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Banking financial performance during Covid-19

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Abstract. Pandemic Covid-19 has made every company improve its business operations, continue to run well, and produce good financial performance optimal. Financial performance is a measuring tool for describing the financial conditions of a company. Measurement of financial performance in this study using the DuPont system method. *The reason for this consideration is to analyze contrasts in money related execution sometime recently and amid Covid-19 and analyzing the impact of the pointers contained on Dupont framework strategies, to be specific Net Benefit Edge (NPM),* Total Asset Turnover (TATO), Financial Leverage Multiplier (FLM), Return on assets (ROA) and Return On Equity (ROE). This study's population is a listed banking sector company Indonesia Stock Exchange (IDX), for the period 2019-2020. This study's sample is based on a purposive sampling technique to obtain as many as 23 banking companies. *Information in this think about was analyzed by Wilcoxon signed-rank test approach.* The test result shows that the sector's financial performance banking experienced no difference before and during Covid-19. This research strengthens the implementation of government policies as outlined in OJK Regulation Number 11/POJK.3/2020 concerning relaxation of credit restructuring. Thus, banks are still able to maintain banking financial stability during a pandemic.

Keywords. Covid-19, Financial Performance, Banking

Introduction

Corona disease 19 or Covid-19 is a respiratory tract infection caused by a new type of virus, namely Severe Acuate Respiratory Syndrome Coronavirus 2 (SAR-CoV-2). The virus was first discovered in the Chinese city of Wuhan at the end of 2019. The World Health Organization or WHO (World Health Organization) announced that there was more than 118 million total confirmed cases of Covid-19 in 223 countries in mid-March 2021 (Covid-19 Task Force, 2021), as this was officially designated as a pandemic by the WHO. The acceleration of the spread of Covid-19 globally has made it a pandemic throughout the world, including Indonesia. Covid-19 was first announced in Indonesia on March 2, 2020. According to data released by the task force to accelerate the handling of Covid-19 in Indonesia, the number of cases exposed to mid-March 2021 was 1,419,455 people, with a death rate of around 3.8. percent (Covid-19 Task Force, 2021).

The massive spread of Covid-19 globally has changed various forms of new lifestyle arrangements, such as changing the way work is done from home, education online, and worshiping, even affecting investment choices. Understanding is needed to rearrange the portfolio that is owned. Considering the financial condition during the pandemic requires investors to be careful in choosing the type of investment. During the pandemic, the world stock market experienced a decline (Collins, 2020). This is evidenced by the Jakarta Composite Index (IHSG) movement, which pushed down sharply, reaching the lowest level of Rp. 3,911.71 in March 2020. Whereas before, at the beginning of 2020, the JCI had touched the level of Rp. 6,300 (Pratomo, 2020).

The existence of the capital market is a vital factor in improving the national economy. In Indonesia, the Indonesia Stock Exchange (IDX) is a forum for issuers and the public to explore the capital market investment world. Based on financial instruments, shares are one of the securities traded on the capital market. For an investor, share ownership is expected to get a return on the investment made. This encourages investors to only invest in sectors that have a low level of risk. Before investing, investors must have knowledge and understanding of things that are used as the basis for making investment decisions. In general, investors look at the company's financial performance because good financial performance will give investors a positive signal (Lubis et al., 2017). Financial performance is a formal effort made by a company to evaluate the efficiency and effectiveness of the company that has been implemented in a certain period of time (Silalahi, 2017). Company performance measured based on fundamental analysis has a basic concept of share value that reflects how the company is doing (Ross et al., 2016). Measurement of financial performance in this study uses the Dupont system method. Consider this analysis because it is used as a reference in an assessment to compare financial performance before and during Covid-19, especially focusing on investment returns to equity.

The DuPont system method calculation has one fundamental indicator basis, namely return on equity (ROE), in which several components influence the indicator. Specifically, these components are Net Profit Margin (NPM), Total Asset Turnover (TATO), Financial Leverage Multiplier (FLM), Return on Assets (ROA) (Silalahi and Ginting, 2020). ROE is the ratio of profitability seen from the point of view of the shareholders. This ratio is intended to measure the amount of return on investment made by investors and assess the extent to which management makes good use of the investment launched by investors. The greater the ROE, the effect on the increase in stock prices. As stated, ROE is having a significant impact on stock prices, indicating that the returns that investors will receive will be high if it is accompanied by high ROE (Rahmani, 2019).

