EFFECTS OF CAPITAL RATIO, QUALITY OF RECEIVABLES, LIQUIDITY, AND GEARING RATIO ON PROFITABILITY: A STUDY FINANCIAL INSTITUTIONS' GOVERNANCE

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Abstract

This study aims to examine the effects of capital ratio, quality of receivable, liquidity, and gearing ratio on profitability in financial companies for the 2017–2020 period. This research data was obtained from the websites of companies registered with the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) using the purposive sampling method, which uses certain criteria, the number of samples used is 15 financing companies. The analytical method used in this study is multiple regression analysis using STATA 16. The results of this study show that the ratio of capital, the quality of receivables, liquidity, and gearing ratio (GR) simultaneously have a positive and significant effect on profitability. Based on the results of the t-test that has been carried out in this study, it can be concluded that the capital ratio has a negative and significant effect on profitability, the quality of receivables and gearing ratio has a negative and insignificant effect on profitability, and liquidity has a positive and insignificant effect on profitability. This research is consisting three conclusions, firstly, the capital ratio partially has a negative and significant effect on profitability. Secondly, the quality of receivables partially has a negative and insignificant effect on profitability. Thirdly, liquidity partially has a positive and insignificant effect on profitability. Fourthly, the gearing ratio has a negative and insignificant effect on profitability.

Keywords: Capital Ratio, Quality of Receivable, Liquidity, Gearing Ratio, Financial Institutions

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1. INTRODUCTION

The financing industry, which is experiencing growth, can certainly stimulate the economic sector, and at the same time become a source of funding for national development (Cortes & Lerner, 2013). However, this cannot be separated from the level of public trust in financing institutions in terms of

management, collection, and financing. The level of public trust is the hope of the financial industry to continue to survive in uncertain global economic conditions. As crises can occur at any time, the financial industry must be able to keep it in order to sustain.

Financing is a financial service provided by a financing company to purchase goods needed by the public with installment payment. Types of goods financed include motor vehicles, household appliances, electronic goods, and houses. In the procedure for financing, a goods purchase transaction involves three parties — i.e., the buyer, the seller, and the finance company. The birth of a financial institution is the answer to the constraints of community development in the field of financing so far. Once it was difficult to buy goods in cash, yet it now can be resolved easily and quickly through several community financing institutions which provide convenient services exceeding the convenience provided by conventional banks. Financing through this financing institution is classified as a sale credit because people do not receive loans in cash, but only receive goods purchased with credit installments for consumptive purposes.

In the current modern era, the use of technology is growing rapidly in meeting human needs to obtain information and various other electronic services. This is because using technology makes everything more effective and efficient in its use. With the use of technology, people are greatly helped to get a service. Similarly, the financial sector has also experienced significant development. Technology and finance are related to each other.

The public needs for financing are now getting higher. With the increase in technological advancement in which people need to keep up with time, the necessities of life are also increasing. This situation — especially during the COVID-19 pandemic — resulted in an increased number of financial institutions, such as banks and non-banks, which later on became the goal of the community to meet their needs. Both banks and non-banks provide financing services in the form of providing funds and capital goods. Nonetheless, the large amount of loans provided by financial institutions has the potential to pose a risk, namely nonperforming financing.

The most important aspect on the part of the lender — in this case, the financing institution — is therefore to determine the ability and sincerity of a borrower (credit beneficiary) to repay the loan according to the terms contained in the agreement. Hence, the credit beneficiaries must be trusted, as they have an obligation to pay off the loan in accordance with the agreed time. The credit agreement includes the rights and obligations of each party, including the terms and interest that are mutually determined. Likewise, the sanction must also be given to the debtors if they are defaulting on the agreement that has been made together. During the COVID-19 pandemic, many financial institutions have experienced bad credit due to an increase in the number of layoffs or downsized workforce in most companies.

All companies have a goal to maximize profits so that the survival of their business is guaranteed, and they can develop their business. In today's free market, the existing companies — including financial companies — found the fast competition increasingly even more fierce. As such, the implementation of financing institutions is stipulated in Presidential Regulation No. 9 of 2009, which states that the business activities that can be provided by financial institutions are leasing, factoring, consumer financing, and credit card business. Meanwhile, as stated in the Circular Letter of The Financial Services Authority Number 1/SEOJK.05/2016 regarding the level of financial soundness of financing institutions — in accordance with the mandate of the provisions of Article 25 Paragraph (3), Article 26 Paragraph (4), Article 29 Paragraph (7), Article 32 Paragraph (6), Article 34 Paragraph (3) — and Article 35 Paragraph (2) of Regulation of the Financial Services Authority Number 29/POJK.05/2014 regarding Implementation of Financial Institutions Business (State Gazette of the Republic of Indonesia of 2014 Number 364, Supplement to the State Gazette of 5638), it is deemed necessary to regulate implementing provisions with regard to the level of financial soundness for financing institutions.

