Impact of The Covid-19 Outbreak on The Stability of Sharia Banking Financial Performance

Dinda Khoirotunnisa \(^{(a)}\)*, Zulfikar Zulfikar \(^{(a)}\)

\(^{(a)}\) Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Indonesia

**A B S T R A C T**

The Covid-19 pandemic which became an epidemic throughout the world including Indonesia, so that all sectors including the economy experienced contractions, one of which was Islamic Commercial Banks which faced challenges in the midst of the Covid-19 outbreak such as possible risks to financial performance, so the purpose of this study is to analyze financial performance. Islamic commercial banks during the covid-19 pandemic and are expected to increase economic growth and maintain stability in economic conditions, using ROA, CAR, NPF, FDR and ERM ratios as variables, with a sample of 11 Islamic Commercial Banks, research using comparative quantitative methods, data processed with the paired sample t-test and the data taken are the financial statements of Islamic Commercial banks for the previous 2018 – 2019 period, and the 2020 – 2021 period after covid-19. The result is that there are significant differences in the CAR, ROA, FDR and ERM ratios on the financial performance of Islamic banking before and after covid-19, while the NPF is not significant.

**Keywords:** Covid-19, financial ratio, financial performance, sharia banking

**JEL Classification:**

O15

**Introduction**

The Covid 19 or corona virus disease began to appear in 2019 causing many impacts including deaths due to the disease and the economic crisis and even recession (Wu & Olson, 2020). The government's effort in dealing with the virus is by implementing Large-Scale Social Restrictions (PSBB) to maintain a safe distance and carry out all activities from home for an indefinite period of time so that this has an impact on community activities, resulting in difficulties for the business sector in conducting its operations. People have been forced to suffer decreased salaries and job loss due to the Covid-19 epidemic. According to BPS statistics, Indonesia's poverty rate rose to 10% by the end of 2020, yet every attempt must come with a significant risk to every area, not just the health sector, one of which is the economy (Hanoatubun, 2020; Nugroho et al., 2020; Setiawan, 2020; Yunus & Rezki, 2020).

Covid 19 has an effect on the economy, particularly on banks, which function as commercial companies that assemble public funds and distribute them to the general populace as credit in order to enhance welfare and preserve the nation's economic stability. During the COVID-19 outbreak, both conventional banks and Islamic institutions are faced with difficulties (Disemadi & Salih, 2020; Labonte & Scott, 2020; and Ningsih & Mahfudz, 2020). Islamic banks suffer more management difficulties than conventional banks during Covid 19 due to issues with liquidity, market risk, non-performing financing (NPF) ratios, and the requirement that the items generated have no interest. The difficulties Islamic banks encounter have an effect on their productivity and profitability (Wahyudi, 2020). The implementation of government policies had a variety of effects, including the bankruptcy of numerous businesses and the mass layoff of employees, which made it more challenging to distribute funding and obtain bank loans. The drop in financing will further impact Islamic banks' profitability, as well as their overall performance.

Islamic banks as financial institutions should be able to operate optimally by maintaining stable financial performance. The Financial Services Authority issued the Financial Services Authority Regulation (POJK) No.11/POJK.03/2020 concerning Credit/Financing Relaxation for people affected by the Covid 19 pandemic (OJK, 2020). This law was created to allow debtors who were impacted by Covid 19 to enhance their credit operations for debtors who could have trouble meeting their obligations to banks and finance firms. Insofar as this policy has an effect on banking performance, the regulation's goal is to protect the stability of the financial and banking system (Albanjari & Kurniawan, 2020; Disemadi & Shaleh, 2020; Wahyudi et al., 2019).
Based on these problems, researchers are interested in knowing the impact of the COVID-19 outbreak on the stability of the financial performance of Islamic banks. The researchers' study, which included 1090 banks from 116 countries for the quarterly period of 2019-2020, was replicated by the authors (Elnahass, 2021). The difference between the author's research and previous research is the object and the variables. While the objects in the author's research are 11 Islamic Commercial Banks listed on the Indonesia Stock Exchange (IDX) for the period 2018-2019 before, 2020-2021 after covid-19, so in this study using the ratio of Non-Performing Finance (NPF), Return on Assets (ROA), Capital Adequacy Ratio (CAR), Financing Deposit to Ratio (FDR), Enterprise risk management (ERM). Because financial performance is an important factor for banking and to maintain the trust of customers and investors as well as to know the performance and as one of the achievements of a bank.