This research focuses on banking sector companies because banking has a vital role in the economy, namely as a driving force of the economy and the primary factor driving the stock exchange by 33 percent. The Covid-19 pandemic caused a significant decline in share prices in the banking sector before, during the announcement, and three months after the announcement of Covid-19 (Putri, 2020). Considering changes in financial performance, especially investment returns to equity during the Covid-19 pandemic, and assessing government policy efforts to maintain financial stability, it is necessary to analyze whether there are differences in banking financial performance before and during Covid-19. In this case, this study uses the Dupont system method, which effectively focuses on the return on investment. Based on the phenomenon that occurs, this study discusses more deeply financial performance, especially returns on equity investment, by analyzing whether there are differences in banks' financial performance during Covid-19.

Signal theory reveals how a company should provide signals to interested parties in financial statements. This signal consists of important information about what management has done in realizing the owner's wishes. One way that can be done is by publishing financial reports. Published financial information will give a good signal (good news) or a wrong signal (bad news). The relationship between signal theory and financial performance, as in this case, the disclosure of financial statements with good performance, will provide a positive signal for shareholders and potential investors. The more detailed and broad the disclosure of financial information to external parties will lead to confidence for external parties to invest in the company. It will have an impact on increasing returns and returns on investment.

Return on investment can be investigated in depth by using the DuPont system approach, namely by describing the size of the return on each component (Horne and John, 2012). There are several indicators contained in the Dupont system method, namely NPM, TATO, FLM, ROA, and ROE. NPM is a ratio that is used as a benchmark in assessing the percentage of net profit on sales (Hery, 2018). NPM is one of the Dupont system method components (Silalahi and Ginting, 2020). The greater the NPM impacts the company's performance, the better it is in increasing profits (Yulsiati, 2016). Kasmir (2016) and Hery (2018), TATO is a type of activity ratio used to measure how the company maximizes the company's assets in obtaining sales. So it can be said that the higher the asset turnover of a company, the more influential the company is in maximizing its assets or assets (Silalahi and Ginting, 2020). This is supported by research conducted by Burnea et al. (2019), which revealed that TATO is the strongest indicator of influencing ROE.

FLM, or the debt multiplier ratio, is the ratio used to determine how much debt is in the company's total assets or the percentage used to measure the company's ability to use financing sources from creditors (Silalahi and Ginting, 2020). Based on Burnea et al. (2019), it is explained that FLM is a relevant ratio or influences ROE. ROA is one of the profitability ratios used by companies to assess management's ability to generate profits or profitability. The higher the ROA, the higher the net profit the company generates from the funds invested in total assets and vice versa. If the ROA is lower, the company's amount of profit from the funds invested in total assets will be lower (Hery, 2018). As the higher ROA affects the greater ROE or it can be said that ROA affects ROE (Nasution, 2018).

ROE is a ratio that is used as a tool in measuring the amount of return on investment made by investors and assessing the extent to which management makes good use of assets launched by investors. At the time of Covid-19, there was a decline in share prices in the banking sector. Therefore, the researcher is interested in analyzing the return on investment in the banking sector, so the hypothesis in this study is:

H_{a1} : There are differences in the financial performance of the banking sector before and during Covid-19.

