PROFITABILITY IMPACT OF FEE BASED INCOME, OPERATIONAL COSTS OF OPERATING INCOME AND DISTRIBUTION OF CREDITS

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ABSTRACT

This study aims to determine the effect of fee based income, operating expenses on operating income and credit distribution to profitability. The unit of analysis of this research is PT. Regional Development Bank of West Java and Banten, Tbk. The research sample used is from 2010 - 2019. The method of analysis of this research uses multiple linear regression analysis with the classical assumption test which includes the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The results showed that the fee based income variable had a significant and positive effect on the profitability of PT. Regional Development Bank of West Java and Banten, Tbk. Meanwhile, Operating Expenses on Operating Income and lending had a significant negative effect on profitability. Simultaneously fee-based income, Operating Expenses on Operating Income and lending have a significant effect on the profitability of PT. Regional Development Bank of West Java and Banten Tbk. 2010 - 2019 period.

Keywords: Fee based income, operating costs income, lending, profitability

1. INTRODUCTION

Banking has a major role in advancing the economy of a country. This is because banking in the economy has a strategic function as an intermediary institution for channeling funds from surplus units to deficit units. Movements in the economic sector related to finance will require banking services to expedite and support their operations. Banking performance can be seen using financial ratios, so that the development of banking performance will be known each year. Financial ratios are divided into several categories, one of which is the Profitability Ratio. Profitability ratio is a ratio to assess the company's ability to seek profits. This ratio measures the effectiveness of the management as a whole aimed at the size of the level of profits obtained in relation to sales and investment. The better the profitability ratio, the better it describes the company's high profitability (Irham Fahmi, 2015: 254). Profitability focuses on a bank's ability to earn earnings (Bambang Riyanto, 2013). Profitability is the ratio used to assess the company's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a company. This is indicated by the profit generated from sales and investment income. The use of profitability ratios can be done by using comparisons between the various components in the financial statements, especially the balance sheet financial statements and the income statement (Kashmir, 2016: 196). Profitability ratios are divided into several types, one of which is related to assets known as Return On Assets. ROA is the rate of return or profit resulting from asset management and company investment. This ratio is commonly used as an indicator of the company's profitability by comparing net income to total assets in the company. ROA can provide an adequate measure of the overall effectiveness of a company because ROA takes into account the use of assets and profitability in sales. Thus, ROA can be used as an indicator in making investors' decisions in choosing companies to invest in. The higher this ratio, the higher the investor's confidence and interest in investing. This means that this ratio is used to measure the effectiveness of the company's overall operations (Kashmir, 2016: 201), including by BJB bank. BJB bank profit was recorded as stagnant at Rp. 1.56 trillion, growing less than 1% compared to profit in 2018 of Rp. 1.55 trillion. The decline in net interest income is the cause of the stagnant profit growth. Bank BJB last year recorded a net interest income of Rp. 6.08 trillion, a decrease of 6.4% compared to the achievement in 2018 which was valued at Rp. 6.49 trillion. The unfavorable economic situation is the reason for the decline in bank BJB income. However, BJB banks are still able to create efficiency, while maintaining credit quality so that profits are still positive. Boy Leon and Sony Ericson (2008: 31), state that banks must always maintain their profitability to maintain their
business continuity. The main advantage obtained by banks, comes from the difference between loan interest and deposit interest, where the loan interest is higher than deposit interest. In addition to the profit that the bank gets from the difference in interest, the profit that the bank can get can also be obtained from the fees charged to customers through other bank services known as fee-based. BJB bank fee based income from other operating income sources fluctuated in 2010 to 2019. In 2010 the position of fee based income every quarter continued to increase with an average increase of Rp. 290,786 million. Fee based income can be said to be the main income of a bank which determines the amount of net income, where the higher the spread value generated by the bank, the higher the level of profit the bank will get. So that banks need to develop a strategy in an effort to obtain these benefits. This profit will later be used by the bank to increase the amount of financing provided to customers.

