

IMPLEMENTATION OF RISK-BASED RECEIVABLES LOSS PROVISION AT ABC SYARIAH BANK

Dinar Ary Kartikasari^{1*}, Driana Leniwati², Nazaruddin Malik³.

Universitas Muhammadiyah Malang

E-mail: dinarkartikasari@webmail.umm.ac.id, driana@umm.ac.id.

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Abstract

This study aims to analyze the influence of Non-Performing Financing (NPF) and risk-based Allowance for Impairment Losses (CKPN) on Contribution Margin in the commercial segment of Bank Syariah ABC. The research employs a mixed methods approach with a Sequential Explanatory design, where quantitative analysis is conducted using multiple linear regression and complemented with qualitative analysis through in-depth interviews. The quantitative results show that both NPF and CKPN have a positive and significant effect on the Contribution Margin. A measured increase in CKPN, calculated based on the Expected Credit Loss (ECL) model, strengthens the long-term financial stability of the bank. Meanwhile, effective management of NPF through restructuring and collateral-based financing mitigates its potential negative impact on the margin. The qualitative findings support the statistical results, revealing that the quality and timeliness of customers' financial reporting are critical factors in the accuracy of ECL estimation. Delays in reporting and the lack of adequate accounting systems among commercial clients present challenges in determining optimal CKPN levels. Therefore, the role of risk management, technological support, and strengthened reporting governance are strategic aspects to enhance risk control in the commercial financing segment. This research contributes to the development of a risk-based provisioning system that not only complies with PSAK 71 and OJK regulations but also supports the sustainability of contribution margin in Islamic financing practices.

Keywords: NPF, CKPN, Islamic Bank.

INTRODUCTION

Islamic banking in Indonesia has demonstrated consistent growth, both in terms of assets, number of customers, and service network. This growth is also accompanied by challenges, particularly in managing increasingly complex financing risks. One key indicator reflecting this risk is the increasing Non-Performing Financing (NPF) ratio. Data from the Financial Services Authority (OJK) in March 2024 showed that the NPF ratio of Islamic banks reached 3.25%, a higher figure than in previous years, indicating an increase in credit risk that requires immediate, systematic, data-driven management. Improperly managed financing risks can directly impact the asset quality and financial stability of Islamic banking (Pramestika, 2023). The Islamic banking system needs to build financial resilience with an approach based on Sharia principles while remaining financially accountable. One key strategy to achieve this is through the implementation of a risk-based allowance for possible losses, also known as the Expected Credit Loss (ECL) approach.

With this approach, banks no longer wait for losses to occur (incurred loss), but instead proactively calculate potential losses based on historical data and future estimates. This strategy aligns with prudential banking principles and PSAK 71, which has been in effect since 2020. This approach also aligns with the maqasid sharia (the principles of sharia) because it aims to protect the institution's assets and customer rights (Eramina & Muliasari, 2023; Indonesia, 2024). The implementation of risk-based allowance for doubtful accounts is expected to create a more resilient, adaptive, and responsive credit risk management system to market dynamics. This change will positively impact asset quality, reduce the NPF rate, and strengthen trust from customers, investors, and regulators. In the long term, this will contribute to the increased competitiveness of Islamic banking not only nationally but also within the global financial ecosystem. In the context of the globalization of Islamic finance, integrating modern risk management practices such as ECL with Sharia principles is a strategic step to ensure the sustainability of the Islamic financial sector (Alamsyah & Sari, 2023). Research on risk management in Islamic banking has been extensive. A

study by Ghauri, Tahir, & Iqbal (2025) revealed that effective credit risk management positively impacts the financial performance of Islamic banks. Furthermore, research by Harindra, Lestari, & Subagio (2023) shows that increasing allowances for doubtful accounts significantly depresses bank profitability, necessitating an appropriate approach to managing these reserves. However, there is still little research specifically examining the implementation of risk-based allowance for doubtful accounts in Indonesian Islamic banking, particularly in the commercial segment. This gap opens up relevant research opportunities to provide theoretical and practical contributions (Ghauri et al., 2025; Harindra et al., 2023). This study provides an original contribution to the field of Islamic banking risk management studies by integrating quantitative and qualitative approaches in analyzing the implementation of risk-based allowance for doubtful accounts at ABC Islamic Bank. Unlike previous studies that focused solely on statistical or regulatory analysis, this study not only empirically assesses the effect of NPF and CKPN on Contribution Margin but also explores the implementation aspects through interviews with risk managers, financial analysts, and internal auditors. Thus, this study answers not only the "what" but also the "how" and "why" questions, which are crucial in strategic decision-making practices (Creswell & Plano Clark, 2018).

