

## Comparative Analysis of Allowance for Impairment Losses on Credit and Financial Performance Before and After Implementation of PSAK 71 in Banking Listed on The Indonesia Stock Exchange

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### Abstract

*The Financial Accounting Standards Board from the Institute of Indonesia Chartered Accountants issued PSAK 71 on financial Instruments that adopt IFRS 9. Changes in the method of charging allowances for losses in PSAK 71 by using expected credit losses require banks to reserve credit losses from the beginning of the period. This can then impact financial performance, generally measured using financial ratios. This study examines and analyses differences in allowance for credit impairment losses, CAR, ROA, and LDR before and after PSAK 71. The population used in this study are banks listed on the Indonesia Stock Exchange. The sample was based on a purposive sampling technique to obtain as many as 35 banks. The analytical method is a comparative descriptive method, and the analysis technique of the average difference test of two paired samples is used. The results showed that there were significant differences in allowance for credit losses, CAR, ROA, and LDR between before and after the implementation of PSAK 71, which indicates that it has an impact on the amount of reserve for losses formed, capital adequacy bank, profitability, and liquidity risk.*

**Keywords:** Allowance for Credit Impairment Losses, Capital Adequacy Ratio, Loan to Deposit Ratio, Return on Asset, PSAK 71

### INTRODUCTION

Accounting is the science of collecting, identifying, classifying, and recording transactions and all finance-related matters to provide information for stakeholders (Sumarsan, 2017). This information is in the form of financial reports that will be used by interested parties to see the company's performance. However, not all financial reports can be used. Financial reports must have the quality of the Statement of Financial Accounting Standards as the primary reference and comply with generally accepted accounting principles (Ilat et al., 2020). Quality in meeting the measurement parameters will be helpful in decision-making.

The International Accounting Standard Board (IASB) issues International Financial Reporting Standards (IFRS) 9 regarding financial instruments. This departed from the reaction to the global economic crisis in 2008, which rocked the world economy, and a request to increase the standard for impairment losses by a group of 20 countries, investors, regulators, and prudential authorities. As a manifestation of Indonesia's role as a member of the G20, the Financial Accounting Standards Board from the Institute of Indonesia Chartered Accountants

(IAI) issued Indonesian Financial Accounting Standards (PSAK) 71 concerning financial instruments that adopt IFRS 9, including modifications to the requirements previously regulated by PSAK 55.

The standard adjustments in PSAK 71 encompass the categorization and evaluation of financial instruments, impairment of financial instruments, expected credit loss (ECL) methodology, and enhancements to the hedge accounting framework (PWC Indonesia, 2019). This financial standard became effective in Indonesia on January 1, 2019. However, the Financial Accounting Standards Board has provided an additional year based on the preparation and commitment of the affected industry so that its implementation started on January 1, 2020 (Husni et al., 2022). PSAK 71 is the most significant change point, especially for financial institutions (Prajanto, 2022).

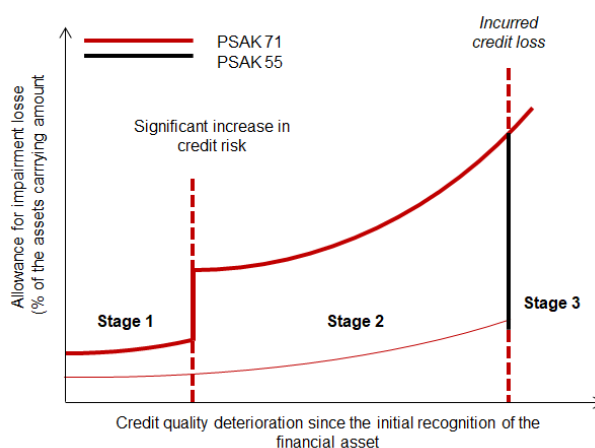
As of August 2022, there are 809 companies listed on the Indonesia Stock Exchange (IDX.co.id). This indicates increasing business competition and rapid economic growth. Banking sub-sector companies are one of the industries that participate in the capital market and have a vital role in advancing the country's economy. In Indonesia, the banking sector primarily gathers and redistributes public funds while also aiding in national development (Ningrum et al., 2022).

