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CONVENTIONAL BANK FINANCIAL RESPONSES IN INDONESIA: BEFORE AND DURING THE COVID-19 PANDEMIC

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Abstrak. *Banking in Indonesia faces a number of challenges in the midst of the COVID-19 outbreak. During the COVID-19 pandemic, banking is facing several possible financialperformance risks. For this reason, a research is needed to analysis the impact of COVID-19 on banking's financial performance in Indonesia, through analysing the financial reports using financial ratios, namely the ratio of Non-Performing Loan (NPL),Capital Adequacy Ratio (CAR), and Return On Asset (ROA). This research is a quantitative research with a descriptive approach. The data taken were quarterly data throughout 2019 and 2020. The data were processed with paired sample t-test using SPSS. The results of the data processing show that there are significant differences on financial ratios ROA and CAR, before and during the pandemic. But the result of the NPL data processing shows that there is no significant difference before and duringthe COVID-19 pandemic.*

Keywords: *NPL, CAR, ROA, Conventional Bank, COVID-19.*

1. INTRODUCTION

The coronavirus diseasepandemic, or commonly called COVID-19, first appeared in December 2019 inChina and has spread since March 2020 in Indonesia. The COVID-19 pandemic certainly has an impact on various sectors of life, one of which is the economic sector. This situation caused almost all countries to get into arecession, including Indonesia. Based on BPS data, Indonesia's economy in the second quarter of 2020 experienced a decline of 5.32%, it decreased by 3.49% in the third quarterof 2020, and decreased by 2.19% in thefourth quarter of 2020. Thus, Indonesia's economic growth in 2020contracted by 2.07% year on year (yoy).

The economic contraction certainly has a direct effect on banking performance in Indonesia. According toAbdullah (2016), the main function of banking is to collect funds from the public and channel them back to the community or as an agent of trust, bothin raising funds and channeling funds, as an agent of development, and as anagent of service. With this function, banks encourage economic growth in acountry because banks act as fund collectors and distribute credit, effectiveand productive places for saving for the community, guarantees for trade settlement by issuing L/Cs, and guarantees for project completion byissuing bank guarantees.

Jalih and Rani's research (2020)shows that bank NPLs after the announcement of the outbreak of COVID-19 and after the implementationof the new normal experienced significant differences. Research by Espinoza and Prasad (2010) states thatthe NPL ratio will worsen if economic growth decreases and interest rates and risk aversion increase. In research conducted by Ilhami and Thamrin (2021), there was no significant difference on the financial performanceof Islamic banking in Indonesia during COVID-19 outbreak, which is reflected in the CAR, ROA, NPF, and FDR ratios.

Based on the previous studies above, the researchers intend to obtainan overall picture of the financialperformance of conventional state- owned and private banks in Indonesia, using three performance variables, namely NPL or non-performing loan, ROA or return on assets, and CAR or capital adequacy ratio. This study intends to examine whether there are differences in performance between before and during the outbreak of COVID-19.

NPL or non-performing loan is acomparison between the amount of credit given to the 1ollectability level which is a non-performing loan compared to the total credit given by thebank

(Riyadi, 2006). So it can be said that NPL reflects credit risk, where the higher the NPL level, the greater the credit risk borne by the bank (Diyanti and Widyarti, 2012). According to Bank Indonesia Regulation number 15/2/PBI/2013, a bank is considered tohave potential difficulties that could endanger its business continuity if it has a non-performing loan ratio or a net NPL of more than 5% of total loans.

ROA or return on assets is a ratio that shows the comparison between profit and total bank assets. This ratio is used to measure the performance of bank management in obtaining overall profit. The greater theROA of a bank, the greater the level of profit achieved by the bank and the better the position of the bank in terms of asset use (Liora et al, 2014). Return on assets (ROA) is obtained by comparing net income to total assets. Net income is net income after tax. Total assets are the average of total assets at the beginning of the year and at the end of the year. ROA can also beused to measure the efficiency of the actions taken by each division and the utilization of the division's accounting (Liora et al, 2014).

