Understanding The Motivation Of Banking Impairment Policies In Indonesia

Andy Lasmana, Tjut Tenriwali, Ade Budi Setiawan, Mas Nur Mukmin, Farizka Susandra

Abstract: The phenomenon shows that impairment can be processed to improve financial performance through the low allowance of losses established by the Bank to obtain high profits or high allowance of losses established to prevent an increase in Non-Performing Loans. Disclose the motive behind impairment policy conducted by banking industries in Indonesia, is the aim of this study. This research was conducted on 89 public banks in Indonesia in the period 2013 to 2017. The sample used was 151 serial data. The t test and F test are the methods used in this study. The results show that simultaneously, Customer Deposits, Total Financing, Write Off, ROA, CAR, NIM, Operational Efficiency, LDR, and NPL have an effect on the allowance for impairment losses. Partially, Customer Deposits, Total Financing, Write Off, ROA, and NPL have insignificant effect on the allowance for impairment losses. This research has succeeded in proving that, there is another motivation behind the impairment policies carried out by banking companies in Indonesia. A variance test should be held to obtain another evidence of side motive of an impairment policy.

Index Terms: Banking, Impairment, Financial Ratios.

1. INTRODUCTION

Banks as institutions that channel financing have a risk when the debtor cannot pay the financing arrears and if the guarantee for financing cannot cover the arrears. Therefore Banks are required to form reserves to overcome the risk of such losses. Banks are required to establish reserves if there is objective evidence that credit is impaired [1]. In the reserve method using the impairment method, it is expected that the Bank's control will be more directed by checking credit one by one. However, on the other hand, it has the phenomenon that reserves with the Bank's impairment method can increase financial performance. Policies on impairments carried out by the Bank, both directly and indirectly, affect the numbers in financial performance ratios [2]. In the long term, this is feared to increase banking risk. This study seeks to reveal the involvement of banking financial performance in policy impairment carried out by the banking industry in Indonesia. The formulation of the problem in this study comes from the existence of business phenomena and research gaps. The banking business phenomenon raised in this study is that reserves using impairment methods can help banks and investors to detect potential defaults or bad debt [3], [4]. The research gap that is in the spotlight of this study is the phenomenon of the low reserve allowance for non-performing loans formed to achieve profit targets. The reserve formed is the commitment of the bank manager to take part in its profits for the high level of health of the Bank. One method carried out by researchers is by observing data. Data is a representation of the most actual business phenomena. Besides, the formulation of the problem in this study also comes from research gaps, namely gaps or gaps in research that can be entered by researchers based on the experiences or findings of previous researchers. This research was conducted in the hope of getting a new answer to something that was a problem. As explained in the formulation of the problem above, the objectives of this study is Knowing the relationship between the allowance for impairment losses and the realization of the level of customer deposits, total financing, write off, ROA, CAR, NIM, Operational Efficiency, LDR and Non Performing Loans. In the short term, the application of impairment methods can improve/improve financial performance in banks [5]. However, on the other hand, the application of long-term impairment methods without close supervision can provide a risk for hacking in Indonesia both in Islamic and Conventional Banking [6]. Based on the background described above, the ratio and components of banking financial performance involved in this study are customer deposits, total financing, write off, ROA, CAR, NIM, Operational Efficiency, LDR and Non Performing Loans.

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2 LITERATURE REVIEW

2.1 Impairment Policy

Allowance for impairment loses is assessed based on the collectibility level of the debtor's credit [7]. The term is replaced as a Reserve for Impairment Losses or often referred to as Allowance For Impairment in 2006. In Allowance For Impairment, the establishment or provision of funds is assessed from the results of the evaluation of the debtor's credit conducted by the bank. If according to a bank there is objective evidence that credit from the debtor is impaired, then the bank must form a fund or reserve for the credit [7].

Because the debtor's credit evaluation are based on the decisions of each bank, each bank has its policy in forming a reserve fund for its credit. Even so, even that bank policy should not deviate from some of the criteria contained in PAPI (Indonesian Banking Accounting Guidelines). The policy of impairment using reserve methods can help the Bank to improve and improve its financial performance. Loss allowance costs will decrease when profits are high, and allowance costs will increase when earnings are low [8].