According to Ginoga and Syahwani (2022), within the intermediary role, fundamental banking operations encompass gathering funds from the public through deposits and subsequently directing them into credit extensions. Banking runs a business by channeling financial capital into various economic sectors. The productive sector still dominates a portion of Indonesia's credit distribution of around 70%, so it can be said that banks play a critical role in financing economic growth activities (Ariefianto, 2020). However, in the lending process, banks must prioritize the precautionary principle to minimize losses caused by non-performing loans.

Preventive measures aimed at mitigating credit risk include establishing reserves for impairment losses, comprising general and specific reserves to mitigate risks associated with credit activities, and upholding the financial stability of the bank to ensure its liquidity. The allowance for impairment losses account is a focal point within the financial statements of commercial banks, garnering significant attention. While PSAK 55 has served as the guideline for banks in setting up the allowance for credit losses, its weakness lies in the complexity of the approach to provisioning for credit losses. Under this method, companies are obligated to set

aside reserves only after a default occurs, potentially leading to a delay in recognizing the risk of loss, contrary to the principle of prudence in accounting (PWC Indonesia, 2019).

The main point in PSAK 71 is the provision for losses on financial assets. PSAK 71 uses the expected credit loss method in the form of expectations of future credit losses based on several factors, including future economic projections, charged from the start of credit disbursement without having to be preceded by credit losses (Ardhienus, 2018). Each organization needs to evaluate if there has been an escalation in credit risk since its initial acknowledgment, supported by the reasonable and forward-looking information. This significant alteration is aimed at enhancing the standard of financial reporting concerning the acknowledgment of impairment in financial instruments (Suroso, 2017).



**Figure 1**  
**Determination of Allowance for Impairment Losses on PSAK 55 and PSAK 71**  
 Source: Martani, 2018

IAI has ratified PSAK 71 to replace PSAK 55 (Ilat, 2020). The implementation of PSAK 71 is related to new standards for allowance for impairment losses. The approach to recognizing expected credit losses in PSAK 71 consists of lifetime and 12-month expected credit losses. One of the other essential things in implementing PSAK 71 is that there are three stages in determining credit risk that differ from PSAK 55 (Suroso, 2017).

The change in the method of imposing credit loss reserves creates an obligation for banks to set aside higher losses on credit impairment. The provisions of PSAK 71 give banking companies a greater allowance for losses than before (Firmansyah et al., 2022). This makes banks more careful when extending credit when the reserves are more significant, making it safer when dealing with a crisis in the future. A prior study by Ningrum (2022) found disparities in the allowance amount for impairment losses both pre and post PSAK 71 among banks listed on the Indonesia Stock Exchange (IDX), resulting in an uptick.

Higher reserves for credit losses impact banking financial performance because the most significant assets owned are credit and loans. It is known that banking is a highly regulated company because Bank Indonesia will assess its performance. Financial performance is an analysis that determines the extent to which the company has implemented rules regarding using finance according to provisions (Hutabarat, 2020). Financial performance is generally analyzed using financial ratios by considering fundamental changes regarding the ECL method of PSAK 71.

Accounts directly affected by this implementation include capital measured by Capital Adequacy Ratio (CAR), assets with productive asset quality, management through net profit margin, and earnings through return on investments, Operating Cost to Operating Income Ratio (BOPO), and liquidity with loan-to-deposit ratio (LDR). The implementation of PSAK 71 causes an increase in the allowance for impairment losses, thereby depressing the capital portion and having consequences for decreased profits (Amalia, 2022). The funds used to cover the risk of loss are greater and cause banks to try to maintain the capital adequacy ratio following the provisions so that it affects the company's capital.

Purnamasari & Claranita (2021) found notable variances in CAR, ROA, and LDR between periods preceding and following the adoption of PSAK 71 among publicly traded and privately owned banks enlisted on the IDX. Kustina and Putra (2021) conclude that there are differences in ROA pre and post PSAK 71, with a decrease in ROA in state-owned banking. The increase in the allowance for losses is not proportional to the increase in productive assets owned. Furthermore, implementing PSAK 71 increases liquidity because banks are safer when dealing with times of crisis. There is a variance in the LDR observed before and after PSAK 71; LDR demonstrated improvement in 2020 following the commencement of implementing this standard (Sibarani & Asak, 2022, p. 62).

