Analysis of The Causes of The Decline in Profits of The Bank Tabungan Negara (Persero) Tbk 2019

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Abstract

The purpose of this study was to determine the main cause of the decline in profits of PT. Bank Tabungan Negara (Persero) in 2019. The research method used in this research is descriptive, this method serves to reveal a systematic picture and gather every available fact. This study uses quantitative data types, in the form of secondary data obtained from the company's annual financial statement documentation for ten years, starting from 2010 to 2019. The company's financial statements are presented, then analyzed and interpreted thoroughly and in detail. There are seven ratios or indicators of financial performance that the authors have chosen to be used as a reference and to measure the causes of the company's financial performance decline. The results of the study concluded that the increase in problem loans was the cause of the company's net profit in 2019 to fall to 92.5% from 2.8 trillion rupiahs in 2018 to only 209.26 billion rupiahs.

Introduction

The company's real effort to be able to progress and develop, by increasing the profits obtained is an obligation. The number of operational costs for company business activities must be balanced with the amount of operating profit to be achieved. Ideally, the operational income obtained should be greater than the operational costs that have been incurred. The difference between revenue and operating costs can be used by companies to develop their business units to be even greater, which in turn will increase the company's opportunity to get even higher profits.

One of the companies in the banking sector in Indonesia, which has the fifth-largest amount of assets is Bank Tabungan Negara. This bank has been established since 1934 and now in 2020 is 86 years old, in 2019 it has total assets of 312 trillion rupiahs with 78 branch offices, and 11,647 employees, with decades of experience and various resources, logically must be able to provide a large profit to the company. However, the fact is the opposite happened, the company's profit growth actually decreased very significantly in 2019, to only 209 billion rupiahs, which means down 90% from the previous 2.8 trillion rupiahs. This is certainly a big question, what really happened?.

Each company certainly has a variety of risks, but they generally have a risk management division that serves to minimize the risk that will be received from various investment activities undertaken to bring profit to the company. Always remember that the greater the profit target to be achieved by the company, it will be directly proportional to the amount of risk that the company will face as well if the target cannot be achieved. In terms we often hear, that is, Big Risk - Big Profit, this is a basic theory of natural law that will always apply anywhere.

Bank Tabungan Negara, with a variety of available resources, long experience and with the full support of the government and the community, cannot provide a significant influence on company productivity to be better, the opposite is true. On this basis, the authors try to make observations to find out the main causes of the decline in corporate profits and provide appropriate solutions in the hope that in 2020 this period can return at least the same profit in 2018, amounting to 2.8 trillion rupiahs.

Literature Review

In economics, profit can be defined as an increase in an investor's wealth from his business activities, which is the profit or return on an investment after deducting the costs of doing business. Whereas in accounting, the meaning of profit is the positive difference between income from sales and production costs incurred in a certain period.

According to Wadiyo (2020) Profit is a reward for the company's efforts to produce goods and services. Profit in accounting theory refers to a concept called comprehensive income. Definition of Comprehensive Income is an increase in net assets other than those originating from transactions from owners. The concept of profit adopted by the current accounting structure is profit which is the difference between the measurement of income and costs on an accrual basis. This kind of profit concept will facilitate the measurement and reporting of earnings objectively. And the compilers of financial statements expect that the concept of such profit is beneficial for users of financial statements, especially investors and creditors.

According to Baridwan (2004, p. 34), profits are divided into four. (1) Gross Profit; namely the positive difference between net sales and cost of goods sold (COGS). This profit has not been reduced by operating costs in a certain period. (2) Net Operating Profit; i.e. gross profit is reduced by the cost of goods sold and all costs in business activities. (3) Net Income Before Tax; i.e., the company's income before tax, or operational costs are reduced or added to the difference in income and other costs. (4) Net Profit After Tax; i.e. profit derived after adding or subtracting non-operating income and costs and deducting taxes.

