AL-ARBAH: Journal of Islamic Finance and Banking
Vol. 2 No. 1 (2020), 1-16; DOI: 10.21580/al-arbah.2020.2.1.5539
E-ISSN: 2716-2575, P-ISSN: 2716-3946

Variables Determining For Impairment On Productive Assets In Islamic Banks In Indonesia

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Abstract

Purpose - This study aims to examine the effect of profit, productive assets, financing and problem financing on impairment on productive assets on Islamic banks in Indonesia.

Method - Data used are secondary data obtained from the Islamic Banking Statistics report for the 2015-2019 period. The sample used in this study was 12 Islamic Commercial Banks and data processing using SPSS 25.0 software.

Result - The results of this study indicate that the variable earning assets, financing and problem financing have a significant effect on the impairment on productive assets variable, while the profit variable does not have a significant effect on Impairment on productive assets variable.

Implication - This study can be used as a reference by Islamic banks in determining the amount of Impairment on productive assets.

Originality - This study analyzes the determinants of Impairment on productive assets at Islamic Banks.

Keywords: impairment on productive assets, profit; productive assets; financing; problematic financing.

Introduction

The development of the Islamic banking industry in Indonesia shows an encouraging rate of growth. After 28 years of Islamic banks, the market share of Islamic banks in the national banking industry has reached 6.01% as of October 2019 or Rp513 trillion, according to the Financial Services Authority data. This shows that in the future Islamic banks still have a chance to increase their market share even greater.

An Islamic bank is a business entity that collects funds from a surplus society and then distributes it to a deficit community (Kasmir, 2011: 2). In its activities, the fund raising usually faces the demands of the fund's owner, the customer. These include money saved in aIslamic bank that is safe and able to provide a competitive rate of profit sharing. According to Kasmir (2012,38) the large amount of financing disbursed will affect the level of bank profits, if the amount of funds collected cannot be distributed, the bank will suffer losses. Islamic Banking Statistics Dataissued by the Financial Services Authority shows the Financing to Deposit Ratio (FDR) shows a figure of 104.88% (2015); 96.70% (2016); 99.39% (2017); 103.22% (2018) and 100.55% (October 2019). This shows that the intermediation process from the source of funds for channeling funds to Islamic banks is very good.

The management of customer funds collected in sources of Third-Party Funds by Islamic banks must be able to be managed by allocating to productive posts. Productive items in question are the allocation of funds that generate the highest income for banks. One example is in the post of financing. The financing post is the main target in allocating funds, although it has the highest risk among the existing fund allocation posts, but this post also brings the highest income to Islamic banks. Strict stages of the screening process on financing activities need to be carried out by Islamic banks in order to minimize the emergence of default risk (default) that could potentially be faced by Islamic banks.

Bank Indonesia Regulation Number 14/15 / PBI / 2012 concerning the assessment of the quality of assets of commercial banks explains that

Impairment on productive assets is a provision that is created if the carrying value of financial assets after impairment is less than the initial carrying amount. Tobing and Anggorowati (2009) state that the amount of Impairment on productive assets is the estimated amount of loss from the outstanding loan or investment balance. Total Impairment on productive assets must be included in the income statement as one of the costs incurred by Islamic banks in each financial reporting period. This shows that Impairment on productive assets has an important value in financial statements and is an account that has the potential to be manipulated by managers.

Impairment on productive assets established by banks is based on the results of evaluations of the placement of funds in productive posts as a form of prudence. The main objective of establishing aImpairment on productive assets is to avoid potential business failures faced by banks due to the inability of debtors to repay loans to banks. One of the factors of the high Impairment on productive assets number owned by banks is due to the inability of banks to conduct customer analysis, resulting in the inability of customers to meet their obligations.

