

Comparative Analysis of the Financial Performance of Islamic Banks and Conventional Banks for The 2011-2016 Period.

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Abstract

The aim of this research is to find out whether there are significant differences regarding the performance of Sharia banking and conventional banking as a whole in Indonesia in the period 2011-2016. This research is an exploratory research with quantitative methods. The sampling technique is done by using purposive sampling method with the number of samples is 8 banks, 4 banks for Islamic banks (PT. Bank Syariah Mandiri, Bank BTN Syariah, Bank BNI Syariah and BRI Sharia), and 4 banks for Conventional banks (Bank Mandiri, Bank BTN, Bank BNI and BRI Bank). This study uses a different test with the SPSS version 22.00 program. The results showed that Islamic banking has a better LDR compared to conventional banks' LDR, conventional banks have better CAR compared to CAR of Islamic banks, conventional banks have better ROA compared to ROA of Islamic banks, conventional banks have better ROE compared to ROE of Islamic Banks, conventional banks have better BOPO compared to BOPO Islamic Banks.

Keywords: *Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), Return On Asset (ROA), Return On Equity (ROE), Operating Expense to Operating Income (BOPO)*

Introduction

The Islamic banking system and conventional banking synergistically support the mobilization of funds from the wider public to increase financing capacity for national economic sectors. Islamic banks in Indonesia in a relatively short span of time, have shown significant progress and increasingly show their existence in the national economic system. In recent years several conventional banking companies have established sharia-based banks, meaning that more Islamic banks show very high public trust in Islamic banking.

The fundamental thing that distinguishes between conventional financial institutions and sharia is that it rests on the return and distribution of benefits provided by the customer to the institution and / or provided by the institution to the customer. Sharia bank operational activities use profit and loss sharing principles. Islamic banks do not use interest as a tool to earn income or charge interest on the use of funds and loans because interest is usury which is forbidden.

In some cases, both conventional banks and Islamic banks have similarities, especially in the technical side of receiving money, transfers, conditions for obtaining financing and others. However, there is a fundamental difference between the two, namely in the Islamic bank the contract that is carried out has worldly and consequent consequences because the contract is carried out based on Islamic law. The basic characteristics of Islamic banking which, among other things, prohibit the application of usury and prohibit transactions based on speculation motives, making Islamic banks identified as financing institutions that are closely related to the real sector and this is a competitive advantage for Islamic banks. Islamic bank operations that use the principle of profit sharing is not a solution for the negative spread outbreaks experienced by conventional banks, because the consequences of the interest system set by conventional banks make banks have to bear the loss of fund raising business activities when credit interest rates are lower compared to deposit rates (third party funds that are deviated in the bank). As

one of the financial institutions, banks need to maintain their performance so that they can operate optimally. Because Islamic banks must compete with conventional banks that have developed rapidly in Indonesia. This increasingly sharp competition must be accompanied by good management to survive in the banking industry. One of the factors that must be considered by banks to survive is the bank's financial performance.

At present there are quite a number of conventional banks that have established or opened sharia branches. For example, Bank Mandiri is now opening Bank Syariah Mandiri as a bank that runs its business with sharia principles. In addition, other banks such as BNI, BRI and Bank Mega also opened Islamic banks with the names BNI Syariah, BRI Syariah and Mega Syariah Bank. This is a question for the writer about the background of the opening of Islamic banks by conventional banks, is this because the financial performance of Islamic banks is better than conventional banks or there are other things that are considered by conventional banks.

Methods

Population and Sample

The population in this study are Islamic Banks and Conventional Banks which each conventional bank has Islamic banking during the period 2011-2016 and in determining the sample, the researcher uses Purposive sampling, that is the sample is drawn based on the characteristics of the population previously known. Thus, those considered to meet the criteria to be sampled were 8 banks, 4 banks for Islamic banks (PT. Bank Syariah Mandiri, Bank BTN Syariah, Bank BNI Syariah and BRI Syariah), and 4 banks for Conventional banks (Bank Mandiri, Bank BTN, Bank BNI and BRI Bank).

