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THE PERFORMANCE OF CONVENTIONAL BANKING AND SHARIA BANKING IN INDONESIA

Anggun Dewi Sasmita[1*], Firdha Aksari Anindyntha[2]
[a,b]Ekonomi Pembangunan, Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Malang, Indonesia
* Corresponding author: anggundsasmita@gmail.com

Abstract

Indonesia is a country with the largest Muslim population in the world. However, public interest in sharia banking in Indonesia is not as big as conventional banking. This study aims to identify how the performance of conventional banking and Sharia banking differs using the RGEC approach for the 2011-2020 period by looking at the difference test between the two banks. The difference test uses the Paired Sample T-Test and the Wilcoxon test. The findings show that there are performance differences between conventional banking and Sharia banking. The most significant difference is in profitability that using variable of ROA. Furthermore, a second test was carried out using panel regression to determine the factors that can affect the profitability of the two types of banking, using bank internal factors, namely the ratio of NPL or NPF ratio and LDR or FDR and LDR s well as well as external factors, including inflation and interest rates. The findings show that the NPL has a significant negative effect on the profitability of Sharia banks. Meanwhile, LDR has a negative effect on profitability of conventional bank. Interest rates have a positive and significant effect on both conventional and sharia banking, while inflation has no significant effect on the profitability of the two types of banks. These results indicate that both types of banking need to manage banking performance by utilizing interest rate instruments which have a positive impact on increasing profitability.

Abstrak

Indonesia merupakan negara dengan populasi umat Islam terbesar di dunia. Namun minat masayarakat terhadap perbankan syariah di Indonesia tidak sebesar perbankan konvensional. Penelitian ini bertujuan untuk mengetahui perbedaan kinerja perbankan konvensional dan perbankan syariah menggunakan pendekatan RGEC periode 2011-2020 dengan melihat uji beda antara kedua bank tersebut. Uji beda menggunakan uji Paired Sample T-Test dan uji Wilcoxon. Hasil penelitian menunjukkan bahwa terdapat perbedaan kinerja antara perbankan konvensional dan perbankan syariah. Perbedaan yang paling signifikan terdapat pada profitabilitas dengan menggunakan variabel ROA. Selanjutnya dilakukan pengujian kedua dengan menggunakan regresi panel untuk mengetahui faktor-faktor yang dapat mempengaruhi profitabilitas kedua jenis perbankan tersebut dengan menggunakan faktor internal bank yaitu rasio NPL atau NPF dan LDR atau FDR serta faktor eksternal bank antara lain inflasi dan suku bunga. Hasil penelitian menunjukkan bahwa NPL berpengaruh negatif signifikan terhadap profitabilitas bank syariah. Sedangkan LDR berpengaruh negatif terhadap profitabilitas bank konvensional. Suku bunga berpengaruh positif dan signifikan terhadap perbankan konvensional dan syariah, sedangkan inflasi tidak berpengaruh signifikan terhadap profitabilitas kedua jenis bank tersebut. Hasil tersebut menunjukkan bahwa kedua jenis perbankan tersebut perlu mengelola kinerja perbankan dengan memanfaatkan intrumen suku bunga yang berdampak positif terhadap peningkatan profitabilitas.

***Keywords**: RGEC; conventional banks; sharia banks; profitability*

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INTRODUCTION

The banking industry has an important role in the economy of a country, where the main function of a bank is as an intermediary institution, namely collecting funds from people who have excess funds (surplus spending unit) and also channeling funds to people who lack funds (deficit spending unit) (Fadli & Sakti, 2020). The banking industry can easily manage and allocate these funds effectively and efficiently to both surplus spending units and deficit spending units. Activities to channel and collect funds can be used to support economic development, equal distribution of social welfare and increase economic growth (Simatupang, 2019). Therefore, banking has an important function to boost the economy in a country.

