

Analysis of the impact of Covid 19 on the Financial Performance of Islamic Rural Banks in East Java

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ABSTRACT

During the COVID-19 pandemic, BPRS financial performance experienced a decline. The purpose of this study is to compare the financial performance of BPRS East Java before and during the Covid-19 outbreak. Loan to deposit ratio (LDR), Return on Assets (ROA), Non Performing Financing (NPF), Operating Expenses to Operating Income (OER), and Non Performing Loans are all used to measure financial performance (NPL). Quantitative research method with a comparative approach is applied in this study. Purposive sampling is a sampling technique for this study, covering 28 BPRS East Java companies in 2019-2020. Independent sample t-test regression was used to evaluate the data. The results of this study show that the financial performance of NPF in BPRS companies did not differ significantly before and during the Covid-19 pandemic, while the financial performance variables ROA, and LDR, and BOPO in BPRS companies differed significantly before and during the pandemic

Keyword: Return on Assets, Non Performing Financing, BPRS

1. Introduction

The banking sector is one of the sectors most affected amid the Covid-19 pandemic. Many people have lost their jobs amid the outbreak of the Covid-19 virus and this will indirectly affect the credit payment process for people who have loans from banks. This will certainly have an effect on the bank's overall income. The Deposit Insurance Corporation (LPS) said that the impact of the corona virus outbreak (Covid-19) has made many Islamic Rural Credit Banks fail. This is because the losses that occur in many Islamic BPRS are already in the very heavy category, as data submitted by the Financial Services Authority (OJK) shows that the CAR (Capital Adequacy Ratio) can be minus 200% -300%.

Covid 19 which hit the world in early 2019 certainly had an impact on people's financial condition. Many people have lost their jobs amid the outbreak of the Covid-19 virus and this will indirectly affect the credit payment process for people who have loans from banks. This will certainly have an effect on the bank's overall income. And one of those affected is the Islamic People's Credit Bank.

1.1 Formulation of the problem

What is the impact of Covid-19 on the Financial Performance of Sharia Rural Banks in East Java

1.2 Research purposes

To find out the impact of Covid-19 on the Financial Performance of Islamic Rural Banks in East Java

2. Theoretical Framework, Conceptual Framework

2.1 Islamic People's Credit Bank

Islamic People's Credit Bank is one of the Islamic banking financial institutions, whose operational pattern follows sharia principles or Islamic muamalah. BPRS was established based on Law no. 7 of 1992 concerning Banking and Government Regulation (PP) No. 72 of 1992 concerning Banks Based on Profit Sharing Principles. In article 1 (point 4) of Law no. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking, it is

stated that BPRS are banks that carry out business activities based on sharia principles which in their activities do not provide services in payment traffic.

The company's financial situation in the act of collecting and distributing funds will be shown by financial performance as measured by liquidity, capital adequacy, and profitability (Jumingan, 2014). Rentability and profitability are the same thing. Financial performance refers to a company's ability to handle finance, marketing, human resources, and other factors over time (Mahagiyani & Ratna Sari, 2019). Net profit, which is calculated by subtracting income from expenses, is a common measure of financial performance. Evaluation of financial performance can reveal that the company needs to obtain profit and cash position in a certain period quickly and on time. In addition, financial performance must be used to manage and control company resources.

2.2 Financial Performance Indicators

Financial performance ratio indicators are very important to determine banking conditions and management capabilities. As a result, the bank can evaluate the performance of the current period and improve it in the following months to meet the required targets. The indicators used in this study to determine the financial performance of East Java Rural Banks (BPR) and Islamic Rural Banks (BPRS) before and during the COVID-19 pandemic are listed below.

1. The loan to deposit ratio (LDR)

The ability of banks to lend funds to their debtors is measured by the loan to deposit ratio (LDR) (Sudarmawanti & Pramono, 2017). To analyze a bank's success in meeting its short-term obligations, the LDR ratio compares total loans to total DPK (Third Party Funds). LDR that can be classified as safe accounts account for 80% of all LDR.

2. Return on Assets (ROA)

Return on total assets Return on Investment (ROI) is a ratio that shows the return on the total assets used in the company. This ratio is also a measure of management's effectiveness in managing its investments. The smaller (lower) this ratio, the less good it is, and vice versa (Kasmir, 2014: 202). The definition of Return on Assets (ROA) according to Rivai, et al (2013: 480) is the company's ability to utilize its assets to earn profit. This ratio measures the level of return on investment that has been carried out by the company by using all the funds (assets) it has. This ratio can be compared with the prevailing bank interest rate. To calculate the ROA ratio using the formula, as follows:

$$\text{Return On Assets} = (\text{Profit Before Tax} \times 100\%) : \text{Total Assets}$$

The greater the ROA, the greater the level of profit achieved and the better the bank's position in terms of asset use.

