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Test of Differences in The Ability of Islamic Banks in Indonesia Trough Equity Management to Earn Profit

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Abstract: Knowing the differences in the ability of Islamic banks in Indonesia in managing equity to earn profit is the goal in this research. Quantitative approach to this research with a population of 14 Islamic commercial banks as well as the research sample. The sampling technique used a saturated sample by using all members of the population as the research sample. The data used for comparison is before and during the COVID-19 pandemic in 2018-2021 in a time series. The findings of this study indicate that there is an increase in the ability of Islamic banks to manage their equity to earn a profit, but the increase is not statistically significant so that it can be said that there is no difference in the level of profitability before and during the COVID-19 pandemic. it means that Islamic banks have the potential to increase profitability when there is a financial recession as in the current state of the covid-19 pandemic.

Keywords: *Islamic Banking, Covid-19 Pandemic, profitability, equity*

Introduction

Equity is one of the important things in a company because it relates to the level of availability of equity to show its financial health and maintain the level of risk that may occur (Tho'in et al., 2018). Of course here it relates to the business activities carried out by Islamic banks in channeling their financing to earn profits. Equity became one Islamic bank's financial health measure sekaligus be endurance in the face of financial crisis (Afkar, 2015a). If faced with the conditions of a pandemic covid-19 at this time, then what will happen when financial institutions Sharia also faced with the situation of having to make a profit but also a dilemma with the client's ability to repay its obligations, this question arises because the impact covid-19 pandemic is very significant in the economic sector (Arianto, 2021).

Currently covid-19 pandemic is a condition that reduces the ability of the company to sustain a business, this is indicated by the presence of SMEs that are unable to survive because of the reduction in income and simultaneously have an obligation to the financial institution in the form of debt. It can cause the bank to experience bad loans so that the Non Performing Financing (NPF) will increase and the level of profitability decreases because the NPF becomes a moderation in profit-sharing financing (Afkar et al., 2020) which means it can weaken the profits of Islamic banks. As explained by (Syahri & Harjito, 2020) that prior to the covid-19 pandemic, *mudharaba* and *musharaka* financing became a component that affected the level of profitability of Islamic banks. Of course, conditions like this show that the ability to manage assets and equity of Islamic banks is needed to maintain business continuity.

Return on Equity is one measure of bank performance in obtaining profits, namely by managing the equity they have. Of course, it has become a measure of the ability to earn profits that are channeled through financing business activities through contracts that are in accordance with Islamic Sharia. It is because Islamic banks play an important role in the real sector (Hasyim, 2016) which in the end Islamic banks channel their financing through a profit-sharing scheme, although in fact it is not the most dominant profit-sharing but more in types of buying and selling contracts such as *murabaha* (Iskandar, 2016). It suggests that prior to the occurrence of a pandemic covid-19 financing provided by Islamic banks is an important factor in supporting the economic real sector.

During the COVID-19 pandemic, the prediction of the profitability of Islamic banks to decline was explained by (Afkar & Fauziyah, 2021) who explained that there would be a decline in the level of profitability in the fourth quarter of 2021. This is supported (Sutrisno et al., 2020) Return on Equity of Islamic banks in Indonesia is affected by the COVID-19 pandemic. Meanwhile, prior to the COVID-19 pandemic, the profitability level of Islamic banks fluctuated but had an important role in the economy, especially the real sector. This condition allows for differences in the profit of Islamic banks before and during the current COVID-19 pandemic. When viewed from the point of view of signal theory, what happens is that it can cause investors to hold their investments if there is a decline in profitability, because of the pandemic situation, investors will certainly look for the level of profit they want.

The importance of making a profit in a business becomes a must if the business is to survive. As explained by (Satriawan & Arifin, 2012) that return on equity is influenced by *mudharaba* financing, which means that the level of profitability of Islamic banks is determined from the realization of the financing provided. However, research (Permata et al., 2014) explains that return on equity is also influenced by *mudharaba* financing but in a negative direction. Thus showing that before the pandemic occurred, the ability of Islamic banks to earn profits fluctuated so that it could be said that there was a difference. However, it is necessary to measure the financial performance of Islamic banks as a form of development if you want to know their ability to deal with current conditions (Setiawan et al., 2020).

