BANK FINANCIAL SOUNDNESS IN INDONESIA: EVIDENCE FROM THE COVID-19 PANDEMIC AND THE POST-PANDEMIC PERIOD

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Abstract

This study aims to analyze the bank financial of soundness of conventional banking in Indonesia during the COVID-19 pandemic and post-pandemic. Bank financial of soundness assessment is carried out using the Risk-Based Bank Rating approach through the RGEC method (Risk Profile, Good Corporate Governance (GCG), Earnings, and Capital). This research is descriptive quantitative with secondary data obtained from the Annual Report and GCG Report of conventional banks listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023. The results showed that overall, the health level of the banks studied was classified as "Healthy" both during the pandemic and post-pandemic, with the best performance shown in the aspects of capital and governance (GCG). Meanwhile, the profitability aspect shows a fairly good performance, although it is not evenly distributed across all indicators measured. In the risk profile aspect, the majority of banks show a very healthy Non-Performing Loan (NPL) ratio but not the LDR ratio. The results also show that there is an increasing trend from year to year for the number of banks in the very healthy category, while the number of banks in the less healthy category tends to decrease, especially from the beginning of the pandemic to post-pandemic. The implication of this finding is that the resilience of Indonesian banks is quite good in facing the crisis caused by the Covid 19 pandemic. However, strengthening liquidity management strategies is needed to strengthen stability in the long run. These results can serve as input for regulators in formulating financial risk mitigation policies as well as for bank management in improving governance practices and operational efficiency.

Keywords: *Bank Financial Soundness,* Conventional Bank, *Risk-Based Bank Rating, Pandemic Covid-19.*

Abstrak

Penelitian ini bertujuan untuk menganalisis tingkat kesehatan perbankan konvensional di Indonesia selama masa pandemi dan pasca pandemi COVID-19. Penilaian kesehatan bank dilakukan menggunakan pendekatan Risk-Based Bank Rating melalui metode RGEC (Risk Profile, Good Corporate Governance (GCG), Earnings, dan Capital). Penelitian ini bersifat deskriptif kuantitatif dengan data sekunder yang diperoleh dari Annual Report dan GCG Report bank-bank konvensional yang terdaftar di Bursa Efek Indonesia (BEI) pada periode 2020–2023. Hasil penelitian menunjukkan bahwa secara keseluruhan, tingkat kesehatan bank yang diteliti tergolong "Sehat" baik pada masa pandemi maupun pasca pandemi, dengan performa terbaik ditunjukkan pada aspek permodalan dan tata kelola (GCG). Sedangkan aspek profitabilitas menunjukkan kinerja yang cukup baik, meskipun tidak merata pada seluruh indikator yang diukur. Pada aspek risk profile, mayoritas bank menunjukkan rasio Non-Performing Loan (NPL) yang tergolong sangat sehat namun tidak demikian pada rasio LDR. Hasil penelitian ini juga menunjukkan bahwa adanya tren peningkatan dari tahun ke tahun untuk jumlah bank dalam kategori sangat sehat, sementara jumlah bank dalam kategori kurang sehat cenderung menurun, khususnya dari awal pandemi hingga pasca pandemi. Implikasi dari temuan ini menunjukkan bahwa kesehatan perbankan Indonesia cukup baik dalam menghadapi krisis yang disebabkan oleh pandemi Covid 19. Namun penguatan strategi pengelolaan likuiditas sangat diperlukan untuk memperkuat stabilitas dalam jangka panjang. Hasil ini dapat menjadi masukan bagi regulator dalam merumuskan kebijakan mitigasi risiko keuangan serta bagi manajemen bank dalam meningkatkan praktik tata kelola dan efisiensi operasional.

Kata kunci: Kesehatan Bank, Bank Konvensional, Risk-Based Bank Rating, Pandemi Covid-19

INTRODUCTION

Banking is one type of financial institution that has an important role in a country's economy. Kirimi et al., (2022) states that banking companies are a core component of the financial system in almost every country where the development of a country's system depends on the strength of its financial system. This is also supported by the statement (Ginevičius & Podviezko, 2013) which states that effective performance and reliability of banking companies are important factors that can affect cohesive economic development. Realizing the importance of banking institutions, almost every country has regulations that strictly regulate the importance of the level of banking health. Salina et al., (2020) define bank health as a condition that reflects the ability and financial stability of a bank to carry out its operations in a sustainable manner and fulfill its obligations to third parties. Bank health can be measured through various financial and managerial indicators that reflect bank performance in the aspects of capital, asset quality, profitability, liquidity, and risk management (Salina et al., 2020b), (Çolak & Öztekin, 2021). Banks that cannot meet the limits of each indicator will change their status from healthy to unhealthy banks (Salina et al., 2020).

