IMPACT OF COVID-19 PANDEMIC ON FINANCIAL PERFORMANCE BANKING SECTOR

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Abstract

The Covid-19 pandemic has an impact on banking financial performance declining due to customer credit defaults. The aim of the researcher here is to provide information on whether the Covid-19 pandemic has an impact on banking sector in Indonesia, especially banks listed on the Indonesia Stock Exchange. The impact on banking is measured using financial performance ratios, namely Return on Assets (ROA), Net Profit Margin (NPM), Operational Profit Margin (OPM), Loan to Funding Ratio (LFR). Researchers used comparative data on financial statements, which is in 2019 and 2020. The tool used by researchers to process research data was SPSS 24. Researchers used different test methods to determine the impact of the Covid-19 pandemic on the financial performance of the banking sector. The results showed that the Covid-19 pandemic had an effect on the financial performance of the banking sector.

Keywords : financial performance, covid-19, banking sector.

1. INTRODUCTION

Covid-19 occurred in early 2020 to be precise in China, Covid-19 itself is a virus that spreads very quickly through the air, saliva, and sticks to objects. This virus is increasing rapidly and spreading to countries all over the world, so the WHO has declared that the Covid-19 virus is a pandemic. The Covid-19 virus has characteristic symptoms when someone has been infected, namely fever, cough, runny nose, difficulty breathing, but this virus can be prevented by washing hands, maintaining distance and wearing masks to suppress the increasing rate of virus development (Kaka John, 2020). The Covid-19 pandemic poses high challenges for individuals, the economy, financial markets, financial institutions and governments due to a reduction in economic activity and high price movements (Solihat and Nugraha, 2020).

The economy is significantly affected by the banking sector because it can provide a flow of credit funds to people in need, especially entrepreneurs. The financial performance of the banking sector in particular also plays an important role in mitigating and reducing the risk of a crisis due to the Covid-19 pandemic, but instead the government limits lending to the public due to the risk of non-performing loans that will be experienced by banks (Bhuvaneshwari and Radhika, 2021).

The government makes efforts in such a way as to mitigate the risk of a sustainable crisis with the credit policy provided through the Financial Services Authority (OJK) (POJK) 11/POJK.03/2020, namely National Economic Stimulus as a Countercyclical Policy until July 6, 2020, OJK has recorded there is a restructuring of creditors in the amount of Rp. 769.55 trillion which is given to debtors in the amount of Rp. 6.72 million. This means that the impact of the Covid-19 pandemic has had a long impact. Previous researchers Ali et al. (2020) gave the results that the banking industry is vulnerable to liquidity risk, with government assistance delaying bank credit payments and debt restructuring only delaying company bankruptcy. The government is also asked to be serious in dealing with the liquidity problems of banking companies because 90% and above of the public use banking service channels to conduct business and daily transactions. All banks are vulnerable to liquidity conditions that reach 30% which results in a decline in banking liquidity (Ali et al., 2020).

2. LITERATURE REVIEW

The Growth of the Condition of the Covid-19 Outbreak

The pandemic is developing faster in European countries such as the UK, which states that inflation is at 2% after the Covid-19 pandemic. The government focuses on the central bank to issue efficiency policies or reduce government costs to reduce the state budget deficit. The central bank of Britain, Japan, and several other countries took different steps, namely by buying bonds from private financial institutions and paying with printed money to increase currency circulation in the country, this policy was carried out to avoid deflation and was implemented during the Covid-19 pandemic (Nurfaedah et al., 2022). Economic conditions in Indonesia can also be mitigated by the government's stimulus in issuing tax increase regulations to assist in dealing with economic problems, unemployment, health care and better education.

