

CHAPTER 1

A. INTRODUCTION

Before the emergence of the modern market of goods and services, the trading activities of goods and services were carried out in a very simple way. Goods and services are traded through direct meetings between parties experiencing shortages of goods or services, the market model is called barter. At that time the number of economic actors was still relatively small, the number of goods and services needed was still relatively small, and the type of goods and suits were relatively few. With the development of the times, with the growth of the number of economic entities, the development of the quantity of demand for goods and services, and the development of the type of change in demand for goods and services, the economy cannot do the trading just rely on barter and then the activities before became a financial institution. The presence of previous buying and selling activities makes people physically understand a financial institution to be something very important in the economy. Banking is an institution that has a major role in building the development of a country. This role is manifested in the function of banks as financial intermediary institutions, namely raising funds from the public in the form of credit or other forms to improve people's standard of living. In law No. 10 of 1998 based on operational principles banks are distinguished into two, namely conventional banks and sharia banks.

Generally speaking, a bank is an institution that performs three primary functions, namely saving, lending and money transfer services. In Islamic economic history, sharia-based financing has been part of the Islamic tradition since the era of the Prophet (Karim, 2005). Sharia banking is known as an institution that provides banking services based on sharia principles. The rapid development of Sharia banks began with various countries beginning to understand what sharia means, as well as its policies and benefits. Also, this sharia principle replaces the principle of interest contained in the conventional banking system. According to (Antonio, 2001), the basic principles of Sharia banking consist of (1) depository/*al-with*; (2) profit-sharing, (3) sale and purchase; (4) operational lease and financial lease; (5) fee-based service. Malaysia was the first country to establish a sharia bank in Southeast Asia, the establishment of the Malaysia Berhad Islamic Bank (BIMB) on July 1, 1983, was the first step in the development of Sharia banking in Malaysia (Nadrattuzaman, 2013). In Indonesia, sharia banking only emerged first in 1991 with the establishment of Bank Muamalat Indonesia (BMI) initiated by the Indonesian Ulema Council (MUI) and the government as well as support from the Indonesian Muslim Scholars Association (ICMI) and several Muslim entrepreneurs.

Changes in the international and national economic climate make conventional banks and sharia banks disrupt the stability and performance of companies in Indonesia, including sharia banks. Sharia banks and conventional

banks are financial institutions that are oriented towards certain profits so as not to close the possibility of facing various risks that can threaten its existence. Banks that are unable to compete to maintain their performance will gradually be displaced from their industrial environment and will go into bankruptcy. In the economic crisis in 1998, the most advanced sharia bank in Indonesia, Bank Muamalat Indonesia, was the only bank close to close that had a loss of IDR 75.5 billion, but Bank Muamalat Indonesia received assistance with an injection of funds by the Islamic Development Bank (Primadhyta, 2018). The case of Bank Century is one of the banks that have difficulty in maintaining its existence so that it needs rescue from the Central Bank. Bank Century was experiencing liquidity difficulties when the global economic crisis was unfolding, so when the management of Bank Century handed over the fate of its bank to Bank Indonesia, Bank Century was declared a failed bank (Khusna, 2019). Here are also some Sharia People's Credit Banks (*Bank Perkreditan Rakyat Syariah*) in Indonesia that have been liquidated:

Tabel 1.1 Sharia People's Credit Bank in Indonesia have been liquidated

No.	Bank Name In Liquidation	Region	CIU Date	Position
1	PT BPRS Babussalam	Garut, West Java	May 01st, 2009	Completed Liquidation
2	PT BPRS Syarif Hidayatullah	Cirebon, West Java	July 29th, 2011	Completed Liquidation

3	PT BPRS Hidayah Jakarta	Cengkareng, West Jakarta	June 19th, 2011	Completed Liquidation
4	PT BPRS Al Hidayah	Pasuruan, East Java	April 25th, 2016	Completed Liquidation
5	PT BPRS Shadiq Amanah	West Java	September 1st, 2016	Completed Liquidation