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Signaling Theory**

The signal theory was originally introduced by Spence (1973), who proposed that the sender, being the possessor of the information, endeavors to convey pertinent information to enable the recipient to utilize it effectively. The information received is first interpreted as a good or bad signal, which will then be adjusted according to understanding the signal's behavior. The signal theory in this study illustrates that banks are trying their best to disclose information through financial reports to external parties. The relationship between signal theory and the

implementation of PSAK 71 in banking is that when PSAK 71 is applied, it can give a positive signal to external parties. Banking should convey information regarding implementing PSAK 71 as the basic regulation. These parties can assess banking compliance in applying accounting standards and the implications for the allowance for credit losses and financial performance by utilizing financial ratios so that customers can entrust their funds to be managed. This also allows potential investors to invest in the bank, increasing profits and investment and creating good relations with stakeholders.

### **Banking**

Siagian (2021) defines a bank as a financial institution or business entity that gathers funds from the public through savings and channels them into credit or other forms to enhance the quality of life for the general population. Banking represents a crucial sector in the capital market and plays a pivotal role in driving the nation's economy forward. In Indonesia, the primary function of banking involves collecting and allocating public funds, thereby supporting national development initiatives (Ningrum et al., 2022). Banks conduct their operations by directing financial capital into diverse sectors of the economy.

### **Indonesian Financial Accounting Standard Number 71 (PSAK 71)**

IASB ratified IFRS 9, which was later adopted in PSAK 71 concerning financial instruments. Indonesia is committed to realizing convergence through DSAK from the Institute of Indonesia Chartered Accountants, which replaces PSAK 55. The implementation of PSAK 71 started on January 1, 2020. PSAK 71 introduces guidelines for categorizing and evaluating financial instruments according to the contractual attributes of cash flows and the entity's operational model (Suroso, 2017). The hedge accounting requirements in PSAK 71 also provide significant changes to reflect better risk management in financial statements compared to previous accounting standards. This standard offers new hedge options and a more straightforward approach. PSAK 71 In certain circumstances, hedging individual components is permitted, considering better economic reality (Brilliant, 2021). This new standard uses the ECL model, which requires entities to assess credit risk using reasonable and forward-looking information on each reporting date. PSAK 71 is one of the standards in banking today that changes the method related to classification, measurement of impairment, and hedge accounting, which was previously regulated in PSAK 55. Impairment losses are accounted for by reducing the direct credit score or provision, which differs from PSAK 55, which requires banks to recognize credit losses when loss events occur following available evidence.

### **Allowance for Credit Impairment Losses**

According to Bank Indonesia Regulation No.14/15/PBI/2012, an impairment loss allowance is made if a financial asset's carrying value after impairment is less than the amount recorded at the beginning. Impairment is the amount written down from the asset's carrying amount to its recoverable amount. These reserves are in the form of general reserves and special reserves, which are used to cover risks from loans disbursed through banking activities. Banks must prioritize the precautionary principle to minimize losses caused by non-performing loans and maintain bank financial stability to remain liquid. Bank management can classify the level of credit risk among these three stages, including low, medium, or high (Ningrum et al., 2022). PSAK 71 mandates three levels of credit risk in its allowance for impairment losses, employing a loss recognition approach that includes both lifetime ECL and 12-month ECL. Stage 1 loss reserves are calculated based on 12-month ECL, whereas stages 2 and 3 utilize lifetime ECL.

### **Financial Performance**

Financial performance is an analysis to see how far a company in its financial implementation has used the rules properly and correctly (Hutabarat, 2020). Some aspects of performance involve assessing both qualitative and quantitative aspects, providing an overview of the company's financial status concerning fund gathering and allocation. This is typically gauged through indicators of capital sufficiency, liquidity, and profitability to enhance and achieve the company's objectives and vision, as well as its mission. This study was conducted to measure the financial performance using financial ratios consisting of:

1. The solvency ratio is a metric used to assess the extent to which a company's assets are funded by debt (Kasmir, 2016). The solvency ratio used is the capital adequacy ratio.
2. The profitability ratio is used to see the success and ability of the company to use assets productively. The profitability ratio used is the return on investments.
3. The liquidity ratio demonstrates a company's capacity to fulfill its short-term liabilities, indicating its ability to settle outstanding debts promptly, particularly those that are due (Kasmir, 2016). The loan-to-deposit ratio (LDR) serves as the liquidity ratio in this study.

