

# Indonesian Sharia and Conventional Banks' Financial Performance Analysis

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**Abstract**—Indonesia as the biggest Muslim country in the world have two banking systems. These system are sharia and conventional banking. Despite Islam as majority religion for Indonesians, the number of sharia banks is still much smaller than their non-sharia counterparts. Based on these conditions, this research wants to examine the differences between sharia and conventional banks' financial performance. This in a quantitative and archival research. Data are taken during 2010-2014 and then analyzed using means difference test. The result shows that there are differences between conventional and non-conventional bank financial analysis using FDR (Financing to Deposit Ratio) as indicator. FDR in sharia banks are on average smaller than the conventional ones.

**Keywords**—banking; sharia; conventional; Indonesia

## I. INTRODUCTION

According to Indonesia Law *Undang-undang Nomor 1 Tahun 2008* about Sharia Banking, Indonesia having dual banking system that is conventional and sharia. While conventional banking is a normal banking system, sharia banking are using Islamic Law as their principles. This is due to Indonesian condition as the largest moslem population in the world.

Previous research are already making comparison between sharia and non sharia banking performance. Research in Malaysia found that Sharia banks profitability are better than the conventional ones [1]. Research in Indonesia predicted that sharia banking after 2007 will be better than non sharia, but there is no difference performance during 2003-2007 [2]. Another research in Indonesia shows that only liquidity ratio of sharia bank that better than other banking system [3].

Based on inconsistent result of previous research, this research test the difference between financial performance of sharia and nonsharia banking in Indonesia. Financial performance are measured using 4 indicators, that is: CAR (Capital Adequacy Ratio), NPF (Non Performing Loan), ROE (Return On Equity), FDR (Financing to Deposit Ratio).

Banks financial reports can be seen from financial reports. Hence, financial reports are products of accounting and there are many differences in accounting standard between sharia and conventional banking [4]. As the results that will be many differences between sharia and non sharia banking

performance. This research results hopefully can give additional insight to the reader in choosing between sharia or conventional it is still important to see the bank quality rather than just the label.

## II. LITERATURE REVIEW

A bank financial performance are known from its Financial Report. Sharia banking reports are some ways different with conventional banking financial reports [1] as follows.

- Fundamental law: sharia accounting is using Islamic Law in *Al Qur'an* and *Hadits*, hence, conventional accounting using modern business law.
- Fundamental Action: sharia accounting using Islamic Law, but conventional accounting using secular and rational economics.
- Objective: sharia accounting using rational (decent) profit, while conventional using maximum profit.
- Orientation: sharia accounting emphasize society welfare, but non sharia emphasize individual welfare and accountability.
- Operational Step: sharia accounting are under sharia law, while the conventional using economic law.

*Undang-undang Republik Indonesia Nomor 7 tahun 1992* had been changed into *Undang-undang Nomor 10 tahun 1998* about banking acknowledge the differences between conventional and sharia banking. Meanwhile Indonesia banking watchdog still using the same banking health measurement indicators for those two system. This make financial performance between sharia and non sharia are comparable.

Previous research predicted that Indonesia sharia banking after 2007 will different from non sharia [2]. Research in Malaysia [1] also in Indonesia [3] found that Sharia banks performance are better than the conventional ones. In this research, banking financial performance will be measured by CAR, NPF, ROE, dan FDR. Based on that research, this research hypothesis are as follows:

- H1: There are differences between CAR sharia and conventional banks
- H2: There are differences between NPF sharia and conventional banks
- H3: There are differences between ROE sharia and conventional banks
- H4: There are differences between FDR sharia and conventional banks

### III. RESEARCH METHODS

This is a hypothesis testing research using archival data. Conventional Banks data are taken from Indonesian stock market, while sharia banks data are taken from *Otoritas Jasa Keuangan* (an Indonesian Government Financial Services Watchdog).

Purposive sampling employed in this research have three criteria. First, This bank consistent operating during 2010-2014. Second, have been publishing complete annual reports during research period. Third, Conventional bank that having sharia unit are removed from the sample.

