Assesing Bank Efficiency

by Aliffianti Safiria Ayu Ditta

ASSESSING NATIONAL BANKING EFFICIENCY THROUGH THE IMPLEMENTATION OF CORPORATE GOVERNANCE

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Abstract

The issue of declining banking efficiency in recent years encourages researchers to associate it with self assessment implementation in corporate governance assessments. This research aims to illustrate the efficiency of national banking through the implementation of corporate governance. Banking as an important role holder in every state finances is required to have a healthy performance with the supported good governance considering banking is also assessed as an institution with highly regulated. Testing conducted on the banking company for the last five years, by grouping the banking companies into government-owned banks (BUMN), national private banks both foreign exchange and non-foreign exchange and mixed banks (Ownership of banking companies by foreign parties and national private Parties). The implementation of GCG is assessed through a self assessment score that must be done by the company, while banking efficiency will be assessed through net interest rate ratio and fee based income ratio. By implementing GCG within the company, national banking performance and efficiency are expected to undergo improvements and improvements.
Keywords: corporate governance, efficiency, performance

Introduction

Banking plays an important role in every country's economic system. The banking sector also serves to intermediate the gap between the parties who have a surplus of funds and the party experiencing the fund deficit with a secure and controlled distribution system (Sufian, et al, 2016). The banking sector controls most of the financial flows, so it is reasonable if the banking sector is expected to work efficiently and profitably in order to ultimately help to ensure the creation of an effective financial system and Economic growth and development of a country. Addressing the fluctuations in economic conditions and technological developments, the State is required to ensure the stability of the bank, especially after the financial crisis (Saksonova, 2014).

Indonesia's banking performance has fluctuated in decades. Several phenomena have occurred related to the performance of the profitability and operational efficiency of unhealthy and sustainable banking (Subandi & Ghozali, 2013). It is also influenced by the direction of

banking policy which is centralized and highly regulated so that the management pattern of the bank becomes conservative and unwrapped by binding rules (Putri & Lukviarman, 2008).

Net interest Margin (NIM), which is one measure of banking efficiency over the past few years, tends to decline. NIM banking has dropped due to a faster and higher funding rate increase compared to the increase in lending rate as well as tight competition between banks in acquiring third party funding so that banking is more interested in Raise interest deposits mainly deposits, (Source: economy.okezone.com). Another cause of the NIM's decline was the increase in interest rate of the BI 7 Day Reverse Repo Rate. The increase of BI 7 Day Reverse Repo Rate also affected by the increase in the savings interest so that the cost of funds is increased (source: neraca.co.id). Here is a description of the NIM's downtrend during the time span of 2014-2018 on both national banking BUMN banks, private public banks national foreign exchange, national private non-foreign public banks and mixed banks.
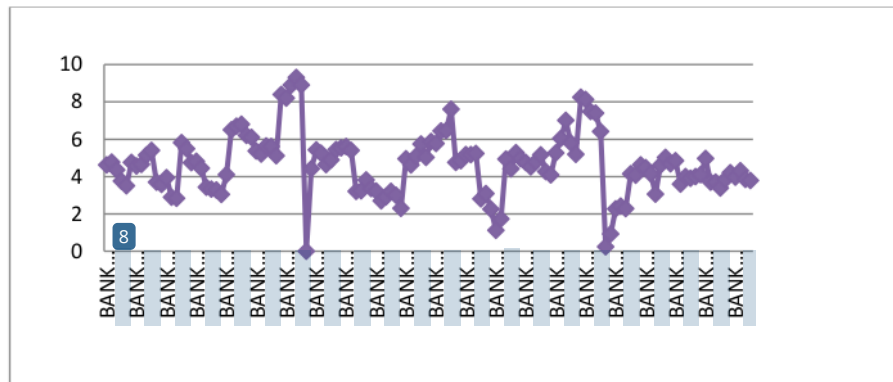
Figure 1
Charts Of Net Interest Margin's Government-Owned Banks (BUMN)
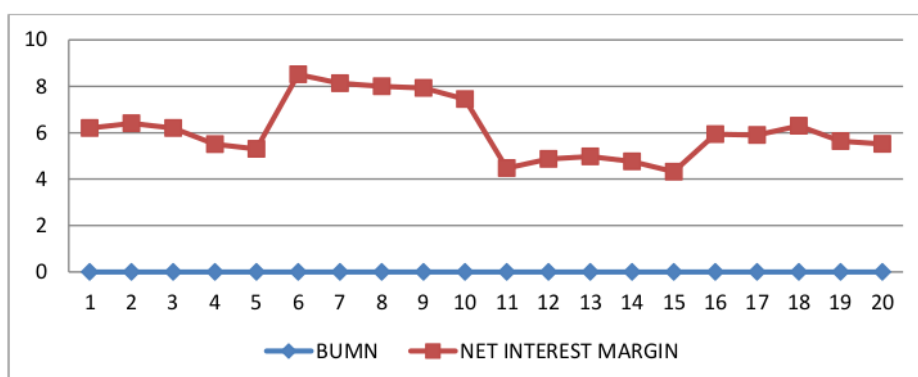
Source: Data processed

