



## Measuring Islamic Bank's Performance Using CAMELS And RGEC Method Based On Indonesian Financial Services Authority Circular

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ARTICLE INFO	ABSTRACT
<b>ISSN: 2723-1097</b>	<i>This paper aims to determine the differences bank performance of Muamalat Bank, Bank Sinarmas Bank, and BPRS Bhakti Sumekar measured by CAMELS (Capital, Asset, Management, Earning, Liquidity, Sensitivity to Market Risk) method and the RGEC (Risk profile, Good governance, Earning, Capital) method in 2018. The authors used quantitative methods with a descriptive approach. The sample taken in this study is a representation of Islamic commercial banks (Bank Muamalat), Islamic business unit banks (Bank Sinarmas Syariah), and Islamic microfinance banks (BPRS Bhakti Sumekar). The data used in this study are secondary data from the company's published financial report website and annual report. The Analysis techniques used are : 1) Bank Performance analysis using the CAMELS and RGEC methods. 2) Describe the differences in the measurement using the CAMELS and RGEC methods. Finding in this study is the RGEC is a more comprehensive method to measure Islamic bank performance than Camel.</i>
<b>Keywords:</b>	
<i>Bank Performances; CAMELS; RGEC; Indonesian Financial Services Authority Circular</i>	

### Introduction

Banking is everything concerning about bank, including institutions, business activities, methods and processes for carrying out business activities. Meanwhile, a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit or other forms, in order to improve the standard of living of the people at large (Law Number 10 of 1998).

Realizing the importance of bank performance to build trust in the around the banks and implementing the principles of prudence (Prudential Banking), Indonesians Central Bank needs to establish regulations on bank performance. With this regulation on bank performance, it is hoped that banks will always be in good condition, so that they will not harm the people associated with the banks (Budisantoso, 2014).

Enhancement of innovation in Islamic banking products, services and activities has an impact on increasing business complexity and the Bank's Risk Profile, which if not balanced with adequate of Risk Management implementation, can cause various

fundamental problems to the Bank and to the financial system as a whole. In order for the Bank to be able to identify problems early, carry out appropriate and faster follow-up improvements, and apply the principles of better Good Corporate Governance and Risk Management, the Indonesian Financial Services Authority has improved the bank performance level assessment system.

Basically the level of bank performance, management of the Bank, and the continuity of the Bank's business are responsibility of the Bank's management. Therefore, Banks are required to maintain, improve their performance by applying the principles of prudence and Risk Management in carrying out their business activities including conducting periodic self-assessments of their performance level and taking corrective steps effectively. On the other part, the Indonesian Financial Services Authority evaluates, assesses the Bank performances, and takes necessary supervisory measures in order to maintain banking and financial system stability. (OJK Circular, 2014).

Banks must always be measured for their performance in order to remain excellent in serving their customers (Permana, 2012). Banks that are classified in bad performance can harm the bank institution itself and customers. To measure the performance of a bank can be seen from various aspects of measurement, this aims to determine whether the bank is in a good or bad performance. There are several methods that can be used to measure or analyze banking health, CAMEL, CAMELS and RGEC.

CAMELS also known as Capital, Asset Quality, Management, Earning, Liquidity, and Sensitivity to Market Risk. The Sensitivity to Market Risk criterion is an additional aspect of the previous bank performance measurement method namely CAMEL. CAMEL developed into CAMELS for the first time on January 1, 1997 in America. CAMELS developed in Indonesia at the end of 1997 as a result of the economic and monetary crisis.

The development of Islamic banks in recent years has made the parties develop and implement risk management and good corporate governance in each of their activities in order to detect undesirable things that can have a bigger impact that can hinder Islamic banking operations (Kusumawardani, 2014). Therefore, Bank Indonesia refined the performance measurement method for Islamic Commercial Banks from initially using CAMELS to RGEC in accordance with Circular BI number 13/24 DPNP on 25 October 2011 concerning Assessment of the Performance of Commercial Banks (Mandasari, 2015)

The bank performance analysis has undergone a change, the CAMEL and CAMELS analysis tools do not re-apply and have changed to RGEC but here will describe the entirety of all these analyzes to apply bank health that has been practiced with published financial reports as well as additional knowledge to find out how the flow is of the assessment so that the benefits can be taken..

## **Literature Review and Methode**

### **Islamic Banking**

Islamic bank is a financial institution that provides credit and other services related to payment and circulation of money with an operating system that is adjusted to Islamic principles (Sudarsono, 2003). The application of Islamic banking system is not something strange to Muslims. Historical evidence states that modern banking functions have been practiced by Muslims, even since the time of the Prophet Muhammad. These banking function practices certainly develop gradually, progress and decline at certain times, along with the ups and downs of civilization (Karim, 2013).

