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Effect of Capital Adequacy Ratio and Financing to Deposit Ratio Against Return on Assets and Return On Equity at Islamic Banks on Covid-19 Pandemic, Indonesia

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ABSTRACT

This study aims to analyze and explain the effect of the Capital Adequacy Ratio and Financing to Deposit Ratio Against Return on Assets and Return On Equity In Islamic Banks in Indonesia during the 2020 Covid-19 Pandemic Period. The research population is 12 Islamic commercial banks in Indonesia. A total of 11 Islamic commercial banks are the samples of this study. This study uses descriptive analysis techniques and linear regression to confirm the structural equation model and compare the paths between Return on Assets and Return On Equity. The quantitative approach was chosen to explain the effect of the research variables. We are collecting data using secondary data. The results of this study are the development of the Capital Adequacy Ratio and the ratio of Financing to Deposit Ratio will be followed by the development of the ratio of Return on Assets and the ratio of Return On Equity At Islamic Banks in Indonesia during the Covid-19 Pandemic Period.

Keywords: Financing to Deposit Ratio, Capital Adequacy Ratio, Return on Assets, Return On Equity

I. Introduction

Based on the Indonesian OJK Sharia Financial Development Report shows that Indonesia's Islamic economic and financial conditions are gradually improving in 2020 during the Covid-19 pandemic. Indonesian Sharia Commercial Banks are 1 of 10 countries with the most extensive Islamic banking capital ownership globally, including 13 BUS, 21 UUS, and 167 BPRS, with total assets of Islamic commercial banks reaching Rs 435.02 trillion or 2.6 billion (OJK, 2017). It should also be noted that according to the 2020 Global Islamic Financial Report, Indonesia is one of the countries that has made a valuable contribution to the global Islamic finance industry. The performance of Islamic commercial banks shows an increase in financial performance (INDONESIA, 2020).

The higher the ROE, the higher the return on investment of Islamic financial institutions. It is said that Islamic financial institutions are in a very healthy position. The selection of ROA and ROE members to better measure the profitability of Islamic commercial banks because ROA and ROE can show the effectiveness of management in utilizing assets for profit. In recent years, Islamic commercial banks have continued to exhibit dynamic behavior. In the development of Islamic finance (Md. Robiul Islam, 2020).

The vision of the Indonesian Sharia Commercial Bank is to create a financial services industry that is prosperous, sustainable, and justly based on Sharia (Indonesia, 2017). The three main tasks to realize this vision is building a financial system that supports the national economy and making Indonesia the world's legal financial center. Increase access to Islamic financial products and services through effective integration and coordination of Islamic finance with stakeholders to meet community needs. Institutions such as Sharia secured loans backed and integrated Sharia loans need to be discussed closely with groups and organizations to increase market share in various events and developments. It is the basis for researchers in conducting research in finance, especially Islamic finance. Bank Indonesia understands the variables and understanding the relationship between financial ratio variables can increase the profits of certain financial institutions (OJK, 2020)

II. Review Literature

2.1 Capital Aqudency Ratio

Capital adequacy ratio refers to the ratio of a bank's capital adequacy ratio, or the ability of a bank to invest to compensate for potential car loan losses. The bank's capital meets its operational demands, indicating that the KPMM approval factor has met the standard. That has been determined (Indonesia, SE Bi No.6/23/DPNP, 2014).

2.2 Financing Deposit Ratio

The liquidity needs of each bank play a different role, including the specifics of the banking business, the size of the bank, et cetera. To ensure that banks have sufficient liquidity by measuring the ratio of deposits to funds, they consider all aspects of their obligations, including the fulfillment of loan obligations, and expect guarantees from the bank. Obligations to the Bank. If the measurement results deviate significantly from the bank's target and limit, then the bank's liquidity will weaken and increase in high-cost burdens. Conversely, if the target and limit are below, the bank maintains high liquidity, which leads to an increase in bank income; for example: Based on the discussion above, FDR can be seen as a comparison of the number of funds provided. with public savings (Calebe de Roure, 2021).

2.3 Return on Assets

Return on Assets (ROA), or what is known as one of the profitability ratios, is a metric that aims to determine the company's benchmark for achieving profits within a certain period. Company benchmarks for profit are used to measure the effectiveness of the company to generate profits through the use of assets owned. The higher the ROA level of a

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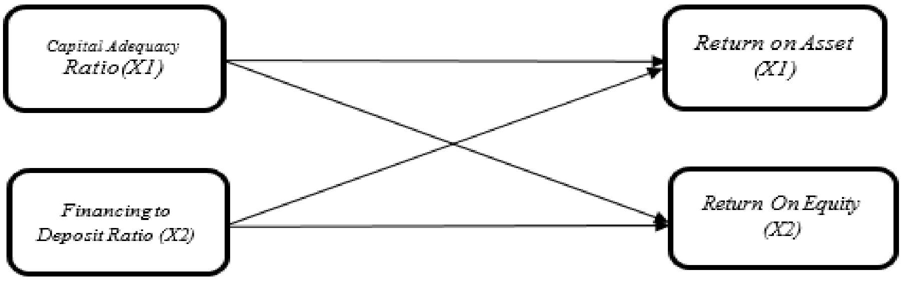
company, the more efficient the use of these assets, making it possible to increase existing profits. Consistently high profits will attract investors because the company has a broader benchmark (Agil Ardiyanto, 2020).

