

Analysis of the Health Level of Regional Development Banks Before and During the Covid-19 Pandemic Using the RGEC Approach in the Sumatra Region

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ABSTRACT

This study aims to analyze the health level of regional banks before and during the pandemic period 2017-2022 in the Sumatra region. Sampling in this study were all regional development banks in the Sumatra region, totaling 8 banks. This research analysis uses the RGEC method (Risk Profile, Good Corporate Governance, Earnings and Capitals). The results of this study indicate that the health level of regional development banks for the 2017-2022 period is 90.38%, overall the condition of the Bank is in a very healthy condition while for bank health in the pre-covid period (2017-2019) of 89.30% and during the pandemic period (2020-2022) of 91.52%, from the results of this study it is stated that there is a growth in the level of bank health before and during the pandemic of 2.22%. This study also analyzed the T test to find differences before and during the pandemic using variables (NPL, LDR, ROA, NIM and CAR) for the LDR, NIM and CAR variables showed significantly different while for the GCG variable using the Wilcoxon test it was found to be significantly different before and during the pandemic.

INTRODUCTION

Banks are business entities that collect funds from the public in the form of deposits and distribute them to the public in the form of credit and or other forms to increase the community's economy. So, banks play an essential role in a country's economy, channeling funds to needy people and significantly increasing community business activities. Banking is a financial institution that has a vital role in economic activities because, through credit activities and various services provided by banks, it can serve various needs in various sectors of the economy and trade. So, banks are the core of the financial sector of every sector (Adnan et al., 2016).

One of the things that contributes to the success of economic development is the banking sector's stability. Based on its primary function as a collector and distributor of funds, the bank will always be concerned with parties with excess funds and parties who lack or need funds, which are often referred to as creditors; this is called an intermediary function which can be said that banks are channeling funds from economic units that have excess funds to units that lack funds. Business activities carried out by banks can take place smoothly if the bank's conditions are in the healthy category. A bank's health is the bank's ability to carry out everyday banking operations and fulfill all its obligations in ways that are by applicable banking regulations. An unhealthy banking system will cause the bank's function as an intermediary institution not to function optimally. Bank health is needed so citizens' confidence in the banking industry regarding depositing funds is always maintained based on banking regulations (Natalia, 2020).

The increasing spread of COVID-19 has led the government to establish Large-Scale Social Restrictions (PSBB) to overcome the spread of the virus, which has caused a lack of domestic business activities and a negative impact on the economy, including in the banking sector, especially in maintaining the level of Bank health. During the PSBB period, the banking industry has made several strategies to deal with the impact of COVID-19, including credit restructuring to encourage customers to make transactions digitally. The credit restructuring policy is regulated in the Financial Services Authority Regulation (POJK) Number 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy Impact of the Spread of Coronavirus Disease 2019. The POJK aims to contain the increase in NPL (Non-Performing Loan) and provide relaxation for debtors affected by COVID-19 in paying installments of bank obligations during the pandemic. The guidelines contained in the POJK in determining debtors who receive credit restructuring include micro, small, and medium enterprises (Ulya, 2020; Thamrin et al., 2020).

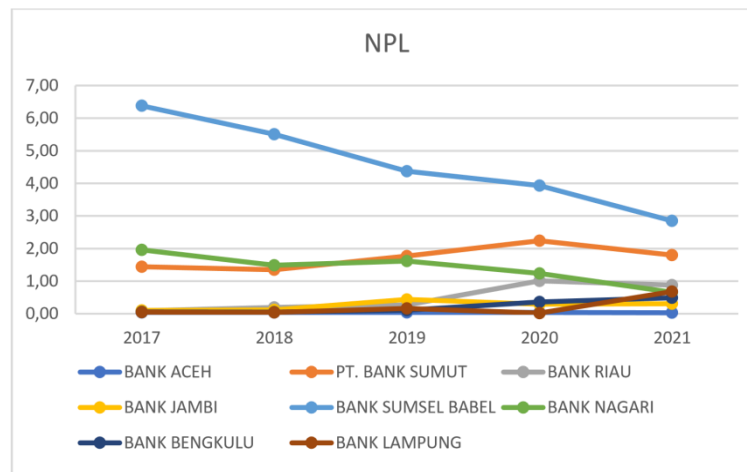
Regional Development Bank (BPD) is a commercial bank whose share ownership is owned by the Provincial Government in various regions, which supports regional development. Until now, 26 BPDs have served almost every region of Indonesia. Based on data from Indonesian Banking Statistics, the performance of BPD is quite good, although it has yet to show significant growth. This is influenced by several problems that affect the performance of BPD itself, according to the Financial Services Authority, among others, the first