CAR is the capital adequacy ratio. Bank capital is an important element for operational development and anticipating losses from the risks faced by banks. Banking CAR is dividedinto two major components, namely bank capital and risk-weighted assets (RWA). Bank capital itself consists of two elements, namely core capital and supplementary capital. Based on Bank Indonesia Regulation number 15/2/PBI/2013, a bank is considered tohave potential difficulties that could endanger its business continuity if it has a CAR ratio of less than 8%.

The COVID-19 pandemic itself isa disease caused by the severe acute respiratory syndrome coronavirus 2 or SARS-CoV-2 virus. This virus attacks the respiratory system and can cause mild to severe disorders of the respiratory system, severe lung infections, and death. This virus can attack anyone, from adults, the elderly, to children. Based on data released by the National COVID-19 Handling Task Force in Indonesia, the number of positive confirmed cases as of 21 November 2021 was 4,253,412 peoplewith a total of 143,739 deaths. Since theoutbreak of this virus in March 2020, many companies in Indonesia have started implementing work from home policies as an effort to limit physical contact between employees. Accordingto the Head of the Central Bureau of Statistics (BPS), Margo Yuwono, technically Indonesia has ended the recession after its economy grew positively, both quarterly and annually, in the second quarter of 2021. However, this economic growth has notyet reached normal levels. According toMargo, the key to future economic recovery is to improve public health management, so that people's mobility and activities will also improve.

2. LITERATURE REVIEW

2.1 Non-Performing Loan (NPL)

Non-Performing Loan (NPL) is a financial ratio that shows the credit riskfaced as a result of extending credit andinvesting funds in different portfolios. Non-Performing Loan (NPL) or bad loans can be grouped into three:

1) Substandard loans Substandard loans are loans that have been in arrears with the following criteria:
   a) Refund of principal and interest has been delayed beyond 90 days to less than 180 days.
   b) In this condition, the relationship between the debtor and creditor worsens.
   c) The debtor's financial information cannot be trustedby the creditor.
2) Doubtful loans
   Doubtful loans are loans that experience delays in principal and interest payments with the following criteria:
   a) Delay in payment of principaland interest between 180 to 270 days.
   b) In this condition, the relationship between the debtor and the creditor is getting worse.
   c) Financial information is no longer reliable.
3) Bad loans
   Bad loans are loans that are overdue for more than 270 days.Each investment of funds needsto be assessed for its quality by determining the collectability level, namely whether it is current, doubtful, or loss. SE BI Number 17/19/DPUM dated 8 July 2015 stipulates that the NPLratio cannot be more than 5%. Each creditor must know the collectability level of the credit given. This is necessary to knowthe amount of the minimum reserve for writing off productive assets that must be provided bythe creditor to cover possible losses

that may occur. Based onSE BI Number 13/30/DPNP dated 16 December 2011, the NPL calculation can be obtainedin the following way:

$$NPL = \frac{The\ value\ of\ non - performing\ loans}{The\ total\ value\ of\ the\ loan\ portfolio}$$

Under normal conditions, creditors rely on the credit component to obtain their earning assets. This means that creditors earn income by relying on interest on credit lent apart from recapitulation bonds. High NPLs will result in a decrease in interest income that will be received by creditors, even if bad credit occurs it will have an impact on losses.

2.2 Banking Capital Adequacy Ratio (CAR)

Bank capital is an important elementfor operational development and anticipating losses from the risks faced by banks. The importance of the role offulfilling banking capital is the basis for OJK to issue regulations on the minimum capitalad equacy requirements for commercial banks.

Capital in the banking industry is proxied by the capital adequacy ratio (CAR). This banking CAR is formulatedas follows:

$$CAR = \frac{Bank's\ capital}{Total\ risk - weighted\ assets}$$

Thus, the banking CAR is divided into 2 major components:

Bank’s capital

1) Total risk-weighted assets (RWA)

Bank capital consists of 2 elements,namely core capital and supplementarycapital. Core capital is real funds coming in from bank owners and profits from banking operations. Meanwhile, supplementary capital is bank capital consisting of loan capital, subordinated loans, and reserves formed not from profit.

