www.bircu-journal.com/index.php/birci
Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Humanities and Social Sciences
ISSN 2615-3076 Online)
ISSN 2615-1715 (Print)

The Impact of the Covid-19 Pandemic on Banking Risks and Performance

Susilo Surahman[1], Irsyad Kamal[2], Renya Rosari[3], Etty Susilowati[4], Pandu Adi Cakranegara[5]
[1]*UIN Raden Mas Said Surakarta, Indonesia*
[2]*Universitas Padjadjaran, Indonesia*
[3]*Universitas Kristen Artha Wacana, Indonesia*
[4]*Universitas Budi Luhur, Indonesia*
[5]*Universitas Presiden, Indonesia*
susilo.surahman@iain-surakarta.ac.id, irsyad.kamal@unpad.ac.id, 123ny4@gmail.com, ettysslwt@gmail.com, pandu.cakranegara@president.ac.id

Abstract

This study aims at analyzing banking risks and performance during the COVID-19 pandemic which will affect the soundness of the bank. In this study, the researchers applied the qualitative method by examining the condition of natural objects, positioning the researchers as the key instrument, applying triangulation (combination) in the data collection, and analyzing data inductively. The analyzed data in this study was collected by implementing library research, which is a study carried out by collecting data from books, journals, articles, magazines, and internet sources related to research problems. The collected data from internet sources were in the form of stock price data and transaction volume at banks on the Indonesia Stock Exchange. Those data were obtained from idx.co.id and ojk.go.id. Results of this study indicate that all banks tend to experience a decline in the value of risk-weighted assets, capital adequacy ratios, and interest income at each bank and sectoral level. Moreover, larger banks are relatively more vulnerable. The decrease in those three dimensions is predicted to increase disproportionately if the NPL shock becomes larger. The findings further suggest that a 10% NPL shock can force the capital adequacy of all banks to fall below the BASEL III minimum requirement, while a shock of 13% or more can turn it into zero or negative at the sectoral level. Apart from that, the call to stay at home has an impact on many sectors, especially the banking sector, so that financing growth slows and non-performing financing increases because many people have lost their jobs. This non-current financing definitely will have an impact on banking financial performance, leading to non-performing financing (NPF).

Keywords
covid-19 pandemic; impact; banking risks and performance

I. Introduction

At the beginning of 2020, the world was shocked by the COVID-19 pandemic which had a significant impact on the banking sector in Indonesia. Economic growth in the second quarter experienced a contraction, the current account balance and capital account experienced a deficit, and the Indonesian rupiah weakened against the US dollar. This crisis is different from other previous crises in which the COVID-19 pandemic has never happened in the past. Therefore, it needs a synergistic stimulus for the financial sector in the form of credit/business restructuring. Concerning the presence of this pandemic, the national economy, health, and welfare become uncertain. At this time, Indonesia's

DOI: https://doi.org/10.33258/birci.v5i1.3980

Budapest International Research and Critics Institute-Journal (BIRCI-Journal)
Volume 5, No 1, February 2022, Page: 3248-3254
e-ISSN: 2615-3076 (Online), p-ISSN: 2615-1715 (Print)
www.bircu-journal.com/index.php/birci
email: birci.journal@gmail.com

economy is supported by public consumption (Sobana *et al*., 2021). Every effort has been made to suppress the increasing number of COVID-19 confirmed cases, such as the implementation of Large-Scale Social Restrictions (Indonesian: *Pembatasan Sosial Berskala Besar* (PSBB)). However, every effort has risks and impacts. For example, the implementation of this restriction has an impact on not only the health sector but also all sectors, such as the economy sector (Azhari & Wahyudi, 2020).

The outbreak of this virus has an impact of a nation and Globally (Ningrum *et al*, 2020). The presence of Covid-19 as a pandemic certainly has an economic, social and psychological impact on society (Saleh and Mujahiddin, 2020). Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020).

The COVID-19 pandemic undoubtedly impacted banking performance which will later affect the soundness of banks because maintaining bank health is very important. To find out the impact of the COVID-19 pandemic on the soundness of banks, we require objective and precise benchmarks. To be objective, we can compare the soundness of banks with normal environmental conditions, namely before the COVID-19 pandemic (Stephanie & Widoatmodjo, 2021).

