The Effect of CAMELS Ratio on Banking Distress in Private Banking Sector Listed on The IDX Period 2020 – 2022

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ABSTRACT

This study aims to determine the effects of CAMELS ratio analysis (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk) on Banking Distress in the private banking sector that is listed on the Indonesian Stock Exchange (IDX) for the period 2020 – 2022. The object of this research is 31 private banks, and the data collection technique uses a purposive sampling technique. The data source needed in the research is secondary data, which is annual financial statements from Indonesian Stock Exchange. This research is conclusive on causality by using the Logistic Regression Analysis technique on IBM SPSS tools version 29 software. The result shows that the variables Capital Adequacy Ratio (CAR) and Non-Performing Loans (NPL) have a positively significant effect on Banking Distress, while Operating Expenses to Operating Income (BOPO), Net Profit Margin (NPM), Return on Assets (ROA), Loan to Deposit Ratio (LDR), and Interest Rate Risk (IRR) have no significant effect on Banking Distress. This study can be a valuable reference for banking sectors in avoiding indicators leading to banking distress. Future researchers can develop the elements from this research, including a more expansive period of interval, carrying more varied independent variables from external factors, and using other more accurate models.

Keywords:
CAMELS Ratio; Banking Distress; Private Banking Sector.

Introduction

Competition in the business world in the globalization era will undoubtedly have an impact on economic development. Suppose a corporate entity is not prepared to face business competition. In that case, this will impact a decrease in business operations, especially when a corporate entity cannot maintain its performance, which will trigger financial difficulties. A distress situation is a situation that indicates a decline in the financial condition of a company that formed before bankruptcy on liquidation (Platt & Platt, 2002).

The decline in profitability ratios at private banks is less compared to state-owned banks from 2020 to 2022. The gap phenomenon from the ROA calculation for the banking sector shows an imbalance considering that state-owned banks have proven to have more sustainable market shares than the private banking sector. This
thing is supported by Press Release Number PR-109/S.MBU.B/07/2022, which was announced through the official website of the Ministry of State-Owned Enterprises (2022) through the Minister of BUMN, stated that Erick Thohir gave appreciation for the excellent performance of the state bank association (Himbara) throughout the first semester in 2022.

Based on Bank Indonesia Regulation (2004) No.6/10/PBI/2004 related to the Rating System for Commercial Banks Chapter II concerning the Mechanism and Follow-Up of Assessment Results Article 8 states that (1) Banks are required to conduct an assessment of Bank Soundness under Bank Indonesia Regulations quarterly in March, June, September, and December. This regulation is supported by Chapter I Article 3, in which the Rating of Bank Soundness includes the assessment of components including Capital; Assets Quality; Management; Rentability (Earnings); Liquidity; and Sensitivity to Market Risk, which is known as the CAMELS ratio.

The CAMELS method in this study focuses on achieving profit and company growth. In contrast to the use of the RGEC method which the aspects are self-declared by more complicated risks, the widespread application of the CAMELS method is still often used in banking supervision practices, especially in assessing bank bankruptcy through aspects of operational, financial, and management quality performance (Musthofa & Achmad, 2023).

The solvency ratio (Leverage Ratio) is a ratio used as a measure of how far a company's assets can be financed by debt (Pelleng & Keles, 2014). In other words, the solvency ratio helps weigh a bank's capability to cover long-term obligations if bank liquidation happens. The ratios used in solvency analysis include Capital Adequacy Ratio (CAR) and Non-Performing Loans (NPL). The CAR covers a decrease in a bank's assets that can still be covered by available banking equity (Ferdiansyah & Widyart, 2022). The CAR variable suggests that the optimal application of debt can minimize experiencing financial distress (Masdupi et al., 2018). The NPLs ratio represents the banking capability to manage credit (Kuncoro & Agustina, 2017). Non-Performing Loans reflect how bad the loans held by banks are through the quality of non-performing productive assets.

