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Non-Performing Financing and Efficiency as Predictive Factors for Profitability of Islamic Commercial Banks during the COVID-19 Pandemic

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ABSTRACT

The purpose of this study was to examine the impact of NPF and the efficiency level of Islamic banks on the profitability of Islamic commercial banks during the pandemic. This study uses a quantitative approach with the type of explanatory research. The data analysis method used in this study is multiple linear regression analysis, the variables used in this study are Non Performing Financing and Efficiency. Dependent variable is Profitability. The results show that: First, partially Non-Performing Financing has an impact on the ROE of Islamic commercial banks, but the efficiency level of Islamic banks does not have an impact on ROE. Second, Simultaneously Non-Performing Financing and the efficiency level of Islamic commercial banks have no effect on profitability. The implication of this research is that partially NPF can be used by investors and potential investors to be used as a reference for making investment decisions.

1. INTRODUCTION

In this era of globalization, Islamic banking is growing very rapidly in the midst of society, especially for people in Indonesia. Where, Indonesia is a country with the largest Muslim majority in the world, so it can be a reference in the development of Islamic Banking in Indonesia. Sharia Commercial Banks (BUS) are banks that carry out business activities based on Sharia principles which in their activities provide services in payment traffic (Ansori, 2018).

As business entities in general, the success of Islamic commercial banks is judged by the level of profitability. Profitability is a ratio that can show how big the level of success of the company in generating profits through all existing resources and activities. This ratio is a comparison of the income received by the company compared to the activities carried out by the company. Profitability in Islamic banking can usually be seen by the ratio of Return On Equity (ROE). ROE is a comparison between the bank's net profit with its own capital. This ratio is widely observed by the shareholders of Islamic Banking because it is a very important indicator for shareholders and potential new investors to measure the Bank's ability to obtain net profit associated with dividend payments.

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Financial performance in Islamic banking will also be a special concern for the development and progress of Islamic banking. The financial performance of each company will always be considered and will always be researched about what will be the obstacles and challenges in it. Therefore, financial performance will run smoothly in accordance with the provisions if the company can minimize and even overcome all the risks that exist in the financial performance of Islamic banking. One of the most common risks faced by Islamic banks during the pandemic is Non-Performing Financing (NPF). NPF is a non-performing loan consisting of financing with substandard, doubtful, and non-performing status. NPF is a ratio used to measure the risk disbursed by comparing non-performing financing with the amount of financing disbursed. The higher the NPF, the smaller the level of profit achieved. This is because the income received by the bank will decrease and the costs for the allowance for the write-off of receivables will increase which causes profits to decrease or losses to increase (Aldiansyah, 2018). This is in line with the results of research conducted by Wulandari and Shofawati (2017) showing that NPF has a significant effect on profitability. However, this is different from the results of research conducted by Simatupang and Franzlay (2016) which shows that NPF has no significant effect on profitability.

In addition to facing risks, during the pandemic, Islamic banks are also required to carry out efficiency as an effort to reduce operational costs in the midst of the global and national economic downturn. The report from the Central Statistics Agency (BPS) in August 2020 stated that Indonesia's economic growth in the second quarter of 2020 was minus 5.32%. Previously, in the first quarter of 2020, BPS reported that Indonesia's economic growth only grew 2.97%, down far from growth of 5.02% in the same period in 2019. Efficiency in a bank is better known as Operating Expenses Income which measures the efficiency of the Bank's operations. BOPO is measured by comparing the amount of operating expenses to the income of the Bank. BOPO shows the efficiency of the Bank in carrying out its main business, namely the ratio between total costs and total revenue generated. The higher the BOPO ratio, the lower the level of operational efficiency of a bank. The higher the cost, the more inefficient the Bank becomes so that changes in operating profit are smaller (Aldiansyah, 2018). The lower the level of profit achieved due to inefficiency, the lower the profitability of a business entity. This is in line with the results of research conducted by Simatupang and Franzlay (2016), and Ariyani (2010) which showed that BOPO had a significant effect on profitability. The following is statistical data on the development of NPF and BOPO during 2020.



