

How the Rules of no.11/POJK.03/2020 Banking Restructuring Policy Improve Financial Performance? (Empirical Study of Islamic Banks in Indonesia)

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Abstract: The Covid-19 pandemic has significantly impacted the economy, including the banking industry. The impact on the banking industry is a decline in the health of banks. One form of bank soundness assessment can be seen from the movement of financial ratios, including Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), Return on Assets (RoA), and Operational Expenditure to Operating Income (BOPO), and Financing to Deposits Ratio (FDR). This study aimed to examine the impact of the implementation of banking restructuring policies on the financial performance of Islamic Commercial Banks in Indonesia. This study used an observation period of 36 months, calculated 1 year before and after the implementation of rules No.11/POJK.03/2020. The sampling method used purposive sampling with 119 observational data samples. Hypothesis testing used the independent Mann-Whitney t-test since the data were not normally distributed. The results showed that the banking restructuring policy could only improve the bank's financial performance, namely CAR and FDR, but not the ratio of NPF, ROA, and BOPO. The contribution of this study can be used as one of the basics for assessing the effectiveness of implementing government policies.

Keywords: Banking restructuring, Rules No.11/POJK.03/2020, Financial performance, Islamic banking.

JEL classification: G2, G21, G32

INTRODUCTION

The Covid-19 pandemic has been going on to date and has significantly impacted the world economy, including Indonesia (Handayani & Rakhmawati, 2020). During the pandemic, all regions in Indonesia experienced negative economic growth and increased poverty levels (Rambe et al., 2022). Economic growth jumped to -5.32% during the pandemic (Sunarko et al., 2022). The economic contraction occurred due to declining performance in several sectors, including banking, directly affected by the pandemic. It is also a factor driving the decline in banking performance, both conventional and Islamic banking. Bank performance is a description of the bank's achievements in carrying out its operations that can be seen in terms of finance, marketing, fundraising, distribution of funds, technology, and human resources. Therefore, past financial performance is a benchmark for predicting future financial performance that can be used to assess a bank's health. The Financial Services Authority (OJK) issued regulation No.11/POJK.03/2020 to maintain the financial system stability and Indonesia's economic growth. It is about the national economic stimulus

as a countercyclical policy due to the impact of the pandemic. This rule provides concessions for creditors with cases of the impact of Covid 19 can apply for financing/credit restructuring to finance companies and banks. Restructuring credit/financing should reduce the spike in NPL/NPF numbers because restructured loans/financing will not appear as non-performing loans/financing (default). Therefore, the restructuring policy more or less can reduce the NPF rate. As of July 2020, the OJK noted that the NPF ratio for Islamic banking was still down to 3.38% (from 3.42% in May). With this restructuring policy, the reduction in credit risk is expected to impact other financial ratios, such as CAR, ROA, BOPO, and FDR.

Meanwhile, before the pandemic occurred, some Islamic banks in Indonesia experienced significant developments (Aprilianto, 2020; Havidz & Setiawan, 2015; Indriastuti & Pratiwi, 2019; S Wahyuni & Pujiharto, 2018; Sri Wahyuni, 2014; Sri Wahyuni & Pujiharto, 2016). Even though the development is quite rapid, it must be accompanied by enforcing regulations and applying optimal banking management, in this case, the handling of non-performing financing (Ubaidillah, 2018). Non-performing financing negatively impacts banks, such as non-payment of loans/financing (NPL/NPF) provided either wholly or partially. Between public debt and NPLs, fiscal problems led to a notable increase in non-performing loans (Ofria & Mucciardi, 2022).

