

PREDICTIONS AND TRENDS PROFITABILITY FOR ISLAMIC COMMERCIAL BANKS IN INDONESIA DURING THE COVID-19 PANDEMIC

Taudlikhul Afkar¹, Fauziyah²

Faculty of Economics and Bussines – Universitas PGRI Adi Buana

Email: afkar@unipasby.ac.id¹, basta.fauziyah@unipasby.ac.id²

Abstract : The purpose of this study is to determine trends and predict the level of profitability of Islamic banks in Indonesia during the Covid-19 pandemic. The research method uses quantitative descriptive to explain trends and quadratic analysis techniques to predict profitability. Islamic commercial banks in Indonesia were used entirely as samples in this study. Observation of data used before and during the Covid-19 pandemic starting from 2019-2020 in a time series. The results showed that during the Covid-19 pandemic, Islamic banks were still able to generate profits even though they experienced a downward trend, while the predictions of profitability during the Covid-19 pandemic in 2021 showed an average decline and losses.

Keywords: *pandemic, covid-19, Islamic banks, predictions, profitability*

1. Introduction

The Corona Virus Disease 19 (Covid-19) pandemic has had an impact on economies around the world including Indonesia. The impacts that have been seen are the difficulty of finding work, the difficulty of fulfilling daily needs, and the many phenomena of layoffs (Hanoatubun, 2020). This condition certainly has an impact on the company's ability to manage its business to survive during a pandemic. The government has indeed provided policies in the economic sector to deal with uncertain situations. These policies include providing cash assistance to those affected by Covid-19, policies on credit payments related to bank and non-bank financial institutions. However, the statement by the Governor of Bank Indonesia at the end of March 2020 that the impact of Covid-19 for Indonesia was seen from the banking sector was stronger when compared to the 1998 crisis, currently the CAR ratio is 23% and the NPL ratio is 2.3% (Suheriadi, 2020). Furthermore (Sumarni, 2020) explains the management of the handling of Covid-19 from the Central Bank using the concept of Islamic economics. This has become one of the study materials to make predictions and see the trend of earning profits from banking business activities, especially Islamic Banks during the pandemic.

Affected countries quickly announced stimulus packages to mitigate their economic and social impacts. Support measures are carried out in three categories, namely (1) allocating funds to strengthen the provision of free or affordable Covid-19 testing and treatment health services; (2) sustaining business continuity and confidence through tax relief, credit and corporate support; and (3) increasing income support to citizens (Horváth et al., 2020). However (McAlear, 2020) explained in his research that internationally strong countries are still weak in their readiness to face the Covid-19 pandemic.

It should be noted that the impact of the Covid-19 pandemic in Indonesia began to appear in early March 2020, while the spread of the virus began in December 2019 in Wuhan-China. This of course causes every financial and non-profit institution to keep trying to survive in today's economic conditions. When viewed from a bank financial institution whose main activities are mostly channeling funds through credit or financing, of course, it creates a danger of loss due to the inability of customers to pay their obligations to pay off their loans. Meanwhile, a profit-oriented operating business entity must maintain its continuity through the profits earned. On the other hand, during the Covid-19 pandemic, the government provided a credit restructuring policy and MUI fatwa number 17 (National Sharia Council of the Indonesian Ulama Council (DSN-MUI, 2000) explaining that there are sanctions for capable customers who delay payments. Conditions like this are interesting to study regarding the prediction of profit obtained by Islamic banks during a pandemic, because at times like this it is possible to show the consistency of Islamic banks seen from compliance with sharia transactions and maintaining good governance (Najib & Rini, 2016).

It should be noted that the running of the economy cannot be separated from a system built in a country, which can simply be categorized into the real and financial sectors. The real sector deals with productive fields such as MSMEs, while the financial sector deals with various types of transactions such as credit, speculation, and others. When there is pressure on the financial system and the economy, it certainly has an impact on the ability to manage a business and its operations. Furthermore, it is predicted that it will have an impact on poverty because various studies predict it will reduce economic growth from 1% to 4% (Suryahadi et al., 2020).

The economic crisis in 1998 had a big impact which resulted in bank liquidation, while the crisis in 2008 had an impact on banks due to customers defaulting on their liabilities, while many banks were still lending assets by speculation. Learning from the financial crisis in previous years, the Covid-19 pandemic even though it only started in December 2019 in Wuhan-China has actually had a wide impact, including in Indonesia, even though it only started in early March 2020. Many schemes were implemented to prevent transmission one of which is carried out by the PSBB (Large-Scale Social Restrictions = another term for lockdown), with only businesses operating in the field of food and medicine or medical, including financial institutions as the support for the national financial system.