Factors Causing the Decline in Income According to Munandar (2008, pp. 50-52), in general, it can be divided into two groups, namely Internal and External Factors. Internal factors consist of, (1) Sales in the past years including quality, price-quality, time and place of sale, (2) Company policies related to sales issues, (3) Production capacity owned by the company and possible expansion at the time (4) Available manpower, both the number and skills and expertise as well as the possibility of future development, (5) Other facilities owned by the company and the possibility of expansion in the future. To some extent, companies can still manage and adjust internal factors to what they want for the future. Because these factors are often referred to as factors that can be regulated and monitored. External factors, consisting of, (1) The state of market competition, (2) The position of changes in competition, (3) The rate of population growth, (4) The level of people's income, (5) The elasticity of demand for the price of goods produced by the company, especially will affect in planning the selling price in the sale to be arranged, (6) Religion, customs and habits of the community, (7) Various demand policies in the political, economic, social, cultural, and security fields, (8) Economic conditions national or international, (9) Advances in technology, substitute goods, consumer tastes, and possible changes.

In the Economic Terms dictionary, the loss is the amount of expenditure that is greater than the income received. Total losses are all losses suffered by the company from operational activities and outside operational activities within a certain period.

Risk is the result of mistakes in making decisions about investment activities carried out by the company. The size of the risk depends on the size and size of the profit target the company will achieve. For example, companies need intensive media promotion carried out, to be able to introduce products and services to the public. This business activity requires a large allocation of funds, but if successful it will certainly bring huge profits as well. With the right and measurable strategy, the prediction to be able to increase the company's target will have a chance to succeed, but if it is wrong, it will bring a large potential loss as a result of the risk of the decision made. Therefore, the element of prudence becomes very important and major in the company's efforts to increase productivity, every decision taken must be considered very well so that if it is not achieved then the company can immediately anticipate it. Bouheni, Ammi, and Levy (2016) explained that the risks held by banks are market risk, liquidity risk, credit risk, and operational risk.

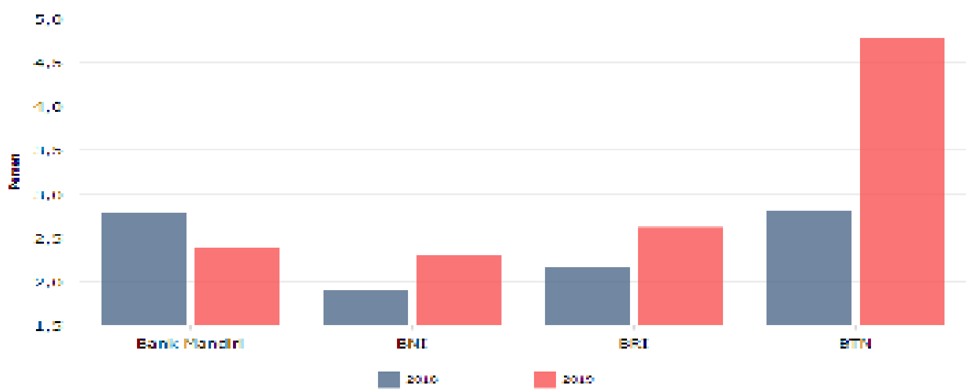
Research Methodology

The research method used in this research is descriptive. Descriptive analysis is a method of analysis that functions to reveal a systematic picture and gather every fact that exists, of the phenomena that occur in a company or organization for further analysis. This study uses quantitative data types, in the form of secondary data obtained from the company's annual financial statement documentation over a 10-year period, from 2010 to 2019.

The results of documentation and study of the company's financial statements are presented, then analyzed and interpreted thoroughly and in detail. There are seven ratios or indicators of financial performance that the authors have chosen to be used as a reference and to measure the causes of the company's financial performance decline. Searching and observing various information related to the decline in profit of the Tabungan Negara Bank through various online news reviews or through the website on companies and related institutions, this is done by the author to get the latest data about the development of the company.

