

CHAPTER 1

INTRODUCTION

1.1 Introduction

Financial institutions have several functions and roles in strengthening its trading. Banks, as a part of these institutions, have undergone many transformations which have been significantly impacted by information technology for decades. For instance, the widespread use of ATMs, which allows individuals to withdraw funds without needing to visit a bank branch, making transactions quicker and more accessible. This transformation will continue to evolve to fulfill people's financial needs and make these processes even easier. For example, people can now use their mobile phones to do various financial activities, such as transferring money, purchasing goods, and buying stocks.

Banks can be divided into two types, commercial banking, and investment banking. (John Hull, 2018). Commercial banking is a type of banking that gives a small amount of money to many entrepreneurs and firms. It also receives small-scale installments from many businesses. Commercial banking is described as wholesale banking. Wholesale banking is a bank that requires funds from a bank funding system for medium-sized and enormous-sized firms, customers, and portfolio directors. Commercial banking has been trusted by many people, especially the government, because commercial banking can manage equity, provides guarantees to all people in that country, and permits investors and stakeholders to invest in the banking sector.

Investment banking is a kind of banking that makes a regulation that each capital and liabilities must increase for firms or people who work in government. This activity done by investment banking engages in issuing bonds, funding each bond, and giving each bond to shareholders. Investment banking has a good relationship with the firm because the firm wants to expand its funds which are manifested in the shape of capital or liabilities. Investment banking helps the firm not only in increasing its funds but also in selling its stock for the first time to many people in the stock market or it can be defined as IPO or Initial Public Offering.

A banking company has profitability, so it needs a rating in calculating its profitability. Banking companies need Return on Assets or ROA to assess their profitability so the bank can effectively operate because it shows how much revenue is produced on average by every single dollar of many assets (Mishkin & Eakins, 2016). The General formula of ROA is net profit after taxes divided by all assets. Banking companies also can use Return on Equity or ROE to measure how many equities are received by the bank. ROE can be calculated by dividing net profit after taxes by all equity capital.

According to Oredogbe(Oredogbe, 2022), the Altman Z Score is a general formula to determine the stability of a banking venture because the Altman Z Score can measure the insolvency of banking companies so it can predict whether the company is facing financial distress or not. Oredogbe uses the Altman Z Score to measure the banking industry's stability to make sure that the banking company is bankrupt or not. This study compares Altman 1968 and 1995 in measuring stability. A key difference between them is that the Altman Z Score 1968 uses different variables and is applied to different locations from Altman1995.

1.2 Research Objectives

Based on the previous subchapter, the author can make an objective such as:

1. To analyze the competition influence on the banking stability
2. To analyze Return on Equity impact banking venture stability
3. To analyze Cost to Income Ratio have influence on banking's venture stability
4. To analyze Capital Adequacy Ratio influence banking's venture stability
5. To analyze Gross Domestic Product Per capita Growth affect banking venture stability
6. To analyze Consumer Price Index influence banking venture stability

1.3 Research Questions

Based on the previous subchapter, the author can make a question such as:

1. Does Competition affect stability in the banking industry?
2. Does Return on Equity influence stability in the banking industry?
3. Does Cost to Income Ratio improve stability on the banking industry?
4. Does Capital Adequacy Ratio have an impact on stability?
5. Does Gross Domestic Product Per capita Growth per Capita improve stability?
6. Does the Consumer Price Index have an influence on stability of the banking industry?

1.4 Research Beneficiary

The benefit of this research will be useful for:

- a) For Lectures and Students who study Finance

The result of this research can be used as information for other research related to finance subjects so every lecturer and student can know about what to observe in finance in the future.

- b) For investors and analysts

The result of this research will help investors and analysts when they want to decide to invest their stock and mutual funds in banking companies.

- c) For Financial Experts who work as a professional to discover more about finance

This result will make a big contribution to financial experts so they can observe more about finance, and they can share their knowledge with many people who understand finance

1.5 Thesis Structure

The following is the structure of this study.

CHAPTER 1 INTRODUCTION

Chapter 1 consists of the research's introduction or framework, research question, research objective, research beneficiary, and thesis structure. Based on the literature research, it can conclude all the data and information given above.

CHAPTER 2 LITERATURE REVIEW

Chapter 2 consists of a theoretical background, literature review, and previous study related to the topic discussed by analysts to make a hypothesis in this research.

CHAPTER 3 RESEARCH METHOD

Chapter 3 consists of several methods that can be utilized in this study including hypothesis, data selection, and description to be tested in this research.

CHAPTER 4 RESULT AND DISCUSSION

Chapter 4 consists of the results and a discussion of the research. Chapter 4 will explain each solution of data analysis based on the methods described in the testing model. The answers will be explained to answer the questions given in the first chapter of this research.

CHAPTER 5 CONCLUSION

The last chapter explains about recommendations and conclusions included in the study. These conclusions were received from the discussion answers discussed in Chapter 4 according to the hypothesis tested.