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Covid-19 outbreak: Islamic banking challenges in Indonesia

[1] Suci Nur Azizah, [2] Allselia Riski Azhari, [3] Rofiul Wahyudi
rofiul.wahyudi@pbs.uad.ac.id

Universitas Ahmad Dahlan

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ABSTRACT

The Covid-19 outbreak has infected financial sectors, including Islamic banking in Indonesia. However, the journey of Islamic banking has been able to withstand various types of crisis viruses that have occurred so far. This research's main objective is to investigate the new challenges of Islamic banking in facing and experiencing the impact of the Covid-19 outbreak. This research method uses qualitative descriptive analysis. The data collection technique uses observation through secondary data analysis from library research reviews in digital journals, books, and internet mass media articles. This study's findings show that the challenges faced by Islamic banks during the Covid-19 are quite diverse, namely decreased profit performance, optimization of digital banking services, and government policies.

Introduction

A virus that originated in Wuhan, China (WHO, 2020), is the 2019-nCoV virus, or more widely known as Covid-19. In Wuhan, China, a city of over 11 million (2018), Covid-19 was first reported on December 31, 2019. Covid-19 is now spreading to almost every nation in the world. Reported by the WHO and PHEOC Health Ministry on October 14, 2020. Indonesia reported 344,749 cases, of which 267,851 were recovered, and 12,156 were declared dead (WHO Indonesia, 2020).

In most countries around the world, including Indonesia, the spread of Covid-19, declared by the World Health Organization as a outbreak, has shown a rise over time and has resulted in more serious casualties and material losses, such that it has repercussions for aspects of social, economic and social welfare (Nasution et al., 2020). The economic cycle, which causes current supply of goods to decline, the price started to change, and the buying power was diminished so that sales plunged, exacerbated Covid-19 outbreak impact.

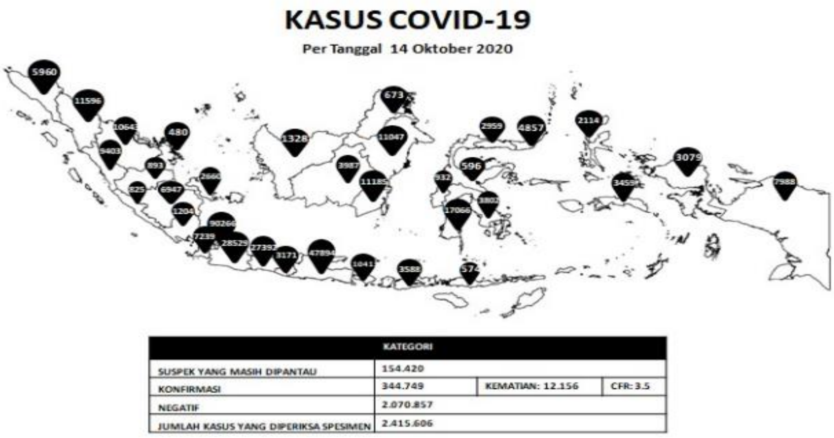

Fig. 1. Map of the spread of Covid -19 cases in Indonesia
source: Central Bureau of Statistics

According to the World Bank, the economic impact of Covid-19 will stop the businesses of nearly 24 million people in East Asia and the Pacific (Clarissa & Gandara, 2020). Under the worst-case scenario, the World Bank also predicts almost 35 million people will remain in poverty. Through several strategies taking into account various poverty lines, the World Bank estimates that the number of people living in extreme poverty will increase to 922 million worldwide. The latest data and information compiled and released by BPS on the number of poor people in Indonesia in March 2020 amounted to 26.42 million people, an increase of 1.63 million people (Statistik, 2019).

One of the impacts of the covid-19 outbreak is the Islamic banking sector. The Islamic Banking Industry has a very strategic role in community economic development, contributing to the implementation of economic transformation in productive, value-added, and inclusive economic activities (Iskandar et al., 2020). However, during the Covid-19 Outbreak, the Islamic Banking industry must move quickly to adapt immediately by making strategies, innovations, and risk management appropriate and careful and using creative approaches to survive the Covid-19 outbreak that has made economic conditions uncertain. Islamic banking also plays a role in social mediation by collecting and distributing zakat funds; during the Covid-19 outbreak, Islamic banks also showed a significant increase in social funds (Azhari et al., 2020).