problem is seen from the contribution to the local government, which is reflected in the relatively small share of productive credit, which amounted to 29 percent until 2016. The second problem is inadequate governance, human resources, risk management, and infrastructure, triggering an increase in non-performing loans. The third problem lies in the BPD's low competitiveness due to inadequate product and service quality. BPD is expected to overcome these problems slowly to grow and maintain its health (Arham, 2019).

So, the Bank's health can be seen from several factors, one of which is whether the Bank carries out business activities and functions that can be done correctly. For this reason, it is necessary to assess the health level of the Bank to find whether the Bank is healthy or not. Bank Indonesia Regulation No. 6/10/PBI/2004 concerning the Health Level Assessment System for Commercial Banks. Based on the Financial Services Authority Regulation No.04/POJK.03/2016 concerning the Assessment of the Health Level of Commercial Banks, the Bank must conduct a self-assessment of the Bank's Health Level. All commercial banks must use the latest bank health level assessment guidelines with the Risk-Based Bank Rating (RBBR) approach (Nasharuddin, 2017).

The guidelines are known as the Risk Profile, Good Corporate Governance, Earnings and Capitals (RGEC) method, which consists of a Risk profile, which is an assessment of credit risk (NPL) and liquidity risk (LDR). The second factor is good corporate governance. Good Corporate Governance (GCG) is a system that regulates the relationship between stakeholders in order to achieve company goals. The third factor is Earnings (profitability), which is the company's ability to generate profits from the capital invested in total assets of ROA and NIM. Finally, the Capital factor shows the minimum capital needed to cover the risk of losses that may arise from investing in risky assets and financing all fixed assets and bank inventory (Nufus et al., 2019).

During the COVID-19 pandemic, most banks experienced difficulties in maintaining the quality of NPL (Non-Performance Loan). The increase in the value of NPLs resulted from bad debts due to economic disruption caused by PSBB and low money turnover during the pandemic. The increasing value of NPLs in most banks during the COVID-19 period can be seen in Graph 1.



Graph 1. Non-Performance Loan Recapitulation

Source: Processed Data, 2023

Seen in Graph. 1 above, it can be concluded that of the 8 BPDs in the Sumatra region for 2020 there are 3 BPDs that have experienced an increase in NPLs, namely Bank SUMUT, Bank Riau, and Bank Bengkulu, while in 2021 there are 3 BPD that have experienced an increase in NPLs, namely PT. Bank Jambi, Bank Bengkulu and Bank Lampung. Therefore, with the phenomenon that occurred, the author has an interest in examining the health level of Regional Development Banks during the COVID-19 pandemic using the (RGEC) Approach in the Sumatra region.

THEORETICAL REVIEW

The literature study on the results of bank health level research encompasses various approaches and methods to assess the soundness of banks (Firdaus & Qumaira 2020; Sari & Lestari, 2022). The research covers the analysis of bank health through capital approaches, risk profile, and earnings using different ratios such as CAR, NPL, LDR, ROA, and NIM. The studies aim to identify the effect of these indicators on bank soundness and provide ongoing methods to identify issues in the banking sector at an individual bank level (Bayar et al., 2023). The research also emphasizes the importance of measuring bank soundness to maintain stability and fulfill obligations. Additionally, it highlights the significance of bank health in influencing public trust and its use by parties related to banking companies to evaluate bank indicators (Krech et al., 2018).

The studies provide valuable insights for regulators, investors, private equity firms, and law firms to identify banks that may be experiencing difficulty or potential failure (Gunawan et al., 2019). Furthermore, the literature emphasizes the mutual interests of banking and health, acknowledging the role of financial sector actors in investing in global health. The research also delves into the impact of banking sector development on population health (Giorgi et al., 2017). Overall, the literature study offers a comprehensive analysis of bank health level using various methods and its implications for the banking sector and beyond.