The functions and roles of Islamic banks are listed in the opening of the Islamic accounting standards issued by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) as follows: 1. Investment Managers, Islamic banks can manage investment funds deposited by customers. 2. Investors, Islamic banks can invest their own funds and customer funds entrusted to the bank. 3. Providers of financial services and payment traffic, Islamic banks as intermediary institutions can carry out banking services activities as usual. 4. The implementation of social activities, as a characteristic inherent in Islamic financial entities, certainly has an obligation to issue and manage (collect, administer, distribute) zakat and other social funds.

### **Financial Statement**

According to Myer in Financial Statement Analysis, what is meant by financial statements are two lists compiled by an accountant at the end of a period for a company. The two lists are a list of balance sheets or a list of financial positions and a list of income or profit and loss report (Munawir, 2004). The financial report is prepared as a form of management accountability to the stakeholder with an interest in the bank's performance achieved during a certain period (Taswan, 2003).

### **Bank Performance**

The bank performance health is common interest of all related parties and stakeholder (owners, bank management, customer, shareholder, Indonesian Central Bank and the Indonesian Financial Services Authority as the banking supervisory). The bad banking performance caused banking failure will have a bad impact on the economy (Darmawi, 2011).

### CAMELS Method

This method one of measuring tool used to determine a condition of a bank as stated in Bank Indonesia Regulation Number 9/1 / PBI / 2007 concerning a system for assessing the performance of commercial banks based on Islamic principles, consisting of capital aspects, asset quality aspects ( Assets), aspects of management quality (Management), aspects of profitability (Earnings), aspects of liquidity (Liquidity), aspects of sensitivity to market risk (Sensitivity to Market Ratio).

#### Capital

The measurement in this aspect is the capital owned by the bank which is based on the bank's minimum capital requirement. The measurement is based on the CAR (Capital Adequacy Ratio) set by Indonesian Central Bank regulation (Kasmir, 2004).

#### Asset

The next aspect that needs to be measure is the quality of assets owned by the bank. Asset valuation must be in accordance with Indonesian Central Bank regulations, which include the following components: a. Earning asset quality, concentration of credit risk exposure, development of non-performing earning assets, and adequacy of allowance for earning assets losses (PPAP), b. Adequacy of policies and procedures, internal review system, documentation system, and performance of problematic earning assets management (PBI, 2004).

#### Management

To measure the quality of a bank can be seen from the quality of its people in managing the bank, but in this aspect what is assessed is capital management, asset quality management, general management, profitability management, and liquidity management. The next measurement is the management is the bank's compliance with applicable regulations and commitments to Indonesian Central Bank or other. The good performance of bank management describes through the Net Profit Margin (NPM) ratio, the reason is that all management activities of a bank which include

general management, risk management and bank compliance will ultimately affect to profit (Merkusiwati, 2012). .

### Earnings

Measurement of the profitability is an aspect used to detect bank's ability to increase profits. This ability is carried out in a period. The use of this aspect is also to measure the level of business efficiency and profitability achieved by the bank. A bank in a good performance is a bank which qualified in terms of profitability, continues to be and increases above the predetermined standard (Kasmir, 2004). The components that are required in terms of profitability are: a. Achievement of return on assets (ROA), return on equity (ROE), net interest margin (NIM), and the level of bank efficiency. b. The development of operating profit, diversification of income, application of accounting principles in recognizing revenues and expenses, and prospects for operating profit (PBI, 2004).

### Liquidity

A bank can be called its liquid, if the bank able to pay all its debts, especially short-term debts. In this case, what is meant by short-term debt is public savings such as savings deposits, current accounts and time deposits. It is said to be liquid if the bank is able to pay it when it is collected (Kasmir, 2004). The components assessed in this aspect are: a. Liquid asset or liability ratio, potential maturity mismatch, Loan to Deposit Ratio (LDR) condition, cash flow projection, and funding concentration. b. Adequacy of policies and liquidity management (assets and liabilities management / ALMA), access to funding sources and stability of funding.

### Sensitivity

This measurement is intended for financial capacity banks in anticipating changes in market risk caused by exchange rate movements. A market risk sensitivity assessment is carried out by assessing the amount of excess capital used to cover bank risk compared to the amount of risk that may arise from the effect of changes in market risk (Ihsan, 2015).