Risk-weighted assets (RWA) are asset accounts in the balance sheet and bank administrative accounts whose nominal amounts are listed on the balance sheet and administrative accounts multiplied by the risk weight ofeach account in the balance sheet and administrative banking accounts.

This banking CAR regulation followsthe Bank for International Settlement (BIS) standards. CAR provisions are stipulated in the Indonesian banking industry as stated in Bank Indonesia Regulation Number 3/21/PBI/2001 concerning Bank Minimum Capital Adequacy Requirements. According to this Bank Indonesia regulation, banking CAR is at least 8%.

2.3 Return on Asset (ROA)

ROA is used to measure a company’s effectiveness in generating profits by utilizing its assets. In other words, this ratio is used to measure management’s ability to obtain overall profits. The greater the ROA, the greater the level of profit achieved by the creditor and the better the company’s position in terms of asset use.

ROA measures a company’s ability to generate profits in the past. Analysisof ROA can then be projected into the future to see the company’s ability to generate profits in the future. ROA measures a company’s ability to generate profits by using the total assets owned by the company afteradjusting for the costs to fund these assets.

3. RESEARCH METHODS

3.1 Type of Research

The type of research used in thisstudy is descriptive quantitativeresearch. Descriptive research wasconducted to describe whether there were differences in NPL, ROA, and CAR before and during the outbreak of COVID-19. The most important process in quantitative research is the measurement process, because it provides the fundamental link between empirical observations and the mathematical representation ofquantitative relationships.

State-owned and privateconventional banks in Indonesia that publish quarterly financial reports in March 2019, June 2019, September 2019, December 2019, March 2020, June 2020, September 2020 and December 2020 are the samples in thisstudy.

3.2 Data Source

The data used are secondarydata which were obtained from literature studies and internet networksin the form of quarterly publishedfinancial reports from each bank to assess their NPL, ROA, and CAR.

3.3 Data Collection Method

This study uses the documentation method in the form of secondary data obtained from quarterly published financial reports available onthe OJK website. The data used are theones that recorded in the period beforethe occurrence of COVID-19 and duringthe outbreak of COVID-19 at state- owned and private banks in Indonesia.

3.4 Data Analysis Method

Verification analysis becomes the method of analysis in this study through the statistical test that will be carried out, which is hypothesis testing(t-test statistic). The t-test is a statistical test to test the truth of the hypothesis proposed by researchers in differentiating the averages of the two populations. This study uses a paired sample t-test. Paired sample t-test is one of the test methods used to assessthe effectiveness of the treatment, marked by the difference in the averagebefore and after the treatment is given (Widiyanto, 2013). This test is used to measure the difference in the financial performance of Indonesian banks, before the COVID-19 pandemic occurred for the first time in Indonesia and during the COVID-19 pandemic in Indonesia. Data processing in this study uses SPSS.

4. RESULTS AND DISCUSSIONS

2.1 Non-Performing Loan (NPL)

Based on the data in table 1, theNPL before the COVID-19 pandemic had an average value of 3.26%, while during the COVID-19 pandemic, the NPL of conventional banks had an average of 3.52%. According to Bank Indonesia Regulation number 15/2/PBI/2013, a bank is considered tohave potential difficulties that could endanger its business continuity if it has a non-performing loan ratio or net NPL of more than 5% of total loans. Therefore, it can be said that the average NPL at state-owned and private conventional banks is still quite good because it is still below 5%, although there has been a slight increase in the average NPL value.

