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The Effect of Risk Profile (Credit, Operational, Liquidity and Market Risk) on the Firm Value of Banking Sector Companies Listed on the Indonesia Stock Exchange in 2017-2021

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Abstract:- Firm Value is an indicator of investor perception of company performance in the current conditions and in the future. Company value is the market value that is able to provide maximum prosperity for shareholders if the company's share price increases. The value of the company is influenced by several factors, namely *the Risk Profile* and its components consisting of Market Risk, Credit Risk, Liquidity Risk, and Operational Risk. This study aims to determine and test the effect of the risk profile and its components consisting of Market Risk, Credit Risk, Liquidity Risk, and Operational Risk on company value. The research was conducted on the Banking Industry listed on the Indonesia Stock Exchange (IDX) for the period 2017-2021. The population was recorded from 2017 until 2021 totaling 81 companies. The selection of samples in this study used *the purposive sampling* method. In this study uses descriptive analysis methods, using classical assumption tests, multiple regression analysis, partial t, tests, simultaneous tests, and coefficient of determination tests with SPSS version 22. The results of this study show that credit risk (NPL) and operational risk (BOPO) have a significant effect on company value. However, liquidity risk (LDR) and market risk (NIM) have no effect on the value of the company.

Keywords:- *Risk Profile, NIM, BOPO, LDR, and Company Value.*

I. INTRODUCTION

High corporate value is good news for the company's shareholders. With a high company value, of course, in line with the high selling price of shares as well, with a high stock price, more and more investors will invest their capital in the company. By having many investors, there will also be a lot of capital owned to be used in the activities of a company, because capital adequacy is also the most important thing in a banking company. Banks are intermediation institutions for the public and companies that are very influential for in the economy of a State.

Banking services are needed for the public and companies to store funds or borrow funds. Because of this, banks must strictly maintain the trust that has been given by their customers in minimizing possible risks that will be faced in the future. As financial institutions, banks must of course have good risk management to prevent various risks that can come at any time because if the risk is of great value, it will certainly interfere with the bank's performance and may cause a bank to go bankrupt.

II. MATERIALS AND METODHS

A. Risk

Risk is simply often understood as uncertainty (uncertainly) (Lutfi 2019). Risks relate to possible losses especially those that cause problems. If the risks can be known, then the company can prepare a strategy that will be used to overcome them. Risk will be a big problem if it cannot be overcome properly. Therefore, companies must understand well the possibilities of the risks that will be faced.

- *Risk Profile*

The risk profile is an overall picture of the risks inherent in a bank's operations. Banks need to prepare risk profile reports for reporting purposes at Bank Indonesia as well as supervision to effectively control bank risks. Risk profile factor assessment is an assessment of the inherent risks and quality of risk management implementation in bank operational activities (IBI 2016).

- *Credit Risk*

Credit Risk is the risk of failure of customers or other parties in fulfilling obligations to banks in accordance with the agreed agreement (IBI 2016). Bank management can measure the level of credit risk profile by assessing the bank's credit growth strategy, the types of products that banks market, as well as the quality of the bank's implementation of credit by studying the list of approved credits, extended credit, credit concentration, and membership in syndicated credit. Credit risk is a risk arising from the failure of the debtor and/or *counterparty* in fulfilling their obligations (Lutfi, 2019).

According to the Decree of the Board of Directors of Bank Indonesia No. 31/147/Kep/DIR dated 12/11/1998 on the quality of Productive Assets Article 6 paragraph 1, dividesthe level ofcredit collectibility, which is as follows:

- Current credit (pas), credit whose journey is smooth or satisfactory, meaning that all obligations (interest or installments of principal debt are settled by the customer properly).
- Credit in special mention, that is, credit that for 1-2 months the mutation begins to be uninterrupted and the debtor begins to be in arrears.
- Credit is less lancer (substandard), which is a credit that for 3 months or 6 months the mutation is not lancer, and the payment of interest or principal debt is not lancer. Efforts have been made, but the results have remained poor.
- Doubtful credit (doubtfull), that is, credit that is not outstanding and has matured, but has not been settled by the debtor concerned.
- Bad Credit (loss), as a continuation of efforts to settle or reactivate credit that is not current and the business is not successful.

