

How Does Bank Syariah Indonesia's Financial Performance Measure Up Using the RGEC Method's Bank Health Assessment?

Abstract

Banks are required to conduct periodic self-assessment of their health level and take effective corrective measures using an assessment of factors including risk profile, good corporate governance (GCG), earnings, and capital, abbreviated as RGEC. The RGEC method is what banks currently use to assess the health level of banks because it is a refinement of previous methods. The degree of bank health as determined by the RGEC technique is the subject of this quantitative descriptive study, which analyzes Bank Syariah Indonesia's health for the years 2019 to 2022. The study's secondary data sources are the yearly financial reports of Islamic Commercial Banks covering the years 2019 to 2022. The following findings are derived from the debate of Bank Syariah Indonesia's Islamic banking sharia for the 2019–2022 evaluation period, The non-performing financing ratio (NPF Nett in composite position 1 may be considered to be in very good health. Conversely, Bank Syariah Indonesia's FDR ratio values in composite positions 1 and 2 might be considered highly healthy. Bank Syariah Indonesia's GCG ratio in composite position 2 may be considered healthy. The Bank Syariah Indonesia's earnings evaluation, or its capacity to turn a profit, received a composite score of 3 to 1, indicating that it is both fairly healthy and extremely healthy from 2019 to 2022. Bank Syariah Indonesia's bank capital was evaluated from 2019 to 2022, and it received a composite evaluation of 1, meaning it is in excellent condition.

Key Words: Financial Performance; Bank Health; RGEC.

I. INTRODUCTION

If banks want to continue providing outstanding customer service, they must constantly have their health evaluated. clients. Bank Indonesia believes the necessity to enact regulations on bank health because it recognizes the significance of a bank's health for the development of confidence in the banking industry and for putting the prudential banking concept into practice. According to the regulations pertaining to bank health, banks must always be in good standing in order to protect their clients (Gultom & Siregar, 2022). Bank Indonesia's regulations pertaining to bank health encompass a multitude of facets of bank operations, from the acquisition and allocation of funds to their usage and collection.

The rapid development of national banking has led Bank Indonesia to again change the method of assessing the health level of banks based on Bank Indonesia Circular Letter No. 13/24/DPNP dated 25 October 2011 as well as revoking the previous bank health assessment method. Banks are required to conduct periodic self-assessment of their health level and take effective corrective measures using an assessment of factors including risk profile, good corporate governance (GCG), earnings, and capital, abbreviated as RGEC. The RGEC method is what banks currently use to assess the health level of banks because it is a refinement of previous methods (Habsyah et al., 2023).

A bank's performance, which is represented in the financial accounts, may be used to identify an overview of its good and poor aspects (Mohammad, Wily, Ryca Maulidiyah, 2022). The utilization of financial statements is crucial in acquiring insights into a bank's financial standing. If interested parties can access financial data that supports judgments, they will find greater value in comparing the data over two or more periods and further analyzing the data.

An explanation of "bank health is the result of an assessment of the Bank's condition conducted on the risks and performance of the Bank" can be found in Bank Indonesia Regulation No.13/1/PBI/2011 on the Health Level of Commercial Banks. The PBI advises adhering to the rules on risk profile, good corporate governance, earnings, and capital as absolute components of bank health evaluation when determining the health of banks. Concern over Islamic financial institutions As the authorized organizations designated by the government to do so, Bank Indonesia (BI) and the Financial Services Authority (OJK) will continue to oversee the degree of health maintained by sharia banking institutions. the government to take action. In light of the fact that Indonesia's Islamic banking industry is expanding quickly (Wahasusmiah & Watie, 2019).

Every component offers evaluation findings from different angles and viewpoints related to Islamic banking. Article 7 paragraph 1 of PBI No. 13/1/PBI/2011 concerning Health Assessment of Commercial Banks assesses the risk profile variables mentioned in article 6 letter a, including credit, market, liquidity, operational, legal, reputation, strategic, and compliance risks. Various techniques and evaluations are used to quantify each risk. After that, the four components of the RGEC technique may be evaluated by contrasting them with the benchmark, or what is known as the Composite Rating (PK), for each ratio (Husain et al., 2018). There are five assessment ratings for bank health level in PBI 13/1/PBI/2011: extremely healthy, healthy, somewhat healthy, less healthy, and unhealthy. These are the ratings for the Composite Rating on bank health level evaluation.

