

## **MEASURING THE PROFITABILITY LEVEL OF ISLAMIC COMMERCIAL BANKS IN INDONESIA**

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**Abstract :** This study aims to measure the level of profitability of Islamic commercial banks in Indonesia before and during the Covid-19 pandemic. This research approach uses quantitative by using paired sample t-test as a data analysis technique. The population of 14 Islamic commercial banks is also used as a research sample with saturated sampling techniques. Measures of profitability levels used are Return on Assets (ROA), return on Equity (ROE), and Net Operating Margin (NOM). The results showed that there was a significant difference in ROA before and during the Covid-19 pandemic with a downward trend. While ROE and NOM did not make significant differences despite the decline before and during the Covid-19 pandemic.

**Keywords :** *Islamic banking, profitability, ROA, ROE, NOM*

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### **Introduction**

The Covid-19 pandemic (Corona Virus Disease 19) has had an impact on economies around the world including Indonesia. The impacts faced such as difficulty finding a job, difficult to meet daily needs, as well as many phenomena of termination of employment (Hanoatubun, 2020). Conditions like this have an impact on the company's ability to manage its business to be able to survive during the pandemic. The government has provided several policies in the economic field so that people can face an uncertain pandemic situation. These policies include providing cash assistance to those affected by Covid-19 and policies in credit payments related to bank and non-bank financial institutions.

Many studies have been conducted to obtain policies in dealing with the pandemic, including the management of handling Covid-19 from the Central Bank using the concept of Islamic economics (Sumarni, 2020a). Other policies that can be carried out to reduce the impact on the economic and social fields are (1) allocating funds to strengthen the provision of free or affordable COVID-19 testing and treatment health services; (2) sustain business survival and confidence through tax breaks, credits and corporate support; and (3) increase income support to citizens (Horváth et al., 2020).

The impact of the Covid-19 pandemic in Indonesia began to be seen in early March 2020, although the spread of the virus began in December 2019 in Wuhan-China. This certainly causes every financial institution and non-profit to keep trying to survive in the current economic conditions. Jika seen from bank financial institutions whose main activities are more on the distribution of funds through credit and financing certainly pose a danger of loss due to the customer's inability to pay off his loan obligations. Meanwhile, in business entities that operate *profit oriented* must maintain their sustainability through the profits

obtained. The existence of a financial institution that has a role in the development of the national economy must be maintained as long as it has a positive impact on national economic growth, considering that there are many economic losses due to the current Covid-19 pandemic (Hadiwardoyo, 2020).

On the other hand, during the Covid-19 pandemic, the government provided a credit restructuring policy and MUI fatwa number 17 (MUI, 2000) which explained the existence of sanctions for customers who were able but delayed payments. The inability of customers to pay obligations can interfere with the ability of Islamic banks to get profits (Afkar, 2018). This can lead to a decrease in Sharia bank revenue due to *Non Performing Financing* (Muksal, 2018). Conditions like this are interesting to study about the profit predictions obtained by Islamic Banks during the pandemic, because situations like this can show the position of Islamic banks judging from compliance with carrying out transactions in Shariah and maintaining *good governance* (Najib & Rini, 2019).

This study tried to conduct an analysis to measure Islamic commercial banks to make profits before and during the Covid-19 pandemic. The company's ability to earn profits is one measure of financial performance that can be done, therefore clear measurements are needed to see the profits obtained. The durability of Sharia banks can be seen from the level of profitability (Afkar, 2015). If the natural economic conditions are good then the level of profit is also good assuming that the customer has no difficulty in paying his obligations. In addition, if a Sharia bank is able to manage the level of efficiency of its operational costs, it is likely to increase the profit obtained, because in research (Habib, 2006) explained that profitability becomes a measure of the company to maintain its existence, besides that the prediction of bankruptcy in the banking world can also be seen from the financial ratio presented (Afkar & Fauziyah, 2021). To find out the profit capabilities of Islamic banks, this study uses a different test approach, so it is expected to know the ability of Islamic banks to earn profits during and before the Covid-19 pandemic. Thus it will contribute to the world of Islamic banking in maintaining its existence as an Islamic financial institution that provides a role in building the economy through Islamic financing.