Measurement of the ratio of the financial soundness level as referred to in the financial company must at any time meet the requirements for the financial soundness level with a minimum healthy condition, which includes capital ratio, quality of financing receivables, profitability, and liquidity. Based on the problem, the authors try to find out more about how finance companies earn profits as measured by financial ratios. Based on the research background, and the formulation of the problem, this study examines the capital ratio, the quality of receivables, liquidity, and the gearing ratio on profitability. Profitability is the ability achieved by the company in a certain period. Profitability analysis aims to measure the company's ability to earn profits, both in relation to sales, assets, and equity. Profitability results can be used as a benchmark or description of the effectiveness of management performance in terms of the profits obtained compared to the company's sales and investment results. Company profitability is one of the bases for assessing the condition of a company that requires an analytical tool. Thus, every business entity will always try to increase its profitability, because the higher the level of profitability of a business entity, the survival of the business entity will be more guaranteed. The use of all or part of the profitability ratio depends on management policies (Al Kharusi et al., 2022; Al-Sharkas & Al-Sharkas, 2022; Daradkah & Janaideh, 2022; Kostyuk et al., 2014).

We elaborate this research into five sections, the structure of this paper is as follows. Section 1 is the introduction to the phenomena that occur. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research on. Section 4 is the explanation of the results and the last or Section 5 is the discussion regarding the results and future research. Section 6 concludes the paper.

2. LITERATURE REVIEW AND HYPOTHESIS

Capital ratio is defined as a measure of liquidity, meaning the business's ability to meet its payment obligations as they fall due. It measures a company's capital adequacy in relation to its assets or

liabilities. In general, the higher the ratio, the healthier the company concerned. Companies with a high ratio of capital to total assets are protected against operational losses for companies with a lower ratio. According to economists, capital is a company's assets that can be used for further production activities. Meanwhile, according to Pratama (2019), capital is a remaining right over the activities of an institution (entity) after deducting its obligations. Financial institutions or multi-finance institutions are required to meet a capital ratio of at least 10% of assets. This compulsion is useful for maintaining the level of a company's financial soundness. In the Financial Services Authority Circular Letter No. 1/SEOJK.05/2016 Regarding the Level of Financial Soundness of Finance Companies, OJK sets an obligation for financial institution to have capital ratio of at least 10% of its assets. Receivables are bills to other parties — i.e., creditors or customers — as a result of selling goods on credit (Warren et al., 2005). Receivables as claims arising from the sale of goods, service delivery, lending funds, or other types of transactions that form a relationship in which one party owes the other party (Pratama, 2019; Pambudianti et al, 2020). Credit sales, which will eventually result in billing rights or receivables from subscribers, are very closely related to the credit terms announced. Although the collection of receivables is often not on time, most of these receivables will be collected in less than 1 year. On this basis, receivables are included as a component of the company's current assets. For financial reporting purposes, receivables are categorized as current (short-term) and non-current (long-term). Current receivables are expected to be collected within one year during one operational cycle. Meanwhile, other than that it is said to be non-current receivables.

H1: The capital ratio has an effect on profitability in financing companies.

According to the OJK Circular Letter No. 35/POJK.05/2018 Net Quality of Non-Performing Financing Receivables, hereinafter referred to as Net NPF, are financing receivables consisting of financing receivables with substandard, doubtful, and loss quality, after deducting the allowance reserve for write-off of financing receivables which consist of financing receivables with substandard, doubtful and loss quality. The higher the NPF ratio, the worse the credit quality, which causes the number of non-performing loans to increase, and therefore the bank must bear losses in its operational activities that affect the decrease in profit (Kasmir, 2016). The OJK determines the value of financing receivables categorized as non-performing financing receivables consisting of financing receivables with substandard, doubtful, and loss quality. Determination of the value of financing receivables with the NPF quality category in question is after deducting the allowance reserve for the write-off of mandatory financing receivables at a maximum of 5% of total financing receivables.

H2: The quality of receivables has an effect on profitability in financing companies.

The liquidity ratio can be defined as the ratio that shows the company's capability to cover its short-term liabilities. The liquidity ratio is also known as a ratio that can be used to measure a company's capability to pay off its maturing short-term obligations (Hery, 2016). In line with this case, the liquidity ratio is also defined as the ratio that shows the company's ability to fulfill its short-term obligations to short-term creditors (Tamara, 2017). The liquidity ratio, also known as the working capital ratio, aims to measure a company's ability to meet its short-term obligations. In other words, the liquidity ratio is a financial ratio that shows the company's financial ability to fulfill its short-term obligations on time to creditors.