There are two types of banking in Indonesia, namely conventional banking and Sharia banking. The basic difference between conventional banks and Sharia banks is in the contract and legality, conventional banks use a positive legal basis while Sharia banks use a positive legal basis and also Sharia law (Wijaya & Erawati, 2017). Central Agency on Statistics Indonesia (BPS) notes that the majority of the Muslim population in Indonesia is 86.26%, this figure should be able to make Sharia banking the main banking used by Indonesian people when viewed from the total number of people who are predominantly Muslim, but in practice Sharia banking is lagging behind, because people tend to use conventional banking (Rizal et al., 2020). Malini (2020) explained that in OJK data it was recorded that the growth of Sharia banking customers grew by 18.05% annually, this figure was higher than conventional banking which only grew 14% annually. This growth shows a more significant development of Sharia banking, but in the implementation of finance in Indonesia, Sharia finance is still less attractive to the public. Johnes, Izzeldin, Vasileios (2014) revealed several countries that have rapid development of Sharia banking, namely Bahrain, Malaysia and the United Arab Emirates where Sharia banking is an important sector in the economies of these three countries.

The backwardness of Sharia banking in Indonesia can be seen in terms of total assets. The financial reports at the OJK show that the total assets owned by Sharia banking are only 9% of the total assets owned by conventional banks, this figure shows a very significant difference (www.ojk.co.id). Figure 1 shows a comparison of total assets between conventional banking and Sharia banking in Indonesia.

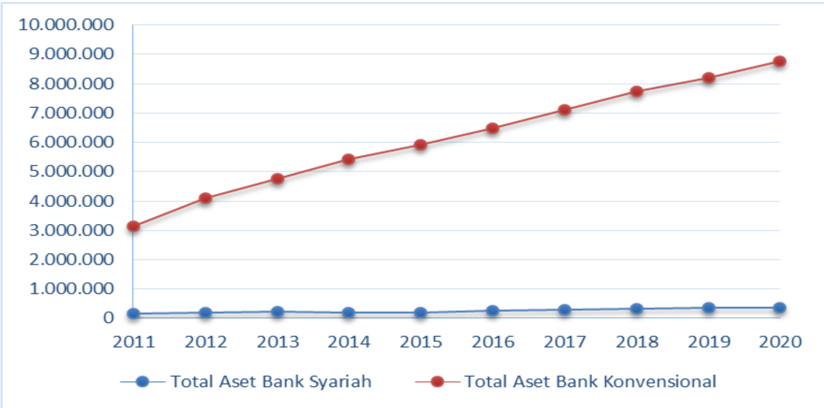

Figure 1. Total Assets of Conventional Banking and Sharia Banking in 2011-2020.

Source: Financial Services Authority, 2022

The total assets of conventional banking and Sharia banking each year have both increased. However, Sharia banking is increasing slowly and lagging behind compared to conventional banking which continues to increase with large numbers. Total assets in a bank can be used as a benchmark for assessing the size of a bank, the greater the total assets owned also shows good and efficient bank performance. By looking at these differences, this research focuses on the soundness of banks as a measurement of the performance of conventional banking and Sharia banking, whether there are differences in performance between the two banks which cause a very significant imbalance in total assets. Assessment of the soundness of the banking system can be seen through several indicators, one of which is through the financial reports of each bank (Zulyani et al., 2015). The higher the soundness level of a bank, it means the higher the stability and public trust in the bank. Therefore, both conventional banking and Sharia banking need to pay attention to the soundness of the bank to maintain stability and public trust so as to attract the public to use their banking services.

Measurement of the soundness level of a bank was previously measured using the CAMELS method (Capital, Asset, Management, Earning, Liquidity, and Sensitivity). Then an update was made in Bank Indonesia Regulation Number 13/1/PBI/2011 that the banking industry is required to make reports related to health assessments taking into account the risk approach. This risk approach can be measured through the RGEC aspect (risk profile, Good Corporate Governance, earnings, capital) (Turangan et al., 2021). Putera (2020) explained that a bank providing various types of services certainly requires the trust of the public so that banks must maintain this trust and carry it out with prudential principles to maintain stable performance. This is in accordance with the aspects of RGEC's assessment which pay attention to risk in its assessment. The measurement of the RGEC variable in this study is the first, risk profile using NPL, the second in Good Corporate Governance using self-assessment on bank financial reports. Third, the Earning aspect uses ROA and the last Capital aspect uses the CAR variable.