## **Literatur Review**

### **Islamic Bank Profit Measurement**

The concept of profit is simply the difference between revenue and expenses, if the revenue is greater then it gets a profit, on the contrary, if the amount of expenses is greater so suffers losses. But in principle its operation is not simple, because it is related to other components related to profit acquisition, especially those that are directly related such as the distribution of funds through financing or credit in financial institutions both conventional banks and Islamic banks. In Islamic banking, where the profit obtained tends to be more in the distribution of funds through Sharia financing (Afkar, 2015).

Profit is used as information to indicate one of the financial performance in a company indicated in the financial statements, therefore accountability in the disclosure and preparation of financial statements is one of the principles that must be adhered to. The asymmetry of information in compiling financial statements is subjective related to profit management, but increasingly sophisticated technological developments are expected to reduce fraud that occurs, such as implementing detective control and repressive control (Dalimunthe, 2018).

Profit is one of the considerations of potential investors in making investment plan decisions in the financial institution sector. In addition, forms of disclosure in financial

statements are also considered for decision-making such as voluntary disclosure (Ali & Lubis, 2019). Measurement of financial performance to determine the level of health of the bank in its operations can use profitability (Bank Indonesia, 2001). In Islamic banking, profitability can be measured using ROA, ROE (Afkar, 2017b) and NOM (Duantika, 2015).

### ***Return On Assets (ROA)***

The business rate of return of the asset under management can be indicated by the calculation of the ratio. The calculation of the ratio shows the percentage of net profit earned by the company. The rate of return of this asset is often referred to as ROA. ROA is one of the calculations of profitability ratio that shows the efficiency of a business in managing its assets to make a profit during a certain period (Hashim, 2016).

Bank profitability is the ability of the bank to generate profits using the assets it owns. Profitability in banking business reflects the level of efficiency of its business. Profitability can be measured by the ratio between net profit and total assets used, so that the greater the ROA, the greater the level of profit obtained. ROA is also one of the indicators of bank health (Wijayanti & Diyanti, 2017).

### ***Return On Equity (ROE)***

Equity is a picture of a person's ownership of the assets of a company. Equity is identical to the capital owned by someone who is invested in a business or company so that it can be known how much ownership a person has over the company's assets. Equity in the company is used for business operations in obtaining profits and maintaining solvency levels (Abarbanell & Bushee, 1997). Equity is also one of the important factors for banks to develop their business and anticipate the risk of losses that arise from investing funds into productive assets. such as credit, as well as to finance on other assets.

A person's ownership shown by this amount of equity is certainly in a business is expected to get rewarded for the equity he has so that each period needs to be taken into account the rate of return. that. The small rate of return on profits seen from management, equity can usually be measured by the ROE ratio. *ROE* is a financial ratio calculation that shows the ability of the company's management to obtain net income by managing existing equity. This *ROE* ratio can be used as a big picture of the return on invested capital or can be said to be the ability to generate profits from the capital owned (Satriawan & Arifin, 2016).

### ***Net Operating Margin (NOM)***

Islamic banks in their operations do not use the term interest but are better known as profit sharing. Therefore, business activities in the distribution of funds are carried out with financing whose margin calculations use revenue sharing or agreements. Conventional banks use the term Net Interest Margin (NIM) while Islamic Banks use Net Operating Margin (NOM).

NOM is a measurement of the profitability ratio of Islamic banks that are used to determine the ability to manage their productive assets in order to get lucky (Afkar et al., 2020). NOM is the ability to generate profits by comparing productive assets with operating income and operating expenses (Mulasari & Dianati, 2019).