The profitability ratio is a ratio that assesses the effectiveness of a company in utilizing existing financial resources to gain profit (Masyitah & Harahap, 2018). This ratio intends to measure the business efficiency scale and profits achieved by banks, which are proxied through the calculation of Return on Assets, Operating Expenses to Operating Income, and Net Profit Margin. Return on Assets measures a company's
performance through the amount of activity in generating profits (Pertiwi, 2018). The NPM ratio can be defined as a measure of net profit generated presented by net sales in a corporate entity (Susanto & Setyowati, 2021). NPM illustrates that the success rate of a bank depends on the adequacy of the bank's resources which are managed effectively by banking management (Okto et al., 2022). The efficiency value of banking operational costs is inversely proportional to the ratio of BOPO (Febriana, 2019). BOPO is a tool for measuring a corporate entity's operational efficiency by comparing operating expenses to operating income (Mahariyani et al., 2021).

The liquidity ratio is essential for being studied because, through this ratio, a corporate entity can measure its ability to pay obligations by reviewing the level of liquidity, whether it is in good condition or not (Masyitah & Harahap, 2018). The analysis carried out on this liquidity ratio aims to determine the capability of banks to cover short-term obligations. The liquidity ratio proxy often applied to the assessment of banking performance is the Loan to Deposit Ratio (LDR). LDR is the banking capability to provide customers with funds. LDR measures a company’s liquidity by analyzing the credit or financial risk a company has. This liquidity measurement uses available current assets, so if the company relies on funds sourced from debt, it will result in high fulfillment of obligations in the future period, leading to the detection of financial difficulties (Endiana, 2019).

Sensitivity to Market Risk is the last element of the CAMELS ratio, which is rarely discussed in related studies (Khokher & Alhabshi, 2019). In detail, sensitivity to market risk is categorized into three types: interest rate risk, price change risk, and foreign exchange risk. The proxy used for measuring sensitivity concerning market risk can be estimated through Interest Rate Risk. IRR is a result that arises when there are market fluctuations, especially in interest rates which will reduce income and capital (Prianto, 2017).

**Literature Review**

**DuPont Theory**

Keown (2011:88) states that DuPont theory is a scheme that describes the evaluation of profitability ratios and the rate of return on a company's equity. This theory considers the profit scale on the sale of an entity's product, so DuPont's theory can be categorized as one that covers the whole, including the company's efficiency in using its assets (Lukman, 2009). The output analysis by DuPont theory can determine the extent to which an entity's efficiency in seeking capital owned in
investing, thus combining the ratio of Net Profit Margin and Return on Assets on the assets owned by the company.

**Trade-Off Theory**

The Trade-Off theory explains a company's debt and equity in achieving a balance between costs and debt (Modigliani & Miller, 1963). This theory presumes that a company's capital structure is made by balancing the use of debt and the cost of financial distress (Dudley, 2011). By explaining the correlation between the Capital Adequacy Ratio and Non-Performing Loans variables on financial distress, this theory shows that the higher the application of debt, the greater the indication of financial distress.

**Banking Distress**

Early detection of financial difficulties in a company can be measured through several models. Among the many models adopted, most previous studies used the Altman Z-Score and Zmijweski X-Score. Altman (1968) was the first researcher to examine the prediction of company bankruptcy through financial ratio analysis. The scales applied to Altman's research use a multivariate approach in the hope that they will provide results closer to the goal. Research by Ashraf et al. (2019) emphasizes that implementing the Z-Score model is more accurate when compared to the X-Score in predicting bankruptcy and is more flexible for use in any company. According to Sagho & Merkusiwati (2015), Banking Distress can be formulated in the following equation:

\[
Z - \text{Score} = 6.56 \left( \frac{\text{Working Capital}}{\text{Total Assets}} \right) + 3.26 \left( \frac{\text{Retained Earnings}}{\text{Total Assets}} \right) + 6.72 \left( \frac{\text{EBIT}}{\text{Total Assets}} \right) + 1.05 \left( \frac{\text{Book Value of Equity}}{\text{Book Value of Total Debt}} \right)
\]

With the discriminant zone as follows:

If \( Z > 1.1 \) then it is in the "safe" zone with a value of zero “0”, and

If \( Z \leq 1.1 \) then it belongs to the "distress" zone category with a value of one “1”.