II. THEORY REVIEW

Level of Bank Health

As per the 2011 Bank Indonesia Circular Letter Number: 13/24 / DPNP, evaluating a bank's health involves a qualitative assessment of multiple factors that impact its performance or condition, including the bank's capital, earnings, risk profile, and good corporate governance. After taking into account the element of judgment based on the materiality and significance of the assessment factors and the influence of other factors like the state of the banking industry and the national economy, the assessment of these factors is carried out through quantitative and qualitative assessments (Nindiani et al., 2023).

Bank Health Level Rating Method (RGEC)

The CAMELS approach was developed into the RGEC method. The implementation of quality risk management in bank operations is based on eight (8) factors: credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, and reputation risk (Hakim et al., 2022). The RGEC technique has inherent hazards. The CAMELS approach replaces management with good corporate governance.

Risk Profile

One factor in determining a bank's state of health is its risk profile. The bank's risks are described from both a financial and non-financial perspective, each of which has an impact on the other two in the end (Wijayanti & Tatania, 2021). Given that the banking industry is fraught with dangers and difficulties, bank risk assessments are carried out. If the bank does not correctly manage its risks through risk management procedures, the resulting risks or losses might have a systemic effect, which would be comprehensive and hurt not just the bank but also the community and possibly the entire nation. As per Bank Indonesia's Regulation Number: 11/ 25 /PBI/2011, losses in bank operations may arise from risk resulting from an incident. The evaluation of the bank's risk profile includes an assessment of its credit and financing management. This is done through ratio analysis, which looks at the bank's ability to manage deposit funds to be used for financing (Financing Deposit Ratio, or FDR) and maintain its credit quality (Non Performance Financing, or NPF).

Good Corporate Governance (GCG)

In fact, evaluating the components of bank health that emphasize the application of bank management includes good corporate governance. Five fundamental concepts, including eleven criteria for evaluating the application of the GCG in banks, are outlined in Bank Indonesia Circular Letter (SE-BI) No.15/15/DPNP/2013 for evaluating the GCG of banks. The items or components of the GCG evaluation are those that Bank Indonesia has chosen. These are the five fundamental ideas of GCG evaluation. Accountability, Responsibility, Transparency, Independence, and Fairness.

GCG evaluation using the concepts of GCG The GCG principles described above will help to clarify the bank's current state of excellent bank business governance. In order for parties with an interest in the bank to more easily draw conclusions and make decisions, the disclosure of information about the bank's activities in support of GCG will further require the bank's management to dare to disclose transparently and fully responsible the banking practices that occur in the bank (Gultom & Siregar, 2022).

Earnings

Rentability is measurement of the assessment of ability bank to generate profits or bank profits. Rentability measurement is very necessary to do, to determine the financial performance of the bank in a certain period. Because in general, one of the factors that become the success of management performance is the profit generated in a certain period. There are a number of ratios that may be used to gauge the bank's profitability (Habsyah et al., 2023). The bank's capacity to turn a profit on investments made in the form of bank assets is first shown by the ROA ratio. The second ratio is the return on equity (ROE), which expresses how much return a shareholder or business owner receives on their capital contributions. The third ratio is the BOPO ratio, which calculates the proportion of operating costs to operating income. Fourth, the NIM ratio, which determines how much revenue is produced by productive assets.

Capital

The degree of capital sufficiency and capital management that the bank owns is used to evaluate the health of the bank in terms of capital. Adequacy of capital is crucial in compliance with Basel's 8% banking regulations (Mohammad, Wily, Ryca Maulidiyah, 2022). Regulations governing Bank Indonesia further mandate capital adequacy, measured in Capital Adequacy Ratios, to be at least

8%. It is imperative that banks maintain this minimal capital to ensure their stability and resilience in the face of danger. The level that establishes the maximum quantity and kind of loans that can be taken out is known as the CAR ratio. The capitalization ratio contrasts the amount of assets with risk-adjusted returns.

III. RESEARCH METHODS

The degree of bank health as determined by the RGEC technique is the subject of this quantitative descriptive study, which analyzes Bank Syariah Indonesia's health for the years 2019 to 2022. The study's secondary data sources are the yearly financial reports of Islamic Commercial Banks covering the years 2019 to 2022. Data from Bank Syariah Indonesia's annual financial report for the years 2019–2022 is available on each Islamic Commercial Bank's official website. In order to analyze and compare theory with the practice of evaluating bank health, the research data analysis approach was quantitatively descriptive. Specifically, each financial ratio was calculated based on its composite rating using the RGEC theory. The outcomes of these computations are then used as benchmarks to gauge Bank Syariah Indonesia's state of health.

