Jurnal Ilmiah Econosains
Vol. 15 No. 1 Maret 2017
E-ISSN: 2252-8490
http://doi.org/10.21009/econosains.015.1.10

Islamic Banking vs. Conventional Banking: What are the Financial PerformanceDifferences?

HariGursida[1)]

[1)]*PostGraduate,PakuanUniversity,Bogor,Indonesia*
E-mail:hari.gursida@bahana.co.id

Abstract. The purpose of this study was to describe and analyze differences in financial performance between the Islamic Banking and Conventional Banking in terms of Loan to Deposit Ratio (LDR), Non Performing Loan (NPL), Capital Adequacy Ratio (CAR), Return on Equity (ROE), Return on Assets (ROA), Cost Operations to Operating Income (BOPO). This study uses 12 Banks as sample, with sampling method using purposive sampling, and consists of 6 Islamic banks and 6 conventional banks.The analysis technique used is t-test. The results showed that there was a significant difference between financial performance between Sharia (Islamic) banking and conventional banking in terms of LDR, NPL, ROE, ROA and BOPO.

Keywords:LDR, NPL, CAR, ROE, ROA, BOPO, Sharia (Islamic) Banking, Conventional Banking.

I. INTRODUCTION

Banking has an important role in the national economy. Optimal financial performance of banks is needed to create a strong national banking industry that can support Indonesia's advanced economy by helping to increase the real sector. A good bank's financial performance will build the public trust and vice versa, the decline in bank financial performance can degrade public trust.

The Indonesian economy has suffered several times the impact of the global crisis, which has affected the global financial industry including the banking industry in Indonesia. The impact of the crisis on the banking industry is visible from conventional banks that have difficulty in managing the flow of funds due to the large outflow of capital outflow, whereas in Sharia Banking liquidity difficulties occur. The Loan to Deposit Ratio (LDR) of Conventional Banks and Sharia Banks can be seen in the following table.

TABLE1.
LOAN TO DEPOSIT RATIO (LDR) OF CONVENTIONAL BANKS AND SHARIA BANKS

LDR	2007	2008	2009	2010	2011	2012
Conventional Banks	62,37	70,27	69,55	71,54	74,75	79,84
Sharia Banks	99,76	103,65	89,7	89,67	88,94	100

Source: www.bi.go.id [1]

This research attempto analyzethe difference of financial performance between sharia banking and conventional banking in terms of Loan to Deposit Ratio (LDR), Non Performing Loan (NPL), Capital Adequency Ratio (CAR), Return on Equity ROE), Return on Assets (ROA), and Cost Operations to Operating Income (BOPO)

II. THEORETICAL REVIEW

Bank is a business entity that collects funds from the community in the form of savings and distributes it to the community in the form of credit and or other forms in order to improve the living standards of society [2]

Bank is a financial institution whose main activity is collecting funds from the community and channeling the funds back to the community and providing other bank services. [3]

Based on its status, banks can be classified into:

a. Conventional Bank
   Conventional Bank is a bank that determines its price in determining a certain interest rate, either for funds collected or distributed. [4]

b. Sharia Bank
   Sharia Bank is a commercial bank conducting business based on sharia principles in accordance with Bank Indonesia Regulation (FBI) no. 6/24 / PBI / 2004 issued on October 14, 2004. [4]

Bank Financial Report

The financial statements are a report describing the results of the accounting process used as a means of communication between financial data / corporate activities with the parties concerned with these data [6]. The financial statements are

E-ISSN: 2252-8490
http://doi.org/10.21009/econosains.015.1.10

summaries of a recording process, a summary of the financial transactions that occurred during the relevant fiscal year.

Financial Ratio Analysis

The ratio analysis is a tool expressed in the arithmetical term that can be used for the relationship between two kinds of date and financial [5] and financial ratio is a measure of the level or comparison between two financial variables [7]

Research Hypothesis

H1 : There are differences in financial performance LDR between Sharia Bank and Conventional Bank.
H2 : There are differences in financial performance NPL between Sharia Bank and Conventional Bank.
H3 : There are differences in financial performance CAR between Sharia Bank and Conventional Bank.
H4 : There are differences in financial performance ROE between Sharia Bank and Conventional Bank.
H5 : There are differences in financial performance ROA between Sharia Bank and Conventional Bank.
H6 : There are differences in financial performance BOPObetween Sharia Bank and Conventional Bank.

