

## **ANALYSIS OF PSAK 71 IMPLEMENTATION ON ALLOWANCE FOR IMPAIRMENT OF FINANCIAL ASSETS**

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**Abstract**

Banking is one of the main industries that can be used as an indicator of the economy in a country. The health condition of a country's economy can be assessed through the level of soundness and financial performance of its banking industry. In 2017 the Financial Accounting Standards Board (DSAK) together with IAI, ratified a new PSAK (Statement of Financial Accounting Standards), namely PSAK 71 regarding Financial Instruments guided by IFRS 9. The update to PSAK 71 is a response to companies, especially those engaged in financial or financial to risky credit. This study aims to determine the results of the comparative analysis of financial performance before and after the application of PSAK 71 on Allowance for Impairment Losses in Banking by using a case study at Bank Rakyat Indonesia. The analytical method used in this study is the CAMEL method. The results of the calculation of financial ratio analysis using the CAMEL method can be seen that the overall financial performance of BRI before and after the implementation of PSAK 71 experienced significant changes, both in terms of capital, earning assets, management, profitability and liquidity.

**Keywords:** Allowance for Impairment Losses, PSAK 71, CAMEL.

## **Introduction**

Bank is one of the main industries that can be used as a benchmark for the condition of a country in today's modern economy. The health condition of a country's economy can be reviewed through the level of soundness and financial performance of its banking industry. In 2017, the Ikatan Akuntan Indonesia (IAI) through the Dewan Standar Akuntansi Keuangan (DSAK) has ratified a new *Penyataan Standar Akuntansi Keuangan (PSAK)*, namely *PSAK 71* regarding *Financial Instruments* guided by *International Financial Reporting Standards (IFRS) 9* in order to adapt to changing standards. along with the development of the economy and the banking industry which is increasingly rapid and complex from time to time. *PSAK 71* is a *Statement of Financial Accounting Standards (PSAK)* which specifically provides direction on the recognition and measurement of financial instruments and replaces the previous standard, namely *PSAK 55* which has been applied in Indonesian accounting. *PSAK 71* discusses financial instruments but in detail includes one important point in it, namely the method or method of measuring and recognizing *Allowance for Impairment Losses (CKPN)* for financial assets. The financial assets in question are in the form of receivables, debts, to credit (Sitanggang, 2020).

Ardhienus (2018) argues that the process of calculating and providing reserve funds when there are uncollectible loans in *PSAK 71* is very different from the previous *PSAK* and has been fundamentally changed. Based on *PSAK 71*, allowance for impairment of financial assets or *CKPN* is established at the beginning of the credit period and applies to all types of credit and loans, whether current, suspicious or non-performing. The application of *PSAK 71* on *Allowance for Impairment Losses (CKPN)* has an impact on banking companies, especially on changes in financial performance because the largest assets owned by banks are loans and loans. This was also conveyed by the General Chair of the Indonesian Institute of Certified Public Accountants (IAPI) in 2020, Tarkosunaryo, stating that the companies affected by the implementation of *PSAK 71* are banking sector companies as well as companies engaged in investment in the financial sector. Facing this, of course, banks must increase their *Reserves for Impairment Losses (CKPN)*, so that this can suppress the banking net profit/loss which will have an impact on the decline in the *CAR (Capital Adequacy Ratio)* of banks and also a decrease in profits. In response to this, banks are required to consider factors that will occur in the future such as credit maturity dates. This was explained by Tarko in front of a number of media (Syafina, 2020).

According to Suroso (2017), the purpose of the establishment of PSAK 71 is in order to realize better financial instruments, and can provide benefits to industries that use these standards. The banking sector will be safer when dealing with future crises when the reserves are bigger so that in the credit distribution process, banks can be more careful because if the credit given is bigger, then the budgeted CKPN will be even greater so it can cause the consequences of a decrease in company profits. If in the future there is a decline in profits after the implementation of PSAK 71, the decline in profits is not due to poor banking performance but because of the implementation of new standards and it is necessary to see this as an investment opportunity. The existence of credit reserves when economic conditions decline, this can show banks have resilience because of these credit reserves. Motoviani (2020) stated that the standard change to PSAK 71 which previously was PSAK 55 was due to corporate failures in the financial sector. Another objective is as a form of anticipation in the event of a financial crisis such as in 2008 so that the risk of credit default is quite high.