➢ *Market Risk*

Market risk is the risk to balance sheet positions and administrative accounts including derivative transactions, due to changes in market prices. Changes in market prices occur due to movements in market factors such as interest rates, exchange rates, stock prices, and commodity prices that have the potential to harm bank portfolios (IBI 2015). Market risk is a risk that arises due to the movement of market variables (adverse movement), including interest rates and exchange rates from portfolios owned by banks that can harm banks (Lutfi 2019). The risk component in banking industry can also be explored from two market risks, namely general and specific market risks. General market risk is the risk of market changes in certain groups of instruments such as, interest rate risk, exchange rate risk, equity risk, and commodity risk. Specific risk is the risk of changing the market value of a security due to the issuer factor of a security in a particular stock.

➢ *Liquidity Risk*

Liquidity risk is a risk due to the bank's inability to meet maturing obligations from cash flow funding sources, and/or from high-quality liquid assets that can be collateralized, without disrupting the bank's activities and financial condition. Liquidity risk is a risk caused by the inability to fulfill its maturing obligations (Lutfi 2019).

In assessing the *inherent* risk of liquidity risk, the parameters/indicators used are (IBI 2016).:

- *Funding liquidity risk*; banks must be able to meet obligations from sources of cash flow funding, liquid assets repo without disrupting the bank's activities and financial condition.
- *Market liquidity risk*; Banks are unable to liquidate assets without being subject to material discounts due to the absence of an active market or market *disruption.*
- Bank Indonesia Regulation (PBI) No.12/19/2010 stipulates the LDR of commercial banks to be in the range of 78-100%. If the LDR is below or above BI regulations, it shows the lack of effectiveness of banks in disbursing loans.

➢ *Operational Risk*

- In general, the causes of operational risk are human factors, internal procedures, system failures, and external factors (IBI 2015). Operational risk is the risk due to insufficiency and/or malfunction of internal processes, human error, system failure, and/or the presence of external events affecting bank operations (Lutfi 2019).
- Internal process risks, relating to the failure of existing processes and procedures in the bank. For example, documentation, adequacy of surveillance systems, marketing errors, miss-selling, inaccurate and insufficient reports.
- Human resource risks, directly related to bank employees caused by intentional and unintentional activities and not limited to a specific part of the organization. For example, cheating, lack of employee training, relying too much on key employees.
- System risk, relating to the use of systems and technologies used by banks. For example, data entry errors, lack of project oversight, service interruptions.
- External risks, related to various events or events that are beyond the direct control of the bank. For example, fire, terrorism, disruption of the transportation / communication system.

B. Company Values

The value of the company describes the price that investors are willing to pay (Iswajuni, 2018). The improvement in the welfare of owners and shareholders can be reflected through an increase in the market share price. The value of the company is a picture of the condition of prosperity of the owner. Company value is the value provided by the financial market (market price) that is willing to be paid by potential buyers (investors) (Arina, 2018). The value of the company is very important because a high company, value will be followed by the high prosperity of shareholders. The higher the stock price, the higher the value of the company. High corporate value is the desire of company owners because high value indicates high shareholder prosperity (Hamidah, 2015).

C. Risk Management

Risk Management is the process of identifying risks, represented by vulnerabilities, assets, and information infrastructure of an organization, and taking steps to reduce risk to an acceptable level (Whitman 2012). Risk Management is an organization's effort to direct and control risk. Bank Indonesia Regulation No.5/8/PBI/2003 states that Risk Management is a series of procedures and methodologies used to identify, measure, monitor, and control risks arising from a bank's business activities. Risk Management is a logical and systematic effort to control potential risks in order to minimize the level of loss, reduce the risk obtained at a reasonable level, or eliminate risk on a wider scale (Lutfi 2019).