H3: Liquidity has an effect on profitability in financing companies.

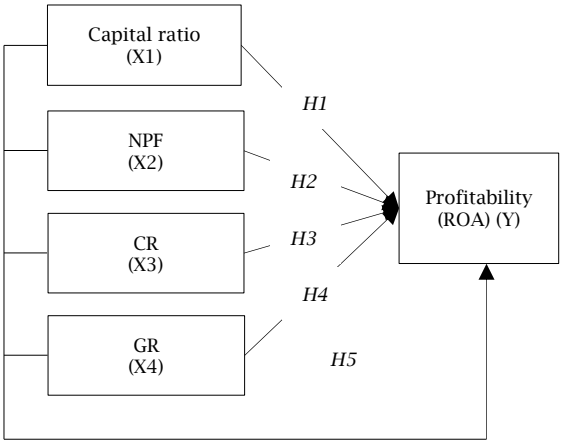
The gearing ratio is one of the financial leverage ratios. The gearing ratio used to measure the level of leverage is the ratio of long-term debt to equity. The high gearing ratio or financial leverage reflects the company's high financial risk. The company's financial risk or difficulty is bad news that will affect the company's condition in the public view. So, the higher the gearing ratio of a company, the later the company is in submitting financial statements (Ali et al., 2011; Usman et al., 2019). The gearing ratio is the number of loans compared to equity. Based on the provisions of the Ministry of Finance No. 222/PMK.010/2008 the gearing ratio of productive business guarantee is a maximum of 10 times. A low gearing ratio means that the company is financially stable and has a low risk of changes in interest rates. In the view of investors, a high gearing ratio will be riskier, and this case will make investors not want to fund the company. Investors and creditors prefer companies with low gearing ratios. Financing institutions can maintain a gearing ratio by increasing profits. Increased profits make the company get additional capital so that it can reduce the gearing ratio.

H4: The gearing ratio has an effect on profitability in financing companies.

H5: The capital ratio, the quality of receivables, liquidity, and gearing ratio simultaneously have an effect on profitability in financing companies.

Based on the background of the problems mentioned above, a framework is raised to explain the effect of capital ratio, the quality of receivables, liquidity, and gearing ratio on profitability in financial companies. The research model in this study can be seen in Figure 1.

Figure 1. Research model



The hypotheses are a temporary answer/ conclusion taken to answer a problem posed in research that still has to be tested empirically.

3. RESEARCH METHODOLOGY

3.1. Research approach

This study uses a quantitative approach. Quantitative research is intended to emphasize a theory test by measuring variables with numbers and conducting data analysis through statistical procedures. This study is descriptive and explanatory in nature to determine the relationship or influence between the independent variables and the dependent variable. It uses secondary empirical data that was obtained from documents by browsing the official website of each company registered with the Financial Services Authority (OJK). The sampling technique is purposive sampling, a technique for conducting samples with certain considerations. This study takes financial report data in the form of capital ratio, non-performing financing (NPF), current ratio (CR), gearing ratio (GR), and return on assets (ROA) from financial companies in 2017–2020.

3.2. Population and sample

Population is defined as a generalization area consisting of subjects or objects that have certain characteristics and qualities determined by a researcher to be studied and analyzed before a conclusion is drawn (Sugiyono, 2008). The population used in this study is financial companies registered with the OJK in 2017–2020. The total population of sample financial institutions is 156. The sample is part of the number and characteristics possessed by the population. Collecting the research samples is done using purposive sampling. Hence, it is done by selecting subjects based on predetermined specific criteria. This method requires certain conditions for a sample to be selected with the intention to focus more on the sample being studied. The selection criteria in this study are as follows:

1. The financial institutions are registered with the financial services authority;
2. The financial institutions were audited in 2017–2020;
3. The financial institutions have published annual financial reports and have variables that will be used from 2017–2020.

3.3. Data and data sources

The data used in this study are financial ratios which are variable measuring tools. The data source used in this study is secondary data which can be obtained from the financial statements of companies that meet the sampling criteria and are registered with the financial services authority for the period of 2017–2020.

3.4. Data collection technique

The data collection techniques used in this study is by using documentation and library techniques. The data were taken from literature with related topics and collected from documents in the form of the companies' financial reports. The selected financial institutions were already registered with the financial services authority for 2017–2020.

3.5. Definition of operational variable

The operational variable is a way to measure concepts and how a concept must be measured so that there are variables that influence and are influenced by each other, namely variables that can cause other problems and variables whose situations and conditions depend on other variables. The independent variable (Variable *X*) is the variable that influences or becomes the cause of the change or the emergence of the dependent variable. The independent variables in this study are the *capital ratio*, the *quality of receivables* (*NPF*), *liquidity* (*CR*), and *gearing ratio* (*GR*).