Table 1. NPL Descriptive Statistics Results

Paired Samples Statistic					
		Mean	N	Std. Deviaton	Std. Error Mean
Pair 1	Before COVID-19 pandemic	3.2629	228	2.10781	.13959
	During COVID-19 pandemic	3.5235	228	2.05709	.13623

In table 2 below, it can be seen that there was a difference of 0.26053%between the NPL before and during theCOVID-19 pandemic, where the NPL value during the COVID-19 pandemic was higher than the NPL value before the COVID-19 pandemic. It can also beseen that the NPL produces a significance value of 0.061, whichmeans it is above the 0.05 significance level. So it can be said that there were differences in NPL before and during the COVID-19 pandemic but not too significant. This is in line with research conducted by Ilhami and Thamrin (2020) which shows that NPF (or also known as NPL) in Islamic banking in Indonesia has been affected by COVID-19 but not too significant.

Table 2. NPL Descriptive Statistics Results

Paired Samples Test									
Paired Differences									
					95 % Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	Before COVID-19 pandemic During COVID-19 pandemic	-.26053	2.08733	.13824	-.53292	.01186	-1.885	227	.061

Capital Adequacy Ratio (CAR)

In table 3, it can be seen that theaverage value (mean) during the COVID-19 pandemic was greater than before the COVID-19 pandemic. Whereas in table 4, it can be seen that the CAR produces a significance value of 0.004, which means that the value is below the significance level of 0.05, so it can be concluded that there is a significant difference in CAR in state- owned and private conventional banks between the period before the COVID- 19 pandemic and during the COVID-19pandemic.

Table 3. CAR Descriptive Statistics Results

Paired Samples Statistic					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before COVID-19 pandemic	24.41	228	13.362	.885
	During COVID-19 pandemic	27.95	228	20.515	1.359

Table 4. CAR Descriptive Statistics Results

Paired Samples Test									
Paired Differences									
					95 % Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	Before COVID-19 pandemic During COVID-19 pandemic	-3.539	18.609	1.232	-5.968	.01186	-1.111	-2.872	.004

Return on Asset (ROA)

In table 5 below, it can be seen that the average value (mean) before the COVID-19 pandemic was greater than during the COVID-19 pandemic. Whereas in table 6, it can be seen that ROA produces significance value of 0.002, which means that the significance value is below the significance level of 0.05. Thus, it can be concluded that there is a significant difference in ROA in conventional state-owned and private banks between before the COVID-19 pandemic and during the COVID-19 pandemic.

Table 5. ROA Descriptive Statistics Results

Paired Samples Statistic					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before COVID-19 pandemic	1.08	228	1.814	.120
	During COVID-19 pandemic	.71	228	2.372	.157

Table 6. ROA Descriptive Statistics Results

Paired Samples Test										
Paired Differences										
					95 % Confidence Interval of the Difference					
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	S (2-tailed)
Pair 1	Before COVID-19 pandemic During COVID-19 pandemic	.372	1.824	.121	.134	.610	3.076	227	.002

CONCLUSIONS

Based on data processing and results of data analysis that refers to problems and research objectives in a descriptive and statistical way, it can be concluded that COVID-19 has a significant impact on the financial performance of the CAR and ROA ratios of banking in Indonesia, which can be seen in the table of t-test results (paired sample t-test). However, the result of the t-test on the NPL ratio showed no significant difference before and during the COVID-19 pandemic. Thus, it can be said that conventional banking in Indonesia was still able to survive amid the pandemic even though there was a decrease in the ROA ratio, and increases in the NPL and CAR ratios.

There are several suggestions and input from the following research, namely (1) for banks, they can use the results of this study to monitor the movement of NPL, CAR, and ROA in response to the COVID-19 pandemic phenomenon and the implementation of the new normal in society so that it can be useful for determining strategies in reviewing restructuring and granting new credit during a pandemic, (2) for the government, through this research, in a short span of time, it can be used as material for evaluation and reference for policies that have been and will be implemented in order to obtain the best alternative policies for all parties in the country's economy, (3) for further research, it can become the basis for further research using other financial aspects or ratios as indicators of the health of Indonesian banking which has been affected by the pandemic. The data analyzed can also be continued for a longer period of time to see the long- term response of NPL, CAR, and ROA to the COVID-19 phenomenon and the implementation of the new normal.

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