International Journal of Application on Economics and Business (IJAEB)
Volume 3, Issue 3, 2025. ISSN: 2987-1972

ANALYSIS OF CAPITAL BUFFER, BOARD GENDER DIVERSITY, OWNERSHIP CONCENTRATION, AND INDEPENDENT COMMISSIONERS ON BANK STABILITY

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Submitted: 11-06-2025, Revised: 29-06-2025, Accepted: 10-07-2025

ABSTRACT
The objective of the research is to examine the impact of capital buffer, board gender diversity, ownership concentration, and independent commissioners on the stability of Indonesian banks. Data was obtained from the Financial Services Authority's (OJK) website, with a particular emphasis on commercial banks from 2019 to 2023. The study encompasses 14 listed commercial banks that are classified as KBMI 3 and KBMI 4, except for Sharia Banks. Z-Score is the dependent variable used to measure bank stability, and the independent variables are capital buffer, ownership concentration, gender diversity on the board, and independent commissioners. The results suggest that the capital buffer has a substantial positive effect on the stability of Indonesian banks. A sufficient capital buffer can echance the confidence of clients and investors in the bank's stability, potentially improving its market value and financial performance. Results show that ownership concentration demonstrates negative and insignificant effects on bank stability. Conversely, board gender diversity and independent commissioners shows a positive and insignificant correlation with bank stability. The study recommends strengthening the role of independent commissioners and advancing gender diversity. Regulators are advised to enforce governance standards and oversee ownership structures. Additionally, the findings support stricter capital requirements to enhance banking sector stability.

Keywords: *Capital Buffer, Board Gender Diversity, Ownership Concentration, Independent Commissioners, Bank Stability, Indonesian Banking.*

1. INTRODUCTION

The Southeast Asian financial crisis from 1997 to the mid-2000s caught many by surprise, as economically thriving countries like Indonesia, Malaysia, and Thailand experienced severe downturns. Triggered by the depreciation of the Thai Baht, the crisis quickly spread, marked by soaring inflation, high interest rates, and a collapse of central banking systems an event referred to as the "twin crises" (Kaminsky & Reinhart, 1999). This highlighted the critical role of banking regulations, particularly capital requirements, in ensuring financial stability. As noted by Crockett (1997), economic health is closely tied to a robust financial sector. Banks play a vital role in a nation's economy, requiring strict regulation to maintain financial stability, especially during crises. Financial institutions worldwide are increasingly vigilant about risks to economic growth, underscoring the need for regular assessments of bank soundness. The Z-Score is a widely used indicator of stability, with higher scores reflecting stronger financial resilience. Banks play a vital role in a nation's economy, requiring strict regulation to maintain financial stability, especially during crises. Financial institutions worldwide are increasingly vigilant about risks to economic growth, underscoring the need for regular assessments of bank soundness. The Z-Score is a widely used indicator of stability, with higher scores reflecting stronger financial resilience