The dependent variable (Variable *Y*) is a variable that is affected, or which becomes the result of independent variables. The dependent variable in this study is *profitability* (*ROA*) in financial institutions registered in OJK. For the purposes of testing the variables used in this study, it is necessary to translate them into the relevant indicators. The indicators for the independent and dependent variables that have been written in Table 1.

Table 1. Operational research variable

No.	*Variable*	*Meaning*	*Ratio*
1	*Capital ratio (X1)*	Capital ratio is a financial ratio that measures the adequacy of a company's capital in relation to its assets or liabilities (Syam, 2014).	$CR = \frac{Adjusted\ capital}{Customized\ assets} \times 100\%$
2	*The quality of receivables (X2)*	NPF is a non-performing loan consisting of loans classified as substandard, doubtful, and loss (Kasmir, 2016).	$NPF = \frac{Non\ performing\ financing}{Total\ financing} \times 100\%$
3	*Liquidity (X3)*	The current ratio is used to measure a company's ability to meet its maturing short-term obligations by using the existing total current assets (Hery, 2016).	$CR = \frac{Current\ assets}{Current\ liabilities}$
4	*Gearing ratio (X4)*	The gearing ratio used to measure the level of leverage is the ratio of long-term debt to equity (Ali et al., 2011).	$GR = \frac{Long-term\ debt}{Equity}$
5	*Profitability (Y)*	ROA is a profitability ratio that shows how much net profit can be obtained from all the assets owned by the company (Sartono, 2010).	$ROA = \frac{Net\ profit}{Total\ assets} \times 100\%$

Source: Processed data, 2023.

3.6. Analysis techniques

The data analysis technique used in this study is multiple linear analysis by starting with the classical assumption test which consists of a normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The method of multiple linear regression analysis and hypothesis testing is

assessed from the coefficient of determination (R2), t-test, and f-test. In testing the hypothesis of this study uses multiple linear regression analysis by using the STATA 16 program. The hypothesis in this study is influenced by the significant value of the coefficient of the variable concerned after testing.

The conclusion of the hypothesis is based on the t-test and f-test to test the significance of the independent variables to the dependent variable. The data analysis method used in this study is multiple regression analysis. Multiple linear regression is a common statistical method used to examine the relationship between a dependent variable and several independent variables. The purpose of multiple linear regression analysis is to use known variable values to predict the dependent variable value (Moore et al., 2006). This analysis technique is needed in various decision-making both in the formulation of management policies and in scientific studies.

4. RESULTS

Table 2 shows the average of five variables from the 15 companies that were the object of this research. As for data per each company per variable, it is attached in the Appendix.

Table 2. Variable description

Variable	*2017*	*2018*	*2019*	*2022*
Capital ratio	37.37	40.48	52.82	87.24
NPF	1.55	2.22	1.86	2.23
Current ratio	1.31	1.49	1.03	1.62
Gearing ratio	2.87	2.66	2.07	1.62
ROA	5.45	5.13	3.33	2.68

Multiple regression analysis in current research uses multiple regression equation models. This equation model was chosen because the current study examines the effect of an independent variable on the dependent variable and has more than one independent variable. This analysis will prove the influence between capital ratio variables, the *quality* of *receivables variables* (*NPF*), and *liquidity* (*CR*) on *profitability* (*ROA*) in finance institutions registered with the Financial Services Authority in 2017–2020. Table 3 will show the influence of these independent variables on the dependent variable.

Table 3. Multiple regression test results

Y_ROA	*Coef.*	*Std. Err.*	*t*	*P > t*
X1_CapitalRatio	-0.039334	0.0173903	-2.26	0.028
X2_NPF	-0.4430145	0.4137361	-1.07	0.289
X3_CR	0.2362795	0.3183066	0.74	0.461
X4_GR	-0.3195846	0.3240819	-0.99	0.328
_cons	6.104283	1.486848	4.11	0.000
Number of obs.	***Adj R-squared***	***R-squared***	***F(4,55)***	***P > F***
60	0.6979	0.7184	35.08	0.0000
Source	***SS***	***df***	***MS***	
Model	2231.8826	4	557.970673	
Residual	874.824	55	15.9059088	
Total	3106.70767	59	52.6560623	

Source: Data processing, 2023.

The coefficient of determination (R2) essentially measures how far the model's ability to explain the variation in the dependent variable. The value range is 0 to 1, if the R2 value is small, it means that the ability of the independent variables to explain the variation in the dependent variable is very limited. Conversely, if R2 is large (close to the value of 1) it means that the ability of the independent variables to explain the variation in the dependent variable is large. The results of the coefficient of determination test are presented in Table 3.

