

The Influence of Internal Bank Characteristics on Profitability with PSAK 71 as a Moderating Variable in Selected Banks Listed on the IDX (Panel Study: Q3 2017 - Q1 2025)

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ABSTRACT: This study analyzes the transition in accounting standards from PSAK 55, which applies the Incurred Loss model (reactive), to PSAK 71, which is based on the Expected Credit Loss model (proactive), as a response to weaknesses revealed during the 2008 global financial crisis. The implementation of PSAK 71 triggers the phenomenon known as the Cliff Effect, referring to a sharp increase in loan loss provisioning expenses (CKPN) from the initial recognition of financial instruments. This may significantly pressure banks' net income and equity within a relatively short period. The primary issue examined in this study is whether the implementation of the new standard moderates the influence of banks' internal characteristics, namely Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Operational Margin (OM), and Net Interest Margin (NIM), on profitability measured by Return on Equity (ROE).

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KEYWORDS: CAR, NPL, OM, NIM, PSAK 71, ROE, KBMI Banks, Indonesia Stock Exchange

I. INTRODUCTION

The global financial crisis of 2008 exposed a fundamental weakness in international financial accounting standards concerning the recognition of losses on financial instruments. The prevailing standard at the time, IAS 39 (adopted in Indonesia as PSAK 55), relied on an incurred loss model, under which loss allowances were established only after objective evidence of a loss event had emerged. This approach was widely criticized as reactive and procyclical, frequently characterized as "too little, too late", because it created a lag between the accumulation of credit risk and the recognition of losses, thereby amplifying the business cycle (Novotny-Farkas, 2016). Banks were compelled to recognize large losses and sharply curtail lending precisely when economic conditions were deteriorating.

IFRS 9, adopted in Indonesia as PSAK 71, emerged as the regulatory response. The standard introduced substantial changes to the classification and measurement of financial instruments, to credit loss provisioning, and to hedge accounting, and it embedded a forward-looking orientation requiring banks to anticipate future losses rather than merely record realized ones (Abad & Suarez, 2018).

Background

The central innovation of PSAK 71 is the Expected Credit Loss (ECL) model, which mandates recognition of expected losses from the moment a financial instrument is first recognized. Fulfilling this requirement obliges banks to incorporate forward-looking information, including macroeconomic variables such as GDP growth, inflation, and unemployment, into their loss allowance calculations (Bellotti & Crook, 2012).

The operationalization of the ECL model through a three-stage impairment framework is the principal channel through which the standard affects earnings volatility. In Stage 1 (Performing), the regulatory burden remains moderate, as banks provision only for a twelve-month horizon. The greatest vulnerability arises at the transition to Stage 2 (Underperforming), once an asset is identified as having experienced a Significant Increase in Credit Risk (SICR), the provisioning basis escalates from twelve months to the remaining lifetime of the asset. This shift triggers an exponential jump in provisioning expense, a phenomenon known as the cliff

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effect. Net income can therefore be eroded sharply, particularly when macroeconomic conditions deteriorate, even before an actual default occurs in Stage 3 (Sugiarto & Suroso, 2020).

The Indonesian evidence at the point of transition is striking. Empirical observation at 1 January 2020 recorded increases in opening loss allowances ranging from 29% to more than 50%. BNI experienced a reduction in equity exceeding IDR 12 trillion, BRI recorded a potential increase in allowances of IDR 12.12 trillion, and BCA added IDR 5.52 trillion in reserves, generating immediate and substantial balance sheet pressure and depressing short-term profitability (Zaki & Sudrajat, 2024).

What remains underexplored, however, is whether this shock was merely a one-off level effect on earnings, or whether it altered the underlying structural relationships between bank fundamentals and profitability. Existing Indonesian studies have largely examined the direct impact of PSAK 71 on allowances or on earnings management. This study instead positions PSAK 71 as a moderating variable, asking whether the regulatory change modified the strength or direction of the relationships between capital adequacy, asset quality, operational efficiency, pricing power, and profitability.

Research Questions

1. Does the Capital Adequacy Ratio (CAR) affect bank profitability?
2. Does the Non-Performing Loan ratio (NPL) affect bank profitability?
3. Does Operating Margin (OM) affect bank profitability?
4. Does Net Interest Margin (NIM) affect bank profitability?
5. Does PSAK 71 moderate the relationship between CAR and profitability?
6. Does PSAK 71 moderate the relationship between NPL and profitability?
7. Does PSAK 71 moderate the relationship between OM and profitability?
8. Does PSAK 71 moderate the relationship between NIM and profitability?

