COMPARISON OF CAPITAL ADEQUACY AND PROFITABILITY OF ISLAMIC COMMERCIAL BANKS AND CONVENTIONAL BANKS IN INDONESIA DURING THE COVID-19 PANDEMIC

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Abstract: This study aims to determine the difference in the level of bag profitability and capital adequacy between Islamic Banks and Conventional Banks in Indonesia during the Covid-19 pandemic. The population used is the entire number of Sharia Commercial Banks and Conventional Banks in Indonesia. The sample technique used is a saturated sample using all Conventional Banks and Islamic Banks. The data used in this study is in the form of combined financial statements through Indonesian banking statistics and Islamic banking statistics with the type of data pooling in the 2020-2021 period with assumptions on this period is the occurrence of the Covid-19 pandemic in Indonesia. The data analysis technique uses paired samples t-test with the aim of comparing the composition of capital adequacy and profitability of Islamic banks and conventional banks. The results showed that the level of capital adequacy and profitability of conventional banks was greater than that of Islamic banks during the Covid-19 pandemic in Indonesia.

Keywords: *capital adequacy, profitability, Islamic banks, conventional banks, covid-19*

1. Introduction

Profitability and level of capital adequacy are the measures of companies including banks to show their performance and financial health (Afkar, 2015a) normal conditions and during a recession or the financial crisis globally. The trend that occurs in the level of profitability in 2021 is predicted to decrease due to the occurrence of fairly high non-performing financing (Afkar & Fauziyah, 2021). Such conditions are due to the widespread spread of Covid-19 so that the ability of business people to maintain their business requires extra ability, because the national economy and internationally affected financially (Nasution et al., 2020). The impact is not only on small and medium-sized businesses, but also on the banking sector, be it conventional banks or Islamic banks.

The impact of the COVID-19 pandemic at the beginning of 2020 caused a lot of panic due to the emergence of social restrictions so that many had difficulty meeting their lives. There are also manyfinancial institutions that are affected, so they need more effective actions in seeing opportunities during the pandemic (Nasution et al., 2020). This impact certainly affects capital adequacy which will ultimately affect the ability to make a profit. Basically, the level of profitability can be influenced due to the financing provided such as *mudharaba* and *musharaka* for profit sharing system (Afkar, Miradji, et al., 2020). Tingkat profitability as measured by Return on Assets and capital adequacy as measured by capital adequacy ratio showed an increase during the covid-19 pandemic (Faizah & Amrina, 2021)

this is different from the predicted loss that occurs at the end of 2021 (Fauziyah & Afkar, 2021).

Research conducted (Faizah & Amrina, 2021) shows a difference in the Capital Adequacy Ratio during the Covid-19 pandemic with a downward trend, as well as the ratio of Operating Costs and Operating Income which tends to increase. Conditions like this indicate inefficiencies in managing operational costs at Conventional Banks because their operating income has decreased. Meanwhile,Islamic banks show no difference in profitability during the pandemic or before the pandemic, but for the level of liquidity, there are differences (Syah & Andrianto, 2022). Looking at the explanation of several previous studies, it shows that there are significant differences in terms of profitability in conventional banks, while in Islamic banks there is no difference.

Capital adequacy in banking business can be influenced by credit risk that occurs which will ultimately affect the ability to obtain profit levels (Afkar, 2015b). Not only that, but credit risk seen from non-performing financing can affect the level of profitability (Almunawwaroh & Marliana, 2018), besides that it can also affect costs greater operations to bear the risk of uncollectible returns from customers (Afkar, 2017). The condition of conventional banks has also been affected by Covid-19 even though no one has experienced any banging. This can be seen from the credit distribution which is always followed by the occurrence of bad debts (Erlinda Sholihah, 2021).

The impact of the Covid-19 pandemic in Indonesia is indeed quite large in the real and financial sectors. The real sector in question is in the business sector which is directly facing investment, while in the financial sector it is in the national banking. Previously, it was explained in the study (Afkar, 2018) that in Islamic banks that use a profit-sharing system, problematic financing still appears. Where problematic financing is able to weaken profits from profit sharing financing (Afkar, Chandrarin, et al., 2020). This condition is clearly seen during the Covid-19 pandemic which shows an increase in non-performing financing that has an impact on the national economy (Kusjuniati, 2020), so that it can affect performance banking finance.

