COMPARISON ANALYSIS OF CAMEL RATIO BETWEEN BANK MANDIRI AND BANK NEGARA INDONESIA PERIOD 2008-2012

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ABSTRACT

The banking sector has a huge potential and opportunities in its role as a source of financing for the public and business sectors. Since many banks are liquidated when the monetary crisis, Bank Indonesia made more incentive to restructure the banking system is expected to bring wrong banking structure, effective, efficient and healthy. Soundness of bank can be assessed to the qualitative approcah to the management factors and quantitative approach to the factors of capital, asset quality, management, earnings and liquidity. Known as CAMEL Analysis Ratio. This aim of this research is to know the level of health of Bank Mandiri and Bank Negara Indonesia from 2008 to 2012. The benefits of this research is increasing the financial performance of Bank Mandiri and Bank Negara Indonesia and the data can be used for the furthur information. This research is used CAMEL (Capital, asset quality, management, earning and liquidity) Ratio Analysis to assess the bank soundness. CAR ratio has no significant effect on problematic conditions and positive effect means that higher the CAR, the possibility of banks in the less troubled conditions In the CAR, KAP, NIM, ROA, BOPO and LDR show that just a very small nominal in comparing the both banks. Generally, Bank Mandiri has a bit bigger nominal about the CAR, KAP, NIM, ROA, BOPO and LDR between Bank Negara Indonesia. The question in the research problem is: Are there any differences of bank soundess between Bank Mandiri and Bank Negara Indonesia period 2008-2012 using CAMEL ratio?. The answer is very clearly as what that already explain above which is there is no significant difference about bank soundness between Bank Mandiri and Bank Negara Indonesia period 2008-2012 from the manual test and the statistical test.

***Keyword**: CAMEL ratio, bank soundness*

Research Background

The economic crisis hit Indonesia in 1997 which gave a very bad impact on the banking industry. This resulted in overall decreased economic potentials and it might cause bankruptcy. This issue forced the government to liquidate the banks that are considered unhealthy and unadequate to operate which bring a huge impact on the banking industry. It is necessary for a series of analyzes to be detected as early as possible. Bankruptcy of a company can be seen and measured by analyzing financial statements. Financial statement analysis is a very important tool for obtaining information relating to a company's financial position and the results that have been achieved in relation to the company's strategy that have been applied by Kick (2011).

Analysis of the company's financial statements is done to determine the leadership of the company as well as the development of the company's financial condition and results that have been achieved in the past and in the running time. By knowing the financial difficulties as early as possible, Jha (2012) proved that the management can prevent taking the wrong actions that could possibly harm the company. Bank health will affect customer preference to invest money in a bank. Because the customers are the ones who store in their funds for deposit to prevent the bank from liquidation. Kumar (2012) realizing the importance of the health of a bank for customers, it is necessary to perform health maintenance in order to provide the customers so that they can withdraw their savings at any time. Additionally demanded to always strike a balance between maintaining sufficient liquidity and achieving good profitability. Health of banks at the moment gets the most attention from the public. This is due to the desire to obtain security guarantees on money deposited in the bank by Kabir (2012). To see the performance of a bank compared to other banks can be done by comparing the absolute numbers with the form of financial ratios that the banks achieved. Adesina (2012) therefore financial ratio has always been one of the tools by decision makers for both internal and external parties to conduct subsequent management policy.

Kumbirai (2010) explained about soundness of a bank is important to all parties involved, both the owner and manager of the bank, the bank service users, as well as for Bank Indonesia as the advisor and supervisor of other banks. Healthy banks by Paramasivan (2012) will affect a country's economic system as a whole. The banks need to be assessed for health-related activities of bank funds from the community and business activities in accordance with the principles of trust from its customers. Banks are required to maintain its health in accordance with the capital adequacy, asset quality, managemen quality, liquidity, profitability, solvency, and other aspects related to the business of the bank, and shall conduct business activities in accordance with the precautionary principle. Banks as companies by Reddy (2012) are also required to have assessed health. The goal is to determine the true condition of the bank. However, if the bank is not in a healthy condition Soltani (2013) then they need to take an immediate action to treat it. Thagunna (2013) is a measure about bank performance of the success for the directors of the bank so that when performance is poor the directors will likely be replaced. The performance that analyzed by William (2011) is also a guideline of things that need to be fixed and how to fix them. To assess the health of a bank can be measured by various methods. Health assessment will affect the ability of banks and customer loyalty to the bank concerned. One of the tools to measure bank health is CAMEL analysis.

