ABSTRACT

The phenomenon of economic instability due to the COVID-19 pandemic has encouraged banks to increase income diversification strategies in order to reduce risk exposure and maintain sustainable financial performance. This study aims to analyze the effect of income diversification on credit risk and market risk with the role of control variables Size, Tangible Asset, Return on Asset and Liquidity. The study was conducted at Conventional Commercial Banks in Indonesia during the period 2018-2023.

This research method uses a quantitative approach with secondary data. The population in this study were all Conventional Commercial Banks in Indonesia totaling 105 banks, then the sample determination used a purposive sampling technique and resulted in 101 banks as samples. The observation period of six years produced a total of 606 observation data. The analysis tool used SPSS 26.0 software through multiple regression tests.

The results of the Fifth Regression show that income diversification has a significant negative effect on credit risk (sig. 0.000; t-stat -3.170). Meanwhile, the size control variable has no effect on credit risk (sig. 0.353; t-stat 0.930), Tangible has no effect on credit risk (sig. 0.261; t-stat -1.125). ROA has a positive effect on credit risk (sig. 0.000; t-stat 6.399). Liquidity has a positive effect on credit risk (sig. 0.000; t-stat 6.355). The R^2 *value of 0.204 indicates that 20.4% of the variation in credit risk can be explained by income diversification, and the control variables Size, Tangible Asset, Return on Asset and Liquidity. In the Sixth Regression, income diversification has a significant negative effect on market risk (sig. 0.049; t-stat -1.972). Meanwhile, the size control variable has a positive effect on market risk (sig. 0.002; t-stat 3.049), Tangible has no effect on market risk (sig. 0.493; t-stat -0.686). ROA has a negative effect on market risk (sig. 0.002; t-stat 3.184). Liquidity has a positive effect on market risk (sig. 0.000; t-stat 21.080). The* R^2 *value of 0.583 indicates that 58.3% of the variation in market risk can be explained by income diversification, and the control variables Size, Tangible Asset, Return on Asset and Liquidity.*

Keywords: Income Diversification, Size, Tangible Asset, Return On Asset And Liquidity And Conventional Commercial Banks