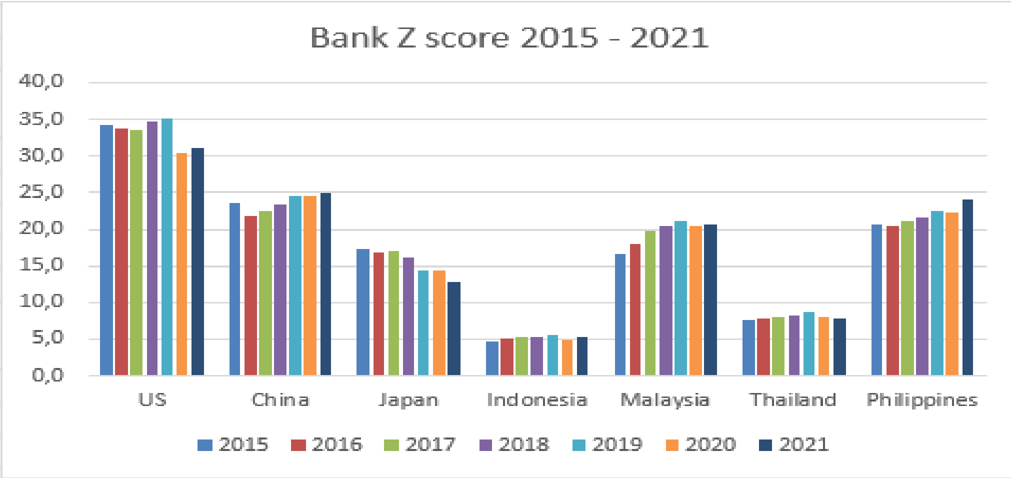

Figure 1.1 Banking System Z-Scores 2015 - 2021
Source: The World Bank

Figure 1.1 highlights the need to assess the banking system's financial stability, as reflected by Z-Score values where higher scores indicate greater stability. Indonesia's Z-Score remains below that of regional peers such as Malaysia, Thailand, and the Philippines, suggesting that its banking sector's financial health lags the regional average and requires improvement

Bank capital plays a critical role in ensuring business continuity, especially during financial crises. Under Basel III, introduced after the 2008 Global Financial Crisis, banks are encouraged to maintain capital buffers above the regulatory minimum to safeguard against unexpected losses (Furfine, 2001; Marcus, 1984). However, excessively large buffers may prompt high-risk banks to engage in riskier behavior (Jiang et al., 2020).

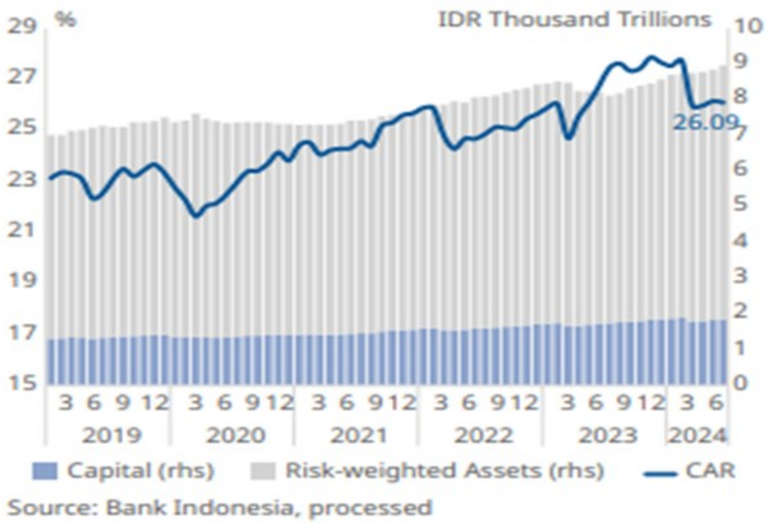

Figure 1.2 Bank Capital Mar 2019 – Jun 2024
Source: FSR No 43, September 2024

Figure 1.2 illustrates that Indonesian banks maintained a strong Capital Adequacy Ratio (CAR) of over 21% from March 2019 to June 2024, well above the regulatory minimum of 8%. However, this does not necessarily reflect high financial stability, as indicated by Indonesia's relatively low Z-Score compared to neighbouring countries like Malaysia, Thailand, and the Philippines. Excessive capital buffers may also suggest underutilization of capital, potentially impacting efficiency. Thus, understanding the relationship between capital buffers and bank stability is essential.

Many studies have explored the relationship between capital buffers and bank stability using various variable combinations. However, the nature of this relationship remains debated. Jokipii and Milne (2011) suggest that, under capital buffer theory, holding capital beyond regulatory requirements can reduce bank risk. Conversely, Dias (2021) identifies an inverse U-shaped relationship between capital regulation and risk-taking, indicating that while higher capital ratios initially reduce risk, they may later encourage increased risk-taking. This implies that elevated capital requirements can drive riskier behaviour, regardless of a bank's capitalization level.

Gender diversity is increasingly recognized for its governance benefits, yet female board representation in Indonesia remains relatively low (Deloitte, 2022). Studies show mixed results: Marie et al. (2021) and Dang et al. (2023) report a positive link between female directors and financial stability, while Al-Absy et al. (2020) find a significant negative association.