### **Differences in Allowance for Impairment Losses on Credit Before and After the Implementation of PSAK 71**

The provision for impairment losses is a reserve set aside by banks to mitigate the risk of losses associated with investment in productive assets (Fitriana & Arfianto, 2015). PSAK 71 mandates banks to establish reserves from the initiation of the credit period without

necessitating objective evidence, employing the expected credit loss approach for financial instruments. Ningrum (2022) states differences in the allowance value of bank loan impairment losses. The adoption of PSAK 71 increased the allowance for possible losses. Furthermore, research by Firmansyah et al. (2022) states that the provisions of PSAK 71 give banks a greater allowance for impairment losses than before. A study by Isma & Sixpria (2022) states that implementing PSAK 71 impacts the 2020 and 2021 financial reports, namely an increase in the allowance for impairment losses for BUKU 4 category banks. Banks are more careful in the credit distribution process when the reserves are larger so that they are safer when dealing with crises in the future. Based on this, the first alternative hypothesis contained in this study, namely:

**H<sub>a1</sub>: There are differences in the allowance for impairment losses on credit before and after the implementation of PSAK 71**

#### **Differences in Capital Adequacy Ratio (CAR) Before and After the Implementation of PSAK 71**

CAR compares the ratio between total capital to risk-weight assets and Government regulations (Kasmir, 2016). The greater the level of CAR, the better the company's performance in dealing with depreciation in the value of non-performing assets. The implementation of PSAK 71 leads to a rise in the impairment loss amount, consequently reducing the capital portion (Amalia, 2022). Study by Artaty (2022) shows that a higher allowance for impairment loss value will impact banks' Capital Adequacy Ratio. Purnamasari and Claranita (2021) state a significant difference between the CAR's value pre-PSAK 71 and post-PSAK 71 in public and private banks listed on the Indonesia stock exchange. Based on this description, the second alternative hypothesis in this study can be formulated as follows:

**H<sub>a2</sub>: There are differences in the banking CAR before and after the implementation of PSAK 71.**

#### **Differences in Return on Assets (ROA) Before and After the Implementation of PSAK 71**

ROA is a ratio that describes the total assets used in the company (Kasmir, 2016). The increase in the allowance for impairment losses formed as part of the PSAK 71 led to a decrease in bank profitability. Sudrajat and Rahayu (2018) state that the allowance for impairment losses harms ROA. Ameliana (2021) stated that profitability performance experienced a slight decline due to differences in ROA pre-PSAK 71 and post-PSAK 71. Research by Kustina and Putra (2021) states that ROA has decreased in state-owned banking, caused by the increase in the allowance for impairment losses, which was not proportional to the increase in productive assets



owned. Based on this description, the third alternative hypothesis in this study can be formulated as follows:

**H<sub>a3</sub>: There are differences in banking ROA before and after the implementation of PSAK 71.**

### **Differences in Loan to Deposit Ratio (LDR) Before and After the Implementation of PSAK 71**

LDR is used to describe the extent to which a bank fulfills its liquidity obligations by dividing the total loan amount and the total third-party funds (Afriyeni & Fernos, 2018). A greater LDR indicates reduced liquidity for the bank. According to Financial Services Authority (OJK) Regulation Number 4/POJK.03/2016 regarding Commercial Banks' Health Assessment, the optimal LDR ratio is ideally set at 90%. The research results by Purnamasari and Claranita (2021) show that the LDR ratio positively impacts the implementation of PSAK 71. Research by Sibarani and Asak (2022) states that there are differences in LDR pre-implementation and post-implementation of PSAK 71 at PT Bank IBK Indonesia with increased banking liquidity. LDR improved in 2020 after the implementation of PSAK 71 because it is safer when dealing with times of crisis. Based on this description, the fourth alternative hypothesis in this study can be formulated as follows:

**H<sub>a4</sub>: There are differences in the banking LDR before and after the implementation of PSAK 71.**

## **RESEARCH METHOD**

This study uses descriptive and comparative methods with a quantitative research approach. Quantitative research involves utilizing empirical data to investigate particular populations or samples gathered through analytical research tools such as statistical or numerical measures to evaluate hypotheses (Sugiyono, 2018). Comparative studies compare one or more variables in several samples at different times (Sugiyono, 2018). The descriptive approach method describes data from variables in more detail relevant to the research problem so that conclusions can be drawn. The population consists of banks listed on the IDX. This study employed purposive sampling, selecting banks that implemented PSAK 71 in 2020 and published comprehensive annual reports for four consecutive years from 2018 to 2021, resulting in a research sample of 35 banks. This research employs secondary data extracted from annual banking reports sourced from both the official IDX website and individual banks' official



websites, encompassing financial position reports and annual presentations of financial ratios: CAR, ROA, and LDR.

Table 1  
Variable Operational Definition

Variable	Definition	Indicator
Allowance for Credit Impairment Losses	A provision for reserves by the bank to face the risk of loss in investment productive assets funds (Fitriana & Arfianto, 2015).	$Ln (Total Allowance for Credit$
CAR	The ratio of bank capital adequacy or the bank's ability in existing capital to cover possible losses (Kasmir, 2016).	$CAR = \frac{Capital}{Risk - Weighted Assets} \times 100\%$
ROA	Ratio that describes the yield on the total assets used in the company (Kasmir, 2016).	$ROA = \frac{Profit Before Tax}{Total Assets} \times 100\%$
LDR	The ratio measures how good a bank's liquidity is by comparing the amount of credit and funds collected from third parties (Afriyeni & Fernos, 2018).	$LDR = \frac{Total Credit}{Third Party Funds} \times 100\%$

### Data Analysis Technique

The analysis employs the mean difference test of two paired samples to compare two groups subjected to different treatments. When the data follows a normal distribution, parametric tests such as the paired sample t-test are utilized for statistical analysis. Conversely, when the data does not adhere to a normal distribution, a non-parametric test such as the Wilcoxon signed-rank test is employed; it assesses credit impairment losses, CAR, ROA, and LDR among banks listed on the IDX before and after PSAK 71.

## RESULT AND ANALYSIS

### Descriptive Statistical Analysis

Based on the descriptive statistical test results, the minimum, maximum, mean, and standard deviation values can be seen in Table 2.

Table 2  
Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Allowance for Credit Impairment Losses Before PSAK 71	70	22.93	31.28	26.9931	2.13593
Allowance for Credit Impairment Losses After PSAK 71	70	22.58	32.07	27.5277	2.30990
CAR Before PSAK 71	70	9.01	148.28	23.5676	16.99938
CAR After PSAK 71	70	11.59	169.92	30.5090	23.07939
ROA Before PSAK 71	70	-15.89	4.00	.8153	2.59951
ROA After PSAK 71	70	-14.75	4.74	.1597	3.14953
LDR Before PSAK 71	70	47.54	163.00	88.3971	18.53648
LDR After PSAK 71	70	12.35	162.29	80.1780	26.90173
Valid (N) listwise	70				

Source: Output SPSS Version 25

The allowance for credit losses variable, as measured using the natural logarithm of the total allowance for credit impairment losses, has a minimum value of before PSAK 71 of 22,93 at Bank Jago Tbk (ARTO) for the 2018 period and a maximum value before the implementation of PSAK 71 of 31,28 at Bank Rakyat Indonesia (Persero) Tbk (BBRI) for the 2019 period. The minimum value for loan impairment losses after PSAK 71 is 22,58 at Bank Capital Indonesia Tbk for the 2021 period, and the maximum value after PSAK 71 is 32,07 at Bank Rakyat Indonesia (Persero) Tbk (BBRI) period of 2021. BBRI has the highest allowance for credit loss value pre and post PSAK 71, indicating high general and special reserves to cover risks from loans disbursed so that the bank's financial stability stays liquid. The average value of loan impairment losses before PSAK 71 was 26,9931, and after PSAK 71 was 27,5277. The average allowance for impairment losses after PSAK 71 is greater than before PSAK 71.

