

# Is Islamic Bank Steadier Than Conventional Bank for Facing the Crisis? (Comparative Study in Indonesia during Covid 19)

Ali Farhan

*Sekolah Tinggi Ilmu Ekonomi Mahardhika Indonesia.*

**Abstract:** Differences in views regarding the advantages of Islamic and conventional banks in dealing with the crisis are the background of this research. By using 4 Islamic banks and 4 conventional banks, this article tries to compare their financial performance during the Covid-19 pandemic. The research methodology used is descriptive analysis with the help of SPSS 16. From the results of the discussion it was found that, Islamic banks have better liquidity than conventional banks, but do not have sufficient resilience if the crisis lasts longer, Islamic banks have lower solvency and profitability than conventional banks, this might have an impact on their durability against crises. It can be concluded that in the crisis phase, Islamic banks do not have sufficient resilience to face a crisis that lasts a long time, especially if the crisis occurs in the real sector, because the business model that is tied to the real sector will make it difficult for capital and liquidity.

**Keywords:** Islamic Bank, Covid-19, Crisis, Performance

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## 1. Background

Corona virus disease or known as Covid-19 is an infectious disease caused by the Corona virus (Ramasamy, 2020). According to Conti and Younes (2020) Covid-19 or coronavirus 2 Severe Acute ReRespiratory Syndrome (SARS-CoV-2) is a virus that strike the respiratory system. Wuhan, the capital of China's Hubei Province at the end of December 2019, became the first place the disease was been founded and has spread to various other provinces in China, Thailand, Japan, and South Korea in less than a month (Bin et al., 2021). Covid-19 has spread rapidly to Europe, then to North America, and Asia (Mao & Jin, 2020). On January 30, 2020, The World Health Organization (WHO) declared Covid-19 a public health emergency. Then, on March 11, 2020, WHO intensified this status to a global pandemic. The number of cases of corona virus infection in the world continues to escalate. Reported as of March 31, 2020, more than 190 countries have confirmed contracting the corona virus. The number of coronavirus cases worldwide reached 781,485 cases. Of these, 164,726 patients recovered. Meanwhile, 37,578 people died (WHO, 2020). The first Covid-19 case in Indonesia was publicized directly by President Joko Widodo at the Presidential Palace on March 2, 2020 as many as two cases. Ministry of Health of the Republic of Indonesia declared, at the end of March 2020, there were 1,528 confirmed cases and 136 deaths. Those days, Indonesia's Covid-19 death rate is 8.9 percent, this number is the highest in Southeast Asia. Along with its health effects, the Covid-19 pandemic is severely affecting business and human activities in the affected areas and beyond.

Regarding to Covid-19, Mersha & Worku, (2020) had an opinion that Covid-19 Epidemic nowadays is bringing about global concern and economic obstacle for customers, companies and communities around the world . The Covid-19 pandemic has shaken the daily lives of many people, degenerating the global economy and

business. Sumarni (2020) said that the pandemic has had many leveraging effect on various sectors. Many sectors have been severely affected, such as travel and tourism, transportation, manufacturing, oil and gas, trade, construction, banking, and many more (Anwar et al., 2020) Regarding the Indonesian economy, the Covid-19 pandemic has weakened economic activity in Indonesia. the real sector triggered a contraction of 5.32 percent year-on-year in the second quarter of 2020. In line with the slowdown in activity in the real sector,

Bank credit growth only grew 1.5 percent year-on-year (YoY) to Rp.5,549.2 trillion in the first mid of this year, this data is a finding of the Financial Services Authority (OJK). This figure is not higher than the realization at the end of 2019 of 6.1% YoY (Pepinfo Credit Rating Agency, 2020). Several reserach than been discussing the impact of Covid-19 on the banking sector in Indonesia have been carried out in several banks using a qualitative research design (Supeno & Hendarsih, 2020b); (Effendi & Hariani, 2020); (Sirait & Pardede, 2020); (Ferdinandus, 2020a). The Supeno & Hendarsih (2020) study discovering that there was a degenarate in credit growth, otherwise, there was an increase in non-performing loans (NPL), and a degenarate in return on assets (ROA) at Rural Banks during the Covid-19 pandemic. Effendi Research & Hariani (2020) shows that the ROA of Islamic Banking tends to decrease, while Non-Performing Financing (NPF) and Finance to Deposit Ratio (FDR) are still within safe limits.