D. Bank of Indonesia

A bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve people's standard of living (Law No. 10 of 1998). Following are some definitions of the bank from various sources:

- Bank is a business entity whose main activity is receiving deposits from the public and/or other parties, then reallocating them to make a profit and providing services in payment. (Subagyo, et al)
- A bank is a business entity that collects funds from the public in the form of savings and issues it to the public and improves the standard of living of many people. (Law No. 7/1992)
- Bank is a type that operates in the field of trust that connects debtors and creditors of funds. (Latumaerissa, 2014:4)

With the function of the bank, the bank has become an institution that also influences the development of a country's economy. Therefore, banks must be able to maintain their performance in order to become a healthy industry.

III. RESEARCH METHODS

A. Research Object

The object of study is the characteristic under study. The object of the study is that is. Profile Risk and Company Value. This research was conducted by the Banking Industry listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The population was recorded until 2021 to be 81 companies.

B. Measurement of Research Variables

➢ *Company Value (Y)*

The company's value is actually the investor's perception of the company's performance, both current and future performance. The share price level is an investor's view of the company's level of success which is usually associated with company value. The higher the level of shareholder prosperity, the higher the value of the company. Company value can be measured by the following formula:

$$Q = \frac{EMV+D}{EBV+D}$$

C. Risk Profile

The risk profile is an overall picture of the risks inherent in a bank's operations. Banks need to prepare risk profile reports for reporting purposes at Bank Indonesia as well as supervision to effectively control bank risks. Risk profile factor assessment is an assessment of the inherent risks and quality of risk management implementation in bank operational activities (IBI 2016).

➢ *Credit Risk (X1)*

Credit Risk is the risk of failure of customers or other parties to fulfilling obligations to banks in accordance with the agreed agreement (IBI 2016). Bank management can measure the level of credit risk profile by assessing the bank's credit growth strategy, the types of products that banks market, as well as the quality of the bank's implementation of credit by studying the list of approved credits, extended credit, credit concentration, and membership in syndicated credit. Credit risk is a risk arising from the failure of the debtor and/or *counterparty* in fulfilling their obligations (Lutfi 2019). Credit Risk measurement is based on the following formula:

$$NPL = \frac{\text{Non-Performing Loans}}{\text{Total Credits}} \text{ X } 100\%$$

➢ *Market Risk (X2)*

Market risk is the risk to balance sheet positions and administrative accounts including derivative transactions, due to changes in market prices. Changes in market prices occur due to movements in market factors such as interest rates, exchange rates, stock prices, and commodity prices that have the potential to harm bank portfolios (IBI 2015). Market risk is a risk that arises due to the movement of market variables (*adverse movement*) between interest rates and the exchange rate of the portfolio owned by banks that can harm banks (Lutfi 2019). The risk component in banking industry can also be explored from two market risks, namely general and specific market risks. General market risk is the risk of market changes in certain groups of instruments such as, interest rate risk, exchange rate risk, equity risk, and commodity risk. Specific risk is the risk of changing the market value of a security due to the *issuer* factor of a security in a particular stock. The Market Risk Measurement is based on the following formula:

$$NIM = \frac{\text{Net Interest Income}}{\text{Average total productive assets}}$$

➢ *Liquidity Risk (X3)*

Liquidity risk is a risk caused by the bank's inability to meet maturing obligations either from sources of cash flow funding and/or from high-quality liquid assets that can be collateralized so as not to interfere with the activities and financial condition of the bank. Liquidity risk is a risk caused by the inability to fulfill its maturing obligations (Lutfi 2019).