**Solvency Ratio**

The solvency ratio is defined as a scale that illustrates the capability of corporate entities to fulfill all of their obligations, including short and long-term (Aisyah et al., 2017). A higher CAR value indicates that a bank has capital reserves to reduce costs and withstand all losses from unexpected risks, so company profits will also increase (Abbas & Hidayat, 2021). Previous research that has examined the effect of CAR and Banking Distress has shown various results. Research by Ferdiansyah &
Widyarti (2022), Haris et al. (2022), and Wulandari et al. (2017) declare a significant positive influence. This study proves an inequality by similar research to Kuncoro & Agustina (2017), Pratiwi et al. (2022), and Tan (2020), which say that CAR negatively impacts the occurrence of Banking Distress. Other research strengthens the differences with other studies shown by new research from Aminah et al. (2019), Febriana (2019), and Sofiasani & Gautama (2016) that declare the insignificant influence of CAR on Banking Distress. The CAR can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[ CAR = \frac{(Total\ Capital)}{(Total\ Risk\ Weighted\ Assets)} \times 100\% \quad (2) \]

The high scale of NPLs will have an impact on high credit risk as well. Thus, the smaller the NPL ratio, the lower the credit risk banks must face (Ferdiansyah & Widyarti, 2022a). Research supporting the relevance of NPL to Banking Distress shows no significant influence between the two. This result is proven by Aminah et al. (2019), Kuncoro & Agustina (2017), and Nufus et al. (2018), but this is refuted by the latest research from Haris et al. (2022), Masruri (2020), and Pratiwi et al. (2022), who convinced readers that their research had significant positive results. The Non-Performing Loans can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[ NPLs = \frac{(Kredit\ Bermasalah)}{(Total\ Credit)} \times 100\% \quad (3) \]

Therefore, the following hypothesis is developed:

H1: The CAR affects Banking Distress in the private banking sector.

H2: The NPLs affects Banking Distress in the private banking sector.

**Profitability Ratio**

The profitability ratio can be interpreted as a scale that illustrates the capability of a corporate entity to create profits at a specific time (Aisyah et al., 2017). The higher the ROA of banks, the higher the profit will reach, so the probability of banks facing problems is decreasing because banking performance is improving. Several studies have widely used the correlation between ROA and Banking Distress. Haris et al. (2022), Masruri (2020), and Sofiasani & Gautama (2016) have conducted research and found that ROA positively influences Banking Distress. These studies have results that contrast with the research of Ferdiansyah & Widyarti (2022) and Kuncoro & Agustina (2017), which declare that ROA negatively affects Banking
Distress. In contrast to research by Aminah et al. (2019), Febriana (2019), and Nufus et al. (2018), which interpret that ROA has no significant impact on Banking Distress. The Return on Assets can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[
ROA = \frac{(Earnings\ Before\ Interest\ and\ Tax)}{(Total\ Assets)} \times 100\% \quad (4)
\]

An indicator for a bank that is said to have good efficiency is that it has a high NPM or at least close to the estimated sales value (Susanto & Setyowati, 2021). According to research conducted by Abbas & Hidayat (2021), Sudaryo et al. (2021), and Tan (2020) regarding the influence of NPM on Banking Distress, there is a gap. Abbas & Hidayat (2021) argue that NPM positively influences financial difficulties in banking. Tan (2020) states the opposite, where NPM negatively influences Banking Distress, while Sudaryo et al. (2021) declare that there is no influence of NPM on Banking Distress. The Net Profit Margin can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[
NPM = \frac{(Earnings\ After\ Tax)}{(Net\ Income)} \times 100\% \quad (5)
\]

The high BOPO value indicates that using a bank's resource capacity is estimated to be less effective. This escalation is caused by increased operational costs due to operational activities not running as they should, which would hinder getting ideal income (Sofiasani & Gautama, 2016). In the Operational Cost Ratio (BOPO), Masruri (2020), Sofiasani & Gautama (2016), and Tan (2020) presented results that BOPO positively affects financial difficulties in the banking sector. In contrast to similar studies, Aminah et al. (2019), Ferdiansyah & Widyarti (2022), and Nufus et al. (2018) show no significant effect between BOPO and Banking Distress. The BOPO can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[
BOPO = \frac{(Operating\ Costs)}{(Operating\ Income)} \times 100\% \quad (6)
\]

Therefore, the following hypothesis is developed:

H3: The BOPO affects Banking Distress in the private banking sector.

H4: The NPM affects Banking Distress in the private banking sector.

