Third-Party Funds, Capital Adequacy, Bi Rate On The Profitability Of Digital Bank Indonesia

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Abstract

Profitability refers to a corporation's capacity to make profits by comparing the earnings generated with the assets or capital utilised within a specific period. According to theory, The Three independent variables have an impact on profitability. Bank Digital Indonesia is projected to undergo a decline in profitability during the winter of 2022-2023. The objective of this study is to assess and examine the impact of the variables Third-Party Funds, Capital Adequacy, and BI Rate on the profitability of Digital Bank Indonesia. To assess the concurrent impact of the factors “Third Party Funds, Capital Adequacy, and BI Rate on the Profitability of Bank Digital Indonesia”. This study comprised a cohort of 12 digital banks, encompassing the timeframe from 2022 to 2023. The sampling technique employed was purposive sampling, which involved selecting a sample of 5 digital banks based on 8 quarterly reports. Therefore, the sample consisted of a total of 40 data points. This study employed an associative methodology, using E-Views 10 as a tool for data analysis. The findings of this study indicate that Third-Party Funds do not have any impact on Profitability. Capital Adequacy has no substantial impact on profitability. Moreover, the BI Rate has a negligible effect on Profitability. The profitability is influenced by the Third-Party Funds, Capital Adequacy, and BI Rate concurrently.

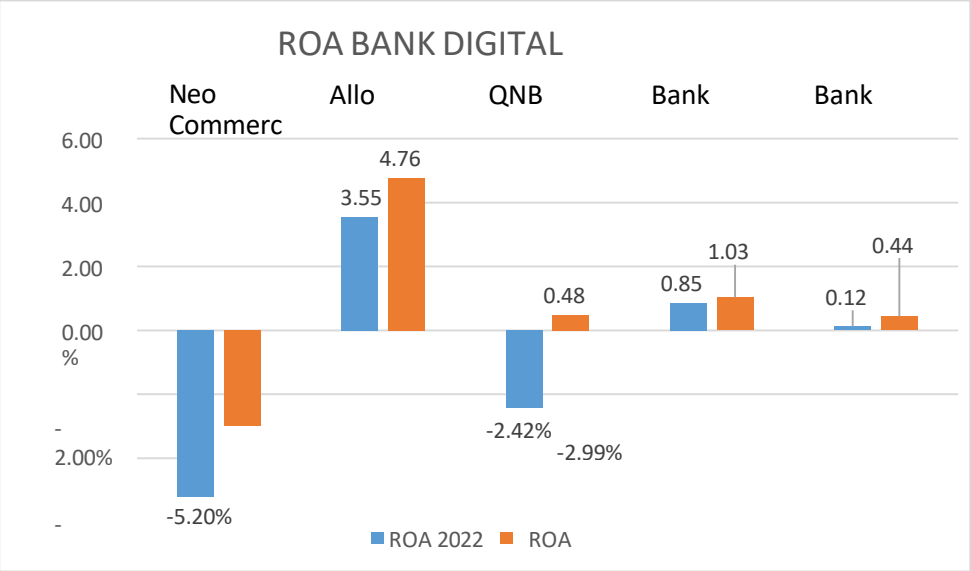
Keywords: BI Rate; Capital Adequacy; Profitability; Third Party Funds

1. Introduction

Indonesia has initiated the deployment of digital banking services in order to streamline cashless transactions for individuals (Ibnu, 2021). With the progress of the digital age, technology has evolved to a higher level, resulting in the rise of a novel type of financial institution called a digital bank. These banks offer fully digital services and provide a diverse array of products and services through electronic means. The account opening process can be completed online (Pangesti, 2022). According to Regulation 12/POJK.03/2021 of the Financial Services Authority (OJK), a digital bank in Indonesia is a legal entity bank (BHI) that conducts all of its business operations through electronic channels, without the requirement of a physical office except for the head office. Alternatively, it could possess a restricted physical workspace (Rini, 2021).

Attaining profitability is a vital objective that the business must achieve when carrying out its activities. The banking performance can be assessed by the bank's ability to generate profits or attain profitability (Prastika, 2019). The profitability of Indonesian digital banks has significantly increased in the last two years, namely during the period of 2022-2023. Based on the data shown in Figure 1. The Return on Assets (ROA) of five Indonesian digital banks, including Bank Neo Commerce, Allobank Indonesia, QNB Bank, Bank Raya, and Bank Jago, experienced a positive trajectory in 2023.