3. Not Performing Financial (NPF)

Non Performing Financing (NPF) is financing whose collectability category is included in the criteria for substandard financing, doubtful financing, and bad financing. NPF is an indicator of the soundness of the quality of a bank's assets in managing financing distribution. The non-conformity of customers paying principal installments and financing profit sharing (margin) causes collectability of financing. Non Performing Financing (NPF) or troubled financing is one of the key indicators to assess bank performance. If non-performing financing increases, the risk of decreasing profitability is even greater. If profitability decreases, the bank's ability to expand financing decreases and the rate of financing decreases. Non Performing Financing (NPF) ratio is calculated using the following formula:

$$(\text{Troubled financing} : \text{Total financing}) \times 100\%$$

4. Operating Expense to Operating Income (BOPO)

BOPO is a ratio that shows the magnitude of the comparison between expenses or operating costs to operating income of a company in a certain period (Riyadi, 2004). Banks with high BOPO ratio values indicate that the bank is not operating efficiently because the high value of this ratio shows the large amount of operational costs that must be incurred by the bank to obtain operating income. In addition, a large number of operational costs will reduce the amount of profit that will be obtained because operating costs or expenses act as a deduction factor in the income statement. At banks, operational expenses generally consist of interest costs (interest expenses paid by the bank to customers who save their money at the bank in the form of third party funds such as current accounts, savings & time deposits), administrative costs, labor costs, marketing costs. Meanwhile, bank operating income generally consists of interest income (obtained from repaying credit installments from the public), commissions, etc. Mathematically, OER can be formulated as follows:

$$\text{OER (BOPO)} = (\text{Total Operating Expense} : \text{Total Operating Revenue}) \times 100\%$$

The BOPO score criteria are as follows: $83\% < \text{BOPO} \leq 88\%$ (Very Healthy)

89% < BOPO ≤ 93% (Healthy), 94% < BOPO ≤ 96% (Pretty Healthy), 97% < BOPO ≤ 100% (Unhealthy), BOPO > 100% (Unhealthy)

3. Research Methodology

The objects analyzed in this study are the 2019 and 2020 East Java Sharia Rural Banks. The data used was obtained from the Financial Services Authority for 2019 and 2020 in the form of the 2019 and 2020 Sharia Rural Bank financial statements. The data collection technique used in this study it is a documentation technique. Sugiyono (2014: 329) states that documents are records of past events. Documents can be in the form of writing, pictures, or monumental works of a person. The data used from documentation techniques in this study are company financial reports, company financial statements of Islamic Rural Banks obtained from the Financial Services Authority. The data analysis method used in this research is quantitative analysis. The steps used in this study are: 1) From the data collected, the researcher calculated the values of LDR, ROA, NPL, OER, and NPL in 2019 and 2020 2) Comparing the results of the analysis of the values of LDR, ROA, NPL, OER, and NPL in 2019 and 2020 3) Draw conclusions about the financial condition of Islamic Rural Banks in East Java before and during the Covid 19 pandemic

The problem-solving framework in this study starts with selecting a research topic and then formulating the problem to see what the problem is to be studied. Furthermore, the researcher collects the required data and performs an analysis based on the data that has been collected, compares and then draws conclusions based on the descriptive analysis carried out

4. Research Results

4.1 Comparative BPRS Financial Performance Before and During the Covid-19 Pandemic

In this study, data were used from 24 Islamic rural credit banks in East Java. The BPRS bank data used consisted of PT BPRS Bakti makmur Indah, PT BPRS Bhakti Haji, PT BPRS Amanahsejahtera, PT BPRS Daya Artha Mentari, PT BPRS Al Maburr Babadan, PT BPRS Bumi Rinjani Batu, PT BPRS Situbondo, PT BPRS Bhakti Sumekar Perseroda, PT BPRS Lantabur Tebuireng, PT BPRS Bumi Rinjani Kepanjen, PT BPRS Karya Mugi Sentosa, PT BPRS Mandiri Mitra Sukses, PT BPRS Sarana Prima Mandiri, PT BPRS Tanmiya Artha, PT BPRS Annisa Mukti, PT BPRS Madinah, PT BPRS Artha Pamenang, PT BPRS Harmoni Partners Malang City, PT BPRS Unawi Barokah, PT BPRS Mojo Artho Kota Mojokerto Perseroda, PT BPRS Magetan (Perseroda), PT BPRS Bakti Artha Sejahtera Sampang, PT BPRS Mitra Mentari Sejahtera, PT BPRS Ngawi Regency.

