

The Effect of Capital Adequacy and Earning Asset Quality on Profitability at PT. BPRS Harta Insan Karimah Makassar

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ABSTRACT

This study aims to determine and analyze the effects of capital adequacy and the quality of productive assets (KAP) on profitability. The object of this research is PT. BPRS Harta Insan Karimah Makassar, where researchers took data in the form of financial statements for the 2017–2019 period as a sample using the purposive sampling method. The data collection method in this research uses the literature study method and the documentation method. Normality, multicollinearity, autocorrelation, and heteroscedasticity tests are used to analyze test requirements. The analytical method used is multiple regression analysis. The results of this study indicate that: (1) capital adequacy has a significant but not significant effect on profitability; (2) product asset quality (KAP) has a significant effect on profitability; and (3) capital adequacy and the quality of productive assets (KAP) together have a significant effect on profitability at PT. BPRS Harta Insan Karimah Makassar period 2017–2019.

INTRODUCTION

Indonesia, as a developing country, certainly needs the role of financial institutions, especially banks in the economic sector. Basically, the role of the bank is very important in advancing the economy and is even very central in helping the government to improve the welfare of the nation. The success of the bank as a vehicle for absorbing and distributing public funds effectively and efficiently also shows the success of economic development. Sharia and its explanation in Article 1 paragraph 2 state that a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of loans or other forms to improve people's living standards.

According to (Wibowo, 2013), what distinguishes the management of Islamic banks from conventional (conventional) banks lies in the financing and provision of remuneration received by banks and investors in a definite percentage. So, it doesn't matter whether the condition of the borrower (borrowers) is still able or not to pay off the debt, this will be a burden for the borrowers. Meanwhile, Islamic banks only give and receive remuneration based on a profit-sharing agreement (akad). Sharia banks will receive profits in the form of profit-sharing from projects financed by the bank. If the project fails, a solution will be sought. According to (Dewi, 2011), commercial banks are more profitable than Islamic banks, but the profitability of Islamic banks can be above or below that of commercial banks or can be said to be unstable. The increase in Islamic banks in Indonesia is also driven by the high interest of the public in placing their funds in Islamic banks and has developed into a trend. In the 2010 development report on Islamic banking, it is stated that this trend is developing because Islamic banking fund products are attractive to depositors, considering that the profit-sharing ratio and product margins are still competitive compared to interest rates in conventional banks. The increase in Islamic banks in Indonesia is also driven by the high public interest in placing their funds in Islamic banks and has developed into a trend. In the 2010 development report on Islamic banking, it is stated that this trend is developing because Islamic banking fund products are attractive to depositors, considering that the profit-

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One type of Islamic bank is a Shariah-financing bank. An Islamic People's Financing Bank is a bank that carries out business activities based on sharia principles, which in its activities does not provide services in payment traffic. PT. BPRS Harta Insan Karimah Makassar is one of the sharia-based financing banks that are still in the development process. quoted directly from the official website of BPRS HIK, where PT. BPRS Harta Insan Karimah Makassar experienced a downturn and rose again in 2016. One of the factors causing the downturn was the achievement of profitability. After changing the management structure with new policies and strategies, PT. BPRS Harta Insan Karimah Makassar can again serve the needs and gain the trust of the surrounding community. Given the importance of the function and role of Islamic banking in Indonesia, Islamic banks need to improve their performance to create banking with sharia principles that is healthy and efficient. The performance of a healthy and efficient bank is indicated by the development of profitability as well as at PT. BPRS Harta Insan Karimah Makassar. Return On Assets (ROA) is used to measure the profitability of a bank, because Bank Indonesia, as a supervisor and supervisor of banking, prioritizes the value of a bank's profitability as measured by assets whose funds are mostly from public deposits. The greater the ROA of a bank, the greater the level of profit achieved by the bank, and the better the position of the bank in terms of asset use (Dendawijaya, 2009). Therefore, in this study, ROA is used as a measure of profitability. Several factors that can affect profitability include capital and the quality of productive assets (KAP).