**Literature Review and Hypothesis Development**

**Financial Performance**

Performance is the most important thing that must be achieved for the company because financial performance is a reflection of the health of a company in managing its resources. Banking financial performance is a method used by banks to measure how effectively they have used and implemented financial implementation guidelines (Irhan Fahmi, 2011). The goal of the financial performance assessment itself is to encourage employees to meet company targets and adhere to company regulations that have been imposed in order to create the desired results. Banks perform their roles as intermediate institutions by collecting and distributing monies.

**Financial Statements**

The financial report is a step in the process of financial reporting; it is a document that contains information on the company's operations and transactions. In order for the public to examine the health of the bank, banks are required to submit their financial reports on a regular basis and publish them in print media (Darmawi, 2011). Financial statements usually contain changes in equity, cash flows, and financial status and other information that is useful for report users in determining other activities.

**Financial Ratio**

Financial ratios are computations of ratios based on financial statements that are used as a measuring stick to evaluate the company's performance and financial health. Financial ratio analysis, which is typically a component of financial analysis, tries to help businesses assess changes that take place and determine if their financial position and performance have improved or worsened.

**Research Preview**

Research by Elnahass, Trinh & Li (2021) “Global banking stability in the shadow of Covid-19 outbreak”. In this study, 1090 banks from 116 different nations were used for the quarter period in 2019-2020. The findings provide compelling empirical evidence that the COVID-19 outbreak has a negative influence on the global banking industry's financial performance and stability, as measured by high-risk indicators like default risk, liquidity risk, and asset risk.

Research by Wahyuni, Pujiharto, Azizah & Zulfikar (2021) research “Impact of the COVID-19 pandemic and New Normal implementation on credit risk and profitability of Indonesian banking institutions”. The study's objective was to compare the ratio between credit and non-performing finance (NPF). Non-performing loans (NPLs) have an impact on profitability and credit risk for both conventional and Islamic banks in Indonesia, and although if their profitability is more stable than Islamic banks, NPLs are more vulnerable to COVID-19 than NPFs. In addition, the ROA in Islamic banks appears to be little affected by the transition to the new normal, whereas in conventional banks the NPL, NPF, and ROA are stable.

Research by Trisasmita, Haribowo & Ridlwan (2021) “Impact of Covid-19 on Financial Performance of Sharia Banks in Indonesia” The capital adequacy ratio calculated using ROA had a favorable and significant effect on bank financial performance, according to this study’s analysis of 60 samples of research data. Sharia, NPF has no impact on financial performance, FDR has a negative and significant impact, Operating Expenses on Operating Income has a positive and significant impact, and it is proven that good corporate governance, as measured by the size of the Board of Commissioners, reduces the impact of the Capital Adequacy Ratio variable on the performance of Islamic Commercial Banks.

Research by Ilhami & Thamrin (2021) with the title “Analysis of the impact of covid 19 on the financial performance of Islamic banking in Indonesia”. CAR, ROA, NPF, and FDR research findings on Islamic banks indicate no discernible deviations, indicating that Islamic banking is generally fairly capable of handling COVID-19.

Research by Candra & Indah’s (2020) with the title “Financial Performance Islamic Banking: A Comparative Analysis Before and During the Covid-19 Pandemic in Indonesia”. 20 Sharia Business Units and Sharia Commercial Banks. By using MANOVA analysis, it was possible to compare the financial performance of Islamic banking in Indonesia before and after the COVID-19 outbreak. The Covid-19 pandemic also had a huge impact on Islamic banking's financial performance, which included Return On Assets (ROA), Capital Adequacy Ratio (CAR), and Non-Performing Finance (NPF).
Hypothesis and Conceptual Framework

Based on the theoretical basis and previous research above, the writer can formulate the research hypothesis as follows: There are significant differences in the financial performance of Islamic Commercial Banks as measured by CAR, ROA, NPF, FDR, ERM before and after Covid-19.