Ownership concentration, often used to address agency problems, is notably high in Indonesia's banking sector and regulated to prevent abuse by dominant shareholders (La Porta et al., 1998; Surifah, 2011). However, findings are mixed some studies suggest concentrated ownership enhances stability by reducing insolvency risk (Iannotta et al., 2007; Kim, 2019; Huang, 2023), while others link it to increased risk and reduced stability (Laeven & Levine, 2009; Sijabat et al., 2020).

Independent commissioners also play a key role in promoting stability by enhancing oversight, reducing information asymmetry, and mitigating financial risk, in line with agency theory. Haribowo et al. (2021) found a positive relationship between independent commissioners and financial stability in Islamic banks. Nonetheless, other studies report no significant impact (Susanto & Walyoto, 2023; Arjang & Rahman, 2023).

Indonesian banks play a prominent role in global banking. According to Vinayak et al. (2016), they recorded the highest return on equity (ROE) among Asian banks in 2014 at 20.3%, contributing significantly between 46% and 49% to global post-tax banking profits from 2010 to 2014. Domestically, banks hold a systemic position in the economy, dominating 78% of Indonesia's financial sector assets as of May 2021. Despite lower financial deepening and intermediation levels compared to other Asian countries, Indonesia maintains higher net interest margins (Soedarmono et al., 2017; Trinugroho et al., 2014).

This study aims to address gaps in existing research on banking stability, which often centers on factors such as non-interest income and risk (Hidayat et al., 2012), interest margins and diversification (Bustaman et al., 2017), or competition and financial inclusion (Gumanica, 2022). Recognizing the limitations of relying solely on financial indicators to predict insolvency, this study incorporates corporate governance variables. This aligns with Gillani et al. (2018), who emphasize the value of governance factors in enhancing predictive accuracy, thus contributing to the study's novelty and relevance.

Bank Stability

According to Bank Indonesia (2007), Financial System Stability (FSS) refers to a sound financial system capable of efficiently allocating funds and withstanding shocks without disrupting economic or financial activities. Similarly, the European Central Bank (2012) defines financial stability as the system's ability to absorb shocks and ensure smooth financial intermediation. A widely used metric to assess a bank's insolvency risk is the Z-score, developed by Boyd et al. (1993), Boyd & Graham (1986), and Hannan & Hanweck (1988). It measures individual bank risk and overall financial system stability, where higher values imply lower risk levels.

Capital Buffer and Bank Stability

Bank Indonesia requires financial institutions to maintain a minimum capital level of 8% of Risk-Weighted Assets (RWA), as outlined in Basel I. Subsequent frameworks, Basel II and Basel III, introduced more robust, risk-based capital regulations with an emphasis on supervision, market discipline, and resilience during financial crises. Basel III, implemented globally since 2019, highlights the importance of capital buffers to strengthen banking stability. The Capital Adequacy Ratio (CAR), which reflects a bank's ability to absorb losses, serves as a key indicator of capital sufficiency. Bank Indonesia (Regulation No. 15/12/PBI/2013) and the Financial Services Authority (POJK No. 11/POJK.03/2016) mandate a minimum CAR of 8% for commercial banks.

Banks often hold capital reserves exceeding the regulatory minimum as a safeguard against adverse financial events caused by unexpected asset return fluctuations. These additional reserves, known as capital buffers, help minimize the cost of capital shocks and difficulties in securing external funding (Shim, 2013). Capital buffers strengthen a bank's ability to absorb risks, particularly those associated with credit expansion, thereby supporting financial stability. According to Jokipii & Milne (2008), capital buffers also serve to limit excessive risk-taking, aligning with the "regulatory hypothesis," which suggests that regulators encourage banks with higher risk exposure to hold more capital. Banks with riskier assets but insufficient reserves face a greater chance of breaching the minimum capital threshold (Bagntasarian & Mamatzakis, 2019).

On the other hand, the *moral hazard hypothesis* suggests that there is a negative association between capital levels and bank stability. According to this view, banks might exploit the security offered by fixed-rate deposit insurance (Demirgüç-Kunt & Detragiache, 2002). When depositors are fully protected, riskier banks may feel less compelled to hold substantial capital reserves. Hellmann et al. (2000) argue that large capital buffers can provide banks with the flexibility to absorb temporary losses, but at the same time, may incentivize them to engage in excessive risk-taking. Similarly, Jiang et al. (2020) found that an increase in capital buffers does not always correspond to reduced risk; instead, it can sometimes lead banks to adopt riskier strategies.
H1: Capital buffer has a positive influence on bank stability.

