FINANCIAL PERFORMANCE OF ISLAMIC BANKING AFTER THE GLOBAL FINANCIAL CRISIS: A COMPARISON BETWEEN ISLAMIC COMMERCIAL BANKS AND ISLAMIC BUSINESS UNIT BANKS IN INDONESIA

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Abstrak

The global financial crisis has affected some industries or non-industries around the world. It has also impacted to Islamic banking in Indonesia, especially after 2007-2008. It has been recorded the Islamic banking industry in Indonesia shows a speedy recovery from the impact of the global financial crisis. Thus, this study aims to evaluate and examine the differences of Islamic banking's financial performance after the global financial crisis in Indonesia. The financial performances in this study are profitability ratio (Return on Asset (ROA) and Return on Equity (ROE)), liquidity ratio (Financing to Deposit Ratio (FDR) and Current Asset Ratio (CAR)) and solvency risk ratio (Equity Multiplier (EM) and Debt to Equity Ratio (DER)). The samples in this study are the six Islamic banks from Islamic Commercial Banks (Bank Usaha Sharia (BUS)) and Islamic Business Unit Banks (Unit Usaha Sharia (UUS)) in Indonesia. Based on the results shows by the descriptive statistic, UUS is more effective in using their assets to generate income compared to BUS, but BUS is greater to manage their financing and more liquid than UUS whose has higher risk than BUS during 2009-2013. Independent sample t-test shows that there is significant difference in terms of profitability, liquidity and solvency risk ratio between BUS and UUS Indonesia during 2009-2013

Keywords: *Islamic Banking, financial, Bank*

1. Background of the Study

Few years ago, the global financial crisis had been started from the United States and some developed countries. It has also impacted the financial crisis in some Asian countries. Usmani (2010) also stated the

same things if the financial crisis in 2007-2008 can be stop the whole economic around the world rapidly.

In short means, Indonesia recovered quickly after being hit hardly and contagious from the global financial crisis. To overcome this crisis, Bank Indonesia (BI) took several steps, namely strengthening the banking sector liquidity, increasing the number of credit demand at an appropriate level to support economic growth targets, and applying some policies related to the balance of payments (Sudarsono, 2009).

The evident to recover the global financial crisis quickly was because Indonesia at that time has had the Bank Muamalat Indonesia (BMI) where the only one bank that was stable in terms of financial performance. While in 2009, Indonesia's stock market was one of the best performing indices (Indonesia Monetary Fund; Executive Summary, 2010). In the assessment of the Global Islamic Financial Report (GIFR) in 2011, Indonesia ranked fourth country that has potential and conducive to the development of the Islamic finance industry after Iran, Malaysia and Saudi Arabia.

According to Noor (2006), Bank Muamalat Indoneisa which was established in 1992 and the first Islamic bank as follow Islamic rules in Indonesia, where the MUI as the initiator to BMI's establishment, and the president Soeharto has contributed as the main initiator, and ICMI (Indonesian Association of Muslim Intellectuals, 2014) also participated as a supporter of BMI establishment (Bank Muamalah, 2012).

Since that time, other Islamic bank such as BRI Sharia (Bank Rakyat Indonesia Sharia), Bank Sharia Mandiri, BNI Sharia (Bank Negara Indonesia Sharia) are operating in Islamic Commercial Bank system (after this, Islamic Commercial Bank system the writer writes as the BUS) as

state owned Bank. In addition, Indonesia also has Islamic Business Unit Bank (after this, Islamic Business Unit Bank system the writer writes as the UUS) which was established in 1999. The examples of UUS are CIMB Niaga Sharia, Bank Permata Sharia, etc., which are operating as a private owned bank.

Table 1

The development of Islamic Banking in 2009-2013

Islamic Bank	2009	2010	2011	2012	2013
Islamic Commercial Bank (BUS)	6	11	11	11	11
Islamic Business Bank Unit (UUS)	25	23	24	24	24
Total of BUS & UUS	998	1477	1737	2262	2461

Source: Bank Indonesia: Statistic of Indonesian Banking 12(1), 2013

Table 1 shows the development of BUS and UUS in five years since 2009 until 2013. There were only 6 BUS and 25 UUS in 2009. In the end 2013 the BUS became 11 and UUS just 24. Next, both of BUS and UUS total offices number increased gradually years.

To sum up of the above phenomena, both of BUS and UUS have the potential to shows their financial performance after the global financial crisis, it will comprises in term of probability ratio, liquidity ratio and solvency risk ratio during 2009 until 2013.

2. Problem Statement

It has been recorded the Islamic banking industry in Indonesia shows a speedy recovery from the impact of global financial crisis.