Figure 1 shows net interest margin (NIM) banking BUMN has decreased over the last five years although the trend in the decline of NIM is not too sharp and significant. Competition earns third party funding and maintains a reputation as a government-owned bank forcing them to raise interest rate deposits (Source: kontan.co.id).
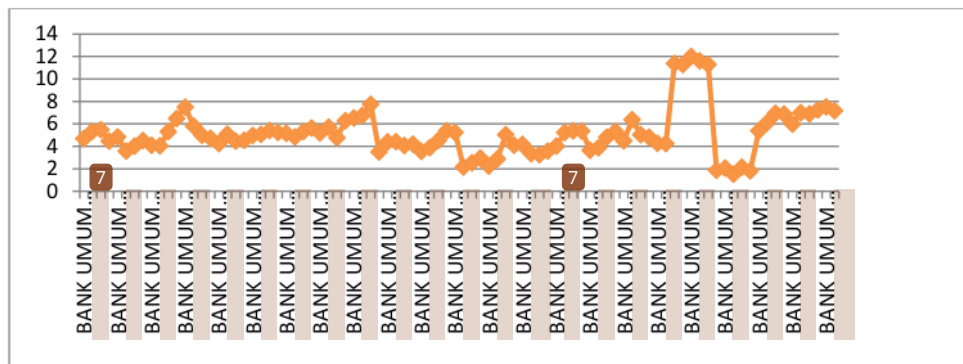
Figure 2

Charts Of Net Interest Margin's National Private Bank- Foreign Exchange

Source: Data processed

      Same as Figure 1, in Figure 2 shows that NIM's National Private Bank - Foreign Exchange also decreased, even in some banks its decline looks quite significant. The increase in the benchmark interest rates of Bank Indonesia is still a major cause of national banking efficiency.

Figure 3

Charts Of Net Interest Margin's National Private Bank- Non Foreign Exchange

Source: Data processed

      National Private Bank- Non Foreign Exchange also experienced a decline in net interest margin over the last five years as seen in Figure 3. The increase in the benchmark rate of Bank Indonesia 7 – Day Reverse Rate Repo is assessed to increase the rate of savings interest rate but not followed by raising the interest rate of credit, so that the margin of interest and Bank interest income decreases.

Figure 4
Charts Of Net Interest Margin's Mixed Bank
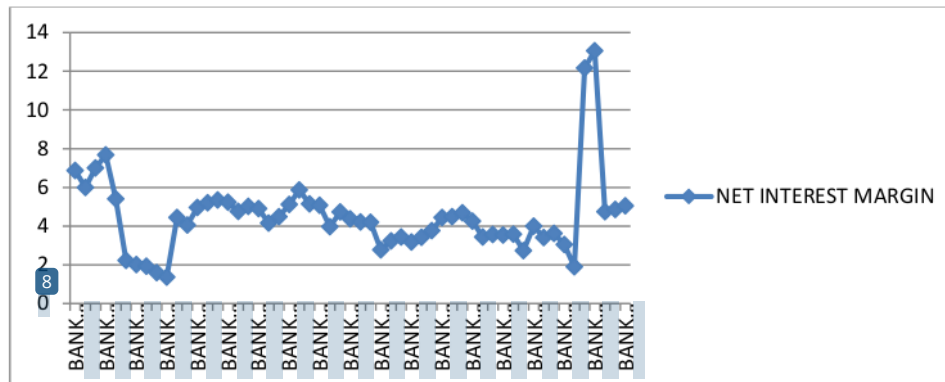
Source: Data processed

The decreasing trend of net interest margin also experienced mixed bank as seen in Figure 4. Some banks in the mixed bank category were seen experiencing significant reductions in NIM, as experienced by Bank Woori, which in 2015 recorded NIM at 13.06%, but in 2018 only posted NIM at 5.04%.   Banking is to be encouraged to keep NIM in efficient parameters. In order for NIM to stay awake, banks are asked to cut operational costs by increasing the digitisation of banks that can eliminate conventional bank operating production costs.

