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## PERFORMANCE AND DIVIDEND POLICY OF STATE-OWNED BANKS BEFORE AND AFTER COVID-19

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### ABSTRACT

#### Article History

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#### Keywords

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The purpose of this study was to analyze the performance and dividend policy of State-Owned Banks before and after the Covid-19. The research period is 2018-2021, with the sampling technique is saturated sampling, where all members of the population are used as samples. The analytical tool used is the Different Test (T-Test) supported by the SPSS program. The results show that the performance of State-Owned Banks, namely market capitalization, profitability, credit quality and liquidity is different before and after the Covid-19, while the dividend policy is not different. The market capitalization and profitability of State-Owned Banks have decreased and liquidity has improved after the Covid-19, as a result of deteriorating credit quality. Deteriorating credit quality after the Covid-19 resulted in decreased loan productivity and increased loss reserves and banks were more careful in distributing credit so that the liquidity was getting looser which resulted in decreased profitability.

**Contribution/Originality:** This study contributes to the existing literature, is useful in science in the banking sector about banking performance and dividend policy, especially State Owned Banks, after 2 years of the covid-19 pandemic, are there any differences in performance and dividend policy before and after the covid-19 pandemic. Although the average performance is different, which is slightly decreased, the average dividend policy is not different.

## 1. INTRODUCTION

During the Covid-19 Pandemic, which began to spread in early 2020 in Indonesia and the policy of restricting social mobility of the people implemented in various regions, the performance of the national banking system was depressed, including State Owned Banks. The performance of the banking industry during the Covid-19 pandemic decreased slightly, but the decline was not as severe as compared to other industries such as hotels, transportation and others, considering that there was a restructuring stimulus for MSMEs debtors affected by Covid 19 given by the Financial Services Authority vide POJK No: 11 /POJK.03/2020 dated March 13, 2020 regarding National Economic Stimulus as a Countercyclical Policy for the Impact of the Spread of the 2019 Coronavirus Disease and has been updated with POJK No: 48 /POJK.03/2020 dated December 1, 2020 and POJK No: 17/POJK.03/ 2021 on September 10, 2021.

State Owned Banks, which are often referred to as Government Banks / Persero Banks, consisting of BRI, Mandiri, BNI and BTN Banks have a very important role as development agents in order to improve the national economy and participate in maintaining national stability (Latumaerissa, 2017). The role of State Owned Banks is

increasingly important and strategic after the Covid-19 outbreak, namely as a distributor of government programs including the distribution of social assistance and distribution of People's Business Credit (KUR) in the context of national economic recovery.

So far, the profits of State Owned Banks are still largely supported by interest income from lending. For this reason, the provision of sound credit based on prudential principles should be carried out properly (Indonesian Bankers Association, 2018). Poor credit quality has an impact on lower loan productivity and the amount of loss reserves that must be established. This will have an impact on the decline in profitability and bank capital.

In 2020 (one year of the Covid-19 pandemic) the performance of State Owned Banks experienced a decline, but as the Indonesian economy improved in early 2021 (although it was still a Covid-19 pandemic), the performance of State Owned Banks in 2021 had shown a positive performance that grew well especially profitability. The fluctuations in the profitability of State Owned Banks will have an influence on the company's dividend policy which in turn will also affect the development of stock prices / market capitalization values of the company. Then after 2 (two) years of the Covid-19 Pandemic, how is the performance and dividend policy, is there a difference or not from before Covid-19.

Based on the description above, the objectives of this research are:

1. Analyzing whether there are differences in the performance of State Owned Banks before and after Covid-19.
2. Analyzing whether there are differences in the dividend policy of State Owned Banks before and after the Covid-19.

## 2. LITERATURE REVIEW

### 2.1. Company Performance

#### 2.1.1. Market Capitalization

According to Wijaya (2017) the company's goal is to maximize the company's wealth or value for shareholders. The value of companies that go public (public companies) is reflected in the market price of the company's shares (market capitalization). Market capitalization is basically the value of shares outstanding in the market, but this market capitalization value cannot be used to assess how big the assets are owned by the company. To assess market capitalization, it can be calculated by multiplying the share price by the number of shares outstanding (Hartono, 2016). The value of market capitalization for a company can be used to show how much the total value of the company. As a consideration for investment decisions, the value of market capitalization provides an overview for investors about the strength of the company as well as encourages investors' interest to include the company's shares in their portfolio.