Capital has a very important function in the banking industry. Banks must have sufficient capital if they want to make a maximum profit and must not lack capital in their operational activities, because, of course, it will hamper the performance of the bank itself. Capital in banking can be measured by the ratio of capital adequacy ratio (CAR). The Capital Adequacy Ratio (CAR) is used as a capital measurement tool because it enables a bank to measure the adequacy of capital owned by a bank to support assets that contain or generate risks, such as financing provided. The higher the CAR, the stronger the bank's ability to bear the risk of any credit or risky productive assets. Therefore, bank capital shows the ability of bank management to monitor and control the risks that occur, which can affect the amount of bank capital. If the bank has adequate capital, it can carry out its operational activities efficiently, which will provide benefits to the bank. Capital adequacy, as measured by the Capital Adequacy Ratio (CAR), indicates a more stable bank business if it is greater than 8%. This is because the bank will be able to bear the risk of risky assets. In theory, a bank that has a CAR above 8% is very good because the bank is able to bear the risks that arise. It can be concluded that capital adequacy (CAR) should have a positive effect on profitability. As researched by (Anggreni and Suardhika, 2014), CAR has a positive and significant effect on bank profitability, while research (Dewi and Wisadha, 2015).

Most of the assets in the bank are productive assets. Earning assets are bank fund investments in the form of rupiah and foreign currency, financing provided securities issued, and placements with other banks. Asset assessment of a bank tends to assess earning asset quality (KAP) to better know the extent to which asset quality is owned as one of the supporting factors in generating profits at a bank. The higher the Earning Assets Quality (KAP) ratio indicates, the better the quality of the productive assets of Islamic banks, the smaller the possibility of a bank in financial distress. According to the results of Susila's research (Susila, 2017), the quality of productive assets (KAP) has a significant effect on profitability. Meanwhile, according to research (Komarudin, 2018) that the quality of productive assets (KAP) has no effect on profitability.

As explained above, several studies have been conducted to determine whether capital adequacy and the quality of productive assets (KAP) affect bank profitability as proxied by the ratio of return on assets (ROA). However, this research is still more focused on conventional banks, while those using Islamic banking samples, especially Islamic people's financing banks, are still limited. Several studies have yielded inconsistent results. The inconsistency of the results of the research that has been carried out has encouraged researchers to conduct further research on profitability, especially in Islamic people's financing banks, which are proxied by the ratio of return on assets (ROA). Besides that, the selection of

objects in this study is because the writer wants to know whether the development and increase in profit of PT. BPRS Harta Insan Karimah Makassar is currently influenced by the factors of capital adequacy and quality of productive assets or vice versa.

LITERATURE REVIEW

Sharia People's Financing Bank

According to Law No. 21 Article 1 Paragraph 2 of 2008 concerning Islamic banking, a bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit or other forms to improve people's living standards. While financing is the provision of money or bills that can be equated with that, based on an agreement or agreement between the bank and another party that requires the party being financed to return the money or claim it after a certain period with compensation or profit-sharing. According to Law No. 21, Article 1 Paragraph 9 of 2008, BPR is a sharia bank that in its activities does not provide services in payment traffic. Cross payments It should be noted that BPRS stands for "Sharia People's Financing Bank," not "Sharia Rural Credit Bank." BPRS develops during rural communities in the villages and in the markets and carries out its role in providing banking services to farmers, breeders, fishermen, craftsmen, traders, and other small entrepreneurs. Before Sharia BPR existed in Indonesia, the public was first aware of the existence of Rural Credit Banks (BPRs).

Profitability

Profitability shows the ability of a company to earn a profit. According to (Pandia, 2012), profitability is a tool to measure the bank's ability to generate profits with assets or capital within a certain period. Profitability is the company's ability to earn profits during a certain period (Munawir, 2010). Profitability in the banking industry is critical for owners, depositors, the government, and society (Audhya, 2014). Therefore, banks need to maintain profitability to remain stable or even increase. As a result, profitability can be defined as a measure of a bank's ability to increase profits and a tool used to assess the level of efficiency and profitability attained by the bank in question. So, it is very important for the bank to know the level of profitability to determine a policy.

Capital Adequacy

Capital is an important aspect for a bank business unit because whether a bank operates or is trusted, of which is influenced by the condition of its capital adequacy. Capital assessment is intended to assess the adequacy of bank capital in securing position risk exposure and anticipating risk exposures that will arise. Capital is one of the variables that can be used as a basis for measuring bank performance, especially profitability. Capital is one of the important factors for banks in developing their business and accommodating the risk of loss. According to the Regulation of the Financial Services Authority of the Republic of Indonesia No.66/POJK.03/2016 chapter 1 article 1 number 2 the minimum capital requirement, hereinafter abbreviated as KPMM, is the ratio of capital to risk-weighted assets that must be provided by the BPRS.