Research Objectives

In line with the research questions, this study aims to test and analyses the effects of CAR, NPL, OM, and NIM on profitability (ROE) among KBMI 4 banks, and to test whether the implementation of PSAK 71 moderates each of these four relationships. The following section presents the theoretical foundations and prior empirical findings from which the hypotheses are developed.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The theoretical foundation of this study rests on four pillars that together explain how banks respond to a new accounting regulation.

Regulatory Capital Theory. Santos (2001) argues that banks actively manage their capital levels to comply with regulation and avoid supervisory costs. In the present context, strong capital functions as a buffer capable of absorbing the surge in loss allowances arising from PSAK 71 without disrupting operations.

Signaling Theory. Spence (1973) holds that management uses financial reporting to reduce information asymmetry. ECL estimates may therefore be read as a signal of managerial transparency regarding future credit risk, with accurate disclosure of NPL and loss allowances enhancing credibility in the eyes of investors.

Efficiency Structure Hypothesis. Demsetz (1973) contends that profitability is determined more by internal efficiency than by external market factors. High efficiency provides fiscal room for a bank to bear the implementation costs of PSAK 71 without materially eroding ROE.

Structure-Conduct-Performance paradigm. Bain (1951) posits that market structure shapes bank conduct, notably pricing, which in turn determines financial performance. A high net interest margin generates sufficient interest income to cover the provisioning burden imposed by the new standard.

Prior Empirical Research

The empirical literature reveals a substantial paradigm shift in credit loss recognition. Global studies by Novotny-Farkas (2016) and Kund and Rugilo (2018) find that the ECL model is more forward-looking than its predecessor, effectively reducing delays in loss recognition and procyclicality, although it grants management greater discretion. Kund and Rugilo (2018) further show that while ECL reduces the cliff effect relative to IAS 39, front-loading depresses opening capital, with a net positive effect on resilience. Abad and Suarez (2018) caution that the front-loading of ECL provisions can precipitate a sharp decline in earnings and capital, particularly when economic conditions weaken. Bellotti and Crook (2012) add that model accuracy depends heavily on the integration of macroeconomic variables in risk prediction.

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In the Indonesian context, Sugiarto and Suroso (2020) confirm that PSAK 71 produces a more proactive allowance model through the combination of historical data and forward-looking projections. Devi et al. (2021) conclude that although implementation depresses short-term profitability, it does not trigger significant earnings management, and instead yields longterm benefits in transparency and risk management quality. Zaki and Sudrajat (2024) provide a comparative analysis showing that the explanatory power of allowances, ROA, and size for capital adequacy was higher under PSAK 55 (19.4%) than under PSAK 71 (14.3%) for smaller banks.

Hypothesis Development

The Effect of CAR on ROE. Under Regulatory Capital Theory, strong capitalization functions as a buffer that absorbs risk and maintains performance stability. Banks with higher CAR possess greater capacity to absorb losses without significant erosion of profitability. Countervailing this, leverage theory suggests that a larger equity base mechanically depresses the ROE ratio. Following prior research indicating a positive association between capital adequacy and profit stability:

H1: CAR has a positive effect on bank profitability (ROE).

The Effect of NPL on ROE. Drawing on Signaling Theory, asset quality as reflected in the NPL ratio signals the health of the credit portfolio. Elevated NPL indicates heightened credit risk requiring larger loss allowances, thereby compressing net income and ultimately reducing ROE.

H2: NPL has a negative effect on bank profitability (ROE).

The Effect of OM on ROE. Following the Efficiency Structure Hypothesis, banks able to operate efficiently, evidenced by a high operating margin, obtain a competitive advantage that drives higher profitability. OM measures the proportion of operating income remaining after operating expenses and is therefore logically positively correlated with profitability.

H3: OM has a positive effect on bank profitability (ROE).

The Effect of NIM on ROE. Under the SCP paradigm, banks with market power are able to set wider interest margins. A high NIM reflects the bank's capability in managing the spread between interest income and funding costs, contributing positively to profitability.

H4: NIM has a positive effect on bank profitability (ROE).

The Moderating Effect of PSAK 71. Conceptually, the shift from the incurred loss to the expected credit loss model changes the mechanism of credit loss recognition, the timing of provisioning, and the sensitivity of financial statements to changes in fundamental banking variables.