Source : The report of quarterly financial data processed (2020)

Figure 1. NPF & BOPO

Based on the graphic image of OJK data above, NPF during the early 2020 period. NPF still recorded at 3.00%, continued in February at 3.03%, the increase began to be felt from June at 3.42%, in July 3, 38%, August 3.33%, in September began to decline by 3.17%, until December by 3.01%. Furthermore, the BOPO ratio in January recorded 75.09%, in February 75.03%, in March 74.56%, BOPO increased in May by 77.41%, until November and December by 78.96%. So the NPF before the covid-19 announcement, had an average value of 3.00%, at the time of the covid-19 announcement, it had an average value of 3.42%. While the BOPO at

the beginning of 2020 had a value of 75.09%. In March 74.56%, in April to May had an increase of 77.41% in June 77.37%, in July to September experienced a slight decrease of 76.22%, in October to December had an increase of 78.96%. So the BOPO value before covid-19 had an average value of 75.09%. At the time of covid-19 it had an average value of 78.96%. Based on the phenomenon and gap research, the researcher considers it important to conduct further research from previous researchers with the object of BUS during the pandemic with the title Non-Performing Financing and Efficiency as Predictive Factors of Profitability of Islamic Commercial Banks during the COVID-19 Pandemic.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Financial performance

According to Yuli Orniati quoted by Muhammad Syaifullah, et al (2020) stated that, Financial performance as a prospect or future, growth and development potential is good for the company. Financial performance is a good and bad picture of the company regarding the level of success achieved by a company in carrying out its operations. The better the company's financial performance, the healthier the company will be. Financial performance is a description of every economic result that can be achieved by banking companies during a certain period through company activities to generate profits efficiently and effectively, whose development can be measured by conducting an analysis of financial data reflected in financial statements (Chandra et al, 2016).

Non Performing Financing (NPF)

Non-Performing Financing is a loan that has difficulty repaying, usually due to unstable economic conditions that result in the failure of most economic activities. Non-Performing Financing is the sum of loans and non-accruals (loans whose income cannot be restructured/loans whose interest is lowered or the period is extended), due to problem debtors and real property/confiscated proceeds (Amin, et al: 2017). Non-performing financing is a risk of disbursement of funds. The NPF level assessment criteria are <2% in the current category, 2%-5% in the special attention category, 5%-12% in the doubtful category and >12% in the bad category. Classify non-performing financing in the category of less smooth, doubtful and bad (Hasibuan, et al, 2020). Based on SE BI No. 3/30/DPNP On December 14, 2001, the formula for calculating NPF is:

$$\text{NPF} = (\text{Non-performing financing} / \text{Total Financing}) \times 100\%$$

A high NPF value of a bank will lead to high non-performing financing, whereas a low NPF value indicates a low level of non-performing financing. This will affect the bank's performance and have an impact on profit. Profit is related to Profitability, therefore it is concluded that the level of NPF will affect the level of Profitability. According to Stiawan quoted by Hasibuan, et al (2020) also revealed that NPF has a negative effect on profitability.

Efficiency/BOPO

BOPO is the ratio between Operating Costs and Operating Income, the lower the BOPO ratio means the better the bank's management performance, because it is more efficient in using the resources available in the company (Fiscal and Lusiana, 2014). BOPO (Operational Income Operating Expenses) is also referred to as an efficiency ratio used to measure the ability of a Bank's management to control the Bank's Operational Expenses against the Operating Income received by the Bank (Hasibuan, et al, 2020). The formula for calculating BOPO in accordance with BI Circular Letter Number: 3/30/DPNP dated December 14, 2001, is as follows:

$$\text{BOPO} = (\text{Operating Expenses} / \text{Operational Income}) \times 100\%$$

The costs and revenues are closely related to each other and have a relationship with the Bank's Profitability. Efficient Bank activity is indicated if the BOPO value is low. A high BOPO results in a decreased ROE. According to Stiawan, Wibowo, and Zulifiah quoted by Hasibuan, et al (2020) explain that BOPO has a negative effect on profitability.