Based on the background, theory, and empirical studies conducted by researchers, the following is an overview of the thought framework in this study:

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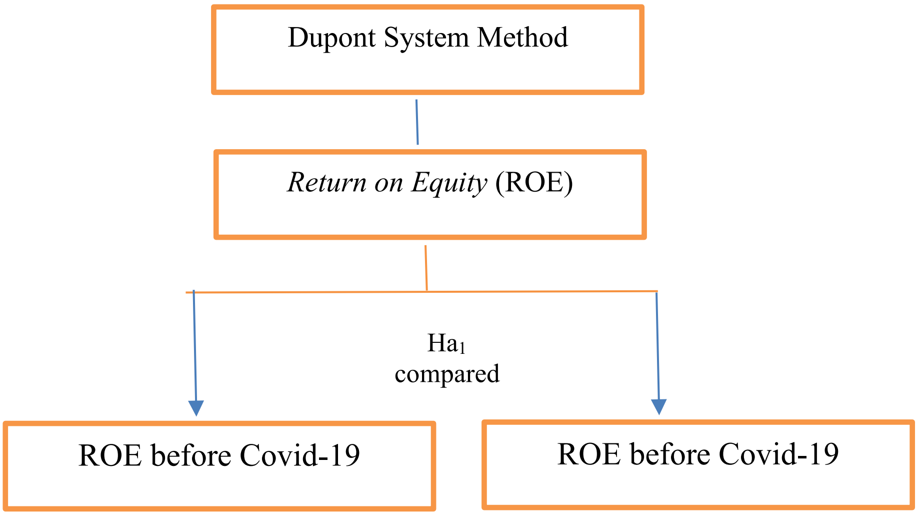

Figure 1: Research Framework

Research methods

This research is descriptive and comparative quantitative research. Quantitative research is a scientific method in the form of numbers that can be processed by analyzing the data using mathematical or statistical calculations (Sekaran and Bougie, 2017). Descriptive research is a research method carried out to determine each variable's value, with one or more independent variables, without looking for relationships or comparisons between variables (Sujarweni, 2015). This descriptive approach method is used to determine the nature and deeper relationships related to variables, namely by observing certain aspects more precisely to obtain data by existing problems, research objectives, and theories to draw later conclusions. Descriptive research has the primary purpose of providing an objective picture of a situation.

The descriptive approach in this research is used in order to know in depth the return on investment (ROE), which is based on the components forming the Dupont system method, namely NPM, TATO, FLM, and ROA. In this study, researchers used comparative or comparative study analysis to analyze the financial performance of banks before and during Covid-19. The type of data in this study is secondary data. Data collection in the study was carried out through literature and documentation study techniques. Meanwhile, the data analysis technique in this study was carried out through the Wilcoxon signed-rank test approach.

This study uses secondary data. This study's secondary data is in the form of quarterly financial reports for banking sector companies listed on the IDX for the period 2019-2020, which were obtained through the official website of the IDX, namely www. IDX.co.id. The populace could be a generalization region comprising objects or subjects with specific qualities and characteristics determined by analysts to consider and, after that, conclude (Sugiyono, 2018). The populace in this ponders the whole keeping money segment recorded on the IDX for the 2019-2020 period. The reason for choosing the banking sector is of banks' vital role in the JCI and the decline in share prices in the banking sector during the Covid-19 occurrence. The sample was selected based on the following criteria (purposive sampling): (1) companies recorded in the 2019-2020 period; (2) publish complete financial reports, (3) generate profits; (4) is not included in the outlier data. Based on these criteria, 23 representative banking companies were sampled.

The operational definitions of variables and their measurements in this study are as follows:

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Table 1. Operational Definition of Variables and Their Measurement

No	Variable	Indikator	Measurement Scale
1	NPM	$\frac{\text{Earning after tax}}{\text{Sales}}$ X 100%	*Rasio*
2	TATO	$\frac{\text{Sales}}{\text{Total Assets}}$	*Rasio*
3	FLM	$\frac{\text{Total Assets}}{\text{Total Equity}}$	*Rasio*
4	ROA	(NPM x TATO)X 100%	*Rasio*
5	ROE	(ROA x FLM)X 100%	*Rasio*

Source: processing data, 2021.

Result and Discussion

The results of descriptive statistical analysis of all research variables are shown in Table 2 below:

Table 2. Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
NPM	138	,44	64,04	21,5115	16,08967
TAT	138	,001	,18	,0195	,01678
FLM	138	2,41	20,260	6,8771	2,68254
ROA	138	,020	1,700	,3920	,38389
ROE	138	9,270	1275,27	267,0781	265,47782
Valid N (*listwise*)	138				

Source: processing data, 2021.