Based on Table 3, it is known that the overall R-squared (R2) value is 0.7181, which means that 71.81% is influenced by the independent variables, namely the capital ratio, the *quality of receivables* (*NPF*), *liquidity* (*CR*), *gearing ratio* (*GR*), which can explain or *describe the profitability* (*ROA*) of the financial company. While the remaining 28.19% is explained by other variables not included in this research model. The t-statistical test basically shows how far the influence of one independent variable individually in explaining the dependent variable. The following t-test results on this research model are presented in Table 3.

Based on Table 3, the t-test results of this research model will be compared with the t-table of 1.67252 with a significant level of 5% or 0.05. As shown in the results of regression analysis with panel data, it is known that the *capital ratio* (*X1*) has a t-count value of -2.26 < from the t-table in which 1.67252 H_0 is accepted. As with the prob value, the t-capital ratio of 0.028 < 0.05 means that the capital ratio (*X1*) is partially proven to have a negative and significant effect on profitability.

As with the *quality of receivable* (*X2*), it is known that the t-count value of -1.07 < from the t-table, which is 1.67252, H_0 is accepted. The prob. t-value of receivable quality of 0.289 > 0.05 means that the *quality of receivables* (*X2*) is partially proven to have a negative and insignificant effect on profitability.

Liquidity (*X3*) is known, meaning that the t-count value of 0.74 < from the t-table, which is 1.67252, H_0 is accepted. As well as the prob value. T-liquidity of 0.461 > 0.05, this means that *liquidity* (*X3*) is partially proven to have a positive and insignificant effect on profitability.

The *gearing ratio* (*X4*) is known, meaning that the t-count value of -0.99 < from the t-table, which is 1.67252, H_0 is accepted. The prob. t-value of the *quality of receivables* of 0.328 > 0.05 means that the *gearing ratio* (*X4*) is partially proven to have a negative and insignificant effect on profitability. Based on the results of the t-test that has been carried out in this study, it can be concluded that the *capital ratio* has a negative and significant effect. Likewise, the *quality of receivables* and *gearing ratio* have a negative and insignificant effect, while liquidity has a positive and insignificant effect.

The F-test is used to see the effect of capital ratios, accounts receivable quality, and liquidity on profitability simultaneously. This effect needs to be tested to see whether this panel data regression model can be continued by doing the t (partial) test or not. If the F-test results conclude that all independent variables have a significant effect on the dependent variable, then this regression model can be continued by conducting the t-test. Conversely, if there is no significant effect, then the t-test (partial test) does not need to be done, because all independent variables do not affect the dependent variable. The results of the F-test on the model used in this study can be in Table 3.

As shown in Table 3, it is known that the F-count value is 35.08 with a probability value of 0.0201 while the F-table value is known to be 2.54 with a significance level of 5% or 0.05. This proves that the F-count value of 3.08 that is greater than F-table 2.54, H_0 is rejected. The alternative hypothesis (*Ha*) is accepted and the probability value of 0.0000 is smaller than the significant level of 0.05. So, it can be concluded that all independent variables altogether (simultaneously) have a positive and significant influence on the dependent variable, namely *profitability*.

5. DISCUSSION

5.1. Effect of capital ratio on profitability

The research results show that the regression transformation coefficient for the capital ratio variable is -0.039334, which means that it has a negative effect on profitability. In addition, the significance value of 0.028 is significant because it is smaller than 0.05. this shows that the capital ratio has a negative and significant effect on profitability in finance institutions in 2017–2020. The results of the study show that the higher capital ratio of a financial company is not a measure of the success of the company's management in obtaining high profits. In accordance with capital theory, capital is an important factor for financial institutions in order to develop business and accommodate losses. Hence, the capital ratio means the amount of own capital needed to cover the risk of losses that may arise from investing in assets that contain risk.

The operation of the financing company may cause this condition, as it neither utilized its capital effectively to generate profits nor placed the capital in profitable investments. Therefore, the capital is unable to contribute to increasing ROA in the financing company. The results of this study are in accordance with those conducted by Syakhrun et al. (2019) which state that the capital ratio has a significant effect on profitability (ROA). The high capital ratio of finance institutions has a real influence on ROA.

5.2. Effect of the quality of receivables on profitability

From the research results, the regression transformation coefficient for the quality of receivables variable is -0.4430145, which means that it has a negative effect on profitability. In addition, the significance value is 0.289 where this value is not significant because it is greater than 0.05 this shows that the quality of receivables has a negative and insignificant effect on profitability in financial institutions in 2017–2020. Although the NPF value in financial institutions is getting higher, it may not have a direct impact on a decrease in their income (ROA). Profits earned by financial institutions can still increase with high NPF because they can still generate sources of profit not only from interest but from other sources of profit taken from the cost of productive asset reserves. However, the risk of large non-performing loans can allow a financing institution to be in an unhealthy condition. A financial company must therefore be able to minimize non-performing loans so that public trust could sustain.

