Covid-19’s Effect on Commercial Banking In Indonesia

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Covid-19's Effect on Commercial Banking In Indonesia

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Abstraction

This article is intended to examine the effect of Covid-19 on financial performance in the banking industry represented by Bank BNI, Bank BRI, Bank CIMB Niaga, and Bank Mandiri with the variables Net Performing Loan, Loan to Deposit Ratio and Non Performing Loan as a measure of financial performance. The analysis used is the Mann Whitney test and the Kolmogrov Smirnov test. Based on the results of the different tests, it was found that; 1) Covid-19 has a negative but not significant effect on the net profit margin, 2) Covid-19 has a negative and significant effect on the loan to deposit ratio, and Covid-19 has a positive and significant effect on non-performing loans.

Keywords: Covid-19, Financial Crisis, Banking

1. Background

The current outbreak of the COVID-19 pandemic in Indonesia has an impact on almost all sectors of life, both in terms of economy, politics, social and culture. Likewise experienced by one of the economic sectors which is the heart of a country's economy, namely the banking sector (Adeabah and Andoh, 2020). The banking sector is currently experiencing major challenges due to the COVID-19 pandemic.

The dynamic development of the banking sector as a determining factor for economic development in a country. The banking sector slumped impacted the economic sector as well. Likewise, the stagnation of economic activity will have an impact on the banking sector because the intermediation function does not run normally. Banking is an institution that has long given color to the country's economic activities. The existence of banking in the era of the modern

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economy as a media/intermediary/financial intermediary institution is very important. Banks are required to have good performance as their role as media/intermediary institutions, because with this, banks get "trust" from the public (agent of trust). Banks as financial institutions must be supported by a sense of trust from customers. Smooth bank operational activities will determine as a supporting factor for the welfare of stakeholders and increasing company value.

Tiono and Djaddang (2021) argue that Covid-19 has an impact on slowing banking performance, which is indicated by differences in financial performance at several national banks, especially in ROE, BOPO, NPL and ROA, while Iswahyuni's findings (2021) in Islamic banking suggest that Covid-19 causes a decrease in the number of lending and a decrease in asset quality. Sholihah (2021) in his research on the efficiency level of Islamic banks during the pandemic found that Islamic banking experienced a substantial decrease in efficiency levels during the Covid-19 pandemic.

Some of the studies mentioned above have explained the impact caused by Coivd-19 on the banking industry. However, the research carried out is limited to revealing performance before and after Covid-19, furthermore this article will try to examine the effect of Covid-19 on the performance of the banking industry with the variables of Net Performing Loans, Loans to Deposit Ratios and Non Performing Loans as a measure of financial performance. tested.

Hypothesis

Based on the background that has been prepared in the previous paragraph, the hypotheses that will be tested in this article are as follows;

1. H01 : There is no difference in the financial performance of conventional banks in the NPM ratio caused by Covid-19
2. Ha1 : There is a difference in the financial performance of conventional banks in the NPM ratio caused by Covid-19
3. H02 : There is no difference in the financial performance of conventional banks in the LDR ratio caused by Covid-19
4. Ha2 : There is a difference in the financial performance of conventional banks in the LDR ratio caused by Covid-19

5. H03 : There is no difference in the financial performance of conventional banks in the NPL ratio caused by Covid-19
6. H03 : There is a difference in the financial performance of conventional banks in the NPL ratio caused by Covid-19

Literature Review

Covid-19

3 Severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) better known as the Corona virus is a new type of coronavirus that is transmitted to humans. This virus can attack anyone, such as the elderly (older people), adults, children, and infants, including pregnant women and breastfeeding mothers. Corona virus infection is called COVID-19 (Corona Virus Disease 2019) and was first discovered in the city of Wuhan, China at the end of December 2019. This virus spreads very quickly and has spread to almost all countries, including Indonesia, in just a few months.