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Increasingly large NPL/NPF figures pose challenges to the operational health of banks, which means that the banking system's health is questionable; The decline in bank health seen from the quality of financing affects the level of bank liquidity and solvency. This decline ultimately affected short-term and long-term customer confidence. Banks with a record of troubled financing must prepare a reserve fund with a large amount of liability. The next impact is the decrease in bank capital since the losses must be born (Ubaidillah, 2018). Understanding the relationships between monetary policy and the level of banking performance are important to evaluate the impact of monetary policy attitudes (Borio et al., 2017). Rieth & Wittich (2020) also examined the impact of monetary policy on the adoption of structural reforms associated with banking performance. The government is interested in banks' profitability and performance since they are the key to economic growth (Alkhazaleh, 2017). Calderon & Schaeck (2016) investigated how government interventions, such as liquidity support, guarantees, recapitalization, and nationalization, can affect banking competition. Emergency loans increase the chances of distressed banks surviving then monetary intervention can be more effective. However, the increased chance of survival of supported banks also gives them a competitive advantage (Richardson & Troost, 2009).

This study observed how the movement of financial ratios (as measured by NPF, CAR, ROA, BOPO, and FDR) is motivated by government policy No.11/PJOK.03/2020. This study analyzed the NPF, ROA, BOPO, and FDR ratios of Islamic banks before and after the implementation of Government policy No.11/PJOK.03/2020 on March 13th, 2020-March 13th, 2021. The main problems that will be answered in this study are: "is there a significant difference in the financial performance of Islamic banking as measured by NPF, CAR, ROA, BOPO, and FDR before and after the implementation of Government policy Number 11/PJOK.03/2020?" This analysis is to find empirical evidence that the government's restructuring policy can restore banking health, especially Islamic banking. This study has urgency: (1) Covid-19 Pandemic Phenomenon is currently the focus of research in various scientific fields since it has a systemic and comprehensive impact. It will examine the differences in variables of financial banking ratios before and after the implementation of rules No.11/POJK.03/2020, which has never been studied before, to continue and complement existing research on this phenomenon; (2) this study takes the object of Islamic commercial banks to provide a specific description of the effectiveness of implementing government policies on banking in Indonesia. This study will examine whether the government's national economic stimulus policy, which provides an opportunity for debtors/customers to restructure their financing, can improve banking health, impacting Covid-19.

LITERATURE BASIS AND HYPOTHESES DEVELOPMENT

Islamic Banking in Indonesia (Definition, History, and Development)

Islamic banks are identified with banks with an interest-free system, meaning that these financial institutions collect

funds and channel them back without charging interest to people or institutions (Antonio, 2001). The beginning of Islamic banking in Indonesia Bank Muamalat Indonesia (BMI) was a pioneer in 1991. The establishment of BMI was initially initiated by the Indonesian Ulama Council (MUI), the Association of Indonesian Muslim Intellectuals (ICMI), several Muslim entrepreneurs, and the full support of the Indonesian government. Islamic banks in Indonesia have been regulated in Law No. 21 of 2008 concerning Islamic Banking, replacing Law No. 10 of 1998 concerning Amendments to Law no. 7 of 1992 concerning Banking. Until 2021 there will be 15 Sharia Commercial Banks (BUS) in Indonesia. However, in 2021 there will be 3 BUS, namely BRI Syariah, BNI Syariah, and Bank Mandiri Syariah, that will be merged into one under the name Bank Syariah Indonesia (BSI), although commercial banks already have Islamic business units, as many as 20 banks. From the type of product, there is no significant difference between Islamic banking and products issued by conventional banking. The types of products provided include fundraising, lending, and fee-based products. The feature that distinguishes it from conventional products is that Islamic banking strictly prohibits elements, namely the element of gambling (*maysir*), the element of uncertainty (*gharar*), the element of interest (*usury*), the element of bribery (*rysiwah*), and the element of vanity. Instead, traditional Islamic contracts, or what is commonly called sharia principles, can be applied to the banking product in question (Anshori, 2018; Antonio, 2001; Arifin, 2009; Zulfikar & Wahyuni, 2019).

