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ANALYSIS COMPARATIVE OF FINANCIAL PERFORMANCE OF SYARI'AH AND CONVENTIONAL BANKING IN INDONESIA

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ABSTRACT

The Legislation Article 1 paragraph (2) No. 10 of 1998 in Law Amendment no. 7 year 1992 about banking states that bank is a business institution that collect funds from the society in the form savings and distribute them to the society in the form of credit or other forms in order to increase people's standard of living. Based on the payment of interests or the profit sharing, banks in Indonesia are divided into two kinds, i.e.:

- Banks that do their business conventionally.
- Banks that do their business in syari'ah way.

Conventional and syari'ah banks have some things in common, especially in techniques of receiving money, transfer mechanism, computer technology, general conditions to accept financingsuch as ID card, proposal, financial report, etc. The basic differences between those two are about the legal aspect, organizational structure, financed business, and working environment (Antonio, 2001:29).

KEYWORDS: Analysis Comparative of Financial Performance of Syari'ah and Conventional Banking, Profit Sharing

INTRODUCTION

Informally, the development of syari'ah financial industry has been startedbefore the formal law was issued as the foundation of banking operation in Indonesia. Some non-banking financing companies applying profit sharing concept in their operational had been established before 1992. It shows our society's need of financial institutions that can provide financial service based on Islamic syari'ah or non-usury.

This need has been answered by the emergence of syari'ah banking system. Government has put it in new law. Law no. 7 of 1992 about Banking implicitly opens the opportunity to open banking business based on profit sharing operational system which is described in detail in Government Regulation No. 72 of 1992 about Profit Sharing Based Banks. This regulation has become the legal base of syari'ah banks in Indonesia.

The establishment of MandiriSyari'ah Bank since 1999 along with previously established banks truly becomes wisdom and blessing after economy and monetary crisis in 1997-1998. As widely known, economy and monetary crisis happening since July 1997 and continued by multi dimensional crisis including in national politics has caused various great negative impacts in entire life aspects, including business. In that condition, national bank industry that is highly dominated by conventional banks got massive crisis. Finally, government took some actions by reconstructing and recapitalizing several conventional banks in Indonesia.

At that time, the fact showed that there was a banking system that relatively can endure the crisis, which is banks

applying profit sharing system or non-usury syari'ah system that makes those banks can maintain their performance and not be affected by the rising interest rates and causes them to have lower operational cost than conventional banks.

Syari'ah banks do not use interest as the tool to get income or burden interest for the use of fund and loan because interest is considered as usury which is forbidden in Islam. However, they use profit sharing system. This profit sharing system allows the customers to supervise the performance of syari'ah banks directly through monitoring the amount of profit sharing. The bigger the profit of the bank, the bigger the profit sharing received by the customers is. On the contrary, small amount or lowering amount of profit sharing for quite some time indicates that the performance of the bank is decreasing. This describes the transparent and simple way for customers to evaluate the performance. This research is aimed to know the comparison of the financial performance of conventional and syari'ah banks based on the financial ratio analysis.

RESEARCH METHODS

Based on the explanation or research description level, this research is included in comparative research where the nature of this research is comparing. This research is aimed to know the difference of performance value between ratios evaluated in each bank, syari'ah and conventional bank, which are capital ratio represented by CAR, asset ratio shown by BDR, earning ratio shown by ROA, ROE and BOPO, and liquidity ratio shown by LDR in both banks in 2012-2014. The following picture will clarify the understanding:

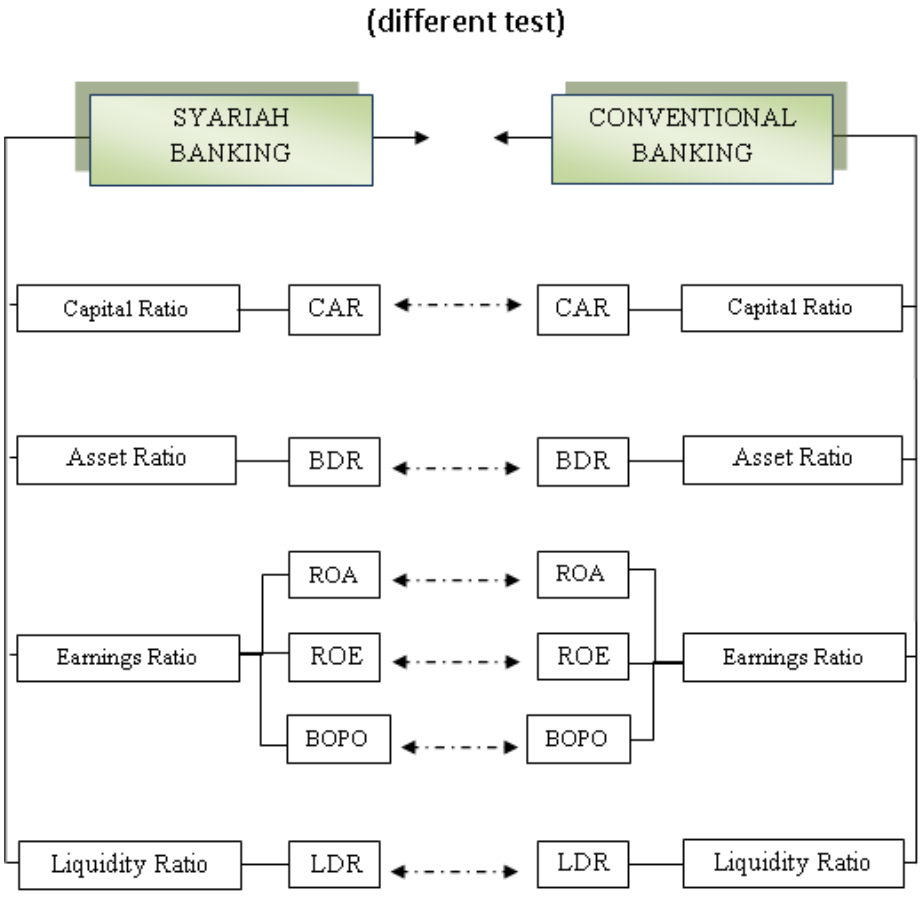

Figure 1: Research Design

Operational Definition

Operational definitions in this research are:

- ***Capital Adequacy Ratio*** **(CAR**) is ratio that shows how far the entire assets of a bank containing risks (credit, inclusion, securities, charges to other banks) are funded by bank's own capital such as people's fund, loan (debt), etc. In other words, *capital adequacy ratio*is ratio of bank's performance to measure the capital adequacy owned by a bank to support its assets containing risks such as credits.
- **BDR (*Bad Debt Ratio*)** or classified productive assets are the whole assets owned by a bank which encounter problems due to something which cause problems in the cash flow of the debtor's business and make the debtor difficult to pay the installment to the bank.
- **ROA (*Return on Asset*)** is financial ratio connected to profitability in measuring company's ability to make profit (profitability) in earnings, assets, and certain stock capital.
- ***Return on Equity*** **(ROE)** is an essential indicator for the shareholders and investor candidates to measure bank's ability in obtaining net profit connected to dividend payment.
- **BOPO** is the comparison of operational cost and operational income. This ratio is used to measure the efficiency and ability level of a bank in performing its operation.
- ***Loan to Deposit Ratio*** **(LDR)** is ratio between the whole credits given by a bank and the fund received by a bank. This ratio is used to know the bank's ability in repaying its responsibility to the customers who have invested their money using all the credits given to its debtors.

Population and Sample

Population, according to Sugiono (2008:155) is generalization area consisting of objects or subjects which has special quality and characteristics determined by the researcher to be studied and drawn as a summary. Population in this research is syari'ah and conventional banks in Indonesia in 2012-2014. There are 141 banking companies as the population in this research consisting of 19syari'ah banks and 122 conventional banks. This research uses data in 2012-2014 because during those 3 yearperiods, the research is considered sufficient to represent financial ratio analysis test to evaluate the level of bank's health. The sampling technique in this research is using *purposive sampling method*, which takes samples based on certain considerations suitable with the purpose and problems of the research. 3 banks are taken from the selected population of syari'ah banks, which are PT Bank SyariahMandiri, PT Bank Mega Syariahand Bank Muamalat.Meanwhile, 3 selected conventional banks as the samples are PT Bank Rakyat Indonesia, PT Bank Negara Indonesia and Bank Mandiri.