The financial performance of PT Bank Rakyat Indonesia Tbk. (Persero) according to Sirait & Pardede (2020) study, shows that some financial indicators, such as return on assets (ROA), return on equity (ROE), net interest margin (NIM), operating expenses to operating income (BOPO) continues to show a downward trend. Furthermore, research by Ferdinandus (2020) confirms that Permata Bank's financial performance is measured by the capital adequacy ratio (CAR), net profit margin (NPM), and from Q4:2019 to Q3:2020 it is not healthy. The Central Statistics Agency called BPS (Badan Pusat Statistik) noted that Indonesia's economic growth in the first quarter of 2020 fell to the level of 2.97% and in the second quarter of that, it fell to -5.32%. In the third quarter of 2020, economic growth increased to 5.05%, but in the fourth quarter it fell back to -2.19%. Turning to 2021, Economic growth began to recovery, although in the first quarter it was still negative (-0.74%), but in the second quarter it reached the level of 7.07%. Particularly in the banking sector, most of the indicators also lined. In pursuance of Wijana and Widnyana (2022) there was a fell on capital adequacy ratio (CAR) of banks in Indonesia to 7.38% , while the average return on assets (ROA) fell to 13.52%, the average loan-to-deposit ratio Average (LDR) alleviated by 4.23%, and average net interest margin (NIM) decreased to 14.67%, and average operating expenses to operating income (BOPO) decreased by 3.37%. Therefore, This shows that banks in Indonesia have been affected by the Covid-19 pandemic. However, in the Islamic banking sector the emerging indicators tend to contradict general data. Their average CAR actually increased by around 1.16%. Similarly, the average ROA (0.62%), net operating margin (NOM) (1.66%), and BOPO (0.04%). Meanwhile, the financing to deposit ratio (FDR) only fell 0.35% or lower than banks in general (Wijana and Widnyana (2022)).

Based on previous research, it is known that the Covid-19 pandemic has an impact on bank performance. Significance of the decline in banking performance in both the conventional banking sector and Islamic banks in Indonesia as a result of Covid-19 need to be evaluated. Therefore, this study aims to analyze whether there are differences in the performance of Conventional Commercial Banks and Islamic Banks before and after the Covid-19 case.

## 2. Hypothesis Development

Since the emergence of the Islamic banking system, studies on the stability or durability of Islamic banking have often been carried out with a comparative approach. This matter This study aims to determine whether Islamic banking is more resilient than the conventional banking system or maybe vice versa. In general, scientific evidence in this regard supports Islamic banking. Why is that? There are at least three explanations about the stability of Islamic banking. First, Islamic banking has better liquidity when compared to conventional banking (Rahim & Zakaria, 2013). This is due to the limited sharia-based investment channels. Second, Islamic banking focuses on investment and profit-sharing financing, so that there is a shared risk

sharing (Hasan & Dridi, 2010). Third, Islamic banking is less influential than conventional banking, because Islamic banking should not be involved in speculative practices and excessive leverage.

Some researchers also found that Islamic banking is not much better than banking conventional. Hasan and Dridi (2011) examined the stability of Islamic and conventional banking in 8 countries during the global financial crisis. They found that Islamic banks had stronger resilience in the early stages of the 2008 financial crisis, but when the financial crisis went worse and kicked up to the real sector in 2009, their profitability degenerating drastically compared to conventional banks. Those finding is as inline as Alqahtani and Mayes's (2018) finding. Using data from 76 banks in the Gulf Cooperation Council (GCC) region, they found that at the start of the financial strike, the performance of Islamic and conventional banking did not diverge prominently. However, when financial shocks disperse to the real sector, Islamic banking experiences higher volatility than conventional banks. Kassim and Majid (2010) offer an argumentation regard tothe ambiguity of the durability of Islamic banking. By combining the two major financial crises, namely the 1997 Asian financial crisis and the 2007 global financial crisis, they found that the Islamic and conventional banking systems were equally vulnerable to strike, either on financial sector or real sector. Abdulle and Kassim (2012), also found the same thing. Wahid and Dar (2016), Chakroun and Gallali (2015). Meanwhile, Bourkhis & Nabi (2013) found that there was no prominent deviation between the soundness of Islamic banks and conventional banks. This shows that Islamic banks deviate from their theoretical business model, thus enabling their health to be the same as conventional banks. Henceforth, this study uses the same variables used by Fakhri and Darmawan (2021),

### **Capital Adequacy Ratio (CAR)**

Capital Adequacy Ratio is a ratio that shows how much capital capacity in the bank can absorb the risk of credit failure that will occur so that the higher the level of capital ratio, the healthier the bank, and vice versa (Muljono, 1999). The formula for obtaining the capital adequacy ratio has been explained by OJK in an OJK circular letter, namely:

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{equity}}{\text{Risk Weighted Asset}} \times 100 \%$$