The impact of the COVID-19 pandemic in Indonesia looks very significant because many MSMEs have to survive (Arianto, 2021) and not only in Indonesia but also in the world, both in the real and financial sectors, including banking. Of course, this will have an impact on the ability of Islamic banks to earn profits from their equity during the pandemic and before the pandemic. However, several studies have explained that before the Covid-19 pandemic there had been a significant difference. This study tries to show that there are differences in the ability of Islamic banks to benefit from the return on equity before and during the COVID-19 pandemic.

Literature Review

Return on Equity

Profitability is one of the performance measures as well as the company's financial health, including Islamic banking. Return on equity (ROE) is one of the measuring tools to determine the ability of Islamic banks to get a return on profits from their equity (Afkar & Fauziyah, 2021), besides that there is also a return on assets (ROA) when viewed from the management of assets. Return on equity (ROE) can be influenced by various factors in relation to showing the ability to earn a profit, such as being influenced by sharia financing provided (Satriawan & Arifin, 2016).

Equity shows a person's ownership of a company's assets so that it is identical to the capital invested in a business or company so that it can be seen how much a person's ownership of the company's assets is. The company uses it for business operations in obtaining profits and maintaining its solvency level as one of the resilience of Islamic banks in facing the financial crisis (Afkar, 2015a). Besides being used for business development, it is also used to anticipate the risk of losses that arise as a result of investing funds into productive assets such as credit, as well as to finance other assets (Sawir, 2005), because the risks in Islamic banking in addition to bad loans are also risks in the level of solvency. especially in the availability of equity (Abedifar et al., 2013).

Return on Equity is a picture of the magnitude of the rate of return on invested capital, in other words it can be said as the ability to generate profits from the capital owned. It ratio can also be used as a basis for fund owners in providing credit or financing to companies and individuals as well as investors' considerations in investment plans. Return on Equity which increasingly shows the company is getting better because in carrying out its operations the company has enough capital (Satriawan & Arifin, 2012).

Impact of the Covid-19 Pandemic The impact of the COVID-19
Pandemic is still being felt because various business fields are still trying to adapt and restore their respective financial economic conditions to maintain business continuity. Economic recovery through local economic stimulus is a strategy to return to normal (Arianto, 2021), it is done because business actors must be able to seize opportunities that exist at this time (Rohmah, 2020).

Islamic financial institutions such as Islamic banks cannot be separated from the impact of the COVID-19 pandemic, the impact of which is clearly visible in the form of a decline in profitability (Sutrisno et al., 2020), this is also supported by the prediction of losses experienced by Islamic banks in the fourth quarter of 2021 (Afkar & Fauziyah, 2021). If this condition really occurs, it will cause Islamic banks to be unable to carry out their role in helping the real sector economy through investment financing. Conditions like this cause currency exchange rates to also become volatile, thus affecting the composite stock price index (JCI) due to unfavorable signals for investors (Haryanto, 2020).

At present, it may be seen that small entrepreneurs such as MSMEs are affected, but this is not the case because many large companies are also experiencing financial pressure during the COVID-19 pandemic. However, it is necessary to think about helping the affected MSMEs to immediately get the best solution for their economic improvement (Pakpahan, 2020). Of course, this requires the government's role in policy and banking in terms of financing, although currently the banking world is also facing the same problem (Vashti, 2020).