The conceptual framework is given for the research as

![Conceptual Framework Diagram]

Source: Processed Data (2022)

Figure 1: Conceptual Framework

Research Methods

Data

Comparative research is used by researchers to accomplish their goals, which are to compare the financial performance of Islamic commercial banks before and after the Covid-19 Outbreak, with the research subject consisting of 11 Islamic commercial banks. Comparative research is a study that compares one variable with another. The Financial Statements of Islamic Commercial Banks on the Financial Services Authority (OJK) website from December 2018 to September 2021 is where the quantitative data for the analysis came from. The saturated sample method, which involves selecting samples from the entire population, is used to conduct sampling. This is frequently done in research that aims to make generalizations with relatively minor mistakes or when the population is tiny, i.e., less than 30 samples.

Analysis Method

The researchers in this study employed quantitative analysis techniques. Descriptive analysis is a type of research that involves directly tabulating the data to be analyzed, comparing the percentage and average value, and testing the study's hypothesis using independent sample test analysis methods (independent sample t-test). Although descriptive analysis revealed variations in financial performance, the difference analysis test did not always reveal those disparities between the two samples' respective financial performance before and after COVID 19. Due to the fact that the company's data before and after COVID-19 were of the same type and quantity, the study was independently tested on two separate samples. It is necessary for the processed data to be regularly distributed for two independent sample testing.

Variable Measurement

The variable in this study is the performance of Islamic commercial banks which consists of 5 performance indicators of Islamic commercial banks which are measured as follows
Table 1: Variable and Measurement

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Symbol</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Return on Asset</td>
<td>ROA</td>
<td>( \frac{Net \ Profit \ Before \ Tax \times 100%}{Total \ Asset} )</td>
</tr>
<tr>
<td>2.</td>
<td>Financing to Deposit Ratio</td>
<td>FDR</td>
<td>( \frac{Total \ Financing \times 100%}{Total \ Third \ Party \ Funds} )</td>
</tr>
<tr>
<td>3.</td>
<td>Non Performing Financing</td>
<td>NPF</td>
<td>( \frac{Problem \ financing \times 100%}{Total \ Financing} )</td>
</tr>
<tr>
<td>4.</td>
<td>Capital Adequacy Ratio</td>
<td>CAR</td>
<td>( \frac{bank \ capital \times 100%}{ATMR} )</td>
</tr>
<tr>
<td>5.</td>
<td>Enterprise Risk Management</td>
<td>ERM</td>
<td>( \frac{\sum ij \ Ditem}{\sum ij \ ADitem} )</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)

Result

Table 2: Descriptive statistic results

<table>
<thead>
<tr>
<th>Paired Samples Statistics</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 CAR_pre</td>
<td>22.8038</td>
<td>66</td>
<td>10.92142</td>
<td>1.34433</td>
</tr>
<tr>
<td>CAR_post</td>
<td>30.9509</td>
<td>66</td>
<td>28.79620</td>
<td>3.54457</td>
</tr>
<tr>
<td>Pair 2 NPF_pre</td>
<td>3.1954</td>
<td>66</td>
<td>.22820</td>
<td>.02809</td>
</tr>
<tr>
<td>NPF_post</td>
<td>3.0861</td>
<td>66</td>
<td>.34814</td>
<td>.04285</td>
</tr>
<tr>
<td>Pair 3 ROA_pre</td>
<td>2.8113</td>
<td>66</td>
<td>3.93298</td>
<td>.48412</td>
</tr>
<tr>
<td>ROA_post</td>
<td>8.8770</td>
<td>66</td>
<td>8.20581</td>
<td>1.01007</td>
</tr>
<tr>
<td>Pair 4 FDR_pre</td>
<td>77.9132</td>
<td>66</td>
<td>3.76976</td>
<td>.46403</td>
</tr>
<tr>
<td>FDR_post</td>
<td>74.9898</td>
<td>66</td>
<td>3.59535</td>
<td>.44256</td>
</tr>
<tr>
<td>Pair 5 ERM_Pre</td>
<td>.3433</td>
<td>66</td>
<td>.24042</td>
<td>.02959</td>
</tr>
<tr>
<td>ERM_Post</td>
<td>.2271</td>
<td>66</td>
<td>.22577</td>
<td>.02779</td>
</tr>
</tbody>
</table>