Profitability

Profitability is a ratio that aims to determine the company's ability to generate profits during a certain period. In addition, it also provides an overview of the level of management effectiveness in carrying out its operations. According to Syafri quoted by Septiana (2019), explaining that the Profitability ratio is a ratio that can describe the company's ability to earn profits through all existing capabilities and sources such as sales activities, cash, capital, number of employees, number of branches, and so on (Septiana, 2019).

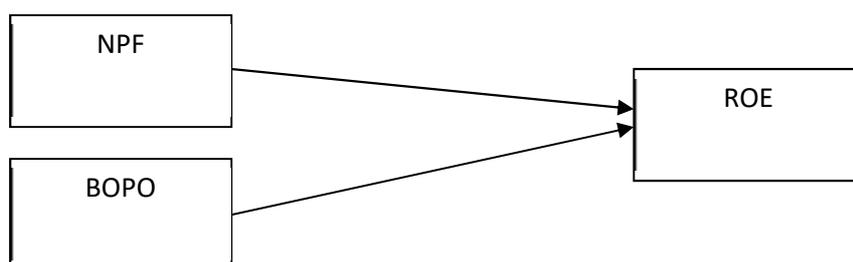
The profitability ratio is the main ratio in all financial statements, because the company's main objective is operating results/profits. Profit is the end result of the policies and decisions taken by management. The profit ratio will be used to measure the effectiveness of the company's operations, thereby generating profits for the company. Profitability is also a factor that should get important attention because to be able to carry on its life, the company must be in a favorable condition. Without profit, it will be very difficult for companies to attract capital from outside. One of the profitability ratios is Return On Equity (ROE). ROE is a comparison between net income after tax with total equity. Return On Equity is a measurement of the income available to the owners of the company on the capital invested in the company. The following is a formula for calculating ROE:

$$\text{ROE} = (\text{Net Income} / \text{Shareholder's Equity}) \times 100\%$$

- H1 : Non-Performing Financing affects the Profitability of Islamic Commercial Banks During the Covid-19 Pandemic.
- H2 : Efficiency affects the profitability of Islamic commercial banks during the Covid-19 pandemic.
- H3 : Non-Performing Financing and Efficiency Affect the Profitability of Islamic Commercial Banks During the Covid-19 Pandemic.

3. RESEARCH METHOD

This research is an explanatory research with a quantitative approach. Explanatory research is a research that aims to examine the influence between the independent and dependent variables and their relationship. The research design is as follows:



The population in this study were BUS registered on the OJK website as many as 14 BUS. The sampling technique was carried out by purposive sampling with the following criteria: first, BUS in Indonesia registered with the Financial Services Authority for the 2020 Period; second, BUS which publishes complete quarterly financial reports for the period of 2020; Third, BUS in Indonesia that provides information in the form of ratios of NPF, BOPO, and Profitability (ROE) in financial statements. Based on the predetermined sample criteria, there are 7 BUS samples used.

The type of data used in this study is secondary data, namely quarterly financial report data for each Islamic commercial bank published on the OJK official website in 2020. The analysis technique used in this study is multiple linear regression using the SPSS application.

4. RESULTS

After passing the data normality test, heteroscedasticity test, autocorrelation test, and multicollinearity test, the regression test was carried out to see the effect of the independent variable on the dependent variable. The Multiple linear regression is used for research with Y model (dependent variable) with X (Independent) variable. With the equation $Y = a + b_1X_1 + b_2X_2 + e$

Table 1: the result of regression test

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Toleranc e	VIF
(Constant)	14.841	4.242		3.499	.002		
NPF	-2.757	1.289	-.397	-2.140	.042	.951	1.051
BOPO	-.025	.053	-.087	-.469	.643	.951	1.051

a. Dependent Variable: ROE

Source: Output of SPSS 24 version data processed (2020)