Previous research by Zettyra R. D & Mutia (2020) shows the results that there are differences in the performance of conventional banking and Sharia banking in terms of risk profile and earnings (NPL and ROA) there are significant differences between the two banks, but when viewed in terms of Good Corporate Governance and Capital there is no significant difference between the two the bank. Jefri et al., (2019) also conducted research related to differences in the performance of conventional banking and Sharia banking with case studies on BRI and BRIS banks. The results showed that there were significant differences in terms of NPL and ROA, conventional banking was considered to have better performance. Then, from the CAR aspect there is no significant difference. However, CAR in Sharia banking is considered to have better performance.

Yuniati & Ari Pertiwi (2021) reviewing the RGEC of conventional banking with Sharia banking shows that the performance of conventional banking is more excellent than Sharia banking. This means that Sharia banking needs to further improve its performance so that it can compete with conventional banking by looking at the great prospects of Sharia banking when viewed from the number of people who are predominantly Muslim in Indonesia. different the research conducted by (Annastasya Meisa Putri, 2018) which shows that the NPL and CAR in Sharia banking is better when compared to conventional banking.

Research on the differences in the performance of conventional banking and Sharia banking in Indonesia previously still had inconsistent results, especially on the use of the RGEC aspect; therefore researchers are interested in conducting research related to the differences in performance between conventional banking and Sharia banking further. The recency from previous research is that in this study two tests were carried out, the first test was the difference between the financial performance of conventional banking and Sharia banking in terms of the RGEC aspect. Then carry out further tests related to how the influence of internal variables and external variables of the bank on the Earning ratio, namely ROA, because the most significant difference is found in ROA. The internal variables used are FDR and NPL for variables on external factors using the macro economy, namely inflation and interest rates.

The purpose of this study is to compare the performance of conventional banking with Sharia banking whether there are performance differences in them, as well as to look more deeply at how internal and external factors (macroeconomics) influence the financial performance of each type of bank on the profitability that represent by ROA which hopes to provide the positive impact for both banks, both conventional banking and sharia banking, in the future can be used as a strategy to develop their banking.

RESEARCH METHOD

This type of research is quantitative, using secondary data sourced from the annual financial reports of conventional banking and Sharia banking which are available at the OJK and on the official website of each bank that is the object of research. The population of this study is Conventional Commercial Banks and Sharia Commercial Banks that have been registered with OJK during the 2011-2020 research period with the sampling provisions used being conventional commercial banks and Sharia commercial banks which are classified as the five banks with the largest total assets in 2020 before the occurrence of mergers in Sharia banking. Based on the predetermined criteria, ten banks were obtained as the object of research with five conventional banks and five sharia banks respectively which would be used as research objects, namely conventional banks: MANDIRI, BRI, BCA, BNI, and BTN. Then for sharia banking is: Muamalat, BRI Syariah, BNI Syariah, Mandiri Syariah, and Panin Dubai Syariah. The measurement of definition variables can be seen in table 1 below:

Table 1. Definition Variables

Research Instrument	Variable	Explanation
RGEC		Bank performance measurement
Risk Profile	NPL	Risk profile measurement with bad credit
Good Corporate Governance	GCG (Self Assesment)	Performance appraisal uses Self Assessment
Earning	ROA	Measurement of profitability ratios
Capital	CAR	Capital adequacy level
Banking Internal Factor	LDR, NPL	Measurement of bank internal factors on ROA
Banking External Factor	Inflasi, Suku bunga	Measurement of bank external factors on ROA

The methodology in this study uses a descriptive method, namely analyzing and describing the financial performance of both types of banking, namely conventional and sharia in the 2011-2020 periods by testing whether there are differences in banking performance between the two banks. Then, after knowing that there is a significant difference between the two banks, so further testing is carried out regarding what matters influence these differences using external banking factors and banking internal factors. The results of the analysis carried out the following tests:

Data Distribution Normality Test

According to Sugiyono (2018), the normality test is used to determine whether the data is normally distributed or not. The normality test in this study was carried out before carrying out the different test. If the data is normally distributed then a different test is carried out using the Paired Sample T-test. But if the data is not normally distributed then the different test of the performance of conventional banking and Sharia banking is carried out using the Wilcoxon test.