The PSBB situation results in both small and large entrepreneurs being affected economically and financially because they cannot run their business optimally so that in the long term it will result in difficulties in obtaining operating profits. This condition will continue if it is not handled seriously with discipline in facing the Covid-19 outbreak. This will result in financial institutions maintaining business consistency obtained from profits because the largest business activity in banking financial institutions is channeling funds through credit or financing (Afkar, 2015). As explained (Othman et al., 2012) that Islamic banks are still better because of the sharing of profits based on an agreement, while conventional banks promise high returns but also high risks. Usually a new crisis causes a wider, deeper, and more devastating impact on the economy and society (Ascarya, 2017).

This study tries to conduct an analysis to see future trends and predictions of profitability in Islamic commercial banks in Indonesia during the Covid-19 pandemic with the aim of knowing the ability of Islamic commercial banks to maintain their existence to earn profits. To determine trends

and predictions of Islamic bank earnings, this study uses a descriptive approach with quadratic analysis in order to provide a clear picture of the current condition of Islamic banking in Indonesia.

2. Theory Study and Hypothesis Development

The Concept of Profitability in Exchange and Mixing Theory

The profit concept is simply the difference between income and expense, if the income is greater then it will make a profit, on the contrary, if the amount of expense is greater, they experience a loss. However, the operational principle is not simple, because it relates to other components related to earning profits, especially those that are directly related, such as channeling funds through financing or credit at financial institutions, both conventional and Islamic banks.

Profit margin is certainly an attractive component for shareholders regarding profit sharing through dividends and profit sharing in Islamic banks, because profit margins are able to influence share prices (Dalimunthe, 2018). However, the portion of profit that is not distributed for the purpose of developing the company is known as retained earnings, which is net income that is not distributed in the form of dividends but is still accumulated during the current period and is reported as net worth (equity) (Martono & Harjito, 2012).

Profit is used as information to show one of the financial performance of a company that is shown in the financial statements, therefore accountability in disclosure and preparation of financial statements is one of the principles that must be obeyed. The information asymmetry in preparing the financial statements is a subjective matter related to earnings management, however, the development of increasingly sophisticated technology is expected to reduce fraud, such as implementing detective control and repressive control (Afkar, 2016).

Profit is one of the considerations for potential investors in making investment plan decisions in the financial institution sector. In addition, the forms of disclosure in the financial statements are also considered for decision making such as voluntary disclosure (Ali & Lubis, 2019). The company's profit performance is usually indicated by the level of profitability which provides information about the company's ability to earn a profit. This also needs to be considered regarding Non Performing Financing because it can affect the acquisition of profitability (Rodoni & Yaman, 2018), as well as the efficiency of operating costs and operating income (Afkar, 2017).

Islamic banks in conducting business activities of distributing funds use *tijarah* contracts to make a profit (Karim, 2010), the distribution of these funds can be done with profit sharing, buying and selling schemes, or leasing (Nurhayati & Wasilah, 2015). The mixed theory explains that the transaction with a profit sharing scheme is carried out by mixing the assets owned by the parties involved. Fund owners deposit funds to finance investments that will be managed by the fund manager either in full or by depositing a portion of their capital and of course by sharing the profits according to the agreement. Likewise in the exchange theory, each party exchanges assets that are owned to get the value of utility benefits. In this exchange, the owner of the asset exchanges an amount of money from both the buyer and the tenant to get the asset in the form of money, while the buyer and tenant get benefits and own the goods purchased (Karim, 2010).

Profitability Prediction Method

Future profitability is adjusted to the industry which is then regressed based on current profitability measures and on terms of keiretsu-affiliation interactions and profitability measures (Habib, 2006). Meanwhile (Oskouei & Zadeh, 2017) uses a life cycle theory based on cash flow patterns to predict the level of profitability. The results of their research show that returns on net operating assets, as well as their variations and changes in asset turnover at various stages of the life cycle have an impact on the company's future profitability.

Fundamental analysis is carried out to predict future company profits which may increase or decrease (Abarbanell and Bushee, 1997). Bankruptcy in the banking world can be seen from the financial ratios presented (Beaver, et.al, 2012). Firm profitability can be predicted using asset turnover and profit margins (Fairfield and Yohn, 2001). Prediction of the level of company profitability and profit will provide an overview that can be used as a company continuity strategy (Fama and French, 2000).

Hypothesis Development

The company's ability to earn profits is a measure of financial performance that can be done by measuring the rate of return on assets, therefore a clear measurement is needed to see the profit earned. One of the resilience of Islamic banks can be seen from the level of profitability (Afkar, 2015). Non performing financing can be a factor that weakens and strengthens the level of profitability (Afkar et al., 2020) so that it needs to be considered high and low. In this case, it can be assumed that if the economy is in good condition, the profit rate 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 efficiency level of its operational costs, it is likely that it will increase the profit obtained, because (Habib, 2006) in his research explained that profitability is a measure of a company to maintain its existence, besides predicting bankruptcy in the banking world can also be seen from financial ratios. presented (Beaver, et.al, 2012).