IV. ANALYSIS AND DISCUSSION

Overview of Bank Syariah Indonesia

With the establishment of PT Bank Syariah Indonesia Tbk (BSI), which was formally established on February 1, 2021, or 19 Jumadil Akhir 1442 AH, the banking sector in Indonesia made history. At the State Palace, President Joko Widodo personally opened the biggest Islamic bank in Indonesia. PT Bank BRI Syariah Tbk, PT Bank Syariah Mandiri, and PT Bank BNI Syariah merged to become BSI, a bank. On January 27, 2021, the Financial Services Authority (OJK) formally granted permission for the three Islamic bank firms to consolidate by letter with number SR-3/PB.1/2021. PT Bank Mandiri (Persero) Tbk 50.83%, PT Bank Negara Indonesia (Persero) Tbk 24.85%, and PT Bank Rakyat Indonesia (Persero) Tbk 17.25% make up BSI's shareholder makeup (BSI, 2021). Less than 5% of the remaining stockholders are shareholders. By combining the strengths of the three Islamic banks, this merger offers more comprehensive services, increased reach, and improved capital capacity. Encouraged to compete on a worldwide scale, BSI is backed by the government's commitment through the Ministry of SOEs and the synergy with the firm (BSI, 2022).

RGEC Method Analysis of Indonesian Syariah Banks' Financial Performance

In accordance with the Circular Letter of the Financial Services Authority No. 10/SEOJK.03/2014 regarding the Assessment of the Health Level of Banks using RGEC. Where RGEC includes Risk Profile, Good Corporate Governance, Earnings, and Capital. In this study of the four indicators using the following ratios: Non Performing Financing (NPF), Financing to Deposit Ratio (FDR), Good Corporate Governance (GCG), Return On Asset (ROA), Return On Equity (ROE), BOPO, NIM and Capital Adequency Ratio (CAR) (Nindiani et al., 2023).

Risk Profile

Table 1. Risk Profile Score of Bank Syariah Indonesia in 2019-2022

Risk Profile	Bank Syariah Indonesia (BSI)
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	2019	2020	2021	2022
NPF	1.58%	1.12%	0.87%	0.57%
Rating	1	1	1	1
Description	Very healthy	Very healthy	Very healthy	Very healthy
FDR	76.15%	74.52%	73.39%	79.37%
Rating	2	1	1	2
Description	Healthy	Very healthy	Very healthy	Healthy

Source: Data processed by research from Bank Syariah Indonesia's financial statements (2023)

The non-performing financing ratio (NPF Nett) of Bank Syariah Indonesia in composite position 1 may be considered to be in very good health from 2019 to 2022, according to the risk profile explanation table. Conversely, Bank Syariah Indonesia's FDR ratio values in composite positions 1 and 2 might be considered highly healthy. This degree of risk profile health suggests that Islamic banking has performed well in risk management, with the elements that contribute to risk emergence for Islamic banks overall being able to be repressed or predicted. The assessment's findings, particularly in the area of credit and financing, demonstrate that banks' management of credit and financing displays sound credit quality, with Islamic banks able to maintain low NPF and FDR rates by assuming that the credit they provide won't result in repayment issues.

Good Corporate Governance

Table 2. GCG Score of Bank Syariah Indonesia in 2019-2022

GCG	Bank Syariah Indonesia (BSI)			
	2019	2020	2021	2022
Rating	2	2	2	2
Description	Healthy	Healthy	Healthy	Healthy

Source: Data processed by research from Bank Syariah Indonesia's financial statements (2023)

Bank Syariah Indonesia's GCG ratio in composite position 2 may be considered healthy from 2019 to 2022, according to the Good Corporate Governance (GCG) explanation table. The guidelines for Islamic banking business management have been faithfully followed by Islamic banking management, in compliance with Bank Indonesia's specifications. In this instance, management has fulfilled its roles and obligations as represented by the Board of Directors and the Board of Commissioners. GCG has promoted the health level in a healthy state since it makes a significant contribution to the overall assessment of the health level of Islamic banks. A commitment to manage the Islamic banking business is made by the whole Islamic banking management through the GCG evaluation of the entire Islamic banking industry.