Bank Health Level Analysis

In connection with the Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 4/POJK.3/2016 regarding the Assessment of the Health Level of Commercial Banks. It is stipulated that banks are required to independently assess their health level to produce a composite rating of the bank's health level. Based on the composite rating, the bank health predicate can be applied as below:

1. A composite rating of 1 as referred to reflects the general state of the bank which is "very healthy".
2. Composite rating 2 as referred to reflects the general state of the bank which is "healthy".
3. Composite rating 3 as intended, which reflects the general condition of the bank, namely "fairly healthy".
4. Composite rating 4 as intended, which reflects the general condition of the bank, namely "less healthy".
5. Composite rating 5 as intended, which reflects the general condition of the bank, namely "unhealthy".

Bank Financial Performance Analysis

Analyzing the financial performance of a bank involves evaluating various aspects such as net interest margin income, capital adequacy, asset quality, management capabilities, earnings sufficiency, liquidity, and sensitivity to market risk. Financial performance analysis of a bank includes assessing its overall financial health, profitability, liquidity, and solvency. This is done by examining the bank's unique financial statements and using methods to evaluate and assess its financial activity. The CAMELS approach, which stands for Capital adequacy, Asset quality, Management capabilities, Earnings sufficiency, Liquidity position, and Sensitivity to market risk, is a widely used method for analyzing a bank's performance. Additionally, factors such as customer response, operations management, and market share are also considered in evaluating a bank's financial performance (Enad et al., 2022).

RGEC Method

Based on the Circular Letter of the Financial Services Authority of the Republic of Indonesia Number 4/POJK.3/2016 regarding the Assessment of the Health Level of Commercial Banks, the assessment of bank health level is carried out on banks either individually or consolidated. The Bank assesses the level of bank health using the Risk Based Bank Rating (RBBR) approach accompanied by an assessment of various factors Risk profile, Good Corporate Governance (GCG), Rentability (earnings), and Capital.

METHODOLOGY

This study uses quantitative research methods involving social survey techniques such as structured interviews, questionnaires, experiments, observation, content analysis, and statistical analysis (Zakariah et al., 2020). Data collection for this study will follow the guidelines outlined in Bank Indonesia Regulation No. 13/1/PBI/2011, which assesses the soundness of

banks using the RGEN method. This study also uses quantitative and qualitative data. Quantitative data consists of numerical information obtained from financial statements, while qualitative data will involve verbal statements and overviews of banking companies. The quantitative data used in this study includes the statement of financial position, income statement, statement of changes in capital, and cash flow statement.

RESULTS

Analisa Risk Profile

The financial ratios used in assessing the level of bank health in terms of risk profile in this research use 2 indicators, namely credit risk and liquidity risk.

NPL (Non-Performance Loan)

The NPL ratio shows that the bank's management capability to manage non-performing loans given by the bank. The NPL ratio is obtained from substandard loans to bad loans divided by Third Party Funds. NPL reflects risk, if the NPL value is smaller, the smaller the credit risk that the bank bears. Conversely, if the NPL increases, the greater the credit risk borne by the bank. The following table 1. NPL of Regional Development Banks in the Sumatra region in 2017 - 2022.

Table 1. BPD NPL Value 2017 - 2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	0,04	0,04	0,04	0,04	0,03	0,04	0,04	Very healthy
Bank Sumut	1,44	1,35	1,77	2,24	1,80	1,21	1,64	Very healthy
Bank Riau	0,09	0,19	0,27	1,01	0,88	0,33	0,46	Very healthy
Bank Jambi	0,10	0,12	0,44	0,29	0,31	0,28	0,26	Very healthy
Bank Sumsel Babel	6,38	5,51	4,37	3,93	2,85	2,78	4,30	Very healthy
Bank Nagari	1,96	1,49	1,62	1,24	0,66	0,18	1,19	Very healthy
Bank Bengkulu	0,06	0,05	0,11	0,36	0,49	0,50	0,26	Very healthy
Bank Lampung	0,05	0,04	0,16	0,02	0,68	1,52	0,41	Very healthy
Average	0,86	0,64	0,73	0,75	0,67	0,57	0,70	Very healthy

Source: Processed Data, 2023

From table. 1 obtained the average NPL of 8 BPDs from 2017 to 2022 is 0.70. The BPD with the highest average NPL is BPD SUMUT of 1.64 and the lowest average NPL is BPD Aceh of 0.04. When viewed from Before the Covid Pandemic (2017 - 2019) the average NPL of BPD Sumatra Region was 0.74 and during the Covid pandemic (2020-2022) the average NPL of BPD Sumatra Region was 0.66. It can be concluded that there is no significant difference, even though the NPL BPD willayah Sumatra before the pandemic and during the pandemic decreased by 0.08.