One way to patch the decline in net interest in banks, some economists recommend that banking maximize revenue other than those sourced from loan interest or that are often referred to as fee based income (Kasmir, 2014). Fee-based income is the bank's non-interest data transfer in exchange for the financial services provided to the customer. Fee based income can be a commission income/provision/fee derived from derivative transactions, management credits and other (letter of attachment of Otoritas Jasa Keuangan). Fee based income is expected to overcome the banking pressure in the decline of NIM. The following is a comparison of interest income and fee based bank income in Indonesia.

Figure 5

Comparison of interest income and Fee based Income's Government-Owned Banks (BUMN)

Source: Data processed

From Figure 5, it can be seen that interest income still occupies the most portion of income received by banks including government-owned bank.
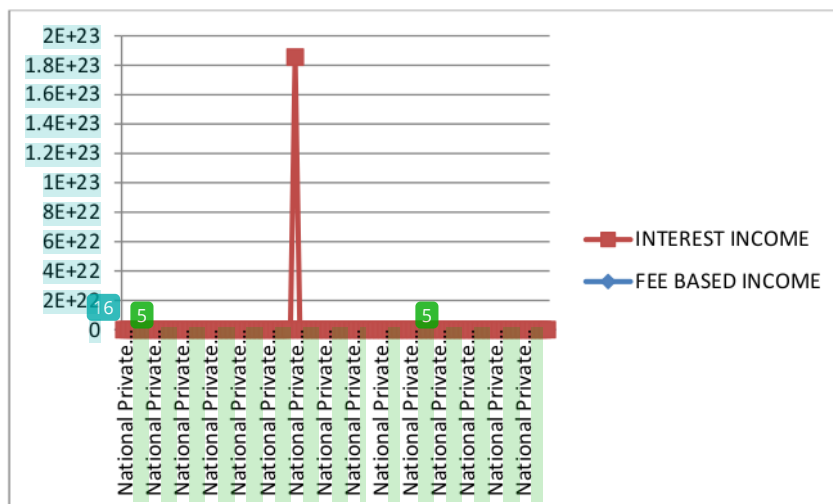
Figure 6

Comparison of interest income and Fee based Income's National Private Bank- Foreign Exchange

Source: Data processed

Not much different results are also seen from the comparison of interest income and the national private foreign exchange fee-based income bank. Interest income is still the main and biggest source of income. The comparison of the two is also quite significant. This indicates that interest income is still the focus of national banking income.
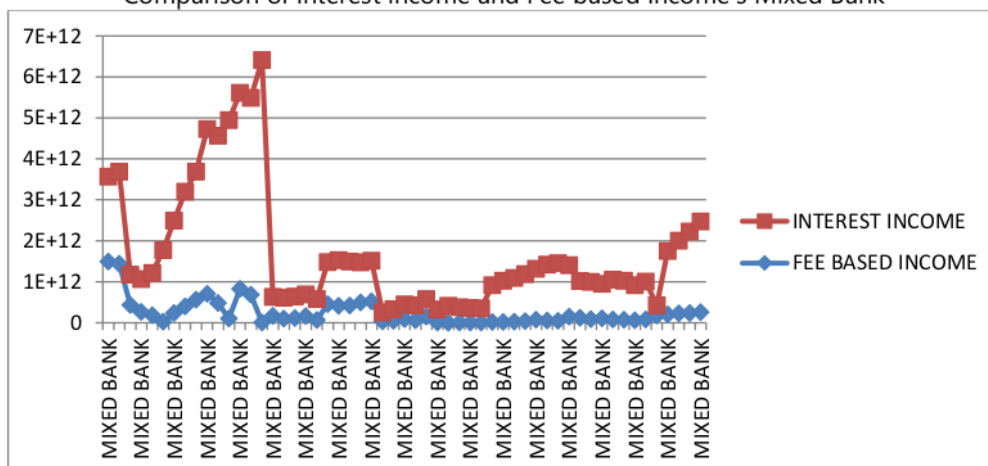
Figure 7

Comparison of interest income and Fee based Income's National Private Bank-Non Foreign Exchange

Source: Data processed

Figure 7 shows that the chart of non-interest income accruals is barely noticeable in non-foreign private commercial banks. This indicates that the proportion of fee-based income is still very small and the main focus of income is still derived from interest income.

Figure 8

Comparison of interest income and Fee based Income's Mixed Bank

Source: Data processed

In the mixed bank, the portion of interest income also still dominates when compared to fee based income as seen in figure 8. Currently, the bank sector of public banks and private banks began to increase fee-based income by adding various types of banking services products both digital and non-digital and expanding the promotion of banking products through the printed media or electronic (source: www.kontan.co.id).