2.2 Financial Ratios

NPL, CAR, and ROA have a significant and positive effect on allowance for impairment, and LDR variables have a negative and not significant effect on allowance for impairment [9]. Partially there is a significant influence between NPL, bad debt, net income and the amount of financing to the allowance

for credit losses at Banks in Indonesia. NPL, bad debt, and the amount of credit given have a significant positive effect on the provision of credit losses while net income has a significant adverse effect on the allowance for credit losses [10], [11]. The most fundamental difference in the accounting treatment of non-performing loans, namely the formation of reserves of losses or Allowance for Earning Assets Losses using credit loss expectations (expectation loss) is determined by the Bank. The formation of reserves using incurred loss is considered more effective because it uses a source of data taken from transaction data at least three years earlier so that banks find it challenging to engineer financial statements [12], [13], [14].

3 RESEARCH METHODS

This research was conducted at commercial banks and rural banks in Indonesia both Islamic and conventional banks. Data from this study were taken from the Indonesian Banking Statistics Data Centre, with a total of 89 Banks consist of Islamic and Conventional Banks. Sampling is done by purposive sampling method. The criteria used in sampling are, the availability of data related to research variables such as, customer deposits, total financing, write off, CAR, core capital ratio to Risk Weighted Assets, Return on Assets, NIM, operational efficiency, LDR and Non-Performing Loans. Data collected and fulfilled criteria, 151 data. This research was conducted in the Banking Industry, with observations of 9 (nine) independent variables consisting of Customer Deposits, Total Financing, Write Off, ROA, CAR, NIM, Operational Efficiency, LDR, and NPL. Then the dependent variable in this study is the reserve for impairment losses. The statistical method used in this study to test the quality of the data is the normality test, multicollinearity, and heteroskedasticity test. The data analysis tool used is the t-test and F-test, using multiple linear analysis.

4 RESULTS AND DISCUSSION

The results of the normality test performed to result in an output that is known as a significant value or asymp. Sig. for the two-way test is 0.085. Thus the significance value is greater than 0.05 (0.085> 0.05). It can be concluded that the regression model tested is normally distributed. The nine independent variables have VIF values smaller than 10 (VIF <10) and have a tolerance value of more than 0.1, so it can be said that the regression model does not occur symptoms of multicollinearity. The scatter plots chart in this study can be seen in Figure 1 below.

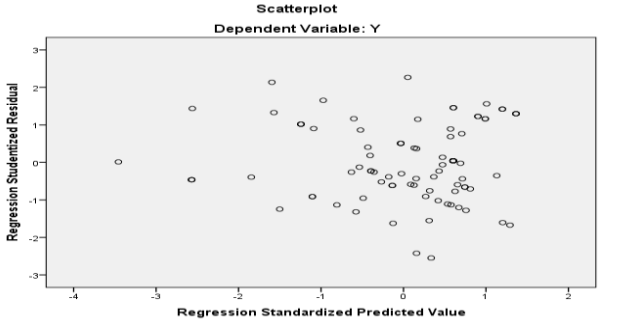

Fig. 1. *Scatter Plots Regression*

Based on the picture above the points do not form a definite pattern and spread above and below the number 0 on the Y-axis. So, it can be concluded that there is no problem with heteroscedasticity in the regression model. Based on the results of testing the data, the linear regression equation can be arranged as follows: Y = 1,281,775,411 - 385,53X1 - 4,302,359X2 + 18,215,7X3 + 0,00X4 + 0,023X5 + 0,817X6 + 0,423X7 + 0,149X8 - 0,250X9

Y = Reserves for Impairment Losses; X1 = Customer Deposits; X2 = Total Financing; X3 = Write Off; X4 = ROA; X5 = CAR; X6 = NIM; X7 = Operational Efficiency; X8 = LDR; X9 = NPL