Earning Asset Quality

Earning assets are bank fund investments in the form of rupiah and foreign currency, loans, securities issued, and placements with other banks that must be carried out based on prudential principles and comply with sharia principles. Earning assets are assets owned by banks whose use is carried out by investing funds to economic actors and the community (Susila, 2017). According to (Hesti, 2010) Earning assets are Islamic bank funds investment both in rupiah and foreign currency owned by banks in the form of financing, receivables, cards, sharia securities, placements, temporary equity participation, commitments and contingencies in administrative account transactions, and deposits. Bank Indonesia with certificate.

RESEARCH METHOD

This research is included in the type of descriptive quantitative research, namely research that collects information, processes data, describes and explains the independent variables consisting of Capital Adequacy and Earning Asset Quality to analyze the effect on the dependent variable, namely Profitability (ROA) at PT. BPRS Harta Insan Karimah Makassar. This research was conducted at PT. BPRS Harta Insan Karimah Makassar was carried out in a period of approximately 2 months, starting from July to August 2019. The population used in this study was the financial report of PT. BPRS Harta Insan Karimah Makassar. The sample in this study is the financial statements of PT. BPRS Harta Insan Karimah Makassar in 2017-2019.

RESULTS AND DISCUSSION

Descriptive Statistics Test Results of Research Variables

The results of descriptive statistical tests of research variables are used to describe statistically processed data. The description is in the form of minimum value, maximum value, average value, and standard deviation. To interpret the results of descriptive statistics of capital adequacy (X1), quality of earning assets (X2) and profitability (Y) can be seen from the table as follows: Based on the results of the calculations in the table above, the value of N or the amount of data processed is 40 pieces. The capital adequacy variable (X1) has a minimum value of 2 and a maximum value of 26. The productive asset quality variable (X2) has a minimum value of 1 and a maximum value of 8, while the minimum value of the profitability variable (Y) is -19 and a maximum value of 9. Furthermore, the table above shows that the value of the standard deviation of the capital adequacy variable (X1) and the quality of earning assets (X2) is smaller than the average value (mean) so that it indicates good results because it shows the low variation between the maximum and minimum values during the observation period, or with, in other words, there is no big enough gap for each of these variables.

Multiple Linear Regression Analysis Test

Based on the calculation of multiple linear regression analysis carried out through statistics using the SPSS program, the following results were obtained:

Table 1. Multiple Linear Regression Test Results

Coefficients ^a					
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	t
1	(Constant)	.017	3.230		.005
	X1	.298	.153	.258	1.947
	X2	-1.939	.477	-.538	-4.062

a. Dependent Variable: Y

Source: SPSS 25 output, processed secondary data, 2019.

From the results of multiple linear regression calculations in table 1, it can be seen the relationship between the independent variable and the dependent variable which can be formulated in the following equation:

$$Y = 0.17 + 0.298X_1 - 1.939X_2$$

The regression equation model explains that the constant of 0.17 percent indicates that if the capital adequacy and quality of productive assets are equal to zero, the average profitability is 0.17 percent. Capital adequacy (X_1) has a positive coefficient value of 0.298, meaning that every 1 percent increase in capital adequacy is predicted to increase profitability by 0.298 percent. The quality of productive assets (X_2) has a negative coefficient of 1.939, which means that every 1 percent increase in the quality of productive assets is predicted to reduce profitability by 1.939 percent.

t-test (Partial)

To determine the effect of the independent variable consisting of capital adequacy and quality of productive assets on the dependent variable, namely profitability, it is necessary to do a *t*-test. Partial testing can be seen from the *t*-test, if the probability value is <0.05 then H_0 is rejected, which means there is a significant effect. Partial test results can be seen in the following table:

**Table 2. T-Test Results (Partial)
Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	.017	3.230		.005	.996
	X_1	.298	.153	.258	1.947	.059
	X_2	-1.939	.477	-.538	-4.062	.000

a. Dependent Variable: Y

Source: SPSS 25 output, processed secondary data, 2019.

Based on table 2, the partial test for the capital adequacy variable (X_1) obtained *t* count = 1.947 with a significance value of $0.059 > 0.05$, so H_0 is accepted and H_1 is rejected. This shows that partially H_1 states that capital adequacy has a positive but not significant effect on profitability. Based on the results of the partial test for the productive asset quality variable (X_2), it is obtained *t* count = -4.062 with a significance value of $0.000 < 0.05$, then H_0 is rejected and H_2 is accepted. This shows that partially H_2 states that the quality of earning assets (X_2) has a significant negative effect on profitability.