Research Objective

The objective of this research is to analyze the results of the soundness of Bank Mandiri and BNI using CAMEL Ratio analysis.

THEORETICAL FRAMEWORK

Soundness of Bank

Soundess is a key factor in any financial sector. The major measures of the economic development and financial growth of a country has been the soundness of it banks. Soundness of the banking sector is synonymous with efficiency, productivity, profitability, stability and a shock free environment. Achieving stability in banking is only the beginning of a sound banking system. Aswini et al. (2012), the main goal of banks today is to maintain stability and make sure they are impervious to external shocks while at the same time being internally sound and sensible, hence, it is important to measure soundness across various banks in the country, identify the weaker sections of the banking sector, devise appropriate strategies and policies to lift these sections and eventually create an environment that leads banks to converge in soundness and result in a consistently stable system.

Previous Research

Aswini (2012) is explaining about the Indian banking sector has been the backbone of the Indian economy over the past few decades, helping it survive various national and worldwide economic shocks and meltdowns. It is one of the healthiest performers in the world banking industry seeing tremendous competitiveness, growth, efficiency, profitability and soundness, especially in the recent years. According to Kabir (2012) CAMEL is a rating system generally used by the government policy cycle, regulating bodies regulating commercial banks, that is, central banks and non-governmental policy research centers for the purpose of assesing the soundness of a savings association or a bank.

This has become a major issue for the public, the government and banking regulators in Indonesia because bank failure has a greater effect on the economy than other types of corporate failure. Nurazi, (2005) the cause of corporate failure was a popular topic of research in the 1990s. One of the techniques used to analyze possible corporate failure was CAMEL ratios. Prasad (2012) the growth and financial stability of the country depends in the financial soundness of its banking sector. The Indian banking sector has been working in a more open and globalize environment for two decades since liberalization. The liberalization process of Indian Economy has made the entry of new private sector banks possible and allowed the foreign sector banks to increase their branches in the banking sector. Besides, following India’s commitment to the WTO, foreign banks have been permitted to open more branches with effect from 1998-1999. With increased competition and empathatic on profitability, the public sector banks are now moving towards on economic-oriented model departing from the social approach followed for decades.

Figure 1. Research Procedure

RESEARCH METHOD

Type of Research

This research uses a comparative study in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. Comparative studies are also undertaken to understand the characteristics of organizations that follow certain common practices. The goal of a comparative study, therefore, is to offer to the researcher a profile or to describe relevant aspects of the phenomenon of interest from individual, organization, industry-oriented, or other perspective (Sekaran and Bougie, 2009:105).

Place and Time of Research

The study was conducted in Indonesia during 2008 until 2012.

Population and Sample

Population is the entire group of people, events, or things that the researcher desire to investigate (Sekaran and Bougie, 2009:262). Population of this research is a manufacturing company engaged in the industrial sector of the consumer goods with sub-sector of cigarettes and listing on the Indonesian Stock Exchange. The sample of this research is financial report from 2008 until 2012. The sampling technique used in this study is purposive sampling. Purposive sampling is sampling design in which the required information is gathered from special or specific target (Sekaran and Bougie, 2009:276).

Data Collection Method

This research using a secondary data is that have already been gathered by researchers, data published in statistical and other journals and information available from any published or unpublished source available either within or outside the organization, all of which might be useful to researcher (Sekaran and Bougie, 2009:184). Secondary data from this research which is a company financial report, theoritical review and documentation data gathering method from libary and internet.

Operational Definition of Research Variables

CAMEL is basically ratio based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, asser's quality, management standard, earnings and liquidity maintenance. The period for evaluating performance through CAMEL in this study ranges for five years. CAMEL ratio describes a relationship or ratio between a certain number with another by using ratio analysis that can be obtained a description of good and bad the financial position of a bank. Prasad (2012)

Data Analysis Method

Independent Sample T-Test

T-test is intended to determine the influence of each independent variable individually (partial) to variable dependent.Hypothesis Statistics: (1) Ho: partially independent variables have no significant effect the dependent variable. (2) H1: partially independent variables had a significant effect the dependent variable.

RESULT AND DISCUSSION

Result

The results of this study are detailed explanations concerning the calculation of Bank Mandiri and BNI period 2008-2012 from statistical test independent sample t-test.

Table 1. Independent Sample t-Test

Group Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Mandiri	5	12.1040	.83380	1.81468
BNI	5	16.5080	4.05775	1.81468

Source: Data Processed, 2013

Table above shows that there's no significant difference between bank Manidir and BNI for the period of 2008-2011 concluded that the company is in a position of the healthy.