Discussion

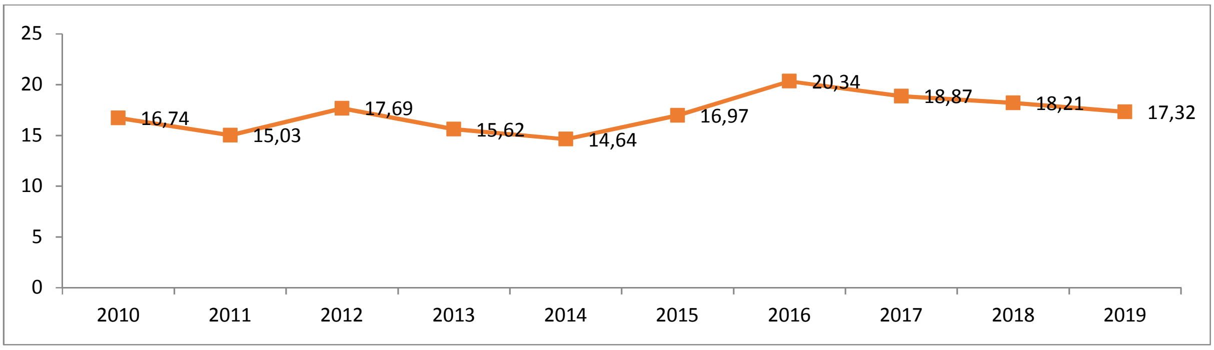
Figure 1. BUMN Performance 2019



Source: Lidwina (2020)

Figure 1 shows that Bank Mandiri recorded a decrease of 40 basis points in non-performing loans (NPLs) by 2019. Based on the company's financial statements, the ratio is now at 2.39% from 2.79% in the year previous. However, it is different from the three other state banks that actually experienced an increase in the ratio. Bank Negara Indonesia (BNI) NPLs become 2.3% and Bank Rakyat Indonesia (BRI) becomes 2.62%. Meanwhile, the NPL of Bank Tabungan Negara (BTN) almost doubled, from 2.81% to 4.78%. An increase in NPL will make the reserve cost or Allowance for Impairment Losses even greater. This is one of the causes of the net profit growth of these banks to slow down in 2019.

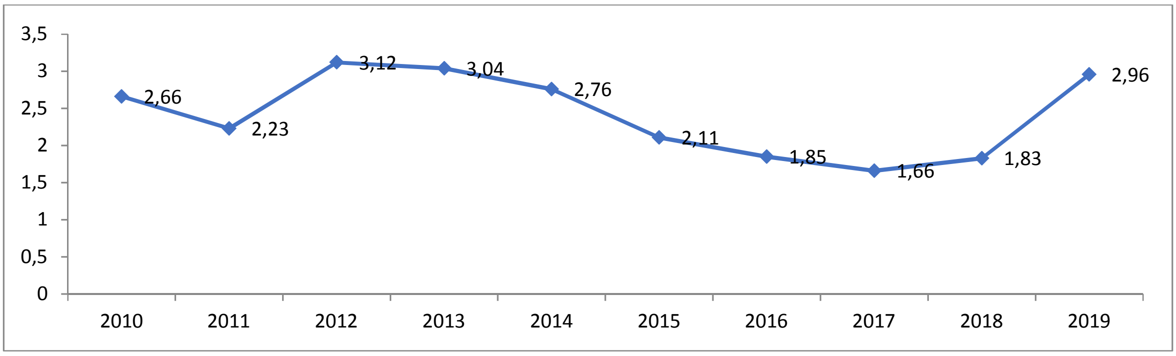
Graph 1. Capital Adequacy Ratio (%)



