



Tor-determining factors for the existence of a management risk committee in banking in Indonesia

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ABSTRACT

This study aims to identify the existence of a Risk Management Committee on banking in Indonesia. This Study uses the determinants of the existence of the Risk Management Committee which are independent commissioners, board size, auditor reputation, complexity and size of the company. The data used in this study is data banking on the Indonesia Stock Exchange (IDX) from 2009 to 2011. The sample collection used purposive sampling and resulted in 91 sample banks as a final sample. In this study using logistic regression analysis. The results of this study state that independent commissioner, board size, auditor reputation and complexity have no significant relationship with the existence of the Risk Management Committee. And the size of the company has a positive and significant relationship with the existence of a Risk Management Committee.

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1. INTRODUCTION

According to Widigdo Sukarman (2007), a bank is an intermediary institution that holds funds from the public and distributes them in the form of credit, the nature of a bank's business based on the level of trust from customers with small equity capital is a highly leveraged business. So the business risk of the Bank is greater than that of real sector companies which have a higher capital ratio. Because of this, Bank Indonesia provides a policy regarding strict capital in order to buffer possible losses due to risk. In Basel I 1988, required a minimum capital standard for banks of 8% for measuring credit risk.

The Basel Committee then developed a framework for capital requirements by designing Basel II, with calculations that are more sensitive to risk and to improve the quality of risk management in the Bank. The three pillars contained in Basel II are minimum capital requirements, supervisory review process, and market discipline. According to Bank Indonesia, the existence of Basel II can improve the security and soundness of the financial system with these three pillars. Because Basel II is a refinement of Basel I where bank capital is not only exposed to credit risk but also to market risk, credit risk, operational risk and other risks. (Sukarman, 2007).

Judging from the large number of risk exposures at the Bank, therefore the supervision and risk management at the Bank needs to be further improved, and the board of commissioners has an important role in monitoring and risk management in good corporate governance (GCG). In Kaihatu's research (2006), by definition GCG is a system that regulates and controls companies that create added value (value added) for all stakeholders.

In 2003 Bank Indonesia prepared regulations regarding the Application of Risk Management which are regulated in PBI No. 5/8/PBI/2003 which came into effect on 1 January 2004. The establishment of a Risk Management Committee for banking is regulated very strictly by Bank Indonesia, imposing sanctions if it is not implemented. In addition to the establishment of a Risk Management committee, the regulation also establishes a Risk Management work unit that is directly responsible to the main director or to a designated director.

The results of the Risk Management work unit are in the form of a risk profile report which is submitted to Bank Indonesia in accordance with that submitted to the main director and the Risk Management committee. In addition to the risk profile report, Banks are required to submit reports on new products and activities to Bank Indonesia. Reports sent by the Bank to Bank Indonesia are in accordance with the principles of information disclosure (transparency) in GCG. This is explained in PBI No. 5/8/PBI/2003 article 12, article 25 and article 26.

With the existence of an external audit in accordance with good corporate governance practices in the Risk Management committee. Big Four auditors are considered better because of the reputation of a well-known public accounting firm and a good level of supervision. Using trusted auditors can maintain audit quality and protect their reputation (Subramaniam et al, 2009).

The formulation of the problem used in this study, namely: Does the proportion of independent commissioners have a positive effect on the risk management committee? Does board size have a positive effect on the risk management committee? Does the auditor's reputation have a positive effect on the risk management committee? Does the complexity of the bank determine the risk management committee? Does company size determine the risk management committee?

2. RESEARCH METHOD

This study uses descriptive statistics, because it provides an overview or description of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and distribution skewed (Ghozali, 2011). This study aims to determine what factors influence the existence of a Risk Management Committee in banks in Indonesia. The object to be studied is the banking industry listed on the Indonesia Stock Exchange (IDX). The observation period was carried out in 2009 for every financial report available at the bank.

Data Collection Method. The sampling technique was carried out by purposive sampling method, namely the sample based on the suitability of the sample characteristics in the predetermined sample selection criteria. The criteria used to determine the sample are as follows: 1). Companies originating from financial industry groups listed on the IDX, 2). Banks that provide complete annual reports on the IDX in 2009, 3). Banks that publish annual financial reports for the period 31 December 2009 expressed in rupiah (Rp)

Type and source of data. The data used in this study is secondary data in the form of annual banking reports in 2009. The secondary data required from the annual report is the existence of a risk management committee or RMC which consists of the existence of a proportion of independent commissioners, board size, auditor reputation, banking complexity and company size. Data sources were obtained from the official IDX website <http://idx.co.id> and the official website of the bank concerned.

Data Collection Techniques According to the type of data required, namely secondary data obtained from the official IDX website, in the form of financial reports (annual reports) from financial companies or banks that have been registered with IDX.