The high number of fraud due to management practices that lack the prudence and conflict of interest resulted in the bank is not independently managed. The economic crisis that occurred in Indonesia in 1998, making corporate governance issues a topic that is crowded again. Moreover, banking as a financial institution is very risky but it is required to always persist in the economic condition is expected to have good governance and systematic. The management and supervision of companies in the banking sector became important and a concern for investors (Barton, et al, 2004). The global crisis also led to re-examination of corporate governance in banking and the reason that the BOC and the board of Directors failed to perform supervisory functions, causing financial system instability and Economy (Anginer, 2018). In the framework of the deregulation of the financial system, the financial crisis has returned attention to the need to improve corporate governance for financial stability to be assured (Chitan, 2012).

There are two major issues that trigger the re-emergence of corporate governance, namely the rapid change of macro environment that impacts the change of global market competition map. Secondly, the increasing number of interested parties includes complex ownership structures that influence the management of stakeholders (Syakhroza, 2000). Self assessment becomes one of banking obligation in Indonesia in implementing corporate governance. The self assessment calculation developed by Bank Indonesia and the Financial Services Authority (Otoritas jasa Keuangan / OJK) are listed in SEOJK No. 13/SEOJK. 03/2017 concerning the implementation of governance for commercial banks, including eleven good corporate governance factors using formula and weighted. The average self-score composite Bank assessment in Indonesia shows the rank 2 or included in the category good, as seen in

Figure 9
Average Composite Score of Self Assessment
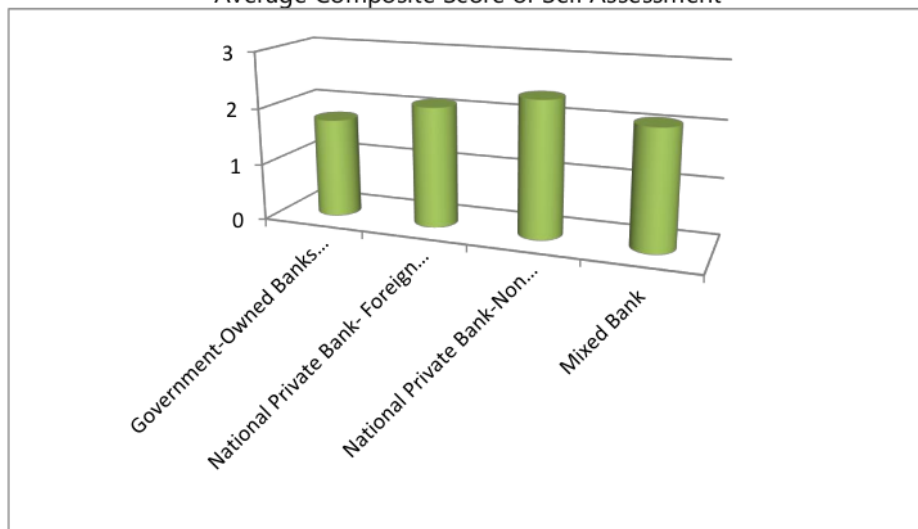
Source: Data processed

Of the four categories of banks, based on self assessment results, it appears that the implementation of corporate governance in Indonesia belongs to good category. With the results of corporate governance is expected to improve the banking efficiency that continues to decline over the last five years that is reflected in the percentage of NIM and increase in the bank fee-based income ratio (Tjondro, 2011).

On the other hand, the literature that covers the impact of self assessment of corporate governance implementation in banking is still not found, since financial institutions such as banks have different views on agency conflicts compared to With other non-financial companies, considering the nature of banking is an institution with a high regulated predicate (Laeven, 2013).

Based on the background that has been displayed, the research aims to assess the efficiency of banking performance through the implementation of corporate governance in the banking industry. This research is important to remember that banking has been obliged to conduct self assessment as one of the points of implementation of corporate governance and analyze bank efficiency reduction trend some last time despite corporate governance has been applied.

Theoritical Review

Corporate governance deals with two theories, namely agency theory and Stewardship Theory. Stewardship theory is built on a philosophical assumption of human nature, namely that humanity is essentially trustworthy, capable of acting with full responsibility, integrity and honesty towards others (Donaldson & Davis, 1991). In other words, the management views the

stewardship theory as a trustworthy and acting best conduct possible for the benefit of the community and the stakeholders (Markonah et al, 2016).

Corporate governance also cannot be detached from agency theory. Jensen and Meckling (1976) Describe the relationship between the agency (management) with the principal (company owner), such as a contract between the principal which gives the mandate to the agent as the party given the mandate to run the company. Agency Theory regulates contractual relationships between principals and agents and focuses on efficiency contracts affecting both relationships. Agency Theory provides the latest view of corporate governance as a balanced agreement between the principal and the agent so that the company can be managed by the competent party in managing the business and an agent must act The interests of the principal (Khairandy & Malik, 2007:19).