Source : *Lembaga Penjamin Simpanan* (<https://www.lps.go.id/bank-yang-dilikuidasi>)

Based on the above statement, it is necessary to emphasize to the bank to analyze a prediction of corporate bankruptcy using financial ratios as a reminder to the bank management. With the early detection of the condition of a bank, it will be faster for a bank to anticipate or take decisive steps to prevent a financial crisis in a handled manner. Bankruptcy or financial failure is the company's inability to pay its financial obligations at maturity causing the company to go into bankruptcy, or causing a special agreement with creditors to reduce or write off its debts (Khusna, 2019). (Amidu, 2013) stated that the risk of bank bankruptcy is caused by two problems, namely economic failure and financial failure. Economic failure is caused by problems with depositors while financial failure is caused by management problems on liabilities and balance sheets. The health of a company will reflect the ability to conduct business, distribution of assets, the effectiveness of the use of assets, business results that have been achieved, obligations to be repaid and potential bankruptcies that will occur (Kurnia, 2015). Therefore, in anticipation of various risks that may occur, action is required as early as possible to measure the condition of the banking

bankruptcy rate (Khusna, 2019). The Company is expected to assess the company's current condition to obtain a clearer picture of the company's current condition, to know what actions are appropriate to correct the company's shortcomings to survive the threat of bankruptcy (Kurniawati, 2016).

To prevent bankruptcy and find out if a company is in good or bad condition can be seen from the level of health of the company (Ilham, October 2014). According to (Hasbi, 2005), the level of health is the result of qualitative assessment of various aspects that affect the condition or performance of a company through the assessment of capital factors, asset quality, management, rentability, liquidity, and sensitivity to market risk. It is these factors that can determine whether a company is in good health or not. In addition to these factors, other methods can be used to assess the health of the company by using the Altman Z Score Method. The Altman model is a multivariate bankruptcy prediction model that was first created and then followed by other bankruptcy prediction models. The Altman Z-Score model had a high accuracy rate at the beginning of its research of 95%. The advantages of this Altman Z-Score model can be seen from the equation, Altman Z Score model equation connects liquidity, solvency, and profitability of the company with bankruptcy. Besides, the advantages of this model can be used for all companies, both public, private, manufacturing, and service companies of various sizes (Evans, 2015). Some researchers who use bankruptcy detection tools simultaneously are Altman Z-score models (1968), Springate models (1978), Zmijewski models (1983) and

Grover models including Hadi and Anggraeni (2008) which states that Altman's prediction model is the best predictor among the three predictors analyzed.

Based on this background, the authors are interested in conducted research using the Altman z-score model to detect the level of risk of bankruptcy in Sharia Commercial Bank in Indonesia with the title **“COMPARISON OF POTENTIAL TO BANKCRUPTY ISLAMIC COMMERCIAL BANKS IN INDONESIA USING ALTMAN Z SCORE MODEL”**

B. PROBLEM STATEMENT

- a) Does Sharia Commercial Banks in Indonesia have potential to bankruptcy using the Altman Z-Score model?
- b) Does Sharia Commercial Banks in Indonesia have a different risk of bankruptcy using the Altman Z-Score model?

C. RESEARCH OBJECTIVES

- a) This study aims to examine Sharia Commercial Bank in Indonesia have potential of bankruptcy or not for the period 2014-2018 use Altman Z-score.
- b) This study aims to analyse the difference risk of bankruptcy of Sharia Commercial Banks in Indonesia for the period 2014-2018 uses Altman Z-Score.

D. RESEARCH BENEFITS

The result of the research conducted is expected to provide benefits to :

a) Academic

This paper can add insight into the difference in the risk of bankruptcy to Sharia Commercial Banks in Indonesia based on the Altman Z Score formula and can be used as a reference for further research.

b) Practical

For Islamic bank, the results of this study can be used as a source of information and a reference for bank management in making decisions, and this research is expected to be used as an evaluation material for Islamic banks to improve their financial performance.

c) Author

This study can increase knowledge about the object of research, and develop knowledge regarding the making of scientific works.