Article

The Effect of RGEC on Financial Distress in Islamic Commercial Banks

[1]Puput Fitriana, [2]Darmawati, and [3]Angrum Pratiwi

[1] [2] [3] Universitas Islam Negeri Sultan Aji Muhammad Idris Samarinda, Indonesia
* Corresponding author: puputfitriana07@gmail.com

ABSTRACT

A bank's ability to grow depends on its ability to raise funds. If the bank does not have sufficient funds, the bank will face various risks, including liquidity risk or even financial difficulties. Businesses need to reduce the risk of financial distress and understand the elements that drive it. The purpose of this study was to examine the effect of Risk Profile, Good Coorporate Government, Earnings, and Capital (RGEC) on financial distress at Indonesian Islamic Banks. Associative descriptive quantitative methodology was used in this study. With secondary data from Islamic commercial banks in Indonesia, namely annual financial reports and GCG reports for the 2015-2020 period. Purposive sampling was used to select 9 out of 14 Islamic commercial banks in Indonesia. The independent variables are NPF, FDR, GCG, ROA, ROE, CAR, and the dependent variable is financial distress, which is calculated using the Altman Z-Score model. Using multiple linear regression analysis. The results show that NPF has a significant negative effect on financial distress, while FDR has a significant positive effect on financial distress, while GCG, ROA, ROE, and CAR have no significant effect

Keywords: Risk Profile; Good Corporate Governance; Earnings; Capital; Financial Distress

JEL Classification: G01, G21, G33

INTRODUCTION

The banking industry has a role in the economy of a country, namely, as a liaison agency that collects and distributes third-party funds into investment in productive assets (Departemen Pengembangan Pengawasan dan Manajemen Krisis, 2015).

Likewise with Islamic banks which are intermediary institutions for parties who have excess funds and other parties who lack funds (Danupranata, 2013), what distinguishes is the system used based on Islamic principles and by the provisions set by the

National Sharia Council (DSN-MUI) (Budiono, 2017). For people who want to avoid interest or usury, the presence of Islamic banks is one solution in providing a sense of security and comfort when transacting (Marimin & Romdhoni, 2017).

In the last 5 years (2016-2020), Islamic banking assets continued to increase from 254,184 billion to 397,073 billion, accompanied by an increase in Disbursed Financing (PYD) and Third Party Funds (DPK) which showed positive developments (OJK, 2021). The development of each bank is influenced by the bank's ability to raise public funds, either on a small scale or on a large scale with a sufficient deposit period. As a financial institution, funds are the bank's most important problem. Without adequate funds, banks cannot carry out their role at all. The funds in question are cash owned by banks in the form of cash or other assets that can be converted into cash. This controlled cash does not only come from the bank but also comes from investors and third-party funds (the public) which at a certain time will be withdrawn (Danupranata, 2013).

Difficulties in raising funds can also occur due to the increasing demand for credit or financing (Sadida, 2018). Problems like this, if it continues, will lead to liquidity problems and even financial distress, where the company's operating cash flow is inadequate and the company's finances become unhealthy and even a crisis so that it cannot fulfill the company's obligations. This requires further action to avoid bankruptcy. Early detection is very necessary to overcome or minimize the occurrence of bankruptcy. There are many models in predicting bankruptcy, namely the Altman, Springate, Zmijewski, Grover models (Iqbal et al., 2018). The model that will be used to detect financial distress in this study is the Altman Z"-Score model. This model can describe a company's condition, both open and closed companies in a certain period.

Based on data from the OJK, Sharia Banking Statistics in December 2020, the CAR ratio of Islamic Commercial Banks (BUS) has increased to 5.01% in 5 years, this indicates that the bank has sufficient capital to carry out its business activities and is sufficient to bear risks. if the bank is liquidated (Fauziah, 2017). The NPF ratio increased by 0.34% in 2017 and was barely within the safe limit of below 5% (Haq & Harto, 2019). And it continues to decline in the following year to 3.13% in 2020 which is a positive thing, which indicates the bank can overcome problematic financing such as insufficient, smooth, even jammed. And the FDR ratio for the last 5 years is still at an average value of 75%-100% which is quite healthy. The low FDR shows the bank's liquidity ability is quite good, if the higher FDR value it shows the bank's low liquidity ability (Wangsawidjaja Z, 2013).

