

The Effect of Third Party Funds on Rural Banks (BPR) Profitability With Lending Interest Rate as a Moderation Variable Period 2017 - 2022

Trihanna Kezya Rima¹, Atikah Rahmadhani Putri²

^{1,2} PPM School of Management Jakarta, Indonesia

Corresponding Author: Trihanna Kezya Rima, E-mail: trihannakezya@outlook.com

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ABSTRACT

Savings or other comparable kinds of deposits are accepted by BPR as a bank financial institution, which then distributes the money to BPR firms. To ascertain the state of the bank, it is necessary to evaluate banks as businesses. The profitability performance can be used to determine whether or not the banking industry's financial performance is sound. With loan rates serving as a moderating variable, this study attempts to present empirical data about the impact of Third Party Funds (DPK) on the Profitability of Rural Banks (BPR). The data used in this study were collected at OJK between 2017 and 2022. Explanatory research, which employs a quantitative methodology, is what this study is every BPR in Indonesia who are registered and documented in the Indonesian Banking Statistics at OJK included the study's population. Samples were taken using a non-probability sampling methodology and purposive sampling method. With the aid of the statistical application SPSS version 24, moderate regression analysis (MRA) was employed for data analysis. The study's findings demonstrated that third-party funds significantly impact rural banks (BPR) profitability. Also, it was shown that interest rates had a considerable impact on rural banks(BPR) profitability. Finally, Third Party Funds significantly impacts profitability, with the effect being tempered by interest rates at Rural Banks (BPR).



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INTRODUCTION

Rural Credit Bank, also known as BPR or POJK No. 62/POJK.03/2020, is a traditional bank that doesn't offer services in the payment traffic as part of its operations. One kind of bank, called a BPR, collects money in the form of savings and time deposits and then distributes it as credit. In its capacity as a bank financial institution, BPR distributes cash to BPR firms after accepting deposits in the form of savings, savings, or other comparable forms. Banks as companies need to be assessed for their health to determine the condition of the bank. The profitability performance can be used to determine whether or not the banking industry's financial performance is sound. All parties involved, including the bank's owners, management, customers who use their services, Bank Indonesia as the bank's regulatory authority, and others, have a stake in how well a bank is run or how financially healthy it is. Factors that affect bank profitability can come from various profitability performance as shown by several indicators. The ROA ratio illustrates a bank's ability to generate profits from the use of total assets used in its business activities. Pratama (2021) reveals that one bank with good financial performance is measured based on a profitability ratio that continues to increase in its operating activities. To determine the level of profitability of Rural Banks throughout Indonesia which are registered and the data is recorded in the Indonesian Banking Statistics at OJK for the period 2017 – 2022, presented in the graph below.

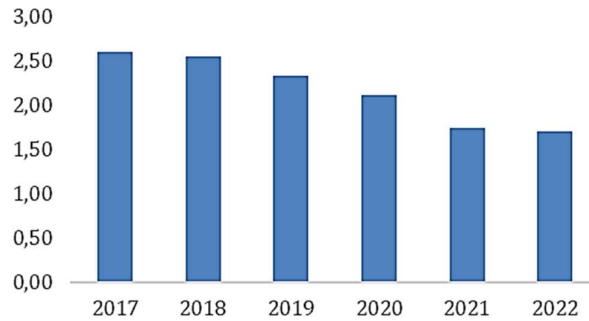


Figure 1. Graph of BPR Profitability for the 2017 - 2022 period

From the table above it can be seen that the highest level of profitability for Rural Banks for the 2017 – 2020 period occurred in 2017 of 2.60%. Throughout the observation period, the profitability of Rural Banks continued to decline until the lowest acquisition occurred in 2022 of 1.70%. Meanwhile, according to the OJK Report, BPR performance in 2022 shows good conditions seen from increased credit growth accompanied by Third Party Funds (DPK) which are also still growing quite high. This can be seen from the graph presented below.