The correlation coefficient generated in this study R is 0.523 (Moderate). The R square number or coefficient of determination is 0.274 (derived from 0.523 x 0.523). This means that 27.4% of the variation in Allowance for Impairment Losses can be explained by variations of Nine independent variables, while the remainder (100% - 27.4% = 72.6%) is explained by other causes or explained by other variables not included in this research model. The results of testing the hypothesis by using the F Test show that based on the results of data processing using the calculated F value of 5.913. By using a 95% confidence level, a = 5%, df 1 (number of variables-1) = 8, and df 2 (n-1) or 151-9-1 = 141 (n is the number of respondents and k is the number of independent variables) obtained for Ftable value of 1.95. Because the value of Fcount is greater than Ftable (5.913> 1.95), then H0 is rejected, and Ha is accepted, meaning that there is a significant influence between Customer Deposits, Total Financing, Write Off, ROA, CAR, NIM, Operational Efficiency, LDR, and NPL together against Reserve for Impairment Loss. The results of testing hypotheses using the t-test on the variable customer savings indicate that the value of count <t-table (-0.435 <1.987), then H0 is accepted and Ha is rejected. This means that there is no significant influence between customer deposits against reserves of impairment losses. Tests performed on the variable amount of financing, indicate that the value of count <t-table (-0.065 <1.987), then H0 is accepted and Ha is rejected, meaning that there is no significant effect between the amount of financing against the reserve for impairment losses. Tests performed on the book delete variable indicates that the value of t-count < t-table (-0.807 <1.987), then H0 is accepted and Ha is rejected, meaning that there is no significant effect between write off against the reserve of impairment losses. Tests performed on the ROA variable indicate that the t-count <t-table (-0.660 <1.987), then H0 is accepted, and Ha is rejected, meaning that there is no significant effect between ROA and the reserve for impairment losses. Tests performed on the CAR variable indicate that the value of t-count> t table (4,340> 1,987), then H0 is rejected and Ha is accepted, meaning that there is a significant influence between the CAR and the reserve for impairment losses. Tests performed on the NIM variable indicate that the value of t-count> t table (2,023> 1,987), then H0 is rejected and Ha is accepted, meaning that there is a significant influence between the CAR and the reserve for impairment losses. Tests performed on operational efficiency variables indicate that the value of t-count> t table (4.601> 1.987), then H0 is rejected and Ha is accepted, meaning that there is a significant influence between operational efficiency on reserves of impairment losses. Tests performed on LDR variables indicate that the value of t-count > t-table (2,051 > 1,987), then H0 is rejected and Ha is accepted, meaning that there is a significant effect between the LDR and the reserve for impairment losses. Tests performed on the NPL variable indicate that the t-count < t-table (-4.306 <1.987), then H0 is accepted,

and Ha is rejected, meaning that there is no significant effect between the NPL on the reserve for impairment losses. The results showed that simultaneously, Customer Deposits, Total Financing, Write Off, ROA, CAR, NIM, Operational Efficiency, LDR, and NPL affected reserves for impairment losses. Therefore Banks are required to form reserves to overcome this. In addition to banks having to form reserves, it is evident that credit is impaired by the provision of reserves made by 151 samples studied. The bank has checked credit one by one. However, on the other hand, it has the phenomenon that reserves with impairment methods can be processed by the Bank to improve financial performance, through profit regulation. In the long run, this will undoubtedly increase risk. Partially, CAR, NIM, Operational Efficiency, and LDR have a significantly positive effect on ALLOWANCE FOR IMPAIRMENT. On the other hand, customer deposits, write off, ROA, NPL, and Total Financing has no significant effect on reserves for impairment losses.

5 CONCLUSION

Simultaneously, Customer Deposits, Total Financing, Write Off, ROA, CAR, NIM, operational efficiency, LDR, and NPL affect the reserve for impairment losses. Partially, CAR, NIM, operational efficiency, and LDR have a significantly positive effect on reserves for impairment losses. The results of this study are expected to be a consideration for OJK in conducting rural banking supervision related to the provision of impairment losses which are influenced by factors other than technical matters which are directly related to the calculation and the basic principle of the provision of reserves. For the further researcher, it is suggested that they can use other factors that can be used to look at financial performance by paying attention to the motivation that is under an agency theory. The limitations that exist in this study, it is recommended for future researchers to expand the period of observation of research so that it can support or weaken the allegations that arise due to the results of this study. Furthermore, the next researcher is expected to be able to compare the financial performance of the banking industry before and after the impairment policy, to find out whether there was intentional or not to this policy.

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