Salina et al., (2020) stated that the indicators in assessing bank health vary continuously. The variation in bank health indicators is to reflect the influence of political, economic, social and financial conditions in each country. Therefore, it is important to set limits on the financial health of banks that are in accordance with the characteristics of banking in each country. Banks that experience unhealthy financial conditions have the potential to cause significant systemic impacts on the stability of the financial sector as a whole, including disruption to the intermediation function, decreased public confidence, and chain effects on other financial institutions. As such, regulations must be designed and implemented effectively by the competent authorities to ensure that banks are in sound financial condition. However, the resilience of the global banking system faced another serious challenge when the COVID-19 pandemic hit suddenly in 2020, putting enormous pressure on various economic sectors. The existence of the Covid-19 pandemic triggered a financial crisis that shook the economy in almost every country. Dunbar, (2022) stated that the COVID-19 pandemic caused global stock markets to fall by around 20% in the first quarter of 2020. Furthermore, the COVID-19 pandemic also caused the biggest economic shock in the US which disrupted economic activity until the US stock market fell significantly in March 2020 (Dunbar, 2022), (Bitar & Tarazi, 2022). Nizar et al., (2023) also states that the Covid-19 Pandemic has a negative impact on all sectors, including the banking industry.

Mobility restrictions imposed to suppress the spread of the Corona virus and overcome the covid 19 Pandemic caused disruption to business activities in all sectors. Some industrial sectors decided to stop their operations. In addition, there are also companies that terminate employment with employees. This is due to the increasingly limited income received by the Company (Çolak & Öztekin, 2021). Income limitations experienced by both institutional and individual debtors cause these parties to be unable to fulfill their loan obligations to banks. As a result, there is an increase in non-performing loans which causes a decline in bank performance (Babajide et al., 2020). Some countries overcome this impact by providing some stimulus through credit relaxation and lowering interest rates (Nizar et al., 2023) (BNM, 2020). However, (Nizar et al., 2023) said that the existence of policies related to lower interest rates can have an impact on the decline in yields on loans and investments which can reduce bank profitability. In the end, the policy caused banks to experience further losses. Thus, the covid-19 pandemic forces banking companies to always be ready to face major challenges in the future, caused by unexpected external factors.

This research is relevant and urgent to be conducted to understand the extent to which the pandemic has affected the health of banks in Indonesia, as well as how banking strategies are maintaining their stability during the recovery period. The analysis of bank health during and after the pandemic is expected to provide insight into the effectiveness of policies that have been implemented and provide recommendations for banks and regulators in dealing with potential crises in the future.

THEORETICAL FRAMEWORK

Signaling Theory

Signaling theory explains the importance of information communication between informed parties and uninformed parties with the aim of reducing information asymmetry. In the context of banking, this theory is very relevant to explain the importance of publication and disclosure of information about the health level of banks. Bank management as the party who knows the internal conditions of the company has the responsibility to convey signals to the public, investors, and regulators regarding the financial and operational conditions of the bank. The delivery of positive signals regarding the health of the bank can increase investor and customer confidence, because the information reflects the bank's ability to manage risk, maintain business sustainability, and comply with regulatory requirements. A good level of health will also build a positive reputation and increase the bank's credibility in the eyes of the public.

<u>Bank Financial Soundness</u>

Bank Financial Soundness is a condition in which financial indicators such as capital adequacy, asset quality, liquidity, and operational effectiveness are within acceptable limits, making it possible for banks to have the ability to survive amid market uncertainty Aigul et al (2020). In Indonesia, bank health assessment refers to OJK Regulation No. 04/POJK.03/2016 concerning Health Level Assessment of Commercial Banks. The assessment is carried out using a Risk-Based Bank Rating approach which includes several aspects, namely risk profile, good corporate governance, profitability, and capital adequacy, where the four main components are known as the RGEC model. Furthermore, an explanation of the aspects related to each bank health level assessment in the RGEC model is as follows:

Risk Profile. Risk profile is the measurement, monitoring, and control of various types of risks faced by the bank. These risks include credit risk, liquidity risk, operational risk, market risk, legal risk, reputation risk, strategic risk, and compliance risk. Sari & Tasman, (2020) explain that in banking companies the management will pay more attention to these risks. In this study, risk profile is measured using credit risk and liquidity risk with reference to the research of (Sari and Tasman, 2020), (Kansil et al., 2020), and (Subhan, 2019). Credit risk is the risk faced by banks due to the failure of debtors to fulfill their payment obligations to banks. Credit risk is one of the main risks in banking activities because most of the bank's income comes from lending activities. Referring to Bank Indonesia, credit risk is measured using the Non-Performing Loan (NPL) ratio where the NPL ratio is a ratio that shows the level of non-performing loans from debtors. The second risk profile is liquidity risk. Liquidity risk is the risk that arises when the bank is unable to fulfill its short-term obligations, both to customers and third parties. Liquidity risk can cause bank operational failure when not managed properly. Liquidity risk is measured using the Loan to Deposit Ratio (LDR).