There are 4 indicators of financial performance (Sahara dan Hidayah, 2008). There are CAR (Total Equity per Total Asset Weighted by Risk x 100%), NPF (Default Loan per Total Loan x 100%), ROE (Earnings after Tax per Average Equity x 100%), FDR (Total Loan per Third Party Fund x 100%).

There are two step in hypothesis testing. First, normality test using Kolmogorov Smirnov Goodness of Fit Test. Second, means difference test. If data normally distributed hypothesis will be tested using parametric test with independent sample t-test. Meanwhile, if data is not normally distributed then nonparametric test will be employed.

### IV. RESULTS AND DISCUSSION

#### A. Sample Overview and Statistic Description

This research are using 7 sharia banks and 23 conventional. Sharia banks are PT Bank Muamalat Indonesia Tbk.; PT Bank Syariah Mandiri Tbk.; PT Bank Syariah BNI Tbk.; PT Bank Syariah BRI Tbk.; PT Bank Syariah Mega Indonesia Tbk.; PT Bank Syariah Bukopin Tbk.; and PT BCA Syariah Tbk. Conventional Banks samples are PT Bank Agro Niaga Tbk.; PT Bank ICB Bumiputera Tbk.; PT Bank Capital Indonesia Tbk.; PT Bank Nusantara Parahyangan Tbk.; PT Bank Tabungan Negara (Persero) Tbk.; PT Bank Mutiara Tbk.; PT Bank Danamon Indonesia Tbk.; PT Bank Pundi Indonesia Tbk.; PT Bank Pembangunan Daerah Jawa Barat Dan Banten Tbk.; PT Bank Pembangunan Daerah Jawa Timur Tbk.; PT Bank Kesawan Tbk.; PT Bank Bumi Arta Tbk.; PT Bank CIMB Niaga Tbk.; PT Bank Internasional Indonesia Tbk.; PT Bank Permata Tbk.; PT Bank Sinarmas Tbk.; PT Bank Of India Indonesia Tbk.; PT Bank Tabungan Pensiunan Nasional Tbk.; PT Bank Victoria Internasional Tbk.; PT Bank Artha Graha Internasional Tbk.; PT Bank Himpunan Saudara 1906 Tbk.; PT Bank Mayapada Internasional Tbk.; PT Bank Windu Kentjana Internasional Tbk.

TABLE I. DESCRIPTIVE STATISTICS

	Notes	Means	Standar Deviation
CAR	SHARIA	0.1878	0.12475
	NON SHARIA	0.1644	0.05879
NPF	SHARIA	0.0266	0.05551
	NON SHARIA	0.0274	0.08737
ROE	SHARIA	0.1245	0.12149
	NON SHARIA	0.1118	0.18052
FDR	SHARIA	0.4234	0.33968
	NON SHARIA	0.8265	0.15599

Sources: Data Analysis

Pooling data for sharia banks are total 35 and non sharia are 115 data. The results shows that there difference pattern between sharia and non sharia banks. CAR and ROE are bigger in sharia bank, while NPF and FDR are bigger in conventional banks. Further statistics test are employed to determine whether the difference is significant or not. Descriptive Statistics results are as follows in Table 1.

#### B. Statistical Test

Statistic test are using two step. First is normality test. Second is means differences test for hypothesis testing.

Normality test results shows that all data are not normal except for FDR sharia banks that normally distributed (pvalue 0.200 > 0.05). According to central limit theory if sample considering more than 30 data can be seen as big sample and considering normal [4,5]. A normal data should be test using parametric statistics. Parametric statistics are better measurement tools than non parametrics. Normality test results can be seen in Table 2.