Before PSAK 71, the CAR variable ranged from a minimum of 9,01% at Banten Regional Development Bank Tbk. (BEKS) for the 2019 period to a maximum of 148,28% at Bank Jago Tbk (ARTO) for the same period. Conversely, after PSAK 71, the CAR variable ranged from a minimum of 11,59% at Bank JTrust Indonesia Tbk (BCIC) for the 2020 period to a maximum of 169,92% at Bank Jago Tbk (ARTO) for the 2021 period. Bank Jago Tbk consistently holds the highest CAR value both before and after PSAK 71, indicating its robust capital capabilities to withstand risks associated with productive assets such as credit. The average CAR value before PSAK 71 was 23,5676, while after PSAK 71, it increased to 30,5090. The average CAR after PSAK 71 surpasses that before PSAK 71.

The ROA variable has a minimum value before PSAK 71 of -15,89% at Bank Jago Tbk (ARTO) for the 2019 period and a maximum value before PSAK 71 of 4,00% at Bank Central

Asia Tbk for the 2018 and 2019 periods. Meanwhile, the minimum value of ROA after the implementation of PSAK 71 is -14,75% for Bank Raya Indonesia Tbk for the 2021 period, and the maximum value after implementing PSAK 71 is 4,74% for Allo Bank Indonesia Tbk (BBHI) 2021. It can be concluded that the ROA ratio value of Bank Jago Tbk and Bank Raya Indonesia Tbk experienced a loss seen from the negative ROA value. Bank Central Asia Tbk and Allo Bank Indonesia Tbk showed the highest ROA. The bank generates profits and can carry out effective asset management. The mean ROA prior to PSAK 71 stood at 0.8153, while post-PSAK 71 dropped to 0,1597. The average ROA was higher before PSAK 71 compared to after its implementation.

Before PSAK 71, the LDR variable ranged from a minimum of 47,54% at Bank Jago Tbk for the 2019 period to a maximum of 163,00% at Bank BTPN Tbk for the same period. The minimum value of LDR after PSAK 71 is 12,35% for Bank Capital Indonesia Tbk for the 2021 period, and the maximum value is 162,29% for Bank Woori Saudara Indonesia 1906 Tbk for the 2020 period. The lower value of the LDR indicates that the bank is less than optimal in extending its credit. Bank BTPN Tbk and Bank Woori Saudara Indonesia 1906 Tbk show the highest LDR value. The bank is experiencing liquidity difficulties due to credit disbursement not proportionate to the third-party funds collected. The average LDR value before PSAK 71 was 88,3971; after PSAK 71, it was 80,1780. The average LDR before implementation was greater than after PSAK 71.

**Normality Test**

The normality test is used to test the distribution of the sample data used in the study, whether normal distribution or not (Sugiyono, 2018). The normality test carried out in this study was the Shapiro-Wilk test, which looked at the significance value. The results of the normality test can be seen in Table 3.

Table 3  
Normality Test Result

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Allowance for Credit Impairment Losses Before PSAK 71	.108	35	.200*	.961	35	.245

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Allowance for Credit Impairment Losses After PSAK 71	.105	35	.200*	.960	35	.229
CAR Before PSAK 71	.299	35	.000	.644	35	.000
CAR After PSAK 71	.230	35	.000	.627	35	.000
ROA Before PSAK 71	.246	35	.000	.771	35	.000
ROA After PSAK 71	.233	35	.000	.870	35	.001
LDR Before PSAK 71	.182	35	.005	.915	35	.010
LDR After PSAK 71	.186	35	.004	.936	35	.043

Source: Output SPSS Version 25

Drawing conclusions based on Sugiyono (2018), the data is normally distributed if the significance value > 0,05 and vice versa. It is known that the significance value of credit impairment loss before and after PSAK 71 is greater than 0,05, meaning that the average data for credit losses is normally distributed. The value of significance value of the capital adequacy ratio, return on assets, and loan-to-deposit ratio are smaller than 0,05, meaning that the average data before and after PSAK 71 are not normally distributed.