While the NPF gets smaller, the profit may get higher. A low NPF indicates that the company can manage the quality of receivables well. The calculation results show that the NPF of the financial company is still relatively low because it is below 5%. Hence, Profitability can increase if NPF is below 5%. Since high non-performing financing (NPF) will affect the company's revenue and reduce profits, financial institutions should maintain the quality of financing and conduct proper analysis in providing financial services, so that the NPF ratio can be kept below 5%. The NPF ratio is the proportion of asset quality of bad and doubtful category financing receivables to total financing receivables.

The results of this study are in accordance with those conducted by Angraini et al. (2020), which state that NPF has an insignificant effect on profitability (ROA). High NPF of finance institutions does not have a significant effect on decreasing ROA.

5.3. Effect of liquidity on profitability

The result of this study shows that the regression transformation coefficient for the liquidity variable is 0.2362795, which means that it has a positive effect on profitability. In addition, the significance value of 0.461 — which is not significant because it is greater than 0.05 — means that the quality of receivables has a positive and insignificant effect on the profitability of the financial institutions in 2017–2020. Current ratio (CR) affects return on assets (ROA), meaning that financial institutions that have a high current ratio will certainly produce a high return on assets as well. A high current ratio value indicates that the availability of current assets — such as cash and cash equivalents, accounts receivable, inventory, and securities — to pay off current liabilities is also high. However, a high current ratio does not necessarily guarantee that the finance company has enough cash to meet its current obligations. This indicates that the company's ability to meet its short-term liabilities that are due immediately using current assets shows that the company has a low level of difficulty.

The results of this study are in accordance with the findings of the research conducted by Supardi et al. (2016) and Hartono (2018) in which the current ratio (CR) is not significant to return on assets (ROA).

5.4. Effect of gearing ratio on profitability

The research finding shows that the regression transformation coefficient for the liquidity variable is -0.3195846, which means that it has a negative

effect on profitability. In addition, the significance value of 0.328 — which is not significant because it is greater than 0.05 — shows that the quality of receivables has a positive and insignificant effect on profitability in finance institutions in 2017–2020. Gearing ratio negatively affects profitability. The higher the level of gearing ratio, the less profitable the company will tend to be. Gearing ratio is a maximum of 10 times.

Meanwhile, OJK suggests that the gearing ratio of finance institutions should be less than five times. This is to reduce the risk of default on loans made by the company. Financial institutions maintain gearing ratios in an ideal position by increasing profits. With increasing profits, the company can increase its own capital so that it can reduce the gearing ratio. In making decisions on the amount of a company's capital originating from external loans the financial institutions must consider the ratio between profitability and risk. Therefore, if a company can manage debt and capital more efficiently, the company has no difficulty in funding; and financing can continue to be transmitted to consumers so that it will increase profitability.

Policies issued by Bank Indonesia (BI) have a positive impact on financial companies, especially in terms of funding or capital. The decline in the BI rate helps financial institutions to obtain funding sources through banks with lower lending rates. With this policy issued by the government, the impact is still maintained by the gearing ratio of financial institutions in an ideal position. The maintained capital allows financial institutions to continue to develop their business and ultimately contribute positively to Indonesia's economic growth. The results of the study are in line with research conducted by Thuvarakan (2013) whose results show that the gearing ratio (GR) is not significant to return on assets (ROA).

5.5. Effect of capital ratio, the quality of receivables, liquidity, and gearing ratio on profitability

The test results show that the capital ratio, the quality of receivables (NPF), liquidity (CR), and gearing ratio (GR) simultaneously have a significant effect on profitability (ROA). This is indicated by the significance value of F = 0.0000 (smaller than $\alpha = 0.05$) in the simultaneous test (F-test). The conclusion that can be drawn is that simultaneously the capital ratio, the quality of receivables, and liquidity have a significant influence on ROA in financial institutions for the 2017–2020 period.

The effect of capital ratio, the quality of receivables, liquidity, and gearing ratio is 71.81% while the remaining 28.19% is explained by other variables not included in this research model. The results of this study are in accordance and in line with those conducted by Syakhrun (2019) and Supardi (2016) which state that overall each variable has a significant effect on profitability. It is indicated that if changes in value occur in the capital ratio, the quality of receivables, liquidity, and gearing ratio, it will affect changes in profitability.

6. CONCLUSION

Based on the test results of this study, the following conclusions can be drawn. First, the capital ratio partially has a negative and significant effect on profitability. It can be interpreted that the greater the capital ratio, the more the profitability will decrease. The research finding here confirms the conclusion that the capital ratio of the sample financial institutions for the 2017–2020 period is able to fund their business activities.