Multiple linear regression analysis in the table above shows the variable coefficient of NPF = -2.757 (X1), BOPO = -0.025 (X2) and constant (a) of 14.841, so that the multiple linear regression equation model obtained in this study is as follows:

$$Y = 14,841 - 2.757X_1 - 0.025X_2$$

The linear regression equation model above can be interpreted as follows: a = 14,841, where the profitability constant value is 14,841 indicating if the independent variable is equal to zero (not considered) then the profitability is 14,841 units. b = -2.757, it can be interpreted that the magnitude of the NPF variable coefficient is negative indicating a negative correlation between NPF and profitability. Each NPF variable decreases by 1, the profitability will increase by 2,757 units. Likewise, BOPO has a value of -0.025X2. The negative sign indicates a negative relationship between BOPO and profitability. Every 1 unit increase in BOPO will decrease 0.025 profitability (ROE)

The t-test was conducted to determine whether the effect between the X variables (NPF and BOPO) and the Y variable (ROE) with $\alpha = 0.05$, was used to test whether the regression coefficient value had a partially significant effect on the dependent variable. Simultaneous testing uses the t distribution, which is to compare [tcount] with ttable using a probability of 0.05 ($\alpha = 5\%$). In the table above, it can be seen that the significant value of the X1 variable (NPF) is 0.042 < 0.05 and the value [tcount] of the X1 variable [-2.140] = 2.140 > ttable is 1.70814, so it can be seen that the NPF variable has a negative effect on profitability.

Unlike the case with NPF, the BOPO t test value is 0.469 < t table (1.70814) with a significance level of 0.643 > 0.05 so that there is no significant effect of BOPO on BUS profitability during the pandemic.

F statistic test is used to determine whether all independent variables (Non Performing Financing and Operating Expenses Operating Income) on the dependent variable Profitability (ROE). The following is the result of the F test using the spss application.

Table 2. F Statistic Test

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	219.947	2	109.973	2.755	.083 ^b
	Residual	997.906	25	39.916		
	Total	1217.853	27			

a. Dependent Variable: ROE
 b. Predictors: (Constant), BOPO, NPF
 Source: Output of SPSS 24 version data processed (2020)

The table above shows that Fcount is 2.755 and Ftable is 3.34. Thus, it is known that $F_{count} < F_{table}$ 3.34, meaning that the independent variables simultaneously have no significant effect on the dependent variable. The results of this calculation, the first hypothesis is rejected, namely NPF and BOPO have no effect on profitability. This is also reinforced by the results of the coefficient of determination test (R^2) which shows that the independent variables X1 (NPF), and X2 (BOPO) contribute to profitability by 18.1% while the remaining 81.9% ($100\% - 18.1\%$) is influenced by other variables not described in this study. The following are the results of the R^2 test.

Table 3. Coefficient of Determination Test Results (R^2)

Model Summary ^b					
Model	R	Adjusted R Square	R Std. Error of the Estimate	Durbin-Watson	
1	.425 ^a	.181	.115	6.31793	1.509

a. Predictors: (Constant), BOPO, NPF

b. Dependent Variable: ROE

Source: Output of SPSS 24 version data processed (2020)

The following are the representation of data documentation per variable during observation periode:

Table 4. NPF and BOPO (Islamic Commercial Banks)

No.	BUS	Triwulan I			Triwulan II			Triwulan III			Triwulan IV		
		NPF	BOPO	ROE	NPF	BOPO	ROE	NPF	BOPO	ROE	NPF	BOPO	ROE
1.	PT. Bank Aceh Syariah	0,08	84,12	12,04	0,10	82,67	12,76	0,09	81,62	14,24	0,04	81,50	15,72
2.	PT. Bank BRIS Syariah	2,95	90,18	6,30	2,49	89,93	4,87	1,73	90,39	5,20	1,77	91,01	5,03
3.	PT. Bank BNI Syariah	1,72	76,53	17,95	1,88	82,88	10,86	1,63	84,00	10,33	1,35	84,04	9,97
4.	PT. BJB Syariah	1,89	95,09	3,91	1,78	95,22	3,63	1,74	93,74	4,73	2,86	95,41	0,51
5.	PT. Bank Syariah Mandiri	0,95	82,87	16,39	0,88	81,26	15,71	0,61	81,95	15,24	0,72	81,81	15,03
6.	PT. BCA Syariah	0,24	90,00	2,37	0,21	89,53	2,40	0,01	89,32	2,51	0,01	86,28	3,07
7.	PT. BTPN Syariah	0,02	54,85	29,77	0,00	72,07	15,19	0,00	77,20	12,79	0,02	72,42	16,08