III. Methodology

This study is a quantitative study that uses measurable data. This type of research is a comparative study (Sugiyono, 2000). Research population is banking industry that has go public and listed in BEI. The total population is 52 banks consisting of 41 conventional banks and 11 sharia banks. This study uses 12 Banks as sample, with sampling method using purposive sampling, and consists of 6 Islamic banks and 6 conventional banks.

IV. Result and Discussion

Financial performance variable in this research consist of LDR, NPL, CAR, ROA, ROE and BOPO. The difference between each variable between sharia bank and conventional bank will be explained below.

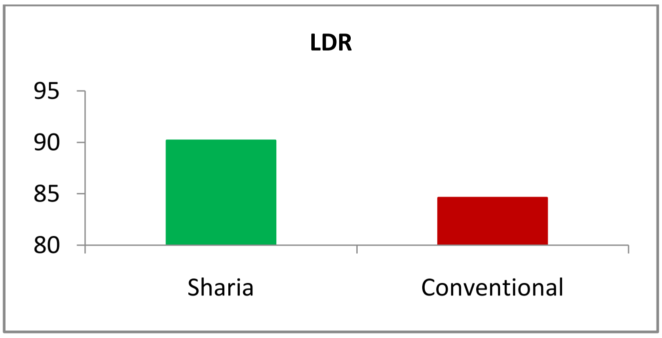

Figure 1.Average Loan to Deposit Ratio (LDR) (year 2012-2016) Sharia Bank and Conventional Bank

When compared to the average value of LDR for Sharia Bank and Conventional Bank, Sharia Bank has a higher average LDR value when compared with Conventional Bank. This indicates that Sharia Bank has the ability to provide higher fund compared to Conventional Bank. The Sharia Bank also has a higher profit when compared to the Conventional Bank and is able to extend its credit effectively than the Conventional Bank.

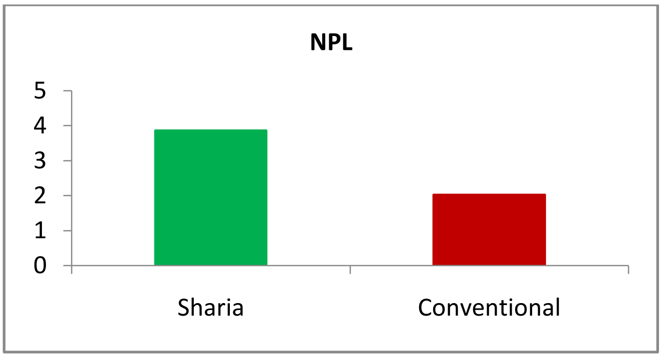

Figure 2.Average Non Performing Loan (NPL) (year 2012-2016) Sharia Bank and Conventional Bank

When compared to the average value of NPLs of Sharia Bank and Conventional Bank it is seen that Sharia Bank has average value of NPL which is much higher than Conventional Bank. This shows that Sharia Bank has a higher credit risk when compared with Conventional Bank.

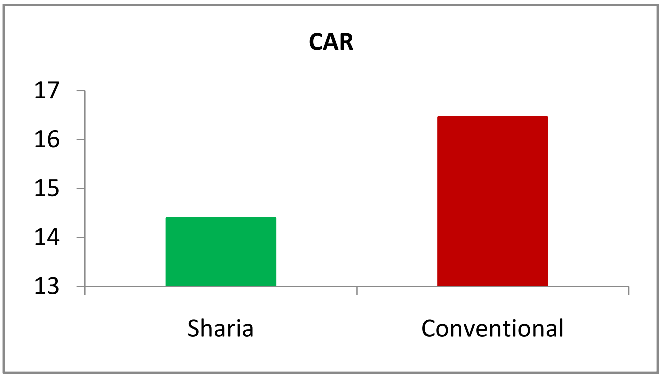

Figure 3.Average Capital Adequacy Ratio (CAR) (year 2012-2016) Sharia Bank and Conventional Bank

Conventional Banks have a higher average CAR value when compared to Sharia Banks. This indicates that Conventional Banks have the capability to maintain capital, identify, measure, monitor and control risks arising that may affect the amount of bank capital better than Islamic Bank.

