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Effect of Credit Restructuring During the Covid-19 Pandemic on Financial Performance with Expected Credit Loss as an Intervening Variable

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ABSTRACT

Credit restructuring is an improvement effort made by the Bank in lending activities to debtors who are experiencing difficulties in fulfilling their obligations. This study aims to analyze the effect of implementing credit restructuring through Expected Credit Loss (ECL) on financial performance during the Covid-19 pandemic. This research is a type of causality research with a quantitative approach that uses secondary data obtained from the financial reports of 21 (twenty one) branch offices of PT Bank Negara Indonesia (Persero), Tbk during the period March 2020 to December 2021. The sampling technique uses a non-probability sampling technique with a saturated sampling technique and the data analysis tool in this study uses the SmartPLS application with an evaluation model that can be carried out by assessing the outer model and the inner model. The results of the analysis show that (1) credit restructuring during the Covid-19 pandemic had a positive effect on financial performance, (2) credit restructuring during the Covid-19 pandemic through expected credit loss as an intervening variable had a positive effect on financial performance. According to researchers, this is because the credit facility provided by the Covid restructuring scheme does not require additional reserves for impairment losses expected credit loss.

Keywords: Covid restructuring; expected credit loss; covid-19; profitability; risk profile;

INTRODUCTION

Financial Services Institutions have an important role in the economic growth of a countryWhichis expected to be able to contribute to justice in achieving a just and prosperous people. The presence of the Bank as a financial service institution in Indonesia aims to support the implementation of national development in order to increase equity, economic growth and national stability towards increasing the welfare of the people at large.

The economic development of a country cannot be separated from the existence or presence of banks. Banks as financial institutions that help the government achieve prosperity have an important role in enhancing national development (Bachtiar, 2019). Bank income is very much dominated by lending because the main profit for banks is derived from the difference between interest on deposits and loans. An increase in the bank's loan portfolio has a significant impact on increasing profitability, but in reality an increase in lending does not always go hand in hand with an increase in corporate profits (Andrianto, 2020).

The large amount of funds that did not return the funds that had been channeled by the bank caused the bank's source of income from credit interest to decrease. These conditions have an impact on bank profitability not only in terms of interest income but also in terms of the formation of Expected Credit Loss (ECL) or commonly known as Reserves for Impairment Losses (Indramawan, 2019).

Volume 9, Number 1, January-June 2023, 57-68

The determination of the Corona virus (Covid-19) case as a global pandemic by the World Health Organization (WHO) since March 11 2020 has had a very significant impact on the Indonesian economy. The Covid-19 pandemic has also had a major impact on the banking sector, specifically in terms of increasing the portfolio of non-performing loans or non-performing loans. Almost all economic sectors have experienced serious consequences from the impact of Covid-19, in the 2020 period Indonesia's economic growth contracted to -2.07%, dropping drastically compared to 2019. This was due to transmission patterns and mortality rates due to Covid-19 which in ultimately affect the performance and forecast of future economic results with very high projected uncertainties (Central Bureau of Statistics, 2022, p.7).

Figure 1. Indonesia's Annual Economic Growth
Source :Central Bureau of Statistics (data processed, 2022)

Banks have to make many credit adjustments (credit restructuring) to loans given to their debtors due to Covid-19 which has affected bank performance and the capacity of debtors to fulfill their credit obligations (Rismayani, 2021).

The government's response as an effort to overcome the financial crisis was to issue regulations on state financial arrangements, namely the provision of credit restructuring stimulus. This stimulus is regulated in OJK Regulation No.17/POJK.03/2021, namely the second amendment to POJK No.11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy on the Impact of the Spread of Coronavirus Disease 2019 which is valid until 31 March 2023.

The Covid-19 phenomenon has changed the way of working and managing business in all companies so that not only the private sector, BUMN companies are also affected.The presence of SOEs in Indonesia is very influential on the condition of society as a medium for the government in making economic policies that affect people's welfare (Lisnawati, 2020, p.19).

The first state-owned bank in Indonesianamely PT Bank Negara Indonesia (Persero) Tbkor BNI, which was founded on July 5, 1946, was also affected by the spread of the Covid-19 pandemic. BNI managed to record a profitas bigRp. 4.36 T in 2020, which position is far below the achievement in 2019 of Rp. 18.22 T, but has increased 3 times in 2021 Ytd of Rp. 12.34 T. The significant decrease in profit in 2020 was dominated by an increase in the formation of ECL of Rp. 22.03 T. The impact of the implementation of PSAK 71 provisions on ECL calculations and the Covid-19 pandemic made a significant contribution to the decline in company profits.