Source: idx.co.id; btn.co.id

Capital Adequacy Ratio (CAR) is a capital adequacy ratio that serves to accommodate the risk of loss that may be faced by banks. The higher the CAR, the better the bank's ability to bear the risk of any risky credit or productive assets. In graph one, it can be seen that for ten years (2010-2019) the capital adequacy ratio chart shows fluctuations between the lowest figure of 14.64% (2014) and the highest of 20.34% (2016), and finally in 2019 of 17, 32%. In the banking sector, the availability of capital is very important to consider. Considering that capital is a major factor for banks in their efforts to grow and develop their business activities. The Bank for International Settlement (BIS) determines the minimum capital adequacy ratio of 8%. If the comparison between capital and assets or risk-weighted assets results in a ratio value greater than 8%, it means that the bank has the ability to guarantee or cover any risk of loss that may arise. In graph one, it appears that all Capital Adequacy Ratio figures are above 8%, which means that the capital adequacy ratio has been fulfilled. The higher the capital adequacy ratio, the better the soundness of the bank.

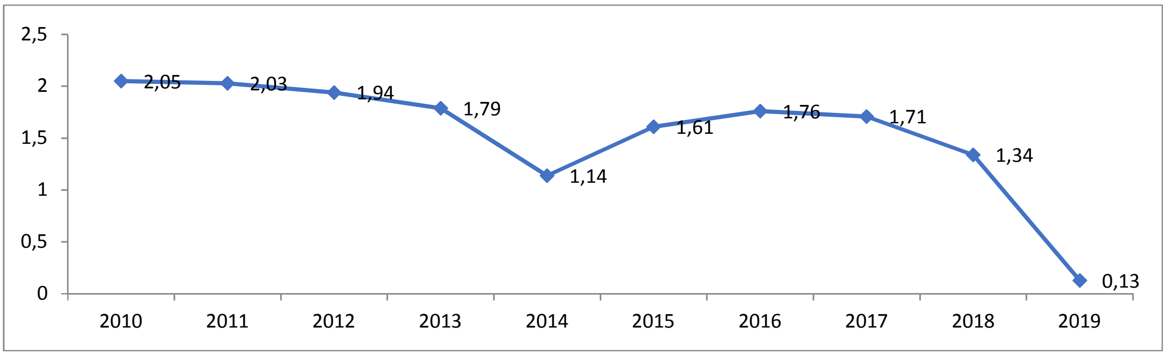
Graph 2. Non-Performing Loan Ratio (%)



Source: idx.co.id; btn.co.id

Non Performing Loans are one indicator of the health of a bank's assets. These indicators can be in the form of principal financial ratios that can provide information on the assessment of capital conditions, profitability, credit risk, market risk, and liquidity. According to Bank Indonesia, the ideal NPL ratio for the banking sector is 5%, where the ratio value that is higher than 5% indicates the high non-performing loans in a bank. The NPL ratio used as a measurement of banking performance is the net NPL ratio, which has been linked to credit risk through a long analysis process. Based on the author's observation that the financial statements of banks throughout Indonesia generally show an NPL ratio of around 2%, which means it is still far from the NPL ceiling ratio required by Bank Indonesia. In graph two it can be seen that the percentage of NPL fluctuated for 10 years (2010-2019), with the highest figure of 3.12% (2012) and the lowest of 1.66% (2017), in 2019 the NPL of the Bank Tabungan Negara was 2, 96% which means below 5% and is at an ideal rate according to Bank Indonesia.

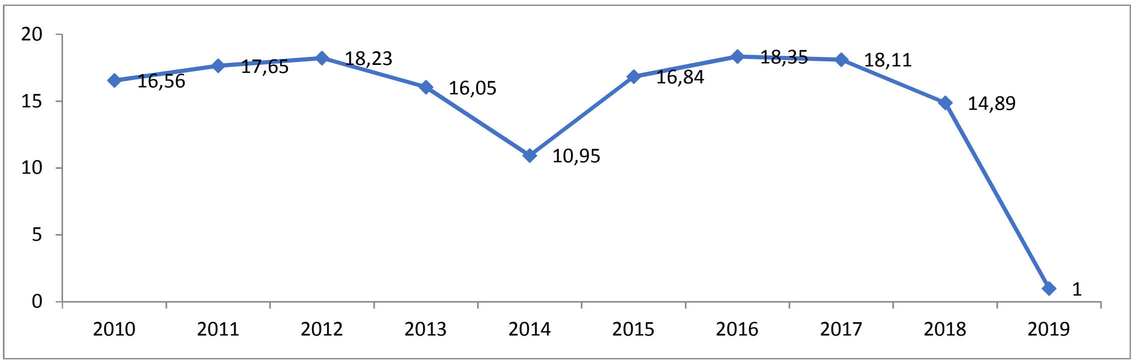
Graph 3. Return on Assets Ratio (%)



