THE EFFECT OF NON-INTEREST INCOME DIVERSIFICATION ON THE PROFITABILITY OF THREE MAJOR INDONESIAN PRIVATE BANKS: A PRE- AND POST-2020 COMPARISON OF BCA, CIMB NIAGA, AND OCBC

THESIS

By:

Gabriella Priscila

24232009

Thesis Supervisor:

Prof. Ir. H. M. Roy Sembel, MBA, Ph.D, CSA, CIB, CIIM

Dr. Melinda Malau SE, MM, CPA, CBV, CFRM, CFA

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CERTIFICATE OF APPROVAL

Name & Student ID : Gabriella Priscila (24232009)

Topic: : The Effect of Non Interest Income Diverisification on the Profitability of Three Major Indonesian Private Banks: A Pre and Post 2020 comparison of BCA, CIMB, and OCBC, 2015-2025

We hereby declare that this Thesis is from student's own work, has been read and presented to Institute IPMI Board of Examiners, and has been accepted as part of the requirements needed to obtain a Master of Business Administration Degree and has been found to be satisfactory.
Jakarta, 16 October 2026

Examined by,

Prof. Ir. H. M. Roy Sembel, MBA, PhD, CSA, CIB, CIIM

Dr. Melinda Malau SE, MM, CPA, CBV,CFRM, CFA

Ir. Yulita Fairina Susanti, M.Sc., Ph.D

Prof. Dr. Wiwiek M. Daryanto, SE-Ak, MM, CMA

Acknowledged by,

Prof. Dr. Ch. Whidya Utami MM.,CLC.,CPM (A)
Director of Academic & Student Affair

NON-PLAGIARISM DECLARATION FORM

This thesis is a presentation of my original research work. Wherever others contributions are involved, every effort is made to indicate this clearly, with due reference to the literature and acknowledgment of collaborative research and discussions.

Also, this work is being submitted in partial fulfillment of the requirements for the Master of Business Administration degree, has not previously been accepted in substance for any degree, and is not being concurrently submitted in candidature for any degree.

Jakarta, 16 October 2026



Gabriella Priscila

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Prepared By:

Gabriella Priscila

24232009

A THESIS

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ABSTRACT

Indonesian banks have progressively shifted part of their revenue away from traditional interest income towards fee- and commission-based sources, yet the relationship between this shift and core profitability indicators such as return on assets is not consistently established in the Indonesian context. This study examines how income diversification, measured by the Non-Interest Income Ratio (NIIR), is associated with the return on assets (ROA) of three of Indonesia's largest private commercial banks: Bank Central Asia, CIMB Niaga, and OCBC. The analysis draws on the income diversification literature and Financial Intermediation Theory, applying CAMEL-based financial ratios alongside macroeconomic variables. Quarterly panel data from 2015 to 2025, excluding 2020 as a transition year, yield 120 balanced observations. Panel regression is estimated in EViews, with the Random Effect Model selected through Chow, Hausman, and Lagrange Multiplier tests and estimated using the Wallace-Hussain variance component estimator. NIIR is positively associated with ROA, although the result is marginal, reaching significance only on a one-tailed test. Among the CAMEL-based variables, non-performing loans and the ratio of operating expenses to operating income are both negatively associated with ROA, while net interest margin and the loan to deposit ratio are positively associated with it; capital adequacy shows no significant association. Among the macroeconomic variables, only economic growth is significant, and only in the baseline specification. The interaction between NIIR and the period dummy is positive and highly significant, and a Wald test confirms that the marginal effect of NIIR in the 2021–2025 period is positive and significant. The association between non-interest income and profitability therefore differs meaningfully between the two periods observed among these three banks, a pattern that holds across common effect, random effect, and fixed effect specifications.

Keywords: Income Diversification; Non-interest Income; Bank Profitability; Return on Assets; Indonesian Banking

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Jakarta 20 September 2026

Gabriella Priscila

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