Figure 1. ROA Digital Bank Indonesia



Source: Data processed in March 2024

Profitability is evaluated by employing the profitability ratio to ascertain the level of profit generated by banks. Return on Assets (ROA) is a financial term utilised to assess the profitability ratio specifically in the banking industry. Banks frequently employ this ratio as a measure for measuring profitability, specifically examining management's ability to generate money through efficient asset management. The level of Third Party Funds, commonly known as DPK, can have an impact on the variation in banking profitability, as measured by Return on Assets (ROA) (Hatiana & Pratiwi, 2020).

Third Party Funds (DPK) are the financial resources that banks collect from the general public through savings, deposits, and demand deposits. According to Hatiana & Pratiwi (2020), DPK, an acronym for Demand Deposits and Savings, represents the largest amount of funds held by banks. As the DPK (Demand and Time Deposits) increases, banks have a greater likelihood of acquiring additional revenue and opportunities. In 2020, there was an increase in the number of accounts or individuals who possessed accounts. The Deputy Commissioner for Banking Supervision (OJK) reported a significant growth in the number of accounts held by third parties, rising from 260 million in 2018 to 337 million in 2020 (Ariesta, 2021).

In addition to the amount of DPK, the degree of capital adequacy is another element that affects the increase in profitability (Ayu, 2021). The assessment of Capital Adequacy is based on the Capital Adequacy Ratio (CAR), which is a measure of bank profitability and overall bank condition. A higher CAR signifies more bank profitability and a stronger overall bank condition. Consequently, CAR has a beneficial influence on Return on Assets (ROA). According to Pratiwi et al. (2022), there is a direct relationship between CAR and ROA, indicating that an increase in CAR leads to an increase in ROA.

The profitability of the banking sector is also impacted by interest rates, namely the BI Rate. Interest rates impact individuals' willingness and desire to invest their money in financial organisations through the financial products they offer. The bank benefits from an increase in public deposits as it allows the bank to deploy these funds as credit, resulting in profits through the interest gained on the loans (Lailiyah, 2017).

The author's acknowledgement of the elucidation of the problematic phenomena and the differentiation in the research subject from other studies stimulates additional exploration into the influence of Third-Party Funds, Capital Adequacy, and BI Rate on profitability. Indonesia's digital bank. The report is named "Third Party Funds, Capital Adequacy, and BI Rate's Impact on the

Profitability of Bank Digital Indonesia".

2. Review of Literature

2.1 Online Banking Institution

The Law of the Republic of Indonesia No. 7 of 1998 defines a bank as a commercial organisation that gathers funds from the public through deposits and then provides those funds to the public in the form of credit and loans / or alternative modalities with the aim of enhancing the quality of life for a large number of individuals (Hidayatinnisa et al., 2021). A digital bank, as defined by POJK Number 12/POJK.03/2021 regarding commercial banks, is an Indonesian legal entity bank that primarily conducts its business activities through electronic channels, without physical offices except for the head office (KP), or with limited physical offices. Digital banks can function using two distinct business models. Initially, the objective is to create a new financial institution that operates exclusively through digital channels. Secondly, the conversion of traditional commercial banks into digital banks can be achieved by meeting specific criteria and requirements.

2.2 Profitability

Profitability is a significant measure of a bank's competitive standing in the banking industry and the effectiveness of its management. Retained earnings, which come from profitability, are typically a primary means of generating capital. An effective banking system relies on a robust and sufficient level of bank capitalisation. This study employs the profitability ratio, specifically measured by Return on Assets (ROA). Return on assets (ROA) is a financial ratio that quantifies the profitability of bank management in generating earnings for digital banks. ROA is utilised as a metric to assess banking profitability due to Bank Indonesia's role as a banking regulator and supervisor, which places significant emphasis on a bank's profitability. This metric is determined by the assets of the bank, which are mostly funded by public deposits (Lailiyah, 2017). Pratama (2022) provides a formulation for Return on Assets (ROA) as follows:

ROA = Digital Bank Indonesia Return / Total Asset Digital Bank Indonesia x 100%

2.3 Third Party Funds (DPK)

Funds refer to the cash or other assets that a firm possesses and has control over, which can be readily converted into cash. Bank funds refer to the monetary assets that a bank possesses and manages for its operational purposes. DPK refers to funds that are sourced from the public, including individuals and businesses, and are acquired by banks through the utilisation of different

deposit product instruments controlled by the banks. The public fund in question is the bank's largest fund, which aligns with the bank's role as a collector of monies from individuals or organisations with surplus cash in the community. Banks collect public monies through various deposit types, such as demand deposits, time deposits, and savings accounts. Third party banking funds are acquired by aggregating demand deposits, savings, and deposits from external sources (Ayu, 2021). The Third Party Fund formula can be defined as follows:

Third Party Funds = Current Accounts + Deposits + Savings

2.4 Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) represents the bank's capacity to absorb potential losses in lending or trading securities by utilising its existing capital. Capital adequacy is a crucial consideration for banks as it enables them to expand their operations and mitigate the potential for financial losses. Ayu (2021) states that Bank Indonesia establishes the Capital Adequacy Ratio (CAR) capital, which refers to the minimum capital requirement that every bank must maintain at all times as a specific percentage of their total Risk-Weighted Assets (ATMR). According to Sudarmanto et al. (2021), the CAR ratio for banks is determined by applying the following formula:

CAR= Capital / RWA x 100%

2.5 BI Rate

The BI rate is a numerical indicator used in the transmission of monetary policy to reflect the current state of the economy, including an assessment of the obstacles in achieving the inflation target (Pratama, 2022). The BI Rate, as defined by Bank Indonesia, is an interest rate policy that communicates the monetary policy position established by Bank Indonesia and made known to the general public. The BI Rate is declared by the Board of Governors of Bank Indonesia during their monthly meetings and is utilised in monetary operations carried out by Bank Indonesia through liquidity management in the money market to accomplish operational monetary policy goals.

Third Party Funds to Profitability

Third Party Funds (DPK) refer to funds obtained from individuals with surplus funds that can be collected and subsequently redistributed to the community. Greater community contributions result in increased options for the bank to use its capital towards productive assets, such as lending, investing in other banks, investing in securities, and other business ventures. Engagements. Undoubtedly, this can enhance the bank's profitability (Ayu, 2021). The presence of third-party funds has a favourable impact on profitability, as an increase in the amount of third-party funds leads to an

increase in profitability. Nurmasari's (2022) research found that third-party funds have a impact on bank profitability, specifically on the return on assets (ROA). This implies that as more individuals deposit their money in the bank, the bank's profitability grows.

H1: “Third Party Funds Affect Profitability”

Capital Adequacy to Profitability

Capital demonstrates the capacity of bank management to oversee and regulate the risks that arise. Banks can enhance the efficiency of their operating activities by maintaining sufficient capital, which in turn yields advantages for the bank (Pratama, 2022). The Capital Adequacy Ratio (CAR) is a measure that reflects the level of capital adequacy. The CAR ratio is a measure of the extent to which a bank's own capital is used to fund the risks associated with its assets, by comparing the bank's capital to its risk-weighted assets. Sudarmanto et al. (2021) found a direct correlation between the CAR ratio and banking profitability. The study conducted by Mainata & Ardiani (2018) indicates that CAR has impact on profitability. This implies bigger amount of capital in a bank enhances its capacity to ensure security, meet obligations, and ultimately raise profitability.

H2: “Capital Adequacy Affects Profitability”

BI Rate on Profitability

The interest rates or BI rate is a crucial aspect that banks consider when determining the interest rates they give to the customers. (Pratiwi et al., 2022). Interest rates impact the inclination and enthusiasm of the general public to invest their cash in banks by influencing the attractiveness of the items being offered. The bank's increased capital will directly influence its capacity to allocate these money as credit, which in turn generates profits for the bank (Pratama, 2022).