2 Coronavirus is a collection of viruses that can infect the respiratory system. In most cases, this virus causes only mild respiratory infections, such as the flu. However, this virus can also cause severe respiratory infections, such as lung infections (pneumonia). This virus is transmitted through phlegm (droplets) from the respiratory tract, for example when in a crowded closed room with poor air circulation or direct contact with droplets. In addition to the SARS-CoV-2 virus or Corona virus, viruses that also include:

in this group are viruses that cause Severe Acute Respiratory Syndrome (SARS) and viruses that cause Middle-East Respiratory Syndrome (MERS). Although caused by viruses from the same group, namely coronaviruses, COVID-19 has several differences with SARS and MERS, including in terms of speed of spread and severity of symptoms.

Financial performance

According to Utari et al. (Harahap, 2017), financial performance is the result of the company's operating activities for a certain period which is presented in the form of a report in the form of financial figures. Financial performance can be assessed with several analytical tools. According to Hery (Harahap, 2017), based on the technique, financial analysis can be divided into nine types. a) Comparative analysis of financial statements is carried out by comparing changes that occur in two or more financial reporting periods, both in numbers and percentages. b) Trend analysis to determine the tendency of financial condition whether it shows an increase or decrease. c) Percentage analysis per component (common size) is an analytical technique to determine the percentage of investment in each one assets to the total or total assets or liabilities. d) Analysis of sources and uses of working capital to compare sources and uses of working capital for two specific periods. e) Analysis of the source and use of cash to analyze the company's cash position and the causes of changes in cash in a certain period of time. f) Financial ratio analysis to determine the relationship between certain items in the balance sheet and income statement. g) Analysis of changes in gross profit to determine the position of the company's gross profit and the causes of these changes between certain periods. h) Break-even analysis to analyze the minimum level of sales that the company must achieve so as not to experience losses or profits. i) Credit analysis to assess the feasibility of the debtor's credit application to the creditor.

Kustiningsih *et. al. (2020) Stated* Fundamentally, a company's financial success is achieved by using the company's current resources as efficiently and effectively as possible to achieve the management goals and banking performance as well as by managing its resources as effectively and effectively as possible to achieve its objectives.

2. Research Method

Population and Research Sample

According to Sugiyono (2011), the population is a general group in the form of objects or subjects that meet certain criteria according to the researcher's determination to then be analyzed and drawn conclusions. The population in this study is conventional banking consisting of 4 banks, namely BRI, BNI, Mandiri, and CIMB Niaga. The data used is monthly financial performance from the period 2018 to 2021.

Table 1. Bank Name and Data Form

Tabel 1. Nama Bank dan Bentuk Data

No.	Bank Name	Indicator	Scale
1	Bank BRI	Income statement & Balance Sheet	Ratio
2	Bank BNI	Income statement & Balance Sheet	Ratio
3	Bank CIMB Niaga	Income statement & Balance Sheet	Ratio
4	Bank Mandiri	Income statement & Balance Sheet	Ratio

Tabel 2. Definisi Operasional Variabel

Variable	Indicator	Measurement	Skala
Net Profit Margin	Tingkat keuntungan bank	$NPM = \frac{\text{Net Profit}}{\text{Total Cost}} \times 100\%$	Rasio
Loan to Deposit Ratio	Liquidity	$LDR = \frac{\text{Total Distributed Financing}}{\text{Third Parties Fund}} \times 100\%$	Rasio
Non Performing Loan	Productive Assets's Qualities	$NPL = \frac{\text{Doubtful Receivable}}{\text{Total Receivable}} \times 100\%$	Rasio

Data Collection and Processing Method

This research is a quantitative comparative study, so that in the process, conventional banking monthly financial report data for 2018-2021 is collected on the company's official website using the digital research method. Digital research is a data collection technique by conducting a review of literature, records, or reports whose data is obtained through digital searches on internet media. The data collected includes the ratio of earning asset quality (NPL), profitability ratio (NPM) and liquidity ratio (LDR).

Data from 2018 to 2019 is used as research data before the COVID-19 pandemic, while data from 2020 to 2021 is for after the pandemic. After that, the data is validated using a normality test followed by an analysis process using the Mann-Whitney and Kolmogrov-Smirnov test with a tool in the form of SPSS 21. The test using regression is intended to be able to see objectively whether Covid-19 really has an effect which is significant to the banking industry. Based on the results of the processing, the data is then analyzed and the hypothesis is tested based on the existing provisions.