Board Gender Diversity and Bank Stability

Board gender diversity is increasingly acknowledged as a strategic component of effective corporate governance, as it introduces a variety of perspectives and resources that can improve decision-making, enhance oversight, and mitigate risk (Terjesen et al., 2009). This view is supported by Resource Dependence Theory, which underscores the value of diverse boards in creating external linkages and fulfilling organizational needs (Pfeffer & Salancik, 1978). Social Identity Theory also highlights the unique contributions of women directors through diverse experiences and viewpoints, which can strengthen board dynamics (Abebe & Dadanlar, 2019). Empirical studies show that gender-diverse boards are linked to better monitoring, reduced agency costs, and improved accounting quality (Adams & Ferreira, 2009), while the risk-averse

tendencies of women directors may help mitigate excessive risk-taking (Faccio et al., 2016). However, despite these potential benefits, the impact of board gender diversity on financial stability remains debated, with some studies reporting positive relationships (Andrieș et al., 2020; Innayah et al., 2021; Marie et al., 2021; Dang et al., 2023), while others suggest a negative association (Adams & Funk, 2012; Berger et al., 2014; Al-Absy et al., 2020).
H2: Board gender diversity has a positive effect on bank stability.

Ownership Concentration and Bank Stability

Ownership concentration, a common feature in firms where dominant shareholders hold significant equity stakes, plays a crucial role in shaping corporate governance and financial stability. While this structure is widespread globally particularly in emerging markets outside the U.S. and U.K. its implications are multifaceted. In countries like Indonesia, where banking institutions exhibit high ownership concentration, governance challenges often emerge due to increased opacity and regulatory intervention (Afolabi, 2010; Rosalina & Nugraha, 2019). According to agency theory, concentrated ownership can reduce agency conflicts stemming from the separation of ownership and control by enabling effective shareholder monitoring and discouraging managerial opportunism (Shleifer & Vishny, 1986; Alchian & Demsetz, 1972). However, this structure also raises concerns, particularly in jurisdictions with weak investor protection, where dominant shareholders may expropriate minority interests (La Porta et al., 2000). This dual nature of ownership concentration underscores its complexity, warranting further investigation within the context of emerging economies. Empirical evidence reflects this ambiguity: Laeven and Levine (2009) and Sijabat et al. (2020) found a positive association between ownership concentration and bank risk, suggesting reduced financial stability. In contrast, Kim (2019) reported that ownership concentration can lower bankruptcy risk, especially in environments with weaker governance structures. Iannota et al. (2007) also identified benefits such as improved loan quality and reduced insolvency risk in European banks with concentrated ownership. Moreover, studies by Boussaada and Karmani (2015) and Huang (2023) reveal that concentrated ownership contributes positively to bank performance, risk mitigation, and financial stability in MENA and Chinese banking sectors, respectively.
H3: Ownership concentration ownership has a positive effect on bank stability.

Independent Commissioner and Bank Stability

Independent commissioners, individuals unaffiliated with controlling shareholders or management, play a vital role in strengthening corporate governance by ensuring fairness, transparency, and accountability. Their presence supports effective oversight of management, protects shareholder interests, and mitigates the risk of bankruptcy (Hanani & Dharmastuti, 2015). By reducing agency problems and information asymmetry, independent commissioners contribute to more balanced and informed decision-making processes (Hanifah & Purwanto, 2013). In Indonesia, Financial Services Authority Regulation No. 17 of 2023 mandates that at least 50% of the board of commissioners must be independent, reinforcing their role in governance. These commissioners often bring financial expertise, represent minority shareholder interests, and serve as impartial mediators particularly valuable in community financed institutions. Beyond governance, their influence extends to financial stability, as evidenced by empirical findings. For instance, Khairunnisa et al. (2022) reported a positive correlation between the number of independent commissioners and financial stability in Islamic banks across Asia. Similarly, Pratiwi et al. (2023) demonstrated their positive contribution to the financial performance of Indonesian banks. However, contrasting evidence from Zulfikar et al. (2017) indicated a negative association between independent commissioners and financial performance in listed Indonesian banks. Despite such mixed

findings, the role of independent commissioners remains central in promoting sound governance practices and mitigating financial risks (Arjang & Rahman, 2023).
H4: Independent commissioner has a positive effect on bank stability.