Under the PSAK 71 regime, banks must establish larger and earlier ECL allowances, rendering high CAR increasingly important as a buffer against the additional provisioning burden. Regarding asset quality, an increase in NPL under PSAK 71 triggers migration from Stage 1 to Stage 2 or 3, mandating substantially larger lifetime ECL provisions; the impact of rising NPL on ROE should therefore be more negative in the post-adoption period. The new standard also raises administrative and provisioning costs, making operational efficiency more valuable as a source of fiscal room. Finally, a strong net interest margin provides a cushion against the surge in provisioning expense, making the ability to generate NIM more consequential for sustaining profitability.

H5a: PSAK 71 strengthens the positive effect of CAR on ROE.

H5b: PSAK 71 strengthens the negative effect of NPL on ROE.

H5c: PSAK 71 strengthens the positive effect of OM on ROE.

H5d: PSAK 71 strengthens the positive effect of NIM on ROE.

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Research Framework

Conceptual Framework

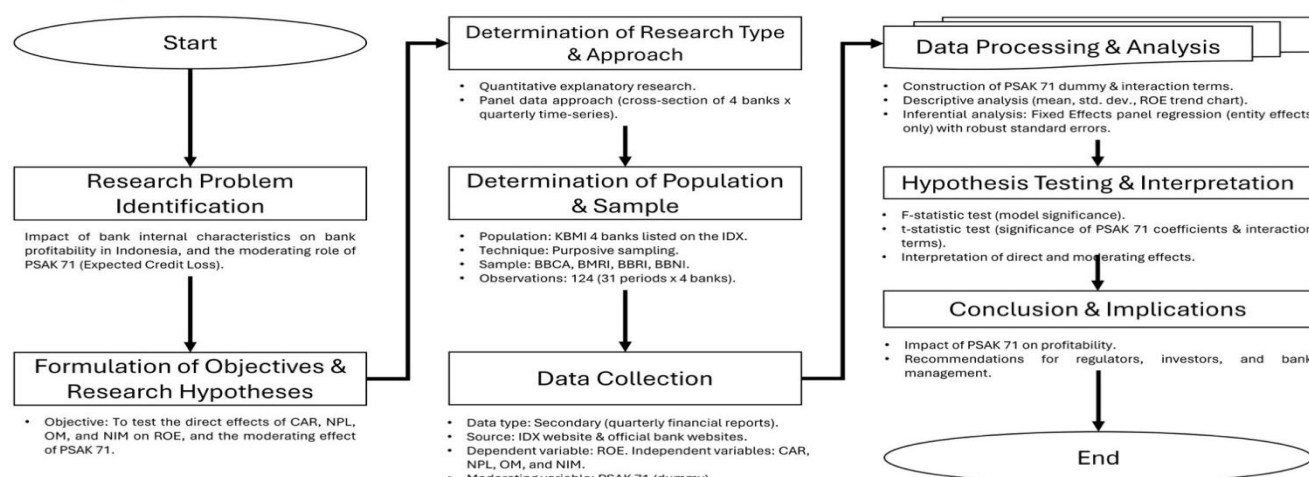


Figure 1. Conceptual Framework

III. RESEARCH METHODOLOGY

This study employs a quantitative explanatory design using secondary panel data to examine the direct and moderated effects of bank internal characteristics on profitability.

Types and Sources of Data

The data are quantitative secondary data drawn from published bank financial statements. The data structure is panel data, combining cross-sectional and time-series dimensions, permitting more comprehensive observation of sample behavior across time. The primary sources are quarterly financial reports published through the Indonesia Stock Exchange website (www.idx.co.id) and the official websites of the sample banks. The observation period spans Q3 2017 to Q1 2025, deliberately chosen to encompass both the pre- and post-implementation phases relative to the effective date of PSAK 71 on 1 January 2020.

Population and Sample

The population comprises banking subsector companies listed on the IDX that fall within the Bank Group by Core Capital (Kelompok Bank Berdasarkan Modal Inti, KBMI) classification introduced by the Financial Services Authority (OJK) to replace the earlier BUKU system.