Good Corporate Governance. Good Corporate Governance (GCG) is the next assessment aspect in the RGEC model. Banks are expected to implement good governance principles in all their operational activities. Corporate Governance is a structure and process used to direct and manage business to achieve business progress and corporate accountability with the ultimate goal of creating corporate value and shareholder wealth in a sustainable manner by taking into account the interests of stakeholders. The legal basis for the implementation of GCG is regulated in POJK No. 55/POJK.03/2016 which requires banks to conduct a self-assessment and publish the results in the form of a report.

Rentability. Rentability is the third aspect in the RGEC method where rentability is defined as the company's ability to generate profits from its assets, capital, or sales. Rentability shows the level of efficiency of the company in using all its resources to make a profit. This study uses several profitability ratios including Return on Asset (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Operating Expenses (BOPO). ROA is a ratio that shows how effective management is in managing assets to generate profits. ROA is calculated by dividing net profit after tax by total assets. Furthermore, ROE is a ratio that measures how effective management is in managing equity to generate profits, where ROE is obtained from net profit after tax divided by total equity. NIM is a ratio that shows management's ability to manage productive assets to generate net interest income. NIM is obtained from net interest income divided by average earning assets. Furthermore, BOPO is a ratio that shows management's ability to manage overall operating costs incurred on operating income earned. BOPO is obtained by dividing operating expenses by operating income.

Capitals. Capitals are aspects of bank capital used in the RGEC method. The capital ratio is measured by the Capital Adequacy Ratio (CAR) ratio, which measures the adequacy of a bank's capital in covering various risks experienced. According to (Sukma Embuningtiyas et al., 2020), the CAR ratio can reflect the level of financial health of a bank because the CAR ratio can show the bank's ability to absorb potential losses. According to the provisions of the Financial Services Authority (OJK), banks in Indonesia are required to have a minimum CAR of 8% or more depending on the bank's risk profile.

Data Collecting Method

This research is a type of descriptive analysis research with a quantitative approach that emphasizes quantitative data analysis. The research subjects are all banks in Indonesia listed on the Indonesia Stock Exchange (IDX). The data source is secondary data derived from the Annual Report and GCG Report of Indonesian banks for the period 2020-2023. The sample was obtained using purposive sampling method with the criteria that all banking companies listed on the IDX for the period 2020-2023 publish Annual reports, GCG reports, with complete RGEC information. The number of samples obtained was 41 banks.

The data analysis technique in this study is a bank health level analysis technique with a risk approach referring to POJK Number 04 / POJK.03 / 2016 related to the Health Level Assessment of Commercial Banks, namely the Risk-Based Bank Rating approach which includes an assessment of the factors in the RGEC method which refers to (Sari & Tasman, 2020). In determining the bank's health rating, the calculation results of each financial ratio are compared with the criteria set out in the regulation. Furthermore, to conclude the general health condition of the bank, the composite rating (PK) of each bank will be calculated. The composite rating (PK) is calculated by the formula of the sum of the weighted values of all ratios divided by the total maximum composite value of all ratios. Furthermore, the PK that has been obtained is then determined by its weight with a percentage. The weight in determining the PK of all RGEC components is as follows:

Table 1. Composite Rating Weight for Bank Financial Soundness Assessment

Composite Rating (CR)	Score Range (%)	Classification
CR-1	86-100	Very Healthy
CR-2	71-85	Healthy
CR-3	61-70	Fairly Healthy
CR-4	41-60	Less Healthy
CR-5	<40	Unhealthy

Source: Bank Indonesia Circular Letter No. 13/24/DPNP/2011

RESULTS AND DISCUSSION

The COVID-19 pandemic first appeared in December 2019 and began to hit Indonesia in March 2020. Danisman et al., (2021) said that the covid-19 pandemic has had a significant impact on human life, financial markets, and the global economy. Banking as a financial intermediary institution is also facing challenges with the covid 19 pandemic. These challenges include increased credit risk, decreased demand for financing, and pressure on profitability and liquidity performance. Therefore, it is important to know how the health level of banks during the pandemic and how these conditions develop after the pandemic subsides with the research period, namely 2020-2023. The years 2020-2021 represent the conditions during the pandemic and 2022-2023 after the pandemic. With this approach, the analysis is carried out thoroughly to assess the dynamics of the financial health of the Indonesian banking sector in facing the crisis and the accompanying recovery process.