Data Processing Techniques. Research model. The analytical method used to test the hypothesis in this research is logistic regression to test whether the probability of occurrence of the dependent variable can be predicted by the independent variable (Ghozali, 2011).

Operationalization of Variables. After the necessary data is related to the Risk Management Committee or RMC, these data will then be processed by carrying out several steps, as follows: 1). Independent Commissioner Proposition. In the financial reports published annually, there is information regarding the composition of the Board of Commissioners both from within the

company and from outside (independent) parties. The proportion of Independent Commissioners is measured by the number of Independent Commissioners divided by the number, 2). Board Size Data, Board of Commissioners Size data in this study were obtained by adding up commissioners from within the company and also commissioners from outside (independent) parties in a bank. Board of commissioners size data is presented in the form of a number or nominal. 3). External Auditor Data, To obtain data regarding the external auditor, it can be obtained by looking at the auditor who audited the bank's financial statements. In this study using a dummy variable, that is, if a bank uses a BigFour auditor, it is given a value of 1 and 0 if it does not use the services of a BigFour auditor. 4). Bank Complexity Data. This data is obtained by analyzing and summing the Bank's subsidiaries. Subsidiaries can be in the form of: capital market services and services, sharia banking, life insurance, MSMEs, financing services, general insurance. 5). Company Size Data. This data is obtained by looking at the total assets owned by a bank. In order to avoid large discrepancies between large and small banks, the total asset data is presented in the form of natural logarithms.

Data Analysis Methods, 1). Descriptive Statistics. Descriptive statistical analysis is used to provide an overview of the variables tested in the study. The description in question is like the frequency distribution, maximum, minimum, average and standard deviation of other independent variables.

3. RESULTS AND DISCUSSION

General Description of the Research Object

The object of this study were Indonesian banks listed on the Indonesia Stock Exchange for the period 2009 - 2011. Using the purposive sampling method, there were 29 banks that were sampled in this study. Table.1 describes the selection of samples for research.

Table.1 Calculation of Sample Selection

Information	Amount
Number of Banks listed on the IDX	31
Research period 2009-2010	3
Total research sample	93

Source: Processed data (Indonesia Stock Exchange)

In table.1 it is known that the object of this study was 93 banks, which used two periods, namely 2009 - 2011. So the number of samples in the study became 93 samples. The following are the names of the 31 banks that became the research sample.

Table.2 List of Banking

No.	Bank name
1	Bank Aroniaga Tbk
2	Bank Artha Graha Internasional Tbk
3	Bank Bukopin
4	Bank Central Asia Tbk
5	Bank CIMB Niaga Tbk
6	Bank Danamon Indonesia Tbk
7	Bank ICB Bumiputera Tbk
8	Bank Internasional Indonesia Tbk
9	Bank Kesawan Tbk
10	Bank Mandiri Tbk
11	Bank Mayapada Internasional Tbk
12	Bank Mega Tbk
13	Bank Negara Indonesia (Persero) Tbk
14	Bank Nusantara Parahyangan Tbk
15	Bank OCBC NISP Tbk
16	Bank Permata Tbk
17	Bank Rakyat Indonesia (Persero) Tbk
18	Sinarmas Bank
19	Bank Swadesi Tbk

20	National Pension Savings Bank
21	Bank Victoria International Tbk
22	PAN Indonesia Bank Tbk
23	PT Bank Bumi Artha
24	PT Bank Capital Indonesia
25	PT Bank Ekonomi Rahaja Tbk
26	PT Bank Association of Brothers 1906 Tbk
27	PT Bank Mutiara Tbk
28	PT Bank Pundi Indonesia Tbk
29	State Savings Bank PT
30	West Java Regional Development Bank
31	Windu Kenjtana International Bank

Source: Processed products

Descriptive Statistical Analysis

Descriptive data analysis provides an overview of each variable in the research regarding the minimum, maximum, average, and standard deviation.

Table.3 Descriptive Data Results

	Sample	Min.	max.	Average	std. Deviation
Independent Commissioner	93	0.00	1.00	0.5104	0.18960
Board Size	93	2	9	4.97	1.778
Bank Size	93	21.08	27.04	23.8602	1.68306

Source: SPSS 17.0 results

The results of the descriptive data present the minimum, maximum, average, and standard deviation values of each variable that affect the existence of the Risk Management Committee as the dependent variable. In the independent variable (variable X) there are two variables which are categorical variables, namely the Auditor Reputation variable and the Complexity variable. The categorical variable only contains a value of 1 for positive/yes/yes and a value of 0 for otherwise. Then the maximum, minimum, average, and standard deviation values are not used.

Hypothesis test

Assessing the Feasibility of the Regression Model (Goodness Of Fit),

There are three criteria for assessing the feasibility of the regression model statistically. Namely by looking at the SPSS results from the Hosmer and Lemeshow test, the Negalgarke R-square test, and the classification plot.