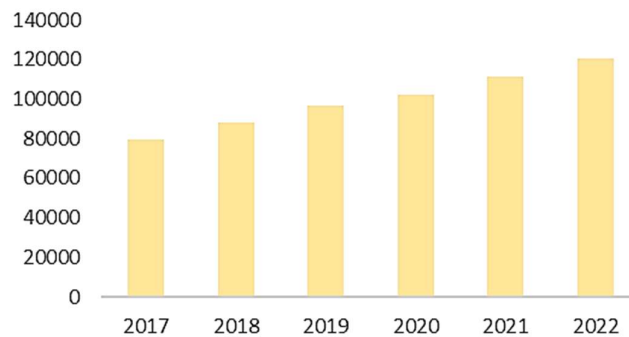


Figure 2. Graph of BPR Third Party Funds for the 2017 - 2022 period

In 2017 third party funds at Rural Credit Banks throughout Indonesia which is registered and the data is recorded in the Indonesian Banking Statistics at the OJK for the period 2017 – 2022 of Rp. 79,740 Billion. The increase continues every year until the highest acquisition of third-party funds occurs in 2022 to Rp. 120,163 Billion. However, DPK experienced a slowdown compared to the previous year. BPR DPK in September 2022 grew 8.79% to Rp. 122.91 trillion, slowing compared to the previous year which experienced a growth of 10.64%, where the decline was dominated by the deposit component. DPK Rural Banks is an important fund for bank operational activities in carrying out its function as an intermediary to channel back funds in the form of credit. The more optimal in managing TPF, the higher the profitability will be. Furthermore, there are credit interest rates, namely interest given to borrowers or interest that must be paid by borrowers to banks, for example, credit interest. If the credit interest rate is high, the public will hold back from submitting requests or credit, so the profit that will be obtained will decrease. Meanwhile, the graph of Rural Bank credit interest rates throughout Indonesia which are registered and the data recorded in the Indonesian Banking Statistics at OJK for the period 2017 – 2022 are presented as follows.

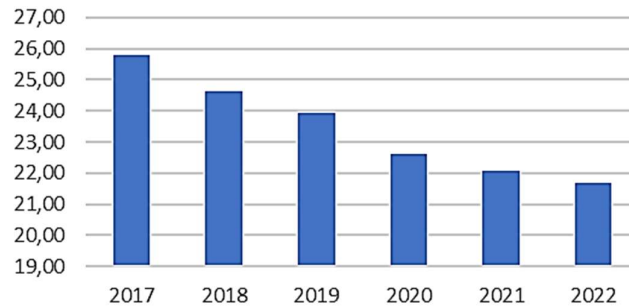


Figure 3. Graph of BPR Loan Interest Rates for the 2017 - 2022 period

Rural Bank credit interest rates throughout Indonesia which are registered and the data is recorded in the Indonesian Banking Statistics at the OJK for the period 2017 – 2022, in 2017 it was 25.80%. In 2018, the Rural Bank credit interest rate decreased to 24.64%. Rural Bank credit interest rates continue to decline until 2022 with the lowest amount of 21.67%. In macroeconomic theory, interest rates are one of the factors that can affect bank profitability. Loan interest rates have a large influence on lending in the community. If credit interest rates increase, people tend not to make loans at banks, then the profitability obtained by banks will decrease due to low interest income. However, higher loan interest rates can also result in bad credit because debtors who make loans may not be able to pay off their debts (Yuliana & Pertiwi, 2020).

According to Tofan et al. (2022) shows that the variables of Third Party Funds and Loan Interest Rates contribute to or influence ROA profitability at BUMN Banks. According to Meliza (2023) shows that Third Party Funds have a positive and significant effect on profitability, but *Interest Rate* as a moderating variable has a negative effect on the relationship between Third Party Funds and Profitability.

Related to the description above, this study aims to examine the effect of Third Party Funds on the Profitability of Rural Banks (BPR) with Credit Interest Rates as a Moderating Variable during the 2017-2022 period. In this study, the company's Third Party Funds are the independent variable, while Profitability (ROA) is the dependent variable. Previous research has mostly been conducted on conventional banking companies and their interest rates refer to the BI Rate. There are still not many who have conducted the above research on Rural Bank companies that refer to BPR Credit Interest Rates.