BNI Banjarmasin Regional Office as one of the company's representative offices in the Kalimantan Region overseeing 21 branch offices has implemented a credit restructuring stimulus during the Covid-19 pandemic to all affected debtors. Composition of BNI Banjarmasin Regional Office restructuring debtorsduringin 2020 was dominated by Covid restructuring debtors, namely 86.75% and during 2021 as many as 65.01% so it can be concluded that the restructuring portfolio at BNI Banjarmasin Regional Office was dominated by Covid restructuring debtors (BNI Financial Report, 2021).

According to research Foresters et al., (2022, p.11) that there was a significant difference between banking performance before and after the implementation of the credit restructuring policy during the Covid-19 pandemic Capital Adequacy Ratio(CAR), ROA, Finance/Loan to Deposit Ratio (F/LDR). The Covid-19 pandemic also had a negative impact on the profitability (ROA) of banking companies and had an effect on increasing credit restructuring (Adhinugroho, 2021, p.22).

Pay attention to researchearlier, there are several developments in this study, namely the use of Expected Credit Loss (ECL) as an intervening or mediating variable which is expected to reduce the direct effect of credit restructuring on banking financial performance anduseinterest income indicators, LaR and NPL. The research period used is also the most recent period from previous studies. The novelty of this research is that it can contribute to studying the impact of the Covid-19 pandemic on banking financial performance.

Based on the explanation that has been described, the researcher is interested in analyzing the "Effect of RestructuringCreditduring the Covid-19 Pandemic on Financial Performance with Expected Credit Loss (ECL) as an Intervening Variable”. PlanThis study aims to analyze the effect of implementing credit restructuring on financial performance directly during the Covid-19 pandemic and indirect effects through the establishment of Expected Credit Loss (ECL).

METHODS

This research is a type of causality research using a quantitative approach and is explanatory research. According to (Sofyaun et al., 2022), explanatory research based is used as a research design to analyze the power of exogenous variables in explaining endogenous variables. Credit restructuring as an exogenous variable. Profitability ratios (BOPO, ROA, interest income) and credit risk profiles (LaR and NPL) as endogenous variables are used to describe the company's financial performance. Expected Credit Loss (ECL) acts as an intervening variable.

Branch offices of PT Bank Negara Indonesia (Persero), Tbk in the Kalimantan region for the period March 2020 to December 2021 as research objects, where fulfilling the sample criteria was carried out using a non-probability sampling technique and obtained 21 branch offices that were accommodated as samples. The analysis tool used is Path Analysis with the Partial Least Square (PLS) statistical analysis tool. The PLS evaluation model is carried out by evaluating the outer and inner models.

Volume 9, Number 1, January-June 2023, 57-68

RESULTS AND DISCUSSION

Evaluationthe relationship between constructs can be seen through several stages including through valuecoefficientpath (path coefficient) which describes the strength of the relationship between constructs. The sign of the path coefficient must be in accordance with the hypothesized theory, to assess the significant path coefficient can be seen through the t-test (critical ratio) obtained from the bootstrapping process (resampling method).

Outer Model Evaluation.

This evaluation is measured through convergent validity, discriminant validity and reliability.

Table 1.
Outer Loading Value

Variable	*ECL*	*Financial performance*	*Credit Restructuring*
X1.1 - R3 Covid			0.906
X1.2 - R3 Non Covid			0.934
Y1.1 - ECL	1,000		
Y2.1 - BOPO		0.814	
Y2.2 - ROA		0.925	
Y2.3 - II		0.924	
Y2.4 - LaR		0.947	
Y2.5 - NPLs		0.797	

Source: SmartPLS Analysis Results (data processed, 2022)