The financial ratio approach based on the RGEC method is used in this study to analyze the health level of banks, which includes aspects of risk profile, good corporate governance, profitability, and capital adequacy. A total of 41 banks listed on the Indonesia Stock Exchange (IDX) were sampled in this study, including:

Table 2. Research Sample

No.	Nama	No.	Nama	No.	Nama	No.	Nama
1.	Bank Raya Indonesia Tbk	12.	Bank Rakyat Indonesia (Persero	23.	Bank Maspion Indonesia Tbk	34.	Bank Artha Graha Internasional
2.	Bank IBK Indonesia Tbk	13.	Bank Tabungan Negara (Persero)	24.	Bank Mandiri (Persero) Tbk	35.	Bank Multiarta Sentosa Tbk
3.	Bank Amar Indonesia Tbk	14.	Bank Neo Commerce Tbk	25.	Bank Bumi Arta Tbk (LFR)	36.	Bank Mayapada Internasional Tb
4.	Bank Jago Tbk	15.	Bank JTrust Indonesia Tbk	26.	Bank CIMB Niaga Tbk	37.	Bank China Construction Bank I
5.	Bank MNC Internasional Tbk	16.	Bank Danamon Indonesia Tbk	27.	Bank Maybank Indonesia Tbk	38.	Bank Mega Tbk
6.	Bank Capital Indonesia Tbk	17.	Bank Pembangunan Daerah Banten	28.	Bank Permata Tbk	39.	Bank OCBC NISP Tbk
7.	Bank Central Asia Tbk	18.	Bank Ganesha Tbk	29.	Bank Sinarmas Tbk	40.	Bank Nationalnobu Tbk
8.	Allo Bank Indonesia Tbk	19.	Bank Ina Perdana Tbk	30.	Bank Of India Indonesia Tbk	41.	Bank Woori Saudara Indonesia 1
9.	Bank KB Bukopin Tbk	20.	Bank Pembangunan Daerah Jawa B	32.	Bank BTPN Tbk		
10.	Bank Mestika Dharma Tbk	21.	Bank Pembangunan Daerah Jawa Timur	32.	Bank Victoria International Tb		
11.	Bank Negara Indonesia (Persero)	22.	Bank QNB Indonesia Tbk	33.	Bank Oke Indonesia Tbk		

The results of the assessment of banking health conditions that refer to OJK Regulation No. 04/POJK.03/2016, are as follows;

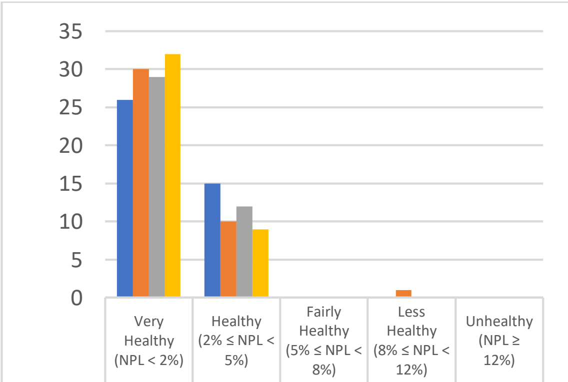
Risk profile

<u>Non-Performing Loan (NPL)</u>

Risk profile in this study is measured using two types of risk, namely credit risk and liquidity risk. Referring to Bank Indonesia regulations, credit risk is measured using the Non-Performing Loan (NPL) ratio. The NPL ratio is obtained by dividing the total non-performing loans by the total loans granted multiplied by 100%. This NPL ratio shows the condition of the debtor's failure to fulfill his obligations to the bank at the specified time. The higher the NPL ratio value, the higher the risk of non-performing loans in the bank.

Based on Graph 1 regarding the level of bank health in terms of the Non-Performing Loan (NPL) ratio, it shows that the majority of banks in the research sample are in the "Very Healthy" category during the period 2020 to 2023. Meanwhile, the "Healthy" category shows a decrease, which means that some banks that were previously in the "Healthy" category have managed to improve their NPL ratio to enter the "Very Healthy" category. In the "Moderately Healthy", and "Unhealthy" categories, almost all banks were not at this level throughout the observation period. However, in 2021 there was 1 bank, namely PT Bank Victoria International TbK, which fell into the "Unhealthy" category. This shows that the level of banking health in terms of credit risk is generally at a good level, with minimal banks having high NPL ratios. Overall, these results illustrate that the banking sector in Indonesia has managed to maintain the stability of its credit quality amidst the pandemic pressure and showed consistent improvement in the post-pandemic period.