Purposive sampling was employed. This method was selected because the population of listed banks is relatively small yet heterogeneous, and because the study requires complete, consistent, high-quality quarterly data across a long observation window. The principal criterion was membership in KBMI 4, the group of banks with the largest core capital. Four banks satisfied this criterion: PT Bank Central Asia Tbk (BBKA), PT Bank Mandiri (Persero) Tbk (BMRI), PT Bank Rakyat Indonesia (Persero) Tbk (BBRI), and PT Bank Negara Indonesia (Persero) Tbk (BBNI). These four institutions collectively hold approximately half of total national banking assets (Oxford Business Group, 2024), rendering the sample highly representative of the industry.

The total number of observations is 124, derived from four banking entities ($N = 4$) across 31 quarterly periods ($T = 31$). This structure ($T > N$) satisfies econometric recommendations for consistent and efficient estimation in Fixed Effects models (Wooldridge, 2010).

Operationalization of Variables

Table 1. Operational Definitions and Variable Measurement

Type	Variable	Measurement
Dependent (Y)	ROE	Net income after tax / Total equity
Independent (X ₁)	CAR	Total capital / Risk-weighted assets
Independent (X ₂)	NPL	Gross non-performing loans / Total loans
Independent (X ₃)	OM	Operating income / Operating revenue
Independent (X ₄)	NIM	Net interest income / Average earning assets

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Moderating (M)	PSAK 71	Dummy: 0 = before Q1 2020; 1 = Q1 2020 onward
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All financial ratio variables are measured on a ratio scale in decimal form. The moderating variable is a nominal dummy proxying adoption of the ECL-based standard.

Empirical Model

The panel regression equation developed to test both direct and moderating effects is:

$$ROE_{it} = \beta_0 + \beta_1 CAR_{it} + \beta_2 NPL_{it} + \beta_3 OM_{it} + \beta_4 NIM_{it} + \beta_5 PSAK71_{it} + \beta_6 (PSAK71 \times CAR)_{it} + \beta_7 (PSAK71 \times NPL)_{it} + \beta_8 (PSAK71 \times OM)_{it} + \beta_9 (PSAK71 \times NIM)_{it} + \alpha_i + \epsilon_{it}$$

where i indexes banks, t indexes quarters, β_1 – β_4 capture direct effects, β_5 controls for the level shift associated with the postadoption period, β_6 – β_9 capture the moderating effects, α_i denotes bank-specific fixed effects, and ϵ_{it} is the error term. The main effect of PSAK71 is retained in the model to satisfy the principle of hierarchical inclusion (Aiken & West, 1991).

Data Analysis Techniques

Analysis proceeded in six stages. First, data preparation converted the dataset to panel format, addressed missing values, and constructed the PSAK 71 dummy and interaction terms. Second, descriptive statistics profiled the sample. Third, model justification estimated Pooled OLS, Fixed Effects, and Random Effects specifications and applied the Chow, Hausman, and Lagrange Multiplier tests, alongside classical assumption testing for residual normality, multicollinearity (VIF), heteroscedasticity (Breusch-Pagan), and autocorrelation (Durbin-Watson). Fourth, the principal model was estimated with robust standard errors to address potential heteroscedasticity. Fifth, model validation assessed goodness of fit via the simultaneous F test and within R^2 . Sixth, hypotheses were tested through partial t tests at $\alpha = 5\%$, with decisions based on both p-value and coefficient sign relative to the hypothesized direction.

IV. RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Descriptive Statistics of Research Variables (N = 124)

Variable	Mean	Std. Dev.	Min	Max	Median
ROE	0.0393	0.0118	−0.0092	0.0581	0.0404
CAR	0.0944	0.0229	0.0513	0.1683	0.0928
NPL	0.0109	0.2109	−0.8100	1.6249	0.0035
OM	0.4059	0.1316	−0.0502	0.6608	0.3974
NIM	0.0422	0.0126	0.0222	0.0831	0.0416
PSAK71	0.6774	0.4694	0.0000	1.0000	1.0000

Source: Processed data, 2026

Quarterly ROE averages 3.93% with a standard deviation of 1.18%, indicating positive but variable profitability across banks and periods. The minimum of −0.92% confirms that at least one bank recorded a loss on equity during the window, while the maximum of 5.81% marks the upper bound of quarterly performance. CAR averages 9.44% within a range of 5.13% to 16.83%. NPL records a mean of 1.09% but an exceptionally high standard deviation of 21.09% and an extreme range, reflecting sharp volatility in asset quality across quarters. OM averages 40.59%, and NIM averages 4.22% with a standard deviation of 1.26%; the proximity of the NIM median (4.16%) to its mean confirms a symmetric distribution undistorted by extreme values. The PSAK71 dummy averages 0.6774, indicating that approximately 67.74% of observations derive from the post-implementation period, consistent with the design of the observation window.