Table 2 shows the number of samples of 138, illustrating that NPM has a minimum value of 0.44, a maximum value of 64.04, a mean of 21.5115, and a standard deviation of 16.08967. TAT has a minimum value of 0.010, a maximum value of 0.18, a mean of 0.195, and a standard deviation of 0.01678. FLM has a minimum value of 2.41, a maximum of 20.260, a mean of 6.8771, and a standard deviation of 2.68254. ROA with a minimum value of 0.020, a maximum of 1.700, a mean of 0.3920, and a standard deviation of 0.38389. ROE has a minimum value of 9,270, a maximum of 1275.27, a mean of 267.0781, and a standard deviation of 265.47782.

The NPM value of a bank is not good if the NPM shows a value of less than 5%. In this study, most of the banks have described the average NPM value quite well. It's just that some banks, such as BABP, which every quarter (1, 2,3 for the 2019 and 2020 periods) describe a poor NPM, this is because BABP banks are not sufficient optimal in generating profits through business activities in the period 2019 and 2020. Meanwhile, the period of the 3rd quarter of 2019 shows the value of several banks experiencing unhealthy conditions, judging by the NPM value of less than 5%. This summarizes that the period of the 3rd quarter of 2019 is less than optimal in generating profits. This is also supported because, during that period, the Covid-19 pandemic phenomenon occurred, which also affected the capital market, one of the impacts affecting capital market investment. TATO is intended to assess a company's ability to maximize its assets in generating sales. The ratio is used as a measure of how far the assets are intended for the company's business operations or shows how the assets turnover in one period.

Financial leverage shows the proportion of using debt to finance its investment. Fundamentally, the financial leverage multiplier can increase profits and, at the same time, increase the risk that the company will obtain. In contrast, low financial leverage can reduce company profits and the level of risk it faces. This research describes the banking sector as having a considerable debt financing value in the 2020 period compared to 2019. This happened because, in the 2020 period, there was a Covid-19 phenomenon, where at that time, banks tended to choose to finance through debt rather than equity. This is the case. strengthened by the implementation of government policies related to relaxation of credit restructuring as an effort for banks to maintain financial stability.

ROA is one of the ratios used as a benchmark in reviewing a company's ability to earn a return on the use of its assets. Each company will strive so that the resulting ROA is large. This is because a company that can generate a large ROA means that the more efficient the company is in generating profits through its assets. ROE is a profitability ratio that functions to assess management's ability to manage capital originating from equity or shareholders in generating profit. Related to the relationship between ROA and ROE, namely the ROA role, which can be used to assess the trade-off strategy between returns and risks, because ROE will increase if ROA and FLM have increased.

Table 3. Wilcoxon Signed Rank Test Results

	ROE_2020 - ROE_2019	Conclusion
Asymp. Sig. (2-tailed)	0,21	Ha_1 Rejected

Source: processing data, 2021.

The Wilcoxon signed-rank test results show that the significance value of the comparison of banking financial performance before Covid-19 (ROE 2019) with financial performance during Covid-19 (ROE 2020) is 0.21. The significance value is greater than the significance parameter $\alpha = 0.05$ (0.21> 0.05). Thus, the fifth alternative hypothesis (Ha1) is rejected, or there is no difference in banks' financial performance before Covid-19 with the financial performance of banks during Covid-19.

Covid-19 is a type of virus that can interfere with the human respiratory system. Since the emergence of Covid-19 as a global pandemic, the entire system of life has been affected, not only in the health sector but also in the education sector and the economic sector as a vital sector in dealing with Covid-19. The Covid-19 pandemic has an impact on the financial sector, which is seen from the drop in the stock market when Covid-19 first entered Indonesia, the decline in the value of the rupiah, the condition of business actors unable to carry out business activities or to experience business stagnation and allowing a lousy economy to occur if it is slow to run. Overcoming the effects of this pandemic. The banking sector has a vital and strategic role in carrying out economic activities. The development of the banking sector is used as a determining factor for economic development so that if the banking sector slumps, the economic system will also decline. This is due to the bank's role as a financial intermediary, which is a forum for collecting funds and channeling funds. A bank that is a financial institution that has a vital function must be able to have a good performance.