According to Sumarni's research (2020), which uses a qualitative research design with a library approach, library research is defined as a study that studies various reference books and previous research results. The results showed that the effects of the Covid-19 outbreak had multiple impacts on the business sector, namely a decrease in demand for Islamic business products, an increase in product prices, and a delay in realizing the investment. The challenges faced by this Islamic business form a strategy that helps restore the people's economy due to the Covid-19 outbreak.

The research conducted by Tahliani (2020) uses a qualitative descriptive method by examining written sources such as scientific journals, reference books, literature, and other scientific articles.

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The results show that Islamic banking challenges in facing the outbreak are adjusting business patterns by digitizing bank services, digitizing in raising funds and financing, and minimizing Non-Performing Financing (NPF) payments to surviving the Covid-19 outbreak, and looking for new market alternatives. , the minimum market that is not significantly affected by the Covid-19 outbreak, such as the business sector related to the health industry, so that the Islamic banking industry can survive amid the Covid-19 outbreak.

According to Habibah (2020), research with empirical articles is a situation based on real events or events experienced. Based on his findings in general, the challenges of Islamic banks during the Covid-19 outbreak, namely liquidity and the ratio of non-performing financing (NPF), will make Islamic banks begin to be depressed in July 2020 and August at their peak. Various kinds of risks will be faced by Islamic banking during the outbreakLikewise the findings of Wahyudi (2020) states that Islamic banking's performance was corrected during the beginning of the Covid-19 outbreak.

Research conducted by Mahfudz & Mardhiyaturrositaningsih (2020), a comparative analysis, aims to determine the impact of the Covid-19 outbreak on the banking industry in terms of the Bank's management's operational strategy and Bank Intermediation Activities. The sampling technique used purposive sampling using secondary data processing from 5 Islamic Commercial Banks (BUS). The results showed that from December to March 2020, all banks experienced fluctuations in their intermediation function, which tended to decline both from financing and raising funds.

According to research by Fauziah et al., (2018) which examined the operational risks of Islamic banks during the Covid-19 outbreak using a qualitative research design through a case study approach. The findings show that Islamic banks faced two types of risk during the outbreak period, namely, external and internal threats. The internal operational risk is that banks need to increase operating expenses such as providing a hand sanitizer, hand washing stations, masks, disinfectants, etc. to maintain health protocols. External operational risk comes from decreased service to customers due to regulations on restrictions on customers who come and sterilization of bank branch offices that hinder services.

Therefore, it is necessary for Islamic Banking to start revising its strategy, seeing that no one knows when Covid-19 is going to end. Looking at this problem, this research seeks to explore the challenges of Islamic banking during the Indonesian outbreak of Covid-19. Thus, during the Covid-19 outbreak, it is considered a guide in deciding strategies to mitigate the risks in Islamic banks.

Method

This research design used a qualitative descriptive analysis approach. The technique of collecting data uses observations derived from secondary data, then a literature review is carried out in the form of digital journals, books, and internet mass media articles. This data is a consideration in analyzing the picture related to problems affecting Islamic banking during the Covid-19 outbreak.

Discussion

Research conducted by Rahman (2015), has proven that Islamic banks are not affected by the global crisis by using Indonesian banking statistical data starting from 2006-2012. The global crisis that occurred in 2008 caused the world economy to experience shocks, a crisis of shipments originating from the United States due to problems Non-Performing Loan (NPL) in the property sector. Some of the challenges of Islamic banking during the Covid-19 outbreak there are:

1. Decrease in Profits

   Profit is one of the potential information in financial reports, which is very important for internal and external banking parties. Earnings information is a component of financial statements that assess management performance, estimate the ability of representative earnings in the long run, forecast profits, and evaluate investment risk and loan funds. Profit is obtained when income exceeds expenses. On the other hand, loss occurs when costs exceed revenue. Operating profit is the difference between operating income and expenses, where operating income and costs are important factors related to an increase or decrease in operating profit—the difference between revenue and total operating expenses for the period. If the difference is positive, it will generate an operating profit. If the difference is negative, it will result in an operating loss for the period. The following are some of the things that underlie the decline in profits that occur in Islamic banks:

   a) Closure or restriction of service offices and reduction of working hours
   b) Increased operational expenses, such as providing hand-sanitizers, masks, multivitamins, and disinfectants which are supplied in large quantities to maintain the health of the office environment, especially for employees
   c) Limitation of financing and selectivity in financing to reduce the risk of non-performing financing (NPF)
   d) Decreased demand for products in Islamic banks.