Research by Wenny Djuarni and Rizki Awaludin (2013), Sri Dewi Anggadini (2010) and Laturkar (2013) states that there is a positive and significant influence between fee-based income on profitability (Return On Assets). The higher the fee-based income, the higher the profitability (Return On Assets). However, research conducted by Graciously Madamba Masie (2004), Mega Mulia Sari (2015) and Elyuanita (2017) shows that fee-based income has no effect on profitability (ROA). Research Esther Novelina Hutagalung, (2011), Alvita Chatarine and Putu Vivi Lestari (2012), Muft. Sabir. M, Muhammad Ali and Abd. Hamid Habbe (2012) states that Operating Costs of Operational Income has a significant negative effect on ROA. However, it is different from the results of research conducted by Sukarno and Syaichu (2006), Ervani (2010), Kurnia and Mawardi (2012), Hendrayanti and Muhamaram (2013), Manikam and Syafruddin (2013), Yatiningsih (2015), Prasanjaya and Ramantha (2013) states that Operating Costs of Operational Income has a positive and significant effect on ROA. The number of credit disbursements made by bank BJB is increasing every year. Lending is the most basic activity of banking, because it generates the largest profit, but the risk of default is also relatively large. Profits are the goal of providing credit which is manifest in the form of interest received (Rivai et al., 2013: 199).

II. LITERATURE REVIEW

The Effect of Fee Based Income on Profitability

Fee based income is currently used as an alternative to bank operating income in line with the decline in operating income from interest income and considering that the profits obtained from spread based are increasingly difficult due to several factors, fee-based income has the opportunity to increase profits. Where when the operating income is small, but the presence of high non-operating income will increase company profits, which of course the sense of the company's ROA level will increase. Kasmir (2012: 129) states that fee-based income is the profit obtained from transactions provided in other bank services. Fee based income is the
income obtained by banks from providing banking services receiving deposits, serving payments for foreign exchange transactions and other services. Research results by Wenny Djuarni and Rizki Awaludin (2013), Sri Dewi Anggadini (2010) and Laturkar (2013) state that there is a positive and significant influence between fee-based income on profitability (return on assets), meaning that the higher the acquisition of fee-based income, the profitability is (Return on assets) will increase, the results show that Fee Based Income has a positive and significant effect on profitability (ROA).

The Influence of Operating Costs of Operating Income on Profitability

Operating Costs of Operational Income is the ratio between Operational Costs and Operating Income. The lower the Operating Costs of Operational Income ratio level means the better the management performance, because it is more efficient in using existing resources in the company (Riyadi, 2010: 159). Operational inefficiency is the result of inadequate functioning of the bank's internal supervisory process, or due to external errors. This can lead to bank losses, either directly or indirectly. In addition, this also results in lost opportunities to gain profits due to the low ability to carry out activities that benefit the bank (Arthesa, 2006: 95). So, it can be seen that it can be concluded that Operational Expenses to Operating Income have a negative relationship with Return On Assets. The results of research conducted by Titin Hartini (2016) and Mega Murti Brilianti (2019) show that Operating Costs of Operational Income has a negative and significant effect on profitability (ROA).

The Effect of Lending on Profitability

The amount of credit extended determines the bank's profit. If the bank is unable to distribute credit, while the funds collected from bank deposits are a lot, it will cause the bank to lose money(Kasmir, 2010: 71-72). Veithzal Riva et al. (2013: 199) states that the purpose of credit is in the form of profits earned from the interest that must be paid by customers. Banks will only channel credit to business customers who are believed to be able and willing to repay the credit they have received. This ability and willingness is encapsulated by the element of security (safety) and also the element of profit (profitability) of a credit so that the two elements are interrelated. Profits are the purpose of providing credit in the form of interest received. The results of this study are in accordance with the theory put forward by (Ismail, 2011: 97) which states that loans given to customers will receive interest in the form of interest. Bank interest income has an effect on increasing bank profitability. This can be reflected in the acquisition of profits. Research conducted by Martono (2010), Euis Rosidah (2009), I Putu Agus Atmaja Negara and I Ketut Sujana (2014) stated that there is a positive and significant influence between credit distribution on profitability (return on assets). The higher the lending, the higher the profitability (return on assets). However, the results of research conducted by Agustiningrum (2012), Bilal et al. (2013), Yatiningsih (2015), Manikam and Syafruddin (2013) state that NPL has a negative and significant effect on ROA. This contradicts the research conducted by Sukarno and Yaichu (2006), which states that NPL has a positive but insignificant effect on ROA.

The Influence of Fee Based Income, Operating Costs of Operational Income and Credit Distribution on Profitability

This financial performance can be measured by a profitability. Profitability is the basis for the link between operational efficiency and the quality of bank services. In measuring profitability, the Return on Assets ratio is used which is generated from the company's main activities with the total assets owned by the company. Return On Assets is influenced by several ratios that can make it increase or decrease. Profitability will increase if non-operational income is able to create optimal profit and operating income to cover operational costs because if operational activities are carried out efficiently, in this case the value of the BOPO ratio is low, the revenue generated by the bank will increase. Obtain income from the proceeds from the interest on loans, share premium, services in the financial sector and others. Most of the profits obtained by each banking company come from the loan interest received by each bank, namely as a result of providing a certain amount of credit to its customers or debtors. Research conducted by Mega Murti Brilianti (2019) shows that simultaneously, Profit Sharing Spreads, Fee Based Income, Financing to Deposit Ratio and BOPO have an effect on Profitability.