Source: OJK 2020 Quarterly Report

The table above is a tabulation of non-performing financing (NPF) data on Islamic commercial banks registered with the OJK in 2020 quarterly reports. Among the 7 Islamic banks above, the highest level of NPF is PT. Bank BRIS Syariah where in the first quarter the amount of the NPF level was 2.95, meaning that the level of risk of non-performing financing was borne by PT. Bank BRIS Syariah is very high. However, in the 2nd and 3rd quarters, it decreased by 0.46% from the first quarter to the second quarter, but ROE also decreased by 1.43%. Supposedly with a decrease in the value of NPF then ROE has increased. The more performing a bank financing, the ROE should increase because the risk of non-payment of financing is getting smaller. Meanwhile, a bank with a very low NPF level, namely PT. BTPN Syariah where in the first quarter the NPF level was 0.02, meaning that the level of risk of non-performing financing borne by this bank is not too high.

Profitability is a ratio that aims to determine the company's ability to generate profits or profits, profits will be used to measure the effectiveness of the company's operations, so that the company also provides an overview of the level of management effectiveness in carrying out its operations. Here, to determine the level of profitability of a bank using the ratio Return on Equity (ROE) is a measurement of the income available to the owners of the company on the capital invested in the company.

The table above is a tabulation of Operational Income Operating Expenses (BOPO) data at Islamic commercial banks registered with the OJK in 2020 quarterly reports. Among the 7 Islamic banks above, the highest level of BOPO value is PT. Bank BJB Syariah where in the 1st quarter the BOPO level was 95.09 in the 2nd and 4th quarters the BOPO value increased by 95.41, meaning that the level of inefficiency borne by PT. Bank BJB Syariah is very high. Meanwhile, the bank with a very low BOPO level, namely PT. BTPN Syariah where in the first quarter the BOPO level was 54.85 in the second and third quarters, an increase of 77.20. This means that if the value is less than 90% then the health of the bank is very good. However, partially the high or low BOPO has no effect on profitability during the pandemic. Efficiency is not a predictor of Islamic banking profitability, but a factor of financing collectibility. The largest operating income in banking comes from financing, so that if there is a non-performing financing, it will have an impact on the profitability of an Islamic bank. Simultaneously, however, during the pandemic, the collectibility of financing and operational efficiency of Islamic banks can affect the level of bank profitability. The high number of low collectibility of a financing and accompanied by low operational efficiency of Islamic banks can worsen the level of profitability. The low main income of Islamic banks as a result of high non-performing financing, if followed by high bank operating costs, will further reduce the profits achieved by a bank. The smaller the profit achieved by Islamic banks, the smaller the level of profitability of Islamic banks.

The operation of the operational system of Islamic Public Banks (BUS) during the COVID-19 pandemic may not be as optimal as running the operational system before the COVID-19 pandemic, in which during this pandemic period the initially stable economy was disrupted and even declined far from its stability. So from here, directly the profits obtained by Islamic banks also become unstable so that the level of profitability of Islamic Public Banks (BUS) will also experience instability.

5. CONCLUSION

Partially Non-Performing Financing has an impact on the ROE of Islamic commercial banks, but the efficiency level of Islamic banks does not have an impact on ROE. Second, Simultaneously Non-Performing Financing and the efficiency level of Islamic commercial banks have no effect on profitability. The implication of this research is that partially NPF can be used by investors and potential investors to be used as a reference for making investment decisions.

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