Paired Sample T-Test and Wilcoxon Test

Paired Sample T-test and Wilcoxon Test are used to test the performance of conventional banking and Sharia banking whether there are differences in performance using the RGEC approach. The paired sample T-test is used to test normally distributed data while for data that is not normally distributed using the Wilcoxon Test.

Panel Regression Test

The results of performance testing between conventional banking and Sharia banking which have the most significant differences will be followed by panel regression using internal banking factors as well as external banking factors to be able to see what things can influence these differences in performance. Data analysis techniques contained in panel regression, namely the Pooled OLS Model, Fixed Effect Model (FEM) and Random Effect Model (REM) after that testing was carried out through the Chow Test, Hausman Test, and LM Test to have the best model to be used (Gujarati, 2012). The following equation is obtained for Conventional Banking:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e_{it} \quad (1)$$

Where, Y_{it} is the dependent variable, namely ROA, α is Constanta, then $\beta_1 - \beta_4$ Regression Coefficient of each independent variable, t represents time, then i is bank and e represents error. The independent variable description is represented by the X variable, namely: The independent variable description is represented by the X variable, namely:

X_1 : Liquidity (LDR)
X_2 : Non Performing Loan (NPL)
X_3 : Inflation
X_4 : Interest rate (BI Rate)

The equation for Sharia Banking:

$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e_{it}$ ....(2)

Where, Y_{it} is the dependent variable, namely ROA, α is Constanta, then $\beta_1 - \beta_4$ Regression Coefficient of each independent variable, t represents time, then i is bank and e represents error. The independent variable description is represented by the X variable, namely: The independent variable description is represented by the X variable, namely:

X_1 : Liquidity (FDR)
X_2 : Non Performing Financing (NPF)
X_3 : Inflation
X_4 : Interest rate (BI Rate)

RESULT AND DISCUSSION

The normality test in this study was carried out before carrying out the Differential Test to see whether the data was normally distributed or not, which can be seen in table 2 below:

Table 2. Normality Test

Ratio	N	Mean	St. Deviation	Probability
NPL	100	1.531300	1.307433	0.000011
GCG	100	1.670000	0.620443	0.139900
ROA	100	2.018300	1.964155	0.000000
CAR	100	19.10320	6.210984	0.000000

Based on table 2, the results show that the GCG variable is normally distributed because it has a probability value above 5%, so the different test can be continued using the Paired Sample T-test. However, the data for NPL, ROA, and CAR variables are not normally distributed, so the Difference Test is carried out using the Wilcoxon Test to examine differences in performance between conventional banking and Sharia banking.

Test the different performance of Conventional Banking and Sharia Banking in this study using the Paired Sample T-test for data that has normally distributed data, namely the GCG variable. Furthermore, for variables that are not normally distributed, namely the NPL, ROA, and CAR variables, the Wilcoxon test is used. In essence, the two tests do not change the numbers in the data, only adjustments related to the test used are based on the normal or not normal distribution of the data. The results of the different performance tests can be seen in table 3 below:

Table 3. Test of Differences in the Performance of Conventional Banking and Sharia Banking

Ratio	Value	Probability
NPL*	7.110975	0.0000
GCG**	-2.479700	0.0149
ROA*	7.110975	0.0000
CAR*	3.315927	0.0009

Information: *) Wilcoxon Test, **) Test paired sample t test

The different tests performed show that the probability values of NPL, GCG, ROA and CAR are all p values < 0,05 or less than 5% so that it can be interpreted that the performance of conventional banking and Sharia banking has a (significant) difference based on these four variables. The results of these four variables support hypothesis 1 that there are differences in the performance of conventional banking and Sharia banking in terms of the RGEC aspect.