Financial Performance

Return On Assets (ROA)

Return on assets is a ratio that companies often use to find out whether the company is making a profit from its assets, the ROA ratio is assessed to see the company's ability to measure future earnings from past performance, and is used to measure management performance whether it has achieved the expected returns. company based on its assets. The ROA ratio formula is shown below (Subramanyam and Wild, 2017):

$$Return\ On\ Assets\ (ROA) = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

Net Profit Margin (NPM)

NPM is a ratio to measure how big the percentage of the company's net profit margin with net sales, this analysis is used to assess the success of a company as a whole, a high margin is considered a company successful in determining the selling price to customers, the NPM formula is shown below (Subramanyam and Wild, 2017):

$$Net\ Profit\ Margin\ (NPM) = \frac{Net\ Profit\ (NP)}{Net\ Sales\ (NS)}$$

Operating Profit Margin (OPM)

Operating Profit Margin (OPM) is a ratio to see a company in generating its operating profit performance, by measuring how much turnover they get. A large OPM illustrates the company can generate high income and indicates the company is in a healthy condition. The OPM formula is shown below (Subramanyam and Wild, 2017):

$$Operating\ Profit\ Margin\ (OPM) = \frac{Operating\ Profit}{Sales/Revenue}$$

Loan to Funding Ratio (LFR)

Loan to Funding Ratio (LFR) is a ratio to measure loans/credits by comparing third party funds and securities issued from banks. The LFR ratio is used by banks in assessing bank liquidity, namely how likely customers are to pay their obligations to banks. The LFR ratio is calculated by the formula below (Bank Indonesia, 2017):

$$Loan\ To\ Funding\ ratio\ (LFR) = \frac{Credits}{(DPK + Securities\ Issued\ By\ Bank)}$$

Impact of Covid-19 on Banking Sector Finance

The Covid-19 pandemic has an impact on the banking sector, seen from the first condition of declining company income, secondly the existence of bank partner entities that have lost their ability to pay principal and interest on loans which have an impact on the decline in capital and income of the bank sector itself. The three banks were also faced with a situation where the demand for credit increased because the company experienced a decrease in liquidity even though at that time the bank also needed additional cash flow to cover banking operational needs (Sugiharto et al., 2021). Research conducted by Sugiharto in 2021 also showed that the ratio of the banking sector was affected by the Covid-19 pandemic.

Research conducted by Ali et al. (2020) shows that the impact of Covid-19 shows an impact on the banking sector related to its liquidity because customers who have loans have difficulty in paying both principal and interest. The risk that will be experienced by banks if customers fail to pay is the risk of banking liquidity which will increase the ratio of non-performing loans (NPL). Limit, the risk that occurs is a mismatch of assets, serious liabilities and will disrupt economic stability (Ali et al., 2020). Assets in banking sector companies can have a positive or negative impact. payments that occur during the economic crisis in the era of the Covid-19 pandemic (Kadir et al., 2021).

3. RESEARCH METHODS

Research and Type of Design

This study uses financial statements as data to be processed. Financial statements are an important element to determine the financial performance of a company. Financial performance here is measured using financial ratios banking sector in Indonesia. Researchers use secondary data in taking financial statements, because generally financial reports are closed, and only companies listed on the Indonesia Stock Exchange present reports for public viewing. Researchers in selecting samples that match the research criteria using purposive sampling technique. Researchers used comparative data, namely the 2019 financial statements and 2020 financial statements to find out whether there was a decline in financial performance before the Covid-19 pandemic and after the Covid-19 pandemic.

Data Analysis Technique

The data analysis technique in this study uses quantitative methods. The use of this method is due to the financial statements that are already available on the Indonesia Stock Exchange website which have been audited, so that the financial statements are reliable, trustworthy and credible. The ratios used to measure financial performance are Return on Assets (ROA), Net Profit Margin (NPM), Operational Profit Margin (OPM), Loan to Funding Ratio (LFR).

The results of this study are intended to provide benefits and information on banking financial risks, especially the condition of financial ratios before 2020, so that the financial statements used are in 2019 and after 2020 (pandemic period), so that the financial statements used are in 2020. Data processing this study used SPSS 25.

Research Sample Data

The sample data in this study are banking financial statements for 2019-2020 that have been listed on the Indonesia Stock Exchange. The research criteria using purposive sampling, can be seen below:

Table 1

Purposive Sampling Criteria

Criteria	Number of Companies
Companies listed on the Indonesia Stock Exchange in 2019-2020	761
Banking sector companies listed on the Indonesia Stock Exchange in 2019-2020 wich is fit into purposive sampling criteria	81
Total sample of banking company research	81

Source: IDX (2021), Data processed by the author.