#### 2.1.2. Profitability

Return on Asset (ROA). Profitability is the company's ability to generate profits. Profitability analysis is indispensable for long term investors (Hery, 2019). ROA is a ratio used to measure the performance of banks in managing their assets to generate profits (Indonesian Bankers Association, 2016). ROA is a ratio that shows the effectiveness of a company or bank in managing its assets to earn income for the bank. The greater this ratio indicates the greater the level of effectiveness of the bank in managing its assets.

*Net Interest Margin (NIM)*. NIM is the ratio between net interest income and average earning assets. Net interest income is interest income minus interest expense, while productive assets that are taken into account are productive assets that generate interest (Budisantoso & Nuritomo, 2017).

Operational Costs to Operational Income (*OCOI*). *OCOI* is the ratio of total operating expenses to operating income. The lower one illustrates that the bank maximizes its operating income compared to its relatively small operational costs or that the bank's operations are more efficient (Indonesian Bankers Association, 2016) To reduce

the *OCOI*, especially during the Covid 19 pandemic, banks need to diversify their income, especially those from non interest income (Li, Feng, Zhao, & Carter, 2021). Banks should also maintain the quality of the loans disbursed, so that the provision for losses can be controlled, considering that the formation of large loss reserves has an effect on increasing operational costs (*OCOI*) which results in a decrease in bank profitability. The increase in *OCOI* will reduce the profitability of Topak and Nimet (2016); Hasan, Manurung, and Usman (2020) and Karamoy and Joy (2020).

### 2.1.3. Credit Quality

Non Performing Loan (NPL). Non Performing Loans in the bank's business are commonplace, but banks must take action to prevent / minimize the emergence of Non Performing Loans in banks. So far, the quality of credit (Non Performing Loans) in banks is calculated based on the amount of Non Performing Loan (NPL), which consists of collectibility credit 3 (substandard), collectibility 4 (doubtful) and collectibility 5 (bad), both gross NPL and net NPL. after deducting loss reserves (Indonesian Bankers Association, 2016) and Syafril (2020).

*Loan at Risk (LAR)*. LAR is the ratio of collectibility credits 3, collectibility 4 and collectibility 5 (NPL) plus loans in special mention (collectibility 2) and current loans (collectibility 1, but from restructuring proceeds) to total loans. Restructuring is the loosening of credit terms, such as interest, term and others. In accordance with POJK No: 14/SEOJK.03/2017 dated March 17, 2017 concerning Assessment of the Soundness of Commercial Banks, the LAR component is often referred to as low quality credit. This provision implies that the banking business can continue to run and even increase, then the bank as an intermediary institution should manage its credit by adhering to the principle of prudence. Credit distribution activities contain risks that can affect the profitability, health and business continuity of banks (Subagio, 2015). For this reason, banks must manage the loans they provide in a healthy manner based on the principle of prudence, starting from the formation of credit organizations, credit culture, credit products, credit processes including supervision and monitoring (Indonesian Bankers Association, 2018).

### 2.1.4. Liquidity

Liquidity is a bank's ability to meet its obligations, especially its short term obligations. Viewed from the asset side, liquidity is the ability to convert all assets into cash, while from the liability side, liquidity describes the bank's ability to meet funding needs through an increase in the liability portfolio. One of the important ratios related to liquidity is the Loan to Deposit Ratio (LDR), which is the ratio of loans extended to third parties in rupiah and foreign currencies, excluding loans to other banks, to third party funds (current accounts, deposits and savings) in rupiah. and foreign exchange, excluding interbank funds (Indonesian Bankers Association, 2016).

## 2.2. Dividend Policy

One good way to communicate a bank's financial performance to its shareholders is by paying dividends. Dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings for investment financing in the future. If the company chooses to distribute profits as dividends, it will reduce retained earnings and further reduce the total sources of internal funds or internal financing. On the other hand, if the company chooses to retain the profits earned, the greater the ability to form internal funds. Dividend policy must be analyzed in relation to spending decisions or determining the overall capital structure (Sartono, 2016).