Data Collection Type, Source, and Technique

The type of data collection in this research is quantitative data in the form of nominal data. Data from financial reports is calculated to obtain financial ratio which later will be used to compare the healthlevel between syari'ah and conventional banks in 2012-2014. The data is taken from the documentation of banks' financial reports published in the websites of each bank.

Data Analysis Technique

Data analysis technique in this research is using the following steps:

- Searching and determining each financial ration from every research sample. The ratios used in analyzing bank's health level are in accordance to Bank Indonesia circular explanation number 30/2/UPPB/date 30/4/1997 junto 30/UPPB/date 19/03/1998, whose applications are performed by the following steps: 1) calculating the ratio based on the every determined regulation, 2) calculating the credit pointfor each financial report, 3) multiplying credit point by the weight of each financial report component, 4) adding the whole financial report component values, and5) determining the bank's level of health.
- Financial ratio used to measure the difference of performance between syari'ah and conventional banks in these research are:

Capital Ratio

According to Dendrawijaya, (2009:142),capital evaluation is using the following formula:

$$\text{CAR} = \frac{\text{Bank's capital}}{\text{Weighted Assets Based on the Risks}} \text{ x 100\%}$$

While the formula to count the credit value is:

$$\text{NK CAR} = 81 + [(\text{RD}-\text{RS})/0{,}1\%] \times 0{,}63$$ (Abdullah, 2005:136)

Note: RD: Achieved ratio

RS: Standard ratio

Then, the label is determined by using standard regulations from bank Indonesia about the evaluation of bank's health level as the following:

Table 1: Scale of Bank's Health Label Based on Capital Ratio

Label	Ratio	Credit Value
Healthy	>9%	81-100
Not Too Healthy	6,92% – 8,99%	66-80
Unhealthy	<6,91%	1.0-65

Source: Abdullah 2005:136

Productive Assets Quality Ratio

The evaluation of productive assets quality based on Dendrawijaya, (2009:144) is using the following formula:

$$\text{BDR} = \frac{\text{Classified Productive Assets}}{\text{Total of Productive Assets}} \text{ x 100\%}$$

While the formula to count its gross value is:

NK BDR= (15,55-BDR)/0,15 (Abdullah, 2005: 137)

After that, determining the health level by using calculation for the ratio of 15.5% or more has credit value of 0, and every decreasing of 0.15% of 15.5% has additional value of 1 and maximum 100 (Abdullah, 2005: 137).

Earnings Ratio

Evaluation of bank's earnings is using some ratios, which are:

ROA (*Return On Asset*)

Dendrawijaya (2009:118)formulates ROA indicator mathematically as the following:

$$\text{ROA} = \frac{\text{Profit Before Tax}}{\text{Total Assets}} \times 100\%$$

To get its gross value, the following formula is applied:

NK ROA= ROA x 0,015% (Abdullah, 2005:138)

After that, the label is determined by using the following standard:

Table: Scale of Bank's Health Label Based on ROA Ratio

Label	Ratio	Value
Healthy	1,22% - 1,50%	81-100
Healthy Enough	0,99% - 1,22%	66 - <81
Not Too Healthy	0,77% - 0,99%	51- <66
Unhealthy	0% - 0,77%	0 - <51

(Source: Abdullah 2005:138)

ROE (*Return on Equity*)

Dendrawijaya (2009:119)formulates ROE indicator mathematically as the following:

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Personal Modal}} \times 100\%$$

To obtain its gross value, the following formula is applied:

NK ROE= 100-ROE /0,08 (Abdullah, 2005:138)

After that, the label is determined by using the following standard:

Table: Scale of Bank's Health Label Based on ROE Ratio

Label	Ratio	Credit Value
Healthy	>8%	81-100
Healthy Enough	1% - <8%	66 - <81
Not Too Healthy	0,8% - 1%	51- <66
Unhealthy	< 0,8%	0 - <51

(Source: Abdullah 2005:138)

BOPO

Dendrawijaya (2009:118), formulates BOPO indicator mathematically as the following::

$$\textbf{BOPO} = \frac{\textbf{Operational Cost}}{\textbf{Operational Income}} \textbf{ x 100\%}$$

Mathematically, credit value of BOPO ratio is formulated as the following:

Credit value for BOPO ratio, for ratio of 100% or more has 0 credits and for every 0.08% decreasing, the credit value is added by 1 and maximum 100. Then, the obtained value is multiplied by BOPO ratio weight of 5% (Dendrawijaya, 2009:147)

Liquidity Ratio

According to Keown (1999:92), Liquidity in a business is defined as company's ability to fulfill the whole duedate obligations. Liquidity ratio used in this researchis Loan to Deposit Ratio(LDR). Dendrawijaya (2009:116)defines "*Loan to Deposit Ratio* (LDR) as the ratio between the whole credits given by a bank and income received by the bank". He also formulates LDR ratio mathematically as the following:

$$\textbf{LDR} = \frac{\textbf{Total Given Credit}}{\textbf{Third Party Fund}} \textbf{ x 100\%}$$

To obtain the gross value, the following formula is applied:

NK LDR= (110-LDR) x 4 (Abdullah, 2005:139)

LDR evaluation according to Dendrawijaya (2009:148) is as the following:

- For ratio of 110% or more, the credit value is 0
- For every 1% decreasing from 110%, the credit value is added by 4 and maximum 100.

Performing Hypothetical Test

Before performing hypothetical test, data normality test needs to be performed in advance. If the data is stated as normal, the hypothetical test will be performed by using t-test independent sample. However, if the data is stated as not normal, the hypothetical test will be performed by using non-parametric statistical test, which is *Wilcoxon Signed Rank Test*.Research hypothetical test. Arranging Ho and Ha formula for every variable is using two-sided test.

Ho: μ SyariahBank ≠ μ Conventional Bank, which means that there are differences in the financial performance, based on the tested financial ratio aspects.

Ha: μ SyariahBank = μ Conventional Bank, which means that there are no differences in the financial performance, based on the tested financial ratio aspects.

STUDY RESULTS

Differences in the Health Level of SyariahBank and Conventional Bank in 2012-2014Based on Capital Adequacy Ratio (CAR)

Based on the result of CAR ratio calculation analysis, the average of CAR ratio in syariah banks is suitable with

ATMR minimum regulation of 12.42% > 8%, while CAR ratio in conventional banks of 14.92% is also bigger than 8%. Meanwhile, graphic comparison between the two concept shows that CAR ratio in conventional banks is higher than syariah banks, which clarify our conception about ratio differences between both banking concepts. However, the trend shown by CAR ratio of both banks shows that CAR in syariah banks is more stable than CAR in conventional banks in the period of 3 years. Based on the test result in the first hypothesis using *Wilcoxon Signed Rank Test*, *Ties* CAR between syariahbanks and conventional banks is 0 (zero). It means that this research succeeds in finding significant performance differences between syariah banks and conventional banks based on CAR ratio. It is in accordance to the previous research by Rindawati (2007) who stated that CAR ratio of syariah banks has lower quality than that of conventional banks which means that to date, syariah banks have more risky assets funded from their own capital than conventional banks do.

Differences in the Health Level of SyariahBank and Conventional Bank in 2012-2014Based on Productive Assets Quality Level

Evaluation to productive assets quality is shown by the amount of productive assets percentage classified by total available productive assets. This research uses *BadDebtRatio* (BDR) to represent the evaluation to productive assets owned by each bank.