Source: Processed data (2022)

Based on the data in Table 2, shows that the CAR value is based on Bank Indonesia regulations that the minimum CAR standard is 8%, then the CAR value in this sample period is still in good condition because it is still above the minimum requirement of Bank Indonesia.

The NPF value before Covid 19 had an average value of 3.19% and the NPF at the time after Covid-19 has an average value of 3.08%. This shows that the NPF variable data refers to the provisions of Bank Indonesia that the NPF standard which is at 2% NPF < 5% is quite good, then the NPF value in this sample period is still in good condition because it is still in the provisions of Bank Indonesia.

The ROA value before Covid 19 had an average value of 2.8% and the ROA after Covid 19 had an average value of 8.8%. This shows that the ROA variable data refers to the Bank Indonesia regulation that the ROA standard at > 1.5% is quite good, so the ROA value in the sample period is in good condition because it is still above the Bank Indonesia regulation.

The FDR value before Covid 19 had an average value of 76.94% and the FDR after the Covid 19 announcement had an average value of 70.27%. This shows that the FDR variable data refers to the Bank Indonesia regulation that a good FDR standard is a maximum of 110%, so the FDR value in the sample period is still in good condition because it is still below the maximum limit of Bank Indonesia regulations.

The ERM value before Covid 19 had an average value of 0.34% and FDR at the time after the Covid 19 announcement had an average value of 0.22%.
**Banks are financial institutions that are very important for the economy of a country, the financial system of a bank that records from financial performance if the condition is good then this also measures the economic condition of a bank so it is important for a bank to maintain its financial condition in good condition. Especially in the Covid-19 Pandemic conditions that affect financial performance conditions that continue to decline, based on the analysis and processing of data and test tables seen from the different test (Paired sample t-test) it is concluded that the financial ratios tested such as CAR, FDR, ROA and ERM were significantly different before and before Covid-19, while the NPF ratio was not significant different before and after Covid 19, which means that there is no significant difference before and after the Covid 19 pandemic.**

**Conclusions**

The Covid-19 pandemic has a significant negative influence on a number of industries, including Indonesia's Islamic banking industry. One of the effects of Islamic banking in Indonesia is business activity, which affects the efficiency of banking finance. In this situation, the banking sector must be able to survive in the midst of a pandemic by changing and improving strategies as well as coming up with new innovations in order to face challenges amidst the upheaval of the pandemic's problems. Covid 19 at the moment. First, Covid 19 has an impact on Islamic banking business operations in Indonesia. Islamic banking is a financial intermediary that connects people with surplus funds with people who lack funds. As a result, Islamic banking requires its participants to be able to communicate with a large number of people. So that various policies have been issued by banks, one of which is providing relief to MSME and Non MSME business actors based on the issuance of POJK No.11/POJK.03/2020. By delaying payments and offering margin relief (profit sharing) whose duration and circumstances are tailored to the economic sector, criteria, and customer situations with reference to the POJK, Islamic Commercial Banks aim to relax their customers' financial obligations (Zulfikar, 2020). Additionally, the policies are financial tactics for surviving the pandemic.