## Research Methods

This research approach uses quantitative to explain the differences in the ability of Islamic banks to earn profits before and during the Covid-19 pandemic. The population in this study is the Islamic Commercial Bank in Indonesia. Sampling technique using saturated samples, so that all commercial banks syariah used as samples of 14 Islamic Banks. Data retrieval techniques are determined by taking according to the theme studied, therefore the data is collected with consideration of different tests of the profitability of Islamic banks before and during the Covid-19 pandemic. The data used is a joint financial statement every month from Sharia commercial banks in Indonesia in the period January 2018- December 2021 on a time series basis. Data analysis techniques using paired sample t-test, this technique is used to determine the difference in profitability of Islamic banks before and during the Covid 19 pandemic. Before the data analysis, the data is confirmed to be normal data (Sugiyono & Susanto, 2015).

## Research Results and Discussions

### Research Results

The results of the normality test performed before pairing *the t-test sample* can be seen in table 1.

**Table 1. Normality Test Results**

Test of Normality	Result
ROA before-during	.004
ROE_ before-during	.000
NOM_ before-during	.007

Source: Processed by researchers

Normality test using *Shapiro-Wilk* because the sample used is small, from table 1 obtained the value of the Shapiro-Wilk *sig* for ROA, ROE, NOM before and during the covid-19 pandemic is less from 0,05. The results stated that the distribution data was not distributed normally so that different test analysis could be performed using the *Wilcoxon* test.

**Table 2. Descriptive Statistics**

Profitability	Mean	Minimu	Maximu
		m	m
ROA_ before	.0138700	.00416	.01730
ROE_ before	.1140038	.03773	.13748
NPM_ before	.0155725	.00450	.01916
ROA_ during	.0168612	.01347	.02146
ROE_ during	.1344450	.10674	.15818
NPM_ during	.0174887	.01335	.02314

Source: Processed by Researchers

The results of the descriptive statistics in table 2, it can be seen that there is an average difference between data before and during the pandemic for ROA, ROE and NOM values. The average ROA, ROE and NOM before the pandemic compared to the value during the pandemic as a whole has increased. As for the standard deviation values for ROA, ROE and NOM both before the pandemic and during the pandemic as a whole, this shows that the data

is smaller than the average, this shows that the data it is homogeneous which means that the average for each variable has a low deviation (Lind et al., 2016).

**Table 3. Wilcoxon Signed Ranks Test for ROA, ROE, NOM before and during pandemic**

		N	Mean Rank
ROA_during - ROA_before	Ties	0	6.20
	Total	24	14.16
ROE_during - ROE_before	Ties	0	7.33
	Total	24	13.24
NOM_during - NOM_before	Ties	0	8.40
	Total	24	15.43

Source: SPSS Processing Results

Table 3 is the result of calculations for ranks for ROA, ROE, NOM before and during the pandemic. Ties values for ROA, ROE and NOM are zero. This can be interpreted as ROA, ROE and NOM there is no relationship between data before and during the pandemic.

**Table 4. Different Test Results Before and During Pandemic for ROA, ROE and NOM**

Different Test	ROA_before - ROA_during	ROE_before - ROE_during	NPM_before - NPM_during
Value	-3.400	-3.657	-1.886
Significant Level	.001	.000	.059

Source: Processed by Researchers

The results of the average test of ROA, ROE and NOM before and during the pandemic can be shown in Table 4. Different tests for ROA obtained a *sig value (2-tailed)*,  $0,001 < 0,05$  this shows that there is a difference between ROA values before and during the pandemic. The *sig (2-tailed)* value for ROE is large  $0,000 < 0,05$ , this indicates that there is a difference between ROE before and during the pandemic. While the *sig (2-tailed)* value obtained for NOM in the test is different  $0,059 > 0,05$ , this means that between NOM before and during the pandemic there is no difference before and during the pandemic.

## Discussion

### Difference in Return on Assets before and during the covid 19 pandemic

Profit is one of the information to show financial performance in the company. In obtaining profits, Islamic banks make efforts to distribute funds using *tijara* contracts (Karim, 2010). Distribution of funds can be done with a profit sharing system, buying and selling, and renting (Nurhayati & Wasilah, 2016). Financial performance in Islamic banks can be measured using ROA, ROE and NOM, where the profitability ratios have the aim of looking at the prospects and risks of a bank.