Graph 1. Bank Financial Soundness on NPL Ratio



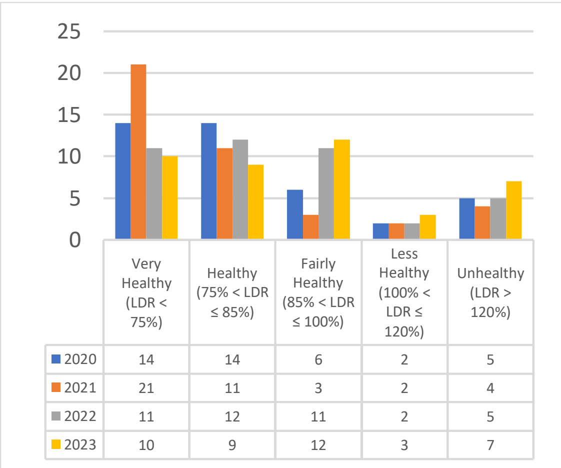
	Very Healthy (NPL < 2%)	Healthy (2% ≤ NPL < 5%)	Fairly Healthy (5% ≤ NPL < 8%)	Less Healthy (8% ≤ NPL < 12%)	Unhealthy (NPL ≥ 12%)
2020	26	15	0	0	0
2021	30	10	0	1	0
2022	29	12	0	0	0
2023	32	9	0	0	0

(Source: Secondary data processed by researchers)

<u>Loan to Deposit Ratio (LDR)</u>

Furthermore, the second risk profile assessment is the liquidity ratio. Measurement of liquidity ratios is measured using the Loan to Deposit Ratio (LDR) ratio obtained by comparing the amount of credit provided with the total of third-party funds multiplied by 100%. Based on graph 2 shows that there is a fluctuating movement from year to year. The number of banks in the "Very Healthy" category increased in 2021, but decreased again the following year. On the other hand, the "Moderately Healthy" and "Unhealthy" categories tend to increase in 2022 and 2023. This pattern indicates that some banks have started to expand credit more aggressively as the economy recovers, but has not been fully matched by the strengthening of third-party funds.

Graph 2. Bank Financial Soundness on LDR Ratio

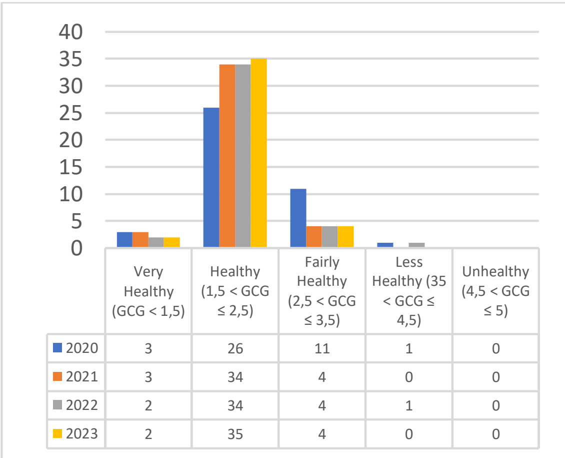


(Source: Secondary data processed by researchers)

Good Corporate Governance (GCG)

The next assessment of the level of bank health is the assessment of aspects of banking governance. In the framework of banking supervision in Indonesia, the assessment of bank governance (GCG) is carried out through a self-assessment approach. This is regulated in Bank Indonesia Regulation (PBI) No. 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance for Commercial Banks, which is then strengthened by OJK regulations such as POJK No. 55/POJK.03/2016. Based on Figure 3, the Good Corporate Governance (GCG) aspect shows a positive trend, where most banks are consistently in the healthy category throughout the observation period. The number of banks in the moderately healthy category continues to decline, while for the less healthy category there is only 1 bank that falls into this category, namely in 2020 and 2022. Furthermore, for the "unhealthy" category, there are no banks in this category. This shows that the implementation of good governance principles has become an important concern in the management of banks in Indonesia during the pandemic and afterwards.

Graph 3. Bank Financial Soundness on GCG aspect



(Source: Secondary data processed by researchers)

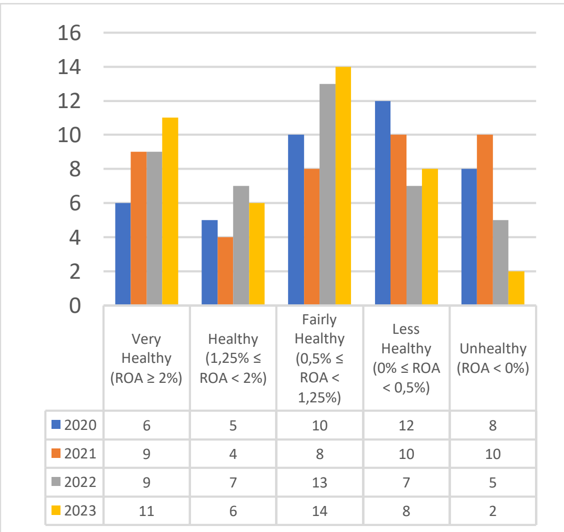
Earnings/Rentability

Profitability is an important financial aspect that can provide an overview of how effectively a company manages all its resources to create profits for shareholders or owners of capital. In the aspect of profitability, this study uses 4 measurement ratios to assess the level of bank health. These aspects include:

<u>Return on Assets (ROA)</u>

Sari and Tasman (2020) state that ROA is a ratio that provides an overview of the profits earned by banks on the effectiveness of asset utilization. The higher the ROA ratio value, the better the Company's financial performance. Based on the standards of the Financial Services Authority (OJK), an ROA value greater than or equal to a value of 2% indicates that the bank is very efficient in utilizing assets to generate profits and is the most ideal condition. Graph 4 shows that the performance of banking profitability was under pressure during the COVID-19 pandemic, which is reflected in the high number of banks in the unhealthy (8 banks) and less healthy (12 banks) categories in 2020. However, this condition gradually improved in the post-pandemic period, characterized by an increase in the number of banks in the very healthy category from 6 banks in 2020 to 11 banks in 2023, as well as a significant decrease in the "Unhealthy" category to only 2 banks. These changes indicate that the banking sector has started to recover its financial performance as economic conditions improve and operational efficiency improves after the pandemic.

Graph 4. Bank Financial Soundness on ROA Ratio Aspect

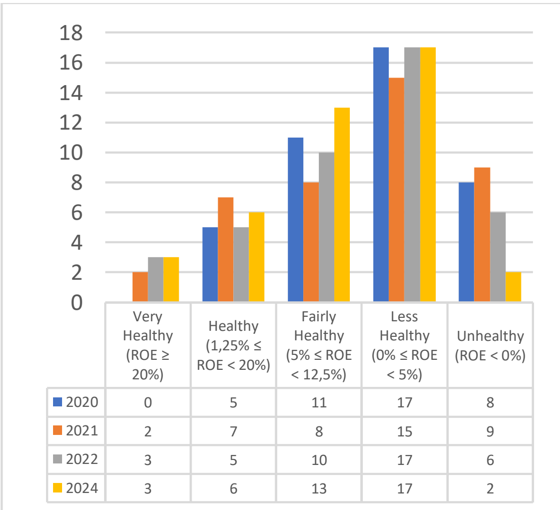


(Source: Secondary data processed by researchers)

Return on Equity (ROE)

ROE is a profitability ratio that describes the rate of return on capital deposited by the owner. The higher the ROE ratio, the greater the rate of return that the company can provide to shareholders on the investment they have invested. Based on graph 5, it shows that during the pandemic in 2020 and 2021 most banks were in the "Less Healthy" and "Unhealthy" categories. This indicates that the profitability of banks is significantly depressed, reflecting the low rate of return on capital paid by shareholders during the crisis. Although there was a gradual improvement in 2022 and 2023, as indicated by an increase in the number of banks in the "Moderately Healthy" and "Very Healthy" categories, most banks still did not achieve optimal performance. This shows that until the end of the pandemic period, banking profitability in general has not fully recovered, and is still below the ideal standard value.

Graph 5. Bank Financial Soundness on ROE Ratio Aspect



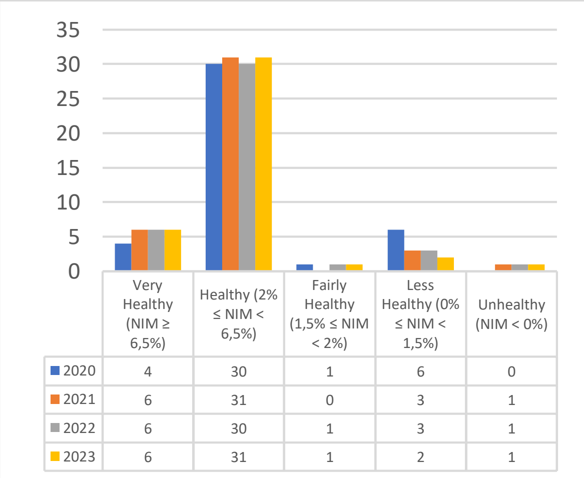
(Source: Secondary data processed by researchers)

Net Interest Margin (NIM)

Based on Bank Indonesia regulations, banks can be categorized as very good in managing their interest income if the NIM value is greater than 5% (Sari & Tasman, 2020). The higher the NIM value, the better the intermediation performance and the bank's ability to manage interest income compared to interest expenses. Based on the analysis results shown in graph 6, it shows that overall, the NIM ratio shows a relatively stable performance and tends to improve in the observation period. This indicates that the intermediary function of banks continues to run optimally, even during the pandemic. During the period 2020 to 2023, the majority of banks in Indonesia were in the "Healthy" category, reflecting the fairly efficient and healthy management of interest income by most banks in Indonesia.