The results of several studies that have been conducted show that there are several microeconomic variables that have a significant influence on the Impairment on productive assets variable. Research conducted by Shofiani (2018) shows that the total financing and Non-Performing Financing (NPF) effect on earnings management using Impairment on productive assetson Islamic banks. In a study of Damayanti and Suprayogi (2017) conducted on Islamic banks, it was found that the sale and purchase contract financing, financing for profit sharing agreements, Non Performing Financing (NPF), Gross Domestic Prpduct (GDP) affected Impairment on productive assets. Lubis, Meutia and Ardia (2018), the results of this study wereNon Performing Loan (NPL) and Bad Credit affect Impairment on productive assets. Whereas research conducted by Utami and Wuryani (2020) results that Return on Assets (ROA), Capital Adequacy Ratio (CAR), and BI Rate affect Impairment on productive assets.

Based on the background that has been explained, then the formulation of the problem in this study is to determine whether there is an influence of profit, productive assets, financing and problem financingaffect the Impairment on productive assets in Islamic banking at Indonesia partially or simultaneously.

Literature Review

Impairment On Productive Assets

According to PBI No.14 / 15 / PBI / 2012, Impairment on productive assets is a provision that is established if the carrying value of financial assets after impairment is less than the initial carrying value. Financial Assets are financial bills for contracts or agreements with other parties which are proof of ownership that provides economic benefits for the owner and as a store of value. Impairment is a condition where objective evidence of adverse events occurs after initial recognition of financial assets. Provisions for measurement of reserves according to Impairment on productive assets based on Indonesian Banking Accounting Guidelines become individual assessments and collective assessments.

Profit

The bank is basically an institution that collects funds in the form of deposits and conducts the distribution of funds in the form of financing. In other words, the bank has a role as an intermediary for people who have excess funds (do not need funds) with those who lack funds (need funds). According to Noor (2003: 9) fund allocation activities that obtain the highest income, namely in the post of financing so as to increase capital adequacy and profitability of Islamic banks.

Profit is the result of a company's operations in one accounting period resulting from costs incurred to obtain profit. Ghozali and Chariri (2007) revealed the meaning of earnings that is adopted by the current accounting structure is accounting profit which is the difference between the measurement of income and costs.

Productive Assets

Bank Indonesia Regulation No. 13/13 / PBI / 2011 concerning Asset Quality Assessment for Islamic Commercial Banks and Islamic Business Units defines productive assets as investment of bank funds both in rupiah and foreign exchange to obtain income, in the form of financing, Islamic securities, Islamic Bank Indonesia certificates, investments capital, temporary equity participation, placements with other banks, commitments and contingencies in administrative account transactions, and other forms of provision of funds. Productive assets are also referred to as financial assets, which are forms of investment in bank funds that benefit the owner

A good quality investment fund will produce a profit, therefore Usman (2012: 179) states that good quality can be a source in developing his business. In order to anticipate the risk of losses that may arise from the investment of the fund, banks are required to provide allowance for possible write-offs based on the results of asset quality assessment.

Financing

According to (Kasmir, 2011: 113), financing is the provision of money or bills which can be likened to it based on an agreement or agreement between the bank and other parties where the existence of a contract or agreement requires the financed party to return the money or bill after a period of time has been determined to be used up in return or profit sharing.

According to Kasmir (2011: 116), the purpose of providing a financing by a bank is to seek profits, namely the presence of interest and administrative costs charged in lending and other services, helping the customer's business, namely in providing capital that can be used by the community as business capital or consumption activities as well as with credit can help the government in increasing economic development activities in the real sector.

Problem Financing

Problematic financing is financing which according to quality is based on the risk of the possibility of the condition and patronage of financing customers in fulfilling the obligation to pay profit sharing, as well as paying off the financing (Trisadini, 2013). Problematic financing is seen in terms of productivity (its performance), namely in relation to the ability to generate income for the Bank, if it has decreased or decreased and may even no longer exist, it certainly reduces income and enlarges the cost of reserves namely Impairment on productive assets while from a macroeconomic scale it can reduce the contribution to development and economic growth.

Hypothesis

Banks in carrying out their activities obtain revenue sharing from the activities of raising funds and channelling funds. Kasmir (2010: 102) explains the Bank's main income is derived from the amount of distribution of funding in addition to income derived from fees for other bank services that are charged to customers (fee based).