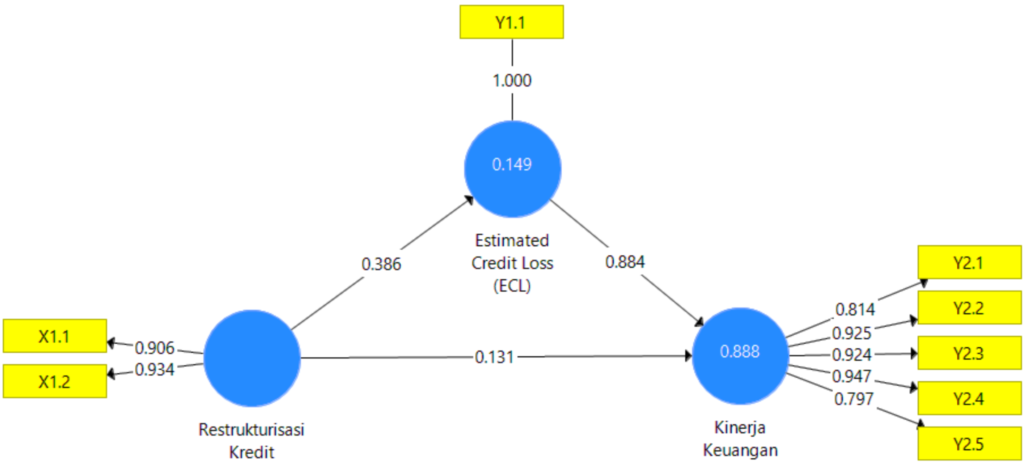

Figure 2. The results of the analysis output using SmartPLS
Source: Processed data (2022)

Table 2.
Average Variance Extracted (AVE) Value

Variable	Average Variance Extracted (AVE)
ECL	1,000
Financial performance	0.781
Credit Restructuring (R3)	0.846

Source: SmartPLS Analysis Results (data processed, 2022)

The results of the analysis output in Tables 1 and 2 show that all constructs withX1.1, X1.2, Y1.1, Y2.1, Y2.2, Y2.3, Y2.4, and Y2.5 have a loading factor value above 0.60 value and the resulting AVE value of all values the construct is above > 0.50 so that all construct indicators have met the requirements of the convergent validity test.

Table 3.
Cross Loading Value (Discriminant Validity)

Variable	***ECL***	***Financial performance***	***Credit Restructuring*(R3)**
X1.1 - R3 Covid	0.285	0.425	0.906
X1.2 - R3 Non Covid	0.414	0.443	0.934
Y1.1 - ECL	1,000	0.934	0.386
Y2.1 - BOPO	0.704	0.814	0.429
Y2.2 - ROA	0.846	0.925	0.481
Y2.3 - II	0.819	0.924	0.493
Y2.4 - LaR	0.870	0.947	0.442
Y2.5 - NPLs	0.870	0.977	0.244

Source: SmartPLS Analysis Results (data processed, 2022)

Table 4.
AVE Square Root Value

Variable	***ECL***	***Financial performance***	***Credit Restructuring***
ECL	1,000		
Financial performance	0.884	0.934	
Credit Restructuring (R3)	0.386	0.472	0.920

Source: SmartPLS Analysis Results (data processed, 2022)

In Tables 3 and 4 obtainedthe cross loading value for each variable is above 0.70 and has the highest correlation in itself compared to other variables and the AVE square root value is greater than the correlation value between constructs, so it can be concluded that the research model is correct and meets the requirements of discriminant validity test.

Volume 9, Number 1, January-June 2023, 57-68

Table 5.
Cronbach's Alpha Value and Composite Reliability

Variable	*Cronbach's Alpha*	*Composite Reliability*
ECL	1,000	1,000
Financial performance	0.928	0.947
Credit Restructuring (R3)	0.820	0.917

Source: SmartPLS Analysis Results (data processed, 2022)

In Table 5 above, it is reflected that the Cronbach's alpha value for each construct indicator is above 0.70 so that it can be interpreted that the construct is reliable or fulfills the reliability test.

Evaluation of the Inner Model.
This evaluation is measured through the value of R-square (R2) and predictive relevance (Q2).

Table 6.
Determination Coefficient Results

Endogenous Variables	*R Square*	Information
ECL	0.149	Credit restructuring as exogenous
Financial performance	0.888	Credit restructuring and ECL as exogenous

Source: SmartPLS Analysis Results (data processed, 2022)

In Table 6, the R-square value for the ECL variable is 0.149 so that this model can be categorized as a weak model.Influencecredit restructuring to the ECL variable of 14.9% and the remaining 85.1% is influenced by other variables outside this research model.MarkThe R-Square for the financial performance variable of 0.888 is included in the strong model category. The credit restructuring and ECL variables were able to influence financial performance by 88.8% and the rest were influenced by other variables outside this research model.

