ROA is the ability of a company (bank) to obtain or achieve operating income performed, while for the ROE profitability index that is measuring returns from the investment of the owners of the company (bank) (Siamat, 2002).

Net Interest Margin (NIM)

Net Interest Margin (NIM) is a ratio used to measure the ability of the bank's management to manage its productive assets in the framework of and the objective to obtain net interest. Whereas the net interest income is derived from bank interest income less interest expense. The greater this ratio increases interest income or earning assets managed by banks so that the likelihood of a bank in a problematic condition is smaller (Pandia, 2012); (Nguyen, 2012). According to standard provisions which are made by Bank Indonesia where the value of the Net Interest Margin (NIM) of a bank is said to be healthy if it has a ratio greater than or above 2%.

Capital (CAR)

Capital Adequacy Ratio is an assessment of the capital owned by a bank or the level of capital adequacy at the bank that it has. CAR index ratio provides an overview of the level of ability of a bank so that its capital can meet all capital requirements and the ability of bank management in order to carry out identification activities, measurement activities, and supervision of various possibilities of various kinds of risks that will have an impact on bank capital itself. (Buuml & Abdioğlu, 2011).

Stock price

Stock price is the present value of income that will be received by investors in the future (Husnan, 2009). The price of a company always experiences up and down movements. This movement can provide benefits and losses for investors. Stock prices are strongly influenced by the strength of demand and supply that occur in the secondary market. The more investors who want to buy a stock, the price will rise (the law of buying and selling). Vice versa, if more investors sell or release, it will have an impact on the decline in share prices.

Hypothesis

- H1: ROA has a positive and significant effect on stock prices on state banks on the Indonesia Stock Exchange
- H2: NIM has a positive and significant effect on stock prices in state banks on the Indonesia Stock Exchange
- H3: CAR has a positive and significant effect on stock prices on state banks on the Indonesia Stock Exchange
- H4: ROA, NIM, and CAR jointly influence the price of shares in government banks on the Indonesia Stock Exchange

RESEARCH METHODS

The research method uses a quantitative approach. The population of this study is the government commercial banks consisting of BRI, BNI, BTN, and Mandiri Bank on the Indonesia Stock Exchange in 2008-2015. While the sample in this study is an assessment of the soundness of government commercial banks on stock prices, with the scope of the assessment includes factors, Return on Assets, Net Interest Margin, capital Adequacy Ratio. This sample was obtained from the annual public financial statements of public banks in 2008-2015 which amounted to 32 data. The analysis technique used in this study is multiple linear regression analysis with the test equipment in the form of t test, F test, and the coefficient of determination test.

RESULTS AND DISCUSSION

Multiple Linear Regression Test

Table 1

Multiple Linear Regression Test Results

Model	B	Std Error	T _{count}	Sig
(Constant)	2012.128	1003.467	-2.005	0.055
ROA	357.327	47.910	7.458	0.000
NIM	-81.699	96.161	-0.850	0.403
CAR	918.726	181.563	5.060	0.000
Rsquare	= 0.686		F _{count} = 20.422	
Adjusted R Square	= 0.653		sig = 0,000	

Source: Secondary data processed

From the table above, the equation of the multiple regression models are:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + + b_5X_5 + e$$

$$Y = 2012.128+357.327X_1-81.699X_2+918.726X_3$$

To interpret the results of the analysis, it can be explained as follows: a constant of 2012.128 with positive parameters indicates that if there is no ROA, NIM, and CAR, it can be interpreted that the stock price will continue to increase by 2012128. Regression coefficient X1 = 357,327 namely ROA shows that increasing ROA will be able to increase stock prices and vice versa assuming NIM and CAR are constant. Regression coefficient X2 = -81,699 i.e. NIM shows that decreasing NIM will reduce share prices and vice versa assuming ROA and CAR are constant. Regression coefficient X3 = 918,726, which is CAR shows that increasing CAR will be able to increase stock prices and vice versa assuming ROA, NIM is constant.

Partial Test (t test)

Table 2
Partial Test Results (t test)

Variabel	t _{count}	T _{table}	Sig.	Description
ROA	7.458	±2,045	0.000	H1 accepted
NIM	-0.850	±2,045	0.403	H2 rejected
CAR	5.060	±2,045	0.000	H3 accepted

Source: Secondary data processed

The effect of ROA (X1) variable on stock prices (Y). Ho is accepted t count is greater than t table ($7,458 > 2,045$) then this shows that ROA (X1) has a significant effect on stock prices or because t.sig (0,000) is smaller than 0.05 (α) then it is significantly ROA (X1) affects the stock price.