The CAR, FDR, and NPF ratios above are some of the ratios of the factors listed in the Financial Services Authority Regulation No. 8/POJK.03/2014 concerning the Assessment of the Soundness of Islamic Commercial Banks and Sharia Business Units (Alvidianita & Rachmawati, 2019). Based on the POJK, there are 4 assessment factors, namely the risk profile (Risk Profile) and performance which includes the implementation of good governance (Good Corporate Governance), profitability (Earning), and capital (Capital) known as RGEC (SE OJK No 10/SEOJK.03/2014, 2014).

Previous research conducted by Sari (2017) on Analysis of Bank Financial Performance on Financial Distress in Islamic Banking in Indonesia explains that ROE effects, on the other hand, FDR, NPF, GCG, ROA, and CAR does not affect financial distress. Meanwhile, in the research of Haq & Harto (2019), NPL, LDR, board of commissioners activities and ROA affect financial distress, while the size of the audit committee and CAR do not affect financial distress. In Alvidianita & Rachmawati (2019) on the Effect of RGEC on

Financial Distress at Bank Muamalat Indonesia, the findings say that FDR and ROA variables have an effect, and NPF, GCG, and CAR do not affect financial distress conditions. On the other hand, Sadida (2018) research on RGEC as a predictor of Financial Distress conditions in Banking states that NPL, LDR, and ROA do not affect financial distress while CAR affects financial distress.

Based on the explanation of the issues above as well as the diversity of findings of previous researchers, it raises interest in researching how the influence of factors or aspects of the assessment of the level of health, namely Risk Profile, Good Corporate Governance, Earning, and Capital on financial distress in Islamic Commercial Banks where, the ratio or measurement indicator The data used are based on popularity and relevance to previous research, namely Risk Profile (NPF and FDR), Good Corporate Governance (Score Self Assessment), and Earnings (ROA and ROE), and Capital (CAR). Meanwhile, the measurement of financial distress uses the Altman Z"-Score model.

Finally, the author can conclude that whether or not a bank is healthy does not necessarily describe the bank as free from financial distress. So predicting and knowing what aspects affect financial distress is a concern to minimize bankruptcy. The purpose of this study was to determine the effect of NPF, FDR, GCG, ROA, ROE, and CAR on financial distress at Islamic Commercial Banks in Indonesia for the 2015-2020 period.

LITERATURE REVIEW

Islamic Bank

Banks are business entities or entities that collect funds in the form of savings (savings, current accounts, deposits) and distribute them to the public in the form of financing or other forms to support the community (Wangsawidjaja Z, 2013). Islamic banks are banks that carry out their activities based on sharia principles by Law No. 21 of 2008 the principles of Islamic law are regulated by the National Sharia Council-Indonesian Ulema Council (DSN-MUI) such as the principles of benefit, justice and balance, universalism, and also apart from gharar, maysir, usury, injustice, and unlawful objects. In Islamic banking, the activities and operations of the bank are supervised by the Sharia Supervisory Board (DPS) so that they are always following sharia principles (Antonio, 2001). Islamic banks do not depend on high and low-interest rates and do not pay interest. All forms of rewards given to customers depend on the agreement (contract) made in advance by the customer and the bank. In the contract, some pillars and conditions must be obeyed and regulated according to Islamic law (Andrianto & Firmansyah, 2019).

Islamic banks by type are divided into 3, namely Islamic Commercial Banks (BUS), Sharia Business Units (UUS) and Sharia People's Financing Banks (BPRS) (Andrianto & Firmansyah, 2019). Sharia Commercial Banks (BUS) are banks that carry out their activities based on sharia principles which in their duties provide services in payment traffic. BUS is a business entity equivalent to a conventional commercial bank in the legal form of a Limited Liability Company. The Sharia Business Unit (UUS) is a sharia work unit that is centered or its parent company is a conventional commercial bank. Sharia People's Financing Bank (BPRS) is a sharia bank whose activities do not provide payment traffic services (Alimusa, 2020).