### **H1; Covid-19 has an impact on the CAR of Islamic and Conventional Banks**

### **Net Operating Margin**

Net Operating Margin (NOM) in Islamic Banks means the same as Net Interest Margin (NIM) in Conventional Banks because in the regulation of the Financial Services Authority (POJK) no. 6 / POJK.03/2016 explains that to achieve the Bank's level of efficiency is measured by the ratio of Net Interest Margin (NIM) or Net Operating Margin (NOM). research by Aviliani, et al. (2015) include NIM or NOM as a factor that is considered to affect profitability. Banks using the NOM ratio to measure management's ability to manage their capital to obtain profits from providing funds to the public to generate net income. Net profit is obtained from all distribution of funds after deducting profit sharing and deducting operating expenses. The NOM formula following the provisions of the Financial Services Authority Circular Letter (SEOJK) is

$$\text{NUMBER} = \frac{\text{Net Income}}{\text{Average of Earning Asset}} \times 100\%$$

### **H2; Covid-19 has an impact on the NOM of Islamic and Conventional Banks**

### **Financing to Deposit Ratio (FDR)**

Financing to Deposit Ratio (FDR) in Islamic banks is the same as LDR Loans Deposit Ratio in conventional banks in that sense, where in Bank Indonesia regulation no. 17/11/PBI/2015 that the ratio of loans to third parties in Rupiah and foreign currencies, does not include loans to other banks. That's the Loan to Deposit Ratio formula

according to Bank Indonesia  
the rules are:

$$\text{FDR} = \frac{\text{Total Financing}}{\text{Total Third Party Funds}} \times 100\%$$

### H3; Covid-19 has an impact on the FDR of Islamic and Conventional Banks

#### Short Term Mismatch Ratio (STMR)

This ratio calculates the number of short-term assets compared to short-term liabilities so that the ability of Islamic banks to meet their short term. liquidity needs are known. Circular of the Financial Services Authority (SEOJK) Short Term Mismatch Ratio is included in the financial assessment of show banks. In the research of Cahyani and Saepudin (2015) as mentioned on Fakhri and Darmawan (2021) is explained that the Short Term Mismatch Ratio is one indicator of banking quality

performance in Indonesia. The Short-Term Mismatch Ratio formula is:

$$\text{Short Term Mismatch Ratio (STMR)} = \frac{\text{Short Term Asset}}{\text{Short term liabilities}} \times 100\%$$

### H4; Covid-19 has an impact on Islamic and Conventional Bank STMR

#### Non-Performing Loan

Credit is one of the bank products that are widely used by the public to support businesses that are being developed. On the other hand, credit risk is recognized as the most serious risk faced by commercial banks (Wood & McConney, 2018). According to Demirgüç-Kunt, Morales, & Ruiz Ortega (2020) the cause of bad credit is the inability of the debtor to pay the principal and interest on the loan. Non-performing loans (NPLs) will have an impact on reducing bank capital and disrupting lending for the next period. Non-performing loans (NPL) reflect the credit quality of a bank. The greater the NPL level, the greater the credit risk of the bank (Jazila et al., 2021). NPL is calculated using the following formula:

$$\text{NPL} = \frac{\text{Non-Performing Loan}}{\text{loan}} \times 100\%$$

### H5; Covid-19 has an impact on the NPL of Islamic and Conventional Banks

## 3. Methodology

This study uses a quantitative research design with a descriptive approach. The data used in this study are secondary data Conventional Commercial Banks which include CAR, NOM, STMR, FDR/LDR, and NPL. Data obtained from Indonesian Banking Statistics published by each bank used in sample, that is; for BNI Syariah, BRI, Syariah, Mandiri Syariah and BCA Syariah banks. While conventional banks use financial data from Bank BNI, BRI, Mandiri and CIMB, the data used are financial reports for 2019 - 2020.

To measure the significant difference in the performance of Conventional Commercial Banks before and after Covid-19, paired sample t-test was used in this study. According to Widiyanto (2013), paired sample t-test statistical method was used to determine the effectiveness of treatment which was characterized by differences in the mean before and the mean after the treatment was given. The Software Statistics Package for Social Sciences (SPSS) version 16.0 was applied to analyze the data.