Discussion

Assessing the performance of the banking company, commonly used five assessment aspects of the CAMEL (Capital, Assets, Management, Earnings Liquidity). These five aspects are assessed using financial ratios. This suggests that financial ratios useful in assessing banking soundness to predict the health of business continuity. However, CAMEL is not the only measurement to predict or as an indicator to predict bank solvency. Based on the result of this research about CAMEL Ratio between Bank Mandiri and Bank Negara Indonesia there are no significant difference. The indicators used in bank soundness are Adequacy Capital Ratio (CAR), Assets Quality (KAP), Net Interest Margin (NIM), Return on Assets ratio (ROA), Operating Expenses Operating Income (BOPO), and Loan Deposit ratio (LDR). Related to this reserach, Bank Mandiri and Bank Negara Indonesia have a great CAR, KAP, NIM, ROA, BOPO, and LDR that those elements proved Bank Mandiri and Bank Negara Indonesia are healthy. CAR ratio has no significant effect on problematic conditions and positive effect means that higher the CAR, the possibility of banks in the less troubled conditions. The capital adequacy ratio is developed to ensure that banks can absorb a reasonable level of losses occured due to operational losses and determine the capacity of the bank in meeting the losses. As per the latest RBI norms, the banks should have a CAR of 9 percent.

The result of Bank Mandiri and Bank Negara Indonesia are the table below. KAP Assessment using the ratio of Earning Assets Quality and Provision ratio (PPAP). Earning Asset Quality Ratio show quality planting productive assets. ROA ratio of Bank Mandiri and Bank Negara Indonesia that already show in the tables below show $\geq$ 1.25% that banks are healthy and also has a significant influence on the condition of problematic and negative effect, means that the lower of the ROA ratio will be possibly troubled bank in the greater condition. Coefficient estimates for both the quantitative CAMEL vector and the qualitative components are in line with expectations and highly significant. Better capitalization and bank reserves, higher profitability and large asset growth increase the likelihood for a bank to be graded in a better risk profile category. From the manual test and statistical test, they are both show there's no significant different in CAMEL ratio between Bank Mandiri and Bank Negara Indonesia Period 2008-2012. In the CAR, KAP, NIM, ROA, BOPO and LDR show that just a very small nominal in comparing the both banks. Generally, Bank Mandiri has a bit bigger nominal about the CAR, KAP, NIM, ROA, BOPO and LDR between Bank Negara Indonesia. The question in the research problem is "Are there any differences of bank soundess between Bank Mandiri and Bank Negara Indonesia period 2008-2012 using CAMEL ratio?" The answer is very clearly as what that already explain above which is there is no significant difference about bank soundness between Bank Mandiri and Bank Negara Indonesia period 2008-2012 from the manual test and the statistical test.

CONCLUSION AND RECOMMENDATION

Conclusion

The conclusion in this study is there is no significant difference about bank soundness between Bank Mandiri and Bank Negara Indonesia period 2008-2012. In the CAR, KAP, NIM, ROA, BOPO and LDR show that just a very small nominal in comparing the both banks. Generally, Bank Mandiri has a bit bigger nominal about the CAR, KAP, NIM, ROA, BOPO and LDR between Bank Negara Indonesia. The capital adequacy ratio is developed to ensure that banks can absorb a reasonable level of losses occured due to operational losses and determine the capacity of the bank in meeting the losses. As per the latest RBI norms, the banks should have a CAR of 9 per cent. The result of Bank Mandiri and Bank Negara Indonesia are the table below. KAP Assessment using the ratio of Earning Assets Quality and Provision ratio (PPAP). Earning Asset Quality Ratio show quality planting productive assets. ROA ratio of Bank Mandiri and Bank Negara Indonesia that banks are healthy and also has a significant influence on the condition of problematic and negative effect, means that the lower of the ROA ratio will be possibly troubled bank in the greater condition.

Recommendation

The results of this research proved that method of CAMEL Ratio can assess soundness of bank at Bank Manidir and Bank Negara Indonesia. Therefore, the recommendation for this company are as follows: (1)To avoid a CAR of less than eight percent as required by Bank Indonesia, the CAR or CAR, in order to be maintained and improved. This can be done for example by way of caution in giving loans and other earning assets investment in sectors that have a vulnerable market risk. (2)Keeping the position of NPL below 5%, if there is bad credit indicates the management can take action as soon as possible.Credit lending to sectors that are at low risk will also bepressing NPL. (3)Credit expansion in order to consider the position of LDR increases smoothness and create sufficient reserves for credit health. (4)Increase the profit earned by the innovation of products and mortgage interest.

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