Bank Health on Net Interest Margin (NIM) Ratio

Graph 6. Bank Financial Soundness on NIM Ratio Aspect



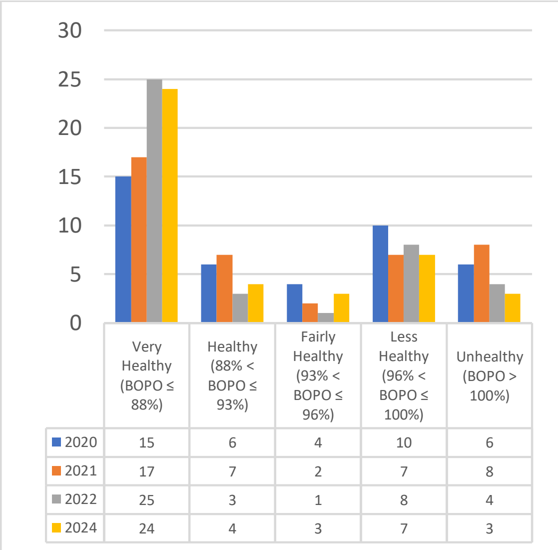
	Very Healthy (NIM ≥ 6,5%)	Healthy (2% ≤ NIM < 6,5%)	Fairly Healthy (1,5% ≤ NIM < 2%)	Less Healthy (0% ≤ NIM < 1,5%)	Unhealthy (NIM < 0%)
2020	4	30	1	6	0
2021	6	31	0	3	1
2022	6	30	1	3	1
2023	6	31	1	2	1

(Source: Secondary data processed by researchers)

Operating Efficiency Ratio

Operating Efficiency Ratio illustrates the bank's ability to control operating costs. The lower the Operating Efficiency Ratio, the more efficient the bank is in running its operations. Based on graph 7, it shows that during the period 2020-2023, the BOPO ratio showed an improving trend in operational efficiency in the banking industry. The number of banks in the "Very Healthy" category increased from 15 banks in 2020 to 25 banks in 2022, and remained high in 2023 with 24 banks. Meanwhile, banks in the "Unhealthy" category decreased from 6 banks in 2020 to only 3 banks in 2023. The distribution of data between categories is fairly even, although the dominance of banks in the very healthy and healthy categories has strengthened in recent years. This reflects the improved efficiency and better management of operating costs in the banking sector post-pandemic.

Graph 7. Bank Financial Soundness on Operating Efficiency Ratio



	Very Healthy (BOPO ≤ 88%)	Healthy (88% < BOPO ≤ 93%)	Fairly Healthy (93% < BOPO ≤ 96%)	Less Healthy (96% < BOPO ≤ 100%)	Unhealthy (BOPO > 100%)
2020	15	6	4	10	6
2021	17	7	2	7	8
2022	25	3	1	8	4
2024	24	4	3	7	3

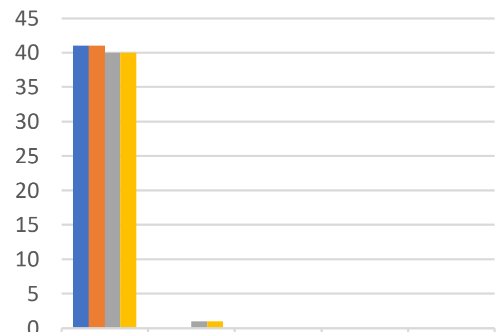
(Source: Secondary data processed by researchers)

Capital

Capital is an important aspect to consider for banking institutions because the success of banking operations depends on the availability of capital that can enhance the effectiveness of banking operations (Anggari and Dana, 2020). Based on Graph

8, it shows that overall, the capital of the banks is in very good and stable condition, both during the pandemic crisis and in the recovery period afterward. During the period from 2020 to 2023, almost all banks in the sample were classified as 'Very Healthy.' However, there is one entity that was categorized as 'Healthy' in the last two years, which needs attention to prevent it from developing into a trend of declining capital performance in the future.

Graph 8. Bank Financial Soundness on Capital Adequacy Ratio (CAR)



	Very Healthy (CAR ≥ 12%)	Healthy (9% ≤ CAR < 12%)	Fairly Healthy (8 ≤ CAR < 9%)	Less Healthy (6% ≤ CAR < 8%)	Unhealthy (CAR < 6%)
2020	41	0	0	0	0
2021	41	0	0	0	0
2023	40	1	0	0	0
2024	40	1	0	0	0

(Source: Secondary data processed by researchers)

Discussion

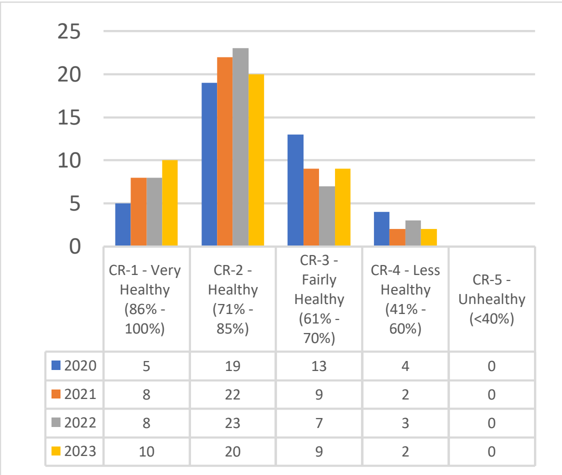
After conducting an overall assessment of the 4 aspects using the RGEC method, the results from each RGEC aspect calculation were then used to determine the composite ranking to assess the health level of the sampled banks. The results of the ranking and data analysis are presented in Graph 9, which shows that the banking sector in Indonesia has had a stable trend and tended to improve from 2020 to 2023. This is reflected in the increasing number of banks classified as "Very Healthy" (CR-1), from 5 banks in 2020 to 10 banks in 2023. This signals a positive trend, indicating that more banks are capable of meeting the highest standards of overall health assessment. The stable banks that earned CR -1 or were categorized as "Very Healthy" during the observation period include PT. Bank Central Asia Tbk, PT. Bank Mandiri Tbk, PT. Bank Mega Tbk, and PT. Bank OCBC NISP Tbk.