Loan to Deposit Ratio (LDR)

The LDR ratio is used to measure the ratio between the amount of credit that has been distributed to debtors divided by total third party funds, which illustrates the bank's ability to pay back when debtors withdraw large amounts of funds by relying on credit provided as a source of liquidity. The following table (4.10) LDR Regional Development Bank of Sumatra region in 2017 - 2022.

Table 2. BPD LDR Value 2017-2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	69,44%	71,98%	68,64%	70,82%	68,06%	75,44%	70,73%	Very Healthy
Bank Sumut	89,14%	97,91%	94,16%	87,62%	81,31%	87,28%	89,57%	Healthy Enough
Bank Riau	94,10%	98,05%	89,70%	85,63%	73,72%	72,67%	85,65%	Healthy Enough
Bank Jambi	100,75%	100,64%	101,37%	90,50%	84,68%	95,08%	95,50%	Healthy Enough
Bank Sumsel babel	78,97%	71,36%	72,82%	83,13%	75,63%	76,45%	76,39%	Healthy
Bank Nagari	99,24%	96,68%	97,19%	95,70%	91,19%	91,50%	95,25%	Healthy Enough
Bank Bengkulu	89,86%	104,33%	97,06%	91,78%	93,41%	90,48%	94,49%	Healthy Enough
Bank Lampung	88,22%	98,42%	83,36%	89,60%	75,44%	77,47%	85,42%	Healthy Enough
Average	88,72%	92,42%	88,04%	86,85%	80,43%	83,30%	86,62%	Healthy Enough

Source: Processed Data, 2023

From the data Table. 2 shows that the overall average LDR of BPD Sumatra Region is 86.62%, which when viewed from the criteria falls into the "Healthy Enough" category and seen from the lowest average LDR BPD Aceh of 70.73% falls into the "Very Healthy" category while the largest average LDR of BPD Jambi 95.50% falls into the "Healthy Enough" category. Judging from before the Covid 19 Pandemic (2017-2019) the average LDR was 89.72% and during the Covid 19 Pandemic (2020-2022) the average LDR was 83.53%. It can be concluded that there is a significant difference before covid and at the time of covid where before covid was in the quite healthy category and at the time of covid it dropped to healthy and the decrease was 6.19%.

Good Corporate Governance (GCG)

The provision of GCG criteria is carried out by banks on a self-assessment basis but still under the supervision of the Financial Services Authority where GCG assessment factors are comprehensive and structured including governance structure, governance process and governance outcome. The following table. 3 illustrates the results of the self-assessment of BPD in the Sumatra Region in 2017-2022.

Table 3. BPD GCG Score 2017-2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	3,00	3,00	2,00	2,00	2,00	2,00	2,33	Healthy
Bank Sumut	2,00	2,00	2,00	2,00	2,00	2,00	2,00	Healthy
Bank Riau	3,00	3,00	3,00	3,00	3,00	2,00	2,83	Healthy Enough
Bank Jambi	2,00	2,00	2,00	2,00	2,00	2,00	2,00	Healthy
Bank Sumsel babel	2,00	2,00	2,00	2,00	2,00	2,00	2,00	Healthy
Bank Nagari	2,00	2,00	2,00	2,00	2,00	2,00	2,00	Healthy
Bank Bengkulu	2,00	2,00	2,00	1,00	1,00	1,00	1,50	Healthy
Bank Lampung	3,00	3,00	3,00	2,00	3,00	2,00	2,67	Healthy Enough
Average	2,375	2,375	2,25	2	2,125	1,875	2,17	Healthy

Source: Processed Data, 2023

Can be seen from Table. 3 shows that the average GCG BPD 2017-2022 is 2.17 in the healthy category. When viewed on average before the Covid pandemic in 2017-2019 of 2.33 was in the healthy category, and likewise during the pandemic in the year 2020-2022 of 2 was in the healthy category. It can be concluded that there is no significant difference, even though the GCG BPD Sumatra region before the pandemic and during the pandemic decreased by 0.33.