Definition of Operational Variables

Loan to Deposit Ratio (LDR), The main activity of bank is using the funds (deposits) effectively by the way of lending (financing). In general the loan-deposit ratio is measures bank's liquidity as well as profitability of the bank. The ratio is calculated by dividing the total amount of loans, by total amount of deposits. The resulting figure is expressed as a percentage. The Loan- Deposit Ratio is defined by the following formula:

$$\text{Loan to Deposit Ratio (LDR)} = \frac{\text{Total Loans}}{\text{Total Deposits}} \times 100$$

Capital Adequacy Ratio (CAR), Capital Adequacy Ratio is the indicator of capital adequacy to absorb any risk and cover any losses. The capital adequacy ratio level also determined by ability the banks generate profit and then the assets allocation fund accordance with risk level. The standard of capital adequacy ratio is 8%. Capital adequacy ratio as defined by tier one capital and tier two capital to risk weighted asset. Capital Adequacy Ratio is defined by the following formula:

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}} \times 100$$

Return On Asset (ROA), Return on Asset is how the company be effectively to generate earning with its available assets. Return on Asset is earning available for common stockholders divided to total assets. It means the bank with higher value of ROA, also get higher profitability. Related with previous study, Gropp and Heider (2007) found that more profitable banks tend to have more capital relative to assets.

$$\text{ROA} = \frac{\text{earnings available for common stockholders}}{\text{Total Assets}} \times 100$$

Return On Equity (ROE), Return on Equity measure the earning from stockholder's investment in the company. Return on Equity are earning available to total equity, generally bank using ROE as the alternative cost of capital.

$$ROE = \frac{\text{earnings available for common stockholders}}{\text{Total Equity}} \times 100$$

Operating Expense to Operating Income (BOPO), Operating expense to operating income to measure the efficiency of bank uses their cost and income. Higher level BOPO indicated inefficiently use the operational list meanwhile the capital adequacy ratio also decreases.

$$BOPO = \frac{\text{operating Expense}}{\text{Operating Income}} \times 100$$

Data Source

In carrying out this research, the data used is secondary data in the form of financial statements and annual reports for all research variables. The data sources in this study are secondary data obtained historically, which is obtained from banking financial reports and from the Bank Indonesia website, www.bi.go.id.

Data Analysis Tool

In this study the homogeneity test is first done to find out whether the data has the same variant. after that, a normality test is performed to find out whether the data is normally distributed or not. Then in testing the hypothesis used a different test to distinguish financial ratios between conventional banks and Islamic banks by looking at their significance value, if the significance value is <0.05, then there is a difference in financial performance between Islamic banks and conventional banks.

Result and Discussion

Description of Research Variables

Table 1.1 Descriptive Summary of Research Variables

Ratio	Islamic Banks				Conventional Banks			
	Mean	Std. Deviation	Max	Min	Mean	Std. Deviation	Max	Min
LDR	.881975	.0738197	1.0270	.7817	.763875	.1081650	.8854	.5239
CAR	.146250	.0260560	.2067	.1096	.168180	.0236775	.2285	.1186
ROA	.013480	.0087184	.0381	-.0004	.032965	.0115643	.0515	.0114
ROE	.149135	.1422206	.5798	-.0094	.248835	.0835374	.4229	.0965
BOPO	.877100	.0876327	.9977	.6722	.714145	.0928708	.9125	.5993

Source: Processed by SPSS

From table 1.1 it can be seen that Islamic Banks have an average (mean) LDR ratio of 88.1975%, greater than the average ratio of LDR in Conventional Banks of 76.3875%. This means that during the period 2011-2016 Islamic Banks have better LDR compared to Conventional Banks. Islamic Banks meet the best LDR standards from Bank Indonesia, which is 85-110%, while Conventional Banks do not meet the best standards from Bank Indonesia. Next, Islamic Banks have an average (mean) CAR ratio of 14.625%, smaller than the mean CAR ratio of a Conventional Bank of 16.8180%. This means that during the period 2011-2016 Conventional Banks have a better CAR compared to Islamic Banks, because the higher the CAR value the better the quality of the bank's capital. However, if it refers to Bank Indonesia regulations that the best CAR standard is 8%, then the Islamic Bank is still in an ideal condition because it is still above the Bank Indonesia regulations.