Banks in conducting fund disbursement activities, especially in financing posts, have a risk of default or default. The impact of the formation of CKPN will be higher in anticipation of risk along with high problem financing. Based on the description, the formulation of the hypothesis is as follows:
H1. Profit has a significant impact on Impairment on productive assets.

H2. Total productive assets has a significant impact on Impairment on productive assets.

H3. Total financing has a significant impact on impairment on productive assets.

H4. Total problematic financing has a significant impact on impairment on productive assets.

H5. Profit, total productive assets, total financing and total problematic financing have a significant impact on impairment on productive assets.

Methods

Types of Research

To examine the relationship between the independent variable and the dependent variable so as to produce factors that determine the allowance for impairment losses at Islamic commercial banks in Indonesia, the type of research used is quantitative research. (Kuncoro, 2001: 1) explains quantitative research aimed at making a systematic description of the facts and properties of the object under study then combining the variables involved. Variable earnings, total productive assets, total financing, total problematic financing as an independent variable will be tested for their effect on the variable Impairment on productive assets as the dependent variable using SPSS software 25.0.

Data Sources

The data used in this research is secondary data. According to (Umar, 2003: 60) secondary data is data obtained by researchers from existing sources without prior processing. In this study the secondary data used in the form of Islamic banking statistical reports obtained from the results of publications on the website of the Financial Services Authority with the period January 2015 to October 2019.

Collecting Data Method

The population in this study are all Sharia Banks in Indonesia based on sharia banking statistical data on the Financial Services Authority website from January 2015 to October 2019. Data samples used for this study were determined using non-probability purposive sampling techniques (Sugiyono, 2004: 77) and get the results of 12 Islamic Commercial Banks that meet the sampling criteria.

Data Analysis Method

Considering the research data used is secondary data, then to meet the requirements determined before the hypothesis test through the t test and F test it is necessary to test some classic assumptions used, namely normality, multicollinearity, autocoleration, and heteroscedasticity. After passing the classic assumption test, it will be tested with multiple regression, t test, F test and the coefficient of determination.

Results and Discussion

Classic Assumption Test

Normality Test

Normality test is used to find out whether data is normally distributed or not. Parametric analysis such as linear regression requires that the data must be normally distributed (Priyatno, 2010: 54). Based on figure 1, the data processing the Normal P-Plot graph output shows that the data (points) spread around the diagonal line and follow the direction of the diagonal line. Showing the normal distribution pattern, the regression model meets the normality assumption.

Figure 1. Normality Test Results

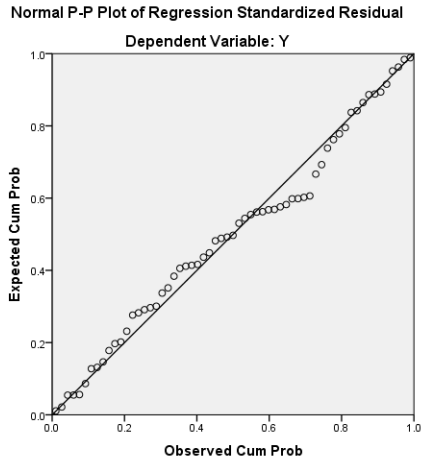
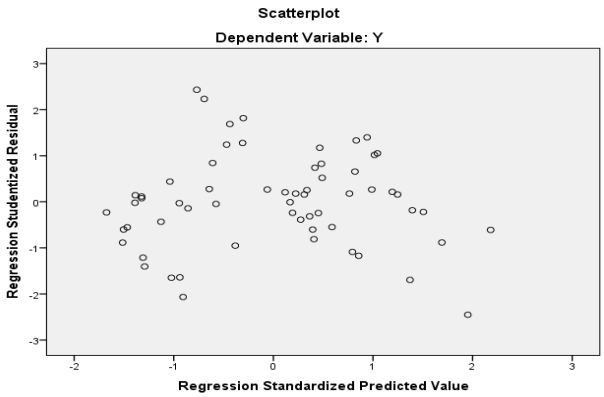


Figure 2. Heteroskdasticity Test Results



Heteroscedasticity Test

Heteroscedasticity test is a condition of the occurrence of variance in the residual variance in the regression model. A good regression model requires no heteroscedasticity problem. In this study, researchers used the Heteroskadasticity Test by looking at the pattern of points on the regression scaterplot (Priyatno, 2010: 57). Can be seen in figure 2, the point of random spread and spread both above and below the number 0 on the Y axis, it can be concluded that there are no symptoms of heteroscedasticity in the regression model used.