This research tries to provide an overview of whether there are differences in capital adequacy and profitability from conventional banks and Islamic banks. This problem arose because some research showed inconsistent results. As done by (Faizah & Amrina, 2021) who explained that there was a decrease in capital adequacy in conventional banks and the level of operational costs increased. Meanwhile, the study (Afkar & Fauziyah, 2021) explained that profitability has decreased, but is offset by the occurrence of non-performing financing which has decreased. This difference is an interesting thing to look back at what actually happened at the level of profitability and capital adequacy in the national banking sector.

Hypothesis

Capital adequacy is one of the measures of bank health, be it conventional banks or Islamic banks (Afkar, 2015a). Capital adequacy can also be influenced by credit risk, meaning that when bad debts occur, the capital adequacy ratio decreases (Afkar, 2015b). When viewed from the conventional bank sector, there was a decrease in capital adequacy during the Covid-19 pandemic compared to before the Covid-19 pandemic, thus this condition had an impact which is significant in the financial sector (Faizah & Amrina, 2021). This condition is also experienced by business actors in the small and medium sector, where the sector is also affected by Covid-19 (Pakpahan, 2020). Thus, it can be estimated that the

banking and MSMEs sectors are affected by Covid-19, which affects the adequacy of their capital.

Hypothesis 1 : Capital Adequacy during the Covid-19 pandemic from Conventional Banks and Islamic Banks there are differences

Profitability is one of the most significant measuring instruments for potential investors and investors, because profitability shows the ability to make a profit. The decline in profitability during the Covid-19 pandemic can be influenced by non-performing financing (Ilhami & Thamrin, 2021). In addition, the level of credit risk also affects profitability through higher operating costs, thus there is a decrease in profit obtained (Fauziyah & Afkar, 2021). Covid-19 has also had an impact on the national economy in Indonesia, resulting in business actors experiencing a decrease in the level of financial health (Hadiwardoyo, 2020). At the same time (Faizah & Amrina, 2021) explained that when covid-19 occurred, it showed that conventional banks that experienced an increase in operating costs were combined with their operational income so that they occurred Differences in profitability before and during the Covid-19 pandemic. Meanwhile, Islamic banks experienced no difference in profitability before and during the Covid-19 pandemic.

Hypothesis 2 : Profitability during the Covid-19 pandemic from Conventional Banks and Islamic Banks there are differences

2. Research Methods

Research with a quantitative approach used in this study, the aim is to determine the difference in the level of capital adequacy and profitability between conventional banks and Islamic banks in Indonesia. The population in this study is Conventional Banks and Islamic Banks in Indonesia. The samples in this study were also Conventional Banks and Islamic Banks in Indonesia which were taken using a saturated sample technique. The data used in this research is in the form of a report on the combined financial performance of conventional banks and Islamic banks for the period during the Covid-19 pandemic, namely 2020 and 2021 with Data collection techniques using documentation.

The data analysis technique used in this study is paired sample t-test, this analysis technique is used because it compares the conditions of profitability and capital adequacy between Islamic banks and conventional banks during Covid-19 pandemic. The feasibility of accepting the hypothesis in this study if the value of t $_{counts}$ > t$_{table}$ at a significance level of 0.05. Before analyzing the data, the data collected needs to be tested for normality so that the requirements to be carried out an analysis with the level of acceptance of data normality are met, namely if Significance value > 0.05.

3. Results and Discussion

3.1. Research Results

This study uses data obtained from joint financial statements sourced from conventional banks and Islamic banks in Indonesia. The data is obtained from financial performance reports published from the Indonesian Financial Services Authority (OJK). Capital adequacy is measured by Capital Adequacy Ratio (CAR), while profitability is measured by Return on Asset (ROA).