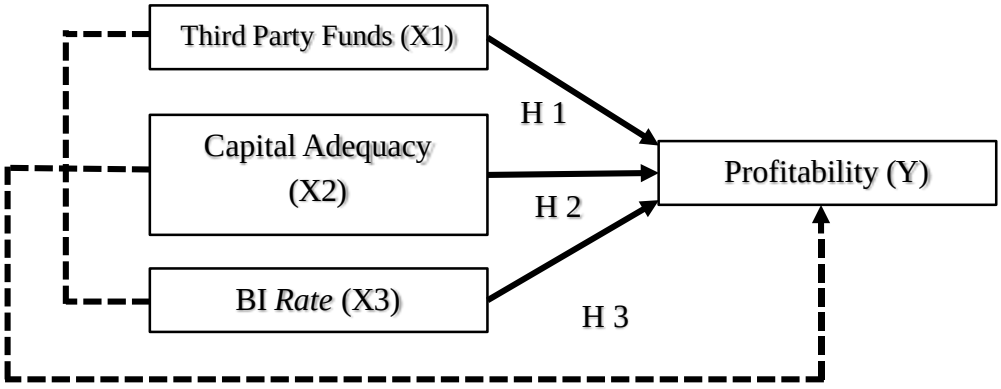
H3: “BI Rate Affects Profitability”

Third Party-Funds, Capital Adequacy, and BI Rate on Profitability

The three independent variables have a significant impact on the fluctuations in banking profitability. Research conducted by Pratama (2022), Oktavia (2018), and Ayu (2021) has demonstrated that the three independent variables have a substantial influence on profitability. This implies that changes in the value of bank profitability can be attributed to these three research variables.

H4: “Third Party Funds, Capital Adequacy, and BI Rate Simultaneously Affect Profitability”

Figure 2. Research Concept Framework



Description:

Partial

Simultaneous

3. Material and Method Conceptual Definition

Table 1 Operational Variables

No.	Variables	Variable Definition	Operational Variables	Unit
1	Profitability of Bank Digital Indonesia (Y)	The ability of Indonesian digital bank companies to earn profits generated from loan interest income and other banking products.	ROA = Net Profit of Bank Digital Indonesia / Total Assets of Digital Bank X 100%	Percentage
2	Third Party Funds of	Third party funds are funds	DPK = Savings + Deposits + Current Account	Rupiah

	Digital Bank Indonesia (X1)	entrusted by the public to banks based on deposit agreements in the form of savings, deposits, and demand deposits		
3	Capital Adequacy of Bank Digital Indonesia (X2)	The ability of digital bank companies in the use of own capital against risk-weighted assets	CAR = Capital / RWA x100%	Percentage
4	BI Rate (X3)	A policy rate that reflects the stance of monetary policy set by Bank Indonesia and announced to the public.	Bank Indonesia Interest Rate	Percentage

Source: Data processed (November 2023)

3.1 Design Study

The study employed a purposive sampling methodology for the sampling method. Sugiyono (2013) defines purposive sampling technique as the deliberate selection of samples based on specific criteria. The researchers have carefully selected a sample for this study, consisting of five Indonesian digital bank companies: Bank Neo Commerce (BBYB), Allobank Indonesia (BBHI), QNB Bank (BKSW), Bank Raya (AGRO), and Bank Jago (ARTO). The duration of this research period is 2 years, during which 8 quarters of data will be utilised.

3.2 Data Analysis

Data analysis was conducted using Microsoft Excel and E-Views 10. The study examines the independent factors of Third-Party Funds (X1), Capital Adequacy (X2), BI Rate, with the dependent variable being Profitability (Y). The three independent variables contribute to determining their impact on the dependent variable. The data analysis in this study follows the following sequence:

1. Determination of Estimation Model
2. Determination of regression estimation method
3. Classic Assumption Test
4. Hypothesis Test

4. Result

This study utilises a sample of 5 Indonesian digital banks that were selected based on specific criteria. The data collected includes panel data on the profitability of Digital Indonesia Bank, third-party funds held by the bank, capital adequacy of the bank, and the BI Rate. The data covers a period of 8 quarters, specifically from 2022 to 2023. A total of 40 research sample data were gathered in the following manner:

Table 2. Research Data

Issuer	Period		X1 (DPK)	X2 (CAR)	X3 (BI Rate)	Y (Profitability)
BBYB	2022	Quarter 1	9,320,444	33.22	3.50	-13.23
		Quarter 2	11,107,729	21.80	3.50	-9.18
		Quarter 3	12,672,369	19.72	4.25	-5.67
		Quarter 4	14,450,498	36.79	5.50	-5.20
	2023	Quarter 1	14,751,253	34.80	5.75	-1.38
		Quarter 2	15,229,456	31.76	5.75	-3.32
		Quarter 3	15,303,777	26.35	5.75	-3.87
		Quarter 4	13,872,270	27.86	6.00	-2.99

Issuer	Period		X1 (DPK)	X2 (CAR)	X3 (BI Rate)	Y (Profitability)
BBHI	2022	Quarter 1	2,787,136	110.52	3.50	4.44
		Quarter 2	3,190,472	85.19	3.50	4.29
		Quarter 3	4,077,888	78.36	4.25	3.78
		Quarter 4	4,415,491	79.53	5.50	3.55
	2023	Quarter 1	5,122,638	82.24	5.75	3.83
		Quarter 2	4,844,363	81.83	5.75	4.59
		Quarter 3	4,891,179	84.56	5.75	4.85
		Quarter 4	4,898,665	83.35	6.00	4.76
BKSW	2022	Quarter 1	11,656,051	30.74	3.50	0.83
		Quarter 2	10,244,582	31.36	3.50	0.61
		Quarter 3	10,624,739	29.93	4.25	-2.80
		Quarter 4	10,604,624	38.59	5.50	-2.42
	2023	Quarter 1	10,836,056	47.19	5.75	0.68
		Quarter 2	9,257,646	52.69	5.75	0.65
		Quarter 3	7,624,372	58.40	5.75	0.58
		Quarter 4	6,339,203	62.23	6.00	0.48
AGRO	2022	Quarter 1	10,150,996	25.87	3.50	0.96
		Quarter 2	11,506,443	25.53	3.50	0.74
		Quarter 3	9,624,109	27.33	4.25	0.84
		Quarter 4	9,814,899	43.74	5.50	0.84
	2023	Quarter 1	8,748,570	40.42	5.75	0.17
		Quarter 2	8,199,912	46.60	5.75	1.06
		Quarter 3	7,065,312	48.98	5.75	1.23
		Quarter 4	8,185,974	43.84	6.00	1.03
ARTO	2022	Quarter 1	4,214,479	130.60	3.50	0.19
		Quarter 2	6,099,937	109.80	3.50	0.26
		Quarter 3	7,284,976	97.50	4.25	0.33
		Quarter 4	8,274,385	82.75	5.50	0.12

Issuer	Period	X1 (DPK)	X2 (CAR)	X3 (BI Rate)	Y (Profitability)
2023	Quarter 1	9,280,630	78.72	5.75	0.12
	Quarter 2	10,093,364	72.83	5.75	0.28
	Quarter 3	10,304,760	71.33	5.75	0.37
	Quarter 4	12,067,191	61.77	6.00	0.44

Regression Modeling Results

The Chow test is a statistical test used to find the best suitable estimate model, either the Common Effect (CEM) or the Fixed Effect (FEM), for estimating panel data. According to Basuki & Prawoto (2017), the decision-making criteria are as follows: if the p value is less than 0.05, we should use the fixed effects model (FEM) for estimate. On the other hand, if the p value is greater than 0.05, we should use the common effects model (CEM). Here are the findings of the Chow test conducted in this study:

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.503924	(4,32)	0.0000
Cross-section Chi-square	37.646990	4	0.0000

Source: Data processed by Eviews 10, March 2024

Table 1. Uji Hausman

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.692061	3	0.0337

Source: Data processed by Eviews 10, March 2024

The findings of the Hausman test conducted in Eviews indicate that the probability value for

both Cross-sections F and Cross-Square is less than 0.05. This study has employed a significance level of 5%. The model selected in the Hausman test is the Fixed Effect (FEM).