Based on this, this research focuses on PSAK 71 on Allowance for Impairment Losses (CKPN) because it is an important point of PSAK 71 which fundamentally changes the method for providing for impairment losses. This study will also describe how the comparative analysis of financial performance before and after the application of PSAK 71 on Allowance for Impairment Losses in Banking will be described.

## **Theoretical Framework**

### **Signalling Theory**

Brigham and Houston (2015) argue that signaling theory provides an illustration that which signal or signal is when the company's management takes an action, the action will be used by investors as a clue to find out the company's prospects. Signal theory assumes that investors can distinguish between good companies and bad companies. This theory is used as a guide given by the company related to management actions in an effort to assess the company's projects. Signal theory has a main focus, namely providing information on the actions taken by the company's internals, where these actions cannot be known directly by external parties. This information has benefits for external parties, especially investors, because they can receive the information and interpret it as a good signal or a bad signal.

The purpose of making a financial report is to be used by many parties, including the company's internal parties or company management. However, it is actually the external parties who have the most interest in the information in the financial statements. External users consider the financial statements very important because external parties are in a position of greatest uncertainty.

Information released by a company as an announcement can provide signals or instructions for investors that are useful in making investment policies. When the information is released, market participants will analyze and interpret it first to find out whether the information is a good signal or a bad signal. Signal theory is a solution to the asymmetry of information. Information asymmetry is when internal parties (company management) have more control over existing information than external parties such as investors or creditors. This information asymmetry needs to be minimized in order to make information transparent about the company's prospects in the future to investors.

### **Bank**

Siagian (2021:7) defines a bank as an institution or business entity that collects funds from the public in the form of savings and is channeled back to the community in the form of credit or loans as well as other forms that aim to increase people's living standards. Banking activities in collecting funds from the public and in the form of deposits are carried out by banks with certain strategies in order to attract public interest in saving their funds in banking in the form of savings. Funds received from the community, by banks will be stored or resold to the public in the form of credit or loans.

Based on the above definition, the researcher can conclude that the definition of a bank is a business entity that has a role as a financial intermediary or channel where the main activity is to collect funds from the public in the form of savings and return it in the form of loans to the community with the aim of seeking mutual benefits and improving the economic welfare of the community.

### **PSAK 71 Allowance for Impairment of Financial Assets**

The first Statement of Financial Accounting Standards (PSAK) which aims to adapt to international standards is PSAK 71. In this PSAK, it specifically provides direction on the

recognition and measurement of financial instruments. PSAK 71 refers to IFRS 9 which replaces the previously applied PSAK 55 standard in Indonesian accounting. PSAK 71 discusses financial instruments and also discusses in detail the provision for impairment of financial assets. The financial assets in question are in the form of receivables, debts, to credit (Sitanggang, 2020).

Based on PSAK 71 (IAI, 2020) regarding Impairment, in profit or loss recognize the amount of credit loss, gain or loss on impairment. Credit loss assessment is carried out over its lifetime since the initial recognition of financial assets as a provision for losses on financial assets purchased or originating from deteriorating financial assets. The Company recognizes the improvement in lifetime expected credit losses as an impairment gain, even though the lifetime expected credit losses are less than the total expected credit losses included in the estimated cash flows at initial recognition. In PSAK 71), an entity measures the expected credit losses on financial instruments in a manner that reflects:

1. An unusual and probability weighted number determined by evaluating a series of possible outcomes;
2. Time Value of Money; and
3. Information that is reasonable and available without undue cost or effort after the reporting date about past events, current conditions, for the sake of estimating future economic conditions.