The effect of (X2) variable effect on stock prices (Y). Ho is rejected t count is smaller than t table ($-0.850 < 2.045$) then this shows that NIM (X2) has a negative effect on stock prices or because t.sig (0.403) is greater than 0.05 (α) then it is significantly NIM (X2) has a negative effect on stock prices.

The effect of CAR (X3) variable on stock prices (Y). Ho is accepted t count is greater than t table ($5060 < 2.045$) then this shows that CAR (X3) has a significant effect on stock prices or because t.sig (0,000) is less than 0.05 (α) then it is significantly CAR (X3) affects the stock price.

Simultaneous Test (F Test)

Tabel 3
F Test Results

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.959E8	3	6.530E7	20.422	.000 ^a
	Residual	8.953E7	28	3197550.097		
	Total	2.854E8	31			

a. Predictors: (Constant), CAR, ROA, NIM

b. Dependent Variable: Stock price

Based on the results it is known that the value of $F_{count} > F_{table}$ ($20.422 > 3.32$), then Ho is rejected, which means that together with the variable ROA, NIM and CAR have a joint effect on stock prices.

Determination Coefficient Test (R2)

Table 4
R2 Test Results

Model	R	R Square	Adjusted R Square
1	0.828	0.686	0.653

The calculation results for the R^2 value are obtained in multiple regression analysis. It is obtained coefficient of determination (Adj-R2) of 0.653. This means that 65.3%. This means that as much as 65.3% of the share price is influenced by ROA, NIM and CAR. While 34.7% is influenced by other variables.

Discussion

The first hypothesis states that ROA (Return on Assets) has a positive and significant effect on stock prices. Based on testing the first hypothesis it is known that the stock price is influenced by ROA of 357,327 with a significance level of ROA variable of 0,000 which is smaller than the significance level $\alpha = 0.05$, this means ROA has a significant influence on stock prices in state-owned banks in the period 2008-2015 . Thus the first hypothesis (H1) is accepted.

The results of this study indicate that the stock market reacts to the profitability of banking companies as measured by using ROA. Ike Rini (2014) states that a company that shows ability to measure the effectiveness of a company's performance in making profits by utilizing its assets, or the greater the ROA the better the bank's position. So that this will provide a guarantee for investors to invest in stocks that are likely to increase and encourage an increase in its share price. In this study ROA has a significant effect on stock prices.

The second hypothesis states that NIM (Net Interest Margin) has a positive and significant effect on stock prices. Based on testing the second hypothesis, it is known that the NIM of - 81,699 with a significance level of NIM variable of 0.403 which is greater than the significance level $\alpha = 0.05$, this means that the NIM has a negative and not significant effect on the Share Price of BUMN banks in the period 2008-2015. Thus the second hypothesis (H2) is rejected.

The results of this study indicate that the stock market does not react to information on the profitability of banking companies as measured by using the NIM. Banking NIM information every year is unable to provide a signal for investors to make stock investment decisions. The results of this study also show that NIM has a negative effect on bank stock prices, which means that each increase in NIM will cause a decrease in the price of banking shares. This may be due to high NIM (Net Interest Margin) indicating that with large costs tend to have high NIMs as well. The high operational costs of NIMs are caused by banks focusing their business on micro and micro credit with a large portion. Customers of micro credit and MSMEs are classified as widespread, so banks must have extensive work units, large IT databases, manage the administration according to the amount, and have labor-intensive candidates. This makes bank overhead costs large. So, a high NIM cannot be a reference for

banks to have large profits because it is offset by the large operational costs that must be incurred. A large NIM makes banks still produce less than maximum profit.

The third hypothesis states that CAR (Capital Adequacy Ratio) has a positive and significant effect on stock prices. Based on testing the third hypothesis that it is known that CAR is 918,726 with a significance level of CAR 0,000 which is smaller than $\alpha = 0.05$, this means that CAR has a significant influence on the Share Prices of BUMN banks in the period 2008-2015. Thus the third hypothesis (H3) is accepted.

The results of this study indicate that banking CAR information received a reaction from the stock market, so it can be a signal for investors to invest in banking companies. Based on the statistical tests results, show that any increase in CAR will cause an increase in stock prices.

CONCLUSION

The results showed that the ROA variable had a positive and significant effect on stock prices, the NIM variable had a negative and significant effect on stock prices, the CAR variable had a positive and significant effect on stock prices at government commercial banks in the Indonesia Stock Exchange.

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