Earnings

Table 3. Earnings Score of Bank Syariah Indonesia in 2019-2022

Earnings	Bank Syariah Indonesia (BSI)			
	2019	2020	2021	2022
ROA	1.44%	1.38%	1.61%	1.98%
Rating	2	2	2	2

Description	Healthy	Healthy	Healthy	Healthy
ROE	11.28%	11.18%	13.71%	16.84%
Rating	3	3	2	2
Description	Fairly Healthy	Fairly Healthy	Healthy	Healthy
NIM	3.97%	6.04%	6.04%	6.31%
Rating	2	2	2	2
Description	Healthy	Healthy	Healthy	Healthy
BOPO	85.27%	84.61%	80.46%	78.88%
Rating	1	1	1	1
Description	Very healthy	Very healthy	Very healthy	Very healthy

Source: Data processed by research from Bank Syariah Indonesia's financial statements (2023)

Assessing Islamic banking's capacity to make money via the management of its stock and assets. The ROA (return on asset), ROE (return on equity), NIM (net income margin), and BOPO (comparison of operating expenses with operating income) or efficiency are used to evaluate the earning or rentability ratio. The Bank Syariah Indonesia's earnings evaluation, or its capacity to turn a profit, received a composite score of 3 to 1, indicating that it is both fairly healthy and extremely healthy from 2019 to 2022.

The BOPO ratio, which compares operational costs to operating income, is in position 1 and is considered to be extremely healthy, according to the Bank Syariah Indonesia Earnings Explanation Table for the 2019–2022 period. Then, it can be concluded that the composite position 2's ROA (Return on Assets) and NIM (Nett Income Margin) ratios are both healthy. On the other hand, the ROE (Return on Equity) ratio in composite position 3 for 2019–2020 can be considered to be rather healthy; it also saw a growth in 2021–2022, and in composite 2, it can also be considered to be healthy.

Capital

Table 4. Capital Score of Bank Syariah Indonesia in 2019-2022

Capital	Bank Syariah Indonesia (BSI)			
	2019	2020	2021	2022
CAR	18.71%	18.24%	22.09%	20.29%
Rating	1	1	1	1
Description	Very healthy	Very healthy	Very healthy	Very healthy

Source: Data processed by research from Bank Syariah Indonesia's financial statements (2023)

Bank Syariah Indonesia's bank capital was evaluated from 2019 to 2022, and it received a composite evaluation of 1, meaning it is in excellent condition. During the 2019–2022 timeframe, Bank Syariah Indonesia's capital condition using the CAR technique produced a very excellent health composite level. During the evaluation period, the vast majority of Islamic banks generated capital quality with a composite score of 100%. This indicates that there is an optimal level of banking capital—neither too high nor too low. The CAR evaluation of Islamic banking has made a significant contribution and has been able to support banks' extremely high health ratings

throughout the assessment period (1). This demonstrates that the management has organized and managed Islamic banking money with professionalism.

V. CONCLUSIONS AND SUGGESTIONS

Conclusions

The following findings are derived from the debate of Bank Syariah Indonesia's Islamic banking sharia for the 2019–2022 evaluation period, The non-performing financing ratio (NPF Nett in composite position 1 may be considered to be in very good health. Conversely, Bank Syariah Indonesia's FDR ratio values in composite positions 1 and 2 might be considered highly healthy. Bank Syariah Indonesia's GCG ratio in composite position 2 may be considered healthy from 2019 to 2022. The BOPO ratio, which compares operational costs to operating income, is in position 1 and is considered to be extremely healthy. Then, it can be concluded that the composite position 2's ROA (Return on Assets) and NIM (Nett Income Margin) ratios are both healthy. On the other hand, the ROE (Return on Equity) ratio in composite position 3 for 2019–2020 can be considered to be rather healthy; it also saw a growth in 2021–2022, and in composite 2, it can also be considered to be healthy. Bank Syariah Indonesia's bank capital was evaluated from 2019 to 2022, and it received a composite evaluation of 1, meaning it is in excellent condition.

Suggestions

Explore ideas that may be used to other Islamic commercial banks in Indonesia, rather than only concentrating on a single Islamic bank. This is how the RGEC approach assesses the health of Islamic banks.

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