Banking in Indonesia, is obliged to implement Good Corporate Governance since Bank Indonesia issued the Bank Indonesia Regulation (PBI) No. 8/4/PBI/2006 dated 30 January 2006 concerning the implementation of Good Corporate Governance for commercial banks and then amended by PBI No. 8/14/PBI/2006 dated 5 October 2006 and Surat Edaran Bank Indonesia (SEBI) No. 9/12/DNP, dated 30 May 2007 on the implementation of Good Corporate Governance for Bank Indonesia, then since 2016, the regulation of Good Corporate Governance implementation Banking refers to the regulation of the Financial Services Authority (POJK) No. 55/POJK. 03/2016. The network of good corporate governance implementation in Indonesia is to conduct self assessment independently using the principles of transparency, accountability, responsibility, independence and fairness (TARIFF). Calculation and reporting of GCG with self assessment is done at least once a year. The self assessment calculation developed by Bank Indonesia and the Financial Services Authority are listed in SEOJK No. 13/SEOJK. 03/2017 concerning the implementation of governance for commercial banks, including eleven good corporate governance factors using formula and weighted.

In this research national banking is divided into four categories seen in terms of ownership (Kasmir, 2014), namely:

a. Bank owned by the government (BUMN), namely the bank whose founding deed and the capital is owned by the Government so that all the benefits of this Bank are owned by the government.

b. National Public private Bank - foreign exchange, namely the bank which is all or most of the shares owned by the national private that has the authority to carry out transactions to foreign countries or often called foreign exchange Bank.

c. National private Bank – Non Foreign exchange is a bank that does not have permission to carry out transactions from and to foreign countries.

d. Mixed Bank, which is a bank owned by foreign parties and national private parties, but the ownership of the majority is held by Indonesian citizen.

Literature Review And Hypothesis Development

The Indoneisan Institute for Corporate governance (IICG) defines corporate governance (CG) as a series of mechanisms for directing and controlling an enterprise so that the company's operations went well in accordance with the expectations of the range of stakeholders interests or stakeholders. The principles of corporate governance include transparency, accountability responsibility, independent and fairness. Corporate governance is directed to reduce the asymmetry of information between principal and agent (Effendi, 2008:15).

The research conducted by Anggarwal (2013) concluded that the implementation of corporate governance has a positive and significant influence on the company's financial performance. The implementation of corporate governance in the banking industry is key to determining how the conflict between management and the shareholder can be resolved (Gilson & Vetsuypens, 1993). The research conducted by Diamond (1984) states that in the banking industry, the government is one of the main stakeholders although their interests and objectives are often contrary to other stakeholders.
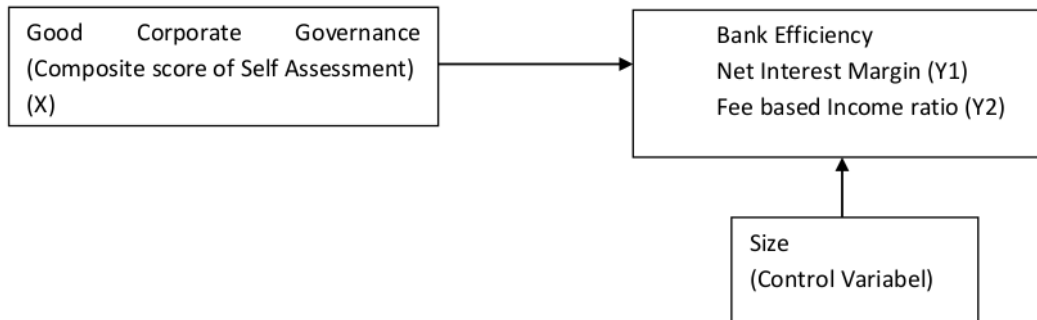
Corporate Governance And Banking Efficiency

A competitive banking system encourages banks to make greater efficiencies that are reflected in the low net interest margin value (Rudra and Ghost, 2004). Implementation of GCG in the company is expected to be able to influence decision making process that will be expected to produce optimal decision so that can improve efficiency and create healthy working culture (Maksum, 2005). Research conducted by Premuroso & Bhattacharaya (2007) shows that the profitability ratio has a significant relationship with the implementation of corporate governance in the company. A high margin value raises a challenge for banking to do its job as a financial intermediary, so it will impact the declining interest to invest in the banking sector (Zuzana & Tigran, 2008).