Conventional banks have an average (mean) ROA ratio of 3.2965%, greater than the mean ROA ratio of Islamic banks of 1.348%. This means that during the period 2011-2016 conventional banks have better ROA compared to Islamic banks, because the higher the ROA value the better the quality. However, if it

refers to the standard of ROA from Bank Indonesia which is 1.5%, then the Islamic Bank is in a condition that is not ideal, meaning that the Islamic Bank is not efficient in managing its assets. whereas for the ROE ratio, conventional banks have an average ROE ratio of 24.8835%, greater than the mean ROE ratio of Islamic banks of 14.9135%. This means that during the period 2011-2016 conventional banks have better ROE compared to Islamic banks, because the higher the ROE value the better the percentage level that can be generated by the bank. However, if it refers to the standard of ROE from Bank Indonesia that is equal to 12%, then the Islamic Bank is in an ideal condition, meaning that the Islamic Bank has a good ROE, namely the percentage level generated by Islamic banks is in the good category.

Islamic Banks have an average (mean) BOPO ratio of 87.71%, greater than the mean ratio of BOPO in Conventional Banks of 71.4145%. This means that during the period 2011-2016 Conventional Banks have BOPO better than Islamic Banks, because the lower the BOPO value the better the quality. However, if it refers to Bank Indonesia provisions that the best BOPO standard is below 92%, then the Islamic Bank is still in an ideal condition because it is still in the Bank Indonesia provisions.

Hypothesis Testing (t test)

In this study hypothesis testing using a parametric difference test in the form of t-test is a parametric statistical test used to test the comparative hypothesis of the average two samples if the data is interval or ratio. Parametric statistical test used to test the comparative hypothesis of the average two samples to determine the significance of the effect of individual independent variables on the dependent variable by assuming other variables are constant. This different test is carried out to indicate whether all independent variables that are determined differ significantly.

Based on the results of comparative testing of financial ratios between Islamic banks and conventional banks shows that the two groups of banks have good performance, as evidenced by several financial ratios such as LDR, CAR, ROA, ROE and BOPO that are in accordance with Bank Indonesia standards. However, when compared to the two groups with independent t test samples, there are significant performance differences, namely the ratio of LDR, CAR, ROA, ROE and BOPO to Islamic banks and Conventional Banks.

There is a difference in LDR between Islamic Banks and Conventional Banks

Based on the results of the calculation and statistical comparisons of the ratio of the LDR (Loans to Deposit Ratio) between Islamic Banks and Conventional Banks shows a significant difference. Sharia Bank LDR ratio is far better than conventional banks. This happens because Islamic banks are more aggressive or expansive in channeling their financing and focusing more on the placement of productive activities in the real sector. The principle of Islamic banking is to channel more funds into financing, while conventional banks in addition to channeling funds to the real sector also channel them to the money market, capital markets, SBI, and other securities. Although in the placement of productive assets Islamic banks are more aggressive in channeling financing, but Islamic bank liquidity is still maintained so as not to over / under liquid.

There is a difference in CAR between Islamic Banks and Conventional Banks

Based on the results of the calculation and processing statistically the comparison on the ratio of CAR (Capital Adequacy Ratio) between Islamic Banks and Conventional Banks shows a significant difference. The results show that the Conventional Bank CAR ratio is higher than the Islamic Bank. This conventional bank gets an injection of capital that is easier compared to Islamic banks in the form of private. In addition, Islamic banks provide financing to a higher real sector compared to conventional banks, because Islamic banks have a profit sharing principle, so that the financing provided to customers

must really provide prospects to benefit both parties, but if referring to BI provisions which states that the best standard of CAR is at least 8%, then Islamic banking is still in an ideal condition because it has a CAR value above BI regulations.

Conventional banks have a high CAR ratio which causes better capital position. Good capital will increase public trust in the bank, and large capital allows banks to create greater financing, thereby increasing profits. the greater the capital, the greater the tool to create profit. The profit-making tool here is all assets that can generate profits or are often referred to as productive assets.

There is a difference in ROA between Islamic Banks and Conventional Banks

Based on the results of statistical calculations and processing the ratio of ROA (Return On Assets) between Islamic Banks and Conventional Banks shows a significant difference. The results show that the Conventional Bank ROA ratio is higher than the ROA of Islamic Banks. This is in accordance with the objectives of the Conventional Bank itself, namely Profit oriented, meaning that Conventional Banks are oriented towards profit and the principle is interest. If the ROA of a Conventional Bank is high, the better the quality, the conventional bank will get a large profit, one of which can be seen from the interest income received by banks when channeling financing to deficit communities.