Source: idx.co.id; btn.co.id

Return on Assets (ROA) is the company's financial ratio related to profit potential that is used to measure the company's strength in obtaining profits. The Return on Assets ratio is used to measure how efficiently a company can turn the money used to buy assets into net income. A higher ratio shows that the company is more effective in managing its assets to produce a greater amount of net profit. In graph three it can be seen that the company's Return on Assets has continued to decline over the past 10 years (2010-2019), recorded in 2010 of 2.05% and in 2019 at the lowest percentage of 0.13%.

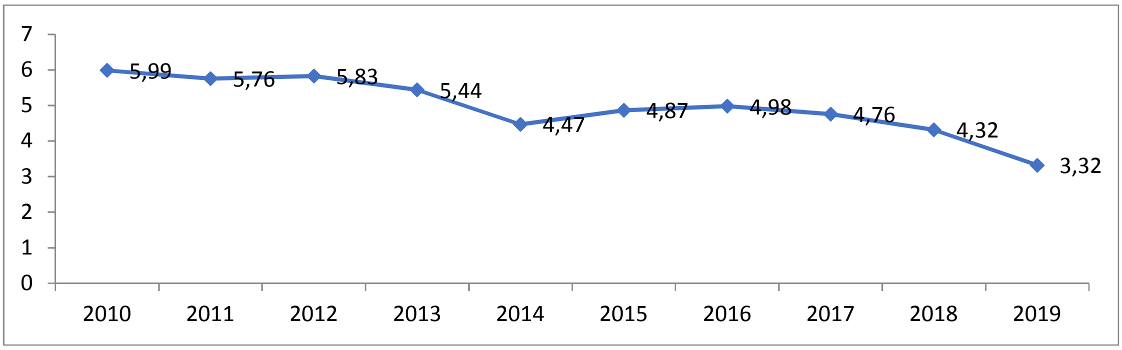
Graph 4. Return On Equity Ratio (%)



Source: idx.co.id; btn.co.id

Return On Equity Ratio is a ratio calculation that shows a company's ability to generate net income using its own capital and generate net income available to owners or investors. Return On Equity aims to measure an ability in a company to generate profits from the investment of shareholders of the company. ROE compares net income after tax with the equity that has been invested by the company's shareholders. In graph four, the trend in the ratio of Return On Equity has been very clear has been formed, where since 2010 has a percentage of 16.56% but in 2019 it has fallen deeply to only 1%. This shows that the company experienced a significant decrease in net profit, causing the Return on Equity ratio to continue to shrink.

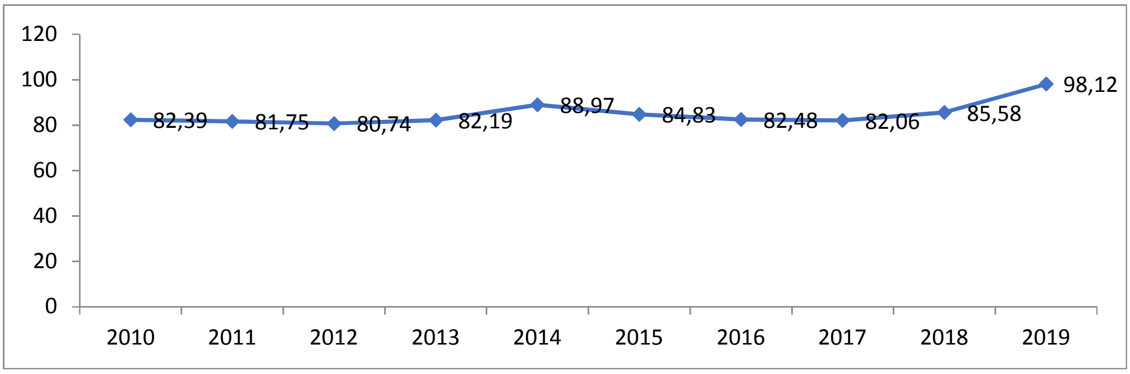
Graph 5. Net Interest Margin Ratio (%)