Hypothesis
Soundness of Islamic banks can be seen from their capital adequacy (Afkar, 2015b) because it will pose a risk when the capital owned is more in the debt structure, this will be more dangerous when the financing provided is not able to provide a return in the form of profits. It can be seen from the return on equity which shows the level of soundness of Islamic banks (Tho'in et al., 2018) plus if there is bad credit, the ability to earn profits will decrease (Muksal, 2018). In the COVID-19 pandemic situation, this is a signal for investors to see the ability of Islamic banks to manage their equity to gain profits, so that when there is a difference in their ability to earn profits, they will move to other more profitable Islamic financial institutions. The impact of COVID-19 has indeed put pressure on the national and

world economy (Hadiwardoyo, 2020) including the Islamic banking sector, which of course can affect the ability to earn profits through the equity owned so that the return on equity can change.

Hypothesis: There are differences in the ability of Islamic banks in managing equity to earn profits before and during the covid-19 pandemic.

Research Methods

Quantitative research methods are the choice in this study because they are used to determine the differences between two paired samples in different situations, namely before and during the covid-19 pandemic. The population in this study as many as 14 Islamic Commercial Banks in Indonesia as well as being the sample in this study. Saturated sample became the sampling technique in this study. The data used is the combined financial statements of Islamic Commercial Banks in Indonesia contained in the Financial Services Authority in 2019 and 2020 each for 12 months by time series, but it also in 2018 and 2021 by using each masing 6 months by time series data.

Paired Sample t-test is used as a data analysis technique in this study because it aims to determine the difference between two paired samples regarding the ability of Islamic banks to manage equity to earn a profit. The criteria for an acceptable difference are if the t-count > t-table with a significance level of $\leq$0.05. Of course, before doing this difference analysis, it is necessary to test the normality of the data with the criteria for the data being normally distributed if Asymp Sig. (2-tailed) >0.05.

Results and Discussion

Research Results

Tabel 1. Return On Equity (%) of Islamic Banks in Indonesia

	Before Pandemic		During Pandemic	
Month	**2018**	**2019**	**2020**	**2021**
January	3,77	12,68	15,82	14,80
February	6,50	11,08	15,55	15,21
March	10,76	12,36	15,52	15,34
April	11,24	12,93	12,88	15,05
Mey	11,10	13,15	11,98	14,92
June	11,04	13,63	11,50	15,10
July		13,55	11,40	
August		13,30	11,16	
September		13,36	11,27	
October		13,23	11,12	
November		13,40	10,67	
December		13,75	10,86	

Source: OJK

Table 1 is the total return on equity (ROE) data collected from OJK before and during the COVID-19 pandemic. It can be seen in the tabel that the data used before the pandemic was in 2018 (January-June) and 2019 (January-December), while the data during the pandemic was in 2019 (January -December) and 2021 (January-June). Data in 2018 and 2021 using only January-June due to limited data available or not yet published at the time this research was carried out.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test			
		ROE_Before_Pandemic	ROE_During_Pandemic
N		18	18
Normal Parameters[a,,b]	Mean	11,7128	13,3417
	Std. Deviation	2,64692	2,03483
Most Extreme Differences	Absolute	.248	.263
	Positive	.221	.206
	Negative	-.248	-.263
Kolmogorov-Smirnov Z		1.054	1.117
Asymp. Sig. (2-tailed)		.217	.165
a. Test distribution is Normal.			
b. Calculated from data.			

Normality test is used to ensure that the data that has been collected from each sample shows a normal distribution so that it can be used as a basis for data analysis so that the research results do not occur bias. The normality test results in table 2 show that the data used in this study were 18 with return on equity (ROE) before the pandemic 0.217 and return on equity (ROE) during the pandemic 0.165, thus all of them were normally distributed.

Table 3. Mean Value

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	ROE_During_Pandemic	13,3417	18	2,03483	,47961
	ROE_Before_Pandemic	11,7128	18	2,64692	,62388

Table 3 shows that the ability of Islamic banks to manage their equity to earn a profit as measured by return on equity (ROE) before and during the pandemic there is a mean difference. Return on equity (ROE) during the pandemic has a mean value of 13.3417 while Return on equity (ROE) before the pandemic has a mean value of 11.7128. These results indicate that during the pandemic there was an increase in Return on equity (ROE), meaning that this increase indicates a difference in Return on equity (ROE) during the pandemic before and during the pandemic.