### **CAMEL method**

The CAMEL model (Capital, Asset Quality, Management, Earning, Liquidity) is a supervisory assessment system with the aim of assessing the overall performance of a bank. The American federal auditing agency in 1979 was the first to use this approach, and it was adopted by the National Credit Union Administration in 1987 (Rastogi and Sigh, 2017). The CAMEL model analysis attempts to provide information on the relationship between accounts in the financial statements that show the financial performance of a bank and its operational results in the aspects of capital, asset quality, management, income, and liquidity. Measurements are made using relevant financial ratios to reflect all of the above aspects. Financial ratios reflect the bank's ability to carry out the bank's core business, namely collecting, processing, and distributing funds, fulfilling obligations to other parties, and complying with applicable statutory obligations regarding banking (Lestari, 2020). The CAMEL ratio is the most influential aspect of the bank's

financial condition and affects the soundness of the bank, both conventional banking and Islamic banking (Syahputra, 2018:51). The CAMEL ratio consists of the capital ratio using the capital adequacy ratio (CAR), assets using the productive asset quality ratio (KAP), management using the net profit margin (NPM) ratio, earnings using the return on assets (ROA) ratio, and operating costs. to operating income (BOPO), as well as liquidity using the loan to deposit ratio (LDR).

## **Method**

### **Types of Research**

The research approach that will be used in this research is a qualitative approach. Sugiyono (2019:1) put forward the definition of a qualitative research approach, which is a research approach based on interpretive in order to conduct research on the state of objects that are natural. In this case, a researcher acts as a key instrument, where the data obtained and used are mostly qualitative data collected by triangulation techniques, data analysis is qualitative or inductive and qualitative research results are used to research and understand meaning, understand uniqueness and solve problems. a phenomenon. A qualitative approach is used because the information obtained is original and can freely explore the problems of the research theme.

### **Research Design**

This research also uses descriptive-comparative method. Sugiyono (2019:147) gives an opinion regarding the definition of descriptive method, which is a method that is useful for analyzing data by providing a description or description of the data or information that has been obtained but does not intend to generalize. The definition of comparative research put forward by Sugiyono (2019: 54) is research that aims to compare the conditions of one or more variables in two or more different samples, or at two different times. The phenomenon studied in this study is the comparison of financial performance before and after the application of PSAK 71 to BRI as the bank with the largest credit channel in Indonesia in 2020.

Result

**Table 1. Calculation of Financial Performance Using the CAMEL Method**

Year	Valuation Factor	Ratio	Ratio Value	Credit Value	CAMEL	Credit Value CAMEL	Description
	Capital	CAR	21%	100%	26%	25%	Before the application PSAK 71
	Assets	KAP	2%	90%	31%	26%	
2019	Management	NPM	80%	80%	27%	20%	
	Earning	ROA	3%	98%	6%	6%	
		BOPO	71%	100%	6%	5%	
	Liquidity	LDR	86%	100%	12%	11%	
<b>Total CAMEL</b>						<b>93 %</b>	
2020	Capital	CAR	21%	100%	26%	26%	
	Assets	KAP	1,9%	92%	29%	28%	
	Management	NPM	70%	71%	24%	18%	
	Earning	ROA	2%	98%	6%	6%	
		BOPO	83%	100%	5%	5%	
	Liquidity	LDR	80%	100%	9%	9%	
	<b>CAMEL Value</b>						<b>92 %</b>

Based on table in the calculation results of the CAMEL ratio value above, it can be seen that the level of financial performance from the calculation of the financial soundness level for 2019 before the implementation of PSAK 71 is 93%. These results indicate that the financial performance of PT. Bank Rakyat Indonesia (Persero) Tbk based on CAMEL is stable and is in a healthy predicate because it has met the standards set by Bank Indonesia.

