The Effect of Bad and Doubtful Debt on The Bank Performance: A Study of Banking Institutions in Malaysia

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Abstract

The main driver of economic growth and development in Malaysia is the financial banking industry which will be represented by the largest contributor to Gross Domestic Product (GDP). In simple words, a financial banking institution is one of the financial institutions in Malaysia that conducts fundraising activities from the community in the form of savings and deposits as well as channeling the accumulated funds through credit and loans. Improper and problematic credit and loan management can lead to high bad and doubtful debt provisions. This is one of the wrong methods of financial management and can affect the performance of banks to make a positive contribution to the economic development of the country. The development and performance of a bank can be measured through profitability ratio, liquidity ratio and solvency ratio. Therefore, this study was conducted to determine the effect of bad and doubtful debt on the performance of banks in financial banking institutions in Malaysia. The population of this study consists of 10 financial banking industries in Malaysia taking into account the approach of 30% of the sample selection. The secondary data within 5 years were collected from 2016 to 2020 with reference to the annual reports of each selected bank through Bursa Malaysia. The data in this study were analyzed through descriptive analysis and analysis of variance. In short, this descriptive analysis is conducted to determine the level of bad and doubtful debt, profitability ratio, liquidity ratio and solvency ratio. From this descriptive analysis has shown that the level of bad and doubtful debt, profitability ratio and solvency ratio are at average level while liquidity level only is at low. In addition, the ANOVA results showed that the model was statistically no significant effect at significant value above 0.05. Advanced ANOVA tests also clarified that there was statistically no significant effect on profitability ratio, liquidity ratio and solvency ratio. This study has recommended that every financial banking institution in Malaysia pays attention to the proper management of bad and doubtful debt despite the fact that it does not significantly affect the performance of the bank. Therefore, more systematic management of bad and doubtful debt enables these financial banking institutions to have higher assets which are able to contribute to economic growth while recording better performance in terms of profitability

Keywords **:** Financial Banking Institutions, bad debt, doubtful debt, bank performance, profitability ratio, liquidity ratio, solvency ratio

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