3. Results and Discussion

Like other parametric tests, linear regression also has classical conditions or assumptions that must be met. So that the resulting prediction model will be BLUE (Best Linear Unbiased Estimation). Classical assumptions on multiple linear regression include: normality and non-multicollinearity tests

a. Normality:

Classical Assumption Testing Normality test using the one-sample Kolmogorov-Smirnor test of 0.495, greater than the value of Sig > 0.05, it can be concluded that the data in the model is normally distributed.

Tabel 3. Uji Normalitas Data Kolmogorof-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		108
Normal Parametersa	Mean	.0000000
	Std. Deviation	.17570361
Most Extreme Differences	Absolute	.080
	Positive	.080
	Negative	-.039

Kolmogorov-Smirnov Z	.831
Asymp. Sig. (2-tailed)	.495

a. Test distribution is Normal.

Tabel 4. Uji Beda Mann Whitney

Test Statistics(a)

	NPM	LDR	NPL
Mann-Whitney U	632.000	480.000	.000
Wilcoxon W	1,13E+06	976.000	3,00E+06
Z	-3.823	-4.863	-8.417
Asymp. Sig. (2-tailed)	.000	.000	.000

Based on the results of the Mann Whitney test in the table above, it can be seen that the Sig value in the NPM, LDR and NPL variables is $0.000 < 0.005$, thus statistically there is a difference in banking performance between before and after Covid-19, based on this, H0 which states there is no difference between banking performance on the variables NPM, LDR, and NPL is rejected and Ha is accepted.

1) Net Profit Margin

In line with the results of the different test, the profitability of banks also decreased. This happened to all the banks that were sampled in this study; BNI, BRI, CIMB and Mandiri.

Table 5. NPM Ratio 201 – 2020

Bank	2018	2019	2020
BNI	40%	39%	29%
BRI	40%	39%	31%
CIMB	27%	26%	24%
Mandiri	42%	45%	36%

BNI experienced a 10% decrease in net profit in 2020, as well as BRI which experienced a net profit decline of 8%, CIMB although relatively stable but also experiencing the impact of this pandemic, net profit decreased by 2% from the previous year, while Bank Mandiri experienced a decrease in net profit of up to 9%

2) Non-Performing Loans

The decline in the level of banking profits during Covid-19 could be caused by a decrease in the level of banking efficiency (Sholihah, 2021), but this research also found that non-performing loans during the pandemic increased between 2% to 3%, as we know that non-performing loans is the level of bad loans experienced by banks, an increase in the number of non-performing loans can result in a decrease in the level of banking profits (Arianty and Farhan, 2021).

Table 6. NPL Ratio 2019 – 2020

Bank	2018	2019	2020
BNI	3%	3%	6%
BRI	4%	5%	7%
CIMB	4%	4%	7%
Mandiri	5%	4%	7%
Grand Total	4%	4%	7%

3) Loan to Deposit Ratio

As in the NPM and NPL variables which have decreased, the crisis triggered by this pandemic has an impact on all segments of the economy. Not only did banks experience a decline in profits and an increase in credit risk, but also a decline in lending. This is shown in table 7. below, where the loan disbursement ratio (Loan to Deposit Ratio) has decreased between 4% to 10%. This is due to the decline in economic activity, so banks tend to be conservative in providing financing.

Table 7. LDR Ratio 2018 - 2020

Bank	2018	2019	2020
BNI	78%	85%	82%
BRI	86%	87%	82%
CIMB	87%	90%	80%
Mandiri	85%	86%	82%

4. Conclusion

Banking financial performance has clearly decreased after the Covid-19 pandemic hit. This is indicated by the financial performance of banks, which include NPM, LDR, and NPL, which experienced a decline in performance compared to before Covid-19. The level of net profit has decreased, the risk of default has increased, and the ability to disburse credit has decreased.

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