Table.4 Overall Test Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	step	25,223	5	.000
	blocks	25,223	5	.000
	Model	25,223	5	.000

Source: SPSS 17.0 results

So from the results of the overall test, in this study there are independent variables that can affect the dependent variable. The results of this statistical significance explain that the model used in this study is a good model.

Logistic Regression Results

After passing the model feasibility test and assessing the entire model, the next step is to test the partial test of each variable. In Table 4.9 Partial Test testing with a significance of 5% - 10%. From the SPSS results, the logistic regression model is obtained as follows:

$$\text{Ln}(p/1-p) = -22.238 - 1.120\text{NONEXDIR} + 0.417\text{BOARDSIZE} - 0.604\text{AUDITOR} + 18.017\text{BUSSEGMENT} + 1.007\text{SIZE} + e$$

Hypothesis Test Results

To test each independent variable, a partial test was used in this study according to Table 5 below:

Table 5. Partial Test Variables in the Equation

		B	SE	Wald	df	Sig.	Exp(B)
Step 1a	NONEXDIR	-1,120	1,449	.597	1	.440	.326
	BOARDSIZE	.417	.421	.980	1	.322	1,517
	AUDITORS	-.604	1.126	.288	1	.592	.547
	BUSSEGMENTS	18017	5079122	.000	1	.997	6.682E7
	Ln_size	1.007	.537	3,518	1	.061	2,738
	Constant	-22,238	11,914	3,484	1	.062	.000

Source: SPSS 17.0 results

Analysis of Research Results

By testing the stages of goodness of fit testing with the results of a feasible model for further testing, the second stage of testing is the overall test. In the overall test to test the feasibility of all the variables tested, the results are significant, namely there are independent variables that influence the presence of RMC (the dependent variable). Partial test is a separate test of the independent variables. The results of the partial test statistics state that company size is the only independent variable that influences the dependent variable.

Independent Commissioner

Having an independent commissioner can help the Bank form a Risk Monitoring Committee which has the task of evaluating and also forming a Risk Management Committee. With research data obtained from 93 samples, it is known that several banks do not have independent commissioners, so in descriptive analysis the minimum data result is 0. This shows that Independent Commissioners have no influence on the existence of a Risk Management Committee. Banks that do not have an independent commissioner but are able to form a Risk Management Committee apart from the high level of compliance, the Bank forms a Risk Monitoring Committee using a temporary commissioner who has not been appointed as a permanent commissioner.

Board Size

From the results of the partial test, it is found that board size has no significant relationship to the existence of the Risk Management Committee. The results of the study are not in accordance with Subramaniam, et al. (2009) which states that board size has a significant effect on the existence of a Risk Management Committee. According to Andarin & Januarti (2010) whose research results show that board size does not have a significant relationship with the Risk Management Committee, it states that a large board size will add to problems in terms of communication and coordination. The size of the board of commissioners does not affect the existence of a Risk Management Committee.

Auditors' Reputation

The auditor's reputation variable has no significant effect on the existence of the Risk Management Committee in accordance with the SPSS results. These results are in accordance with the research of Subramaniam, et al. (2009); Orphans (2009); Andarin&Januarti (2010). By using the services of the BigFour Auditor, the opinion obtained from the auditor on the Bank's financial statements is considered better because of the auditor's reputation and can also increase the Bank's reputation. BigFour auditors place more emphasis on the Bank's oversight of financial risks (Andarin & Januarti, 2010).

Managerial Implications

The existence of a Risk Management Committee can assist the main board of directors to provide recommendations on risk policies, strategies and applications. The establishment of this committee is expected to assist Bank Indonesia in supervising banking in Indonesia through reporting related to risk management. The results of the study explain that the factors of independent commissioners, board size, auditor reputation and complexity have no relationship with the existence of a Risk Management Committee. Company size has a significant relationship with the existence of the committee.

4. CONCLUSION

Based on the test results of the logistic regression analysis model in this study, it can be concluded that: 1). Independent Commissioners do not have a significant relationship with the existence of Risk Management Committees in banks in Indonesia. 2). Board size does not have a significant relationship with the existence of a Risk Management Committee, this shows that the size of the board does not affect the formation of the committee. 3). Auditor reputation does not have a significant relationship with the existence of a Risk Management Committee, using the services of a BigFour Auditor or a Non BigFour auditor does not affect the existence of a Risk Management Committee. 4). Complexity has no significant relationship with the existence of a Risk Management Committee, This is because the proxy for the existence of a subsidiary owned by a bank determines the complexity of the bank. 5). Company size has a significant relationship to the existence of a Risk Management Committee. Banks with large assets pay attention to risk management committees to be applied to these banks.

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