**Paired Sample T-Test**

**Table 4  
Paired Sample Test Result**

	Mean	Std. Dev	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
				Lower	Upper			
Allowance for Credit Impairment Losses Before PSAK 71 - Allowance for Credit Impairment Losses After PSAK 71	-.5304	.5683	.0961	-.726	-.3351	-5.521	34	0.000

Source: Output SPSS Version 25

The normality test results for the average sample data on credit impairment before and after PSAK 71 are normally distributed, so that uses a paired sample t-test to test the research hypothesis. Concluding hypothesis testing is based on Purnamasari & Claranita's (2021) research: reject H0 and accept Ha if the sig. Value (2-tailed) < 0,05. It is known that the sig. The value of allowance for credit losses is 0,000. This value is smaller than 0,05, indicating that Ha1 in this study is accepted. There is a significant difference between credit impairment losses

before PSAK 71 and after PSAK 71 at banks listed on the IDX. This indicates that PSAK 71 has impacted the allowance for credit impairment losses, with an increase in impairment losses after the implementation of PSAK 71.

**Wilcoxon Signed Rank Test**

The average capital adequacy ratio, return on assets, and loan-to-deposit ratio variables before and after the implementation of PSAK 71 do not follow a normal distribution. Therefore, this study utilizes the Wilcoxon signed rank test to examine the research hypothesis regarding CAR, ROA, and LDR.

Table 5  
Wilcoxon Signed Rank Test Result

	Z	Asymp. Sig. (2-tailed)
CAR After PSAK 71 - CAR Before PSAK 71	-3.718 <sup>b</sup>	.000
ROA After PSAK 71 - ROA Before PSAK 71	-3.000 <sup>b</sup>	.003
LDR After PSAK 71 - LDR Before PSAK 71	-3.112 <sup>b</sup>	.002

Source: Output SPSS Version 25

Concluding hypothesis testing is based on Ningrum et al. (2022), namely reject  $H_0$  and accept  $H_a$  if the significance value (2-tailed)  $< 0,05$ . It is known that the sig (2-tailed) CAR value is 0,000, which is less than 0,05, which indicates that the alternative hypothesis in this study is accepted and  $H_0$  is rejected. There is a significant difference between the CAR, ROA, and LDR pre-PSAK 71 and post-PSAK 71 at banks listed on IDX.

**Discussion**

*Allowance for Credit Impairment Losses*

There existed a notable contrast in loan impairment losses prior to and following the adoption of PSAK 71, demonstrating the influence on the formation of credit loss reserves. Supported by Husni's study (2022), which emphasizes that the implementation of PSAK 71 necessitates entities to incorporate data from past occurrences and present circumstances when assessing anticipated losses. Entities are required to classify allowances for impairment losses into different categories for each type of credit, ultimately resulting in the overall value of credit reserves being greater than before. Reserves for losses at state-owned banks have experienced a drastic spike since the beginning of 2020, namely IDR 93 trillion, growing up to 102,16% YoY due to the enactment of PSAK 71 (Firmansyah, 2022). The increase in allowance for credit losses goes hand in hand with the increase in loans granted. There is a presentation of the impact of the transition from PSAK 55 to PSAK 71 due to changes in the allowance for losses method

and added to the credit restructuring during the pandemic, which made banks be on guard against forming reserves for losses so that in general allowance for credit losses has increased. This is consistent with Ningrum et al. (2022), who found variations in the provision for credit impairment losses among 37 banks listed on the IDX. The allowance for credit losses notably increased, attributed to a shift in the methodology for recognizing impairment losses pre-PSAK 71 and post-PSAK 71, utilizing the expected loss approach.

### ***Capital Adequacy Ratio***

There is a significant difference in CAR pre-PSAK 71 and post-PSAK 71, which illustrates how the bank's capital capacity is impacted. Isma & Sixpria (2022) noted that as the Capital Adequacy Ratio (CAR) increased, there was a concurrent decrease in risk-weighted assets due to a reduction in credit, resulting in a decline in assets. This reduction consequently aided in lowering risk-weighted assets, thereby reinforcing the research findings indicating an uptick in CAR following the implementation of PSAK 71. The adoption of PSAK 71 led to a more significant loss reserve and a contraction in credit growth due to the pandemic, resulting in a decrease in total credit. Purnamasari and Claranita (2021) stated that there were significant differences in the CAR ratio pre-PSAK 71 and post-PSAK 71 in public and private banks listed on the IDX with positive changes in the increase in CAR. Amalia (2022) showed differences in the financial performance of Bank Rakyat Indonesia (Persero) Tbk with differences in CAR before and after PSAK 71. However, there was a decrease in CAR at Bank Rakyat Indonesia Tbk after implementation. The decrease was due to a decrease in the capital after the implementation, which resulted in a decrease in retained earnings. Research by Suroso (2017) stated that implementing PSAK 71 harmed CAR at National Private Banks in the BUKU 2 category with an average decrease of 0,28%.