Banking Financial Performance

The financial performance illustrates the prediction of the company's capacity in a certain period through activities that support profits effectively and efficiently. Financial performance can be measured by analyzing the company's financial data contained in financial statements. According to Indonesian Accounting Association, financial statements are analyzed and evaluated to measure the company's performance. The information used to measure financial performance is financial information, namely management accounting, and financial accounting information. Warsono (2003) stated that there are five types of measuring tools or methods that can be used to measure the financial performance of a company, namely financial ratio analysis, modified financial ratio analysis, economic value added analysis, capital analysis, assets, risk management, earnings and liquidity (CAMEL), and Balance Scorecard analysis. Wild et al. (2005) stated that financial statements analyze the company's financial position and future financial performance.

Financial Ratio Analysis

Financial ratio analysis is used to evaluate the bank's financial performance and also predict the soundness of the bank where the condition of the bank is in healthy or unhealthy condition. The following ratio is used Capital Adequacy Ratio (Capital), Non-Performing Financing (Quality of Earning Assets), Return on Assets (Profitability), BOPO (Efficiency/Cost), and FDR (Liquidity). CAR is one of the main indicators of commercial bank stability (Mohanty & Mahakud, 2019). CAR describes a bank's ability to use its capital to cover the decline in assets caused by losses arising from us-

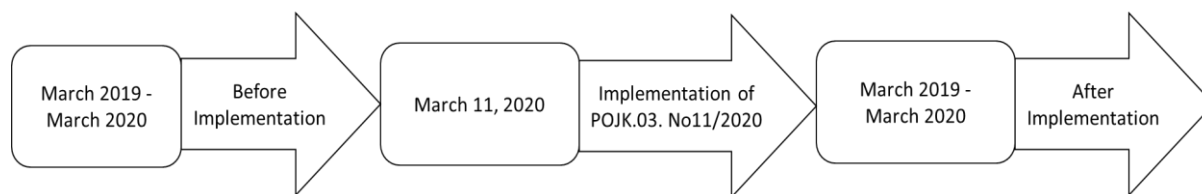


Fig. (1). Timeline of Hypotheses Development.

ing these assets. The capital aspect can be measured by using the CAR. CAR shows bankability to provide funds to eliminate the risk of losses caused by a lack of capital (Sudiyatno et al., 2019). Earning assets as an investment of funds in rupiah and foreign currencies to obtain certain results (Hendrati et al., 2014). Earning asset quality can be measured by several ratios. This study used Net Performing Financing (NPF) as a benchmark. NPF is a ratio that shows the bank's ability to manage non-performing financing from the total financing provided by the bank. The larger the bank has non-performing financing, the higher this ratio will be. The greater the profit earned by the company, the better its performance and the healthier its financial condition. The profit measurement ratio uses Return on Assets (ROA), a comparison of the net profit achieved with the total assets owned. The profitability ratio showed the company's ability to generate profits during a certain period using productive assets (Piliang & Wakil, 2008). BOPO measures the efficiency of bank management from an operational standpoint. This ratio compares the extent to which a bank's costs and income can be translated as operational efficiency performance. The BOPO value decreases, meaning that operational efficiency is getting better and vice versa. The ratio used to measure the soundness of a bank in terms of liquidity is the Loan Deposit Ratio (FDR). This ratio measures the bank's ability to pay back obligations to customers who have invested their funds with the loans given to debtors. The higher the FDR ratio, the higher the level of liquidity.

Covid-19 Pandemic

Covid-19 entered Indonesia on March 2nd, 2020, and disrupted people's health. Physical restrictions are one of the policies taken to reduce the impact of the virus spreading. In March, several companies started to carry out physical restrictions by implementing work-from-home or reducing 50% of employee capacity.

Covid-19 has had a significant impact on the country's economy. The Director General of Taxes at the Ministry of Finance, Suryo Utomo, said that Indonesia's Covid-19 pandemic caused economic turmoil. First, the Covid-19 pandemic caused household consumption or purchasing power to support 60% of the economy to fall sharply. The data is proven through the central statistics agency regarding the decline in home consumption which decreased by 5.02% in the first quarter of 2019 to 2.84% in the first quarter of the current year. Then, it also caused prolonged uncertainty, so the investment weakens and has implications for the cessation of business. In short, the pandemic caused commodity prices to fall, and exports to several countries also halted due to the economic downturn experienced by the rest of the world.