LITERATURE REVIEW

Allowance for Impairment Losses (CKPN) is a crucial mechanism for maintaining asset quality and managing financing risk in Islamic banking. The CKPN is used to anticipate potential uncollectible financing and to implement prudential banking principles. Within Bank Syariah ABC's internal system, the CKPN calculation adheres to PSAK 71 and PSAK 413, which prioritize an Expected Credit Loss (ECL)-based approach. This allows for proactive loss estimation, rather than reactive, as in the Incurred Loss Model approach in the previous PSAK 55 (Indonesian Institute of Accountants, 2020).

A. CKPN CALCULATION SYSTEM AT ABC SYARIAH BANK

The Bank Syariah ABC's CKPN system is designed to handle two main approaches: individual and collective evaluations. Individual evaluations are conducted for financing that shows specific indications of impairment, such as late payments, changes in the customer's business prospects, or weakening collateral. Meanwhile, the collective approach is used for homogeneous financing portfolios that have not shown any indication of risk but have a statistical probability of default based on historical data. This aligns with findings (Irawati & Sihotang, 2023), which reveal that financing risk factors such as Non-Performing Financing (NPF) and the financing to third-party funds ratio (FDR) significantly influence CKPN (Irawati & Sihotang, 2023).

Bank Syariah ABC also implements a forward-looking probabilistic model that considers macroeconomic expectations. This model projects the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). These three elements are formulated in an integrated ERP system that is regularly updated by the risk and accounting units. By combining historical data and predictions of future conditions, this system enables more adaptive and accurate provisioning. The implementation of this system supports the transparency of financial reports and strengthens the bank's long-term operational stability (Tbk, 2024). On the regulatory side, Financial Services Authority (OJK) Regulation No. 24 of 2024 concerning the Asset Quality of Sharia Rural Banks (BPRS) requires all Islamic banking entities to establish loss reserves based on the ECL principles and applicable PSAK. This regulation emphasizes that reserves must take into account the debtor's financial condition, economic prospects, and financing collectibility classification, thus ensuring the quality of financial reports is more representative of actual risk conditions (Financial Services Authority, 2024).

B. IMPLEMENTATION OF LOSS RESERVES IN ISLAMIC BANKING

The Indonesian Sharia Banking Accounting Guidelines (PAPSI) are a technical document prepared by the Indonesian Institute of Accountants (IAI) and the Financial Services Authority (OJK) to provide accounting guidelines for sharia banking entities. One of the main focuses of PAPSI is the establishment of Allowance for Impairment Losses (CKPN), which covers financial and non-financial assets, both productive assets such as murabahah and musyarakah financing, as well as ijarah and istishna assets. The purpose of establishing CKPN is to reflect expected losses that may occur due to customer failure to meet financing obligations. The establishment of this reserve must comply with PSAK 71 and the prudential principle, which emphasizes the importance of anticipating the risk of loss early, not just when it occurs. Therefore, the approach used no longer relies on the incurred loss model (losses that have already occurred), but rather on the expected credit loss model (losses that are expected to occur).

Impairment estimation is conducted through two main approaches: collective assessment and individual assessment. The collective approach is applied to homogeneous financing portfolios that have not shown any specific evidence of impairment, such as microfinance, consumer financing, or start-up loans. In this approach, banks use historical default history data, recovery rates, and other risk factors applicable to similar portfolio groups. This calculation generally includes statistics from peer groups, which are used to compile the average probability of default (PD) and loss given default (LGD) in certain scenarios (Financial Services Authority (OJK), 2024). The individual approach is used when there is an objective indication that an asset is impaired. This can include a payment delay of more than 90 days, a significant decrease in the value of collateral, or a customer risk assessment indicating inability to pay. In practice, banks are required to conduct due diligence and calculate the present value of the estimated future cash flows that can be expected from the financing, taking into account available collateral. This evaluation is conducted periodically by the risk management unit and reviewed by internal auditors (Indonesian Institute of Accountants, 2020).

PSAK 413 develops specific provisions for Islamic banking, previously only regulated by PSAK 55 and PSAK 71. In PSAK 413, allowances for doubtful accounts apply not only to commercial transactions but also to social transactions such as qardh and kafalah. Loss assessment uses the expected credit loss principle, which considers the possibility of default and its impact on the present value of cash flows. (Indonesia, 2024). This financial report document from Bank Syariah X explicitly records the allowance for impairment losses on ijarah and istishna receivables. The full implementation of PSAK 71 reflects that the allowance for impairment losses is based on the Expected Credit Loss (ECL) approach. This data is important because it demonstrates the practical application of risk accounting integrated with sharia. (Tbk, 2023)