In 2020 after the implementation of PSAK 71, CAMEL PT. Bank Rakyat Indonesia (Persero) Tbk showed a decline from the previous years by 1% to only 92%. This is due to a decrease in the management aspect as measured by using the NPM ratio. The decrease in the NPM ratio was caused by a decrease in net profit and operating profit, which decrease was due to a drastic decrease in operating profit and net profit, each by 38% and 46%. One of the reasons for this decline was the implementation of PSAK 71, which caused a spike in BRI's CKPN, thereby reducing the portion of BRI's capital and profits. In addition, credit restructuring has been proactively carried out by BRI as an effort to save credit, especially in the MSME segment due to the Covid-19 pandemic, thus putting pressure on interest income from IDR 117 trillion in 2019 to IDR 111 trillion in 2020. CAMEL decreased in 2020, but the BRI CAMEL value in 2020 was

maintained at 89.79%, thus indicating a healthy predicate in accordance with Bank Indonesia Circular Letter Number: 6/23/DPNP 2004.

On the capital side as measured using the CAR ratio, in 2019, from the capital aspect the CAR ratio figure shows the ability of banks to cover the decline in their assets as a result of bank losses caused by risky assets of 21,5%; and 21%. This value has exceeded the minimum limit set by Bank Indonesia, which is 8%, so that a credit score of 100 is obtained and after being multiplied by the weighted CAR ratio of 25%, the capital factor weighting value is 25.

In terms of assets as measured by the KAP ratio, from year to year, Bank BRI is getting better at managing its lending, as can be seen from the calculation of the respective ratios of 2 %; and 1.9%, so that the KAP credit score is 90,18; and 89,97. each credit score is multiplied by the weight ratio of the KAP of 30% so that the result of the KAP weighting value is 27.05%; and 26,9%.

In the management aspect, it shows that Bank BRI has excellent financial performance in carrying out management to achieve targets. The NPM ratio from 2019 to 2020 is 80%; and 70% resulted in the same credit score as the NPM ratio and then multiplied by the management aspect weight of 25% so that the weight value obtained was 20%; and 17.5%.

In the profitability aspect, which is calculated by the ROA ratio, it shows the ability of the bank to earn profits and overall efficiency of 3%; and 2% while the BOPO Ratio shows the level of efficiency and ability of the bank in carrying out its operational activities, each of which is 69.78%; and 84.75%. Based on these results, the credit score for ROA and BOPO is 100 and then multiplied by the ROA and BOPO weighting ratios of 5% each so that the ROA and BOPO weight values are 5.

In the aspect of Liquidity, the LDR ratio from 2019 to 2020 shows the ability of banks to repay withdrawals made by depositors by relying on loans as a source of liquidity of 86%; and 80%. Based on these results, the LDR credit score is 100 and then multiplied by the LDR weight ratio of 10%, the LDR weight value is 10.

After all the weight ratio values are calculated, the total net value of the PT CAMEL ratio is obtained. Bank Rakyat Indonesia (Persero), Tbk during 2019 – 2020 which is presented in the following table form which is listed in the table.

**Table 2. CAMEL Value**

<b>Year</b>	<b>CAMEL Value</b>	<b>Predicate</b>
2019	93%	Healthy
2020	92%	Healthy

Overall, the average CAMEL value of PT Bank Rakyat Indonesia (Persero), Tbk before and after the implementation of PSAK 71 from 2019 to 2020 was 93% with the highest CAMEL and the lowest CAMEL value was in 2020 at 92%. According to the standards set by Bank Indonesia, the average CAMEL value of PT Bank Rakyat Indonesia (Persero), Tbk is predicated as healthy because the value is above 80%, which means PT Bank Rakyat Indonesia (Persero), Tbk has a fairly good performance in managing all resources. the power it has when viewed based on the results of the CAMEL Ratio calculation.

### **Conclusion**

The results of the financial performance comparison analysis before and after the implementation of PSAK 71 on The Reserve loss of Impairment using the CAMEL method in Banking from 2019-2020 are not much different or relatively stable. Despite the fluctuations from 2019 to 2020, CAMEL PT Bank Rakyat Indonesia (Persero) Tbk, is predicted to be healthy because its value is above 80% which means that PT Bank Rakyat Indonesia (Persero)Tbk, has a fairly good performance in managing all its resources.

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