Financial Services Authority Regulations (POJK) No.11/POJK.03/2020

Institutions holding the Financial Services Authority of the Republic of Indonesia enforce regulation No.11/PJOK.03/2020, which stimulates the Indonesian economy to overcome the impact of the Covid-19 incident, in which companies are given leeway regarding their credit obligations. OJK considers the following policy decisions: a) Covid-19 has had a significant impact globally, both directly and indirectly, in this case, related to the ability or performance of debtors to fulfill their obligations; b) banking performance may be disrupted due to the impact of reduced debtor capacity and systemically disrupt economic growth; c) this policy is expected to encourage banking performance in the intermediary function, maintain the financial system stability and maintain economic growth.

Hypothesis Development

The hypotheses in this study were based on the logical thinking of the researcher, where the government's economic stimulus policy is expected to reduce credit risk by banks, that in turn has an impact on improving the financial performance of banks. This study was measured by the CAMEL method (Capital, Asset, Risk Management, Earnings, and Liquidity) (Fig. 1). The hypotheses are as follows:

H1. There is a significant difference in the capital ratio (as measured by CAR) of Islamic commercial banks before and after implementing rules No.11/POJK.03/2020.

H2. There is a significant difference in the quality ratio in earning assets (measured by NPF) of Islamic commercial banks before and after implementing rules No.11/POJK.03/2020.

H3. There is a significant difference in Islamic commercial banks' profitability/profitability ratio (as measured by ROA) before and after implementing rules No.11/POJK.03/2020.

H4. There is a significant difference in the effectiveness ratio (as measured by BOPO) of Islamic commercial banks before and after implementing rules No.11/POJK.03/2020.

H5. There is a significant difference in Islamic commercial banks' liquidity ratio (as measured by FDR) before and after implementing rules No.11/POJK.03/2020.

RESEARCH METHOD

This study used descriptive-quantitative research that emphasizes testing theories through measuring research variables with numbers that aimed to test hypotheses. The object is Islamic banking registered with the Financial Services Authority. The Islamic banking object is the Islamic Com-

Table 1. The Results of Descriptive Analysis of Research Variables.

Variable	Min		Max		Mean		Std. deviation	
	Before	After	Before	After	Before	After	Before	After
CAR	2.74	15.06	44.57	58.10	22.29	28.25	9.34	9.90
NPF	0.02	0.01	4.98	4.94	2.612	1.845	1.55	1.61
ROA	0.02	-6.72	13.58	11.57	1.87	1.79	3.37	3.44
BOPO	54.85	56.81	99.96	202.74	88.82	88.94	11.34	23.79
FDR	57.04	38.33	109.87	175.97	84.84	82.05	11.16	24.66

mercial Bank since ICB has completed data related to the study variables. The data used is secondary data that was obtained indirectly and has been published. The research collects data from quarterly reports from the official website of the OJK or related Islamic banking. This study collects data using the documentation method. We collect references from previous related research and other relevant and supportive sources, such as books or other official information. The population in this study are banks registered with the OJK. The sample selections used the purposive sampling method: selecting samples based on specific criteria following the research objectives.

Operational Definition and Measurement of Variables

CAR is defined as a bank's capital expressed as a percentage of its risk-weighted commitment (Mili et al., 2016). The measurement of variables in this study used the source from the SE BI Appendix 13/24DPNP/2011. The CAR ratio measures the total assets that contain credit, investment risk, securities, and other bank claims. This total asset is financed from its capital as well as capital from other sources. Banking is considered to be healthier with a higher CAR ratio. Fulfilling a minimum CAR of 8% indicates that the bank complies with capital regulations. The formula obtains CAR as follows:

$$CAR = \frac{\text{Capital}}{\text{Risk Weighted Assets}} \times 100\% \text{ (Eq. 1)}$$