Based on the description of the development of the hypothesis above, the research framework is described as follows:

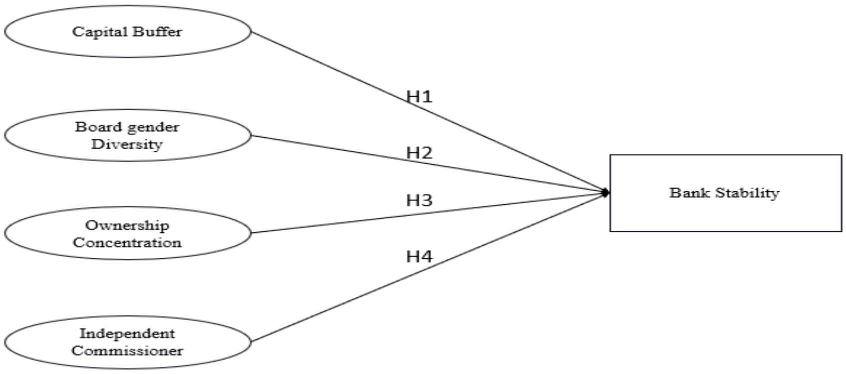

Figure 1.3 Research Framework

2. RESEARCH METHODS

The target population for this study comprises the commercial banking industry, including both local and foreign banks that operated in Indonesia from 2019 to 2023. It involves 14 listed commercial banks categorized as KBMI 3 and KBMI 4, as regulated in POJK Number 12/POJK.03/202. The data was processed and analyzed for a panel data model. The regression model applied either fixed effects or random effects, selected based on statistical tests evaluating the suitability of each approach. The choice was guided by diagnostic tests such as the Hausman test, Chow test, and Lagrange test. The following is a table of operational variables and measurement formulas for each dependent and independent variable:

Table 1. Operational Variable
Source: Data processed by the author

Variables	Connotation	Measurement	References	Source Data
Dependent Variable				
Bank Stability	ZSCORE	The sum of return on assets and the ratio of equity to total assets divided by the standard deviation of return on assets	Lepetit et al. (2008); Stiroh and Rumble (2006)	Data processed by the author
Independent Variables				
Capital Buffer	BUFF	Actual Risk-based Capital less 8%	Shim,2013	Annual Report
Board Gender Diversity	BOARD	Proportion of Woman Director = Number of Woman in Director / Number of Board of Directors	Marie et al. (2022); Dang et al. (2023)	Annual Report
Ownership Concentration	OWN	The percentage of shares held by the largest shareholder	Kim (2019); Iannota et al. (2007)	Annual Report
Independent Commissioners	COMM	Proportion of independent commissioners = Total of independent commissioners / Total of commissioners	Susanto and Walyoto (2023); Arjang and Rahman (2023)	Annual Report

3. RESULTS AND DISCUSSIONS

Table 2. Descriptive Statistics

	ZSCORE	BUFF	BOARD	OWN	COMM
Mean	47,85758	0.158143	0.226286	0.680714	0.547571
Median	40,53059	0.150000	0.175000	0.600000	0.500000
Maximum	111,24490	0.310000	0.550000	0.990000	0.750000
Minimum	16,45993	0.090000	0.000000	0.450000	0.380000
Std. Dev.	27,34548	0.048493	0.124425	0.184268	0.066014
Observations	70	70	70	70	70

Table 2 shows the result of descriptive statistic for this study sample data. The dependent variable, ZSCORE refers to bank stability as the measurement of bank stability shows the mean value of 47,85758 along with the highest value of 111.24490 and the lowest value of – 16,45993. The highest and lowest value are beyond the reachable range of standard deviation value of 27,245548. This implies that Indonesian commercial banks relatively have good solvency as the mean higher than 0.