Table 4. Different Test 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)

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	95% Confidence Interval of the Difference Upper			
Pair 1	ROE_During_Pandemic - ROE_Before_Pandemic	1,62889	3,77443	,88964	-,24809	3,50587	1.831	17	.085

Table 4 shows that the comparison of the difference before and during the pandemic with the difference in the mean value is 1.62889. In addition, with a degree of freedom (df) 17, it can be obtained a value of t-table 2.10982 > t-count 1.831, and a significance level of 0.085 > 0.05. This value indicates that there is a difference in the mean values before and during the pandemic, but the difference does not show a significant difference. It means that during a pandemic the increase Return on equity (ROE) but the condition does not affect the ability of Islamic banks profit from their equity manage. So that the hypothesis that there is a difference is rejected because the results show that there is no difference in the ability of Islamic banks to manage their equity to earn a profit.

Table 5. Samples Correlations

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	ROE_During_Pandemic & ROE_Before_Pandemic	18	-.288	.247

Table 5 shows that there is a correlation value of -0.288 with a significance level of 0.247 > 0.05. This shows that the Return on equity (ROE) during and before the pandemic does not have a strong correlation because the increase that occurs does not meet a significant difference. It means that the pandemic condition has nothing to do with the increase in Return on equity (ROE).

Discussions

The results of data analysis show that the ability of Islamic banks to earn profits from their equity during the pandemic and before the pandemic did not occur significant differences even though the results showed a difference in the mean but the difference did not show a statistically significant difference. What actually happened was that there was an increase in return on equity (ROE) during the pandemic, meaning that during the pandemic the ability to manage equity to earn a profit was better. Viewed from the point of view of signal theory, conditions like this can provide expectations for investors and potential investors that Islamic banks in Indonesia are able to face the pandemic situation with the availability of good equity. The results of this study are different from (Hanoatubun, 2020) which states that the current pandemic has an impact on the national economy. In addition, it is also different from (Haryanto, 2020) which explains that the impact of this pandemic will affect the rupiah exchange rate so that the Composite Stock Price Index (JCI) will weaken.

Impact of the COVID-19 pandemic did put pressure on the national economy (Hadiwardoyo, 2020) but was not fully affected as in the results of this study which show that good equity management is able to contribute to an increase in profit through return on equity (ROE). On the other hand, it shows that bad loans can affect the level of profit earned because it can weaken or reduce income (Almunawwaroh & Marliana, 2018) and profitability will decrease seen from the profit-sharing system (Nuha & Mulazid, 2018), but it indicate that profitability does not affected by the pandemic situation which may cause customers to be unable to pay their obligations even though there are differences but not significant.

The other side obtained in this research is the ability of Islamic banks in Indonesia, particularly in the Islamic Banks earn profits through equity under management, it is evident that there is an increase in return on equity (ROE) during pandemic. It indicate a level of financial health during the pandemic, this is different from the statement that the impact of the pandemic is very significant (Ben Haddad & Trabelsi, 2021) but still has to pay attention to the assets they manage. The results of this study may also cancel the prediction (Afkar & Fauziyah, 2021) which says that Islamic banks will experience a decline in profitability in the fourth quarter of 2021.

Conclusions

Ability of Islamic banks in Indonesia to manage equity to earn profits before and during the covid-19 pandemic does not show there is a significant difference, indeed there is an increase in the average rate of return on equity (ROE) during the pandemic, but the increase is not significant so there is no difference. It can be said that there is no relationship between the increase in profitability as measured by return on equity (ROE) with conditions before and during the pandemic. It means that the pandemic conditions that have an impact on the national economy are not entirely negatively affected. The indications show that Islamic banks in Indonesia are able to manage their equity to earn a profit both before and during the covid-19 pandemic.

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