2.4 Return on Equity

Return on Equity (ROE), also known as Return on Equity (ROE), is a measurement or ratio to assess the efficiency of a company using its resources by utilizing its capital sources. The purpose of this report is to measure bank size. If this ratio is high, then the ability of the bank's paid-in capital to benefit shareholders will be even greater (E. A. Posnaya, 2018).

Figure 1. Multiple Regression Model



III. Method Research

3.1 Design

This study has two extrinsic variables (independent variables), namely FDR and CAR. Furthermore, the endogenous variables (the dependent variable) are ROA and ROE. The type of research that researchers use is to collect the data they need. Then use data processing software to analyze and interpret with an explanation of the attachment of each variable to other variables (Wahyudi,2017); (Haoxiao Li, 2018).

3.2 Population and sample

Researchers used 12 research samples of Islamic commercial banks with categories that met 11 criteria based on data from May to December 2020, totaling eight months, with 88 statistical data for Islamic commercial banks. The 12 Islamic commercial banks with categories that meet the 11 research criteria are as follows:

Table 1. Research Population

No	Name of Islamic Commercial
1	Bank Muammalat Syariah
2	Bank Syariah Mandiri
3	Bank Mega Syariah
4	Bank Rakyat Indonesia Syariah
5	Bang Syariah Bukopin
6	Bank Negara indonesia Syariah
7	Bank Jabar Banten Syariah
8	Bank Central Asia Syariah
9	Bank Victoria Syariah
10	Maybank Syariah Indonesia
11	Panin Bank Syariah
12	Bank Tabungan Pensiun Nasional Syariah

3.1 Definition of the variable

Current Asset Ratio (CAR)

CAR aims to determine the state of capital that bears the possibility of capital risk. The following is the CAR formula (Asmaul Husna, 2019):

$$\text{Capital Adequacy Ratio Formula} = \frac{(\text{Tier 1 Capital} + \text{Tier 2 Capital})}{\text{Risk Weighted Assets}}$$

Financing Deposit Ratio (FDR)

The financing deposit ratio determines how much financing is distributed using third-party funds. The following formula FDR (Yeni Fitriani Somantri, 2019):

$$\text{FINANCING DEPOSIT RATIO} = \frac{\text{Total Loans}}{\text{Total Deposits}}$$

Return On Assets (ROA)

Return On Assets is a benchmark for a company to earn a profit. Formula Return On Assets (Ratna Handayani, 2018):

$$\text{ROA} = \frac{\text{EBIT}}{\text{Average Total Assets}}$$

Return On Equity (ROE)

Return On Equity (ROE) is a ratio that assesses the benchmark for return on capital to investors in the form of profit. The high ratio will impact the return on capital in the form of greater profits (Lucille V. Pointer, 2019).

$$\text{Return on Equity Formula (ROE)} = \frac{\text{Net Income}}{\text{Sharholders Equity}}$$

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IV Research Results and Discussion

4.1 Overview of Islamic commercial banks The

following is an overview of the average variables of CAR, FDR, ROA, and ROE at 11 Islamic commercial banks in Indonesia

Table 2 Overview of Islamic Commercial Banks

Month	CAR	FDR	ROA	ROE
Mar	0.113067	0.604406	0.027848	0.020655
Apr	0.111904	0.588864	0.031141	0.023294
May	0.111227	0.639373	0.034728	0.026328
Jun	0.115187	0.64002	0.04194	0.031627
Jul	0.112938	0.520273	0 0.044262	0.036127
Aug	0.110347	0.602329	0.050015	0.041647
Sep	0.115771	0.58509	0.057402	0.048159
Oct	0.115528	0.596167	0.062783	0.052432
Average	0.113246	0.597065	0.043765	0.035034

From table 2, it can be explained that in the general description of Islamic commercial banks, the variable Capital Adequacy Ratio (CAR) was highest in September, namely 0.1177, and the lowest in August at 0.1103 with an average of 0.1132 which means the bank can cover losses of 11.32%, the Financing to Deposit Ratio (FDR) variable in June is 0.64, and the lowest in July is 0.5202 with an average ta of 0.597 this means that the amount of third party funds distributed by Islamic banks is 59.7%, Variable Return on Assets (ROA) was highest in March of 0.0627 with the lowest value in March of 0.0278 with an average of 0.0437, which means that Islamic commercial banks can earn an overall profit of 4.3% and Variable Return On Equity (ROE) was highest in October at 0.0524. The lowest value in March was 0.0206, with an average of 0.035, meaning that Islamic banks could make a profit for investors of 3.5%.