Multicollinearity Test

Multicollinearity test is a state between two or more independent variables in a regression model where a perfect or near perfect linear relationship occurs. A good regression model requires no multicollinearity problems (Priyatno, 2010: 62). From the multicollinearity test table 1, it can be seen that the tolerance value for the variables X1, X2, X3and X4> 0.1 and the VIF value for the variables X1, X2, X3and X4 <10 so that it can be concluded that there is no multicollinearity problem.

Table 1. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
X1	0,162	6,176
X2	0,106	9,985
X3	0,206	2,256
X4	0,202	4,957

Autocorrelation Test

Autocorrelation test is the state of the correlation of residuals for one observation with another observation arranged according to time series. A good regression model requires no autocorrelation problems (Priyatno, 2010: 75). To detect the presence or absence of autocorrelation researchers used the Durbin-Watson test (DW test). The dL and dU values can be seen in the Durbin Watson table which is the dL value; dU; α; n; (k - 1). Note: n is the number of samples, k is the number of variables, and α is the significant level. From the Durbin Watson table, in table 2, it is produced for dL = 1,449 and dU = 1.7281 so that 4 - dU = 4 - 1.728 = 2.227. From the summary model table, Durbin Watson's value of 1,941 shows that this value is in the range of dU to 4-dU so that it can be said that autocorrelation problems do not occur.

Multiple Regression Test

Multiple linear regression is used to measure the effect of more than one independent variable on the dependent variable and predict the dependent variable using the independent variable. Kuncoro (2001: 26) defines regression analysis as a study of the relationship of one variable called the explained variable (the explained variable) with one or two explaining variables (the explanatory).

Table 2. Autocorrelation Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.800a	.641	.615	519.403	1.941

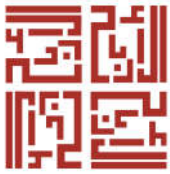


Table 3. Multiple Regression Test Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	40.802	3.849		11.855	.000
	X1	-1.072	.228	.935	4.696	.115
	X2	-.061	.027	2.414	2.311	.025
	X3	.078	.034	-2.393	-2.276	.027
	X4	.721	.450	-.286	-1.603	.005

The results of data processing from table 3, then the equation for multiple linear regression in this study can be written as follows:

Y = 40.802 -1.072 X1 -0.061 X2 + 0.078 X3 + 0.721 X4

Discussion

Effect of Profit on Impairment on Productive Assets

Profit variable of -1,072 means that if other variables are considered constant and profit has decreased by 1%, then the amount of Impairment on productive assets will increase by 10.723. profit variable has Sig. 0.115> 0.05 then H1 is rejected, so it can be concluded that partially the profit variable has no significant effect on impairment on productive assets. This is in line with research conducted by NasrulKahfiLubis, TutiMeutia and Dedek Ardila that net income has no effect on allowance for impairment losses (Lubis et al, 2018). This shows that the amount of Impairment on productive assets does not affect the profitability of Islamic banks.

Effect of Earning Assets on Impairment on Productive Assets

Variable Earning Assets of -0,061 means that if other variables are considered constant and earning asset have decreased by 1%, then the amount of Impairment on productive assets will increase by 6.1%. The variable earning assets has Sig. 0.025 <0.05 then H1 is accepted, so it can be concluded that partially the total variable earning assets significantly influence Impairment on productive assets. According to Taswan (2016: 64) productive asset quality is an investment or provision of bank funds that

must be carried out based on the principle of prudence and compliance with Islamic principles. Bank management must assess, monitor and take anticipatory steps so that the quality of productive assets is always in a smooth condition so that it will affect the small impairment on productive assets that must be formed by the Bank.