Liquidity risk is a ratio that describes the company's ability to meet short-term obligations (debt). According to (Kasmir, 2014) This ratio measures the ability of a company's short-term liquidity by looking at the company's current assets relative to its current debt. Liquidity Risk Measurement is based on the following formula:

$$LDR = \frac{\text{Total Credits}}{\text{Third-Party Funds}} \text{ X } 100\%$$

➢ *Operational Risk (X4)*

In general, the causes of operational risk are human factors, internal procedures, system failures, and external factors (IBI 2015). Operational risk is the risk that comes from the result of insufficiency or incompetence as well as malfunctioning of internal processes, human error, system failures, and/or the presence of external events affecting bank operations (Lutfi 2019). Internal process risks, relating to the failure of existing processes and procedures in the bank. For example, documentation, adequacy of surveillance systems, marketing errors, miss-selling, and inaccurate and insufficient reports. The operating cost ratio shows the bank's inability to manage and measure its operations. Operational Risk Measurement is based on the following formula:

$$\text{BOPO} = \frac{\text{Operating Costs}}{\text{Operating Income}}$$

D. Data Analysis Techniques

This study uses descriptive analysis methods, using classical assumption tests, multiple regression analysis, partial tests, simultaneous tests, and coefficient of determination tests with SPSS version 22.

IV. RESULTS AND DISCUSSIONS

❖ *Development of Models Based on Theory*

In this study, there are four variables that will be analyzed. Where these variables are independent variables, namely Credit Risk, Liquidity Risk, Market Risk and Operational Risk. This analysis describes a summary of research data such as the amount of data, minimum, maximum, mean, and standard deviation.

➢ *Hypothesis Test*

➢ *Descriptive Statistics*

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPL	250	,14	1,00	,4494	,19146
Bopo	250	,01	,02	,0118	,00151
Ldr	250	,01	,02	,0121	,00209
Nim	250	,08	,27	,1755	,03681
Tobin	250	,61	,71	,6730	,01922
Valid N (listwise)	250				

➢ *Normality Test*

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		225
Normal Parameters [a, b]	Mean	.0000000
	Std. Deviation	.00486412
Most Extreme Differences	Absolute	.057
	Positive	.039
	Negative	-.057
Test Statistic		.057
Asymp. Sig. (2-tailed)		.069[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on kolmogorov – smirnov testing obtained results in Table 4. 2 In the test, the Asymp value was obtained. Sig. (2-tailed) or the significance value of the dependent variable Company Value of 0.069. Based on the test provisions, the significance value is greater than the value of 0.05, from the data above it can be concluded that the data is normally distributed.

➢ *Multicollinearity Test*

Table 3. Multicholinerity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.792	.013		61.709	.000		
	NPL	.036	.008	.375	4.557	.000	.599	1.669
	BOPO	-.105	.031	-.301	-3.415	.001	.521	1.919
	LDR	.019	.010	.127	1.956	.052	.961	1.040
	NIM	-.002	.016	-.010	-.134	.894	.675	1.482

a. Dependent Variable: TOBIN

Based on the test results, it can be seen that the Tolerance Value of the variable dall the tolerance values of the variable shows greater than 0.1. Meanwhile, the VIF value of NPL The VIF value of all these variables has a result smaller than 10.00. So it can be concluded that multicollinearity does not occur.

➢ *Autocorrelation Test Results*

Table 4. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.331[a]	.110	.093	.0049081	.536

a. Predictors: (Constant), NIM, LDR, NPL, BOPO
b. Dependent Variable: TOBIN

Based on the test provisions, a DW number of 0.536 located between -2 and +2 means that no autocorrelation occurs.

➢ *Heteroskedasticity Test Results*

By looking at the chart above, you can see the dots spread randomly, as well as scattered both above and below. This suggests that the regression model does not occur heteroskedasticity.

➢ *Statistical Test Results F*

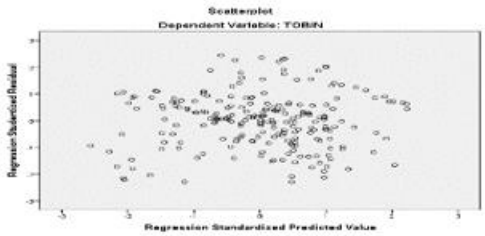
Table 5. Statistics F - Test

ANOVA[a]