### ***Return on Asset***

There are significant differences in ROA before and after PSAK 71. The high allowance for losses after PSAK 71 increased credit loss expenses, thereby reducing profits. In the event of problem loans, allowance for losses is used to replace uncollectible credit losses so that they are considered expenses and are in the income statement. The increased number of reserves for losses also reduces the total credit and assets. Simultaneously, with the implementation of PSAK 71 in 2020, Indonesia was hit by the COVID-19 pandemic in the same year, which affected the people's economy. The number of bad loans increased, so banks had to form higher reserves for losses, which reduced profits and total assets. This study's results align with previous research by Ameliana (2021) that there were differences in ROA pre-PSAK 71 and

post-PSAK 71 at PT BPR Anak Negeri Papua, where the profitability performance experienced a slight decrease. Research conducted by Purnamasari and Claranita (2021) stated significant differences in ROA pre-PSAK and post-PSAK 71 at 21 public banks listed on the IDX. Kustina and Putra's research (2021) found that ROA has decreased in state-owned banks. The implementation of PSAK 71 has impacted the return on assets because of the pressure on profits and the allowance for impairment losses, which is not proportional to the increase in assets owned.

### ***Loan to Deposit Ratio***

There is a significant difference in LDR pre-PSAK 71 and post-PSAK 71. After PSAK 71, the high credit losses increased liquidity, which means that bank liquidity has improved because credit distribution is not comparable to third-party funds that can be collected. Banking is safer because of the increase in the allowance for impairment losses expected by PSAK 71 to protect customer funds and the banking itself. Analysis of BRI banks from 2018 to 2020 shows a decrease in LDR every year. Banks can repay depositors' withdrawals by relying on credit provided as a source of liquidity. A decrease in the average liquidity ratio has a significant effect due to PSAK 71. An increase in the impairment loss allowance will pressure the bank's assets and capacity to extend its loans. The decline in the LDR trend is also inseparable from the weak demand for credit during the pandemic and people choosing to hold back consumption (Amalia, 2022). Sibarani & Asak (2022) state a significant difference in the LDR before and after PSAK 71 PT Bank IBK Indonesia Tbk with increased bank liquidity. Purnamasari and Claranita (2021) show significant differences in the LDR pre-PSAK 71 and post-PSAK 71 at 21 public banks listed on the IDX. Amalia (2022) asserts that following PSAK 71, the LDR at Bank Rakyat Indonesia (Persero), Tbk, has decreased due to weak credit demand.

## **CONCLUSION**

This study compares allowance for credit losses and financial performance in banks registered on the IDX before and after adopting PSAK 71 with CAR, ROA, and LDR financial ratios. Our findings show that the comparison of allowance for credit losses shows a significant difference, which has increased by 0,53%. A comparison of the CAR showed a significant difference, namely an increase of 6,94%. Comparison of ROA pre-PSAK 71 and post-PSAK 71 showed a significant difference, which decreased by 0,66%. A comparison of the loan-to-deposit ratio showed a significant difference, which decreased by 8,22%. This result means that implementing PSAK 71 impacts the reserve amount for losses formed, capital adequacy bank,



profitability, and liquidity risk. It is recommended that Banks establish credit loss reserves by taking into account the conditions of historical, current, and future information, according to PSAK 71.

The Financial Accounting Standards Board (DSAK) from IAI is advised to be able to evaluate PSAK 71 on affected industries to produce sound financial performance. This study has limitations, which are also recommendations for further research. First, this study only discusses reserves for credit losses and financial performance measured by CAR, ROA, and LDR. Further research can compare other financial ratios affected by PSAK 71. Second, this study is limited to one banking object: banks listed on the Indonesia Stock Exchange. Further research can add different banking objects.

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