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Sharia Commercial Bank Financial Distress Prediction Through Financial Liquidity Ratio

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ABSTRACT

Introduction to the Problem: It is rarely found that liquidity ratio (Cash Ratio, Quick Ratio, and Current Ratio) are used as variable possible financial distress at the Sharia General Bank in Indonesia.

Purpose/Objective Study: The existence this study is aimed at predicting possibility of financial distress dominated by several liquidity ratios (Cash Ratio, Quick Ratio, and Current Ratio) at the Sharia General Bank in Indonesia. Researchers used logistics regression analysis research methodology.

Findings: Total of 12 Sharia General Bank registered with Bank Indonesia and Financial Services Authority in period of 2018 the first quarter to 2021 the fourth quarter used as a research sample. The results were shown that Cash Ratio, Quick Ratio, and Current Ratio had no negative effect in financial distress.

Keywords : Liquidity Ratio; Financial Distress; Sharia Commercial Banks.

Introduction

A country's economy is not separate from the existence of financial institutions. Depository intermediary or what we often call financial institutions. For Indonesian banking and financial institutions, the World Bank does not directly affect banking operations. But it is necessary to know and understand the side effects caused by agency operations given its enormous impact on the economy. The Financial Services Authority (OJK) agreed to synergise with the government, BI, and the Deposit Insurance Agency to support the national economic recovery. The policies proposed under the auspices of the Financial System Stability Committee are pre-empitive, extra ordinary, and advanced, so that the Indonesian economy can withstand the weaknesses caused by the Covid-19 pandemic.

The financial service industry in Indonesia is currently experiencing such rapid growth. Sharia banking assets experienced a growth of 14.2% until March 2022 (Monavia, 2022) and total sharia banking assets increased every year. This growth encourages high competitiveness between financial institutions, especially Islamic banking, in maintaining good performance, so that they can continue to compete healthily with others. Banking is like the foundation of the sustainability of the country, because it has the first position for intermediation. The failure of

a bank can result in an effect in another industry. If the bank's intermediation process stops, the risks received will be extraordinary, namely disrupting the impact of the payment system and paralysing all economic activities (Kusdiana, 2014). The impact of the failure can lead to the destruction of all sectors of the economy.

Since the establishment of Bank Syariah Indonesia (BSM, BRIS, and BNIS) (BSI (BSM, BRIS, and BNIS) and other Sharia General Bank, the Indonesian economy has new hopes in its growth. It can be said that when Erick Thohir, Minister of BUMN, completed the merger of three (3) state-owned sharia banks, namely the beginning of BSI (BSM, BRIS and BNIS) during the COVID-19 pandemic is hope and significance for the country.

The State of Global Islamic Economy (SGIE) in 2020-2021 said that the Sharia economy in Indonesia managed to climb 4th place which was previously ranked 5th in 2019 and 2018 in 10th in the world. Referring to the previous data, sharia banking has hope in the future to be able to rise to the top 3 in the world. Therefore, it is hoped that Islamic banks in Indonesia will be stronger in their existence to have the ability and competitiveness to increase with the merger of the three sharia banks under the auspices of BUMN, namely BSM, BNIS and BRIS. OJK report shows, total assets owned by Sharia General Bank and UUS reached Rp.674,38 trillion in March 2022. That number increased by 1,43% from the previous month which amounted to Rp.664,89 trillion (Monavia, 2022). The existence of the number of assets owned raises optimism that BSI (BSM, BRIS, and BNIS) can become the world's high-end SH. In addition, BSI (BSM, BRIS, and BNIS) also participated in the development of the real sector, both UMKM and property. BSI (BSM, BRIS, and BNIS) which is a new idea contributes to encouraging property sector financing. This is because residential needs continue to increase from every year. The fact in the field was obtained that there are still many millennials who do not have a house occupancy. The existence of BSI can certainly be a way out (Andri, 2021).

In general, Sharia General Bankperformance will continue to outperform BUK in 2021. CAR Sharia General Bankcapital expenditure is increasing. The CAR Sharia General Bankrate will increase to 25.71% in 2021. Compared to the FDR BUK ratio of 77.49%, the FDR Sharia General Bankratio of 70.12% indicates a downward trend in financing activity. Over the past 12 months, the bottom line Sharia General Bank tends to rise. At the close of 2021, the value of BOPO Sharia General Bank will reach 84.33%. (OJK, 2022). Sharia banking in Indonesia often uses methods of monitoring the success of individual banks, such as analysing financial measures. Because sharia banks are sharia Sharia General Bank iness matters, they must take into account more than just profit maximisation (high profitability) when making decisions (good sharia goals).