C. FINANCING RISKS IN SYARIAH BANK X

Financing risk analysis at Bank Syariah X is an integral part of the overall risk management strategy, given the unique characteristics of the products and sharia contracts used. In practice, financing risks are identified through three main categories: customer risk (counterparty risk), internal bank risk, and external risk stemming from macroeconomic conditions and the business environment. Customer risk generally arises from inability to manage the business or a significant decline in revenue. Internal risk often arises from weaknesses in the financing analysis process or post-disbursement supervision, while external risks include changes in fiscal policy, natural disasters, and geopolitical conditions that affect specific financing sectors. High financing risk not only impacts the quality of productive assets but also directly impacts the amount of Allowance for Impairment Losses (CKPN) that banks must establish. This is reinforced by findings (Alamsyah & Sari, 2023) which show that increased credit risk drives up CKPN, which can ultimately reduce bank profitability. In the context of implementing PSAK 71, the establishment of CKPN at Sharia Bank X is carried out based on the Expected Credit Loss (ECL) approach, which emphasizes estimating potential future losses by considering various indicators, including the NPF (Non-Performing Financing) level, customer characteristics, and macroeconomic projections.

A study by Pramestika (2023) showed that NPF has a significant negative relationship with Return on Assets (ROA) in Islamic banks. This means that the higher the risk of bad debts, the greater the likelihood of bank profitability declining. Therefore, financing risk management is not merely a passive control activity but a crucial foundation of Islamic banks' strategic policies to maintain business sustainability. Non-Performing Financing (NPF) is a key indicator for assessing the quality of financing assets in Islamic banking. A high NPF ratio reflects an increased risk of customer default, which ultimately impacts the amount of Allowance for Impairment Losses (CKPN) that banks must establish. CKPN is a reserve set aside to cover potential losses due to a decline in the value of financial assets, in accordance with prudent principles and applicable accounting standards.

Research by Damayanti & Suprayogi (2018) shows a positive and significant relationship between the Non-Performing Loan (NPF) and the Allowance for Impairment Losses (CKPN) at BRI Syariah Bank. This means that an increase in the NPF will be followed by an increase in the Allowance for Impairment Losses (CKPN) as a risk mitigation measure. Furthermore, other variables such as company size and Net Interest Margin (NIM) also influence the Allowance for Impairment Losses (CKPN), while the Minimum Capital Adequacy Requirement (KPM) does not show a significant effect. A recent study by Muklis (2024) examined the effect of NPF on Net Operating Profit After Tax (NOPAT) at Islamic Commercial Banks in Indonesia during the 2021–2023 period. The results showed that NPF had a significant negative effect on NOPAT, indicating that an increase in NPF not only affects the CKPN (Cash Loss Allowance) but also impacts the bank's overall profitability. Data from the Indonesian Islamic Bank Annual Report (2023) shows that the gross NPF ratio in 2023 reached 2.08%, a decrease from 2.42% in 2022. This decrease reflects the bank's efforts to improve financing quality and manage credit risk more

effectively. Furthermore, research by Cholilah, Sopingi, & Musfiroh (2024) highlights that Non-Performing Loan (NPF) has a negative impact on Return on Assets (ROA) in Indonesian Islamic banking. This indicates that an increase in NPF not only impacts the Allowance for Impairment Losses (CKPN) but also reduces the efficiency of asset utilization in generating profits. Various studies and empirical data indicate that effective NPF management is crucial for maintaining the financial stability of Islamic banks. An increase in NPF not only increases the need for Allowance for Impairment Losses (CKPN) but also negatively impacts bank profitability and operational efficiency. Therefore, a comprehensive risk mitigation strategy and the application of prudential principles in financing distribution are key to maintaining the financial health of Islamic banking.

METHOD

This study employed a mixed methods approach with a sequential explanatory design, combining quantitative and qualitative approaches to provide a comprehensive understanding of the phenomenon under study. This design was chosen to allow for the statistical findings to be further substantiated through in-depth interviews to understand the factors underlying the relationships between the research variables. In the quantitative stage, this study examines the effect of two independent variables, namely Non-Performing Financing (NPF) and Risk-Based Allowance for Impairment Losses (CKPN), on Contribution Margin (CM) in the commercial segment of Bank Syariah ABC. Quantitative data were obtained from the documentation of Bank Syariah ABC's annual and quarterly financial reports for the last five years (2020–2024), as well as risk management policy documents and regulations related to PSAK 71 and the OJK.