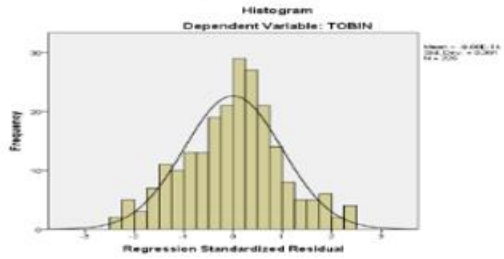
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	4	.000	6.768	.000[b]
	Residual	.005	220	.000		
	Total	.006	224			

a. Dependent Variable: TOBIN
b. Predictors: (Constant), NIM, LDR, NPL, BOPO

Graphic 1. Scatterplot



Graphic 2. Histogram



Based on Table 4. 6, obtained the result of the significant value of F of 0.000. Based on the test criteria, because the significance value of F is smaller than 0.05; Ha accepted, and Ho rejected. Therefore, the conclusion is that the Variables of Credit Risk, Operational Risk, Liquidity, Risk and Market Risk simultaneously affect the Value of the Company.

- *Interpretation of results*

Table 6. Statistic T - Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Kesimpulan
	B	Std. Error	Beta			
1 (Constant)	.792	.013		61.709	.000	
NPL	.036	.008	.375	4.557	.000	Ha Diterima
BOPO	-.105	.031	-.301	-3.415	.001	Ha Diterima
LDR	.019	.010	.127	1.956	.052	Ho Diterima
NIM	-.002	.016	-.010	-.134	.894	Ho Diterima

Based on the research table, a probability value of < 0.05 is 0.000, which means that NPL affects the value of the company. This shows that the bank's management in suppressing the total ratio of non-performing loans is very good. So this will affect the increase in the amount of profit that will be generated. On the other hand, a bank means being able to manage, control and save the money needed to reserve non-performing loan losses or the Allowance for the Elimination of Productive Assets (PPAP) from the profits it earns. So that if the credit experiences problems such as non-current loans, doubtful loans and even bad loans, the PPAP formed by the bank will be even greater. PPAP is a Reserve formed by burdening profit and loss for the current year, to accommodate losses that may arise as a result of and non-receipt of returns or all productive assets; allowance for the elimination of productive assets that can be taken into account as a component of complementary capital is a certain maximum percentage (*provision for loan losses*).

Based on the research table, a probability value of < 0.05 is 0.001, which means that operational costs have an effect. This means that in this case, the bank is able to control or reduce the company's operational costs. This is related to the NPL value produced, if the smaller the NPL value, the better the NPL performance will be produced. This shows that what is produced will affect and get the maximum. So the result of this research, the size of BOPO affects the value of the company or investors to make decisions.

Based on the research table, a probability value of > 0.05 is 0.052, which means that the liquidity ratio or *Loan Deposit Ratio* has no effect.

In this study, there is a minimum value of 55% and a maximum of 100%, so it can be said that the bank is quite good at optimizing the LDR value. This means that in this case, the control of the bank's health and lending needs can be overcome properly. This means that banks can meet long- and short-term obligations as well as operational activities from sources of cash flow turnover and other sources of liquid assets. Because if the bank is unable to fulfill its short-term obligations for operational activities, let alone long-term debt.

Based on the research table, a probability value of > 0.05 is 0.0894, which means that the liquidity ratio or *Net Interest Margin* has no effect. The results of this study, NIM has no effect on Company Value, which means that the size or size of NIM value has no effect on increasing company value, this means that the value of the company is not tied to how big/small the interest income received by the bank. In this case, if the interest on income received is greater, the bank can use or manage it to expand or carry out more optimal operational activities which will trigger an increase in company performance, good performance will certainly increase good Company Value as well.

V. CONCLUSIONS

From the results of the Research on the Effect of Risk *Profile* on Company Value in the Banking Sector in 201 7-202 1, the following conclusions can be drawn: Credit Risk Variables, Operational Risks Affect Company Value while Liquidity Risk Variables and Market Risk Variables Do Not Affect Company Value in the Banking Sector in 2017-2021.

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