**Discussion**

The results of this analysis are consistent with those of Maulidia's research from 2021, which found that banking capital performed well throughout the Covid-19 pandemic. The Covid 19 pandemic produced variations in the banking sector's capital performance, which was a result of the government's vigorous measures to maintain capital stability and national banking liquidity, including through Minister of Finance Regulation (PMK) No 70/PMK.05/2020 by placing funds worth Rp. 30 trillion in state-owned banks where the funds are placed in the form of deposits so that more or less the additional funds maintain capital stability in the banking sector. This policy is very helpful for the banking sector in maintaining its capital performance during the COVID-19 pandemic (Seto, 2021).

The Covid-19 pandemic has a significant negative influence on a number of industries, including Indonesia's Islamic banking industry. One of the effects of Islamic banking in Indonesia is business activity, which affects the efficiency of banking finance. In this situation, the banking sector must be able to survive in the midst of a pandemic by changing and improving strategies as well as coming up with new innovations in order to face challenges amidst the upheaval of the pandemic's problems. Covid 19 at the moment. First, Covid 19 has an impact on Islamic banking business operations in Indonesia. Islamic banking is a financial intermediary that connects people with surplus funds with people who lack funds. As a result, Islamic banking requires its participants to be able to communicate with a large number of people. So that various policies have been issued by banks, one of which is providing relief to MSME and Non MSME business actors based on the issuance of POJK No.11/POJK.03/2020. By delaying payments and offering margin relief (profit sharing) whose duration and circumstances are tailored to the economic sector, criteria, and customer situations with reference to the POJK, Islamic Commercial Banks aim to relax their customers' financial obligations (Zulfikar, 2020). Additionally, the policies are financial tactics for surviving the pandemic.

**Table 3: Different Test (Paired Sample T-Test)**

<table>
<thead>
<tr>
<th>Paired Samples Test</th>
<th>Paired Differences</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Std. Deviation</td>
<td>Std. Error Mean</td>
<td>Lower</td>
<td>Upper</td>
<td>Mean</td>
</tr>
<tr>
<td>CAR_pre - CAR_post</td>
<td>-8.14714</td>
<td>29.92641</td>
<td>3.68369</td>
<td>-15.50397</td>
<td>-0.79031</td>
</tr>
<tr>
<td>NPF_pre - NPF_post</td>
<td>.10928</td>
<td>.44476</td>
<td>.05475</td>
<td>-0.00006</td>
<td>.21861</td>
</tr>
<tr>
<td>ROA_pre - ROA_post</td>
<td>-6.06563</td>
<td>9.00058</td>
<td>1.10790</td>
<td>-8.27825</td>
<td>-3.85301</td>
</tr>
<tr>
<td>FDR_pre - FDR_post</td>
<td>2.92334</td>
<td>5.61629</td>
<td>.69132</td>
<td>1.54268</td>
<td>4.30400</td>
</tr>
<tr>
<td>ERM_pre - ERM_Post</td>
<td>.11618</td>
<td>.24879</td>
<td>.03062</td>
<td>.05502</td>
<td>.17734</td>
</tr>
</tbody>
</table>

Source: Processed data (2022)

Based on the results of the paired sample t test (Table 2), it is known that the CAR significance value is 0.031 < 0.05, the ROA value is 0.000 < 0.05 and the FDR value is 0.000 < 0.05, which means that there is a significant difference between the quality of CAR capital, ROA, FDR, ERM, before and after Covid 19, while the NPF value is 0.050, which means that there is no significant difference before and after the Covid 19 pandemic.

Author Contributions: Conceptualization, D.K., Z.Z.; Methodology, D.K., Z.Z.; Data Collection, D.K., Z.Z.; Formal Analysis, D.K., Z.Z.; Writing—Original Draft Preparation, D.K., Z.Z.; Writing—Review and Editing, D.K., Z.Z. All authors have read and agreed to the published the final version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

Conflicts of Interest: The author declares no conflict of interest.

References

Publisher’s Note: SSBFNET stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.

© 2022 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (http://creativecommons.org/licenses/by/4.0/). International Journal of Finance & Banking Studies (2147-4846) by SSBFNET is licensed under a Creative Commons Attribution 4.0 International License.