During the pandemic, the Indonesian government decided to pay attention to three sectors: health, the real sector, and banking. The COVID-19 pandemic is a problem in the banking sector because it can also produce problems in the real sector or the business world that assuredly have the potential to cause problems in the banking sector. This can happen because the banking sector is an intermediary institution that supports the need for investment funds for the business world (Ilhami & Thamrin, 2021).

A study conducted by Arner (in Tripalupi & Anggahegari, 2020) shows that the crisis is not the time to try to implement entirely new technologies and digital solutions. It is time to use existing digital infrastructure for greater things and the beginning of new potential. Social distancing policies can change people's habits. This change can be measured by considering a significant spike in e-commerce activity, home entertainment (e.g., streaming platforms), delivery services, and others.

Banks are financial intermediaries whose activities are in charge of collecting funds from the wider community (customers) and distributing them to people who need them. In addition, banks are institutions that are trusted by the public, in which they save their money and give trust to banks in managing it (Mawarni & Fasa, 2021). According to Khalifaturofi'ah & Zubaidah (in Riftiasari & Sugiarti, 2020), the financial performance of a bank can indicate the soundness of the concerned bank. Based on Bank Indonesia Regulation No. 9/1/PBI/2007, Bank Indonesia uses the CAMELS (Capital, Asset, Management, Earning, Liquidity, and Sensitivity to Market Risk) approach in assessing the financial performance of banks. The CAMELS approach was established by Bank Indonesia to measure the soundness of a bank in Indonesia based on the ratios categorized as healthy, moderately healthy, less healthy, and unhealthy in assessing banking performance. The management of banks is demanded by owners to increase their profitability and manage bank risk. Bank risks consist of capital risk, credit risk, liquidity risk, management risk, operating risk, and market risk (Sutrisno, 2017).

Pratiwi & Adriati (in Azhari & Wahyudi, 2020) had conducted a study concerning the impact of lowering loan interest rates during the COVID-19 pandemic using a literature review method in which the analyzed data were obtained from online mass media and financial reports. They concluded that the decline in loan interest rates affects credit distribution which also decreases because no customers apply for credit during the COVID-19 pandemic. Furthermore, Harahap (in Devi *et al*., 2020) explains that financial ratios are values obtained from comparing one item with other items in the financial statements with a relevant and significant relationship. Financial ratio analysis can be used to help evaluate the financial performance of a company. The use of ratios is the most effective way to measure the company's financial performance.

Furthermore, according to the Chairman of the Board of Commissioners of the Deposit Insurance Corporation (Indonesian: *Lembaga Penjamin Simpanan* (LPS)), Halim Alamsyah (in Pratama, 2020), there are three risks faced by banks due to the spread of the COVID-19 pandemic, namely bad loans, market risk, and liquidity risk. The COVID-19 pandemic has resulted in disruptions on the supply and demand sides. The high number of layoffs and a decrease in income have made consumption decline. On the supply side, the cessation of business activities, disruptions to the supply chain, and losses due to decreased sales have forced companies to be more efficient.

The purpose of this study is to analyze the impact of the COVID-19 pandemic on banking risk and performance. In this study, operational reviews include debt & equity financing and third-party funds. This study is deemed significant to do because Islamic banking in Indonesia adheres to a dual banking system and has unique characteristics, in which Islamic banks are considered to be able to survive in the face of various kinds of economic crises.

II. Research Method

In this study, the researchers applied the qualitative method by examining the condition of natural objects, positioning the researchers as the key instrument, applying triangulation (combination) in the data collection, analyzing data inductively, and emphasizing the results on meaning rather than generalization (Sugiyono, 2012). The final results obtained in a study with a qualitative approach are descriptive conclusions and do not use statistical calculations. For the research approach, the researchers used a phenomenological approach to understand the condition of society under certain conditions. In this study, it was the phenomenon that occurred during the COVID-19 pandemic and its effect on the condition of Islamic bank stock on the Indonesian Stock Exchange.

The analyzed data in this study was collected by implementing library research, which is a study carried out by collecting data from books, journals, articles, magazines, and internet sources related to research problems. The collected data from internet sources were in the form of stock price data and transaction volume at banks on the Indonesia Stock Exchange. Those data were obtained from idx.co.id and ojk.go.id.