### RGEC Method

The RGEC method is a derivative of Indonesian Central Bank regulation Number 13/1 / PBI / 2011 concerning the measurement of the performance Commercial Banks based on risk profiles. The measurement indicators to assess the performance level of

Islamic commercial banks and Islamic units business are described in the OJK Circular Letter Number 10 / SEOJK.03 / 2014 as follows:

#### Risk Profile

The measurement of Risk Profile factors is an assessment of inherent Risk and the quality of Risk Management implementation in the Bank's operational activities. Risks that must be assessed consist of 10 (ten) types of Risk, are Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Legal Risk, Strategic Risk, Compliance Risk, Reputation Risk, Return Risk, and Investment Risk (Rivai, 2007).

#### Good Corporate Governance (GCG)

The measurement of the Good Corporate Governance factor for Islamic Commercial Banks is an assessment of the quality of bank management on the implementation of 5 (five) Good Corporate Governance principles, are transparency, accountability, responsibility, professionalism and fairness. The principles of Good Corporate Governance and the focus of assessment on the implementation of the principles of Good Corporate Governance are guided by the provisions of Good Corporate Governance applicable to Islamic Commercial Banks by taking into account the characteristics and complexity of the bank's business.

#### Earning (Rentability)

The measurement of the Rentability factor includes an evaluation of the profitability performance, sources of profitability, sustainability of profitability, management of profitability, and implementation of social functions.

#### Capital

Assessment of the Capital factor includes evaluation of capital adequacy and adequacy of Capital management. In calculating Capital, Islamic Commercial Banks refer to the applicable provisions concerning the minimum capital requirement for Islamic Commercial Banks. To measure the capital assessment ratio used is the CAR (Capital Adequency Ratio).

This research used a comparative quantitative methods with a descriptive approach. The comparisons are made from representation of Islamic commercial banks (Bank Muamalat), Islamic business unit banks (Bank Sinarmas Syariah), and Islamic microfinance banks (BPRS Bhakti Sumekar) in a single year (2018).

### **Result and Discussion**

**Table 1. Bank Performance calculations using the modified CAMELS method**

Aspect	Rasio	Formula	Muamalat	Sinarماس	Bhakti Sumekar
Capital	CAR	Capital/ ATMR x 100%	13,62%	18,31%	39,33%
Aset Quality	NPF	Financing (KL, D, M) / Tot. Financing x 100%	2,75%	2,34%	2,39%
Earning	ROA	EBIT/ average tot.asset x 100%	0,11%	1,26%	2,14%
Management	NPM	Net Income / Operasional Income x 100%	5,46%	59,07%	12,05%
Likuidity	FDR	Total Financing / Third Party Fund x 100%	84,8%	80,57%	73,70%

**Analysis of calculation results using the CAMEL method**

The CAR values obtained by Bank Muamalat, Bank Sinarماس, and BPRS Bhakti Sumekar were all above 8%. CAR reflects the company's own capital, the higher the CAR value means the higher the equity to finance productive assets and the lower the costs incurred by the bank. The decline in CAR was due to a decrease in capital against an increase in RWA. The increase in RWA occurred due to the greater credit extended by banks. The greater the credit provided by the bank, the greater the RWA of the bank concerned so that the CAR will decrease (Kusumawardani, 2014).

The NPF values obtained from the three banks in 2018 varied and were all below 5%. NPF is obtained from the amount of non-performing financing divided by the amount of financing provided. The higher the NPF value, the higher the value of arrears in financing which will reduce income. The smaller the NPF value proves that these banks are able to overcome the problematic financing that occurs so that the channeled financing has the potential to increase revenue (Kusumawardani, 2014).

The NPM value at each bank in 2018 varied. At Bank Muamalat, NPM shows a value of 5.46%. In Sinarماس bank, NPM is 59.07%, very far from Bank Muamalat. Meanwhile, at BPRS Bhakti Sumekar, the NPM obtained was 12.05%.

Furthermore, in the aspect of earning (profitability using the ROA ratio. ROA values obtained from the three banks respectively are 0.11%, 1.26%, and 2.14%. This ratio assesses the rate of return of assets owned. The greater the value of the ROA ratio,

the company will receive a greater rate of return where the company is able to process its assets to get a bigger profit.

The value of FDR (Finance to Deposit Ratio) or the ratio of financing to deposits is used to assess the ability of banks to repay withdrawals made by depositors by relying on loans as a source of liquidity. The higher the FDR ratio, the lower the liquidity capacity of the bank. At Bank Muamalat, the FDR value was 84.8%, at Sinarmas Bank the FDR was 80.53%, while at BPRS Bhakti Sumekar FDR showed a value of 73.70%.