Second, the quality of receivables partially has a negative and insignificant effect on profitability. It can be interpreted that the financing provided to financial institutions is still not optimal, as it is constrained in channeling the financing to customers, which resulted in a very low risk of bad debts and no effect on finance institutions for the 2017–2020 period.

Third, liquidity partially has a positive and insignificant effect on profitability. It can be interpreted that the high current ratio does not necessarily guarantee that the financial institutions have enough cash to meet their current obligations for the 2017–2020 period. The gearing ratio partially has a negative and insignificant effect on profitability. It can be interpreted that the higher the level of gearing ratio, the financial institutions will tend to get less profit for the 2017–2020 period. Capital ratio, the quality receivables, liquidity, and gearing ratio simultaneously have a positive and significant effect on profitability. It can be construed that any change in the value of the capital ratio, quality of receivables, liquidity, and gearing ratio simultaneously results in a significant change in the profitability value of the financial companies for the 2017–2020 period.

For insurance companies, they should improve the company's financial performance so that they can attract investors to invest in the company. Companies must also maintain and pay more careful attention to company operational activities, especially in terms of capital ratios, accounting quality, and liquidity within the company. Apart from that, companies must also be efficient in providing loans so that there are no credit problems so that the company can obtain maximum profits. Furthermore, for investors and potential investors who want to invest in a company, it is best to first look at the condition of the company they will choose and look at the financial health of the company, and in this case, investors must first look at the financial profits of the company they will choose, which are contained in the company's financial statements or reports. annually so that investors can place the capital they want to invest in the right company.

Future research is still required to improve the limitations of this study, and the number of samples and the length of observation years must be increased to get comprehensive results. Further research can also be developed by adding variables that may affect profitability.

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APPENDIX

Capital ratio

As shown in Table A.1, the number of capital ratios of each company changes annually. Starting from a high ratio, namely the company PT Rhadana Baskara Finance Tbk. (HDFA) has experienced an increase every year, the last of which was in 2020 at 432.70% and the smallest capital ratio has been obtained for the company PT Federal Indonesia Finance (FIFA) in 2017 at 12.60%. Judging from the acquisition of the capital ratio figures above, basically in all companies there are respective fluctuating ratio numbers. It is these figures that determine whether the capital ratio affects profitability or not.

Table A.1. Financial companies' capital ratio for the period of 2017–2020

Code	*2017*	*2018*	*2019*	*2020*
CNAF	39.19	65.55	55.37	67.27
ADMF	21.8	24.5	26.3	35.4
SMMF	38.49	38.42	33.40	31.08
BIIF	27.98	32.09	34.47	33.41
TIFA	26.19	30.34	44.70	58.64
WOMF	18.5	19.6	25.1	19.6
ABMF	60.00	71.00	85.60	94.58
HDFA	60.50	38.23	83.01	432.70
SMOF	22.86	47.85	46.20	95.69
BCAF	47.84	56.87	55.76	83.58
BBLD	100.46	91.20	90.49	43.48
CFIN	35.58	31.69	96.61	131.64
FIFA	12.60	16.94	23.29	28.55
OTMA	15.13	14.04	43.13	82.09
BFIN	33.5	28.9	48.8	70.9

Source: Secondary data processed, 2022.

The quality of receivables

Based on data from the financial statements of the 15 financial companies listed on the financial services authority, the results of the analysis show their quality of receivables as presented in Table A.2.

Table A.2. The quality of receivables for the period of 2017–2020

Code	*2017*	*2018*	*2019*	*2020*
CNAF	2.24	3.64	2.71	2.32
ADMF	**1.1**	1.2	1.2	1.4
SMMF	2.12	2.12	2.35	2.03
BIIF	2.44	**9.24**	3.93	4.70
TIFA	1.21	1.39	1.19	1.38
WOMF	1.27	1.37	1.52	1.67
ABMF	1.53	1.69	2.01	1.91
HDFA	1.57	1.56	1.74	2.27
SMOF	2.20	2.71	1.98	3.21
BCAF	1.21	1.68	1.75	4.72
BBLD	1.21	1.17	1.21	1.32
CFIN	2.21	1.54	2.20	2.13
FIFA	1.26	1.19	1.56	1.38
OTMA	1.29	1.30	1.19	1.38
BFIN	1.6	1.5	1.4	1.6

Source: Data taken from each company's financial statements, 2022.

In Table A.2, there is a change in the quality of receivables score (NPF) from each company year. Starting from the high, namely the company Buana Finance has experienced an increase every year, the last of which was in 2020 at 4.19% and the smallest number has been obtained for the company AB Sinar Mas Financing in 2020 at 0.00%. Judging from the acquisition of the capital ratio figures above, basically in all companies there are respective fluctuating ratio numbers. These figures will determine whether the quality of receivables affects profitability or not.