III. RESEARCH HYPOTHESIS

H1: Fee based income, Operating Costs of Operational Income and lending have an effect on profitability

H2: Fee based income have an effect on profitability

H3: Operating Costs of Operational Income have an effect on profitability

H4: Lending have an effect on profitability
IV. RESEARCH RESULTS AND ANALYSIS

Multiple Linear Regression Analysis

Table 1. Multiple Linear Regression Equation

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Err</td>
</tr>
<tr>
<td>(Constant)</td>
<td>12.266</td>
<td>.589</td>
</tr>
<tr>
<td>Fee Based Income</td>
<td>2.014</td>
<td>.000</td>
</tr>
<tr>
<td>Operating Expenses on Operating Income</td>
<td>-.118</td>
<td>.008</td>
</tr>
<tr>
<td>Credit Distribution</td>
<td>-1.028</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Profitability

Source: Results of Data Processing (2020)

Multiple Linear Regression Equation:

\[ Y = 12.266 + 2.014X_1 - 0.118X_2 - 1.028X_3 + e \]

Interpretation of the Multiple Linear Regression Equation:

1. The constant value (a) is 12.266. This means that if fee based income, Operating Expenses on Operating Income and credit distribution are worth 0 (zero) and there is no change, then the profitability will be worth 12.66.
2. The value of variable \( X_1 \), namely fee based income, has a regression coefficient of 2.014, meaning that if fee based income increases by one unit, while Operating Expenses on Operating Income and credit distribution are constant, profitability will increase by 2.014.
3. The value of the \( X_2 \) variable, namely Operating Expenses on Operating Income, has a regression coefficient of -0.118, meaning that if BOPO decreases by one unit, while fee-based income and credit distribution is constant, then profitability will decrease by 0.118.
4. The value of the \( X_3 \) variable, namely credit disbursement has a regression coefficient of -1.028, meaning that if credit disbursement decreases by one unit, while fee-based income and Operating Expenses on Operating Income are constant, then profitability will decrease by 1.028.

V. RESEARCH DISCUSSION

The Effect of Fee Based Income, BOPO and Credit Distribution on Profitability

The results of the simultaneous calculation obtained a value of 0.95 or 95%, which means that the variable fee-based income, Operating Expenses on Operating Income and credit disbursement to the profitability of 95%, while the remaining 5% is influenced by other factors not examined in this study. Based on the results of hypothesis testing, it shows that the sig. (0.000) <\( \alpha \) (0.05) and \( f_{\text{count}} (228.757) > f_{\text{table}} (2.64) \), which means that fee-based income, Operating Expenses on Operating Income and lending have an effect on the profitability of BJB banks. The measurement of profitability uses the Return On Assets Ratio which results from the company's main activities and the total assets owned by the company. Profitability will increase if non-operational income is able to create optimal profit and operating income to cover operational costs because if operational activities are carried out efficiently, in this case the value of the BOPO ratio is low, the revenue generated by the bank will increase. Obtaining income from the proceeds from the interest on loans, share premium, services in the financial sector and others, the profits obtained by each banking company mostly come from the loan interest received by each bank, namely as a result of giving a number of credits to its customers or debtors. The results of this study are supported by the results of research conducted by Moslem and Chabachib (2015) which show that NPL, DPK, LDR, BOPO, and FBI affect ROA. The results of this study are also supported by the results of research...
conducted by Mega Murti Brilianti (2019), which shows that simultaneously, Profit Sharing Spreads, Fee Based Income, Financing to Deposit Ratio and BOPO have an effect on Bank Muamalat's Profitability.