The data that had been collected were then analyzed through 3 stages of data analysis: data reduction, data presentation, and concluding (Miles & Huberman, 1992). Data reduction is the process of selecting, focusing on simplifying, abstracting, and transforming raw data by referring to the written notes in the field. After that, the data goes through the stage of data presentation by compiling the information obtained in the form of numbers, matrices, graphs, and charts that are valid and can be used for concluding. The next step is the process of concluding the data that has been presented related to the research problem. Conclusions must be also verified during the study period. In this study, the stock that became the research object was BRIS, which was included in the sharia index on the IDX during the observation period. The sample in this study was stock from Bank Syariah Indonesia.

This study was conducted during the second to the fifth month of the COVID-19 pandemic in Indonesia. In addition, the researchers used a qualitative approach and descriptive method, which was developed with a literature review approach or literature study in the form of books, scientific journals, and internet platforms. The secondary data in this study came from relevant agencies, such as BI, OJK, Indonesia's Ministry of Finance, Indonesia's Ministry of Health, and other literature sources. By considering that the related materials and previous studies were still inadequate, the researchers also described and analyzed the research results and draw conclusions from data sources and literature review.

III. Results and Discussion

3.1 The Impact of the Covid-19 Pandemic on Banking Risks

An impact is something that can affect or give effect to something, whether it is a positive or negative influence. Simply, an impact can be interpreted as an influence or effect. Coronavirus Disease 2019 or COVID-19 is an infectious disease that attacks the lungs in humans (Miana *et al*., 2021). Measurement of efficiency in the banking sector is very important in the conditions of the COVID-19 pandemic because efficiency is a description of a bank's performance. Besides, it is a factor that must be considered by banks to act rationally in minimizing the level of risk faced by their operational activities (Evandri Notalin & Asnaini, 2021).

Globally, according to Borio & Lewrick (in Demirgüç-Kunt *et al*., 2020), banks are entering the COVID-19 crisis in a better position to support the loan needs of the real economy. As documented by the BIS, banks' capital and liquidity buffers at the beginning of the crisis were substantially stronger than those of the GFC. Through aggressive intervention in financial markets, the Indonesian government has encouraged banks to continue to extend credit, in some cases by incentivizing them to withdraw their buffers. Currently, the banking sector appears to be part of the crisis solution. However, the sector has also been hit hard by the rapid increase in the number of credit losses and the extended uncertainty on the credit environment and duration of the crisis. Goodell (in Yuliarto, 2020) states that this crisis can impact 6 things, namely the cost of capital, retirement planning, scope, financial system, social trust & concurrent transaction costs, and political stability in society.

Covid19-IBO, a research institution, provides a light coverage of representations reflecting various important and necessary concepts regarding the impact of COVID-19 on the Indian banking sector. By using the gathered information, machines become more capable of inferring things. Practical and relevant knowledge about past, present, and future situations will help people by strengthening their decision-making processes strategically and extraordinarily (Mishra *et al*., 2021). Cevik & Miryugin (in Hemisphere, 2020) had conducted a study to find the impact of past epidemics on firm sales, profitability, fixed investment, and firm viability for 14 emerging market economies during 1998 – 2018. The results show that past epidemics indeed had an economically and statistically significant negative effect on firm performance, especially for small and young firms. Therefore, we may speculate that the impact of the COVID-19 pandemic on corporate performance is likely to be much greater than that in previous epidemics due to a greater contraction in economic activity.

3.2 The Impact of the Covid-19 Pandemic on Banking Performance

According to Fahmi Irham (in Miana *et al*., 2021), financial performance analysis is an analysis carried out to determine how far a company has performed by paying attention to financial implementation rules properly and correctly. Efforts to maintain financial stability to avoid a crisis have been explained by Nakatani (in Yuliarto, 2020) in his works that elaborate macroprudential policies that serve to avoid financial instability, such as banking crises that have long-term impacts and destroy the economy. According to him, macroprudential policies work very effectively in addressing this problem. Changes in the loan-to-value (LTV) ratio have proven to be effective in influencing the probability of a banking crisis in countries with targeted inflation rates, floating exchange rates, and capital controls. Therefore, coordination between various government agencies to design appropriate macroprudential policies is highly important, especially in the COVID-19 crisis.