The Fee-based income ratio (FBIR) is the ratio used to assess the efficiency of the bank in generating revenues beyond interest income. According to research conducted by Damayanti (2014) stated that FBIR has a positive influence on the bank's ability to manage the efficiency and health of banks. From an economic perspective, corporate governance plays an important role in achieving efficiency and influencing investor decisions in terms of both short-term and long-term investments (Bushee et al, 2007). From the description, hypotheses in this study are:

H1: The implementation of corporate governance affects the level of banking efficiency proscribed with the value of net interest margin

H2: The implementation of corporate governance affects the level of banking efficiency that is proscribed with a fee based income ratio.

Figure 10
Conceptual Framework

| Good Corporate Governance (Composite score of Self Assessment) (X) | → | Bank Efficiency Net Interest Margin (Y1) Fee based Income ratio (Y2) |

Size
(Control Variabel)

Method

This research will test the effect of implementing corporate governance on banking efficiency in Indonesia. This research is in the form of quantitative descriptive research that reveals the large or small influence of a variable or relationship between variables expressed in numbers, by collecting data that is a contributing factor to Influence between variables – variables in question. This research is research with data panels, namely the collection of research data involving a lot of time or periods with many samples (Ghozali & Ratmono, 2013:54).

Population And Samples

This research uses the population of data from the annual report of banking that go public or not during the period from 2014 to 2018. The sample determination in this study uses the Purposive sampling method, where researchers use predefined criteria so that the samples are used in accordance with the research objectives (Sekaran, 2013). The sample criteria used in this study include:

a. The annual report of the national banking, both from the banking that has go public or not.

b. Financial statements presented using the Rupiah currency

The data used in this research is secondary data. Secondary data is data obtained from available sources (Sekaran, 2013). The secondary data used in this research is the national Banking Annual report data of both the banking that has been go public or not during the period from 2014 to 2018.

Table 1
Sample Criteria

Sample Criteria	Total
Appropriate banking company criteria to be researched (5 years)	400
Companies with incomplete annual report data	(100)
Total	300

Variable Measurement

Independent variables in this study are corporate governance variables that are proscribed with a composite score of self assessment results, while the dependent variables in this study are banking efficiencies that are proscribed with the net Interest margin (NIM) and fee based income ratio (FBIR), as well as the control variables used in this research are the size of companies that are proscribed with total assets.

Table 2
Variable Operational Definitions

Variable	Operational Definition	Measurement	Refference
Independent Variable			
Corporate Governance	Implementation of good corporate governance is assessed using composite score of self Assessment Assessment system	GCG's Composite Score of Self Assessment	Surat Edaran Otoritas Jasa Keuangan Nomor 13/SEOJK.03/2017
Dependent Variable			
Net Interest Margin (NIM)	The difference between interest and interest expense as part or proportion of the bank's total asset or earning assets	Interest income – Interest expense	Surat Edaran Otoritas Jasa Keuangan Nomor 13/SEOJK.03/2017
Fee based income ratio (FBIR)	Revenue earned from banks other than interest income compared to total bank operating income	fee base income : Total operating income	Surat Edaran Otoritas Jasa Keuangan Nomor 13/SEOJK.03/2017
Control Variable			
Firm Size	The size of the company depicts a large small company indicated by total assets	LN (Total Asset)	Julizaerma & Zulkarnain (2012)

Research Design

This research will test the implementation of corporate governance to national banking efficiency, equation of theoretical model is:

a. Corporate governance and Net Interest Margin (NIM)

$$NIM_{it} = \alpha + \beta1\ GCGscore_{it} + B2company\ Size_{it} + \mu_{it.}$$

b. Corporate governance and Fee Based Income Ratio (FBIR)

$$FBIR_{it} = \alpha + \beta1\ GCGscore_{it} + B2company\ Size_{it} + \mu_{it.}$$

Where:

I: Show the company.

T: Shows the time sequence (2014-2018).

α: Important coefficient or constants.

β: Shows the direction and influence of each.

µ: Interference factor or cannot be observed

Analysis And Discussion

1. Statistic Descriptive

The following is a descriptive statistical result related to the implementation of corporate governance towards banking efficiency both reflected through net interest margin (NIM) and fee based income ratio (FBIR).

Table 3

Descriptive statistics of GCG and efficiency of Government-Owned Banks (BUMN)

Variabel	Obs	Mean	Median	Max	Min	Std.dev
GCG	20	1.75	2	2	1	0.444262
NIM	20	6.115	5.92	8.51	4.32	1.274509
FBIR	20	31.95683	18.72041	85.7	6.530509	30.55756
SIZE	20	5.55E+14	4.63E+14	1.30E+15	3.06E+11	4.83E+14

Source: Data processed

From the descriptive statistical results above, it can be seen that the GCG score has an average value of 1.75 or in other words that the composite score results of self assessment of the implementation of corporate governance of the average STATE bank is 2 which is included in the good category . In the variable of efficiency proscribed with net interest margin, the average banking BUMN has net interest margin (NIM) value of 6.15 and the average value of Fee Based Income Ratio (FBIR) of 31.9%.