**The Effect of Fee Based Income on Profitability**

The calculation result shows that the value of fee based income is 0.1345 or 13.45%, meaning that the profitability of BJB bank is influenced by fee based income of 15.10% and the rest is influenced by other factors. Based on the hypothesis test with a significant level (α) = 5%, the sig value is obtained. 0.042 indicates that the sig. (0.042) <α (0.05), which means that partially fee-based income has a significant positive effect on profitability. This condition confirms that profitability is influenced by fee based income. This means that the increasing growth of fee-based income, the company's profitability (Return On Assets) will increase. The results of this study are in accordance with the research by Anissya (2015) which states that if fee-based income activities can be managed properly, it will increase bank profitability which in turn will increase bank capital. The results of this study are supported by Kusuma's statement (in Anissya, 2015) which states that if fee-based income and Return On Assets are in good condition, and both aim to generate income for the company, fee-based income will have an effect on Return On Assets. The principal advantage of banking is the difference between the interest rates on deposits and interest on loans or loans known as spread based. The results of this study are in line with the results of the research by Anissya (2015), Awaludin and Djuarni (2013) which states that there is a positive relationship between fee-based income and the level of profitability (ROA). In addition to the benefits of these main activities, the banking sector can also benefit from transactions provided in other bank services. Profits from transactions in bank services are called fee based. Fee based income is the benefit obtained from transactions provided in other bank services (Kasmir, 2014: 129). Fee based income is income from fees, fees or commissions that the bank receives from bank services other than interest income. The profit from these bank services, although relatively small, invites certainty, this is because the risk to bank services is smaller when compared to credit risk. Besides the risk factor, the variety of income from these services is quite large so that banks can further improve their bank services (Kasmir, 2008: 146). However, the increase in bank services must be limited, because if the bank increases its income too much in fee-based income, it will eliminate the main role of the bank as an intermediary institution.

**The Effect of BOPO On Profitability at PT. Bank Jabar and Banten Regional Development Banks Tbk Period 2010 - 2019**

The results showed that the magnitude of the effect of Operating Expenses on Operating Income on profitability was 0.8855 or 88.55%. This means that profitability is influenced by Operating Expenses on Operating Income of 88.55% and the rest is influenced by other factors. Based on the hypothesis test with a significant level (α) = 5%, the sig value is 0.000. where is the sig. (0.000) <α (0.05), meaning that Operating Expenses on Operating Income partially has a significant but negative effect on profitability at bank BJB. This shows that the increasing Operating Expenses on Operating Income will reduce the profitability of bank BJB. The results of this study do not support the results of research conducted by Alifah (2014) which states that the Operating Expenses on Operating Income variable has a negative and insignificant effect on ROA. Operating Expenses on Operating Income has a negative effect, meaning that if Operating Expenses on Operating Income increases, which means that efficiency decreases, then profitability (ROA) will decrease. Improved bank performance will increase public confidence in banks, increased public trust can increase the amount of Third Party Funds collected by banks, besides that the public is also encouraged to use bank services and products. It is hoped that high third party funds and public contributions to bank products will increase profitability. Bank Indonesia sets the best number for the Operating Expenses on Operating Income ratio, which is below 85%, because if the Operating Expenses on Operating Income ratio exceeds 85% to close to 100%, the bank can be categorized as inefficient in carrying out its operations. Operating Expenses on Operating Income is the ratio between total operating costs and total operating income. The results of this study are in line with research conducted by Prastiyaningtyas (2010), Defri (2012), Hutagalung et al. (2013) and Wicaksono (2016) which state that Operating Expenses on Operating Income has a negative and significant effect on profitability (ROA).

**The Effect of Lending on Profitability**

The results showed that the value of lending on profitability was 0.6464 or 64.64%, meaning that the profitability of BJB bank was influenced by credit distribution of 64.64% and the rest was influenced by other factors. Hypothesis test results with a significant level (α) = 5% obtained the sig value. 0.000 indicates that the sig. (0.000) <α (0.05), meaning that credit distribution has a significant but negative effect on profitability. The increase in bank profitability is influenced by the amount of lending. The results of this study are in line with the
results of research by Setiawati (2013), Prasanjaya and Ramantha (2013) which state that credit distribution has a negative effect on profitability. The lending standard set by Bank Indonesia is 80% to 110%. If the lending ratio of a bank is below 80%, it can be concluded that the bank can only channel a small part of its funds. If the lending ratio exceeds 110%, the total credit extended by the bank exceeds the funds raised (Prasanjaya & Ramantha, 2013). Lending has a negative effect on profitability occurs when credits extended to the community by a bank experience congestion, so that credit distribution should be expected to increase bank profitability, but it actually causes a decline in the profitability of a bank. However, the results of this study are not in line with the results of research conducted by Hasibuan (2016) and Makatita et al. (2019), the results state that credit distribution has no effect on profitability which is proxied by Return On Assets in banking companies.

VI. CONCLUSION

1. Fee based income has a positive effect on profitability at bank BJB for the period 2010-2019.
2. Operational Costs Operating Income has a significant but negative effect on profitability at bank BJB for the period 2010 - 2019.
3. Lending had a significant but negative effect on profitability at bank BJB in the 2010-2019 period.
4. Fee based income, BOPO and credit disbursement simultaneously have a significant effect on the profitability of bank BJB for the period 2010 - 2019.

REFERENCES