Effect of Financing on Impairment on Productive Assets

Variable financing of 0.078 means that if other variables are considered constant and Financing has increased by 1%, then the amount of Impairment on productive assets will increase by 7.8%. The financing variable has Sig. 0.027 <0.05, then H1 is accepted, so it can be concluded that partially the total financing variable has a significant effect on Impairment on productive assets. This is in line with research conducted by Ristra Ayu Damayanti and Noven Suprayogi which states that financing has significant influence on Impairment on productive assets (Damayanti and Suprayogi, 2017). This shows that the size of the funding allocation has an influence on the amount of Impairment on productive assets created by Islamic Banks, therefore Islamic banks must be careful in carrying out screening on their customers.

Effect of Problem Financing on Impairment on Productive Assets

The problem financing variable is 0.721, meaning that if other variables are considered constant and the problem financing has decreased by 1%, then the amount of Impairment on productive assets will decrease by 7.2%. Problem financing variable has Sig. 0.005 <0.05, then H1 is accepted, so it can be concluded that partially the problem financing variable has a significant effect on Impairment on productive assets. The results of this study are supported by the results of research conducted by Taudlikhul Afkar which states that problem financing significantly influences the allowance for credit losses (Afkar, 2017). Problem financing is the most important factor in the formation of allowance for financial losses. The greater problem financing, the greater the amount of fund disbursement for Allowance for Impairment Losses at Islamic Banks.

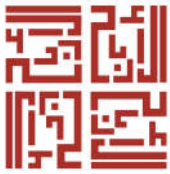


Table 4. Test Results F

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26933793.710	4	6733448.427	24.959	.000b
	Residual	15107649.540	56	269779.456		
	Total	42041443.250	60			

F test

F test (Anova) is used to test the effect of the independent variables together (simultaneously) on the dependent variable (Prayitno, 2010: 83). In this section, the analysis of variance table (ANOVA) is displayed. Based on the Table 4, simultaneous test results above, Sig. 0.000 <0.05, then H1 is accepted and it can be concluded that simultaneously the variable Profit, Earning Assets, Financing, and Problem Financing has a significant effect on Impairment on productive assets.

Coefficient of Determination (R2)

Analysis of the coefficient of determination is used to find out how much the percentage of the contribution of independent variables to the dependent variable. In regression the coefficient of determination this is used as a measurement of how well the regression line approaches the value of the original data made by the model. If the coefficient of determination is equal to 1, then the number shows the regression line matches the data perfectly (Priyatno, 2010: 83). The coefficient of determination of 0.641 gives the understanding that the independent variable under study has the effect of a contribution of 64.1% for the Impairment on productive assets, while 35.9% is influenced by other factors beyond the studied variable.

Table 5. Determination Coefficient Results (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.800a	.641	.615	519.403	1.941

Conclusion

Based on the results of the analysis and discussion, the conclusions in this study are as follows: 1) The profit variable partially has no significant effect on the Impairment on productive assets of Islamic Banks during the 2015-2019 period; 2) The variable of earning asset quality partially has a significant effect on Impairment on productive assets of Islamic Banks during the 2015-2019 period; 3) The variable offinancing partially has a significant effect on Impairment on productive assets of Islamic Banks during the 2015-2019 period; 4) Variable problem financing partially has a significant effect on Impairment on productive assets of Islamic Banks during the 2015-2019 period; 5) Variable earnings, productive assets, tfinancing and problem financing simultaneously have a significant effect on Impairment on productive assets of Islamic Banks during the 2015-2019 period.

Based on the conclusions explained above, the authors advise the stakeholders, especially Islamic banks, to be more careful in allocating their resources to productive assets. The screening process for customers needs to be elevated to mitigate the emergence of default risks by customers. So, when the risk of bad financing can be suppressed, the Impairment on productive assetsneeded to be formed will be small. Suggestions for further researchers, in this study tend to use microeconomic variables, so it is expected for further research can use macroeconomic variables such as inflation, BI Seven Days Repo Rate, Gross Domestic Product (GDP) and so forth.

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