Risk Profile

This risk profile is a reflection of the overall risk attached to the bank's operations in the form of inherent risk and the quality of risk management implementation (Ikatan Bankir Indonesia, 2016). In this study, the risk profile that will be used is financing risk and liquidity risk.

Financing risk is a risk in the form of the impact of a third party's failure to fulfill its obligations at the agreed amount and time and the third party is declared to have failed to pay (Hanggraeni, 2019). This risk can be calculated through the NPF ratio. Where this NPF is one of the indicators used in assessing the health of assets. This ratio is used to describe non-performing financing to non-bank third parties that are categorized as substandard, doubtful, or even bad. If the NPF is below 2%, then the bank can be said to be very healthy or very good. If it is above 12%, the bank can be said to be unhealthy or not good (Syaifullah et al., 2021), because a high NPF can reduce profits, and vice versa, a low NPF indicates a small problem financing. The risk that is felt by Islamic banks is that the principal financing funds do not return and they do not get the profits as agreed so that the impact on the quality of financing also decreases (Wangsawidjaja Z, 2013). It can be said, NPF has a negative effect on probability (Hasibuan et al., 2020).

Furthermore, liquidity risk, this risk is caused by the bank's inability to meet short-term obligations or those that have matured. This risk comes from checking accounts (current accounts, savings, time deposits) and unsupported investment funds. This risk can occur if the bank is unable to meet the withdrawal needs of its customers. if the customer withdraws funds from the Islamic bank together, that's when the Islamic bank faces a liquidity challenge (Hanggraeni, 2019). This risk can be calculated through the FDR ratio.

This FDR ratio is used to measure the bank's ability to maintain liquidity and utilize third-party funds (DPK) in meeting financing or financing. If the bank is unable to channel the financing and funds collected, the bank will lose money (Hasibuan et al., 2020). This FDR evaluation provides an indication or description of the structure of bank deposits regarding the bank's financing portfolio (Ikatan Bankir Indonesia, 2016). The lowest limit for FDR is 78% and the maximum limit is 100%. The higher FDR will have an impact on lower bank liquidity, but the increase in the level of disbursed financing (FDR) is also expected to increase the level of income obtained. This also shows that FDR has a positive effect on profitability (Hasibuan et al., 2020).

Good Corporate Governance (GCG)

Good Corporate Governance (Implementation of good governance) above orders to build public trust through good and healthy performance (Ikit, 2018). The main goal is to optimize the value of the company so that it has strong competitiveness, both nationally and internationally, so that it can maintain and sustain the life of Islamic banks (Hasibuan et al., 2020). The implementation of GCG in Islamic Commercial Banks is based on 5 (five) basic principles. First, based on relevant and material information, as well as in decision making. Second, accountability is the function and implementation of organizational activities so that their management can run effectively. Third, responsibility is to adjust bank management to the prevailing laws and regulations and soundbank management principles. Fourth, a professional is having competent, able to act objectively and free from pressure from any party as well as having a high commitment to developing Islamic banks and fifth, namely justice and fifth, implementing the rights of stakeholders based on agreements and applicable laws and regulations (SE OJK No 10/SEOJK.03/2014, 2014).

GCG is measured by using the self-assessment composite value carried out by each Islamic commercial bank implementing GCG principles (Ikatan Bankir Indonesia, 2016). To get a composite value, the bank adds up the values of all the factors. Based on the composite value, see Table 1.

Table 1
Composite Value of GCG
Self Assessment Implementation

Composite Value	Composite Predicate Value
< 1.5 Composite Value	Very Good
1.5 Composite Value < 2.5	Good
2.5 Composite Value < 3.5	Good Enough
3.5 Composite Value < 4.5	Less Good
4.5 Composite Value 5	Not Good

Source: Bank Indonesia Circular Letter No. 12/13/DPbS.2010

Earnings

Earning is a result of investment in the form of a percentage of the number of funds invested by someone. Earning assessment is an evaluation that is used to see the ability of a company to create profits or profits that influence operations and capital or bank expertise in maintaining bank operational viability through profits. A bank is said to be healthy if the measurement or assessment of its profitability continues to increase (Wahyuni, 2020).