Source: idx.co.id; btn.co.id

The Net Interest Margin (NIM) ratio is the ratio used to analyze how much net interest income is compared to a company's productive assets. The Net Interest Margin Ratio serves to measure how much net interest income is compared to a company's productive assets. Net interest income is defined as interest income after deducting principal expenses while earning assets are assets that are able to produce interest income. In graph five, it shows that the downward trend in net interest income is towards company assets. Where in 2010, the percentage of NIM was still estimated at 5.99% but in 2019 it fell to only 3.32%, this shows that the bank's principal expenses continue to grow and the number of productive assets continues to decrease, causing a percentage of Net Interest Margin continues to decrease.

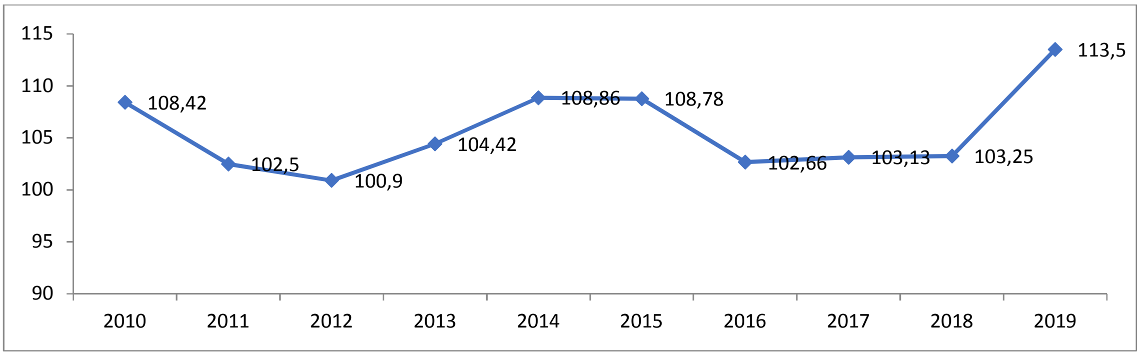
Graph 6. Efficiency Ratio (%)



Source: idx.co.id; btn.co.id

The ratio of operational costs is used to measure the level of efficiency and the ability of banks to carry out operational activities. The ratio of Operating Costs to Operating Income (OCOI) is often called the efficiency ratio used to measure the ability of bank management in controlling operating costs to operating income. The smaller this ratio means the more efficient operational costs incurred by banks with Bank Indonesia setting the best number for the OCOI ratio is below 90%, because if the OCOI ratio exceeds 90% to close to 100% then the bank can be categorized as inefficient in carrying out its operations. In graph six, it appears that the efficiency ratio shows an upward trend from starting in 2010 of 82.39% and in 2019 to 98.12%, this shows an increase in the operational cost figure that continues to grow compared to operating income, and in this number, the BTN is categorized a bank that is not efficient in carrying out its operations.