*Predictive relevance*Q2 is also used in evaluating the structural model (inner model) to measure how well the observed values are generated by the model and its parameter estimates by calculating:

$$Q2 = 1 – (1 – R12) (1 – R22)$$

Earned valueQ2 of 0.904 > 0 indicates that the research model has predictive relevance or it can be concluded that credit restructuring and ECL have predictive relevance for financial performance. The results of the two tests indicate that the data studied met the requirements of the two evaluations, both the outer model and the inner model.

Table 7.
Hypothesis Testing Results

	Original Sample (O)	***T Statistics (|O/STDEV|)***	***P Values***
Credit Restructuring -> Financial Performance	0.131	4,368	0.000
Credit Restructuring -> ECL	0.386	4,278	0.000
ECL -> Financial Performance	-0.884	-4,050	0.000

Source: SmartPLS Analysis Results (data processed, 2022)

Table 8.
Mediation Hypothesis Testing Results

	Original Sample (O)	***T Statistics (|O/STDEV|)***	***P Values***
Credit Restructuring -> ECL -> Financial Performance	0.341	4,500	0.000

Source: SmartPLS Analysis Results (data processed, 2022)

The first hypothesis in this study is credit restructuringpositive and significant effect on financial performance.The research findings confirm that credit rescue in the form of Covid restructuring can withstand soaring NPL ratios due to debtors' failure to fulfill their obligations due to unstable business conditions. This condition is in line with the results of the study Omer (2022, p.84) where credit restructuring has a positive influence on the financial performance of commercial banks in Kenya as seen from the NPL ratio and research Kithinji et al., (2017, p.122) also stated that credit restructuring which was intervened by financial services (savings and customer loans) had a positive influence on the financial performance of commercial banks.

The second hypothesis in this study is that credit restructuring has a positive and significant effect on ECL in line with the stimulus policy which stipulates that there is no additional ECL allocation for credit facilities provided by the Covid restructuring scheme. A review of the direction of the positive relationship between restructuring and ECL is in line with Suaryana, et al. (2022, p.178) who said the credit restructuring program aims to control or reduce credit risk and the establishment of ECL.

The third hypothesis in this study is ECLnegative and significant effect on financial performance. PEstablishment of loss reserves (ECL) will increase operational expenses and erode the company's profits. Deteriorating debtor credit quality will cause the allocation for loss reserves to increase, this condition will certainly affect the increase in the BOPO ratio and decrease in the ROA ratio because ECL is one of the factors reducing company profits. The research findings confirm that ECL has a significant negative effect on financial performance to support research Sudrajat, (2019, p.8), A. Achmad & Kristijadi, (2021, p.217), Sari & Widaninggar, (2020, p.61) And (Lestari, 2015) which reveals thatthe higher the funds reserved for non-performing loans, the bank's operational income and capital will also decrease.

The fourth hypothesis in this study is Credit estructuring through the establishment of ECL has a positive and significant effect on financial performance.The position of ECL as a mediation becomes important for exogenous variables, where credit restructuring through the formation of ECL has a significant effect on financial performance with a coefficient value of 0.341. The results of this study are in line with research Omer (2022, p.84), Kithinji et al., (2017, p.122) And Nguyen Duong et al., (2020, p.83) who revealed that Covid credit restructuring will have an impact on financial performance because it can withstand an increase in the pre-NPL and NPL loan portfolio, can also save the formation of loss reserves (ECL) on non-performing (smooth) credit facilities and reduce operational expenses. These results support the theory of credit restructuring as an improvement effort made by banks in maintaining credit quality and NPL portfolio according to POJK No. 11/POJK.03/2015 dated 21 August 2015 Chapter 1 Article 1 concerning prudential provisions in the context of national economic stimulus for Commercial Banks. So it can be concluded that ECL can be said to be an intervening or mediating variable because it fulfills the requirements of the mediation effect test.

Discussion

Theoretical Implications

StudyThis study seeks to enrich the study of the effect of credit restructuring through the establishment of the ECL on financial performance. Financial performance is a reflection of the performance or achievements achieved by a company in carrying out its operational activities. Whether or not banking financial difficulties can be seen from the income statement. Companies that are on the verge of bankruptcy will experience liquidity problems or often called financial distress. One of the efforts to deal with financial difficulties is to make loans (leverage) or financial restructuring, both investment, debt and liquid assets.