LITERATURE REVIEW

Profitability

The dependent variable in this study is profitability. is the link between the firm's earnings and the investments made to help the company achieve these profits. The profitability ratio gauges how well a corporation turns business operations into profits (De Jesus, 2022). Each banking company's profitability fluctuates due to a number of factors, including operational effectiveness and liquidity. Each banking company's profitability fluctuates due to a number of factors, including liquidity and operational effectiveness (Mohamad et al., 2018). There are various profitability ratios in use, however the Return on Assets (ROA) ratio is the one that was employed in this study. According to Capriani and Dana (2016), a firm will do better if its ROA is higher than its profitability. The formula for the Return on Assets (ROA) ratio is as follows, according to Kasmir (2016):

$$\text{Return On Asset (ROA)} = \frac{\text{Earning After Tax (EAT)}}{\text{Total Asset}}$$

Third Party Funds

Savings and deposits made by members of the public are the source of third-party money, which rural banks collect. The BPR's operational activities that channel money to the community use Third Party Funds as a source of funding. Banks incur interest costs when they raise money and make money

from it when they distribute it. Banks must secure enough sources of funding to support their operating tasks, which include routing funds. This demonstrates the significance of third-party money for banks' capacity to achieve profitability (Sidharta et al., 2022). Total Third Party Funds are calculated using the following formula:

$$\text{Total Third Party Funds} = \text{Total Savings} + \text{Total Deposits}$$

Interest Rate

BPR lending rates are usually determined by using the prime lending rate and calculated risk premium. The Prime Credit Interest Rate (SBDK) is an interest rate that shows the reasonableness of expenses borne by BPR, as well as anticipated profits (Zinzari, 2021). In theory, if extremely low interest rates significantly cut bank earnings, the overall advantages of additional monetary policy easing may be diminished. If weaker profitability makes banks less likely to extend new loans, policy easing might ultimately backfire (Brunnermeier & Koby 2019; Eggertsson et al. 2019). Similarly, if banks broaden their loan spreads to maintain their profitability when interest rates are already low, the stimulus provided by decreasing some policy rates may be reduced (Brassil et al., 2018). The BI Rate, which can be found on the Bank Indonesia official website, is used as the interest rate in this study.

Based on the description above, the following is the framework for this study:

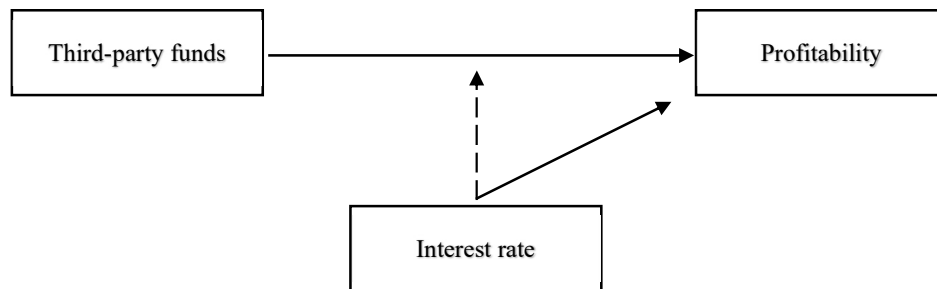


Figure 4 Research Framework

With reference to the conceptual framework above, the hypotheses carried out in the study are as follows:

H1: Third Party Funds have an effect on Profitability

H2: Interest rates have an effect on Profitability

H3: The interest rate strengthens the relationship between Third Party Funds and Profitability

RESEARCH METHODS

Population and Research Sample

This study employs a quantitative methodology and falls under the category of explanatory research, explaining the causal connection between variables through testing hypotheses, which seeks to ascertain how the independent variable impacts the dependent variable (Sugiyono, 2018). The variables in this study consist of 3 types of variables, namely: 1) Independent variable, namely Third Party Funds 2) Dependent variable, namely Profitability 3) Moderating variable, namely Interest Rates. Meanwhile, the population in this study is all BPR throughout Indonesia that are registered and their data is recorded in the Indonesian Banking Statistics at OJK. Withdrawal of samples using non-probability sampling method with purposive sampling technique.

Statistical Analysis

Secondary data is the type of data used, which is obtained from the BPR financial register based on the Indonesian Banking Statistics website at OJK. The company's financial reports are collected from 2017-2022 on an annual basis. In this study the research model uses comparative variables. Variable differences are particular factors that either bolster or erode the correlation between other independent variables and the dependent variable (Ghozali, 2013). Analysis of the moderation

regression model used in this study is pure moderate. The pure moderate test is carried out with reciprocal interactions, but the mediator variable does not function as an independent variable. The multiple regression analysis used in this study was determined by processing the data using the SPSS version 24 statistical program.