TABLE II. NORMALITY TEST

	Notes	TStatistic	Kolmogorov-Smirnov <sup>a</sup>	
			df	Pvalue
CAR	SHARIA	0.294	35	0.000
	NON SHARIA	0.124	115	0.000
NPF	SHARIA	0.325	35	0.000
	NON SHARIA	0.387	115	0.000
ROE	SHARIA	0.161	35	0.023
	NON SHARIA	0.232	115	0.000
FDR	SHARIA	0.119	35	0.200*
	NON SHARIA	0.156	115	0.000

\*Significant > 0,05; normal distribution

Sources: Data Analysis

Hypothesis testing result is in Table 3. First hypothesis testing shows that Fvalue 9.063 and pvalue 0.003 (significant < 0.05) can be interpreted that there are difference variance between CAR conventional and non conventional bank. T test using result using unequal variance assumption shows that tvalue 1,073 with pvalue 0,29 (not significant >0.05). It means that **first hypothesis** stated that there are differences between CAR sharia and conventional banks is **rejected**.

TABLE III. HYPOTHESIS

	Notes	Levene's Test for Equality of Variances		t-test for Equality of Means		
		Variance Assumptions	F	Sig.	t	df
CAR	Equal	9.063	0.003*	1.534	148	0.127
	Unequal			1.073	38.699	0.29
NPF	Equal	0.016	0.901	-0.053	148	0.958
	Unequal			-0.067	89.444	0.947
ROE	Equal	0.127	0.722	0.39	148	0.697
	Unequal			0.478	83.761	0.634
FDR	Equal	32.365	0.000*	-9.816	148	0.000*
	Unequal			-6.806	34.458	0.000*

\*Significant < 0,05

Sources: Data Analysis

Second hypothesis testing shows that Fvalue 0.016 and pvalue 0.901 (not significant > 0.05) can be interpreted that there are no difference variance between NPF conventional and non conventional bank. T test using result using equal variance assumption shows that tvalue -0.053 with pvalue 0.958 (not significant >0.05). It means that **second hypothesis** stated that there are differences between NPF sharia and conventional banks is **rejected**.

Third hypothesis testing shows that Fvalue 0.127 and pvalue 0.722 (not significant > 0.05) can be interpreted that there are no difference variance between ROE conventional and non conventional bank. T test using result using equal variance assumption shows that tvalue 0.390 with pvalue 0.697 (not significant >0.05). It means that **third hypothesis** stated that there are differences between ROE sharia and conventional banks is **rejected**.

Fourth hypothesis testing shows that Fvalue 32,365 and pvalue 0,000 (significant < 0.05) can be interpreted that there are difference variance between FDR conventional and non conventional bank. T test using result using unequal variance assumption shows that tvalue -9.816 with pvalue 0,000 (significant < 0.05). It means that **fourth hypothesis** stated that there are differences between FDR sharia and conventional banks is **accepted**.

### C. Discussion

According to statistical test, it can be concluded that only hypothesis 4 stated that that there are differences between FDR

sharia and conventional banks is accepted. FDR in sharia bank are lower than non sharia. This is consistent with previous research that there are differences between sharia and non sharia banks performance [3]. The other hypothesis is rejected. It means that there are no differences between conventional and sharia banks in terms of CAR, NPF, ROE.

Using CAR, terdapat perbedaan kinerja keuangan dengan indikator FDR (*Financing to Deposit Ratio*) Bank Syariah dan Bank Umum di Indonesia accepted. This result is consistent with previous study [2].

In general this is due sharia bank have fewer number, younger, and mostly still part of bigger conventional bank. It means that sharia banking system will still grow.

## V. CONCLUSION, LIMITATION AND SUGGESTION

### A. Conclusion

There are for conclusion in this research. First, there are no differences between CAR sharia and non sharia banks. Second, there are no differences between NPF sharia and non sharia banks Third, There are no differences between ROE sharia and non sharia banks. Fourth, NPF sharia banking are lower than conventional banks.

### B. Limitation and Suggestion

There are two limitation and suggestion in this research. First, this research only using 2010-2014 data due to many corporate action such as merger and acquisition in Indonesian Banking sector that will lead to smaller sample.

Further research can use longer period that can cover up smaller sampler to make more comprehenship result in conventional versus sharia distinction. Second, this research only comparing sharia and non sharia banking in Indonesia.

Further research can expand sample using other moslem country that also have dual banking system such as Malaysia and Arab Country.

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