Panel Regression Equation Results

The regression analysis employed in this study is the Fixed Effect (FEM), which was chosen based on the data collected for the Fixed Effect (FEM) model:

Table 5. Fixed Effect Model (FEM)

Variabel	Coeficient
C	-139.3230
Third Party Funds (X1)	46.20350
Capital Adequacy (X2)	2.529230
BI Rate (X3)	0.293632

Source: Data processed by Eviews 10, March 2024

The regression equation presented in Table 5 is a panel data model that employs the Fixed Effect Model (FEM). This model aims to analyse the impact of "Third Party Funds, Capital Adequacy, and BI Rate on the profitability of Bank Digital Indonesia". The Fixed Effect Model (FEM) is a statistical method for estimating panel data that employs dummy variables to identify variations in intercepts across different cross sections. Here is the equation:

Y = -139.322979182 + 46.2035028443 X1 + 2.52922996728 X2 + 0.293631794292 X3 + [CX=F]

Classic Assumption Test Results

1. **Multicollinearity Test**

The multicollinearity test is undertaken to ascertain whether the regression model has

identified a correlation among the independent variables. According to Ghozali (2018), the decision criteria for multicollinearity in a study is that if the value is less than 0.8, then there is no multicollinearity concern. However, if the value of multicollinearity exceeds 0.8, it indicates the presence of a multicollinearity issue in the study. The subsequent findings pertain to the multicollinearity assessment conducted in this study:

Table 6. Multicollinearity Test Results

	X1	X2	X3
X1		-0.774117	
X2			0.126088
X3	0.178080		

Source: Data processed by Eviews 10, April 2024

2. Heteroscedasticity Test

This study uses the heteroscedasticity issues. The Glejser test is conducted by regressing the independent variable on the absolute value of the residual. If the P value is less than or equal to 0.05, it is considered that there is heteroscedasticity. If the P value is greater than or equal to 0.05, it indicates the absence of heteroscedasticity (Basuki & Prawoto, 2017: 113). Here are the findings of the heteroscedasticity test conducted in this study:

Table 7. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.692509	63.00999	0.137954	0.8911
X1	-2.323859	21.59860	-0.107593	0.9150
X2	0.204239	1.251994	0.163131	0.8714
X3	-0.403108	0.235674	-1.710451	0.0969

Source: Data processed by Eviews 10, April 2024

Hypothesis Test

1. Partial Test (t Test)

The t test is employed to assess the hypothesis by examining the impact of each independent variable on the dependent variable independently. If the probability is less than 0.05, it indicates that the independent variable has a partial impact on the dependent variable, and vice versa. If the probability is greater than 0.05, then the independent variable does not have a significant impact on the dependent variable (Ghozali, 2018). Here are the findings of the t-test conducted in this study:

Table 8. T-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-139.3230	113.7889	-1.224398	0.2297
X1 (Third Party Funds)	46.20350	39.00464	1.184564	0.2449
X2 (Capital Adequacy)	2.529230	2.260959	1.118653	0.2716
X3 (BI Rate)	0.293632	0.425600	0.689924	0.4952

Source: Data processed by Eviews 10, April 2024

2. Simultaneous Test (F Test)

The F test is a statistical test used to assess if the combined independent variables have a substantial impact on the dependent variable in a regression model. This test is conducted by evaluating the level of significance of the F value. If the p-value is greater than 0.05, it can be concluded that the independent variable does not have a significant effect on the dependent variable. If the p-value is less than 0.05, it indicates that the independent factors together have a statistically significant impact on the dependent variable. (Basuki & Prawoto, 2017).

Table 9. F Test

F-statistic	19.63672
Prob(F-statistic)	0.000000

Source: Data processed by Eviews 10, April 2024

3. Determination Coefficient Test

The coefficient of determination (R2) is a statistical measure, if the value is approaching 1, it indicates that the independent variables provide nearly all the necessary information for predicting the dependent variables. (Ghozali, 2018). The subsequent findings of the coefficient of determination examination in this investigation are as follows:

Table 10. Test (Adjusted R^2)

R-squared	0.811162
Adjusted R-squared	0.769853

Source: Data processed by Eviews 10, April 2024

The coefficient of determination test findings, as indicated in Table 4.10, reveal an Adjusted R^2 value of 0.769853. Consequently, the independent factors, specifically Third Party Funds (X1), Capital Adequacy (X1), and BI Rate (X3), will have a significant impact on 76.9% of the dependent variable, Profitability. The remaining 23.1% of the dependent variable (Profitability) will be influenced by other variables that have not been addressed in this study.