Based on Bank Indonesia Regulation No. 13/1/PBI/2011 concerning Commercial Banks, Bank Indonesia carry out the soundness level assessment by using a risk-based bank rating, in which its scopes of the assessment are risk profile factors, good corporate governance (GCG), earning, and capital (abbreviated as RGEC). Furthermore, the provision in lieu of Bank Indonesia Regulation No. 6/10/PBI/2004 describes that Bank Indonesia uses the CAMELS (Capital, Asset, Management, Earning, Liquidity, and Sensitivity to Market Risk) approach in assessing the financial performance of banks. The assessment of the soundness of banks uses a scale of 1 to 5, in which the smaller the point received is, the better the soundness of the bank will be (Afifi, 2020).

Results of this study indicate that all banks tend to experience a decline in the value of risk-weighted assets, capital adequacy ratios, and interest income at each bank and sectoral level. However, estimates suggest that larger banks are relatively more vulnerable. The decrease in those three dimensions is predicted to increase disproportionately if the NPL shock becomes larger. The findings further suggest that a 10% NPL shock can force the capital adequacy of all banks to fall below the BASEL III minimum requirement, while a shock of 13% or more can turn it into zero or negative at the sectoral level. Apart from that, the call to stay at home has an impact on many sectors, especially the banking sector, so that financing growth slows and non-performing financing increases because many people have lost their jobs. This non-current financing definitely will have an impact on banking financial performance, leading to non-performing financing (NPF) (Fauzi, 2018). During the COVID-19 pandemic, Islamic banks implemented a policy of delaying financing payments for some customers who experienced a decrease in income (Ichsan *et al*., 2021).

IV. Conclusion

The COVID-19 pandemic undoubtedly impacted banking performance which will later affect the soundness of banks because maintaining bank health is very important. To find out the impact of the COVID-19 pandemic on the soundness of banks, we require objective and precise benchmarks. To be objective, we can compare the soundness of banks with normal environmental conditions, namely before the COVID-19 pandemic. Results of this study indicate that all banks tend to experience a decline in the value of risk-weighted assets, capital adequacy ratios, and interest income at each bank and sectoral level. However, estimates suggest that larger banks are relatively more vulnerable. The recommendation proposed in this study is to pay attention to the importance of building coordination between various government agencies to design appropriate macroprudential policies during the COVID-19 pandemic crisis.

References

Afifi, Z. (2020). Pandemic Impact of Covid-19 on the Health of Syariah Banks. *International Journal of Economics, Business and …*, *2020*(4), 1060–1067. http://jurnal.stie-aas.ac.id/index.php/IJEBAR/article/view/1507

Azhari, A. R., & Wahyudi, R. (2020). Analisis Kinerja Perbankan Syariah Di Indonesia: Studi Masa Pandemi Covid-19. *Ekonomi Syariah Indonesia*, *X*(2), 67–83.

Demirgüç-Kunt, A., Morales, A., & Ruiz Ortega, C. (2020). Banking Sector Performance during the COVID-19 Crisis. *SSRN Electronic Journal*, *August*. https://doi.org/10.2139/ssrn.3689789

Devi, S., Warasniasih, N. M. S., & Masdiantini, P. R. (2020). The Impact of COVID-19 Pandemic on the Financial Performance of Firms on the Indonesia Stock Exchange. *Journal of Economics, Business, & Accountancy Ventura*, *23*(2), 226–242. https://doi.org/10.14414/jebav.v23i2.2313

Evandri Notalin, N. A., & Asnaini. (2021). Dampak Covid-19 Terhadap Tingkat Efisiensi Kinerja Keuangan Bank Umum Syariah Di Indonesia Menggunakan Pendekatan Data Envelopment Analysis (Dea). *Jurnal Ilmiah Akuntansi*, *4*(1), 169–178.

Hemisphere, W. (2020). Assessing the Impact of the COVID-19 Pandemic on the Corporate and Banking Sectors in Latin America 1. *IMF Working Papers*, *October*, 1–15.