The results of a comparative descriptive analysis of 24 BPRS companies in East Java, obtained the results of a comparison of the financial performance of BPRS before and during the Covid-19 pandemic as follows:

Table 1. Comparative BPRS Financial Performance Before and During the Covid-19 Pandemic

	Periode	N	Mean	Std.deviation	Sig.	t
ROA	Saat pandemi covid 19	24	-0.9336	5.32472	0.031	-2.685
	Sebelum pandemi covid 19		2.4573	2.64459		-2.685
NPF	Saat pandemi covid 19	24	7.5446	9.6127	0.505	0.371
	Sebelum pandemi covid 19		7.6806	7.8984		0.371
BOPO	Saat pandemi covid 19	24	-11.431	505.1378	0.045	-0.85
	Sebelum pandemi covid 19		85.6957	13.8105		-0.85
LDR	Saat pandemi covid 19	24	94.8217	24.1135	0.021	-1.467
	Sebelum pandemi covid 19		119.3362	93.4783		-1.467

From the results of statistical calculations in table 4.1, the return on asset (ROA) ratio is 2.4573 in 2019. In 2020 the ROA value is -0.1036. There was a decrease in the ROA value of 2.5609. The decrease in the achievement of the ROA value is significant. This is evidenced by the results of the different test which shows a significance value of 0.031 < 0.05 which is smaller than the significant level of 5% (0.05), so it can be concluded that there are differences in financial performance as measured by the ROA of BPRS in East Java. The NPF (Non Performing Financing) ratio value was 7.6806 in 2019. In 2020 the NPF value was 7.5446. There was a decrease in the NPF value of 1,360. Even though there has been a decrease in the achievement of the NPF score, the decrease is not significant and is still within the criteria of good enough. This is evidenced by the results of the different test which shows a significance value of 0.505 > 0.05 which is greater than the significant level of 5% (0.05), so it can be concluded that there is no significant difference in financial performance as measured by the NPF of BPRS in East Java.

From the statistical calculation results in table 4.1, the BOPO (Operating Expenses to Operating Income) ratio value is 85.6957 in 2019. In 2020 the BOPO value is -11.431. There was a decrease in BOPO value of 86.8388. Even though there has been a decrease in the achievement of the BOPO value, the decrease was not significant. This is evidenced by the results of the different test which shows a significance value of $0.045 < 0.05$ which is smaller than the significant level of 5% (0.05), so it can be concluded that there is a significant difference in financial performance as measured by BOPO BPRS in East Java. The LDR (Loan to deposit ratio) ratio value was 119.3362 in 2019. In 2020 the LDR value was 94.8217. There was a decrease in the value of the LDR by 24.5145. And both are in unhealthy condition. The decrease in the achievement of the LDR value is significant. This is evidenced by the results of the different test which shows a significance value of $0.021 < 0.05$ which is smaller than the significant level of 5% (0.05), so it can be concluded that there are differences in financial performance as measured by the LDR of BPRS in East Java.

5. Discussion

Based on the findings, it can be concluded that the financial performance variables of NPF in BPRS companies did not differ significantly before and during the Covid-19 pandemic, while the financial performance variables of ROA, and LDR, and BOPO in BPRS companies differed significantly before and during the pandemic. The NPF value did not really matter before and during the pandemic due to government intervention in dealing with the impact of Covid 19, one of which was the policy of delaying installments. because of the strategies launched by the government and the central bank which tend to focus more on maintaining customer loans, such as relaxation programs and restructuring public loans.

ROA, LDR, and BOPO values. There were differences before and during the Covid 19 pandemic, indicating that the company's management's ability to manage its assets has decreased in generating operating profit. Due to the decline in people's low purchasing power and loss of people's income caused by government policy regulations such as arrangements for delaying loan payments and the availability of low-interest loans guaranteed by the government. These restrictions resulted in a decrease in business and business activities, especially Rural Credit Banks (BPR) and Sharia Rural Banks (BPRS). The decrease felt was mainly in the debtor's ability to pay installments which had an effect on reducing the liquidity of the BPRS. In addition to a decrease in the ability to pay, the impact of restrictions on business and business activities is an increase in the withdrawal of deposit funds used to meet daily needs. The decrease in ROA could also be due to the large number of mudharabah agreements.

BPRS must be more active in retaining their customers and also adding new customers through digital media, then BPRS must also reduce profit sharing agreements that use mudharabah contracts. By reducing production sharing agreements that use mudharabah contracts, it is hoped that BPRS liquidity can be maintained. BPRS and BPR must migrate from the traditional commercial model to digitization. Investors and management in BPR/BPRS must carry out more aggressive restructuring to overcome the high level of non-performing loans (NPF), as well as conduct training in the form of outreach and knowledge so that consumers and investors do not withdraw funds deposited in banks. BPR/BPRS must start changing the conventional way by digitizing business so that they can compete with other financial institutions and have the flexibility to collaborate in developing their business. As part of the company's efforts to improve its financial performance.

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