Model Selection

Table 3. Results of Estimation Model Selection Tests

Test	Statistic	P-value	Conclusion
Chow	F = 40.4366	0.0000	Reject $H_0 \rightarrow$ Fixed Effects
Hausman	$\chi^2 = -25.1608$	1.0000	Invalid statistic
Lagrange Multiplier	LM = 11.1937	0.2627	Fail to reject H_0

Source: Processed data, 2026

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The Chow test yields an F-statistic of 40.4366 ($p = 0.0000$), rejecting the null of no heterogeneity across banks and demonstrating that the Pooled OLS specification is inadequate. The Hausman test produced a negative statistic (-25.1608), a condition that commonly arises in small samples containing numerous interaction terms and which renders the test unusable as a basis for decision (Wooldridge, 2010).

Model selection therefore rested on three considerations: the Chow test decisively rejects the Common Effect specification; the Hausman test does not yield a valid statistic; and substantively, the four KBMI 4 banks constitute the entire population of that category rather than a random draw from a larger population. The Fixed Effects model was accordingly selected, consistent with the conservative principle in panel econometrics that Fixed Effects remains consistent whether or not the Random Effects assumptions hold (Wooldridge, 2010).

Classical Assumption Tests

The Jarque-Bera test yields a statistic of 6.3692 ($p = 0.0414$), rejecting normality at $\alpha = 5\%$, with skewness of -0.3087 and kurtosis of 3.9228. The Kolmogorov-Smirnov test, however, produces a statistic of 0.0842 ($p = 0.3242$), failing to reject normality. Given these conflicting results and the fact that a sample of 124 observations is sufficiently large for the Central Limit Theorem to guarantee an approximately normal asymptotic distribution, the normality assumption is treated as practically satisfied.

Variance inflation factors exceed 10 for several variables (CAR = 39.23; OM = 24.86; NIM = 27.90; PSAK71 = 47.35; PSAK71×CAR = 53.03; PSAK71×OM = 23.94; PSAK71×NIM = 32.17), while NPL (4.34) and PSAK71×NPL (4.33) remain low. This pattern is expected in models containing interaction terms, since interaction variables are inherently correlated with their constituent components.

Aiken and West (1991) explicitly note that such multicollinearity is not substantively problematic and does not warrant variable removal, provided the interaction coefficients remain interpretable, which is assured here by the use of robust standard errors.

The Breusch-Pagan test yields an LM statistic of 11.1937 ($p = 0.2627$), failing to reject homoscedasticity; robust standard errors are nonetheless retained as a precaution. The Durbin-Watson statistic of 1.8772 falls within the acceptable range, indicating no significant autocorrelation.

Fixed Effects Estimation Results

Table 4. Fixed Effects Estimation with Moderation (Robust Standard Errors)

Variable	Coefficient	Std. Error	t-stat	P-value	Result
Panel A: Direct Effects					
CAR	0.0252	0.0181	1.3938	0.1662	Not significant
NPL	0.0004	0.0011	0.3836	0.7020	Not significant
OM	0.0977	0.0070	14.0306	0.0000	Significant ***
Variable	Coefficient	Std. Error	t-stat	P-value	Result
NIM	0.3319	0.1181	2.8101	0.0059	Significant ***
Panel B: Moderator Main Effect					
PSAK71	0.0031	0.0047	0.6497	0.5173	Not significant
Panel C: Moderating Effects					
PSAK71×CAR	0.0076	0.0293	0.2575	0.7972	Not significant
PSAK71×NPL	0.0001	0.0023	0.0444	0.9647	Not significant
PSAK71×OM	-0.0040	0.0060	-0.6540	0.5145	Not significant
PSAK71×NIM	-0.0502	0.0488	-1.0285	0.3060	Not significant

Note: * significant at $\alpha = 1\%$; at $\alpha = 5\%$; * at $\alpha = 10\%$. Source: Processed data, 2026

The model yields a within R^2 of 0.8883, indicating that the independent and interaction variables jointly explain 88.83% of the variation in ROE within each bank over time. Between R^2 is 80.67% and overall R^2 is 81.14%. The robust simultaneous F-statistic of 103.2627 ($p = 0.0000$) decisively rejects the null that all coefficients equal zero, confirming that the model as a whole is statistically significant.