5. Discussion

- **Third Party Funds have an impact on profitability.** The initial hypothesis demonstrates a probability value of 0.2449. The probability value of X1 (Third Party Funds) is 0.2449, which is greater than 0.05. This indicates that X1 (Third Party Funds) does not have a significant effect on profitability, leading to the rejection of hypothesis H1. Third Party Funds (DPK) do not impact the Profitability (ROA) of Bank Digital Indonesia.
- **Capital Adequacy have an impact on Profitability**. The second hypothesis yielded a probability value of 0.2716. The probability value of X2 (Capital Adequacy) being 0.2449 is more than 0.05. This variable does not have a significant impact on profitability, leading to the rejection of hypothesis H2. It may be concluded that Capital Adequacy (CAR) does not affect the Profitability (ROA) of Bank Digital Indonesia.
- **The BI Rate directly impacts profitability**. The third hypothesis in this investigation has a probability value of 0.2716. The probability value of X3 (BI Rate) is 0.4952, which is greater than 0.05. BI Rate does not have a significant impact on profitability, leading to the

rejection of hypothesis H3. It may be stated that the BI Rate does not affect the Profitability (ROA) of Bank Digital Indonesia.

- **Third Party Funds, Capital Adequacy, and the BI Rate have a simultaneous impact on profitability**. The fourth hypothesis yielded an F-statistic value of 19.6367 and a Prob (F-statistic) value of 0.000000. The F test findings indicate a probability of 0.000000, which is less than the significance level of 0.05. Therefore, it can be concluded that the independent variables Third Party Funds (X1), Capital Adequacy (X2), and BI Rate (X3) collectively have an impact on the dependent variable Profitability (Y), confirming the acceptance of hypothesis H4. This implies that any alteration in the independent variables, specifically "Third Party Funds, Capital Adequacy, and BI Rate, can have a simultaneous impact on the Profitability of Bank Digital Indonesia".

6. Conclusion, Implication, and Recommendation

Conclusion

This study evaluates the profitability of Indonesian digital banks by using ROA as a measure, which is influenced by both internal and external factors. This study employed the internal factors of Third-Party Funds and Capital Adequacy as variables, whereas the external factor of the BI Rate was utilised. Nevertheless, despite the favourable impact of the three variables on profitability, they do not have any influence on the profitability of Indonesian digital banks. When considering the coefficient value of Third-Party Funds, it yields the highest value and remains positive, although having no impact. Indonesian digital banks can utilise the primary indicator in this study, known as DPK, to enhance their earnings.

Implication

The research findings indicate that the three independent factors, namely "Third Party Funds, Capital Adequacy, and BI Rate, have no impact on the Profitability of Bank Digital Indonesia". The reason for this is that Bank Digital Indonesia is a novel form of bank that conducts its business operations exclusively online. Consequently, how digital banks conduct their business operations differs from that of traditional commercial banks. Additionally, the acquisition of Third-Party Funds remains relatively low due to the limited number of digital bank customers in Indonesia. The process of creating an online account and the scarcity of physical bank branches in digital banks may cause potential clients to hesitate when it comes to depositing monies. The

capital adequacy of digital banks demonstrates excellent performance, exceeding 8%. Nevertheless, this variable has no impact on the profitability of Indonesian digital banks, as effective capital management in digital banks does not lead to an increase in the influx of funds or the acquisition of new clients in Indonesian digital banks. The fluctuations in the BI Rate have no impact on profitability, but they can potentially attract more clients due to the higher yields offered by Indonesian digital bank savings rates compared to other commercial banks.

Recommendation

To enhance profitability, it is suggested that the Indonesian Digital Bank manages its capital by subsidising lending rates. This is because the capital adequacy of the five Indonesian digital banks in the past two years has consistently exceeded the standard 8% CAR value set by Bank Indonesia. In fact, the CAR value of these digital banks has reached an exceptionally high level of 130%. Nevertheless, Indonesian digital banks have a significantly low average profitability, measuring less than 1%. Capital utilisation can serve as a means to subsidise loan rates, thereby potentially boosting the number of consumers engaged in saving activities. An increase in the number of customers leads to a corresponding increase in Third Party Funds. This increase in funds can boost public savings and, in turn, stimulate the profitability of Indonesian digital banks through the accumulation of credit interest.

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