A total of 2.298 Sharia General Bank and UUS offices have been registered in March 2022 after the Covid-19 pandemic. That number was reduced by 182 units from 2,480 offices in the previous month. Indonesia's condition has recently been unstable so it is vulnerable to financial difficulties in several companies. That is the impact of the Covid-19 pandemic that has occurred from the economic sector. The impact of Covid-19 is very significant on the country's growth, many companies suffer so much that they do not report profits or even losses in their financial statements. One of them is the banking sector, the decline in bank income

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affects the bank's financial statements which can be seen by analysing financial ratios. Of course, if this condition lasts a long time, the company will have financial distress or financial difficulties.

Financial difficulties, as defined by (Fahmi, 2011), are periods of pre-bankruptcy or pre-liquidity of deteriorating financial circumstances. Bankruptcy arises if the company has not met its debts, especially those that mature quickly, such as debt in the form of cash or other liquid assets. According to (Dahruji & Muslich, 2022), various variables impact or create financial difficulties for companies, including lack of liquidity, high debt levels, and operational losses in recent years.

Referring to the fundamental role of sharia banks in the economy is necessary to maintain their existence. Especially in the case of liquidity problems, the lack of liquidity of each bank due to the inability to carry out operational plans is reflected in weak financial results. So, the bank management has problems, between increasing profitability with the risk of unstable conditions or maintaining high liquidity with the risk of declining company performance. Of course, this has a systemic impact on the country's economy. To avoid this, one of them is by predicting the bankruptcy of Sharia General Bank. By predicting, bank management is expected to make several efforts to minimise the occurrence of bank bankruptcy.

NPL equivalent to sharia banking, NPF, is used as a financial risk metric in the Financial Stress Index (FSI) Indonesia (Gunadi et al., 2013). In sharia finance, the NPL or NPF ratio reflects the competence of bank management in overcoming persistent credit problems (Hariyani, 2010). According to BI, the NPF ratio was developed to measure the level of difficulty of bank financing. If this percentage is high, then it indicates that the quality of Islamic bank funding is decreasing. In this study, logistical regression analysis is used through NPF for the financial distress value of a bank. The value of NPF > 5% implies that the bank is in a difficult financial position. In contrast, a NPF of 5% or less is a sign of a strong financial institution.

The NPF ratio can be formulated as follows:

$$\text{NPF} = \frac{Productive\ Assets\ 3{,}4{,}5}{Number\ of\ KAP} \text{ x } 100$$

In BI regulations, there is credit collectability including: (Martono, 2010)

1. Collectability one or Current Credit
2. Collectability two or Credit in special attention
3. Collectability of three or Credit is not current
4. Collectability of four or Credit is doubtful
5. Collectability of five or Credit is stuck

NPF ranking assessment criteria in BI include:

Table 1.
Value Criteria NPF

No.	Ratio	Ranking
1.	NPF < 2%	Very Healthy
2.	2% ≤ NPF < 5%	Healthy

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3.	5% ≤ NPF < 8%	Pretty Healthy
4.	8% ≤ NPF < 12%	Less Healthy
5.	NPF ≥ 12%	Unhealthy

Source: Indonesian Bank Circular Letter No. 13/24/DPNP 2011

Based on the above, and refers to previous research that takes into account the possibility of financial distress based on the profitability ratio. So in this study, the author uses the liquidity ratio to find out the possibility of financial distress with the title **"Prediction Of Financial Distress Of Sharia General Bank Through Financial Liquidity Ratio Period 2018 - 2021".**

Research Method

Quantitative research, whose data is numerical and calculable, will be used (Basuki, 2021). To test hypotheses, scientists often turn to quantitative research techniques, which focus on studying relationships between various factors (Siregar, 2018). This research relies on secondary data taken entirely from research samples taken from quarterly Sharia General Bank financial statements. This research involved 12 Sharia General Bank both in BI and OJK. Non-probability sampling was used in this study, which can be defined as a sampling strategy in which not all individuals of the population could be used as samples because the sample was selected through a specific and comprehensive policy. (Dahruji & Muslich, 2022).