**Table 2. Bank Performance Measurement using the RGEC method**

Aspect	Parameter	Indicator	Bank Muamalat	Bank Sinarmas	BPRS Bhakti Sumekar
<b>Risk</b>					
Credit risk	Fung Provision and reserve adequacy	NPF / TF	2,75%	2,34%	2,39%
Market risk	Volume assessment dan portfolio composition	NOP / Capital	7,34%	12,11%	-
Liquidity Risk	Composition of Assets, Liabilities, and Off balance sheet	Total Liquid Assets / Total Assets	19,72 %	22,12%	99,1%
Yield Risk	Strategy and Bank Performance in Generating Profit / Income	Financing based on loan/ financing based profit sharing	96,86 %	72,5%	62,36 %
		NPF / Total Financing	2,75 %	2,34%	2,39%
		EBIT / Total Aset	97,7%	1,34%	1,89%
Investment Risk	Composition and level of concentration of financing based profit sharing	Total financing based profit sharing / Total Financing	49,8 %	80,27%	6,24%
<b>Earning (Rentability)</b>	Rentability	ROA	0,11 %	1,26%	2,14%



Aspect	Parameter	Indicator	Bank Muamalat	Bank Sinarmas	BPRS Bhakti Sumekar
Capital	Sources that support rentability	NOM	0,21 %	1,23%	2,31%
		NI	2,48 %	3,42%	2,11%
		OER	97,68 %	88,94%	67,67%
	Bank Capital Adequacy	Capital / RWA	13,62%	18,31%	39,33%
		Core capital / RWA	11,08%	16,20%	15,52%
		Core Capital / Total Capital	81,38 %	95,47%	0,09%

### Comparison between CAMEL and RGEC methods

The old regulation is used CAMEL method and the new regulation by using RGEC has a significant difference in the indicators used. In the RGEC method, the measurement emphasizes the risk profile whereas in the CAMEL method it does not take into account the risk. The risk profile in the RGEC method contained in SEOJK No.10 / SEOJK.03 / 2014 can be measured by numbers using the formula that has been regulated therein. Among them are credit risk, market risk, liquidity risk, return risk and investment risk. For compliance risk, strategic risk, legal risk, operational risk, and reputation risk, they are assessed descriptively in accordance with the regulations that have been regulated in this Circular Letter.

According to the results of research conducted by Husein and Hasib (2016) regarding the differences in CAMELS and RGEC, it was found that the parameters for the CAMELS and RGEC assessment were different. CAMELS assessment is determined by the operational financial condition of each bank, which is reflected in the results of financial ratios that have been regulated in Bank Indonesia Regulation No.9 / 1 / PBI 2007, namely the main ratios (KPM, KAP, NOM, STM). In CAMELS, the linkages between the factors therein are not connected yet, so that it does not provide a complete picture of how the bank is managed. Each component and factor in CAMELS is still analyzed separately and has not paid attention to the relationship between one parameter and another. Then the performance assessment using CAMELS focuses a lot on the upside of the business level (achieving profit and growth).

The assessment parameters using the RGEC method include the upside and the downside, the upside side of the business to achieve profit and growth as well as the downside of assessing the risks that will arise both now and in the long term. The assessment using the RGEC method is determined from the self-assessment of each bank, with the determination of the risk profile assessment and Good Corporate Governance of each bank in which banks are required to assess themselves on the basis of transparency and compliance with the policies of Indonesian Central Bank and the Indonesian Financial Services Authority. Another factor in the assessment, are profitability and capital using the Return On Asset ratio and Capital Adequency Ratio contained in the financial statements of each bank is the impact of the management strategy.

The bank business is a risk business, just like any other business. However, because the bank's operational activities raise funds from the public, the risk management standard must be higher than that of other businesses. Similar to the concept of risk management, risk is not something that must be avoided but must be faced and managed to get a profit so that risk management is no longer a limiting thing for the business but can support the business. This also shows that the assessment system based on the RGEC method is a combination of self-assessment that emphasizes risk management, GCG implementation and financial ratio ratios to measure the condition of a bank in accordance with the Indonesian Financial Services Authority Circular Letter Number 10 / SEOJK .03 / 2014. So that the RGEC method becomes a more comprehensive solution for bank health assessment.

## **Conclusion**

A bank performance measurement using the camels method can show how a company processes funds obtained from both debt and third party funds. In camels, the relationship between the factors is not connected yet so that it does not provide a complete picture of how the bank is managed. Then the performance measurement using camels focuses a lot on the upside of the business (profit achievement and growth).

Banking companies must act quickly in terms of adjusting to this new regulation, because the responsiveness and thorough preparation of the bank in accepting this new regulation can affect the assessment of bank performance towards improving the assessment of bank performance. On contrary, the bank's unpreparedness in accepting this new regulation has made the bank's performance appraisal decrease, even before the implementation of the regulation.

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