Table 4

Descriptive statistics of GCG and efficiency of National Private Bank- Foreign Exchange

Variabel	Obs	Mean	Median	Max	Min	Std.dev
GCG	130	2.123077	2	3	1	0.431607
NIM	130	4.689538	4.665	9.3	0.24	1.590375
FBIR	130	14.89836	11.22043	58.05135	0.318604	11.85089
SIZE	130	6.54E+13	2.78E+13	2.67E+14	4.62E+10	7.27E+13

Source: Data processed

From the descriptive statistical results above, it can be seen that the GCG score has an average value of 2.12 or in other words that the composite score results of self assessment of the implementation of corporate Governance of National Private Bank- Foreign Exchange

is 2 which is included in the Good category. In the variable efficiency that is proscribed with net interest margin, the average BUSN Devsia banking has a net interest margin value of 4.68 and the average value of Fee Based Income Ratio (FBIR) of 14.89%.

Table 5

Descriptive statistics of GCG and efficiency of National Private Bank- Non Foreign Exchange

Variabel	Obs	Mean	Median	Max	Min	Std.dev
GCG	90	2.388889	2	3	2	0.490229
NIM	90	5.151333	4.9	12	1.53	2.06778
FBIR	90	5.482573	3.939499	49.78024	1.33E-12	6.157024
SIZE	90	9.61E+12	3.16E+12	1.02E+14	2.40E+09	2.04E+13

Source: Data processed

From the descriptive statistical results above, it can be seen that the GCG score has an average value of 2.38 or in other words that the composite score results of self assessment of the implementation of corporate Governance of National Private Bank- Non Foreign Exchange average is 2 is included in the Good category. In an efficiency variable that is proscribed with net interest margin, the average of National Private Bank- Non Foreign Exchange Banking has a net interest margin value of 5.15 and an average value of Fee Based Income Ratio (FBIR) of 5.48%.

Table 6

Descriptive statistics of GCG and efficiency of Mixed Bank

Variabel	Obs	Mean	Median	Max	Min	Std.dev
SKOR GCG	55	2.090909	2	3	2	0.290129
NIM	55	4.502182	4.37	13.06	1.37	2.052061
FBIR	55	14.24308	11.57637	42.00426	0.172588	11.45599
SIZE	55	2.57E+13	1.64E+13	9.12E+13	3.89E+12	2.24E+13

Source: Data processed

From the descriptive statistical results above, it can be seen that the GCG score has an average value of 2.09 or in other words that the composite score results of self assessment of the implementation of corporate governance of the average mixed bank is 2 that belongs to the category Good. In an efficiency variable that is proscribed with net interest margin, the average mixed banking has a net interest margin value of 4.5 and an average value of Fee Based Income Ratio (FBIR) of 14.24%.

From the descriptive statistical results of the four banking categories, the Self Assessment Composite score corporate governance showed similar results that are ranked 2 with good predicate. The average value of NIM and FBIR highest owned by BUMN Banks, so that state-owned banks can be assessed most efficiently from others.

2. Regression Analysis Result

Table 7

Regression analysis results of variable dependent - Net Interest Margin

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
Government-Owned Banks (BUMN)-NIM				
GCG's score	0.406392	1.877432	0.216462	0.8312
Size	0.052294	0.031657	1.65187	0.1169
R-squared	0.140341			
Adjusted R-squared	0.039204			
F-statistic	1.387637			
Prob(F-statistic)	0.276551			
National Private Bank-Foreign Exchange - NIM				
GCG's score	-0.305195	0.352138	-0.866692	0.3877
Size	-0.010687	0.087429	-0.122232	0.9029
R-squared	0.006264			
Adjusted R-squared	-0.009385			
F-statistic	0.40029			
Prob(F-statistic)	0.670968			
National Private Bank- Non Foreign Exchange - NIM				
GCG's score	-0.263683	1.014091	-0.260019	0.7955
Size	0.053957	0.088543	0.609385	0.5439
R-squared	0.004859			
Adjusted R-squared	-0.018018			
F-statistic	0.212379			
Prob(F-statistic)	0.809076			
Mixed Bank - NIM				
GCG's score	-0.222818	0.989232	-0.225243	0.8227
Size	0.017141	0.367706	0.046617	0.963
R-squared	0.00109			
Adjusted R-squared	-0.03733			
F-statistic	0.028371			
Prob(F-statistic)	0.972042			