Capital Buffer measured by BUFF shows mean value shows 0.158143 and has standard deviation of 0.048493. The highest amount of BUFF is 0.310000, , while the lowest amounts to 0.090000. A high capital buffer can provide banks with advantages in meeting regulatory requirements more easily, boosting investor confidence, and enabling the bank to absorb unforeseen losses without the risk of insolvency.

Board gender represents by BOARD shows mean value of BOARD 0.226286. The median value is 0.175000. The maximum value recorded is 0.550000. Conversely, the minimum value is 0.000000. Additionally, the standard deviation is computed at 0.124425.

Ownership concentration measured by OWN shows a mean value of 0.680714. The median value is 0.600000. The dataset exhibits a maximum value of 0.990000. Conversely, the minimum value is 0.450000. The standard deviation is calculated at 0.184268.

Independent Commissioners measured by COMM shows a mean value of 0.547571. The median value is 0.500000. The dataset's maximum value is recorded at 0.750000. Conversely, the minimum COMM value is 0.380000. Furthermore, the standard deviation is calculated at 0.066014.

Table 3. Regression Result

ZSCORE		Equation (1)	Equation (2)	Result	
BUFF	Coefficient	45,65774	68,16088	H1: Positive effect	Accepted
	Probability	0,0035**	0,0011***		
BOARD	Coefficient		1,483646	H2: Positive effect	Rejected
	Probability		0,8783		
OWN	Coefficient		-16,13445	H3: Negative effect	Rejected
	Probability		0,0670		
COMM	Coefficient		2,807543	H4: Positive effect	Rejected
	Probability		0,7760		

The p-values are indicated in parentheses.
(***): <0.001 significance level of (1%)
(**): <0.05 significance level (5%),
(*): <0.01 significance level (10%).

Based on table 3, the regression equation obtained is as follows:

Equation 1:

$$ZSCORE_{it} = \alpha + \beta_1 BUFF_{it} + \varepsilon_{it}$$

Equation 2:

$$ZSCORE_{it} = \alpha + \beta_1 BUFF_{it} + \beta_2 BOARD_{it} + \beta_3 OWN_{it} + \beta_4 COMM_{it} + \varepsilon_{it}$$

Capital Buffer and Bank Stability

The analysis indicates a statistically significant positive relationship between the capital buffer (BUFF) and bank stability within Indonesian commercial banks. This finding underscores the vital role of capital buffers in maintaining financial stability. Serving as a safeguard against unforeseen risks and financial shocks, an adequate capital buffer increase public and investor confidence in a bank's stability, thereby potentially enhancing its market valuation and financial performance. These results are consistent with prior research by Bagntasarian and Mamatzakis (2019) and Tran et al. (2022), who concluded that increased capital buffers contribute to improved bank stability. This aligns with the "regulatory hypothesis," which posits that banks with greater risk exposure are required to maintain larger capital buffers. In Indonesia, such requirements are outlined in Financial Services Authority Regulation No. 11/POJK.03/2016 concerning Minimum Capital Requirements for Commercial Banks. This regulation mandates banks to hold additional capital such as the Capital Conservation Buffer, Countercyclical Capital Buffer, and Capital Surcharge based on their risk profile. Larger banks, due to their complex operations and greater interconnectedness in the financial system, are classified as Systemically Important Banks (SIBs) and are subject to stricter capital requirements. These institutions pose higher systemic risks and, in the event of failure, may incur significant bailout costs for the government (Albaity et al., 2019). As such, capital buffers are also crucial macroprudential tools aimed at curbing excessive risk-taking. In addition to capital requirements, continuous internal and external oversight of large banks is essential to mitigate moral hazard and reduce the risk of insolvency.

Board Gender Diversity and Bank Stability

This study found a positive but insignificant correlation between board gender diversity and bank stability, consistent with findings by Ghosh (2017) and Nguyen et al. (2022). The limited impact may stem from the relatively low female representation on boards (mean = 0.226286; median = 0.175000), which could constrain the influence of diverse perspectives on financial outcomes. Nonetheless, previous studies suggest that gender-diverse boards enhance corporate governance through improved monitoring, reduced agency costs, and better accounting quality (Adams & Ferreira, 2009; La Rosa et al., 2018). Additionally, women directors, who often exhibit risk-averse behaviour, may help mitigate biases in key decisions, thereby reducing financial risk (Faccio et al., 2016).