According to Gumanti (2013) stated that dividends can be paid in cash (cash dividend) or in the form of additional shares (stock dividend). Cash dividends are often referred to as regular dividends, which are usually paid four times a year (quarterly), twice a year (mid-annually) and once a year. There are times when companies distribute special dividends, namely dividends paid in addition to regular dividends. One measure of dividend policy

is the dividend payout ratio (DPR), which is the amount of net income distributed to shareholders. According to the bird in the hand theory, investors prefer cash dividends rather than being promised a return on investment (capital gain) in the future because receiving cash dividends is a form of certainty which means reducing risk. This is in accordance with the type of investor who is risk averse. According to Sartono (2016) managerial considerations in determining the dividend payout ratio (DPR) are the company's fund needs, liquidity, borrowing ability, shareholder status and dividend stability.

According to kabani, Richter, and ElBannan (2020) that dividends act as a signaling tool to convey the bank's overall stability and positive growth prospects. Dividends also act as a control mechanism to reduce agency costs between shareholders and managers. Sharma (2018) states that a company's dividend decision can be seen as a source of signals indicating that the company is profitable with good project investments opportunities will pay higher dividends to present themselves differently from other companies that have lower profit projects. Omar and Echchabi (2019) states that dividend payments are used as the basis for company valuation and stock recommendations.

### 3. RESEARCH METHODS

The population in this study is State Owned Banks, as many as four banks, namely Bank BRI, Mandiri, BNI and BTN. The sample in this study was saturated sampling, that is, all members of the population were used as samples. The research period is for 4 (four) years, namely 2018 to 2021, namely 2 (two) years (2018 - 2019) before Covid-19 and 2 (two) years (2020 - 2021) after Covid-19. This study uses quantitative analysis (Creswell & David, 2018). The data used is secondary data in the form of panel data which has been documented for 4 (four) years on a quarterly basis. This quantitative research is used to find out whether there are differences in the performance and dividend policy of State Owned Banks before and after the Covid-19, using the Different Test (T-test) with SPSS (Ghozali, 2018).

## 4. RESULTS AND DISCUSSION

### 4.1. Description Analysis

Descriptive statistics are used to see an overview of the data used. To obtain a comprehensive picture of the variables used in this study which includes the mean, extreme values (maximum and minimum values) and their standard deviations. The results of descriptive statistical tests on the variables used are presented in Table 1.

Table 1. Descriptive statistics.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Market Capitalization	64	8.90	616.68	229.80	180.29
ROA	64	0.13	3.68	2.11	1.01
NIM	64	3.06	7.64	5.13	1.26
NPL	64	1.75	4.91	3.08	0.77
LAR	64	7.88	34.11	18.35	8.37
OCOI	64	63.01	98.12	77.57	9.39
LDR	64	79.71	114.24	92.52	8.93
DPR	64	0.00	85.00	39.06	23.99
Valid N (listwise)	64				

#### 4.1.1. Market Capitalization

The average market capitalization of State-Owned Banks is IDR 229.80 trillion. The market capitalization of State Owned Banks is a market driven capital market on the Indonesia Stock Exchange, where State Owned Banks' shares are blue chip stocks that are actively traded. The maximum value of the market capitalization variable is IDR 616.68 trillion, owned by Bank BRI in Q4 / 2021, while the minimum value of the market capitalization variable is owned by Bank BTN of IDR 8.90 trillion in Q1/2020. Bank BTN's market capitalization fell drastically in Q1/2020

when compared to its market capitalization at the end of 2019 of IDR 22.45 Trillion. This is due to the very small profit in 2019 which was only IDR 209 billion, due to high NPL and LAR pressures and the influence of the covid-19 pandemic. Bank BTN's NPL in December 2019 was 4.73% and the LAR of 18.91% and in Q1/2020 the NPL still rose close to 5%, namely 4.91% and the LAR also increased to 22.44%. The increase in NPL and LAR will increase the loss reserve that must be formed. The high NPL and LAR became a signal for investors to release Bank BTN shares so that the share price fell quite drastically from IDR 2,120 per share to IDR 840 per share.

#### 4.1.2. Profitability

*Return on Asset (ROA)*. The average ROA of State Owned Banks is 2.11%, very good. This shows that State Owned Banks are able to manage their assets to generate profits properly. The maximum ROA variable of 3.68% is owned by Bank BRI in Q4/2018, while the minimum value of the ROA variable is 0.13% owned by Bank BTN in Q4/2019.