E-ISSN: 2252-8490
http://doi.org/10.21009/econosains.015.1.10

No	Finance	t-stat (two-tail)	P-value	Result
1	LDR	2,02	0,05	Significant
2	NPL	4,65	0.000	Significant
3	CAR	-3,13	0,004	Significant
4	ROE	-3,19	0,003	Significant
5	ROA	-5,92	0.000	Significant
6	BOPO	7,96	0.000	Significant

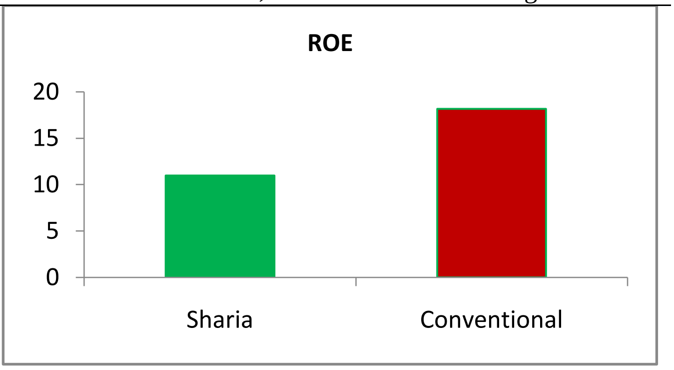

Figure 4.Average Return on Equity (ROE) (year 2012-2016) Sharia Bank and Conventional Bank

Conventional Banks have a higher average ROE than Sharia Banks. This indicates that Conventional Bank has the capability to generate own capital profit better than Syariah Bank.

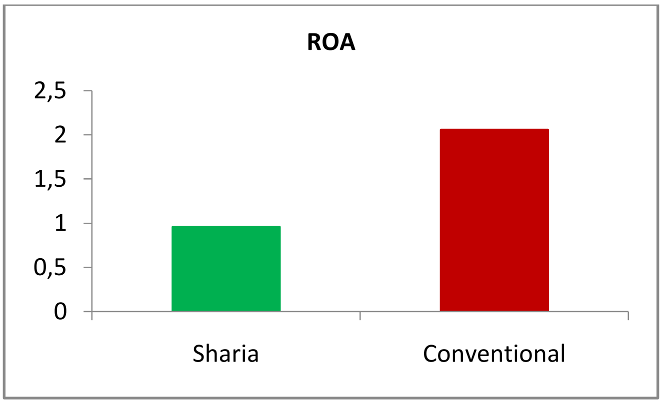

Figure 5.Average Return on Assets (ROA) (year 2012-2016) Sharia Bank and Conventional Bank

Conventional Banks have a higher average ROA than Sharia Banks. This indicates that conventional banks have better overall profit / benefit capability compared to Sharia Bank.

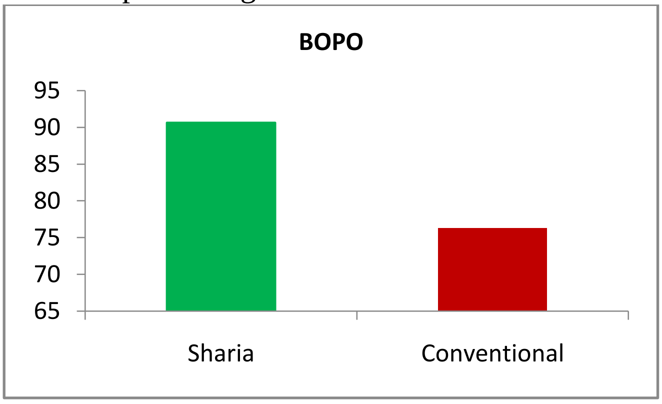

Figure 6.Average Cost Operations to Operating Income (BOPO) (year 2012-2016) Sharia Bank and Conventional Bank

Sharia Banks have a higher average BOPO value than Conventional Banks. This shows that Conventional Banks are more efficient in managing their operations.

TABLE1.
SIGNIFICANT TEST

The result of statistical analysis shows that P-value for LDR is 0,05, with significant value $\alpha = 0,05$ ($P \leq \alpha$) it can be said that there is difference of financial performance seen from Loan to Deposit Ratio (LDR) between Sharia Bank and Bank Conventional.