Graph 7. Loan to Deposit Ratio (%)



Source: idx.co.id; btn.co.id

Loan to Deposit Ratio (LDR) is the ratio between the size of the entire volume of credit extended by banks and the number of funds received from various sources. Bank Indonesia assesses that the ideal loan or deposit ratio (LDR) for banks is in the range of 75% to 80%. This figure is considered by Bank Indonesia to be sufficient to encourage economic growth while still meeting the elements of bank health (risk). The ideal LDR ratio can meet two objectives, namely the importance of lending to encourage economic growth, and control of bank risk in order to remain under control. Where the figures of 75% to 80% can support economic growth and also meet the health of the bank. In graph seven, it is seen that the Loan to Deposit ratio shows an upward trend, starting in 2010 at 108.42%, to 113.5% in 2019. With this percentage, it is clearly seen that the ratio of loans to savings of customers has exceeded the minimum limit of 80%, this is certainly very risky for the company and can be detrimental to the company primarily in front of investors.

In an article written by Aldin (2020), President Director of Bank BTN explained that the increase in problem loans caused the company's net profit in 2019 to fall to 92.5% from 2.8 trillion rupiahs in 2018 to only 209.26 billion rupiahs. However, as the increase in non-performing loans, BTN also carried an allowance for impairment losses from Rp 3.29 trillion to Rp 6.16 trillion. With this high allowance, making BTN's coverage ratio which was previously at the level of 50% of non-performing loans, to 109.47% in January 2020. The increase is also in line with the application of the Statement of Financial Accounting Standards 71, where banks must have allowance for impairment losses reserve above 100%.

In an article written by Astutik (2020), BTN Finance Director explained that the decline in bank's net profit was due to an increase in reserves, and 'clean-up' credit due to deteriorating quality. BTN interest income was recorded at 25.6 trillion rupiahs, up from the previous period which reached 22.81 trillion rupiahs. Unfortunately, the interest expense increased to 16.54 trillion rupiahs from 2018 amounting to 12.62 trillion rupiahs. Tight liquidity in 2019 has resulted in increasingly competitive third party funding associations. BTN recorded a net interest income of 9.08 trillion rupiahs in 2019, down 12.41% compared to 2018. In 2019, BTN allocated reserves of 6.1 trillion rupiah due to the implementation of the Statement of Financial Accounting Standards 71. Reserves for impairment losses increased from 2018 which was only 3, 3 trillion rupiahs. This reserve allocation brought the Capital Ratio to 18.26% in 2019. Reserves for impairment losses in the Statement of Financial Accounting Standards 71 must be met by almost 3 trillion rupiahs, this is also one of the factors causing BTN bank profits to decline.

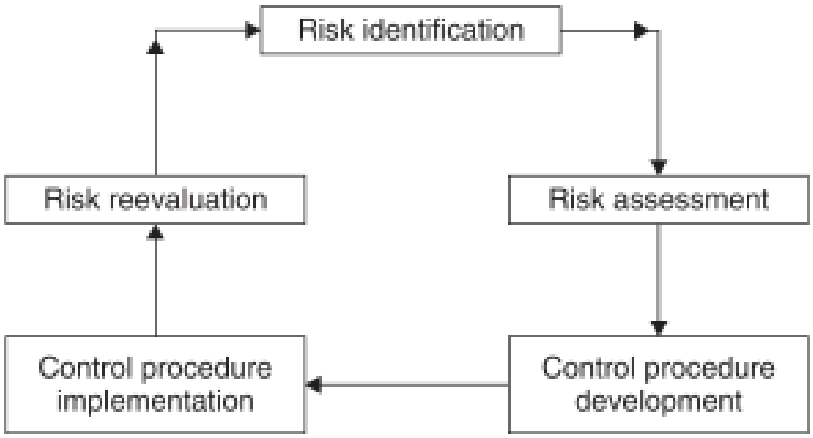
In an article written by Richard (2020), President Director of Bank BTN Pahala N. Mansury, explained that the gross non-performing loan (NPL) ratio of PT Bank Tabungan Negara (Persero) Tbk in the commercial segment reached 18 percent, the quality of credit the segment is considered high and depressed earnings for 2019. BTN Finance Director Nixon Napitupulu also explained that the commercial segment is a quite problematic segment, the prospect of sales in this segment, namely apartments, is still slowing, especially for luxury apartments. Not only apartments but tread house developers in Kalimantan are also experiencing problems, where people's purchasing power is down due to falling commodity prices. For information, the total BTN credit as of the end of 2019 was 255.82 trillion rupiahs with 89 percent of the portion-controlled by the People's Ownership Credit, both subsidized and non-subsidized. The overall NPL ratio at the end of 2019 reached 4.8 percent, up 200 basis points from 2018 of 2.8 percent.