Hypothesis 1: During the Covid-19 period, the profitability of Islamic banks shows an upward trend

Hypothesis 2: The prediction of the profitability of Islamic banks during the Covid pandemic shows an increase

3. Research Methods

This research approach uses quantitative descriptions to explain trends and predictions of the profitability of Islamic banks during the Covid-19 pandemic. The population in this study are Islamic Commercial Banks in Indonesia. The sampling technique used saturated samples, so that the entire Islamic commercial banks were used as samples. Data collection techniques are determined by taking according to the theme studied, therefore the data is collected with the consideration of trends and predictions of the profitability of Islamic banks during the Covid 19 pandemic. The data used is the monthly consolidated financial statements from Islamic commercial banks in Indonesia for the period 2019 - 2020 in a time series.

The data analysis technique uses descriptive statistics which are used to determine the trend of Islamic bank profitability through tables and graphs. Meanwhile, the prediction of Islamic bank profit is done by quadratic analysis because the MAPE value obtained is the smallest when compared to others.

4. Research Results and Discussion
Research Results

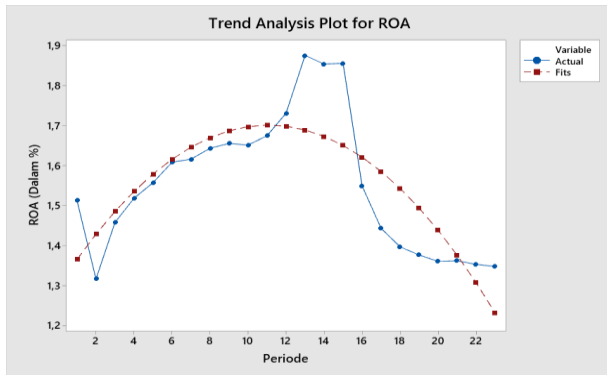


Figure 1. Trends for ROA Figure

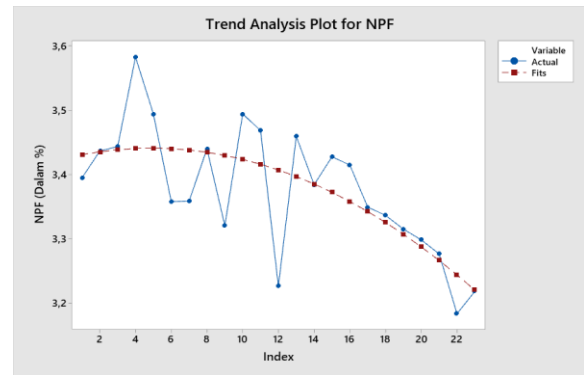


Figure 2. Trends for NPF

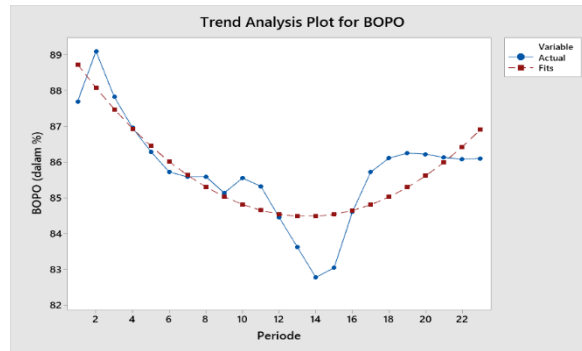


Figure 3. Trends for BOPO

The trend analysis obtained using the quadratic model with the help of MINITAB 19 can be seen in Figures 1, 2, and 3, where the results show that the trend for ROA and NPF tends to follow the parabolic pattern facing down while for BOPO it follows the parabola facing up. The parabolic pattern facing down means that the prediction of ROA and NPF for the next several periods tends to decrease, although it does not rule out the possibility that the value obtained will increase, and vice versa, the parabolic pattern is facing up, which means that predictions for BOPO for the next several periods have increased in value. The Quadratic Trend Model equation can be seen in the following table 1.

