

CHAPTER I

INTRODUCTION

A. Research Background

Banking is often called an agent of development, a tool that plays an important role in financial and economic movements in people's lives.¹ According to Indonesian Law Number 04 of 2008 concerning Banking, banking is all matters related to banks, including institutions, business activities, and implementing business activities. Meanwhile, banks are bodies that collect and redistribute public funds through deposits and credits or other means.² Banks are also known as institutions that act as financial mediators, and intermediaries between parties with excess funds and those who need funds or people who need business capital through micro, small, and medium enterprises (MSMEs).³

Indonesia is one of the countries that adopted a dual banking system, allowing both conventional and Islamic banks to operate simultaneously, offering a broader range of banking services to meet the diverse needs of the public. This framework is aligned with the goals of the Indonesia Banking Architecture (API).⁴ Islamic banking was first introduced in Indonesia in 1992, marking its official debut to the public.⁵ The issuance of Law No. 21 of 2008, which specifically governs Islamic banking, has played

¹ F. Sodik *et al.*, "Analisis Perbandingan Tingkat Kesehatan Bank Syariah Menggunakan Metode RGEC", *Jurnal AKUNIDA*, Vol. 9 No. 1, Juni 2023, p. 47

² Laili Istiqoma *et al.*, "Pengaruh Aspek Rentabilitas dan Likuiditas Terhadap Kesehatan Bank Umum Syariah Tahun 2017-2021", *Jurnal Publikasi Manajemen Informatika*, Vol. 2 No. 3, September 2023, p. 130

³ Evi Noviani *et al.*, "Analisis Perbandingan Tingkat Kesehatan Bank Rakyat Indonesia (BRI) Sebelum dan Setelah Terdampak Covid-19 Menggunakan Metode CAMELS dan RGEC", *Jurnal Ekonomi Perjuangan*, Vol. 3 No. 1, Juli 2021, p. 50

⁴ F. Sodik *et al.*, "Analisis Perbandingan...", p. 48

⁵ Rian Dani dan Iqra Wiarta., "Analisis Tingkat Kesehatan Bank dengan Menggunakan Metode Risk-Based Bank Rating (RBBR) pada PT. Bank Mega Syariah Periode Tahun 2017-2021", *Jurnal Manajemen*, Vol. 1 No. 3, Juli 2022, p. 363

a significant role in supporting its continued growth and expansion in Indonesia up to the present.⁶

Islamic banking is a bank that carries out its business activities based on Sharia principles in its operations, referring to the Quran and Hadith.⁷ In running its business, Islamic banking is not only required to generate profits like conventional banks but also required to integrate Islamic values into the system used. One of it is the elimination of the interest-based banking system which in Islam is included in the practice of usury.⁸

Islamic banks have made significant progress and are increasingly showing their existence in the financial system based on Sharia principles. The Financial Services Authority (OJK) revealed that national Islamic banking can prove its resilience and can grow positively from year to year.⁹ Based on the OJK's Indonesia Banking Statistics report, the total value of Islamic banking assets until June 2023 reached IDR 801.68 trillion, up from IDR 703.55 trillion in June 2022. Meanwhile, Indonesia's Islamic banking market share increased to 7.3% of the total national banking industry.¹⁰

Banks with a larger market share tend to be more stable because they have more customers and resources to deal with economic uncertainty. This contributes to the continued operation of banks as they can more easily manage risk, attract investors, and increase revenue. This stability is related to the bank's health in the long term, where banks can develop more effective strategies and survive in the market.

⁶ Fira Nurafini, "Studi Perbandingan Tingkat Kesehatan Bank Antara Bank Syariah dan Bank Konvensional di Indonesia Selama Pandemi Covid-19", *Jurnal Ilmiah Ekonomi Islam*, Vol. 8 No. 3, 2022, p. 2690

⁷ F. Sodik *et al.*, "Analisis perbandingan...", p. 49

⁸ Fira Nurafini, "Studi perbandingan...", p. 2690

⁹ Arthur Gideon, *Makin Besar, Total Asset Perbankan Syariah Sentuh Rp. 802,26 Triliun* at [10.43], <<https://www.liiputan6.com/bisnis/read>> viewed on 1 Desember 2023

¹⁰ Arlina Laras, *Pangsa Pasar Bank Syariah, Daya Saing Jadi Ganjalan* at [10.48], <<https://finansial.bisnis.com/read>> viewed on 1 Desember 2023

The rapid development of Indonesia's banking industry has created a high level of competition between banks to provide the best service to meet the needs of customers and society in general. For this reason, banks must be monitored by conducting an assessment. The purpose of this evaluation is to assess whether a bank falls into one of four categories: healthy, moderately healthy, unhealthy, or very unhealthy. This assessment is vital, as banks are responsible for managing the public's money, and their success is directly tied to the trust and confidence people place in them. Without public trust, no bank can function effectively.¹¹ Maintaining this trust requires a consistent focus on ensuring the bank's financial health remains robust and stable.