Furthermore, the "Healthy" (CR -2) category was predominantly occupied by most banks, with slight fluctuations but still in significant numbers. According to signaling theory, banks send signals to the market through their achievements and performance indicators. Banks that consistently fall into the CR -1 "Very Healthy" or CR -2 "Healthy" categories provide a signal of confidence to the market, showing they have strong internal governance structures, optimal capital structures, and sustainable business strategies. Meanwhile, the number of banks in the "Fairly Healthy" (CR -3) and "Less Healthy" (CR -4) categories decreased year by year. No banks were classified as "Unhealthy" (CR -5) during the observation period.

The decline in the number of banks in the "Fairly Healthy" (CR -3) and "Less Healthy" (CR -4) categories indicates an improvement in managerial and operational quality within the banks. At the beginning of the pandemic, there were 4 banks classified as "Less Healthy" (CR -4), but this number decreased post-pandemic to 2 banks. The bank that remained in the "Less Healthy" (CR-4) category was PT. KB Bukopin Tbk. A similar trend occurred for banks in the "Fairly Healthy" (CR-3) category. Based on Graph 9, there was a decline from 13 banks initially to 9 banks.

This stability shows that the Indonesian banking sector has strong resilience, even during the crisis caused by the COVID-19 pandemic and in the recovery period afterward. This resilience is not only important from the bank's internal perspective but also has a positive impact on the national financial system as a whole. From the signaling theory perspective, a healthy banking condition serves as a positive signal to investors, financial authorities, and the public. Banks that are able to maintain or improve their health ranking signal that they are well-managed, have effective risk management, and maintain stable financial performance. This signal is crucial in building public trust and influencing investment and financing decisions.

Graph 8. Rating Bank Financial Soundness



(Source: Secondary data processed by researchers)

CONCLUSION

This study aims to analyze the bank financial soundness of all conventional banks in Indonesia during the pandemic and post-pandemic period (2020–2023). The analysis was conducted using a risk-based approach with the RGEC (Risk Profile, Good Corporate Governance, Earnings, and Capital) method, in accordance with the latest regulations issued by the Financial Services Authority (OJK). Based on the calculations for the risk profile aspect, measured using the Non-Performing Loan (NPL) ratio and Loan to Deposit Ratio (LDR) as indicators of credit quality and liquidity, it was found that the majority of banks in Indonesia were in a healthy category, although some banks had LDRs approaching the upper limit of Bank Indonesia's regulations. The Good Corporate Governance (GCG) aspect shows that most banks are ranked as good, reflecting compliance with sound governance principles. In terms of profitability, the majority of banks showed good operational efficiency, as seen in the healthy BOPO and NIM ratios. However, the Return on Equity (ROE) ratio still falls under the less healthy category, while the Return on Assets (ROA) is in the fairly healthy category. The final aspect, capital, measured using the Capital Adequacy Ratio (CAR), shows that almost all banks have strong capital and meet the minimum requirements set by regulators. Based on the composite rankings, the majority of banks in Indonesia are in the healthy and fairly healthy categories. The number of banks in the very healthy category shows a trend of improvement year by year, while the number of banks in the less healthy category has tended to decrease, especially from the beginning of the pandemic to the post-pandemic period.

Overall, the health level of the banks studied is classified as “Healthy” both during the pandemic and post-pandemic periods, with the best performance demonstrated in the capital and governance (GCG) aspects. Meanwhile, the profitability aspect shows fairly good performance, although it is not consistent across all the measured indicators. In the risk profile aspect, the majority of banks show a Non-Performing Loan (NPL) ratio categorized as very healthy. However, liquidity risk management still requires more attention, especially for some banks that show fluctuations in the Loan to Deposit Ratio (LDR).

The limitation of this study lies in the absence of 2024 data, as most banks have not published their financial reports for that period. However, the four-year research period is considered representative enough to capture the health conditions of banks during and post-pandemic. For future research, it is recommended to extend the analysis period to include the most recent data and to add Islamic banks to the sample to obtain a more comprehensive overview.

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