## 4. Discussion

The data analysis in this study used the sample t test, to be able to prove the effect of Covid-19 on the

performance of conventional banks and Islamic banks, is there a significant difference between showed statistically. The results of the t test can be seen in table under

**Figure 01. t test**

Variable	Sig. (2-tailed)	
	Sharia	Conventional
NPL	.001	.000
CAR	.004	.000
LIQUIDITY	.000	.000
FDR	.000	.000
NUMBER	.003	.001

From the results of tests carried out on sample in Islamic and conventional banking shows that the banking financial performance variables used in this research, namely NPL, CAR, Liquidity, FDR, and Net Operating Margin, each have a significance value of  $<0.05$ , this indicates that Covid-19 brought a crisis that had an impact on performance finance of the two bank models. The financial crisis caused by the pandemic has an impact on financial performance. This finding is relevant to the opinion of Hasan and Dridi (2011) which states that Islamic banking is not better face crisis when compared to conventional banks, especially when faced with a crisis in the real sector. Result testing this is also the answer hypothesis that Covid-19 has had a significant impact on the banking industry. However, how much impact is received on conventional banks and Islamic banks, can be seen in the description below;

Although covid-19 in general has had a significant impact on performance a banking finance, on the Non-Performing Loan variable it appears that the NPL of the bank conventional experienced a significant increase compared to Islamic banks, this increase even reached more than 100% from the previous period, this can be seen in the figure below;

**Figure 02. NPL of Islamic and Conventional Banks**

NPL	2019	2020	Growth
BNI Syariah	3.2%	3.9%	20%
Sharia Mandiri	3.3%	4.3%	31%
Muamalat	1.9%	2.0%	7%
BCA Syariah	6.1%	7.2%	18%

NPL	2019	2020	Growth
BNI	2.9%	7.4%	153%
Independent	3.5%	7.0%	100%
BRI	4.2%	7.2%	73%
CIMB	3.1%	6.8%	123%

Disemadi and Shaleh (2020) said that Covid-19 had weakened the ability of debtors to pay debts, which of course would trigger a decline in banking performance in general. Bank Indonesia also provides guidelines for assessing banks based on their NPL percentage;

**Figure 03**

Ratio	Description
NPL < 2%	very healthy
2% < NPL < 5%	healthy
5% < NPL < 8%	healthy enough
8% < NPL < 12%	less healthy
NPL > 12%	unhealthy

When compared with the NPL indicator by Bank Indonesia, seen that whole While the conventional bank sample was at a fairly healthy level when the pandemic occurred, the bank's health level as measured using the NPL indicator was different from sample Islamic banks that have a lower NPL level compared to conventional banks, all of the majority of Islamic banks in the study show that the bank is at a healthy level (2% < NPL < 5%), this condition is certainly better than conventional banks with a higher NPL level 5% < NPL < 8%. High NPL can have an effect negative to the level of bank profitability (Harjanti and Farhan, 2021). The low NPL in Islamic banks during this pandemic shows that Islamic banks have better liquidity, therefore Islamic banks are more stable than conventional banks. Rahim & Zakaria, 2013).

The increase in NPL will also push the level of profit bank, Harjanti and Farhan (2021) revealed that Non-Performing Finance/Non-Performing Loans have a relationship which negative with bank profitability, it means the more high NPL, then the more reduce ability bank to make a profit. Figure 03 shows how large the rate of decline in banking profits (both conventional and sharia) is due to the Covid-19 pandemic. Although both experienced a decline, it appears that Bank Conventional experienced a more significant decrease in profitability when compared to Islamic banks with an average decrease in profits of up to 49%.

**Figure 03. NOM of Islamic and Conventional Banks**

NUMBER	2019	2020	Change
BNI Syariah	1.84%	1.52%	-17%
Sharia Mandiri	1.65%	1.70%	3%
Muammalat	0.05%	0.03%	-36%
BCA Syariah	1.15%	1.25%	9%
<b>Average</b>	1.17%	1.13%	-10.37%

NUMBER	2019	2020	Change
BNI	3%	1%	-77%
Independent	4%	2%	-44%
BRI	5%	3%	-40%
CIMB	2%	2%	-36%
<b>Average</b>	3.57%	1.83%	-49.19%

The increasing risk of default, which is indicated by the increasing level of NPL, as well as decreasing bank profits as seen in figure 03, is a sign that the liquidity and solvency risks of banks are also experiencing a decline. na performance.

Even though In general, the capital adequacy ratio for Islamic banks is not greater (better) than conventional banks, but during the pandemic, Islamic banks actually experienced better capital accumulation, this is indicated by the increase in CAR during the pandemic, compared to conventional banks. which actually

decreased.