H5: The ROA affects Banking Distress in the private banking sector.
Liquidity Ratio

The liquidity ratio is a scale that illustrates a company's capability to fund its operational activities in completing short-term financial obligations that must be covered (Syaizamari, 2017). The higher the scale marked by the Loan to Deposit Ratio shows that the extension of credit by banks is higher than the Third-Party Funds received. From this condition, it can be assumed that banks are experiencing liquidity depression, and there is a probability that a bank will enter the Banking Distress phase (Mahariyani et al., 2021). Haris et al. (2022) and Pratiwi et al. (2022) show that LDR positively influences Banking Distress. Contrary to Tan (2020), who argues that the LDR variable has a negative influence on Banking Distress, research by Abbas & Hidayat (2021), Ferdiansyah & Widyarti (2022), and Kuncoro & Agustina (2017) declare that LDR does not have a significant impact on Banking Distress. The Loan to Deposit Ratio can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[
LDR = \frac{\text{(Total Credit)}}{\text{(Total Third Party Funds)}} \times 100\% \tag{7}
\]

Therefore, the following hypothesis is developed:

H6: The LDR affects Banking Distress in the private banking sector.

Sensitivity to Market Risk

The risk of market movements (market risk) is the rise and fall of market prices, including financial instruments, exchange rates, and other commodities that impact a company's loss risk (Santoso & Hariantoro, 2004). Interest rate scale occurs when market interest rate changes can reduce an entity's income or capital. Changes in interest rates to net interest income in the banking sector depend on interest income and interest expenses (Wicaksono, 2019). Research conducted by Khokher & Alhabshi (2019) proves that IRR has a positive effect on Banking Distress, while another research by Tan (2020) states that IRR has a negative influence on Banking Distress. Wulandari et al. (2017) interpreted that the IRR variable had no significant influence on Banking Distress. The IRR can be formulated according to Appendix I of Bank Indonesia Circular Letter No.13/24/DPNP dated 25 October (2011) as follows:

\[
IRR = \frac{\text{Interest Income}}{\text{Interest Expenses}} \times 100\% \tag{8}
\]

Therefore, the following hypothesis is developed:

H7: IRR affects Banking Distress in the private banking sector.
Method

The research adopts a conclusive causality approach by analyzing causality between the independent variables by CAMELS proxies and the dependent variable. The data source applied to this research is secondary data sources, where the sources come from relevant documents that refer more to Secondary Data Analysis (ADS). Due to adopting secondary data available on the website of the Indonesian Stock Exchange as well as other crucial information from the official private banking website, which contains data on the company's annual financial reports from 2020 to 2022. This study uses purposive sampling as a sampling technique. It adopts private banking sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022 as the population with 31 (thirty-one) banks that suit the criteria as a research sample.

This research applies logistic regression analysis techniques supported by IBM SPSS Statistics version 29 tools to determine the influence of the independent and dependent variables. The formulation of the logistic regression equation is explained in detail as follows:

$$\ln \frac{p}{1-p} = \alpha + \beta_1 \text{CAR} + \beta_2 \text{NPL} + \beta_3 \text{BOPO} + \beta_4 \text{NPM} + \beta_5 \text{ROA} + \beta_6 \text{LDR} + \beta_7 \text{IRR} + \epsilon$$
Result and Discussion

Table 1. Result of Model Fit Test

<table>
<thead>
<tr>
<th>Model Fit Test</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2 Log likelihood</td>
<td>-2 LL Block Number 0</td>
</tr>
<tr>
<td></td>
<td>-2 LL Block Number 1</td>
</tr>
</tbody>
</table>

Source: Output SPSS

The results of the chi-square table before entering the dependent variable with df92 (93 - 1) shows a value of 115.389790, which indicates a statistical significance (H0 is accepted) so that the value of -2Log Likelihood block number 0 before being included in the independent variable has a comparison value of -2Log Likelihood < Chi-square table (54.542 < 115.389790). Likewise, after the seven independent variables were included in the model, the chi-square table with df85 (93 - 7 - 1) showed a result of 107.521741, which showed a statistical significance (H0 was accepted) so that -2Log Likelihood block number 1 after inserting the independent variables has a value comparison of -2Log Likelihood < Chi-square table (39.310 < 107.521741). It can be interpreted that the model fits the data, especially when the independent variables have been added to improve the model's use.