Bank health can be understood as the outcome of a comprehensive evaluation of various factors that influence the overall performance and stability of the bank.¹² Banks are said to be healthy if they can carry out their functions well such as gaining the public's trust, carrying out intermediation for payments, and carrying out various policies, especially in monetary policy. To carry out its function, the bank must have sufficient capital, the quality of assets is maintained, and the management and operation are carried out properly by the principle of prudence where a healthy bank shows that the stored customer funds are guaranteed to be safe.¹³

The indicator used in assessing the health level of the bank is the financial statements of the bank concerned.¹⁴ Detailed information in financial statements is required by applicable regulations and are needed by

¹¹ F. Sodik *et al.*, "Analisis perbandingan....", p. 48

¹² Hermika Dayyesi *et al.*, "Analisis Penilaian Kesehatan Bank dengan Menggunakan Metode RGEC (*Risk Profile, Good Corporate Governance, Earning, Capital*) pada Bank Umum Syariah Tahun 2017-2021", *Al-Intaj: Jurnal Ekonomi dan Perbankan Syariah*, Vol. 9 No. 1, Maret 2023, p. 14

¹³ Dinar Riftiasari, "Analisis Rasio Keuangan dalam Menilai Tingkat Kesehatan Bank Badan Usaha Mulik Negara (BUMN) pada Saat Pandemi Covid-19", *Jurnal Informatika Ekonomi Bisnis*, Vol. 5 No. 2, 2023, p. 391

¹⁴ Hotris Samosir *et al.*, "Pengaruh Tingkat Kesehatan Bank Terhadap Pertumbuhan Laba Perusahaan Perbankan yang Terdaftar di BEI 2015-2019", *Jurnal Ilmiah Akuntansi, Keuangan dan Bisnis*, Vol. 1 No. 1, Mei 2022, p. 69

the public to increase trust. From these financial statements, the basis for assessing the health level of the bank is found by qualifying several components from each factor. The factors influencing a bank's health, as outlined by Bank Indonesia in PBI No. 13/1/PBI/2011 and SE BI No. 13/24/DPNP dated October 25, 2011, mandate that all banks must conduct health assessments using the risk-based bank rating (RBBR) or RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) approach. This framework ensures a comprehensive evaluation of the bank's financial stability and governance.¹⁵

Banks use self-assessment as a tool for assessing their health level of banks based on a risk approach, including assessing the health level based on composite ratings.¹⁶ This is done so that problems can be identified early and further actions can be taken for appropriate and faster improvements. The assessment uses a scale of 1-5; the smaller the points received, the better the bank's health is.¹⁷

Islamic banking currently accounts for only 7.3% of the total national banking industry, indicating that its growth is less competitive compared to conventional banking. As a result, the sustainability and stability of Islamic banks have not yet reached the standards required to compete effectively with existing conventional banks. The lack of competitiveness among Islamic banks can be attributed to low public literacy and inclusion in Islamic banking, which negatively affects public trust in saving their money with these banks. Moreover, the financial health of Islamic banks significantly influences customer trust. If banks fail to maintain stability and performance, public perception can worsen further. Therefore, Islamic banks need to continuously improve their quality and financial health to maintain and even increase customer trust over time.

¹⁵ Hermika Dayyesi *et al.*, "Analisis Penilaian...", p. 14

¹⁶ Dinar Riftiasari, "Analisis Rasio...", p. 391

¹⁷ Hermika Dayyesi *et al.*, "Analisis Penilaian...", p. 14

Of the 14 banks registered with the OJK, this study uses 9 Islamic commercial banks that are registered with the OJK, publish their financial statements, and provide quarterly financial statement data related to the financial ratios of NPF, FDR, GCG, ROA, BOPO, and CAR from 2019 to 2023. With the revision of Bank Indonesia's PBI Regulation No. 13/1/PBI/2011 and SE BI No. 13/24/DPNP dated October 25, 2011, the RGEC method has replaced earlier health assessment methods like CAMEL and CAMELS. Compared to other methods, RGEC provides more structured and relevant guidance in modern banking conditions in Indonesia and offers a comprehensive evaluation in accordance with standards set by banking regulators, such as Bank Indonesia and OJK. This approach includes aspects of risk (through risk profiles), good governance, profitability, and capital—all essential elements that reflect the health of a bank holistically. Considering the phenomena described previously, this study aims to evaluate the health level of Islamic commercial banks using the RGEC approach. This assessment aims to provide insights into the competitiveness of Islamic banking and the health status of the specific banks being investigated.

B. Research Questions

Based on the background provided previously, the problem statement for this study is: What is the health level of Islamic Commercial Banks from 2019 to 2023 that is assessed using the RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) method?

C. Research Objectives

In line with the aforementioned problem statement, this study aims to assess the health level of Islamic banks specifically from 2019 to 2023, utilizing the RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) method.

D. Research Benefits

1. Academic benefits

This research aims to serve as a valuable reference. It also seeks to enhance the knowledge of scholars and individuals interested in analyzing the health of Islamic banks. Additionally, this study is expected to contribute to the advancement of knowledge regarding strategies for improving banking performance.

2. Practical Benefits

This research is expected to be an input for Islamic banks in Indonesia as an evaluation of the company's financial performance in the last four years and as a consideration for decision-making to increase knowledge in the banking world to carry out bank management and operational activities to maintain the bank's health condition in good criteria.