Islamic banking is managed in the last 4 years showed an increase in significant , and even the growth of the period 2011-2012 (36.62%) was higher than the growth in the period 2009 to 2010 (24.67%) (Bank Indonesia: Outlook perbankan syariah tahun 2013, 2013).

Bank Muamalat Indonesia, BSM and BRI Sharia are the top 3 levels of the highest percentages as BUS. While the top 3 levels of the higher percentages as UUS were Bank Permata Sharia, BTN Sharia, and CIMB Niaga Sharia in 2012. Thus, the focuses on this study are to evaluate and examine the financial performance of Islamic bank between BUS and UUS after the global financial crisis in Indonesia.

3. Research Questions

This research attempts to answer the following questions "How different the profitability ratio (ROA and ROE); the liquidity ratio (FDR and CAR); and the solvency risk ratio (EM and DER) between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013?"

4. Research Objective

The main objective of this research is to evaluate and examine the financial performance of Islamic banks. Specifically the study is attempts to evaluate the profitability ratio (ROA and ROE); the liquidity ratio (FDR and CAR); and the solvency risk ratio (EM and DER) of Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) in Indonesia during 2009-2013.

6. Significance of the Study

This research deals with financial performance of Islamic bank, focus BUS and UUS after the global financial crisis and the important to

evaluate and examine this study. Thus, the outcome of this study will help the banks to evaluate their financial performance by the three ratios, profitability ratio (ROA and ROE), liquidity ratio (FDR and CAR) and solvency risk ratio (EM and DER).

7. Global Financial Crisis (2007-2008)

The global financial crisis simply means the worth economics' situation in the world, caused by the mortgage market credit in US in 2007-2008. In other meaning, the global financial crisis is a difficult business environment to succeed in since potential consumers tend to reduce their purchases of goods and services until the economic situation improves (Nasso, 2010). Sudarsono (2009) states, the financial engineering instruments in the form of subprime mortgage were causing the financial crisis in the US. Subprime mortgage or letter of credit housing (mortgage) low interest in 2001-2005 led to the increasing demand for home (boom in the housing market).

Then the financial crisis led to Bank Indonesia (BI) raised the Bank Indonesia's rate to curb inflation caused by the falling value of the rupiah against with dollar. The increase of BI rate would respond to the higher interest rate of conventional bank. However, that BI rate increase does not affect in Islamic banks. The trading system in Islamic banks, where margin payments based on a fixed rate which is based contract provisions cannot be changed at that time, but financial crisis possibly will affect the return of Islamic banks as it will affect the industry's outcome to get optimal profit (Sudarsono, 2009).

8. Islamic Banks

According to Zainol, Shaari and Ali (2009), establishment of Islamic banks is associated with a growing awareness among the people

who practice the Islamic way as its way of life and also in other aspects likein the fields of finance and banking. However, Islamic banks not just provide their services for muslim only but also to non-Muslim customers as well.   Its means that, Islamic banking is ideal to all level of society regardless of race.

In Indonesia, establishment of Islamic banks were initiated by the Indonesian Ulema Council (MUI) which then from a working group to establish Bank Muamalat Indonesia (BMI) in 1991 and began operating in 1992.   Wherein, Indonesia has two kinds of banking systems, Islamic Commercial Banking (BUS) and Islamic Business Unit Bank (UUS).

Regulation of Indonesian Republic No. 7 1992, "profit-loss sharing system" introduced for Commercial Banking (*Bank Umum Nasional*: BUN) and Rural Banking (*Bank Perkreditan Rakyat*: BPR). In beginning of 1980, the government was facing the difficulties to control interest rate system in Indonesia. That why the government looking for solution and finally, some BPRS (Islamic Rural Banking) were established on October 27th, 1988 in Indonesia (Usman, 2009). However, Islamic Commercial Banks (*Bannk Umum Nasional Shariah*: BUS) are everything related to about Islamic Bank and Sharia Business Unit, covering institutional, business activities, as well as the manner and process in conduct its operations (Constitution of Republic Indonesia, No. 21, 2008).

In Regulation of Indonesian Republic No. 10 1998 as changes of Regulation of Indonesian Republic No. 7 1992, which contain "bank based on profit-loss sharing" to "bank based on sharia rules". So, conventional banks followed "Dual Banking System" that called Islamic Business Unit Banks (*Unit Usaha Sharia:* UUS) (Usman, 2009). On June, 1999, the first

UUS were Bank IFI Sharia and Bank Sharia Mandiri. In 2000, Bank Indonesia (BI) recorded that was some conventional bank had Sharia window, they were Bank Niaga Sharia, Bank BTN Sharia, Bank Mega Sharia, Bank BRI Sharia, Bank Bukopin Sharia, BPD Jabar Sharia, and BPD Aceh Sharia (Usman, 2009).