Table 1. Capital Adequacy Ratio and Profitability

		Conventional Banks (%)		Islamic Banks (%)	
Year	Month	CAR	ROA	CAR	ROA

2020	January	22,83	2,70	20,29	1,88
	February	22,33	2,49	20,47	1,85
	March	21,67	2,57	20,36	1,86
	April	22,08	2,34	20,47	1,55
	May	22,20	2,06	20,62	1,44
	June	22,55	1,94	21,20	1,40
	July	23,03	1,90	20,93	1,38
	August	23,50	1,90	20,37	1,36
	September	23,52	1,76	20,41	1,36
	October	23,83	1,70	20,41	1,35
	November	24,25	1,64	21,16	1,35
	December	23,89	1,59	21,64	1,40
2021	January	24,50	2,17	21,80	1,79
	February	24,53	1,97	24,31	2,15
	March	24,04	1,87	24,45	2,06
	April	24,21	1,86	24,41	1,97
	May	24,27	1,80	24,44	1,92
	June	24,30	1,88	24,26	1,94
	July	24,58	1,86	24,31	1,91
	August	24,37	1,90	24,66	1,88
	September	25,18	1,91	24,96	1,87
	October	25,32	1,93	23,56	1,59
	November	25,59	1,93	25,68	1,66
	December	25,66	1,85	25,71	1,55

Source : Financial Services Authority 2022

Table 1 shows the profitability and capital adequacy gains from Islamic banks and conventional banks during the Covid-19 pandemic in Indonesia. It can be seen that capital adequacy (CAR) from 2020 to 2021 from Islamic banks and conventional banks tends to increase. Meanwhile, the level of profitability (ROA) of conventional banks and Islamic banks in 2020 to 2021 tends to decrease, although at the beginning of the month it has increased but at he following months tend to decline. These increases and decreases can be seen as significant or not by statistical calculations in this study.

Table 2. Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual ROA	Unstandardized Residual CAR
N		24	24
Normal Parameters[a,b]	Mean	.0000000	.0000000
	Std. Deviation	.65901533	.65901533
Most Extreme Differences	Absolute	.117	.117
	Positive	.117	.117
	Negative	-.091	-.091
Kolmogorov-Smirnov Z		.800	.574
Asymp. Sig. (2-tailed)		.543	.897
a. Test distribution is Normal.			
b. Calculated from data.			

Table 2 shows the results of the normality test of data collected from Islamic banks and conventional banks on capital adequacy (CAR) and profitability (ROA). The results of the normality test on capital adequacy (CAR) showed the Asymp value. Sig. (2-tailed) 0.897 while on profitability (ROA)) indicates the value of Asymp. (2-tailed) 0.543. Overall the value of Asymp. Sig. (2-tailed) from Islamic banks and conventional banks > 0.05 so that it can be concluded that the data collected is normally distributed, therefore further analysis can be carried out the data is in accordance with the research design, namely using different tests.

Table 3. Average Value of CAR and Profitability
Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	CAR_BK	23.8429	24	1.12635	.22992
	CAR_BS	22.5367	24	2.03002	.41438
Pair 2	Profit_BK	1.9800	24	.28163	.05749
	Profit_BS	1.6862	24	.26254	.05359

Table 3 shows the average value of capital adequacy and profitability of conventional banks and Islamic banks in 2020 and 2021. The calculation results show that the average capital adequacy value of conventional banks (CAR_BK) is 23.8429, while the average value of capital adequacy of Islamic banks (Profit_BS) is 22.5367. According to the results of the calculation of the average value of capital adequacy it can be seen that conventional banks are larger. Meanwhile, the calculation shows the average profitability value of conventional banks (Profit_BK) of 1.9800, while the average profitability value of Islamic banks (Profit_BS) is 1.6862. According to the results of the calculation of the average value of profitability it can be seen that conventional banks are also larger. However, the larger number must be explained further by the difference test so that it is known whether the difference is significant or not.

Table 4. Correlation Differences
Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	CAR_BK & CAR_BS	24	.811	.000
Pair 2	Profit_BK & Profit_BS	24	.324	.122

Table 4 describes the relationship between the comparison of the capital adequacy value (CAR_BK) with (CAR_BS), the result shows a correlation value of 0.811 or 81.10% with a significance level of $0.000 < 0.05$ so that it can be said to have high as well as significant correlation. While the Profitability value (Profit_BK) with (Profit_BS) shows a value of 0.324 or 32.40% with a significance level of $0.122 > 0.05$ so that it can be said to have no correlation and insignificant.