NPF, in this study, is described as financing with the quality classification of the risk of loss, doubtful and substandard; formulated as follows Idroes & Sugiarto (2006):

$$NPF = \frac{\text{credit/financing substandard,doubtful,and bad}}{\text{total credit/financing}} \text{ (Eq. 2)}$$

ROA is the ratio of profit to assets that indicates the bank's ability to generate profits within a certain period. ROA measures a bank's success in profiting from its assets, with the size getting better the bigger it is. The formula obtains ROA as follows (Bank Indonesia, 2012):

$$ROA = \frac{\text{Profit before tax}}{\text{Average total assets}} \times 100\% \text{ (Eq. 3)}$$

Profitability describes the company's success in generating profits from all capital, sales capabilities and activities, and operations. One of the indicators used to measure profitability is BOPO (Operating Agency and Operating Income), formulated as follows in Hull (2018):

$$BOPO = \frac{\text{Operating expenses}}{\text{Operating income}} \times 100\% \text{ (Eq. 4)}$$

FDR compares the amount of financing given by the bank and the amount of third-party funds (TPF) collected by the bank (Muhammad et al., 2020). FDR is used as a measuring ratio between the amount of financing compared to the funds obtained by the bank and its activities. This ratio illustrates the ability of a bank to return funds from depositors from the bank's ability to generate profits from financing as a source of bank liquidity. The formula for calculating the FDR ratio as well as the FDR credit score is:

$$FDR = \frac{\text{Total financing provided}}{\text{Third party funds}} \times 100\% \text{ (Eq. 5)}$$

Data Analysis Method

The study used verification analysis to check whether a report is true or not by using several appropriate tests. The tests used in this research are the normality test and t-test. The data normality test was conducted to determine whether the data used in the study were normally distributed. In this study, the Kolmogorov-Smirnov normality test was used. Decision-making guidelines with the Kolmogorov-Smirnov normality test can be seen from the significance value or probability number > 0.05, and then the data distribution is normal. T-test or Wilcoxon Signed Rank test is used to test the research hypothesis. Paired sample t-test was used to analyze paired samples due to different treatments. Paired Sample t-test was used if the data were normally distributed. The basis for making decisions to accept or reject Ho in the paired samples t-test and Wilcoxon signed rank test are: if probability (Asymp. Sig) 0.05, then Ho is rejected, and Ha is accepted. Otherwise, if probability (Asymp. Sig) > 0.05, Ho is accepted, and Ha is rejected.

RESULT AND DISCUSSION

Table 1 shows that each research variable changes numbers before and after implementing rules No.11/POJK.03/2020. For instance, CAR and BOPO variables show an increase in the average value before and after implementing rules No.11/POJK.03/2020. In contrast, the NPF, ROA, and FDR decreased the average value before and after implementing rules No.11/POJK.03/2020.

Table 2. Normality Test Results.

	N	Asimp. Sig (2-tailed)
CAR	119	0.00
NPF	119	0.00
ROA	119	0.00
BOPO	119	0.00
FDR	119	0.00

The normality test result (Table 2) found that all variables have significant asymptotic values less than 0.05; then, it can be concluded that the data are not normally distributed. Thus, the hypothesis was tested using a non-parametric test, the Mann-Whitney test, for an independent sample.

Table 3. Hypothesis Testing Results.

Hypothesis	Sig- (2tailed)	Decision
H1. There is a significant difference in the capital ratio (as measured by the Capital Adequacy Ratio/CAR) of Islamic commercial banks before and after the implementation of rules No.11/POJK.03/2020.	0.001	Accepted
H2. There is a significant difference in the ratio of productive asset quality (as measured by Non-Performing Financing/NPF) of Islamic commercial banks before and after the implementation of rules No.11/POJK.03/2020.	0.566	Rejected
H3. There is a significant difference in the profitability/profitability ratio (as measured by Return on Assets/ROA) of Islamic commercial banks before and after implementing rules No.11/POJK.03/2020.	0.410	Rejected
H4. There is a significant difference in the effectiveness ratio (measured by Operating Costs versus Operating Income/BOPO) of Islamic commercial banks before and after the implementation of rules No.11/POJK.03/2020.	0.134	Rejected
H5. There is a significant difference in the liquidity ratio (as measured by the Financing to Deposit Ratio/FDR) of Islamic commercial banks before and after the implementation of rules No.11/POJK.03/2020.	0.051	Rejected