The results of testing the first hypothesis, the result is that credit restructuring has a positive and significant effect on financial performance. The results of this study are in line with the theory of financial distress that companies can restructure their debts and assets in the face of financial difficulties which have an impact on worsening the company's financial performance (Rismayani, 2021). Credit restructuring is a form of rescue effort provided by banks to debtors who experience difficulties in fulfilling their obligations. A positive direction indicates that credit restructuring can improve financial performance because banks can retain additional allocations for loss reserves by not adding to their non-performing loan portfolio.

The results of testing hypothesis 2, obtained the result that credit restructuring has a positive and significant effect on ECL. The results of this study support the Expected Credit Loss (ECL) theory that an increase in credit risk can increase the formation of loss reserves. The credit restructuring facility is a credit facility that can be categorized as a non-performing loan because the debtor is unable to fulfill its obligations. The more credit portfolios that are restructured can also increase the provision for losses. The existence of a positive and significant influence between credit restructuring and ECL indicates that banks must carry out in-depth identification and analysis when providing credit facility restructuring.

The results of testing hypothesis 3, obtained the result that ECL has a negative and significant effect on financial performance.The results of research that have influence can explain that an increase in ECL will reduce financial performance, especially in the ROA ratio because the ECL component is a deducting factor in calculating a company's profit/loss. A bank's credit risk profile can also be indicated as bad if the bank has a large enough ECL allocation. In-depth verification and analysis at the beginning of the provision of credit facilities can produce quality credit and have an impact on the amount of the allowance for losses that will be made by the bank. A negative direction indicates that an increase in ECL will have an impact on decreasing financial performance because it can erode company profits.

Resultstesting hypothesis 4, the result is that credit restructuring through the establishment of ECL has a positive and significant effect on financial performance. The positive direction indicates that increased credit restructuring can improve financial performance through savings in the formation of ECL. This condition is reflected in the larger composition of the Covid restructuring compared torestructurisationnon Covid during the study period. The credit restructuring stimulus does not require banks to increase the allocation of reserves for losses on restructured credit facilities, so that the ECL component during the Covid-19 stimulus period did not increase drastically. This condition also had an impact on the amount of BOPO, especially operating expenses, one of the components of which was ECL. The bank's credit risk profile can also be controlled through restructuring because it can restrain the addition of the NPL credit portfolio.

Practical Implications

The results of this study provide managerial implications that credit restructuring has a positive and significant effect on financial performance during the Covid-19 pandemic. The implementation of the credit restructuring stimulus during the pandemic can prevent an increase in the non-performing loan portfolio, because debtors whose business income has decreased due to pandemic conditions have difficulty paying their obligations are given relief in the form of lowering interest rates or delaying principal/interest payments. These conditions also have an impact on the formation of reserves for losses which can affect the performance of a bank's financial performance, in this case, can be seen from the achievement of profits.

The credit restructuring stimulus during the pandemic can be utilized by banks as an effort to save non-performing loans and will later have an impact on the company's risk profile, in line with (OJK Regulation No. 15/POJK.03/2017 article 3 paragraph 2 (d) concerning Determination of Status and Follow-Up Supervision of Commercial Banks, 2017) that the bank has the potential to face difficulties in running its business ifhas a non-performing loan (NPL) ratio of more than 5% of total loans. The high level of non-performing loans (NPL) can affect the soundness of a bank and the performance of a bank's financial performance. Bank management must be selective and carry out in-depth credit analysis and selection when providing the Covid restructuring stimulus because this stimulus will not last continuously, so it is hoped that when the Covid restructuring period is over, debtors will still be able to fulfill their obligations. The banking sector is also expected to have a strategy in expanding credit, so that the credit portfolio owned is dominated by quality credit facilities so that the potential for a decrease in credit quality can be minimized and interest income can be maximized.

CONCLUSION

The conclusion in this study is that credit restructuring has a positive and significant effect on financial performance. Credit restructuring has a positive and significant effect on ECL. ECL has a negative and significant effect on financial

Volume 9, Number 1, January-June 2023, 57-68

performance. Credit restructuring through the establishment of ECL has a positive and significant effect on financial performance.

It is suggested to banking management to continue to carry out intensive monitoring of debtors who have been restructured affected by Covid and to carry out simulations of their impact by taking into account the credit stimulus policies provided will end in March 2023. Banking regulators are expected to be able to prepare additional relief after Covid-19 or during the stimulus period This Covid restructuring ends by looking at the potential for companies that cannot return to normal operations after the Covid-19 period ends. Further researchers are advised to make studies by simulating the condition of banking financial performance after the end of the Covid restructuring.

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