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DISCUSSION OF DIRECT EFFECTS

The effect of CAR on profitability. CAR shows a positive coefficient of 0.0252 ($t = 1.3938$; $p = 0.1662$), leading to rejection of H1. Variation in capital adequacy across quarters does not directly determine profitability among KBMI 4 banks. A plausible explanation is a trade-off effect: while higher CAR provides a safety buffer, a larger equity base simultaneously depresses the ROE ratio through the leverage denominator. Within a healthy range of capitalization, these two forces largely offset one another.

The effect of NPL on profitability. NPL shows a positive coefficient of 0.0004 ($t = 0.3836$; $p = 0.7020$), leading to rejection of H2; the coefficient sign is also contrary to prediction. This result is attributable to the highly developed credit risk management systems of KBMI 4 banks, including conservative provisioning policies established in prior years, through which fluctuations in NPL are absorbed by existing loss allowances without materially transmitting to net income.

The effect of OM on profitability. OM shows a positive coefficient of 0.0977 ($t = 14.0306$; $p = 0.0000$), and H3 is accepted. A one-unit increase in OM raises ROE by 0.0977 units, holding other factors constant. With the highest t-statistic among all variables, OM emerges as the single most dominant determinant of profitability. This is strongly consistent with the Efficiency Structure Hypothesis (Demsetz, 1973), which holds that internal operational efficiency is the primary determinant of bank performance. Investment in digitalization, branch network optimization, and business process automation that raises OM will therefore deliver the largest marginal impact on ROE of any available strategy.

The effect of NIM on profitability. NIM shows a positive coefficient of 0.3319 ($t = 2.8101$; $p = 0.0059$), and H4 is accepted. The NIM coefficient is the largest in the model, indicating high sensitivity of profitability to changes in interest spread. This confirms the SCP paradigm: banks with greater market power can set competitive interest spreads and enjoy higher profitability, with strong net interest income providing a stable revenue base against which operating and provisioning expenses can be met.

DISCUSSION OF MODERATING EFFECTS

Table 5. Comparison of Total Effects, Pre- versus Post-PSAK 71

Variable	Pre-PSAK 71 (β)	Post-PSAK 71 ($\beta + \beta_{int}$)	Δ	P-value (interaction)
CAR	0.0252	0.0327	+0.0076	0.7972
NPL	0.0004	0.0005	+0.0001	0.9647
OM	0.0977	0.0938	-0.0040	0.5145
NIM	0.3319	0.2818	-0.0502	0.3060

Source: Processed data, 2026

None of the four interaction coefficients attains statistical significance, and H5a through H5d are accordingly all rejected.

For CAR, the interaction coefficient of 0.0076 ($p = 0.7972$) indicates that ECL adoption did not alter the role of capital in determining profitability. Although the positive sign descriptively suggests a modest increase in the role of CAR post-adoption (from 0.0252 to 0.0327), the change is statistically indistinguishable from zero. The interpretation is that KBMI 4 banks are sufficiently well capitalized that the additional ECL provisioning burden was not large enough to make the buffer role of capital statistically more consequential; the surge in allowances at transition remained within available absorptive capacity.

For NPL, the interaction coefficient of 0.0001 ($p = 0.9647$) is entirely insignificant, indicating that the three-stage impairment mechanism did not produce a materially different transmission from asset quality to profitability relative to the incurred loss model. This is explicable by the fact that KBMI 4 banks had adopted highly conservative provisioning practices, including management overlays and provisioning above the regulatory minimum, well before PSAK 71 took effect.

For OM, the interaction coefficient of -0.0040 ($p = 0.5145$) is insignificant. While the negative sign hints that the reward to operational efficiency declined marginally post-adoption (from 0.0977 to 0.0938), the reduction is not statistically meaningful. This carries a positive implication: efficiency remains the principal driver of profitability both before and after the standard, and the additional administrative and provisioning burden of PSAK 71 did not diminish its strategic value for large banks.