Model Summary

Table 2. Result of Estimation Eligibility of the Regression Model & Estimation Coefficient of Determination

<table>
<thead>
<tr>
<th>Step</th>
<th>Chi-square</th>
<th>df</th>
<th>Sig</th>
<th>Nagelkerke R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.790</td>
<td>8</td>
<td>.999</td>
<td>.777</td>
</tr>
</tbody>
</table>

Source: Output SPSS

Nagelkerke R Square

The output shown by Nagelkerke R Square in table 3 is 0.777 or 77%, which means that the independent variable can explain the dependent variable by 77%, and other variables outside the model used further explain the remaining 23%.

Hosmer and Lemeshow’s Goodness of Fit Test
From the table 3 above, the Chi-square value of the table with df7 (8-1) at the 0.05 level is 14.067140, so the Chi-square value of Hosmer and Lemeshow is smaller when compared to the Chi-square table value (0.790 <14.067140) and the significance value of 0.999 > 0.05. The results mean that decision-making in research must adopt H0 where it should not show significant difference between the observed values and the model used, so that the research model is acceptable.

**Classification Matrix**

Based on the classification matrix results, the results show that out of 93 companies, eight banks are experiencing distress. In contrast, companies that do not experience banking distress are 85 banks with an accuracy rate of 75%. In the prediction column, there are seven companies experiencing banking distress, while 86 companies do not experience banking distress, with an accuracy rate of 98.8%. From the explanation, it can be interpreted that the model used in the study has an overall classification accuracy of 96.8%, especially when the independent variables have been added to improve the model’s use.

**Parameter Estimation and Interpretation Test**

<table>
<thead>
<tr>
<th>Step</th>
<th>Variable</th>
<th>B</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CAR</td>
<td>30.299</td>
<td>.017</td>
</tr>
<tr>
<td></td>
<td>NPL</td>
<td>142.365</td>
<td>.021</td>
</tr>
<tr>
<td></td>
<td>BOPO</td>
<td>.119</td>
<td>.338</td>
</tr>
<tr>
<td></td>
<td>NPM</td>
<td>88.020</td>
<td>.224</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>-523.293</td>
<td>.666</td>
</tr>
<tr>
<td></td>
<td>LDR</td>
<td>-7.286</td>
<td>.166</td>
</tr>
<tr>
<td></td>
<td>IRR</td>
<td>-591.042</td>
<td>.405</td>
</tr>
<tr>
<td></td>
<td>Constant</td>
<td>-15.107</td>
<td>.027</td>
</tr>
</tbody>
</table>

Source: Output SPSS

**The Effect of Capital Adequacy Ratio on Banking Distress**

The accumulation of data shows a result with the value of 0.017, where this scale is smaller when compared to 0.05, and the coefficient value of β (beta) is positive at 30.299 (H₁ is accepted). This result indicates that CAR will affect an
increase in Banking Distress. The results of this study support previous research conducted by Abbas & Hidayat (2021), Ferdiansyah & Widyarti (2022), Haris et al. (2022), and Wulandari et al. (2017), who agree that the CAR variable has a positive effect on Banking Distress. Appropriate recommendations based on this research, it is recommended that banks should implement the maximum use of debt to cover all types of losses and unexpected risks.

The Effect of Non-Performing Loans on Banking Distress

The study results prove that \( H_2 \) is accepted because the significance value of NPLs is 0.021, which indicates that the value is smaller when compared to 0.05, with a coefficient value of \( \beta \) shown at 142.365. These results define that NPLs affect an increase in Banking Distress. In other words, it can be interpreted that most private banks, as the research objects, face high credit risk. The results of this study support previous research conducted by Haris et al. (2022), Masruri (2020), and Pratiwi et al. (2022), who agree that the ratio of NPLs has a positive influence on Banking Distress. Based on this research, the appropriate implication is that all research objects are recommended to implement banking value optimization by balancing fees and corporate debt.

The Effect of Operating Expenses to Operating Income on Banking Distress

Based on the SPSS output, the significance value of BOPO is 0.338, which indicates that the value is much greater than 0.05 (H3 is rejected), with an additional coefficient of \( \beta \) which is shown to be 0.119. These results indicate that the variable Operating Expenses to Operating Income will not affect an increase in Banking Distress. The results of this study support previous research conducted by Aminah et al. (2019), Febriana (2019), Ferdiansyah & Widyarti (2022), Nufus et al. (2018), and Pratiwi et al. (2022), which put forward the same result that the ratio of BOPO does not affect Banking Distress. Although the variable Operating Expenses on Operating Income show no influence in this study, banks are expected to minimize financial difficulties by avoiding operational cost overruns to increase banking capabilities in utilizing company efficiency.