Table 5. Different Test Results
Paired Samples Test

			Paired Differences			
				95% Confidence Interval of the Difference	t	df	Sig. (2-tailed)

		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	CAR_BK - CAR_BS	1.30625	1.29655	.26466	.75876	1.85374	4.936	23	.000
Pair 2	Profit_BK - Profit_BS	.29375	.31664	.06463	.16005	.42745	4.545	23	.000

Table 5 shows the comparative results of capital adequacy (CAR) and profitability of conventional banks and Islamic banks. The results of the comparison of capital adequacy (CAR-BK) with (CAR_BS) showed an average value of 1.30625 with t_{count} value of 4.936 > t_{table} 2.06866 at a significance level of 0.000 < 0.05. This means that there is a significant difference in capital adequacy (CAR) between conventional banks and Islamic banks which is indicated by t_{count} value > $t_{table.}$ Meanwhile, the comparison of profitability (Profit_BK) with (Profit_BS) shows an average value of 0.29375 with t_{count} value of 4.545 > t_{table} 2.06866 at significance levels of 0.000 < 0.05. This means that there is a significant difference in profitability (ROA) between conventional banks and Islamic banks which is indicated by the calculated t_{count} > $t_{table.}$

3.2. Discussion
Comparison of Capital Adequacy levels

Capital adequacy for companies or banking financial institutions is one measure of the level of health. Capital adequacy with a high ratio indicates that the company's life will be longer because it has capital reserves to anticipate if there is a decrease in business in obtaining profits. Capital Adequacy Ratio (CAR) is a measure of capital adequacy in both Islamic and conventional banks (Afkar, 2015a). The results of this study show that the capital adequacy (CAR) of conventional banks and Islamic banks during the Covid-19 pandemic has significant differences. The difference is greater than conventional banks, meaning that the overall ability of conventional banks to manage their capital adequacy above risk-weighted assets (ATMR) is greater compared to Islamic banks.

The results of this study indicate that there are differences in capital adequacy with a tendency to show an increase, this is not in line with research which explains that there are differences in the capital adequacy (CAR) of conventional banks before and during the Covid-19 pandemic with a tendency to decrease (Faizah & Amrina, 2021). The different results on the downward trend and increase in CAR with previous studies are due to the previous research data taken in 2020. However, the results of this study still provide information that the ability of conventional banks is greater in managing capital adequacy (CAR). Especially during the pandemic, of course, almost all companies are racing to survive in difficult situations while still paying attention to opportunities (Rohmah, 2020).

Comparison of Profitability levels

Profitability is one of the measuring instruments for financial performance that can show the ability to make a profit. One of the capabilities of conventional banks and Islamic banks when viewed from the level of profitability is during the financial crisis where Islamic banks are more resilient to the global crisis when compared to banks conventional (Afkar, 2015a). The greater the level of profitability of a bank, the higher the bank's ability to make a profit. The results of this study show that there are differences in the level of profitability between

conventional banks and banks. This difference tends to be greater for conventional banks, in accordance with what has been explained that during the pandemic there was a difference in the level of profitability of conventional banks, while for Islamic banks there was no difference (Faizah & Amrina, 2021).

The results of his research are indeed in line with several previous studies, but what needs to be considered is when the level of profitability is a concern for investors and Potential investors (in this case bank customers) will give a good signal if conventional banks and Islamic banks make a profit, so it depends on the customer who will determine the choice is on which bank. The choice of customers will certainly consider information on the occurrence of bad debts that can affect profit generation. As explained (Nuha & Mulazid, 2018) there is profit-sharing financing that affects profitability. Where during the Covid-19 pandemic, any company will still try to make a profit even though it has to fight hard and is faced with problematic financing (Putri, 2021), besides that Islamic banks are also still limited in disbursing funds because they are only in the real sector, unlike conventional banks that can do in the financial sector (Ascarya & Yumanita, 2010).

4. Conclusions

Capital adequacy and profitability levels of conventional banks and Islamic banks during the Covid-19 pandemic in 2020-2021 in Indonesia there were significant differences. The difference is greater than conventional banks than Islamic banks. This difference shows that the ability of conventional banks finance capital adequacy and their ability to earn profits is better. This is considered reasonable because of course conventional banks have larger assets so that they are more flexible in disbursing credit or financing. Meanwhile, Islamic banks are still limited to the real sector in disbursing their financing with a profit-sharing scheme.

Acknowledgment

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