9. Financial Performance

Financial performance is any report of the industry for their performance such as the asset, liability and equity (Katchova and Enlow, 2013). They provide all that information in one book each month or year, but sometime they compare the month or the year. The function of the financial performance is the reader will easily read and know about their financial performance from annual report.

Financial performance in general consists of five big ratios; profitability ratio (profit margin, ROA and ROE), liquidity ratio (CAR and quick ratio), debt management ratio or solvency risk ratio (DER and times interest earned), asset management ratio (inventory turnover and asset turnover) and market value ratio (price earning, book to value and market to book) (Koh, Brigham and Michael, 2014).

Table 2
Financial Performance Ratio of BUS and UUS (2005-2009)

Ratio	2005	2006	2007	2008	2009	Mean
ROA	1.35%	1.55%	2.07%	1.42%	1.38%	1.55%
ROE	26.71%	36.94%	53.91%	37.94%	34.14%	37.93%
NPF	2.82%	4.75%	4.05%	3.95%	5.72%	4.26%

FDR	97.75%	98.90%	99.76%	103.65%	98.11%	99.63%
BOPO	78.91%	76.77%	76.54%	81.75%	84.05%	79.60%

Source: Bank Indonesia: Statistic of Islamic Banking 2009 (2009).

Table 2 shows, that there are significant differences for each financial ratio between Islamic Commercial Banks (Bank Syariah Mandiri and Bank Mega Syariah) and Conventional Commercial Banks (Bank Mandiri and Bank Mega) in Indonesia (focus on 2006 to 2010). Islamic Commercial Banks (BUS) has better performance in terms of LDR and ROA ratios, while the Conventional Commercial Banks are better performance in terms of the CAR, NPL, and BOPO (Ningsih, 2012).

10. Population and Sample of the Study

The population in this study is Islamic Banking in Indonesia. Nowadays, BUS has 11 Islamic banks and 24 Islamic Banks as UUS in 2013. The sample in this study should have some characteristics, such as BUS and UUS whose the owner is government or private banks, then they should up-date the annual report every years (especially during 2009-2013) and they are included in the top 3 level financial performance in 2013. This study also uses semi-annual report to get the data which are in June and December in one year.

11. Research Design

This study is a quantitative research in which the research uses data in the form of quantitative facts or data numbers and everything that can be counted (Pohan, 2007). Quantitative research performed after

investigators gather all the data needed for the study (Pohan, 2007). Quantitative research in this study used purposive sampling.

12. Data Analysis Techniques

In this study, a quantitative research is carried out because the data was analyzed statistically. In doing so, the writer employs the descriptive statistic and independent sample T-test. Descriptive statistic using EViews software (Version 7.2.) is employed to evaluate the difference between BUS and UUS after the global financial crisis.

However, independent sample T-test is normally used to test or to compare the differences between two means of two related groups. In this study, T-test is used simple hypothesis test of means test in EViews software (Version 7.2.) is employed to examine the significant difference between BUS and UUS after the global financial crisis during 2009-2013. The function of both descriptive statistic and independent sample t-test are to evaluate and examine the significant difference of financial perfo]rmance of Islamic banking especially for BUS and UUS after the global financial crisis (2009-2013).

13. Descriptive Statistic of Islamic Banking's Financial Performances after the Global Financial Crisis (2009-2013) in Indonesia

Descriptive statistic such are mean, median, maximum, minimum and standard deviation of the financial performance of Islamic banking after the global financial crisis in Indonesia, where the source of data is the semi-annual report (on June and December in one year) of each website of Islamic banking with the total of 30 observations.

Profitability ratio of Islamic Banking in table 3 shows that UUS has demonstrated better ROA and ROE as indicated by higher means compared to BUS. Overall, the management of UUS performed more effective to generate income compared to BUS after the crisis.

Table 3
Profitability Ratio of Islamic Banking

Ratio	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
ROA	0.0097	0.0154	0.0001	30	0.0135	0.0214	0.0082	30
ROE	0.1473	0.3287	0.0112	30	0.1504	0.2609	0.0907	30

Source: Annual Report of Islamic banking 2009-2013

The liquidity ratio provides information about a bank's ability to meet its short term financial obligation and recurring operating expenses. Table 4 shows that the BUS percentage has almost double than UUS for FDR and CAR ratios. It is also shows BUS value has almost double than UUS in liquidity ratio during five years.