Based on ratio calculation analysis, average BDR of syariahbanks is12.36% which is suitable with BI regulation, i.e. maximum 15.5%, while BDR ratio of conventional banks is14.59%. Meanwhile, although graphic comparison between both concepts shows that BDR of conventional banks is higher than that of syariah banks, the trend shown by BDR of both banks shows that BDR of syariah banks is more stable than that of conventional banks during the research.

The test to the second hypothesis results to *Ties* BDR between syariahbanks and conventional banks of 0 (zero). It means that this research succeeds in finding some performance differences based on BDR ratio significantly. The results of this research support the research performed by Rindawati (2007) who stated that productive assets quality ratio of syariah banks is better than that of conventional banks. It is because of the principle used by syariah banks that only use their assets to fund businesses that do not break Islamic laws which automatically make them run not-too-risky-business units.

Differences in the Health Level of Syariah Bank and Conventional Bank in 2012-2014Based on Profit Ratio to Total Assets

Profit ratio to total assets or *Return On Asset* (ROA) shows the ability of the whole invested capital to make profit for all stakeholders, especially investors. The higher the ROA, the higher the bank's position in assets development aspect is.

Based on the result of ROA ratio calculation analysis, average ROA of syariah banks is 2.07%, while ROA ratio of conventional banks is 2.87%.It means that every Rp. 1 of total assets owned by conventional banks can make pre-tax profit of Rp. 2.87. Meanwhile, graphic comparison between both concepts can be observed in picture 4.3 that shows the sharp decreasing of ROA ratio of syariah banks in the first year and relatively stable on the next years.However, the trend shown by ROA ratio of conventional banks tend to grow higher from year to year, which shows good performance of conventional bank management in ROA ratio during 3 years of research.

Based on the test result of the third hypothesis using *Wilcoxon Signed Rank Test*, *Ties* ROA between syariah banks and conventional banks is 0 (zero). It means that this research manages to find significant performance differences between syariah and conventional banks in ROA ratio.This research supports the conclusion obtained from research by

Rindawati (2007) and on the contrary with two other researches which stated that there were no significant differences between syariah and conventional banks in financial performance. Syariahbanks have slightly better health than conventional banks in ROA.

Differences in the Health Level of Syariah Bank and Conventional Bank in 2012-2014Based on Profit Ratio to Capital

Profit ratio to capital or Return On Equity (ROE) is comparison between bank's net profit and its own capital. The higher the bank's ROE, the higher the profit made by the bank from its own capital is. Based on the analysis, average ROE of syariah banks is 37.21%, which means that syariah banks can make net profit of Rp. 37.21 from every Rp 1 of their own capital, while ROE ratio of conventional banks is 26.15%, which means that conventional banks can make net profit of Rp. 26.15 from every Rp. 1 of their own capital. Meanwhile, graphic comparison between these two concepts shows the trend that ROE ratio in both banks tend to grow higher from year to year although ROE ratio of syariah banks is still higher than that of conventional banks.

Differences in the Health Level of Syariah Bank and Conventional Bank in 2012-2014Based on Weight Ratio to Operational Income.

Weight Ratio to Operational Income or BOPO ratio is comparison between operational cost and operational income. This ratio is used to measure efficiency level and ability of banks in running their operational activities.

Based on results of BOPO ratio analysis, average BOPO of syariah banks is 80.85%, while BOPO ratio of conventional banks is 76.45%.Meanwhile, graphic comparison between these two concepts shows the trend in syariah banks to grow higher although it is not too significant compared to BOPO of conventional banks that tend to decrease during 3 years of research. It proves that conventional banks have better performance in BOPO ratio because the higher the BOPO ratio, the worse the operational activities are. The test results of BOPO ratio supports the research by Rindawati (2007) stating that BOPO ratio of syariah banks is worse than that of conventional banks and proves the objectivity of the research and make us realize that syariah principles have specific rules which are different from the conventional ones where not all costs to obtain income can come from any kind of sources. They must fulfill halal aspects which are supervised by Syariah Supervisor Board.