Analisa Earnings

Financial ratios used in measuring the bank's ability to earn profits each period, earnings ratios are often called rentability or profitability ratios. In this study using two ratios, namely ROA and NIM.

Return On Asset (ROA)

Return On Assets (ROA) is a ratio that expresses the results on the total assets used by the company. this is inversely proportional if this ratio increases the better. The meaning is that this ratio is used to measure the effectiveness of the company's overall operations. The following table illustrates the value of ROA at Regional Development Banks in the Sumatra Region in 2017-2022.

Table 4. BPD ROA Value 2017-2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	2,51	2,38	2,33	1,73	1,87	2,00	2,14	Very Healthy
Bank Sumut	2,65	2,09	2,21	1,89	2,00	2,39	2,21	Very Healthy
Bank Riau	2,30	1,97	1,74	2,54	1,93	2,31	2,13	Very Healthy
Bank Jambi	3,65	3,06	2,72	3,17	3,20	3,43	3,21	Very Healthy
Bank Sumsel babel	1,83	1,93	1,86	2,00	2,01	2,07	1,95	Very Healthy
Bank Nagari	1,86	2,03	2,06	1,78	1,90	1,93	1,93	Very Healthy
Bank Bengkulu	2,02	1,76	2,15	2,06	1,38	1,82	1,87	Very Healthy
Bank Lampung	2,44	2,27	2,31	2,76	2,19	2,01	2,33	Very Healthy
Average	2,41	2,19	2,17	2,24	2,06	2,25	2,22	Very Healthy

Source: Processed Data, 2023

Can be seen in table. 4 the average ROA value at BPD Sumatera Region for the period 2017-2022 is 2.22 where this value is in the "very healthy" category. When viewed before the covid pandemic (2017-2019) the average was 2.25 and during the covid pandemic (2020-2022) the average was 2.18 It can be concluded that the ability of company assets to earn profits.

Net Interest Margin (NIM)

Net Interest Margin is a measure of the difference between the bank's interest income and the amount of interest paid to lenders. Its purpose is to perform risk management performance of banks and other finance companies.

Table 5. BPD NIM Value 2017-2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	7,61	7,72	7,72	6,94	6,92	6,89	7,30	Very Healthy
Bank Sumut	7,44	7,36	7,22	6,80	6,52	6,39	6,96	Very Healthy
Bank Riau	5,48	5,81	5,42	5,32	4,64	5,98	5,44	Very Healthy
Bank Jambi	5,92	8,04	5,00	5,49	6,01	6,54	6,17	Very Healthy
Bank Sumsel babel	10,87	7,70	8,05	8,05	7,73	7,41	8,30	Very Healthy
Bank Nagari	6,53	7,17	6,72	6,19	6,57	7,09	6,71	Very Healthy
Bank Bengkulu	6,12	7,50	7,29	5,93	5,55	6,92	6,55	Very Healthy
Bank Lampung	5,26	5,52	5,21	5,76	4,61	4,85	5,20	Very Healthy
Average	6,9	7,1	6,58	6,31	6,07	6,51	6,58	Very Healthy

Source: Processed Data, 2023

Can be seen in table. 5 the average NIM value at BPD Sumatra Region for the period 2017-2022 is 6.58 where this value is included in the "very healthy" category. When viewed before the covid pandemic (2017-2019) the average was 6.86 and during the covid pandemic (2020-2022) the average was 6.29. It can be

concluded that the comparison between interest rates distributed to customers and credit interest is still classified as very safe.

Analisa Capital

In conducting modeling calculations, banks must refer to Bank Indonesia's provisions regarding the Minimum Capital Adequacy Requirement (KPPM). The modeling assessment in this study uses the Casio Adequery Ratio (CAR), which is the capital adequacy ratio that functions to accommodate the risk of loss that may be faced by the bank. The higher the CAR in a bank, the better the bank's ability to bear the risks faced by the bank.