Ownership Concentration and Bank Stability

Furthermore, this study found a negative but insignificant correlation between ownership concentration and bank stability, aligning with the findings of Iannota et al. (2007). In many cases in Indonesia, the majority shareholder often has overlapping roles in ownership and management, which can compromise governance. Such concentrated ownership structures may lead to adverse outcomes, as controlling shareholders might prioritize personal interests over the company's long-term stability, resulting in riskier decision-making (Claessens et al., 2002). This concern is further supported by Laeven and Levine (2009) and Sijabat et al. (2020), who emphasize the association between ownership concentration, dominant stakeholders, and increased risk-taking behaviour.

Independent Commissioners and Bank Stability

This study identifies a positive yet insignificant correlation between the number of independent commissioners and bank stability. The presence of independent commissioners is generally linked to improved financial performance, suggesting a favourable influence on financial stability (Khairunnisa et al., 2022). This outcome may be partly attributed to regulatory frameworks, such as Financial Services Authority Regulation No. 17 of 2023, which requires at least 50% of board members to be independent commissioners although compliance does not necessarily ensure their effectiveness. Supporting this view, Abdelbadie and Salama (2019) argue that a greater number of independent commissioners can enhance company performance through the lens of resource dependence theory, by providing access to diverse expertise and external networks.

4. CONCLUSION AND SUGGESTION

This study analyses the influence of capital buffer, board gender diversity, ownership concentration, and independent commissioners on bank stability in Indonesia. The analysis focuses on 14 listed commercial banks categorized as KBMI 3 and KBMI 4 over the period 2019–2023, excluding Sharia banks. A key limitation of this research is its narrow sample scope, which is confined to large commercial banks. This limitation may restrict the generalizability of the findings to smaller banks or those operating under different regulatory environments.

As anticipated, the capital buffer exhibits a significantly positive correlation with bank stability. In general, higher capital buffers enhance the stability of commercial banks in Indonesia, particularly those facing elevated risk due to complex operations and stronger interconnectedness within the financial system. Sufficient capital reserves increase the confidence of both customers and investors, potentially boosting a bank’s market value and financial performance.

In contrast, board gender diversity and independent commissioners show positive but statistically insignificant effects on bank stability. These results may reflect challenges in board decision-making dynamics and the persistently low representation of women in leadership roles. Ownership concentration demonstrates a negative yet insignificant relationship with bank stability, raising concerns over the potential for dominant shareholders to prioritize personal interests, which may lead to riskier decision-making.

This study contributes to the literature by providing empirical evidence on how governance elements and capital buffers influence bank stability in Indonesia. It emphasizes the importance of improving shareholder governance, decision-making processes, and board diversity to enhance the resilience of the banking industry. These findings offer valuable insights for bank management and regulators to promote long-term financial stability in emerging markets.

Furthermore, this study supports the continuation and enforcement of capital adequacy policies, such as those outlined in POJK No. 11/POJK.03/2016 and POJK No. 12/POJK.03/2020, including the consolidation of small and medium-sized banks to improve industry-wide resilience. Regulators are also encouraged to guide banks with excessive capital reserves to strategically deploy their buffers such as by increasing credit disbursement to stimulate national economic growth.

To further promote financial stability, banks should optimize the role of independent commissioners and promote greater gender diversity on their boards. Sound governance practices are foundational to bank stability, requiring skilled, independent commissioners with expertise in finance, law, and corporate governance. Their responsibilities should include active participation in decision-making, rigorous oversight of management, and adherence to robust governance standards. Ongoing training should be provided to ensure these commissioners remain informed on current regulations and industry trends.

Moreover, diversifying ownership structures and enhancing transparency are essential to minimizing risks and reducing conflicts of interest. Regulators should enforce policies that encourage diversified shareholding to prevent monopolistic control. Enhanced disclosure requirements such as the declaration of potential conflicts of interest and performance evaluations of board members should also be implemented to strengthen accountability.

For future research, it is recommended to expand the sample to include a wider range of banks, extend the observation period, and explore additional dimensions of corporate governance such as board remuneration to provide more comprehensive insights into the determinants of bank stability and governance effectiveness within the broader financial industry.

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