Profitability factor assessment includes evaluation of performance, sources of profitability, sustainability, management, and implementation of social functions (SE OJK No 10/SEOJK.03/2014, 2014). 2 ratios will be used to measure bank performance, namely Return on Assets (ROA) and Return on Equity (ROE) (Ikatan Bankir Indonesia, 2016). Where ROA is a comparison between profit before tax with average assets (SE OJK No 10/SEOJK.03/2014, 2014). According to Lin Afriani in the book Syaifullah et al., (2021) state that ROA is a method used by comparing net income with the average total assets to measure the extent to which the company's assets can generate profits. This ratio can also measure the ability of bank management in obtaining overall profit (profit). The greater the ROA of a bank, the greater the level of profit achieved by the bank and in terms of asset use, the bank's position is also getting better. The

standard for assessing the ratio of Islamic commercial banks (BUS), namely ROA above 1.5%, has a very good predicate, while ROA is below 0%, so the predicate is not good (Syaifullah et al., 2021).

Furthermore, ROE is a comparison between income or net income with the average capital or investment of bank owners. For Islamic banks, the most dominant source of funds for asset financing is an investment which can be divided into 2, namely, long-term investment, namely from the owner of the funds, and short-term investment from customers (mudharabah account). And a small part is an obligation to third parties in the form of wadi'ah accounts (Arifin, 2012).

Capital

Evaluation of the Capital factor evaluation of the evaluation of capital and capital assessment. In calculating capital, Islamic Commercial Banks must refer to the applicable provisions regarding the minimum capital provision for Islamic Commercial Banks, namely 8%. Not only that, in implementing this capital assessment, Islamic Commercial Banks must also assess capital evaluation with a risk profile. The higher the risk, the greater the capital that must be provided to anticipate the risk (SE OJK No 10/SEOJK.03/2014, 2014)

This capital evaluation can use the CAR ratio, where CAR is a ratio to calculate capital against risk-weighted assets (RWA) (Wahyuni, 2020). This CAR ratio provides an overview of the amount of bank capital used to support the life of the bank. The higher the CAR, the greater the resilience of the bank concerned and shows the healthier the bank (Wangsawidjaja Z, 2013).

Financial Distress

Financial distress is a condition that indicates problems in the finances of a company. A financial startup begins, when an experience experiences difficulties in meeting its obligations, income,

company size, and assets cannot support these obligations (Schmuck, 2013). For the creditor, this is an early indication of the debtor's failure.

This financial difficulty can be caused by various factors, both internal and external. Internal factors are factors that arise from within the micro company, such as Credit extended to customers being too large; Human resources (HR) being less qualified; Lack of working capital; Abuse of authority; Fraud. Meanwhile, external factors are factors that arise from outside the company, namely business competition; lack of demand; Significant decrease in selling price; Accidents, or disasters (Hery, 2017).

Information about financial difficulties is very much needed by parties with an interest in shareholders as a basis for making investment decisions in a company and can also be used as an early warning system for companies to identify potential bankruptcy. Altman found a formula that can be used to predict the possibility of financial difficulties using the Multivariate Discriminant Analysis (MDA) method. To establish clear boundaries between companies that may experience bankruptcy and those that are unlikely to experience bankruptcy (Irfani, 2020).

Altman produced an initial model which was declared as "Z-Score" or Altman Z-Score Original which consisted of universal business ratios and was limited to publicly listed manufacturing companies. Then Altman developed its version into Z"-Score which is the last model that can be used by public and private companies. By eliminating the ratio of sales to total assets, it is hoped that the industry impact related to asset sales can be eliminated. The differences that appear in the Z"-Score is the ratio of sales to total assets is removed, the weight of each ratio variable changes, the bankruptcy limits change (Prihadi, 2019).