Differences in the Health Level of Syariah Bank and Conventional Bank in 2012-2014Based on Liquidity Ratio

Liquidity of a bank is described as bank's ability to fulfill all its due obligations. It means whether the company has enough capital sources to repay its creditors when the obligations are due. In this research, liquidity ratio is shown by Loan to Deposit Ratio (LDR). This ratio is used to know bank's ability in repaying its obligations to the customers who have invested their capital with the credits given to its debtors. The higher the ratio, the higher the liquidity level is.

Based on the results of LDR ratio calculation analysis of both banks, average LDR of syariah banks is 89.71%, while LDR ratio of conventional bank is 71.17%, which means that from every Rp. 1 of total capital received by a bank can guarantee credit of Rp. 71.17 from conventional banks.

Meanwhile, graphic comparison between both banking concepts shows the trend that LDR ratio of both banks tends to be stable. However, LDR ratio of syariah banks is higher than that of conventional banks in the last 3 years. It supports the conclusion from research by Adam (2006) stating that LDR of syariah banks is 87.61% while LDR of

conventional banks is 56.88%.

Differences in the Health Level of Syariah Bank and Conventional Bank in 2012-2014Based on the Whole Capital Ratio, Productive Assets ratio, Earnings Ratio, and Liquidity Ratio

Wilcoxon Signed Ranks Test Table Rank

		N	Mean Rank	Sum of Ranks
SyariahCAR – ConventionalCAR	Negative Ranks	12[a]	6.50	78.00
	Positive Ranks	0[b]	.00	.00
	Ties	0[c]		
	Total	12		
SyariahBDR – ConventionalBDR	Negative Ranks	12[d]	6.50	78.00
	Positive Ranks	0[e]	.00	.00
	Ties	0[f]		
	Total	12		
SyariahROA – ConventionalROA	Negative Ranks	11[g]	6.91	76.00
	Positive Ranks	1[h]	2.00	2.00
	Ties	0[i]		
	Total	12		
Syariah ROE– ConventionalROE	Negative Ranks	0[j]	.00	.00
	Positive Ranks	12[k]	6.50	78.00
	Ties	0[l]		
	Total	12		
Syariah BOPO– ConventionalBOPO	Negative Ranks	3[m]	3.33	10.00
	Positive Ranks	9[n]	7.56	68.00
	Ties	0[o]		
	Total	12		
Syariah LDR– ConventionalLDR	Negative Ranks	0[p]	.00	.00
	Positive Ranks	12[q]	6.50	78.00
	Ties	0[r]		
	Total	12		

Source: processed data

Based on each different ratio test made as the guidance in this research, the health level of syariah banks and conventional banks in 2012-2014 based on capital, assets, earnings, and liquidity aspects shows significant differences. It is proven by hypothetical test using non parametric Wilcoxon Signed Rank Testin the previous study which shows 0 (zero) ties in each bank from all the tested ratio which means that there are overall differences among ratios owned by syariah and conventional banks.

CONCLUSIONS AND SUGGENSTIONS

CONCLUSIONS

From this research, there are some conclusions as follows:

- There are significant differences in the performance of syariah and conventional banks based on CAR ratio. CAR ratio of syariah banks has lower quality than that of conventional banks.

- There are significant differences in the performance of syariah and conventional banks based on BDRratio. BDR ratio of syariahbanks is lower than that of conventional banks.
- There are significant differences in the performance of syariah and conventional banks based on ROA ratio. ROAratio of syariahbanks is a little lower than that of conventional banks.
- There are significant differences in the performance of syariah and conventional banks based on ROE ratio. ROE ratio of syariahbanks is a much higher than that of conventional banks.
- There are significant differences in the performance of syariah and conventional banks based on BOPO ratio. BOPO ratio of syariahbanks is higher than that of conventional banks.
- There are significant differences in the performance of syariah and conventional banks based on LDR ratio. LDR ratio of syariahbanks is higher than that of conventional banks.

SUGGESTIONS

The researcher is later expected to be able to apply the evaluation method perfectly about bank's health level and take samples proportionally. Although this research has already represented the available population, it is much better to add some more so that the conclusions can represent the condition of population accurately.

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