There is a difference in ROE between Islamic Banks and Conventional Banks

Based on the results of computations and statistical comparisons, the ratio of ROE (Return On Equity) between Islamic Banks and Conventional Banks shows a significant difference. The results show that the Conventional Bank ROE ratio is higher than the ROE Islamic Bank. Conventional Banks have a high ROE so that it will attract attention for investors, where investors want to invest their funds in the form of shares, so that conventional banks will get good enough capital, then channeled in financing. From the financing, the bank will get a large credit interest. This means that banks have large profits. If the profit received by the bank is large, then the return or rate of return received by investors is also large.

There is a difference in BOPO between Islamic Banks and Conventional Banks

Operational Cost Ratio and Operational Income (BOPO), which measures the level of efficiency and ability of the bank in carrying out its operations. The lower BOPO means the more efficient the bank is in controlling its operational costs, with the cost efficiency the greater the profits obtained by the bank. With the high costs incurred to run operations, it will suppress the income that will be obtained from operations, so that the cost ratio has a negative influence on profitability in the future.

Based on the results of statistical calculations and processing the ratio of BOPO between Sharia Banks and Conventional Banks shows a significant difference. From the results of the processing statistically shows conventional banking BOPO is relatively better than Islamic banking. This happened because the system and principles of Islamic banking caused inefficiencies in its operations. The relationship between Islamic banking and customers is nothing but business partners. Islamic banking is more cautious and participates in risk, this means that Islamic banks in their operations are monitoring the financing they channel into the real sector.

Table 1.2 Different Test Results

Rasio		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
LDR	Equal variances assumed	2.897	.097	4.033	38	.000	.1181000	.0292823	.0588212	.1773788
	Equal variances not assumed			4.033	33.544	.000	.1181000	.0292823	.0585615	.1776385
CAR	Equal variances assumed	.258	.614	-.2786	38	.008	-.0219300	.0078725	-.0378671	-.0059929
	Equal variances not assumed			-.2786	37.657	.008	-.0219300	.0078725	-.0378719	-.0059881
ROA	Equal variances assumed	1.725	.197	-.6017	38	.000	-.0194850	.0032384	-.0260408	-.0129292
	Equal variances not assumed			-.6017	35.325	.000	-.0194850	.0032384	-.0260571	-.0129129
ROE	Equal variances assumed	2.548	.119	-.2703	38	.010	-.0997000	.0368817	-.1743631	-.0250369
	Equal variances not assumed			-.2703	30.716	.011	-.0997000	.0368817	-.1749490	-.0244510
BOPO	Equal variances assumed	.475	.495	5.707	38	.000	.1629550	.0285521	.1051542	.2207558
	Equal variances not assumed			5.707	37.873	.000	.1629550	.0285521	.1051479	.2207621

Source: Processed by SPSS

Conclusions

Based on the results of the analysis and discussion in the previous chapter, it can be concluded that:

- 1) Islamic banking has a better LDR compared to conventional bank LDR
- 2) Conventional banks have better CAR compared to Islamic Bank CAR.
- 3) Conventional banks have better ROA compared to ROA of Islamic Banks.
- 4) Conventional banks have better ROE compared to ROE Islamic Banks
- 5) Conventional banks have better BOPO compared to BOPO Islamic Banks.

The results of this study indicate that conventional bank financial ratios are superior to the financial ratios of Islamic banks. In general, in terms of liquidity, the financial performance of Islamic banks is better than conventional banks. However, there are several lower ratios than conventional banking, namely the capital ratio (CAR), profitability ratio (ROA and ROE), efficiency ratio (BOPO). To increase these ratios, Islamic banks need to pay attention to the following:

- 1) Islamic banks' capital ratio (CAR) can be improved by increasing capital. This can be done by paying more attention to the capital requirements for each credit expansion. The obstacle of each risky asset generates income so there is no need to suppress capital.
- 2) Profitability Ratios (ROA and ROE) can be improved by increasing profits and reducing operating costs. This can be done by increasing financing and reducing the costs that should be.

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