Table 4
Liquidity Ratio of Islamic Banking

Ratio	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
FDR	1.2133	2.4100	0.6063	30	0.6308	1.0483	0.0491	30
CAR	0.9556	0.9787	0.7743	30	0.5686	0.9856	0.0623	30

Source: Annual Report of Islamic banking 2009-2013

To sum up, BUS has more liquid than UUS based on FDR and CAR ratios. Both the ratio shows BUS is almost double values of UUS. Meaning that, BUS is greater to manage their financing and more liquid than UUS after the global financial crisis.

Table 5
Solvency Risk Ratio of Islamic Banking

Rati o	Islamic Commercial Banks (BUS)				Islamic Business Unit Banks (UUS)			
	Mean	Max	Min	Obv	Mean	Max	Min	Obv
EM	29.60	54.57	1.59	30	38.55	136.60	4.47	30
DER	2.20	3.30	1.00	30	9.40	11.17	7.48	30

Source: Annual Report of Islamic banking 2009-2013

Table 5 shows in terms of solvency risk ratio, EM and DER shows BUS was also better at the financial performance than UUS during five years after global financial crisis. That means, solvency risk ratio indicates that UUS has borrowed more funds to finance their assets and so aggressive in financing their growth with debt.

14. Independent Sample T-test

In this study, the independent sample T-test is employed to examine the significant difference between Islamic Commercial Banks (BUS) and Islamic Business Unit Banks (UUS) as Islamic banking in Indonesia after global financial crisis since 2009-2013. The result of the independent sample T-test is shown in Table 6.

Table 6
The T-test's Result of Islamic Banking

		T (P < t)	
Individual Test	Mean	Value	Probability
Profitability Ratio			
ROA	0.0042	11.9137	0.0000***

ROE	0.0800	7.2462	0.0000***
Liquidity Ratio			
FDR	0.8578	0.9057	0.3688
CAR	0.9500	-4.4007	0.0000***
Solvency Risk Ratio			
EM	32.5230	0.3789	0.7062
DER	1.9008	8.0843	0.0000***

*** Significant at 0.01 level *Source*: Annual Report of Islamic banking 2009-2013

A significant is when the profitability value is less than the size of test ($P < 0.01$), so the null hypothesis is rejected. Overall, the financial performance of Islamic banking shows that there are the significant difference in terms of profitability, liquidity and solvency risk ratio between BUS and UUS in Indonesia during 2009-2013.

15. Summary of Findings

Based on the results that are explained in chapter four, the descriptive statistic and independent sample T-test are used in order to evaluate and examine the difference of financial performance of Islamic banking after the global financial crisis in Indonesia. Where the sample of this study is Islamic banking namely: Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Sharia (BRIS), and Bank Sharia Mandiri (BSM) as BUS samples.

Then, the samples for UUS are Bank Permata Sharia (BPS), Bank BTN Sharia (BTNS), and Bank CIMB Niaga sharia (CIMBNS). The data is taking by semi-annually report in five years during 2009-2013. The ratios

are profitability (ROA and ROE), liquidity (FDR and CAR), and solvency risk (EM and DER) in order to compare BUS and UUS.

However, the independent sample t-test employs to examine the significant differences between BUS and UUS as Islamic banking in Indonesia after the global financial crisis. Overall, all ratios are significant difference between BUS and UUS during 2009-2013.

16. Limitation of the Study

The limitation of this study only focuses on comparison of the financial performance between BUS and UUS after the global financial crisis. In this study, following how to know and measuring the development of Islamic Bank performance after the global financial crisis. This study further to evaluate the financial performance from the data by the three ratios of the financial performance are profitability ratio (ROA and ROE); liquidity ratio (FDR and CAR); and solvency risk ratio (EM and DER).

However, the population in this study was domestically chosen in Indonesia. There was 11 of BUS and 24 of UUS in Indonesia. To get the sample in this study, it was used purposive sampling by selected 3 characteristics of each bank should meet the qualification on that. They were Bank Muamalat Indonesia (BMI), Bank Sharia Mandiri (BSM), and BRI sharia as BUS. The other 3 are Permata Sharia, BTN Sharia, and CIMB Niaga Sharia as UUS. Hence, to answer the question of this study, the writer used descriptive statistic and independent sample T-test that employs to evaluate and examine the different of financial performance of Islamic banking during 2009-2013.

17. Future Research and Recommendations

This study has had evaluate and examine only for six Islamic banks in Indonesia in terms of financial performances. Also, it only focuses on after the global financial crisis in five years during 2009-2013. Thus, this study could be more generalized to a large number of populations by evaluating and examining the financial performance in all Islamic banks in Indonesia. Another way, this could also be comparing the financial performance of Islamic banking with the other countries. Another useful of the study is to see the relationship of the financial performance and efficiency of Islamic bank.

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