2. Digitalization in banking services

   Apart from the various future risks that the industry will face the Covid outbreak, digitization of Islamic bank products and services should be implemented quickly and responsively. Applying digital technology will follow economic theory, which explains that technological progress leads to increased productivity and encourages company efficiency. An efficient and productive company will increase its capacity to compete and dominate the

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market. However, in practice, of course, each bank has its perspective regarding the urgency of a digital banking phenomenon. This, of course, affects their competitiveness in which banks place digital strategy as an essential strategy.

The implementation of the digital banking system in Islamic banking is considered less aggressive than conventional banking. Banking systems with digital technology can perform the essential functions of banks as intermediary financial institutions and financial service providers and outside as financial advisors to their customers. They can interact in real-time through the mobile devices used by customers.

Internet and cell phone penetration has continued to increase, and so has banking. As the digital generation is a significant part of the digital banking population, banks must provide a different experience through digital banking portals and mobile applications. Today's digital age needs a rich and personal digital banking experience that is safe and secure. It becomes a challenge in itself when making digital transactions because customers do not experience the real experience of meeting face to face.

Face-to-face service is not only limited to serving, but understanding, understanding, and feeling. Thus, delivery in use will be about the customer's heart share. Heart share and mind share can foster customer loyalty to a product to impact the company's image positively. Therefore, bank digitization is required to have the same comfort and experience when making face-to-face transactions.

3. The Role of the Government in Raising the Islamic Banking Industry during the Covid-19 outbreak

The government is the prime mover, and the bow is the reference for the people. In-state relations, the government exists to meet the needs of each individual. These needs can be in the form of material or non-material, which raises the motivation for the people to form sustainable and relevant reciprocity. Branch of focus that is often paid attention by the people in a country that is currently the focus of the economy. The government continues to boost the performance of these institutions, which are continuously spurred by various activities, policies, and institutions for developing Islamic economics and finance to support national economic resilience, particularly in the development of economic and financial industries.

One of the government's concrete actions in reviving the banking industry is the Financial Services Authority Regulation Number 11 / POJK.03 / 2020 or what is known as the Countercyclical policy (OJK, 2020). This policy is aimed at boosting banking performance, especially the intermediation function, maintaining financial system stability, and supporting economic growth, namely by providing special treatment for bank credit or financing with a certain amount and restructured credit or financing to debtors affected by the spread of Covid-19, including debtors. micro small and Medium Enterprises. This authority's policy has had a significant impact on the banking intermediation function (Riduwan and Wahyudi, 2017, Wahyudi et al. 2019).

Furthermore, the National Committee for Islamic Economics and Finance (KNEKS) is an institution that functions as a catalyst for the development of Islamic economics and finance on a national and international scale (Kusjuniati, 2020) .The National Committee and Islamic Finance (KNEKS), which was inaugurated on August 2 2016 and KNEKS directly under President Jokowi as Chairman and Daily Chair, is the vice president, namely KH. M. Ma'ruf Amin. During this outbreak, KNEKS had a useful strategy for developing the Islamic economy and finance:

First, Strengthening the Halal Value Chain. Strengthening the industrial value chain, one of the strategies carried out is multiplying and strengthening halal product innovation. Examples of products from Islamic financial institutions that have implemented this integration are Cash Waqf Linked Sukuk (CWLS), LinkAja Syariah (digital payment), Auto Debit of Zakat, Infaq, Alms and Waqf (ZISWAF), and Islamic life insurance. Second, strengthening the digital economy. Entering the industrial era 4.0, where all economic activities have begun to shift to entirely digital, Islamic Banking is no exception. For example, Internet banking, opening an account via an application, withdrawing cash without using a debit card, and many others.

Second, strengthening fatwas, and third, regulation and governance of Islamic banking. Therefore, Islamic banking can benefit from the government's stimulus package to deal with the impact of the spread of Covid-19. Although the government's current stimulus package is still far from ideal, it can at least reduce the burden that must be borne by Islamic businesses amid the outbreak of Covid-19. To encourage economic growth to keep going amid the financial crisis caused by the Covid-19 outbreak.

Conclusion

These findings indicate that the challenges faced by Islamic banks during the Covid-19 outbreak are quite diverse. First, the outbreak affected the profit of Islamic banks. It is predicted that Islamic banks' profitability will decline due to several factors, such as the restructuring policy of the OJK during an outbreak that can affect the financing margin. Second, the challenge of optimizing digital banking services. The use of Islamic bank digitization services is expected to continue to innovate to be able to help people meet their needs during an outbreak. Third, government policies in reducing the Indonesian economic crisis's risk affect Islamic banking in managing its operations, such as the merger option.

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