Different tests that have been conducted show that there is a difference between ROA values before and during the pandemic, with ROA values decreasing significantly during the pandemic. A significant decrease in ROA value during the pandemic indicates that this

pandemic situation puts pressure on Islamic banks to make a profit, if referring to financial conditions, it is necessary to. There is good financial planning (Afkar et al., 2021). The decline in ROA also explains that the condition of the national economy is being affected by Covid 19 so that many business people have experienced a decline in income (Hadiwardoyo, 2020).

The point of view of signaling theory explains the condition of the decline in ROA which is caused by this pandemic condition can be a consideration for fund owners or investors to think again about making investments. , but on the other hand there needs to be support for every financial institution to stay afloat in any situation, even though the national economy is in decline (Sumarni, 2020b). This reflects that profitability is one of the concerns in continuing its business, both in banking and in other institutions.

### **Difference in Return on Equity before and during the covid 19 pandemic**

Different test results for ROE showed no difference between ROE before and during the pandemic, although the results obtained decreased but not significantly. This shows that statistically there is a decrease but not significant so that it does not cause a difference in the ability of Islamic banks to obtain returns from managed equity. In accordance with (Tho'in et al., 2018) which explains that the level of health of Islamic banks can be seen from their profitability.

ROE obtained by Islamic banks before and during the pandemic in this study did not make any difference so as to give an idea that the covid 19 situation did not have a significant impact on the capital of Islamic banks in Indonesia. Indonesian. Such conditions have long been measured through the competitive competition of national banking with dual systems, namely Sharia and Conventional (Ascarya & Yumanita, 2008). The ROE of Islamic banks before the pandemic showed higher than during the Covid-19 pandemic, but the results were not significant so there was no statistical difference.

Signaling theory gives an idea that there will be a perception of published financial information, when Islamic banks show their ability to earn profits through ROE that does not show differences. During the pandemic, this shows a good signal for investors and potential investors in responding to the financial condition of Islamic banks. This shows that The Roe of Sharia Bank before and during the pandemic did not experience problems, although ROE became one of the performances to assess the Health of Islamic Banks (Sutrisno et al., 2020)

### **Difference in Net Operating Margin before and during the covid 19 pandemic**

Different test results for NOM showed no difference between ROE before and during the pandemic. Just like the results of ROE, the value of NOM decreased but not significantly. This NOM can actually be measured by the operation of Bank Syariah from the costs and income obtained so that it can be seen its efficiency (Afkar, 2017a). Meanwhile, the results showed that there was no difference in NOM before and during the pandemic, so this led to an assessment that margin gains to date were not affected by pandemic conditions.

The point of view of Signaling theory gives an idea that the information conveyed in terms of the financial performance of Islamic banks is not affected by the current pandemic conditions, so it is a good signal. for investors to keep depositing funds in Islamic banks. The ability of Islamic banks in managing their profits can be reflected (Karim et al., 2018). NOM is one measure of the ability to maintain the financial stability of Islamic banks so that when the pandemic situation does not make a significant difference, it is actually the level of

margin obtained. Relatively unchanged. Therefore, NOM is a measure of the ability of Islamic banks in managing their profitability levels (Afkar & Fauziyah, 2021).

### **Conclusion**

The profitability level of Islamic banks in Indonesia can be measured using Return on Assets, Return on Equity, and Net Operating Margin. The rate of Return on Assets before and during the pandemic has decreased with a downward trend so that it can be said that the pandemic situation has a significant impact on the decline of the ability of Islamic banks to get profit through ROA. While the rate of Return on Equity and Net Operating Margin did not make a difference before and during the pandemic despite the decline but was not significant, this shows that the ability of Islamic banks is relatively not affected by the pandemic situation for profitability measured through ROE and NOM.

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