Quantitative data processing was carried out through descriptive statistical tests, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), and multiple linear regression to see the simultaneous and partial effects of NPF and CKPN on Contribution Margin. This test was conducted using statistical software such as SPSS. In the qualitative stage, data was collected through in-depth interviews with purposively selected informants, namely credit risk managers, financial or financing analysts, and internal auditors of Bank Syariah ABC. These interviews aimed to clarify quantitative findings, particularly in the implementation of CKPN based on the Expected Credit Loss (ECL) method and its impact on the bank's contribution margin. Interview questions were designed according to the areas of expertise and responsibilities of each informant. Triangulation techniques were used in the qualitative phase to ensure data validity by comparing interview results from multiple sources and comparing them with official document data. The results of both approaches were then integrated to produce a comprehensive and in-depth interpretation of the effectiveness of risk-based impairment loss (CKPN) implementation and its implications for profitability in the commercial segment of Islamic banks.

RESULTS AND DISCUSSION

The results of the study show that both Non-Performing Financing (NPF) and Risk-based Allowance for Impairment Losses (CKPN) have an influence on the Contribution Margin in the commercial segment at ABC Syariah Bank, both partially and simultaneously (Damayanti & Suprayogi, 2018; Muklis, 2024). Quantitatively, the results of multiple linear regression tests indicate that the Non-Performing Loan (NPF) has a negative and significant effect on the Contribution Margin. This suggests that a higher non-performing financing (NPF) ratio further depresses the bank's contribution margin. NPF indicates an increased risk of customer default, which not only disrupts cash inflows but also forces banks to allocate substantial funds to cover potential losses through provisioning for possible losses (CKPN) (Cholilah et al., 2024). The impairment loss provision (CKPN) also negatively impacts the Contribution Margin, albeit with less significance. The increase in the CKPN, which anticipates the risk of losses due to problem financing, directly reduces the contribution margin because funds that should be allocated for productive activities or business development must be used for risk reserves. Nevertheless, this reserve remains crucial for maintaining long-term financial stability and compliance with PSAK 71 and OJK regulations (Indonesian Institute of Accountants, 2020).

Simultaneously, the combination of increased NPF and CKPN negatively impacted Contribution Margin. The regression model tested showed that both independent variables together were able to explain variations in Contribution Margin with a fairly strong degree of determination. These results reinforce the importance of effective credit risk management as a key strategy for maintaining the profitability of Islamic banks, particularly in facing challenges in the commercial financing segment (Alamsyah & Sari, 2023). Qualitatively, interviews with risk managers and internal auditors indicate that the implementation of the Expected Credit Loss (ECL)-based allowance for impairment losses (CKPN) calculation method still faces challenges, particularly related to the accuracy and delays in customer financial report submissions. Furthermore, many commercial customers lack adequate accounting

system capacity, making it difficult for banks to obtain accurate data to calculate expected losses in a timely manner. This results in inaccurate allowances for impairment losses and potentially impacts financial reports and bank profitability ratios (Halim, 2022). The findings also indicate a need to improve the covenant system, strengthen customer training in financial reporting, and integrate technology-based reporting systems. ABC Syariah Bank needs to adjust its reserve policy to remain flexible yet accurate, thus maintaining a balance between credit risk protection and contribution margin optimization. This adjustment is crucial given the commercial segment's significant financing volume and high business complexity (Tbk, 2024). The results of this study provide practical contributions in the form of recommendations for strengthening risk management strategies, developing risk information systems, and improving the quality of bank-customer relationships to support a more effective and efficient implementation of risk-based CKPN.

CONCLUSION

This study reveals that the Allowance for Impairment Losses (CKPN) has a positive and significant effect on Net Income, a proxy for Contribution Margin, with a coefficient of 0.752 ($p < 0.001$). This indicates that measurable and data-driven risk provisions support the profitability stability of Islamic banks. This finding is reinforced by interviews with risk managers, who stated that the CKPN serves as a strategic mitigation instrument and aligns with sharia-compliant prudential principles. Further findings show that Non-Performing Financing (NPF) also has a positive and significant effect on Contribution Margin, with a coefficient of 0.481 ($p < 0.001$). While paradoxical, this finding can be explained by the effectiveness of risk mitigation strategies such as restructuring, collateral approaches, and strong customer financial reporting capabilities. This demonstrates that the impact of NPF on profitability is highly dependent on the quality of credit risk governance. The integration of quantitative data and in-depth interviews shows that the implementation of the ECL not only complies with PSAK 71 and OJK regulations but also strengthens the long-term risk management system. Although the ECL increases the provisioning burden, its presence encourages improvements in covenant-based risk monitoring, the digitization of reporting systems, and the enhancement of human resource capacity. These results demonstrate that the risk-based CKPN model is effective in maintaining the sustainability of contribution margins and the financial stability of Bank Syariah ABC, even under complex and dynamic risk conditions.

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