Table 4. Descriptive Analysis

Ratio	Bank Type	Mean	Minimum	Maximum
NPL	Conventional Bank	0,67	0,2	1,8
	Sharia Bank	2,46	0,19	4,99
GCG	Conventional Bank	1,52	1	3
	Sharia Bank	1,82	1	3
ROA	Conventional Bank	3,356	0,54	5,15
	Sharia Bank	0,68	-10,77	3,29
CAR	Conventional Bank	19,88	12,7	25,8
	Sharia Bank	18,55	11,03	61,98

In table 4 above, it can be seen that the performance ratio between conventional banking and Sharia banking has differences according to hypothesis 1 testing which was carried out using the Paired Sample T-Test and also the previous Wilcoxon test. The NPL ratio in Sharia banking has a greater value compared to conventional banking, (Rachmawati & Marwansyah, 2019) stated that the higher the NPL ratio of a bank, the lower the bank's performance so that in this study it was found that the NPL in conventional banking has a better value compared to Sharia banking, this is in line with research conducted by (Komalasari & Wirman, 2021) that conventional banking can emphasize the number of non-performing loans is smaller than Sharia banking so that it is considered more efficient.

The GCG ratio in conventional banking and Sharia banking shows that there is a difference between the two, the average ratio value in conventional banking shows the number 1.52, which means that conventional banking has a very healthy GCG value, while Sharia banking has an average value of 1.82 indicating that sharia banking has a healthy GCG value. Based on the results of this study, it shows that conventional banking GCG is better than Sharia banking. This research is not in line with research conducted by (Yanti, 2019) which resulted in research that there is no difference in the GCG of conventional banking and the GCG of Sharia banking.

The difference between the ROA ratio in conventional banking and Sharia banking can be seen in the table, the ROA value in conventional banking has a higher value than the ROA in Sharia banking. A high level of ROA reflects that a bank is more efficient in managing its assets to generate profit (Eko Saputra & Febria Lina, 2020). From the results of this study it can be seen that ROA in conventional banking has a high value compared to Sharia banking. This research is in line with research. In the results of this study it can be seen that ROA in conventional banking has a high value compared to Sharia banking. This research is in line with research by Annastasya Meisa Putri (2018) which shows that the ROA ratio of conventional banking is still better than Sharia banking.

The CAR ratio in conventional banking and Sharia banking also has differences. It can be seen in table 4 that the average CAR value of conventional banking has a higher value compared to Sharia banking. Rositasari & Dailibas, (2022) explained that the higher the CAR value owned by a bank, the better the bank's performance in dealing with risky financing and also bank operational costs. The results of this study indicate that the CAR ratio of conventional banking is different from the CAR ratio in Sharia banking and conventional banking has a better CAR value than Sharia banking. This research is in line with research conducted by Chaerudin, (2020) that capital adequacy in conventional banking is better than Sharia banking.

Panel regression is used to find out more about what factors influence profitability (ROA) on conventional banking and Sharia banking with bank internal factors in the form of LDR and NPL and bank external factors (macroeconomics) in the form of inflation and interest rates using a panel test because the previous test showed the results that the most significant difference was found in ROA. Then, the study use Chow test, Hausman test, and LM test from panel regression to find the best model that can be used in this research. The best model selection in this study was Random Effect Model (REM) for conventional bank and Common Effect Model (CEM) for Sharia banking.

Table 5. Results of Conventional Banking Panel Data

Variables	Exp. Sig	Random Effect	
		Coeff	Prob
Independent			
LDR	-	-0,020029	0,0038
NPL	+	0,082701	0,7308
Inflation	+	0,091835	0,1055
Interest rate	+	0,191863	0,0391
R-squared		0,509299	
Adjusted R-squared		0,465681	
F-statistic		11,67637	
Prob(F-statistic)		0,000001	

The estimated model in conventional banking, it shows that the NPL variable has a significant negative effect and interest rates have a positive effect on ROA, while NPL and inflation have no significant effect. The coefficient value on the LDR is -0.020029, this explains that if there is an increase in LDR by 1%, it will reduce ROA by 0.020029%. The coefficient value for NPL is 0.082701, which means that every 1% increase in NPL will increase ROA by 0.082701%.

The coefficient value for inflation is 0.091835, which means that if inflation increases by 1%, it will increase ROA by 0.091835%. The coefficient value on the interest rate is 0.191863, it means that if the interest rate increases by 1%, it will increase ROA by 0.191863. The coefficient value for inflation is 0.091835, which means that if inflation increases by 1%, it will increase ROA by 0.091835%. The coefficient value on the interest rate is 0.191863, it means that if the interest rate increases by 1%, it will increase ROA by 0.191863.