Liquidity

Based on data from the financial statements of the 15 financial companies listed with the financial services authority, the results of their liquidity are shown in Table A.3.

Table A.3. Liquidity for the period of 2017–2020

Code	*2017*	*2018*	*2019*	*2020*
CNAF	1.36	2.38	0.66	1.52
ADMF	1.6	2.7	0.38	0.91
SMMF	0.53	1.36	2.03	1.85
BIIF	0.26	0.53	0.27	0.43
TIFA	1.11	0.86	1.76	3.42
WOMF	2.17	2.82	1.93	1.23
ABMF	1.00	0.99	0.07	0.00
HDFA	3.08	2.83	2.10	0.55
SMOF	0.79	0.84	0.29	0.89
BCAF	0.39	0.64	0.66	1.77
BBLD	3.64	2.57	2.13	4.19
CFIN	1.59	1.21	1.07	0.89
FIFA	0.67	0.66	0.69	1.48
OTMA	0.58	0.69	0.52	3.42
BFIN	0.95	1.21	0.85	1.72

Source: Data taken from the financial statements of each company, 2022.

Table A.3 shows the changes in liquidity (CR) numbers experienced by all companies each year. Starting from the high, namely the company PT Maybank Indonesia Finance (BIIF), each year experienced the highest increase in 2018 of 9.24 and the smallest number of 1.1 was obtained by the AB Sinar Mas Financing company (ADMF) in 2017. Judging from the liquidity figures above, basically, all companies experienced fluctuating current ratio figures. These figures indicate whether liquidity affects profitability or not.

Gearing ratio

As shown in Table A.4, the gearing ratio (GR) figures of each company change each year. The highest GR was experienced by PT Wahana Ottomitra Multiartha, Tbk (WOMF) with the highest gearing ratio in 2017–2018 of 5.7 and the smallest number was obtained by the BCA Finance company in 2020 of 0.15. Judging from the gearing ratio figures in Table A.4, basically in all companies there are respective fluctuating ratio figures. The gearing ratio of a financial company would imply whether it affects profitability or not.

Table A.4. Gearing ratio for the period of 2017–2020

Code	*2017*	*2018*	*2019*	*2020*
CNAF	3.66	8.15	9.98	6.98
ADMF	5.0	6.0	4.8	2.0
SMMF	3.03	2.05	1.21	0.25
BIIF	5.18	5.53	6.24	6.54
TIFA	2.03	2.36	3.21	2.12
WOMF	3.53	3.25	4.39	1.27
ABMF	5.00	3.00	2.35	5.66
HDFA	0.30	-12.94	**-33.35**	-10.93
SMOF	4.41	5.66	5.97	-4.53
BCAF	24.80	**28.91**	25.99	17.79
BBLD	1.66	1.23	1.18	0.44
CFIN	4.06	3.81	4.06	6.5
FIFA	6.9	7.2	4.6	7.6
OTMA	1.88	2.51	3.69	-3.52
BFIN	10.3	10.3	5.7	2.0

Source: Data taken from the financial statements of each company, 2022.

Profitability

Based on data from the financial statements of the sample financial companies listed on the financial services authority, the results of their profitability are shown in Table A.5.

Table A.5. Financial companies' profitability for the period of 2017–2020

Code	*2017*	*2018*	*2019*	*2020*
CNAF	1.74	0.37	0.87	0.66
ADMF	3.7	3.1	2.8	2.1
SMMF	2.66	2.6	3.27	3.12
BIIF	3.19	3.04	2.4	1.63
TIFA	3.3	2.79	1.82	1.94
WOMF	5.7	**5.7**	4.2	2.7
ABMF	1.07	1.19	0.79	0.82
HDFA	5.33	5.59	0.84	0.37
SMOF	1.38	1.47	1.49	1.61
BCAF	0.88	0.44	0.65	0.15
BBLD	2.78	3.17	3.08	2.33
CFIN	1.45	1.36	1.48	1.24
FIFA	4.37	4.24	3.47	2.89
OTMA	3.29	2.97	1.97	1.54
BFIN	2.2	1.9	1.9	1.2

Source: Data taken from the financial statements of each company, 2023.

As indicated in Table A.5, the profitability (ROA) figures of each company change every year. The financial company, PT BCA Finance (BCAF), experienced the highest increase from 24.80% in 2017 to 28.91% in 2018, while the smallest amount of -33.35% was obtained by the company PT Rhadana Bhaskara Finance Tbk (HDFA) in 2019. Judging from the profitability figures above, basically, all companies experienced fluctuating ratio figures.