

CHAPTER I

INTRODUCTION

1.1 Background

Economic development in Indonesia has increased along with the rapid advancement of information systems that move quickly in accordance with the times. With the rapid pace of development, it should be accompanied by the addition of facilities and infrastructures as supporting facilities, people who do business also contribute of the rapid advancement of economy in Indonesia.

In order to support business activity from every community or person who do business whether it small, medium or big business most of them require help from banking company as intermediary in financial transaction. Bank play role as a financial intermediary whose main activity is to collect funds from the public (surplus unit) and give it back to the community (deficit unit) and help smooth payment system and other important thing, In carrying out its functions as an intermediary, the bank bases its business activities on public trust. Then the bank is also referred to as a public trust institution (the agent of trust).

In developing countries such as Indonesia, the function and role of commercial banks in the economy is very important and strategic. Commercial banks are very important in sustaining the strength and smoothness of the payment system and the effectiveness of monetary policy. In Indonesia, the establishments of commercial banks also have a development mission (Mandala, 2004:134). While the bank as denominator economy meant that the bank was the center of the

economy, the source of funds, implementing payment transactions, savings, and driving the advancement of national and international trade. Without intermediary banks, it is impossible to do the globalization of the economy (Malay SP. Hasibuan, 2009: 3).

It is a known fact that banks play several vital roles in economy development. It is incontrovertible that the banking system is the engine of growth in economy. However, banks ability to engender economic growth and development depends on the health, soundness and stability of the banking system itself. With sound banking conditions, efficiency, and beneficial to the economy is the key to success in sustaining economic development.

Therefore the bank needs to improve its performance in order to create a sound and efficient banking. Healthier the bank then it will be able to sustain the economy of a country. The information can be used in assessing the performance of the company is to analyze the level of liquidity, solvency, as well as the level of profitability of the banking company.

Categories healthy bank is a bank that is able to achieve adequate profitability. (Kasmir, 2010: 11) argues, the assessment to determine the condition of a bank, usually using a variety of measuring instruments. One of them is the earnings or income. Profitability is one of the bank financial analysis tools that measure the success of management in generating profit from the business operations of the bank. High profitability can show good financial performance. Conversely, if it achieved low profitability, indicating financial performance management in generating profits is low.

Profitability is not only important for the management of the bank, but also for other. For companies, profitability is directly related to the level of income that would be obtained. For society, especially depositors will not feel anxious to save money in the bank. Banks must always maintain its profitability to sustain their business. The level of profitability of a company's performance can be seen and measured through financial statements by analyzing and calculating the ratios in financial performance. According to (Dendawijaya, 2009: 118-119), ratio analysis to measure the profitability of a bank generally as follows: *return on assets* (ROA), Return on Equity (ROE), Operational Cost Ratio (OCR), and net profit margin (NPM).

According to Bank Indonesia, *return on assets* (ROA) is the ratio of profit before tax to average of total assets during the period. This ratio can be used as a measure of financial health. This ratio is very important, considering the benefits of the use of the asset may reflect the degree of efficiency of the business of a bank.

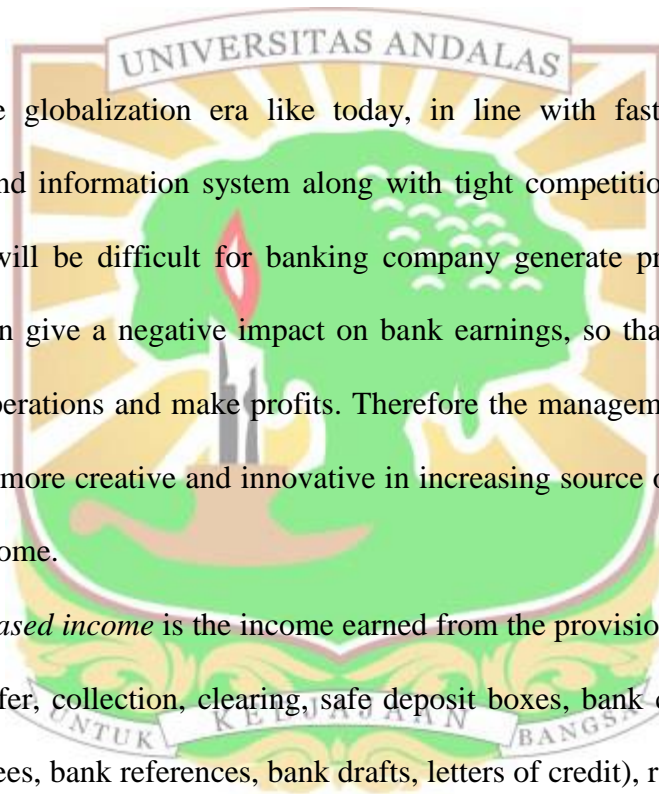
The greater *return on Assets* (ROA) of a bank, the greater the level of profit that the bank achieved and the better the bank's position in terms of the use of the asset. Total assets that used to measure the bank's ROA is the amount of productive assets which consists of the placement of securities such as certificates of Bank Indonesia, money market securities, the placement of the shares of other companies, the placement of the call money or money market and placement in the form of credit (Dendawijaya, 2003). In this study, *return on assets* (ROA) was chosen as an indicator measuring financial performance of banks is due to return