Source: Data processed

From the results of the above regression analysis, in all four categories of banks, the composite Self Assessment GCG score has no influence on the declining banking efficiency that is proscribed with net interest margin (NIM) values. The results of this study do not support research conducted by

Premuroso & Bhattacharaya (2007) shows that the ratio of profitability has a significant relationship with the implementation of corporate governance in the company. The decrease in net interest margin value which means the level of banking efficiency also decreases, can be sourced from external companies, such as the changes in the interest rates of the BI 7 Day Reverse Repo Rate and also competition to obtain parties funds, So banking industries prefer competing strategies by raising interest rates. Given that the score of the composite Self assessment of GCG showed a rank 2 with a good category over the last five years, but it turned out that the banking efficiency that was probed with NIM is still declining.

Table 8

Regression analysis results of variable dependent – FBIR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Government-Owned Banks (BUMN) - FBIR				
GCG's score	11.04461	46.67882	0.236609	0.8158
Size	-0.170569	0.269028	-0.634019	0.5345
R-squared	0.026245			
Adjusted R-squared	-0.088315			
F-statistic	0.229091			
Prob(F-statistic)	0.797671			
National Private Bank- Foreign Exchange - FBIR				
GCG's score	-4.797775	2.551597	-1.880303	0.0624
Size	0.80977	0.633511	1.278225	0.2035
R-squared	0.060352			
Adjusted R-squared	0.045555			
F-statistic	4.078506			
Prob(F-statistic)	0.019199			
National Private Bank- Non Foreign Exchange - FBIR				
GCG's score	0.856658	1.757271	0.487494	0.6271
Size	-0.896131	0.359607	-2.491976	0.0146**
R-squared	0.067601			
Adjusted R-squared	0.046166			
F-statistic	3.15384			
Prob(F-statistic)	0.047608			
Mixed Bank - FBIR				
GCG's score	4.710961	5.405074	0.871581	0.3874
Size	2.741055	2.009112	1.364312	0.1783
R-squared	0.043138			
Adjusted R-squared	0.006336			

F-statistic	0.043138
Prob(F-statistic)	0.006336

Note: **significant 5%

Source: Data processed

From the results a regression analysis of the fee-based income ratio on all four categories of banks, the composite Self Assessment GCG score has no influence on the bank's decision to raise the source of income derived from commissions or non-interest. Only at BUSN Non Foreign exchange, the company's control variables affect the banking efficiency that is proscribed with a fee based income ratio. This research does not support research conducted by Damayanti (2014) stating that the Fee-based income ratio carries a negative influence on the operational risk of a banking in other words decreasing operational risk will be Improving the bank's health from the efficiency.

National banking need to improve and increase the efficiency by not only relying on income derived from loan interest, because it will risk increasing the Non Performance Loan (NPL) If the bank in vain Credit only for wanting to hunt interest income. Fee based income is important to improve the trend of NIM that shows the decline and the bank will be more burdensome. Bank should start promote other banking services both digital and non digital such as commissions from safe depsit box, clearing, bank card, bank notes, bank guarantees, capital market services, receiving payment deposits, Inkaso, clearing, travelers cheque , letter of credit, etc. (Kasmir, 2014).

Conclusion

Banking industry in Indonesia is obliged to implement good corporate governance and conduct its own assessment of the bank's health level using a risk approach either individually or consolidated at least twice a year in accordance with the regulations listed in the Financial Services Authority Circular Letter No. 13/SEOJK. 03/2017 concerning the implementation of governance for commercial banks. This research tests whether with a composite score the results of a self assessment that indicates a good predicate is capable of affecting national banking efficiency. The results show even though the average national banking has a good predicate (a composite self Assessment score shows 2 ratings), but the banking efficiency that is proscribed with net interest margin values has decreased over the past five years, and national banking has not maximized the potential income in addition to their interest or fee based income.

The decrease in national banking efficiency was more sourced to external factors such as the increase in the interest rate of BI 7 Day Reverse Repo Rate and also the sting of competition to get third party funding, so that the banking burden in raising the interest rate of deposits is getting stung up. Interest income is also still occupying the largest portion of natural proportion of income gained by banking. Hopefully with good corporate governance, the decision to raise a

fee base income will be one of the options to keep national banking can maintain its income by not always relying on interest income which also has a risk to increase the number of non-performing loan because the bank is too easy to transmit credit and pursue interest income but ignore the prudence principle in channeling credit.

The limitation of this research is that efficiency is just one of a measure of banking financial performance. Further research is expected to use another measure of financial performance so that the financial performance of banking will be wider and comparable.

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