Conclusion

Efficiency ratios and lending ratios become ratios that put pressure on BTN's profits, where both ratios for ten years (2010-2019) show a significant upward trend, which continues to weigh on corporate profits, which finally in 2019 experienced a 92% fall.

Suggestion

Figure 2. Risk Management Cycle



Source: Coleman (2010)

Referring to figure two, a picture of the company's risk management cycle can be seen. According to the authors, this cycle is very suitable when applied to the case of BTN. Where, the initial cycle starts from (1) Risk identification, tightening the conditions to get a loan and to improve the quality of debtors is important to be applied, with a strict examination it will reduce the risk of the company to meet the problematic debtors. Furthermore, (2) A risk assessment of customers who will get a loan, whether the customer is worth it or not. Then, (3) Floating assessment procedures, customer dynamics to provide portfolios and proof of their ability to pay must be highly considered by the company, if data manipulation efforts are found, then the company is obliged to improve the procedures that have been set up in order to minimize the escape of problem debtors. Furthermore, (4) Implementation of the valuation procedure, this implementation is very important to be carried out to determine the effectiveness of the standard eligibility requirements of customers in receiving loans. Then, (5) Risk evaluation, after going through various stages of assessment and feasibility procedures, the company must re-evaluate the various processes that have been carried out, whether there are still weaknesses or not.

By following this cycle, the authors believe that the quality of debtors or borrowers of Bank Tabungan Negara funds will be better selected. Where only customers who have escaped with various conditions that have been imposed alone can receive the loan funds and customers who have a tendency to be troubled and predicted to potentially experience defaults can be avoided carefully.

The author also cites two opinions that would be useful if BTN applied them. Factors that cause bad credit according to Siamat (2001, p. 175) are caused by Internal and External Factors. Internal factors relate to policies and strategies adopted by banks to examine credit policies, deviations in the implementation of credit procedures, weaknesses in the administration and credit supervision systems and weaknesses in the credit information system. External factors are associated with a decrease in economic activity and high-interest rates on loans, utilization of an unfair banking competition climate by debtors, debtors' business failures and debtors experiencing disasters. According to Dendawijaya (2001, p. 38) the factors that cause bad credit are, (1) Weaknesses of banks in conducting analysis, resulting in mistakes in decision making, (2) Weaknesses of customers, such as the absence of plans to start a business about loans that taken, then the relatively low income of customers and administrative arrangements regarding financial revenues and expenditures that are still not well recorded, (3) customer delinquency, such as taking credit used for consumptive purposes and the lack of customer intention to repay loans, (4) Disasters Nature, (5) Warfare, (6) Changes in economic conditions, and (7) Changes in technology.

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Appendix

Table 1. Financial Performance of a Bank Tabungan Negara

Ratio	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CAR (%)	16,74	15,03	17,69	15,62	14,64	16,97	20,34	18,87	18,21	17,32
NPL (%) Netto	2,66	2,23	3,12	3,04	2,76	2,11	1,85	1,66	1,83	2,96
ROA (%)	2,05	2,03	1,94	1,79	1,14	1,61	1,76	1,71	1,34	0,13
ROE (%)	16,56	17,65	18,23	16,05	10,95	16,84	18,35	18,11	14,89	1
NIM (%)	5,99	5,76	5,83	5,44	4,47	4,87	4,98	4,76	4,32	3,32
BOPO (%)	82,39	81,75	80,74	82,19	88,97	84,83	82,48	82,06	85,58	98,12
LDR (%)	108,42	102,5	100,9	104,42	108,86	108,78	102,66	103,13	103,25	113,5

Source: idx.co.id; btn.co.id