**Figure 04. CAR Ratio of Conventional and Islamic Banks 2019 – 2020**

CAR	2019	2020	Change
BNI Syariah	9.5%	10.1%	6%
Sharia Mandiri	8.3%	8.6%	4%
Muammalat	8.8%	8.8%	0%
BCA Syariah	27.5%	28.1%	2%

  

CAR	2019	2020	Change
BNI	15.7%	12.9%	-18%
Independent	18.2%	14.9%	-18%
BRI	15.6%	13.9%	-11%
CIMB	16.3%	14.7%	-10.00%

However, in terms of capital adequacy, Islamic banks are still lagging behind conventional banks, to enter the healthy category according to the standards set by Bank Indonesia. This can be seen in the tabulation below;

**Figure 05. CAR . Assessment Criteria**

Ratio	Description
CAR > 12%	very healthy
9% < CAR < 12%	healthy
8% < CAR < 9%	healthy enough
6% < CAR < 8%	less healthy
CAR < 6%	unhealthy

The low CAR ratio in Islamic banks can be understood from the high financing ratio in Islamic banks. Islamic banks distribute financing at a higher ratio than customer funds/third party funds, this causes Islamic banks to tend to use their own capital. This has an impact on the solvency of Islamic banks which are not better than conventional banks. Similarly, according to the indicators of Bank Indonesia (2011) regarding the soundness of banks according to their FDR/LDR

**Figure 06. LDR . Assessment Criteria**

Ratio	Description
LDR < 75%	very healthy
75% < LDR < 85%	healthy
85% < LDR < 100%	healthy enough
100% < LDR < 120%	less healthy
LDR > 120%	unhealthy

**Figure 07. LDR/FDR Rasio Ratio**

FDR	2019	2020
BNI Syariah	2.51	1.93
Sharia Mandiri	4.06	2.70

Muammalat	3.19	3.11
BCA Syariah	4.11	4.03
Average	3	3

<b>LDR</b>	<b>2019</b>	<b>2020</b>
BNI	90%	88%
Independent	97%	91%
BRI	90%	84%
CIMB	98%	84%
Average	94%	87%

From the data above, it can be seen that Islamic Banks have FDR (LDR in the context of conventional banks) disbursing financing with an average ratio of 3 times the third party funds. This is of course a separate risk for Islamic bank fundamentals, because Islamic banks use their own capital to distribute financing, not maximizing third party funds for distribution. This may be due to the financing model of Islamic banks and Islamic contracts which restrict Islamic banks from distributing customer funds freely.

The limitations of Islamic banks to be able to distribute financing freely have an impact on the availability of customer funds that settle in the bank. This causes Islamic banks to have a surplus of funds, so thus inflating its liquidity. In terms of liquidity, Islamic banks have advantages over conventional banks, this can be seen in the table below.

**Figure 08. Liquidity of Islamic and Conventional Banks**

<b>Liquidity</b>	<b>2019</b>	<b>2020</b>
BNI Syariah	1.31	1.24
Sharia Mandiri	1.89	1.39
Muammalat	1.56	1.71
BCA Syariah	1.84	2.74

  

<b>Liquidity</b>	<b>2019</b>	<b>2020</b>
BNI	34%	35%
Independent	31%	37%
BRI	40%	45%
CIMB	33%	46%

From discussion, It can be understood that Islamic banks tend to have better liquidity and stability compared to conventional banks, this can be concluded from the level of liquidity and stability.volatilityperformance before and after the pandemic, however in terms of bank profitability and solvencyconventionalhave better performance. This finding confirms the research of Rahim & Zakaria (2013), which states that Islamic bank liquidity is better than conventional banks in times of crisis, Hasan and Dridi (2011) opinion regarding resilience to crises in the early phases, high CAR value and profitability. Low levels can be a weakness for Islamic banks when the crisis lasts for a longer time and has an impact on the real sector (Alqahtani and Mayes, 2018).

## 5. Conclusion

Based on the results of descriptive statistical tests, it was found that Covid-19 had an impact on the performance of Islamic banks and conventional banks which were represented by financial indicators in the form of; Net Operational Margin, Finance to Deposit Ratio (Loan to Deposit Ratio), Capital Adequacy Ratio,



Liquidity, and Non-Performing Loans. From the results of the analysis, it was also found that the volatility of conventional banks during the pandemic was higher than Islamic banks, as well as in terms of liquidity, conventional banks experienced a significant decrease compared to Islamic banks, even though when compared to conventional banks, Islamic banks had lower solvency and profitability than conventional banks, this can have an impact on their durability against the crisis. It can be concluded that in the crisis phase, Islamic banks have better liquidity than conventional banks, but do not have sufficient resilience if the crisis lasts longer.

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#### **INFO**

***Corresponding Author: Ali Farhan, Sekolah Tinggi Ilmu Ekonomi Mahardhika Indonesia.***

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