RESULTS AND DISCUSSION

Descriptive Statistics Test

Descriptive statistics are used to describe objects, distributions, and are very useful at the beginning of the interpretation of information (Cooper & Schindler, 2014). The standard deviation, maximum and minimum values reflect the distribution of the data. The data shows a high deviation reflecting the broad spectrum. Normal values, maximum values, and minimum values indicate that the distribution of variables is a reasonable size. The results of descriptive statistics can be explained based on the table below.

Table 1 Descriptive Statistics Results

	ROA	DPK	SBK
Means	2.275625	94.38705	24.04075
Median	2.365000	93.81450	24.13000
Maximum	3.260000	122.7060	27.27000
Minimum	1.600000	68.09500	21.44000
Observations	80	80	80

Source: SPSS Processed Results version 24 (2023)

As a result of the data processing, it is possible to observe that the profitability variable (ROA) has a mean or average value of 2.275625, a maximum value of 3.260000, a minimum value of 2.365000, and a median value of 2.365000. The maximum value is 3.260000. The variable third party funds (DPK) have a mean or average value of 94.38705, a range of 122.7060 to 68.09500, and a median value of 93.81450. The credit interest rate variable (SBK) has a mean or average value of 24.04075, a range of 27.27000 to 21.44000, and a median value of 24.13000.

Regression Testing

Before carrying out the MRA test with linear regression, the classical assumption test was first carried out, and the results obtained were that the data were not normally distributed, so the regression model in this study used the HAC Newey-West Test. This is in accordance with the opinion of Hogg & Tanis (1977) that there is no need to worry too much about violating classical assumptions (autocorrelation, normality, and hetero) as long as the researcher has enough subjects for each treatment sample. Where when the classical assumptions are not fulfilled, the researcher only needs to consider the representativeness of the sample becomes more important in a research model. This statement is supported by mathematical evidence (Scheffé, 1959 in Myers, 1979) and empirical study evidence (Boneau, 1960; Bradley, 1964; Donaldson, 1968; Lindquist, 1953 in Myers, 1979). The results of data regression testing with the HAC *Newey-West Test* can be seen in the following table.

Table 2 Regression Test Results

Dependent Variable: ROA

Method: Least Squares

Date: 01/18/23 Time: 10:58

Sample: 1 80

Included observations: 80

HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 4.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.211001	1.641476	3.174583	0.0022
DPK	-0.103560	0.020588	-5.030055	0.0000
SBK	-0.154125	0.071505	-2.155460	0.0343
DPK_SBK	0.004703	0.001001	4.699887	0.0000

R-squared	0.838928	Mean dependent var	2.275625
Adjusted R-squared	0.832570	S.D. dependent var	0.402294
S.E. of regression	0.164611	Akaike info criterion	-0.721754
Sum squared resid	2.059360	Schwarz criterion	-0.602653
Log likelihood	32.87017	Hannan-Quinn criter.	-0.674003
F-statistics	131.9466	Durbin-Watson stat	1.555681
Prob(F-statistic)	0.000000	Wald F-statistics	150.3630
Prob(Wald F-statistic)	0.000000		

Source: Processed Results Data (2023)

The regression model after using the moderating variable used in the study based on the above test is as follows.

$$ROA = 5.211001 - 0.103560 \text{ TPF} - 0.154125 \text{ SBK} + 0.004703 \text{ TPF} \cdot \text{SBK}$$

The aforementioned equation model explains how third party funds and credit interest rates have a negative association with profitability based on the findings of the regression test using HAC. Thus, there is a link between profitability and the loan rate used to control third party money.

Table 3 Determination Analysis Results

Variable Relations	R-Squared
Third Party Funds and Credit Interest Rates on Profitability	0.838928

Source: Processed Results Data (2023)

0.838928 is the R-Squared value. This indicates that third party funding and loan interest rates together affect profitability by 83.8%, while other factors outside the study model affect the remaining 16.2%. Also, the outcomes of this study's simultaneous test (F test) are as follows.

Table 4 Statistical Test Results F

Variable Relations	F-statistics	Prob(F-statistic)
Third Party Funds and Credit Interest Rates	131.9466	0.000000

Source: Processed Results Data (2023)

According to the F-statistic value and the probability value in this study, the F-statistic is 131.9466 with a probability value of 0.000000. The F statistic's probability value is below the significant value of = 5%, indicating that the independent factors in this study—namely, third-party funding and lending rates—have a substantial combined impact on the dependent variable, profitability.