The calculations used are Z-Score (Prihadi, 2019), namely:

$$Z = 6{,}56 \ X \ (WCTA) + 3{,}26 \ X \ (RETA) + 6{,}72 \ X \ (EBITA) + 1{,}05 \ X \ (ETD)$$

Description :
WCTA : Working Capital to total assets
RETA : Retained Earnings to total assets
EBITA : Earnings before interest and taxes to total assets
ETD : book value of equity to Book value of debt
The reformulated bankruptcy limits are:

Table 2 Bankruptcy Limit Z-Score

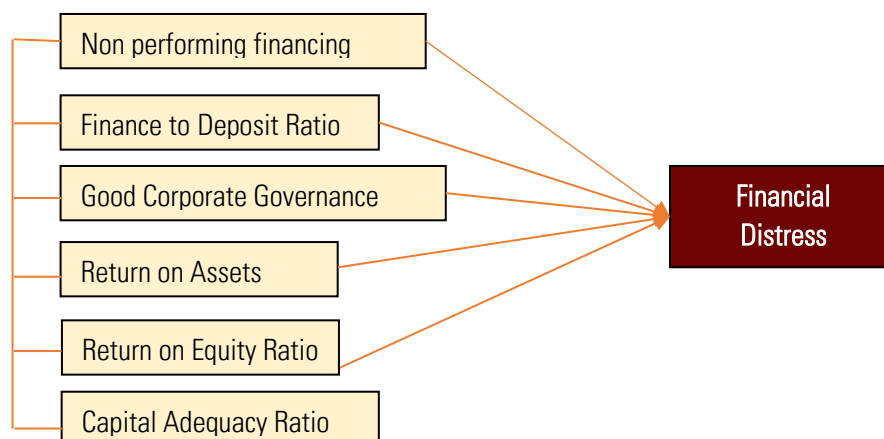| Score	Condition
> 2.60	Not bankrupt
1.1 – 2.60	Gray area
<1.1	Bankrupt

Source: Prihadi (2019)

Figure 1
Research Framwork (Data Processed, 2021)

Research Framework

The pattern of relationships between variables predicted in this study is illustrated in the Figure 1 model.

METHODOLOGY

This research is quantitative research with multiple linear regression analysis techniques. The type of data in this study uses secondary data in the form of financial statements and the 2015-2020 annual GCG report. The source of this data is obtained from the official website of each Islamic Commercial Bank. The independent variables are NPF, FDR, GCG, ROA, ROE, CAR, and the dependent variable is financial distress (FD), which is calculated using the Altman Z"-Score model. The population in this study is all Islamic Commercial Banks (BUS) in During the 2015-2020 period, there were 14 banks in Indonesia and 9 banks were used as samples, which were selected using the purposive sampling method. This data processing was assisted using the Eviews 10 software.

To see the extent of the influence of the regression model in this study, the regression model used in this study is as follows:

$$FD = \alpha + \beta_1 NPF + \beta_2 FDR + \beta_3 GCG + \beta_4 ROA + \beta_5 ROE \ \beta_6 CAR + e$$

Description:

FD   = Financial distress
NPF   = Non-Performing Financing
FDR   = Finance to Deposit Ratio
GCG   = Good Corporate Governance
ROA   = Return on Assets
ROE   = Return on Equity
CAR   = Capital Adequacy Ratio
α = Constant
$\beta_1 ..... \beta_6$ = Regression coefficient
e   = Error

Table 3

Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.982177	1.336687	2.979140	0.0052
NPF	-0.187796	0.052951	-3.546602	0.0011
FDR	0.037383	0.011196	3.339038	0.0020
GCG	-0.293078	0.148741	-1.970396	0.0567
ROA	0.193272	0.325524	0.593726	0.5565
ROE	-0.031208	0.041743	-0.747630	0.4597
CAR	0.005795	0.024001	0.241432	0.8106

Source: Output Eviews (2021)

RESULT AND DISCUSSION

Based on table 3 , the estimated multiple linear regression output can be summarized in the following equation:

FD = 3.982177 − 0.187796 (NPF) + 0.037383 (FDR) − 0.293078 (GCG) + 0.193272 (ROA) − 0.031208 (ROE) + 0.005795 (CAR) + e

From the results of the regression equation above, it can be interpreted that the constant value of 3.982177 indicates that if the independent variables NPF, FDR, GCG, ROA, ROE, and CAR are 0 (zero), then the level of financial distress at Indonesian Sharia Commercial Banks in the 2015-2020 period will be worth 3.982177.

Hypothesis Test Results (t)

Effect of NPF on Financial Distress

Based on table 3, the NPF variable has a coefficient of (-0.187796) and a prob value. t count of the NPF variable is 0.0011. Prob value. This t count is smaller than = 0.05, so it can be concluded that the NPF variable has a significant negative effect on the FD (Financial Distress) variable at 5% alpha. If the NPF increases by one unit, it will reduce the value of financial distress by 0.187796 one unit. In other words, the higher the NPF value, the greater the occurrence of financial distress.