Ichsan, R. N., Suparmin, S., Yusuf, M., Ismal, R., & Sitompul, S. (2021). Determinant of Sharia Bank’s Financial Performance during the Covid-19 Pandemic. *Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences*, *4*(1), 298–309. https://doi.org/10.33258/birci.v4i1.1594

Ilhami, & Thamrin, H. (2021). Analisis Dampak Covid 19 Terhadap Kinerja Keuangan Perbankan Syariah Di Indonesia. *Jurnal Tabarru’: Islamic Banking and Finance*, *4*(1), 37–45. https://doi.org/10.25299/jtb.2021.vol4(1).6068

Mawarni, R., & Fasa, M. I. (2021). Optimalisasi Kinerja Digital Banking Bank Syariah di Masa Pandemi Covid-19. *Jurnal Manajemen Bisnis (JMB)*, *34*(1), 10–22.

Miana, L., Afrianty, N., & Asnaini. (2021). *Dampak Covid-19 Terhadap Kinerja Keuangan Perbankan Syariah Di Indonesia Menggunakan Pendekatan Sharia Maqasid Index (Smi) Periode Juni 2019- Juni 2020*. *4*, 11–24.

Mishra, A. K., Patel, A., & Jain, S. (2021). Impact of covid-19 outbreak on performance of indian banking sector. *CEUR Workshop Proceedings*, *2786*.

Ningrum, P. A., et al. (2020). The Potential of Poverty in the City of Palangka Raya: Study SMIs Affected Pandemic Covid 19. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)* Volume 3, No 3, Page: 1626-1634

Pratama, W. P. (2020). *Ini 3 Risiko Perbankan Akibat Pandemi Covid-19*. Bisnis.Com. https://finansial.bisnis.com/read/20200610/90/1250751/ini-3-risiko-perbankan-akibat-pandemi-covid-19.

Riftiasari, D., & Sugiarti. (2020). Analisis Kinerja Keuangan Bank Bca Konvesional Dan Bank Bca Syariah Akibat Dampak Pandemi Covid-19. *Jurnal Manajemen Bisnis*, *33*(2), 78–86.

Saleh, A., Mujahiddin. (2020). Challenges and Opportunities for Community Empowerment Practices in Indonesia during the Covid-19 Pandemic through Strengthening the Role of Higher Education. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*. Volume 3, No 2, Page: 1105-1113.

Sihombing, E. H., Nasib. (2020). The Decision of Choosing Course in the Era of Covid 19 through the Telemarketing Program, Personal Selling and College Image. *Budapest*

International Research and Critics Institute-Journal (BIRCI-Journal) Volume 3, No. 4, Page: 2843-2850.

Sobana, D. H., Quraisyn, A. Q., Kusumawadani, A., Hermawati, D. H., Layusa, N., Putri, P. N., Habibah, S., & Agustin, W. N. (2021). Analisis Risiko Operasional Bank Bri Kantor Cabang Cianjur Pada Masa Pandemi Covid-19. *Ar-Rihlah : Jurnal Keuangan Dan Perbankan Syariah*, *1*(1), 1. https://doi.org/10.35194/arps.v1i1.1290

Stephanie, V., & Widoatmodjo, S. (2021). Kinerja Keuangan Bank Sebelum Dan Selama Pandemi (Covid – 19). *Jurnal Manajerial Dan Kewirausahaan*, *III*(1), 257–266.

Sugiyono. (2012). *Metode penelitian pendidikan pendekatan kuantitatif, kualitatif, dan R & D*. Alfabeta.

Sutrisno, S. (2017). Risiko, Efisiensi dan Kinerja pada Bank Konvensional di Indonesia. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 111. https://doi.org/10.24843/jiab.2016.v11.i02.p06

Tripalupi, R. I., & Anggahegari, P. (2020). The Impact of Covid-19 Pandemic: Challenges and Opportunities of Syariah Financial Technology. *International Journal of Nusantara Islam*, *8*(1), 119–128. https://doi.org/10.15575/ijni.v8i1.10207

Yuliarto, R. T. (2020). *Problems And Solutions To Improve Banking Performance: In The Pandemic Situation Of Covid-19 In Indonesia*. *1*(1).