For NIM, the interaction coefficient of -0.0502 ($p = 0.3060$) has the lowest p-value among the four interactions and the largest magnitude. Although not statistically significant, the pattern is descriptively noteworthy: the effect of NIM on ROE declined by 15.1% (from 0.3319 to 0.2818) following adoption. This is consistent with the possibility that a portion of net interest income was

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absorbed in covering increased ECL provisioning, reducing the share of NIM flowing to the bottom line. The trend merits further investigation with a larger sample or longer observation window.

Table 6. Summary of Hypothesis Testing

Hypothesis	Statement	Coefficient	P-value	Decision
H1	CAR positively affects ROE	0.0252	0.1662	Rejected
H2	NPL negatively affects ROE	0.0004	0.7020	Rejected
H3	OM positively affects ROE	0.0977	0.0000	Accepted
H4	NIM positively affects ROE	0.3319	0.0059	Accepted
H5a	PSAK 71 strengthens CAR → ROE	0.0076	0.7972	Rejected
H5b	PSAK 71 strengthens NPL → ROE	0.0001	0.9647	Rejected
H5c	PSAK 71 strengthens OM → ROE	-0.0040	0.5145	Rejected
H5d	PSAK 71 strengthens NIM → ROE	-0.0502	0.3060	Rejected

Source: Processed data, 2026

V. CONCLUSION AND RECOMMENDATIONS

Conclusion

Two complementary narratives emerge from this study.

First, profitability among KBMI 4 banks is fundamentally determined by operational efficiency and interest margin. Of eight hypotheses tested, only H3 and H4 were accepted. The dominance of OM, with the highest t-statistic in the model (14.03), establishes that the capacity to manage operating costs efficiently is the most crucial factor in generating returns for shareholders in Indonesian banking. NIM, with the largest coefficient (0.3319), demonstrates high profitability sensitivity to changes in interest spread. Together these findings reinforce the two principal theoretical pillars of the study, the Efficiency Structure Hypothesis and the SCP paradigm.

Second, and most importantly, all moderation hypotheses were rejected. PSAK 71 did not significantly alter the fundamental mechanism determining bank profitability; the relationships between CAR, NPL, OM, NIM and ROE remained stable across the regime change. KBMI 4 banks successfully absorbed the transition from the incurred loss model to the expected credit loss model without structural change to the determinants of their profitability. This success is attributable to intensive preparation well before the effective date of 1 January 2020, including ECL model development, staff training, and information technology infrastructure upgrades — to the absorptive capacity conferred by operational scale, and to mature risk management practices that enabled a smooth transition.

These findings align with Devi et al. (2021), who found that PSAK 71 did not trigger significant earnings management and that the long-term benefits of enhanced transparency and risk management dominate short-term negative effects. They also complement Kund and Rugilo (2018), who show that although IFRS 9 increases the front-loading of provisions, its net effect on financial stability tends to be positive.

Recommendations

1) For Bank Management

Strategies for improving profitability should concentrate on two pillars: raising operational efficiency (OM) through digitalization, automation, and cost optimization; and managing interest spread (NIM) through credit portfolio diversification and cost of funds management. Concern that PSAK 71 would fundamentally alter profitability dynamics proves unfounded for large-scale banks.

2) For Regulators (OJK)

The evidence indicates that KBMI 4 banks adapted successfully to PSAK 71 without significant disruption to profitability. Regulators should nonetheless remain alert to potential impacts on smaller banks (KBMI 1–3), which may lack comparable absorptive capacity. Additionally, although statistically insignificant, the declining sensitivity of ROE to NIM post-adoption warrants monitoring as an early indicator of potential long-term profitability pressure.

3) For Investors

Evaluation of banking performance should prioritize operational efficiency (OM) and NIM as the most reliable predictors of profitability. Accounting regulatory change should not be a source of excessive concern in the valuation of KBMI 4 banks, which have demonstrated strong resilience to the standard transition.

4) For Future Research

- Expanding the object of study to banks with smaller capital bases (KBMI 1–3), which are presumed to have lower capital absorptive capacity and less mature risk management, and for which the moderating effect of PSAK 71 may be more pronounced — consistent with the findings of Zaki and Sudrajat (2024) for BUKU 2 banks.
- Conducting analysis at the credit segment level (corporate, commercial, MSME, and consumer) rather than at the aggregate bank level, to trace why the impact of PSAK 71 on ROE appears to differ across banks despite the high overall resilience of the KBMI 4 group.
- Extending the observation window to capture a fuller macroeconomic cycle, which would permit sharper identification of the NIM moderation trend observed descriptively in this study.

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