Table 3 shows a significant difference in CAR before and after the implementation of POJK. No 11/03/2020 in Islamic banking, as indicated by a significance value (2-tailed) of 0.001 (<0.05). Thus, hypothesis 1 is accepted. Ahamed, M. M., & Mallick (2017) examined similar conditions by looking at corporate debt restructuring policies on bank stability. It is concluded that the debt restructuring policy allows banks to reduce NPLs and increase the net income, thus bringing a significant positive effect on bank stability, including aspects of capital. The results of this study support the findings of Ahamed & Mallick. However, Saha & Tang

(2022) found that restructuring policies reduced banking stability. Table 3 shows that there is no significant difference in the NPF before and after the significance (2-tailed) obtained the number 0.410. These results indicated that the banking restructuring policy has not been as effective in restoring Islamic banks' operations as before, so they have been unable to reduce their NP. Furthermore, the banking restructuring policy has not been optimal in improving the health of banking in Indonesia. The results of this study contradict previous studies by Ahamed, M. M., & Mallick (2017), Dipoyanti et al. (2020), and Kholiq & Rahmawati (2020), who found evidence that banking restructuring policies were successful in controlling NPF well and positively.

Table 3 showed that there is no significant difference in ROA before and after significance (2-tailed), with a figure of 0.873. These results indicated that the banking restructuring policy has not been effective in restoring the operations of Islamic banks as before, so they have been unable to increase their profitability. Table 3 also showed there is no significant difference in BOPO before and after the significance (2-tailed) obtained the number 0.134. These results indicated that the banking restructuring policy has not been as effective in restoring Islamic banks' operations as before, so they have been unable to reduce their BOPO. Furthermore, the banking restructuring policy has not been optimal in improving the health of banking in Indonesia. These results supported Saha & Tang's (2022) research, although measuring bank health by looking at bank stability. An increase in unpaid loans will reduce the bank's operating income and profit (Damayanthi et al., 2022).

The results differ in support of credit restructuring policies on the financing debt ratio (FDR). As shown in table 3, data showed no significant difference in FDR before and after the significance (2-tailed) obtained the number 0.051. These results indicate that the banking restructuring policy has effectively restored Islamic banks' operations to their original state related to the credit ratio to reduce their FDR. Thus, the government's rescue policy for banking through POJK helps banks in terms of normalizing credit ratios to help improve bank stability, as found in the research of Ahamed, M. M., & Mallick (2017).

CONCLUSIONS

This study observed how the movement of financial ratios (as measured by NPF, CAR, ROA, OEOI, and FDR) is motivated by government policy No.11/PJOK.03/2020. This study analyzed the NPF, ROA, OEOI, and FDR ratios of Islamic banks before and after the implementation of Government policy No.11/PJOK.03/2020 on March 13th, 2020-March 13th, 2021. This study concludes 1) there are significant differences in the CAR and FDR of Islamic banking before and after the implementation of POJK No.11/03/2020; 2) there are no significant differences in the ratio of NPF, ROA, and OEOI of Islamic banking before and after the implementation of POJK No.11/03/2020. This study implies that the banking restructuring policy could only improve the bank's financial performance, namely CAR and FDR, but not the ratio of NPF, ROA, and OEOI. This study can be used as one of the basics for assessing the effectiveness of implementing government policies.

However, this study has limitations that may affect the results, including the data used in the quarterly financial statements of Islamic banks in Indonesia, only testing banks' health using the CAMEL method without looking at other bank health factors. Further research is needed and should use the interim or annual data to see a more prolonged impact, examine factors other than risk, and compare them with conventional banking.

CONFLICT OF INTEREST

The authors have no conflicts of interest to declare. We certify that the submission is original work and is not under review at any other publication.

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