on assets is used to measure the effectiveness of the company in making a profit by exploiting its assets.

Bank must be proficient in improving its earnings that will likely increase earnings and will affect the profitability achieved by a bank. In the income statement, the bank's revenue comes from interest income and non-interest income (fee based income), both of which are components of earnings in the banking sector

In the globalization era like today, in line with fast advancement of technology and information system along with tight competition among banking company it will be difficult for banking company generate profit from interest income, it can give a negative impact on bank earnings, so that the bank cannot finance its operations and make profits. Therefore the management of the bank is needed to be more creative and innovative in increasing source of income through fee-based income.

Fee based income is the income earned from the provision of bank services such as transfer, collection, clearing, safe deposit boxes, bank cards, bank notes, bank guarantees, bank references, bank drafts, letters of credit), received a deposits (payment of taxes, telephone, water, electricity and tuition), serving payments (salaries, payment of dividends, coupons, bonus / gift), foreign currency transactions and other services. The charges contained in the *fee based income* include administrative costs, shipping costs, fees and commission's expenses, rental costs and the cost of tuition. In bank's financial statements *fee based income* are in other operating income.



The activities of these services can also be profitable for the bank. The advantage of banking services is highly needed even from year to year the amount increase. This is due to the profit that generate from spread based is smaller because the competition among the banking company is getting tougher, the high risk contain in interest income and also fee-based income is relatively stable.

This research is a replication of the research conducted by Appriilya S.F (2013) about the influence of *fee based income* on return on asset found that *fee based income* has positive relationship and a significant influence on return on asset the research conducted at period 2006-2011 with BRI and BTN as the object of observation. Based on the research conducted by Appriilya S.F (2013) the author conducted the research about “The Influence of Fee Based Income on Return on Assets on LQ-45 Index in Indonesia Stock Exchange Period 2009-2014” with different period of observation and different amount of object to observe.

1.2 Problem Formulation

The problems in this study can be identified as follows:

1. What the biggest source of *fee based income* in banking company on LQ-45 index in Indonesia Stock Exchange?
2. How the influence of *fee based income* on return on assets in the banking company on LQ-45 index in Indonesia Stock Exchange?

1.3 Research Objective

This research is intended to obtain data and information of the *Fee Based Income* influence on Return on Asset (ROA) in the banking company on LQ-45 index in Indonesia Stock Exchange

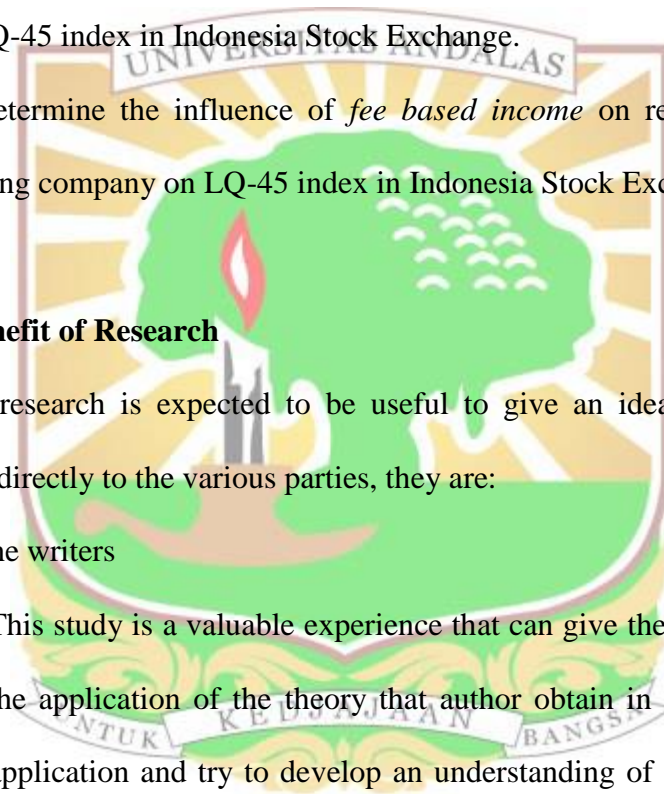
The purposes to be accomplished author in this study are:

1. To determine the biggest source of *fee based income* in banking company on LQ-45 index in Indonesia Stock Exchange.
2. To determine the influence of *fee based income* on return on assets in banking company on LQ-45 index in Indonesia Stock Exchange.

1.4 The Benefit of Research

This research is expected to be useful to give an idea that can benefit directly or indirectly to the various parties, they are:

1. For the writers
 - a. This study is a valuable experience that can give the knowledge about the application of the theory that author obtain in college the actual application and try to develop an understanding of the characteristics of the analysis of financial statements in relation to managerial performance
 - b. Adding the knowledge to overcome current issues in the development of accounting itself.



c. To meet one of the requirements for the title of Bachelor of Economics Accounting Studies Program at the Faculty of Economics, University of Andalas.

2. For company

The results of this study are thought to contribute to further enhance the financial accounting system design contained within the company, especially to measure managerial performance.

3. Other Party

Hopefully this research can give the knowledge in the field of banking and can be used as reference material in conducting further research.

1.5 Writing Systematics

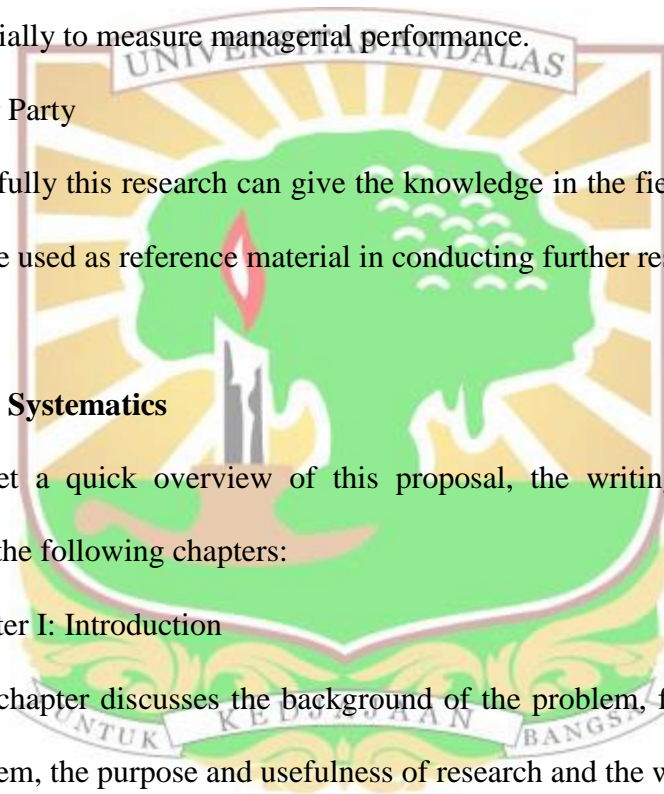
To get a quick overview of this proposal, the writing system will be divided into the following chapters:

1. Chapter I: Introduction

This chapter discusses the background of the problem, formulation of the problem, the purpose and usefulness of research and the writing system.

2. Chapter II: Theoretical Framework

This chapter discusses the theoretical basis used, the previous study, and the theoretical framework.



3. Chapter III: Research Methodology

This chapter will discuss the research variables and operational definitions, determining population and sample, the types and sources of data, methods of data collection, and method analysis.

4. Chapter IV: Discussion

This chapter explains the description of the object of research, the whole process, the data analysis techniques and the results of all research hypotheses according to the method that used.

5. Chapter V: Conclusion

This chapter describes the overall conclusion from the results that have been obtained in this study. It also explains what the limitations and suggestions for further studies in order to develop their research.