Table 1. Quadratic Equation

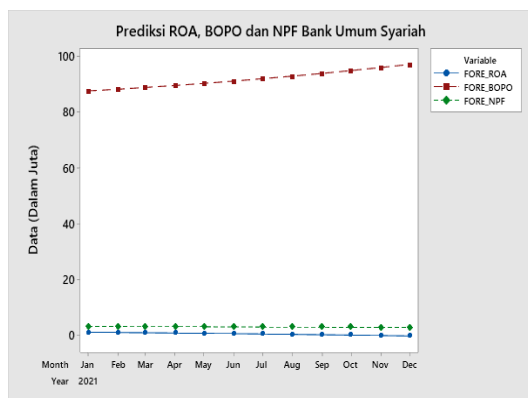
No	Profitability	Equation
1	ROA	$Y_t = 1,2951 + 0,0732t - 0,003305t^2$
2	BOPO	$Y_t = 89,428 - 0,732t + 0,02707t^2$
3	NPF	$Y_t = 3,4245 + 0,00663t - 0,000675t^2$

$$Y_t = \text{predicted value for period } t$$

$$t = \text{period } (1,2,3, \dots)$$

The equation table 1 can be used to predict profitability for the months January-December 2021. Predictions can be presented in the figure and table below.

Table 2. Prediction for Profitability 2021



Month	ROA	BOPO	NPF
January	1,15	87,45	3,19
February	1,06	88,04	3,17
March	0,97	88,69	3,14
April	0,86	89,40	3,11
May	0,75	90,15	3,08
June	0,64	90,96	3,05
July	0,52	91,83	3,02
August	0,39	92,75	2,98
September	0,25	93,72	2,95
October	0,11	94,75	2,91
November	-0,03	95,83	2,87
December	-0,19	96,96	2,83

Figure 4. Prediction for Profitability 2021

Source : Processed

Figure 4 shows the prediction for the profitability of Islamic banks for 2021, for the prediction results can be seen in table 2, it is obtained that the average ROA has decreased by 11.2% each period, the average BOPO has increased by 0.94% each period, while it is average NPF has decreased by 1.1% each period. The results of this prediction are supported by (Ascarya, 2017) which explains that usually a new crisis will cause a wider, deeper, and more devastating impact on the economy and society, so that this prediction may have an impact on poverty because various studies predict it will reduce economic growth between 1% to 4% (Suryahadi et al., 2020). However, Islamic banks are predicted to be better because there is profit sharing based on agreement, while conventional banks promise high returns but also high risks (Othman et al., 2012). So that the prediction of a decrease in ROA and NPF and an increase in BOPO in Islamic banks in 2021, the impact of Covid-19 for Indonesia in banking is stronger when compared to the 1998 crisis, currently the CAR ratio is 23% and the NPL ratio is 2.3% (Suheriadi, 2020).

Discussion

Profitability is a measure of company performance, including banking, because the level of profitability can show a company's ability to earn profits from its various assets and equity. The period of the Covid-19 pandemic certainly had quite a heavy impact on the business world so that the economy experienced a quite severe recession. This of course also affects the banking sector, where most of the business is channeling funds through credit or financing (Afkar et al., 2020). The results of this study indicate that the trend of profitability as seen from the Return on Assets,

Operating Expenses and Operating Income (BOPO), and Non-Performing Financing shows several differences.

Return on Asset and Non-Performance Financing shows a declining trend of parabolas, this shows that the level of profitability of Islamic banks has increased during 2019 and a downward trend in 2020. It should be noted that the decline in Non Performing Financing should be a good thing because the decrease in Non Performing Financing will give the ability to increase profitability. As explained by (Diallo et al., 2015) which states that minimized credit risk will have a positive impact on the level of profitability. In addition, the results of the Operating Expenses of Operating Income (BOPO) have increased resulting in inefficient management of operational costs so that the prediction shows that results tend to decline during the 2021 period, even showing negative results.

The prediction results for non-performing financing and return on assets which tend to decline are the subject of discussion because in theory, a decrease in non-performing financing should have a positive impact on increasing profitability, but in this study it turns out that profitability decreases. This may be due to the increasing operational expenses of operating income (BOPO), which means that higher operational costs result in inefficient. The prediction of return on assets in 2021, which has decreased to minus this, is the subject of further discussion as a basis for explaining what actually happened during the recession during the Covid-19 pandemic to date. Because in the mixed theory from the Sharia point of view, which gives profit uncertainty, it is one measure that in Islamic banks there is mutual risk when the level of profitability decreases.

5. Conclusion

During the Covid-19 pandemic that occurred in 2020 the level of profitability of Islamic commercial banks in Indonesia trended down, unlike in 2019 which experienced an upward trend, this was because during the Covid-19 pandemic, Islamic banks in Indonesia still had problematic financing levels even though not too big. This downward trend in 2020 needs to be considered with the right strategy to anticipate bankruptcy.

The prediction of the profitability of Islamic banks for 2021 is still decreasing, especially in November and December which shows a minus value, this is because the ratio of operating expenses increases so that there is inefficiency in managing operational costs, as a result profitability decreases even though non-performing financing has decreased. Therefore, the prediction of decreasing profit needs to be considered by anticipating problematic financing and the efficiency of operating expenses.

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