4.2 Analysis of regression results

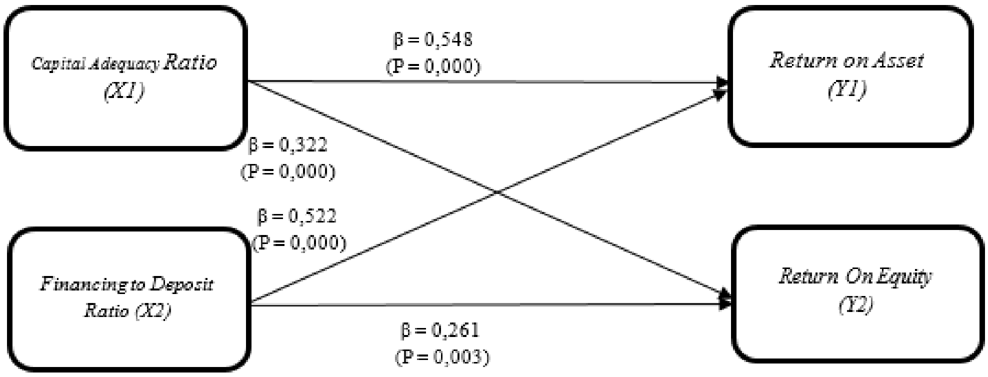
In this study, two regressions were carried out with the following model:

First model regression: $Y1= 0.548X_1 + 0.332X_2 +e$

Second regression model: $Y_2= 0.522X_1 + 0.261X_2 + e$

With the results of the diagram multiple regression below:

Figure 2 Results of Regression Model



Related to variables that have a dominant effect on Y, by comparing one variable's regression coefficient (β) to another. The value of the result of the most extensive beta standardized coefficient explains that the independent variable above has a dominant influence on the dependent variable, namely the variable Capital Adequacy Ratio (CAR) with an effect on Return on Assets (ROA) of 0.0548 and Return On Equity (ROE) of 0.522.

V. Discussion

Effect Capital Adequacy Ratio (CAR) on Return on Assets (ROA)

On the Capital Adequacy Ratio (CAR) the effect on variable Return on Assets (ROA), Islamic bank capital level is a fundamental component in the company's totality in generating profits from assets, because if the low capital level component is low, then bank management in generating profits will below. If the capital level component is high, bank management in generating profits will be high. The results of this study are consistent with the research of Zulifiah & Susilowibowo (2014), Rahmani (2017), Toyyib (2020), and Fachri (2021).

Effect Financing to Deposit Ratio (FDR) on Return on Assets (ROA)

On the influence of variable Return on Assets (ROA), The level of financing disbursed is a fundamental component of the Company's Totality in generating profits from assets, because if the financing component disbursed is low, the bank's management in generating profits will be low and if the

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component of the level of financing disbursed is stable, the bank's management in generating profits will be high, stable in This means maintaining the availability of bank funds for the funds disbursed so that the balance is when the funds needed by depositors and funds are used as profit generators. The results of this study are consistent with the research of Sabir (2012), Rahmani (2017), and Fachri (2021).

Capital Adequacy Ratio (CAR) has a dominant effect on Return on Assets (ROA)

On the Capital Adequacy Ratio (CAR), the effect on variable Return on Assets (ROA), bank capital level is a fundamental component in bank management in generating profits from assets, because if the low capital level component is low, then bank management in generating profits will below. If the capital level component is high, bank management in generating profits will be high. The results of this study are consistent with the research of Zulifiah & Susilowibowo (2014), Rahmani (2017), Toyyib (2020), and Fachri (2021).

Effect Capital Adequacy Ratio) on Return On Equity ROE)

The variable Return On Equity, the level of bank capital is a fundamental component of bank management in generating profits for investors because if the component of low capital level is low, then bank management in generating profits will be low, and if the component level of capital is high, bank management will generate profits. It will be high. The results of this study are consistent with the research of Tridiyani (2011), Nopa (2020), and Rahmani (2017).

Effect Financing to Deposit Ratio (FDR) on Return On Equity (ROE)

The variable Return On Equity, the level of financing disbursed, is a fundamental component of bank management in generating profits for investors because if the financing component disbursed is low. The bank management in generating profits will provide below. Suppose the component level of financing disbursed is stable, then bank management Generates profits. In that case, it will be highly stable in maintaining the availability of bank funds for the funds distributed so that it is balanced when the funds needed by depositors and funds are used as profit generators. The results of this study are consistent with the research of Rahmani (2017) and Nopa (2020).

Capital Adequacy Ratio has a dominant effect on On Equity ROE)

Return variable Return On Equity (ROE) the level of bank capital is a fundamental component of bank management in generating profits for investors because if the component of low capital level is low, then bank management in generating profits will be low and if the component level of capital is high, bank management will generate profits. It will be high. The results of this study are consistent with the research of Respati & Yandono (2008), Tridiyani (2011), Rahmani (2017), and Nopa (2020).

VI. Conclusion

The level of bank capital and financing is a basic component of bank management in generating profits for investors as well as for the management of Islamic commercial banks before the pandemic and during the covid-19 pandemic, because if the components of the level of capital are low and financing is low, bank management in generating profits will low and if the capital level component is high, the bank's management in generating profits will be high.

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