*Net Interest Margin (NIM)*. The average NIM of State Owned Banks is 5.13%, quite good and still high when compared to the NIM of Asean countries ranging from 1.7% - 3.7%. The maximum value of the NIM variable is 7.64%, obtained by Bank BRI in Q2/2018. The NIM of Bank BRI is indeed quite high because Bank BRI focuses on serving MSMEs that have large margins. Minimum NIM value of 3.06%, owned by Bank BTN in Q4/2020. The low NIM of Bank BTN in 2020 was due to a high NPL of 4.91 % and high LAR of 34.11% which resulted in a decrease in loan productivity, where loan interest income decreased, in addition to COF which was still high because Bank BTN still relied on expensive funds, which was reflected in the composition of cheap funds. (CASA – Current Account Saving Account) of the total funds raised is still small, namely an average of 45.12%.

*Operational Costs to Operational Income (OCOI)*. The average OCOI of State Owned Banks is 77.57%, which is still high. This shows that in terms of efficiency, State Owned Banks need to further improve their efficiency so that their OCOI decreases, namely by accelerating digital transformation and increasing collaboration with other business entities such as increasing “Laku Pandai” (Officeless Financial Services for Inclusive Finance) and closing office networks that are no longer available. productive again. The minimum OCOI value of 63.01 % was owned by Bank Mandiri in Q1 / 2019, while the maximum OCOI value of 98.12% was owned by Bank BTN in Q4 / 2019. Bank BTN's OCOI was high due to an increase in NPL and LAR respectively from 2.82% and 15.40% in 2018, to respectively 4.73% and 18.91% in 2019, which resulted in an increase in the cost of loss reserves that must be formed so that operational costs increased, while on the other hand income from loan interest decreased due to lower loan productivity due to the increase in the NPL and LAR.

#### 4.1.3. Credit Quality

*Non-Performing Loan (NPL)*. The average NPL of State-Owned Banks is 3.08%, which is high because during the Covid-19 period, the NPL crawled up even though a lot of bad loans had been written off. The minimum NPL value of 1.75% is owned by Bank BNI in Q2 / 2019, while the maximum NPL value of 4.91% is owned by Bank BTN in Q4 / 2020.

*Loan at Risk (LAR)*. The average LAR of State Owned Banks is 18.35%, which is very high because during the Covid-19 period, State Owned Banks carried out a lot of credit restructuring, which BRI amounted to IDR 198,78 trillion, Mandiri amounted to IDR 108.83 trillion, Bank BNI amounted to IDR 106.99 trillion and Bank BTN amounted to IDR 59.07 trillion. The minimum LAR value of 7.88% is owned by Bank BNI in Q4 / 2018, while the maximum LAR value of 34.11% is owned by Bank BTN in Q4 / 2020.

#### 4.1.4. Liquidity

*Loan Deposit Ratio (LDR)*. The average LDR of State Owned Banks is 92.51%, very good. This shows that State Owned Banks are able to maintain liquidity and their intermediary functions well. The minimum LDR value of

79.71% is owned by Bank BNI in Q4 / 2021, while the maximum LDR value of 114.24% is owned by Bank BTN in Q2 / 2019.

#### 4.1.5. Dividend Policy

*Dividend Payout Ratio (DPR)*. The average DPR of State Owned Bank is 39.06%, which is quite good. State Owned Banks are able to provide prosperity to share holders through the distribution of dividends, including their contribution to the state budget, in addition to the noble task carried out by State Owned Banks as development agents, namely carrying out government programs and maintaining national economic stability. The maximum DPR variable of 85.00% is owned by Bank BRI for 2021 performance, while a minimum of 0.00% (not paying dividends) is carried out by Bank BTN for 2020 performance.

#### 4.2. Performance and Dividend Policy of State Owned Banks Before and After Covid-19

With the Covid-19 pandemic causing the economy to slow down and even become minus since Q2/ 2020, many debtors cannot do business due to restrictions on activities / social mobility which have an impact on deteriorating credit quality / increasing banking NPL and LAR, even though State Owned Banks have done many things credit restructuring by utilizing the policies provided by the Financial Services Authority. It was recorded that until the end of December 2020, State Owned Banks had restructured MSMEs debtors affected by Covid-19 amounting to IDR 473.67 trillion, which resulted in a large increase in the LAR of State Owned Banks, namely Bank BRI by 28.28%, Bank Mandiri by 22.33%, Bank BNI by 28.74% and Bank BTN by 34.11%. In 2021 economic growth has been positive so that NPL and LAR have started to decline and the banking performance of State Owned banks has started to improve.