Table 2.
List of Sharia General Bank That Meets The Criteria

No.	Sharia General Bank
1.	BJBS
2.	BPD NTBS
3.	Aladin Syariah
4.	Victoria Syariah
5.	BSI (BSM, BRIS, dan BNIS)
6.	Aceh Syariah
7.	Muamalat Indonesia
8.	BCA Syariah
9.	Bukopin Syariah
10.	Panin Dubai Syariah
11.	Mega Syariah
12.	BTPNS

Sumber : Bank of Indonesia

The methods used in data collection are:

a. Field Research or Field Research

Researchers use secondary data in the form of time series data from SHARIA GENERAL BANK financial statements with a time span from 2018 first quarter to 2021 fourth quarter with quarterly scale.

b. Library Research or Library Research

This technique is a technique of collecting data through reading, studying and analysing literature in various books and journals related to research subjects to get the right information.

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c. Internet Research

To anticipate expired references because science is always developing over time, therefore this research also uses technology, namely the internet, so that the data obtained is data that can keep up with the times.

Time series data for the first quarter of 2018 to fourth quarter of 2021 is used in this analysis. According to the research selection criteria, 12 Sharia General Bank (Sharia General Bank) are included in the sample:

a. Sharia General Bank requires BI and OJK registration.
b. Sharia General Bank financial statements must be published online every quarter from the first quarter of 2018 to the fourth quarter of 2021.
c. Cash Ratio, Fast Ratio, and Current Ratio are some examples of the key metrics that Sharia General Bank must have between the first quarter of 2018 and the fourth quarter of 2021.

Current Ratio, Quick Ratio, and Conversion Rate Average are the reasons in this research (Cash Ratio). Stress about money serves as a dependent variable here (financial difficulties).

Because the dependent variable in this study has two possible values (code 0 = "Non-Financial Distress" and code 1 = "Financial Distress"), the logistical regression test is used in collecting data. Logistic regression testing relies on the results of descriptive statistical tests, which must be done before any data in the analysis. Then after that is the analysis of logistical regression, which involves calculating the classification matrix and estimation of parameters, as well as assessing the feasibility of the regression model and the overall fit of the model. Next, do a hypothesis test (simultaneous and partial tests). This research uses IBM SPSS version 25 to analyse the collected data:

$$Ln = \frac{p}{1-p} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \quad (5)$$

Where :
Ln : Natural Logarithm
P : Probability of Financial Distress
B0 : Constant
B1, β2, and β3 : Independent Variable Regression Coefficient
X1 : Current Ratio
X2 : Quick Ratio
X3 : Cash Ratio

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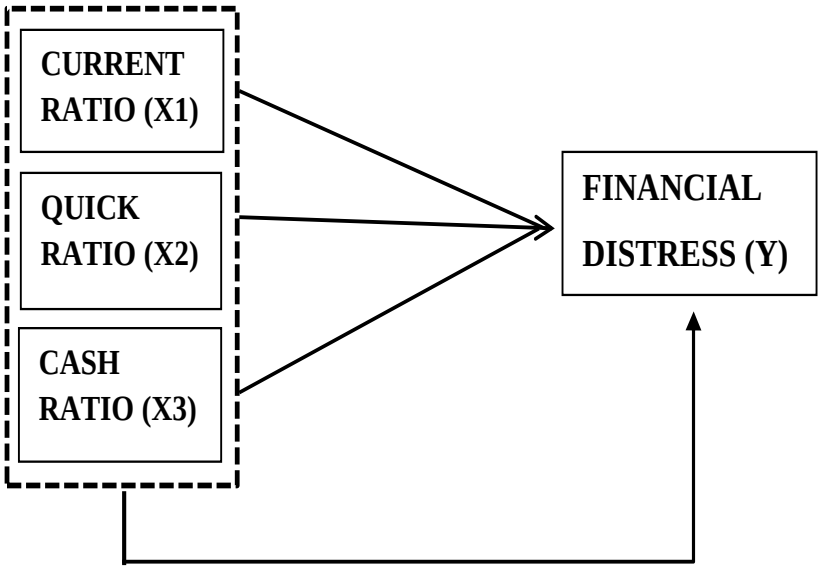

Source: Author Data Processed (2022)
Picture 1: Research Framework

Hypotheses in this research include:

H1: Found a joint influence between Quick Ratio, Current Ratio, and Cash Ratio on financial distress on Sharia General Bank 2018-2021.

H2: The influence of the Current Ratio was found in financial distress on Sharia General Bank in 2018-2021.

H3: Found the effect of Quick Ratio on financial distress on Sharia General Bank in 2018-2021.