Table 5 Statistical Test Results t

Variable Relations	β	Prob.	Results
DPK $\rightarrow$ ROA	-0.103560	0.0000	significant effect, H1 is accepted
SBK $\rightarrow$ ROA	-0.154125	0.0343	significant effect, H2 is accepted
DPK $\rightarrow$ SBK $\rightarrow$ ROA	0.004703	0.0000	significant effect, H3 is accepted

Source: Processed Results though Data (2023)

- First hypothesis; t test results on the regression model, the *coefficient value* (β) is obtained with a positive direction of -0.103560 and the prob value. of 0.0000 < 0.05 (5% significance level). We may thus say that the first hypothesis is acceptedd..
- Second hypothesis; t test results on the regression model, the *coefficient value* (β) is obtained with a positive direction of -0.154125 and the prob value. of 0.0343 < 0.05 (5% significance level). We may thus say that the first hypothesis is acceptedd.
- Third hypothesis; t test results on the regression model, the *coefficient value* (β) is obtained with a positive direction of 0.004703 and the prob value. of 0.0000 < 0.05 (5% significance level). We may thus say that the first hypothesis isacceptedd.

Discussion

Third Party Funds affect Profitability

Coefficient value (β) with a negative direction is -0.103560 and a significant value is $0.0000 < 0.05$. Thus, H1 is accepted, it is concluded that Third Party Funds have a significant effect on profitability (ROA) in Rural Banks (BPR). This can be explained that third party funds have no effect on return on assets due to an imbalance between the number of incoming funding sources and the amount of credit extended to debtors. The higher the Third-Party Funds collected at the BPR but not offset by lending, the more likely the BPR will experience a loss or decrease in profitability so that the return on assets or the effectiveness of the BPR in obtaining profits also decreases, because interest income from lending to debtors is not sufficient to cover the bank's business. There is interest that must be paid to depositors. The findings of this study concur with those of Katuuk et al. (2018), who found that Third Party Funds significantly reduce ROA. According to Syahbana et al. (2020), the quantity of third party money that banks raise has a significant impact on a company's profitability or financial performance.

Loan Interest Rates affect Profitability

Coefficient value (β) with a negative direction is -0.154125 and a significant value is $0.0343 < 0.05$. Thus, H2 is accepted, it is concluded that interest rates have a significant effect on profitability (ROA) in Rural Banks (BPR). If interest rates increase, it will undoubtedly have an impact on company, especially in industries that depend on loan funding (credit). As credit interest rates rise, a customer's business is not valued similarly to the financing they are receiving, and they protest to the high interest rates, which leads to bad credit and lower bank earnings. These results support the findings of Malik et al. (2017) that interest rates have a significant effect on profitability (ROA) in Pakistani public sector banks.

Interest Rates Strengthen the Relationship Between Third Party Funds to Profitability

Coefficient value (β) with a positive direction is equal to 0.004703 and a significant value of $0.0000 < 0.05$. Thus, H3 is accepted, it is concluded that Third Party Funds have an effect on profitability (ROA) moderated by interest rates at Rural Banks (BPR). If interest rates are low, the company's profits will also be greater. Because, if the interest rate is low, the credit extended by banks will be even greater. Large loans will increase bank profits. The interest rate set by the bank will have an impact on the profit ratio or profitability of the bank. Where with a small interest rate will make bank profits increase.

CONCLUSIONS AND SUGGESTIONS

Based on the data examined and discussed utilizing the MRA analysis approach, conclusions may be formed on the impact of Third Party Funds on profitability with lending rates serving as a moderating variable. According to the study's findings, Third Party Funds significantly impact Rural Banks' profitability (ROA) (BPR). Also, it was shown that interest rates significantly affect the profitability (ROA) of rural banks (BPR). And lastly, the profitability (ROA) of Rural Banks is impacted by Third Party Funds, with the impact being tempered by interest rates (BPR).

Suggestions for BPR management to balance Third Party Funds with loans disbursed so that BPR do not bear higher interest costs and BPR should also set reasonable lending rates specifically from the MSME perspective because the majority of BPR customers are MSME actors. The research conducted by the author is still far from perfect. Regarding future research, the researcher hopes that further researchers can observe other variables that will have an impact on banking profitability which can be projected by the profitability ratio outside of Return on Assets. Further research is also expected to add members to the research sample with a wider population.

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