This study has an opposite relationship with previous researchers, namely Haq & Harto (2019), Aprillianti, (2016), and Buchdadi et al., (2020) which states that the NPL variable has a positive relationship to financial distress. On the other hand, this result contradicts the research of Sadida (2018), Andari & Wiksuana (2017), and Alvidianita & Rachmawati (2019) which states that NPF does not affect financial distress.

Non-Performing Financing (NPF) is a ratio used to assess the health of assets through non-performing financing, such as substandard, doubtful, or even non-performing of the total financing provided. If the NPF value increases, it can reduce the profit earned which also has an impact on the quality of financing. This happens, because there are customers who have failed to pay. This default is one of the risks experienced by the bank due to the non-return of the principal financing and not getting the profit as it should, resulting in high non-performing financing and an impact on the bank's profit decline which will eventually increase the possibility of financial distress (Wangsawidjaja Z, 2013).

Effect of FDR on Financial Distress

Based on table 3, the FDR variable has a coefficient (0.037383) and a prob value. t count is 0.0020. Prob value. This t count is smaller than = 0.05, so it can be concluded that the FDR variable has a significant positive effect on the FD (Financial Distress) variable at 5% alpha. Based on the results of the FDR regression test, it has a positive effect, meaning that if the FDR value increases by one unit, it will increase the value of financial distress by 0.037383 one unit. In other words, the higher the FDR value, the lower the possibility of financial distress.

These results support the research of Haq & Harto (2019) and D. Sari & Indrarini, (2020) which state that FDR has a positive effect on financial distress. Meanwhile, Alvidianita & Rachmawati (2019) stated that the FDR variable had a significant negative effect on financial distress. Meanwhile, Sari, (2017) research states that FDR does not affect financial distress.

Financing to Deposit Ratio (FDR) is a ratio used to measure a bank's ability to maintain its liquidity by utilizing third-party funds to meet financing or financing distribution. Theoretically, the higher the FDR value, the lower the bank's liquidity, but the higher the FDR, it is expected that the higher the income earned. This can be explained that, if the bank is not able to channel financing and the funds collected are large, then the bank will lose money due to the lack of effectiveness in channeling financing so that which affects the bank's income (Hasibuan et al., 2020). And will increase the possibility of financial distress.

Effect of GCG on Financial Distress

Based on table 3 GCG variables have a coefficient (-0.293078) and a prob value. t count is 0.0567. Prob value. This t count is greater than = 0.05, so it can be concluded that the GCG variable has a negative relationship but has no significant effect on the FD (Financial Distress) variable at 5% alpha. These results support the research of Sadida (2018), D. Sari & Indrarini, (2020), Alvidianita & Rachmawati

(2019), and Sari, (2017) which state that good GCG does not guarantee that the bank will avoid financial distress. In the research of Haq & Harto (2019), GCG is proxied as the activity of the board of commissioners and shows that GCG has a negative effect on financial distress.

Theoretically, the application of Good Corporate Governance (GCG) aims to optimize the value of the company to have strong competitiveness, both nationally and internationally, to maintain the existence and survival of Islamic banks (Hasibuan et al., 2020). Where GCG plays an important role in calculating, formulating, and deciding strategic decisions in an efficient and coordinated manner (Ikatan Bankir Indonesia, 2016). The results of the study which show that the GCG variable does not affect financial distress may be due to the implementation of the GCG principles being not fully implemented. This is also mentioned in the research of Ellen & Juniarti (2013) which states that GCG is only a formality that is not supported by efficient performance. This result was confirmed by Widhiastuti et al. (2019) which found that the performance of the commissioners and directors was ineffective where GCG was only used as a formality as a form of compliance with applicable laws.