H4: The effect of Cash Ratio in financial distress in Sharia General Bank in 2018-2021.

Result and Discussion

Existing data will be processed and evaluated using descriptive statistics after being collected and calculated. The data for this statistical test can be interpreted using software, namely IBM SPSS version 25. All SPSS test results are:

Table 3.
Operational Variable Descriptive Statistical Testing Results

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
CR	192	,20	20,34	1,3735	2,41736
QR	192	,08	18,90	1,0937	2,18969
CRA	192	,01	5,19	,1311	,55645
Valid N (listwise)	192				

Source: Data Processing Results

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Logistic Regression Analysis

Both "Non-Financial Distress" (code 0) and "Financial Distress" (code 1) are included as dependent variables in this analysis. In the case when the dependent variable has more than 1 category, this analysis is performed. For this analysis, we used SPSS version 25 with a sample size of 192 (12 Sharia General Bank x 4 years). The following case processing summary table can help understand the findings of this study without having to look for missing cases or data.

Table 4.
Case Processing Summary

Case Processing Summary			
Unweighted Cases[a]		**N**	**Percent**
Selected Cases	Included in Analysis	192	100,0
	Missing Cases	0	,0
	Total	192	100,0
Unselected Cases		0	,0
Total		192	100,0

Source: Data Processing Results

The processing results above show that no data is empty (missing = 0) and N is equal to 192.

Table 5.
Results Overall Model Fit (Nilai -2 Log Likelihood) First Block

Iteration History[a,b,c]			
Iteration		**-2 Log likelihood**	**Coefficients Constant**
Step 0	1.	107,679	-1,729
	2.	95,886	-2,378
	3.	95,112	-2,599
	4.	95,105	-2,622
	5.	95,105	-2,622

Source: Data Processing Results

Testing Criteria :

- Value -2 Log Likelihood < Chi Square Table, if the model before entering the independent variable is eligible.
- Value -2 Log Likelihood > Chi Square Table, if the previous model is entered the independent variable is not eligible.
- How to find Chi square table is DF = N-1 (192 - 1 = 191)
- Chi Square Table obtained of 224,245
- The value of -2 Log Likelihood < Chi Square Table (95,105 < 224.245) concludes the model before entering variable X is eligible.

Table 6.
Results Overall Model Fit (Nilai -2 Log Likelihood) Second Block

Iteration History[a,b,c,d]	
	Coefficients

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Iteration		-2 Log likelihood	Constant	CR	QR	CRA
Step 1	1	106,376	-1,620	-,092	-,030	,383
	2	91,992	-2,047	-,300	-,112	1,333
	3	85,537	-1,661	-,962	-,463	4,891
	4	80,172	-,663	-2,357	-1,207	12,548
	5	79,503	-,507	-2,935	-1,244	14,486
	6	79,391	-,425	-3,246	-1,037	14,210
	7	79,156	-,299	-3,004	-1,326	10,695
	8	78,888	,002	-2,126	-2,358	1,468
	9	78,883	,053	-2,221	-2,303	,684
	10	78,883	,054	-2,225	-2,300	,662
	11	78,883	,055	-2,225	-2,300	,662

Source: Data Processing Result

Testing Criteria :

- Value -2 Log Likelihood < Chi Square Table, if the model before entering the independent variable is eligible.
- Value -2 Log Likelihood > Chi Square Table, if the previous model is entered the independent variable is not eligible.
- How to find Chi square table is DF = N-K-1 = 188
- Chi Square Table obtained of 220,991
- Value-2 Log Likelihood < Chi Square Table (78,883 < 220,991) concludes the model before being included variable X is eligible.

Obtained the SPSS output result above, the first -2LogL Block value is 95,105. Next, enter the independent variable in table 6. The final -2LogL Block value decreased to 78,883. Decreased Likelihood value (-2LogL) which means that the hypothesised regression model matches the data.

Table 7.
Determination Coefficient Result (Nagelkerke's R Square)

Model Summary			
Step	**-2 Log likelihood**	**Cox & Snell R Square**	**Nagelkerke R Square**
1	78,883[a]	,081	,207

Source: Data Processing Result

The previous value of Cox and Snell's R Square is 0.081 and the value of Nagelkerke R Square is 0.207. Based on his research, Cox and Snell came to the conclusion that Cash Ratio, Current Ratio, and Quick Ratio, can be used to predict financial difficulties with an accuracy of 8 percent. Meanwhile, the Fast Ratio, Current Ratio, and Cash Ratio were found to account for 20.7% of the variance in times of financial difficulties, as calculated with Nagelkerke R Square. The findings imply that independent factors account for as much as 20.7% variance in dependent variables. While foreign factors account for the remaining 79.3 percent.