The bank's overall performance is an illustration of the success of the bank in making achievements related to the implementation of its operational activities, both from a financial perspective, a marketing perspective, raising and channeling funds, and a technology and human resources perspective. The bank's financial performance is viewed from the bank's activities in the period that includes collecting and distributing funds. This then uses measurement indicators of profitability ratios, solvency ratios, and activity ratios. Measurement of financial performance based on profitability ratios, solvency, and activity ratios indicates measuring financial performance through the Dupont system method. This method helps gauge the efficiency of capital, production, and sales comprehensively and comprehensively. The DuPont system method can also be used as an analysis in comparing the company's efficiency so that the rating and financial performance of the company are known. This is in line with this study because, in this study, the researcher wanted to understand and analyze differences in the banking sector's financial performance before and during Covid-19.

Signal theory strengthens the test of financial performance, as this disclosure of financial statements with good performance will provide a positive signal for shareholders and potential investors. The more detailed and broader the disclosure of financial information to external parties will lead to confidence for external parties to invest in the company. It will have an impact on increasing profits and returns on equity. This research is not in line with the research conducted by Putri (2020), which explains that there are differences in banking stock prices during the Covid-19 pandemic. Still, this study shows that there is no difference in banking financial performance. This illustrates that even though banking stock prices tend to decline during the Covid-19 pandemic, banks' financial performance is still quite good. This study supports Silalahi and Ginting (2020) research, which explains that there is no difference in the financial performance of banks before and after the merger. Research shows similar results with a different phenomenon, namely the Covid-19 pandemic.

The Covid-19 pandemic, which is a global pandemic, impacts increasing bank credit risk due to a decrease in debtors' performance and capacity to fulfill their payment or financing obligations. Increasing credit risk can potentially disrupt the financial performance of the banking sector and financial system stability, which can affect economic growth, so a countercyclical policy is required. The countercyclical policy of the impact of the spread of Covid-19 is the government's effort to boost banking performance, especially the intermediation function, maintain the financial system stability and support the country's economic growth. One of the efforts is to relax credit restructuring, stipulated in the stipulation of POJK No.11 / POJK.03 / 2020 concerning National Economic Stimulus as a countercyclical policy widespread of Covid-19. Credit restructuring is an effort to improve lending activities for debtors who can have difficulties in fulfilling their obligations. Banking credit restructuring in the form of lowering interest rates, extending the credit period, reducing arrears in the loan principal, adding credit facilities, and converting credit to temporary equity participation. Government policy was implemented to optimize banking financial stability. Through credit restructuring, the National Economic Stimulus Policy strengthens the test results of this study, showing that there is no difference in financial performance before and during Covid-19 so that the credit restructuring relaxation policy issued by the Financial Services Authority (OJK) is proven to be able to maintain the stability of the financial services sector from economic pressures due to the impact of the Covid-19 pandemic.

Conclusion

Based on the results of data analysis and hypothesis testing, it can be concluded that there is no difference in banking financial performance before and during Covid-19. This supports one of the government policy efforts, namely through relaxation of credit restructuring, which is contained in the determination of POJK No.11 / POJK. 03/2020 concerning National Economic Stimulus as a countercyclical policy to overcome the widespread spread of Covid-19. This study's limitation is that this study is only limited to banking companies listed on the Indonesia Stock Exchange for the period 2019-2020. This study only discusses financial performance using the DuPont system method before and during Covid-19.

Recommendations that can be given to future researchers are that further researchers should research different sectors with different measuring financial performance methods. Future researchers can also use the year's financial statements to examine financial performance before and during Covid-19. For investors, you should pay attention to financial performance before making investment decisions. The banking sector is a promising investment sector because it is still stable and can maintain its business activities in fluctuating conditions. For the government, it is advisable to remain consistent and responsive in issuing monetary policies related to the changing economic needs resulting from this outbreak so that the banking sector will maintain financial stability. It is recommended that companies pay attention to the utilization of their assets, sources of company financing and increase the company's profitability so that the banking sector's financial performance will remain good in conditions that may change.

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