Next, regarding the regression of Sharia banking that uses the best Common Effect model, it can be seen in table 6 below:

Table 6. Results of Sharia Banking Panel Data

Variables	Exp. Sig	Common Effect	
		Coeff	Prob
Independent			
FDR	-	-0.004490	0.6677
NPF	-	-0.718894	0.0002
Inflation	-	-0.217121	0.1706
Interest rate	+	0.525022	0.0454
R-squared		0.313182	
Adjusted R-squared		0.252131	
F-statistic		5.129884	
Prob(F-statistic)		0.001716	

The estimated model in the Sharia banking table, it shows that the NPF variable has a significant negative effect and interest rates have a significant positive effect on ROA. The coefficient value on the FDR is -0.004490 this explains that if there is an increase in LDR by 1%, it will reduce ROA by 0.004490%. The coefficient value for NPL is -0.718894, which means that every 1% increase in NPL reduces ROA by 0.718894%. The coefficient value for inflation is -0.217121, it means that if inflation increases by 1%, it will reduce ROA by 0.217121%. The coefficient value on the interest rate is 0.525022, it means that if the interest rate increases by 1%, it will increase ROA by 0.525022%.

Banking internal factors represented by the ratio of NPL or NPF and LDR or FDR show different results in conventional banking. The NPL is not significant positive effect on ROA. Non-performing loans as described by NPL do not significantly affect ROA in conventional banking, because non-performing loans can be controlled by conventional banking so that their value can be emphasized and is still far below the NPL limit set by BI. Therefore the average NPL value is relatively small does not interfere with the performance of conventional banking to generate profitability. This is not in line with the research conducted by Wahyudi & Kartikasari (2021) that NPL has a significant effect on the profitability of conventional banking. However, it is in line with research conducted by Rohmiati et al. (2019) which shows that NPL does not affect profitability in conventional banking and it also mentions that conventional banking has a low NPL value so that conventional banks can still cover it using Earning Assets Write-Off.

Meanwhile, in Sharia banking the NPF has a negative and significant effect on ROA. This finding is in line with the research conducted by Ramadhani (2018) who revealed that NPF had a significant negative effect on Sharia banking ROA, in his findings it was stated that a low NPF level can reduce the risk of non-performing financing so that bank profitability will also increase. The higher the non-performing financing in Sharia banking can reduce profitability. The higher the level of non-performing financing that occurs indicates the inefficiency of bank management in managing its financing. The NPF in sharia banking itself is still high compared to conventional banking. In this case it is hoped that sharia banking will be more able to overcome these problematic financing.

The next banking internal factor is LDR has a significant negative effect on conventional banking ROA. This is in line with research Anindiansyah, Gladis Sudiyatno, Bambang Puspitasari, Elen Susilawati (2020) which shows the results that LDR affect ROA, because the higher the LDR ratio, the lower the level of banking liquidity. Thus, if the banking performance decreases, it can also reduce the profits generated therefore it can reduce the profitability of conventional banking. In conventional banking the third hypothesis is accepted, that LDR significantly affects profitability.

In Sharia banking FDR has a non-significant negative effect on profitability. This is not in line with the third hypothesis proposed, but in line with the research conducted by Ramadhani (2018) who conducted research FDR had no significant negative effect on profitability. In Sharia banking, the FDR is the amount of financing that is disbursed after being compared with the amount of deposit funds (savings) so that if the deposit rate is high but is not matched by lending, it can reduce the profitability of the bank.

External banking factors or macroeconomics variable is represented by the ratio of inflation and interest rates. The results show that inflation does not significantly affect the two types of banking, while interest rate has a significant effect on the profitability on both conventional bank and sharia bank. The inflation has no significant positive effect on ROA of conventional banks is in line with the findings Sugiantari & Dana (2019). Inflation has an insignificant positive effect on conventional banking indicating that conventional banking is still able to manage bank performance so that it is not affected by inflation, one of which is by increasing interest rates so that people will be interested in making deposits or deposits which cause banks to gain increased profitability even though it is not significant.