Table 8.
Feasibility Testing Results

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Hosmer and Lemeshow Test			
Step	**Chi-square**	**df**	**Sig.**
1	6,673	8	,572

Source: Data Processing Result

The previous Chi-square value was 19,613 whose significance level was 0.572 > 0.05 and the model was accepted and could estimate the measurement of the observations.

Table 9.
Classification Matrix Results

Classification Table[a]					
			Predicted		
			Financial distress		
	Observed		Non-*Financial distress*	*Financial distress*	Percentage Correct
Step 1	*Financial distress*	Non-*Financial distress*	179	0	100,0
		Financial Dsitress	13	0	,0
	Overall Percentage				93,2

Source: Data Processing Result

The classification matrix above shows that the predictability of the logistics regression model is 93.2% of the original data, with an error rate of 6.8%. The predictive power for 'Financial difficulties' is zero, but for 'Non-Financial Difficulties', one hundred percent.

Table 10.
Parameter Estimation Result

Variables in the Equation							
		B	**S.E.**	**Wald**	**df**	**Sig.**	**Exp(B)**
Step 1[a]	CR	-2,225	3,832	,337	1	,562	,108
	QR	-2,300	4,095	,315	1	,574	,100
	CRA	,662	20,041	,001	1	,974	1,940
	Constant	,055	,992	,003	1	,956	1,056

Source: Data Processing Result

Given these findings, it can obtain the following equations to interpret or estimate parameters:

$$Ln = \frac{\text{p (FD)}}{1-\text{p(NFD)}} = 0{,}055 - 2{,}225CR - 2{,}300\text{I}QR + 0{,}662CRA \quad (5)$$

The previous equation showed that the Log of Odds of financially problematic banks are connected in reverse or inversely with Current Ratios and Fast Ratios, and are profitable with Cash Ratios.

Hypothesis Test

Table 11.
Simultaneous Test Results (Omnibus Test)

Omnibus Tests of Model Coefficients

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		Chi-square	df	Sig.
Step 1	Step	16,223	3	,001
	Block	16,223	3	,001
	Model	16,223	3	,001

Source: Data Processing Result

Previous data showed that the Chi-Square value for the simultaneous test was 16,223 which was statistically significant at a level of 0.001. Researchers found that independent variables Cash Ratio, Quick Ratio, and Current Ratio, and have a big impact and predict financial difficulties when all three are measured at once (number sig. < 0,05).

Table 12.
Partial Test Results (Wald Test)

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	CR	-2,225	3,832	,337	1	,562	,108
	QR	-2,300	4,095	,315	1	,574	,100
	CRA	,662	20,041	,001	1	,974	1,940
	Constant	,055	,992	,003	1	,956	1,056

Source: Data Processing Result

Based on the data analysis mentioned above, it can be discussed the steps taken to partially test the hypothesis that Cash Ratio, Fast Ratio, and Current Ratio, and have no effect on BUS financial difficulties in Indonesia between 2018 and 2021:

a. Separately the Current Ratio has no influence on financial distress in BUS Indonesia in 2018 - 2021. This is justified by the value of sig. obtained which is 0.562 > 0.05.
b. Separately Quick Ratio has no influence on financial distress in BUS Indonesia in 2018 - 2021. This is justified by the value of sig. obtained which is 0.574 > 0.05.
c. Separately Cash Ratio has no influence on financial distress in BUS Indonesia in 2018 - 2021. This is justified by the sig. value obtained which is 0.974 > 0.05.

Interpretation of Results

Table 13.
Independent Variable Relationship to Financial Distress

Variable	Found Relationship	Direction of Relationship
Current Ratio (CR)	There is no relationship	Negative
Quick Ratio (QR)	There is no relationship	Negative
Cash Ratio (CRA)	There is no relationship	Negative

The Effect of Current Ratio on Financial Distress

Short-term creditor confidence in the solvency of the company is measured by a smooth ratio. The ability to fulfil working capital commitments is another CR indicator. When CR is high, it shows that the company has enough cash to pay its short-term debt as it approaches a set time.