Effect of ROA on Financial Distress

Based on table 3 ROA variables have a coefficient (0.193272) and a prob value. t calculate the ROA variable of 0.5565. Prob value. This t count is greater than 0.05, so it can be concluded that the ROA variable has a positive relationship but does not have a significant effect on the FD (Financial Distress) variable at 5% alpha. These results support research Aprillianti, (2016), Sadida (2018), Sari, (2017) which states that ROA does not affect financial distress. This result contradicts the research of Haq & Harto (2019), D. Sari & Indrarini, (2020), Andari & Wiksuana (2017), Alvidianita &

Rachmawati (2019), and Labita & Yudowati (2020) which stated that ROA affected financial distress.

This can be explained by the bottom line ROA (Return on Assets) which is a ratio in measuring the ability of bank management to earn profits (profits) as a whole (Syaifullah et al., 2021). Unable to be used in predicting its effect on financial distress. This is based on the data obtained in this study, there are data from banks that experienced a decline in profits to show a negative number but the results of the Z"-score in this study still showed the bank was declared safe, not included in the distressed category or the gray category. So that in this study, ROA only provides information, where the higher the ROA the better the performance of a bank in asset utilization and the greater the profits achieved by the bank.

Effect of ROE on Financial Distress

Based on table 3 ROE variables have a coefficient (-0.031208) prob value. t calculate the ROE variable of 0.4597. Prob value. This t count is greater than 0.05, so it can be concluded that the ROE variable has a negative relationship but has no significant effect on the FD (Financial Distress) variable at 5% alpha.

These results do not support other research and contradict the research of Sari, (2017) which states that ROE affects financial distress. This ROE has no effect, based on the data obtained in this study. Where there is a negative number that is quite extreme in the distribution of ROE data which gives a gap between the minimum value and the maximum value even though the previous outliers have been removed. In addition to the results of the descriptive statistics in table 4.1, the mean value is smaller than the standard deviation, namely $4.815238 < 5.363108$, which means that the distribution of the data on this variable is not good, even though the processed data has passed the other assumptions test. These results indicate that

the ROE distribution cannot be used to predict its effect on financial distress because it can affect the hypothesis.

Effect of CAR on Financial Distress

Based on table 3, the CAR variable has a coefficient (0.005795) and a prob value. t calculate the CAR variable of 0.8106. Prob value. This t count is greater than 0.05, so it can be concluded that the CAR variable has a positive relationship but has no significant effect on the FD (Financial Distress) variable at 5% alpha. These results support research by Alvidianita & Rachmawati (2019), Sari (2017), Andari & Wiksuana (2017), and Haq & Harto (2019) which state that CAR does not affect financial distress. And contrary to research Buchdadi et al., (2020), Aprillianti (2016), and Sadida (2018) stated that CAR had a negative effect on financial distress. And Labita & Yudowati (2020) state that CAR has a positive effect on financial distress.

Based on the Circular Letter (SE OJK No 10/SEOJK.03/2014, 2014), CAR (Capital Adequacy Ratio) is a ratio that shows the capital adequacy of a company with a minimum obligation of 8%. The higher the CAR ratio, the better the bank in anticipating risk. However, if the bank is in a state of loss (negative profit) but its capital structure is well maintained, then the bank will still have a high CAR. For example, where a bank suffers a loss, to cover its loss, the bank can overcome it in several ways, one of which is by implementing a debt policy

so that the bank does not experience depreciation of assets due to the problematic condition (Haq & Harto, 2019). This is supported by the results of research by Alvidianita & Rachmawati (2019) regarding Bank Muamalat Indonesia which experienced financial distress in 2012-2016 but its CAR ratio was always above the healthy limit according to applicable regulations.

CONCLUTION AND RECOMMENDATION

NPF had a negative effect on financial distress at Islamic Commercial Banks in Indonesia for the 2015-2020 period. Meanwhile, FDR had a positive effect on financial distress at Islamic Commercial Banks in Indonesia for the 2015-2020 period. On the other hand, GCG, ROA, ROE, and CAR have no effect on financial distress at Islamic Commercial Banks in Indonesia for the 2015-2020 period.

Due to the limitations of the study, this study has limitations on the variables used only 1-2 variables from each RGEC method, it is hoped that future researchers will add other variables such as operational risk, market risk, or variables outside the calculation of bank soundness. In processing negative data such as ROA and ROE in this study, it is recommended for further researchers to be able to maintain the data by using data transformation or other means to describe the actual situation.

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