Furthermore, inflation has no significant negative effect on ROA of Sharia banks. It is in line with research Sudaryo & Haera (2018) Aminulloh & Suselo, (2021) argues that high and low levels of inflation do not affect profitability in sharia banks. Both types of banking have findings indicating that inflation does not affect profitability so that both conventional banking and Sharia banking because in this study the inflation rate is still less than 10% where this figure is considered acceptable by the market so that there is no significant effect on ROA.

The next variable uses the interest rate (BI Rate) which has a significant influence on the two banks. The findings in this research are in line with research conducted by Sudarjah et al (2021) which resulted in findings that interest rates have a positive effect on ROA at banks. The purpose of determining interest rates by banks is to see how a bank can manage the Cost of Funds so as to create competitive interest rates for a bank in order to attract debtors and investors thereby increasing banking performance to increase probability. The findings that are not in line with this research, Darmawan et al (2020) which states that the BI rate has no effect on ROA in conventional banking. In his findings, he stated that interest rates in 2014-2018 fluctuated every year and there was a very significant reduction in interest rates in 2016. According to him, low interest rates could attract the public's interest in extending credit to banks.

An important difference from the research results between conventional banks and Islamic banks is the internal factors that influence the level of bank profitability. In conventional banks, the Loan to Deposit ratio (LDR) is a factor that influences profitability because the liquidity ratio has a big impact on the performance of conventional banks. Meanwhile, in sharia banks, the Non Performance Financing (NPF) ratio is a factor that influences the level of profitability of sharia banks because the NPF value of sharia banks tends to be higher when compared to the non-performing loan (NPL) ratio in conventional banks.

CONCLUSION

Sharia banking in Indonesia is far behind because people are more inclined to use conventional banking in their daily transaction activities. Based on the results of the performance research conducted, conventional banking and Sharia banking have differences in their performance. In terms of RGEC (Risk Profile, Good Corporate Governance, Earning, Capital) conventional banks have better performance compared to Sharia banking. Sharia banking in Indonesia is far behind because people are more inclined to use conventional banking in their daily transaction activities. Based on the results of the performance research conducted, conventional banking and Sharia banking have differences in their performance. In terms of RGEC (Risk Profile, Good Corporate Governance, Earning, Capital) conventional banks have better performance than Sharia banking.

The most significant difference is in the Profitability ratio (ROA). In conventional banking profitability is influenced by two things in this study, namely LDR and interest rates. Conventional banking should limit the LDR level because it can have a negative effect on profitability if it is too high. The higher the LDR level, the less liquid the bank will be and the bank's performance will be disrupted. Furthermore, in Sharia banking, the ROA level is influenced by two things, namely NPL and interest rates. To increase ROA in Sharia banking, Sharia banking should evaluate the level of NPL in its banking sector because the higher the level of bad loans will have a negative impact on the profitability of Sharia banks. The level of bad loans in Sharia banking is much higher than in conventional banking. So that in Sharia banking it is necessary to evaluate the level of non-performing loans and select more stringently prospective customers who will be given credit or financing so that the value of non-performing loans can decrease so as not to interfere with profitability.

This study suggests that interest rates can be used by conventional banking and Sharia banking, because the findings show that interest rates have a significant positive effect on both types of banking. Conventional banking can take advantage of higher profits due to rising interest rates to increase profitability, by managing banking performance and cost of funds more efficiently so as to attract debtors and investors. Furthermore, Sharia banking can take advantage of interest rates through the provision of credit or financing. Because credit or financing in Sharia banking does not have an interest system in it, so that if the interest rate set by BI continues to increase, the public will prefer Sharia banks to make loans because there is no interest system so that it is considered cheaper in providing financing. There is a need for the development of sharia banking to overcome the lagging experienced by means such as increasing sharia-based financial literacy to the wider community, adequate distribution of infrastructure so that it is easily accessible, promotional activities, and carrying out product innovations that can attract public interest. The limitation of the research is only conducting research in the 2011-2020 period because in 2021 there has been a merger in Sharia banking so that there is limited data. Therefore, it is hoped that in future studies it will use the latest data and add other variables.

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