The result of statistical analysis shows that P-value for NPL is 6,73 E-05, with significant value $\alpha = 0,05$ ($P < \alpha$) it can be said that there is difference of financial performance seen from Non Performing Loan (NPL) between Bank Syariah and Conventional Banks.

The result of statistical analysis shows that P-value for CAR is 0,003, with significant value $\alpha = 0,05$ ($P \leq \alpha$) it can be said that there is difference of financial performance seen from Capital Adequacy Ratio (CAR) between Sharia Bank and Conventional Bank.

The result of statistical analysis shows that P-value for ROE is 0,003, with significant value $\alpha = 0,05$ ($P \leq \alpha$) it can be said that there is difference of financial performance seen from Return On Equity (ROE) between Sharia Bank and Conventional Bank.

The result of statistical analysis shows that P-value for ROA is 2.01 E-06, with significant value $\alpha = 0,05$ ($P \leq \alpha$) it can be said that there is difference of financial performance seen from Return On Asset (ROA) between Bank Syariah and Conventional Banks.

The result of statistical analysis shows that P-value for BOPO is 8,94 E-06, with significant value $\alpha = 0,05$ ($P \leq \alpha$) it can be said that there is difference of financial performance seen from Operational Cost to Operating Income (BOPO) between Sharia Bank and Conventional Bank.

V. CONCLUSIONS

1. There are differences in financial performance in term of Loan to Deposit Ratio (LDR) between Sharia Bank and

E-ISSN: 2252-8490
http://doi.org/10.21009/econosains.015.1.10

Conventional Bank. LDR of Sharia Bank is bigger than Conventional Bank.

2. There are differences in financial performance in term of Non Performing Loan (NPL) between Sharia Bank and Conventional Bank. NPL of Sharia Bank is bigger than Conventional Bank.
3. There are differences in financial performance in term of Capital Adequacy Ratio (CAR) between Sharia Bank and Conventional Bank. CAR of Sharia Bank is lower than Conventional Bank.
4. There are differences in financial performance in term of Return On Equity (ROE) between Sharia Bank and Conventional Bank. ROE of Sharia Bank is lower than Conventional Bank.
5. There are differences in financial performance in term of Return On Assets (ROA) between Sharia Bank and Conventional Bank. ROA of Sharia Bank is lower than Conventional Bank.
6. There are differences in financial performance in term of Operational Cost to Operating Income (BOPO) between Sharia Bank and Conventional Bank. BOPO of Sharia Bank is bigger than Conventional Bank.

Acknowledgment

I would like to express my special thanks of gratitude to Pakuan University that gave me the opportunity to do this research. Secondly i would also like to thank the Indonesia Stock Exchange (BEI) on data provided and used in this research (www.idx.co.id).

References

[1] Booklet Perbankan Indonesia. 2014.www.bi.go.id
[2] (Booklet Banking Indonesia, 2014).
[3] Cashmere (2012: 12)
[4] HendrodanRahardja. 2014. *Bank &InstitusiKeuanganNon Bank Indonesia*, STIE YKPN, Jakarta
[5] Riyanto,Bambang 2000, *Dasar-DasarPembelajaran Perusahaan*, BPFE, Yogyakarta.
[6] Ridwan, Sundjajadan Inge Berlian. 2001. *ManajemenKeuangan 2.* EdisiKeempat. BPFE. Yogyakarta.
[7] Kartadinata, Abas. 2000. *AkuntansidanAnalisisBiaya*, Rineka, Jakarta.
[8] Kasmir, 2012, *ManajemenPerbankan (EdisiRevisi 2008);* Rajawali, Jakarta.
[9] www.bankbni.co.id.
[10] www.bankmandiri.co.id.
[11] www.bankmega.com.
[12] www.bankmuamalat.co.id.
[13] www.bnisyariah.co.id.
[14] www.bri.co.id.
[15] www.brisyariah.co.id.
[16] www.btn.go.id.
[17] www.bukopin.go.id.
[18] www.idx.co.id.
[19] www.megasyariah.co.id.
[20] www.syariahmandiri.co.id.
[21] www.syariahbukopin.co.id. .