4. RESULTS AND DISCUSSION

In this study, if you look at table 2 below, there is a decrease of -2.04%, with a significance of 0.001 < 0.05 (5%). If seen from the significance, it affects the company's financial performance due to Covid-19, so the ROA ratio shows a decrease in financial performance after the Covid-19 pandemic and after the Covid-19 pandemic.

Table 2

Test Results Difference between ROA 2019 and ROA 2020

		Mean	Std.Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	ROA 2020-ROA 2019	-.0204	.0392	.0057	-.0321	-.0088	-3.539	45	.001

Source: Data Processed, 2021.

The performance of the ROA ratio has decreased because the company's productive assets remain stable to produce the expected output, but there are limitations in government and banking regulations issued by Bank Indonesia and the Financial Services Authority to reduce lending to individuals and corporations. Many companies also carry out credit restructuring to still be able to pay off the corporate loans.

Table 3

Test Results for NPM 2019 and NPM 2020

		Mean	Std.Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	NPM 2020-NPM 2019	-1.4078	4.1476	.6115	-2.6395	-.1761	2.302	45	.026

Source: Data Processed, 2021.

Table 3 above shows that the NPM decreased by -140.78%, with a significance of 0.026 < 0.05 (5%). If it is seen from the significance, then the effect of significance will affect the company's financial performance due to the Covid-19. The decline in performance here is due to a decrease in the company's net profit. The performance of the NPM ratio decreased generally due to declining company profits. The company's profit decreased generally due to the decline in operating income of the banking sector, because loans extended to corporates or individuals experienced a significant decline.

Table 4 below shows that the OPM decreased by -140.78%, with a significance of 0.023 < 0.05 (5%). If it is seen from the significance, then the effect of significance will affect the company's financial performance due to the Covid-19.

Table 4

The Difference Test Results for OPM 2019 and OPM 2020

		Mean	Std.Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	OPM 2020-OPM 2019	-1.3758	3.9717	.5855	-2.5553	-.1964	-2.349	45	.023

Source: Data Processed, 2021.

The decline in performance here is due to a decrease in the company's operating profit. The company has also experienced a dilemma in terms of the company's operational costs which are fixed costs, namely the cost of employee salaries, office rent, and office utility costs that must still be paid to employees, while the company's financial condition itself is not in good condition. Companies that have more sources of cash flow can survive, but those that do not have more cash flow or company fund reserves, are likely to disrupt their business continuity.

Table 5

Test Results for LFR 2019 and LFR 2020

		Mean	Std.Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	LFR 2020-LFR 2019	.1038	1.3396	.1975	-.2940	.5016	.526	45	.602

Source: Data Processed, 2021.

Table 5 above shows that the LFR decreased by -140.78%, with a significance of 0.602 > 0.05 (5%). If seen from the significance, it has no effect on the company's financial performance due to the Covid-19 outbreak. This is because there is a lot of government assistance related to providing credit during the Covid-19 pandemic to advance the Indonesian economy, although in terms of other financial ratios it is influential because a decrease in performance related to profit and operating costs will have an impact on performance, while the LFR ratio is still within reasonable limits because banks do not stop the entire flow of credit funds to their customers, it's just that there is a reduction in the disbursement of funds not significant for the performance of the LFR ratio performance.

5. CONCLUSIONS

Conclusion

The researcher concludes the results of the study using SPSS 25. Which results in the following conclusions: (1) The ratio of Return on Assets, Net Profit Margin, Operational Profit Margin shows acceptable results, so that financial performance has a negative impact on the performance of banking company financial statements during the Covid-19 period; (2) The Loan to Funding Ratio showed that the results were not accepted, so that financial performance did not have much impact on the financial statement performance of banking companies during the Covid-19 period; (3) The Covid-19 pandemic has had an impact on the banking sector, marked by worsening financial performance results from 2019 to 2020, this poor performance can increase the risk of declining banking liquidity and affect economic stability in Indonesia.

Suggestions from researchers for this research are: (1) Ensure that you can collect more research samples; (2) It is expected to increase the number of financial ratios to strengthen research results; (3) Adding relevant theories and linking them with research results so as to sharpen the analysis; (4) Provide additional knowledge for investors to explore the company's condition during the Covid-19 period.

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