Table 6. CAR value of BPD 2017-2022

BPD	2017	2018	2019	2020	2021	2022	Average	Description
Bank Aceh	21,50	19,67	18,90	18,60	20,02	23,52	20,37	Very healthy
Bank Sumut	15,85	17,85	18,49	20,99	20,47	20,13	18,96	Very healthy
Bank Riau	22,43	20,35	21,01	20,77	21,07	22,00	21,27	Very healthy
Bank Jambi	21,00	24,44	22,78	23,90	25,38	31,24	24,79	Very healthy
Bank Sumsel babel	21,83	21,55	18,90	21,40	22,05	21,54	21,21	Very healthy
Bank Nagari	19,97	20,50	19,96	20,75	21,73	21,11	20,67	Very healthy
Bank Bengkulu	19,36	19,26	19,14	24,24	22,92	24,52	21,57	Very healthy
Bank Lampung	20,57	19,69	18,54	27,86	26,92	26,47	23,34	Very healthy
Average	20,31	20,41	19,72	22,31	22,57	23,82	21,52	Very healthy

Source: Processed Data, 2023

Can be seen in the table. 6 the average NIM value at BPD Sumatra Region for the period 2017-2022 is 21.52 where this value is included in the "very healthy" category. When viewed before the covid pandemic (2017-2019) the average was 20.15 and during the covid pandemic (2020-2022) the average was 22.9. It can be concluded that the bank is very healthy.

Risk Based Bank Rating (RBBR)

The following table shows the overall average assessment of health levels using the RGEC method at Regional Development Banks in the Sumatra region registered with the Financial Services Authority in the 2017-2022 period.

Table 7. Health Level Score using the RGEC Method

No	Pengukuran Keuangan	Risk Based Bank Rating						Average	Description	PK
		2017	2018	2019	2020	2021	2022			
1	Non-Performance Loan	1,27	1,10	1,10	1,14	0,96	0,86	1,07	Very Healthy	1
2	Loan to Deposit Ratio (LDR)	88,72%	92,42%	88,04%	86,85%	80,43%	83,30%	86,62%	Healthy Enough	3
3	Good Corporate Governance (GCG)	2,4	2,4	2,3	2,0	2,1	1,9	2,17	Healthy	2
4	Return On Assets (ROA)	2,41	2,19	2,17	2,24	2,06	2,25	2,22	Very Healthy	1
5	Net Interest Margin (NIM)	6,90	7,10	6,58	6,31	6,07	6,51	6,58	Very Healthy	1
6	Capital Adequacy Ratio (CAR)	20,31	20,41	19,72	22,31	22,57	23,82	21,52	Very Healthy	1
Bank Health									Very Healthy	1,5

Source: Processed Data, 2023

Can be seen from the table. 7 the average level of bank health using the RGEC method is 1.5 where this value is in the very healthy category. When viewed from before the covid pandemic in 2017-2019 of 1.5 was in the very healthy category, while during the covid pandemic in 2020-2022 of 1.3 was in the very healthy category.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of research analyzing the health level of regional development banks before and during the covid 19 pandemic using the RGEC approach in the Sumatra region as follows:

1. Analysis of the health level of Regional Development Banks in the Sumatra Region with Risk Profile indicators for credit risk with an average NPL for the entire 2017-2022 period of 0.70 entering into a very healthy predicate, for liquidity risk showing the overall LDR for the 2017-2022 period of 86.62% entering into a fairly healthy predicate.
2. Analysis of the level of health of the Regional Development Bank of Sumatra Region with GCG indicators on risk management by self-assessment with an average overall GCG for the 2017-2022 period of 2.17 included in the healthy predicate.
3. Analysis of the level of health of the Regional Development Bank of Sumatra Region with the Earnings factor with the ROA indicator with an overall average period 2017-2022 of 2.22 into a very healthy predicate. For

the overall NIM ratio for the 2017-2022 period of 6.58%, it is included in the very healthy predicate.

4. Analysis of the level of health of the Regional Development Bank of Sumatra Region with the CAR indicator on the capital adequacy ratio to anticipate potential losses with an overall average CAR for the 2017-2022 period of 21.52 included in the predicate very healthy.

FURTHER STUDY

For future research, it is recommended to conduct research with an in-depth approach to the health conditions of regional banking development in the Sumatra region. Focus on Risk, Governance, Efficiency, and Capital aspects to obtain a comprehensive picture.

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