The Effect of Net Profit Margin on Banking Distress

The results of the logistic regression state that \( H_4 \) is not accepted because the significance value of NPM has a value of 0.224 which, when compared to 0.05 the value is much higher with additional coefficient information of \( \beta \) value shows a positive direction of 88.020. These results explain that the NPM variable will not
affect an increase in Banking Distress. The results are supported by previous research from Sudaryo et al. (2021), which proves no effect between NPM and Banking Distress. Although the NPM variable shows no influence in this study, which could indicate financial difficulties, it suggested that banks should avoid bad banking performance by maximizing the use of assets in generating net profit.

The Effect of Return on Assets on Banking Distress

The findings of this research stated that $H_5$ was rejected because the significance value of ROA is 0.666, which, when compared to 0.05, is higher with an additional coefficient value of $\beta$ shown at -523.293. These results explain that the ROA variable will not affect an increase in Banking Distress. The results of this study support previous research conducted by Aminah et al. (2019), Febriana (2019), Nufus et al. (2018), and Pratiwi et al. (2022), who agree that the ROA ratio does not affect Banking Distress. Even though the ROA variable shows no influence in this study, which could indicate financial difficulties, it is hoped that banks should avoid a decline in banking performance through good asset utilization so that the company’s profit level will be in an optimum position.

The Effect of Loan to Deposit Ratio on Banking Distress

The logistic regression analysis results prove that the LDR variable has a value of 0.166 which, when compared to 0.05, the scale is much larger, supplemented by data coefficient value $\beta$, which is shown at -7.286. The findings of this research explain that $H_6$ is rejected because the LDR variable will not affect an increase in Banking Distress. The results of this study support previous research conducted by Abbas & Hidayat (2021), Aminah et al. (2019), Febriana (2019), Ferdiansyah & Widyarti (2022), Kuncoro & Agustina (2017), Nufus et al. (2018), Sofiasani & Gautama (2016), and Wulandari et al. (2017) who agree that the LDR does not affect Banking Distress. Although in this study, the LDR variable shows no influence, which could indicate financial difficulties, banks should be able to avoid high fulfillment of obligations in the future due to reliance on funds sourced from debt.

The Effect of Interest Rate Risk on Banking Distress

The SPSS output shows that $H_7$ is not accepted because the IRR significance value has a value of 0.405, indicating that the value is higher than 0.05 with the additional coefficient value of $\beta$ shown at -591.042. The results of this study support previous research conducted by Wulandari et al. (2017), which is as linear as the result that the IRR ratio does not affect Banking Distress. Even though the IRR
variable shows no influence in this study, which could indicate financial difficulties, banks are expected to be able to do preventive things considering that if market conditions are in a high situation, that will impact a decrease in other factors.

Conclusion

This research is made to know whether there is an effect of the CAMELS ratio (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to Market Risk) on Banking Distress in the private banking sector, which is listed on the Indonesia Stock Exchange (IDX) for the period 2020 to 2022 or not. Private sector banking is the banking sector that has a less negative profitability ratio when compared to state-owned banks (BUMN) through the proxy Return on Assets for 3 (three) consecutive periods.

This research adopts the use of the logistic regression method. From the test results data, it can be accumulated that two out of seven independent variables, CAR and NPLs, have a significant positive effect on Banking Distress. In contrast, the other five independent variables, starting from BOPO, NPM, ROA, LDR, to IRR, do not affect Banking Distress. With the influence shown by the Capital Adequacy Ratio and Non-Performing Loans variables, it can be concluded that banks should not be negligent in managing their capital reserves and avoid the risk of default to avoid potential financial difficulties.

Based on research results, banks are advised to be wary of low Capital Adequacy Ratio values and high Non-Performing Loans by balancing the use of debt and costs so that the results obtained are in optimal conditions to avoid potential Banking Distress. This study can be a valuable reference for banking sectors in avoiding indicators leading to banking distress. For investors, it is recommended to pay more attention to profitability ratios such as the ROA of a bank because it indicates how efficient a corporate entity is in earning profits. Future researchers can update the elements raised from this research that can strengthen the research, include a more expansive period of interval, and carry more varied independent variables such as adding variables originating from external factors as well as the use of other models that are more accurate in predicting banking distress such as the Grover, Springate, and other models.

References