The increase in the NPL and LAR of State Owned Banks resulted in a decrease in loan productivity so that the NIM decreased. The increase in NPL and LAR will also increase the burden of provision for losses. The increase in loss reserves will have an impact on increasing on banking of operational costs to operating income (OCOI).

From the results of the different test (T-Test), the average NPL and LAR of State Owned Banks before Covid-19 were 2.63% and 11.58% respectively, after the Covid-19 the average NPL and LAR increased respectively to 3.52% and 25.13%. The difference between NPL and LAR before and after Covid-19 is very significant. Deteriorating credit quality / increasing NPL and LAR will affect the profitability, market capitalization and dividend policy of State Owned Banks.

The different tests (T-Test) of market capitalization, profitability (ROA, NIM and OCOI), credit quality (NPL and LAR), liquidity (LDR) and dividend policy (DPR) before and after Covid-19 are presented in Table 2.

**Table 2.** Results of different tests (T-Test) market capitalization, profitability, credit quality, liquidity and dividend policy of state owned banks before and after Covid-19.

Variable	Average Before Covid-19	Average After Covid-19	Sig.(2-Tailed)	Remark
Market Capitalization	IDR 244.96 Trillion	IDR 214.63 Trillion	0.000	Different
ROA	2.54%	1.67%	0.000	Different
NIM	5.44%	4.81%	0.000	Different
NPL	2.63%	3.52%	0.000	Different
LAR	11.58 %	25.13%	0.000	Different
OCOI	74.21%	80.92%	0.000	Different
LDR	96.71%	81.71%	0.000	Different
DPR	36.88%	41.25%	0.067	Not Different

Due to the Covid-19 pandemic, the profitability of State Owned Banks has decreased. The average profitability (ROA) of State Owned Banks is different, before Covid-19 it was 2.54% and after Covid-19 it decreased to 1.67%. The decline in profitability was due to worsening credit quality, namely the increase in the average NPL and high



LAR which resulted in the average NIM decreasing from 5.44% to 4.81% and the average OCOI increasing from 74.21% to 80.92%. The restrictions on social mobilization of the community and the deteriorating credit quality and negative economic growth in 2020 resulted in State Owned Banks slightly putting the brakes on their credit distribution so that their bank liquidity was getting better / looser. This is indicated by the average LDR before Covid-19 which was 96.71%, which decreased to 81.71% after Covid-19. From the different test (T-Test) ROA, NIM, OCOI and LDR are all significant with Sig. (2 Tailed) < 0.05), meaning that there is a difference in average profitability and liquidity before and after the Covid-19.

The decline in the profitability of State Owned Bank will certainly affect the value of its market capitalization. The market capitalization value of State Owned Banks is significantly different. The average market capitalization of State Owned Banks before Covid-19 was IDR 244.96 trillion, down to IDR 214.63 trillion after the Covid-19.

A fairly large decline in profitability is not necessarily followed by a large decrease in dividend policy. The dividend policy (DPR) both before and after Covid-19 was not significantly different, although there was a slight increase, namely the average DPR before Covid-19 was 36.88% to 41.25% after Covid-19. The dividend policy of State Owned Bank is not different because the State Owned Bank's dividend policy is a little "interference" from the Ministry of SOEs as the majority shareholder. However, the dividend payment policy of State Owned Banks still pays attention to performance. State Owned Banks with good performance (still good after Covid-19), such as BRI the dividend policy has increased to 85 percent and Mandiri the dividend payment is quite high at 60 percent. Even though the profitability of State Owned Banks has decreased, the dividend policy remains unchanged and this has a positive effect on market capitalization. This finding supports the Bird In The Hand Theory where dividend policy gives a positive signal to investors. This illustrates that most State Owned Bank investors are more risk averse.

## 5. CONCLUSIONS AND RECOMMENDATION

### 5.1. Conclusion

1. There are differences in the performance of State Owned Banks before and after the Covid-19. Profitability and market capitalization have decreased, credit quality has deteriorated and only liquidity has improved.
2. There is not difference in the dividend policy of State Owned Banks before and after the Covid-19.

### 5.2. Recommendation

1. The deteriorating credit quality of State Owned Banks must be taken seriously by management, given that the deteriorating credit quality reduces loan productivity and increases reserves for losses which have a direct impact on profitability.
2. State Owned Banks should maintain their dividend policy and benchmark other banks so that their dividend policy is reasonable and not high.

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