*F Test (Simultaneous)***Table 3. F Test Results (Simultaneous)**

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1146.716	2	573.358	10.003	.000 ^b
	Residual	2120.884	37	57.321		
	Total	3267.600	39			

a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

Source: SPSS 25 output, processed secondary data, 2019

From the results of the F test in Table 3, the calculated F value is 10.003 with a significance level of 0.000. Because the significant probability is much less than 0.05, then H0 is rejected and H3v is accepted. This shows that simultaneously H3 states that capital adequacy and quality of productive assets have a positive and significant effect simultaneously on profitability.

DISCUSSION*Effect of Capital Adequacy on Profitability*

Based on data analysis and partial hypothesis t-test that has been carried out in this study, it can be seen that capital adequacy has a positive but not significant effect on profitability, seen from the results of t-count = 1.947 and a significance value of 0.059. The results of the analysis are not in accordance with H1 which states that capital adequacy has a significant effect on profitability, so H1 is rejected. The results of this study are supported by the results of research conducted by (Wisadha and Dewi, 2015) as well as (Prasetyo and Darmayanti, 2015) which show that capital is proxied by CAR has no significant effect on ROA which is a proxy for profitability. The positive but insignificant effect given by capital adequacy on ROA can be caused because the BPRS Harta Insan Karimah which returned to operations at the beginning of the 2016-2017 period was still experiencing losses. This happened because of PT. Harta Insan Karimah Makassar has experienced a decline due to many productive assets in the form of non-current loans. Basically, capital should have a significant effect on profitability, but it can be seen in the attached financial report that the amount of capital does not have an impact on profitability because fluctuating profits do not follow the increase in capital. Harta Insan Karimah Makassar has experienced a decline due to many productive assets in the form of non-current loans. Basically, capital should have a significant effect on profitability, but it can be seen in the attached financial report that the amount of capital does not have an impact on profitability because fluctuating profits do not follow the increase in capital. PT. Harta Insan Karimah Makassar has experienced a decline due to many productive assets in the form of non-current loans. Basically, capital should have a significant effect on profitability, but it can be seen in the attached financial report that the amount of capital does not have an impact on profitability because fluctuating profits do not follow the increase in capital.

Effect of Earning Asset Quality on Profitability

Based on data analysis and partial hypothesis t-test that has been carried out in this study, it can be seen that the quality of earning assets has a negative and significant effect on profitability, seen from the results of t count = -4.062 and a significance value of 0.000. The results of the analysis are in accordance with H2 which states that the quality of productive assets has a significant effect on

profitability, so H2 is accepted. The results of this study are supported by the results of research conducted by (Hesti, 2010) and (Susila, 2017) which show that the quality of earning assets proxied by PPAP has a significant effect on ROA which is a proxy for profitability. The increase or decrease in PPAP during the study period affects the increase or decrease in ROA negatively significantly. The lower the PPAP achieved by the bank, the better the bank's performance and vice versa. The quality of earning assets (KAP) is proxied by the ratio of allowance for losses on earning assets (PPAP) to total earning assets. The higher the percentage of this ratio, the lower the quality of earning assets owned by the bank. The establishment of PPAP is one of the efforts to form reserves from the possibility of uncollectible placement of funds so that PPAP is a burden for banks. The larger the PPAP, the lower the performance of productive assets, resulting in lower ROA (Hesti, 2010). The negative and significant effect of earning asset quality (KAP) on profitability in this research is due to the PPAP ratio value of PT. BPRS Harta Insan Karimah is still high. In other words, there are still many productive assets in the form of loans that are not smooth so the PPAP formed will be higher. PPAP was formed using the company's profits, thus causing the company's profit to decrease because they had to form PPAP.

Effect of Capital Adequacy and Earning Asset Quality on Profitability

Based on data analysis and simultaneous f hypothesis testing that has been carried out in this study, capital adequacy and quality of productive assets have a positive and significant effect on profitability, as seen from the results off count = 10.003 and a significance value of 0.000. The results of the analysis are in accordance with H3 which states that capital adequacy and quality of productive assets have a significant effect on profitability, so H3 is accepted. The results of this study are supported by the results of research conducted by Susila (2017) which shows that capital adequacy and quality of productive assets as proxied by the CAR and PPAP ratios have a significant effect on ROA which is a proxy for profitability.

CONCLUSION

The conclusions that can be drawn from the results of this study and discussion are as follows:

1. Capital adequacy has a positive but not significant effect on profitability at PT. BPRS Harta Insan Karimah Makassar.
2. Productive asset quality has a negative and significant effect on profitability at PT. BPRS Harta Insan Karimah Makassar.
3. Capital adequacy and quality of productive assets simultaneously significantly influence the profitability of PT. BPRS Harta Insan Karimah Makassar.

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