A discrepancy was found in the findings of two studies one (Ruslinawati, 2017) states that the Current Ratio variable has a positive and substantial influence on Financial Distress. Meanwhile, this study proves the same thing as the research conducted (Widati & Pratama, 2015) stated that it had a negative and insignificant influence on Financial Distress. This means that the liquidity measured by the current ratio has no effect on financial distress, because the greater the comparison between currents assets and current liabilities, the higher the company's ability to cover short-term obligations. There are a number of potential sources of variation in the findings of this study, including variations in data collected, items investigated, research strategies used, and methods used to analyse the information collected. Therefore, H_0 was approved while H_a was not.

The Effect of Quick Ratio on Financial Distress

The size of the company's liquidity and short-term debt service capacity are the definition of the quick ratio. QR also shows the company's performance in making debt payments in the short term through new assets from current assets. When a business has a high fast ratio (QR), this shows that it has enough cash to pay short-term debt and interest payments, which is great news for anyone who wants to lend or invest money in the company.

This research fills the literature gap if the Quick Ratio has a negative and insignificant influence on Financial Distress, contrary to the findings (Kisman & Krisandi, 2019). This means that the Quick Ratio cannot be used as one of the benchmarks for outside parties to be used as the basis for decision making in predicting financial distress. There are a number of potential sources of variation in the findings of this study, including variations in data collected, investigated items, research strategies used, and methods used to analyse the information collected. Therefore, H_0 was approved while H_a was not.

The Effect of Cash Ratio on Financial Distress

Indicators of a company's solvency and short-term loanholder security are its cash-to-debt ratio. To lure investors to put money into the company, a high cash ratio is a positive sign that the business is able to pay off and is able to fulfil its short-term financial commitments. A high cash ratio is also not ideal, because it can indicate that resources are wasted because they are inactive. It takes time to settle creditors and sell some other current assets, therefore cash ratios below the average of similar companies imply unwanted positions.

According to the gap in the literature (Ruslinawati, 2017) , there is no correlation between the cash ratio variable and economic difficulties. The findings of this study on the effect of cash ratio to financial difficulties are contrary to research by (Kisman & Krisandi, 2019), and (Oktarina, 2018). In addition, this investigation confirms the findings (Ruslinawati, 2017). The regression test results showed that there was no effect between the Cash Ratio variable and Financial Distress. So the hypothesis that states that the Cash Ratio has no effect and is significantly accepted. Therefore, Cash Ratio has no influence on Financial Distress. That if the

greater the cash comparison or cash equivalent with current debt, the better. There are a number of potential sources of variation in the findings of this study, including variations in data collected, items investigated, research strategies used, and methods used to analyse the information collected. Therefore, H_0 was approved while H_a was rejected.

The Effect of Current Ratio, Quick Ratio and Cash Ratio on Financial Distress

The sig value = 0.001 less than 0.05 is obtained from the omnibus test which shows that the cash ratio, quick ratio, and current ratio independent variables have a significant influence on financial difficulties and can be used to predict it. As a result, the company's financial difficulties are not only influenced by its ability to pay current liabilities with current assets, but also by its ability to pay current liabilities with assets more liquid or smoother than current assets. the trust of the company's short-term creditor or its liquidity to fulfil its obligations. As a consequence, having Ho been rejected and Ha accepted as the end result.

Related to this, Sharia Commercial Banks can carry out an Early Warning System by reviewing the imbalance that occurs between current liabilities and current assets. Optimising cash equivalents and cash reserves is a way to correct the company's liquidity risk. Making several efforts to grow high trust in the bank's customers, thus minimising the occurrence of financial distress. One of them is by correcting deficitation in liquidity risk management as well as cost management

Conlusions

The results of simultaneous testing that have been carried out in this study prove that the acquisition of the logistics regression test above formulates that financial distress is influenced by independent variables Cash Ratio, Quick Ratio, and Current Ratio. While in the partial acquisition results it was found that financial distress is not affected which is characterised by a negative value by the Current independent variable, financial distress is not influenced which is marked by a negative value by the Independent variable Quick Ratio and financial distress is not influenced which is marked by a negative value by the cash Ratio independent variable.

The results of bankruptcy prediction analysis are not entirely correct in predicting bankruptcy, but the results of the analysis are still important to provide early warnings about predictions. financial difficulties in a company, so that the company can take corrective steps to improve its performance. It is hoped that the next researcher will use other types of financial ratios, which have not been listed in this study and the object of research to use companies other than companies that researchers use to obtain better results in subsequent studies.

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