

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Banking is one of the most important and influential for Indonesia's economy because bank take big control in development country monetary system with a function as a financial intermediary where it brings together between owners of funds and users of funds. In this era, monetary systems in banking are divided into 2 types, bank with conventional banking system and bank with Sharia banking system. Conventional bank is general bank which carry out banking activities by conventional while Sharia bank is bank which carry out banking activities according to Sharia principle.

Islamic banks operate based on Islamic business law for their basic transactions, and they also follow the financial laws and regulations of the countries in which they operate. Conventional banks likewise operate based on a country's financial laws and regulations, but they don't have contact with any religious body. The basic purpose for establishing an Islamic bank is to promote and encourage Islamic principles. Conventional banks are profit-making organizations that generally aren't based on religious principles. That said, earning money is also a primary function of an Islamic commercial bank. Although the bank has a specific religious purpose, it can't serve that purpose unless it also meets the objective of earning money.

During 1998 national crisis and 2008 global crisis, Sharia's bank has survive and not being washed away by the soaring interest rate of deposit which make the operational expense is lower compare to conventional bank. Different from conventional banks which depend on interest, if interest rate is increasing, the operational expense will increase and the risk of the bank collapse is increase too.

Sharia bank is not only done by pure Sharia-based, but almost all conventional banks open Sharia banking business thus providing many alternatives choice for the community. Both Sharia and Conventional banks offering many products, service facilities and promotion for customer.

Table 1.1 Development of Sharia Banking in Indonesia Year 2012 -2015

INDICATOR	YEAR			
	2012	2013	2014	2015
Sharia Bank	11	11	12	12
Sharia Bank Unit	24	23	22	22
Total Office	2262	2588	2471	2468
Thrid-party Fund	147512	183538	217858	212838

Source: Statistik Bank Syariah 2015

The development of Sharia Bank is now increasing, therefore it need analysis which bank is better, hope that customer can take logical and effective decisions regarding choosing a place to save because every customer have difference in choosing banks.

Since many banks in Indonesia whether government banks or private banks have open new branch in form of Sharia and keep on increasing in every year. Based on the data from State of The Global Islamic Economic Report 2014-2015, consumer expenditure from *Islamic Finance* sector are recorded at \$1.2 trillion at 2013 and has potential to grow up to \$4.2 trillion at 2019, this can be possibilities for Sharia Bank to increase the financial performance (Naldo, 2017).

But, on other hands, until 2015 the shares of Sharia banks is still at 5% and in 2016 target market for Sharia bank can reach 12-13%. The growth of Sharia banks is still constrained by problems capital, human resources, and technology while competition in the banking world is fierce. Sharia bank sometimes still not yet in demand because of several factors, that make Sharia banks still less attractive, one of the factors is the low human resources standard in Sharia bank because some of them taken from conventional banks human resources which make the service is not too good.

In addition, funding sources of Sharia banks are different from conventional bank. Sharia banks funds, approximately 60% are sourced from deposits, and 40% in savings. High deposits rate has an impact on high profit sharing which is impossible for wield below deposit rates while saving which are not too high and still low. Conversely, in conventional banks that adhere to interest rates, 60% of the funding sources come from savings, and 40 % of deposits. Conventional banking gets fund from third parties from current account and saving of 54 % and sources from deposit of 46%. With this fact, conventional bank interest rates relatively affordable because the majority of sources of funds are from savings.

Service product available in Sharia bank is saving product (Al-Wadi'ah and Mudharabah), Profit Sharing (Al-Mudharabah, Al-Musyarakah, Al-Muzara'ah, and Al-Masuqah), buy and sell (Bai' Al-Murabahah, Bai' As-Salam, Bai' Al-Istishna', and Al-Ijarah Al Muntahia Bit-Tamlik), and services (Al-Wakalah, Al-Kafalah, Al-Hawalah, Ar-Rahn, and Al-Qardh). One of the most popular product in Sharia is saving products are one of the products that more interested customer even in the composition of sources are relatively small and the level of fluctuations in small savings funds and unstable funds originating from current accounts. Saving is a type the most important commodity bank product.

The main different between both bank is, Sharia bank do not apply Interest system which is prohibited based on the religion law. Instead, Sharia banking applies profit sharing system (*Nisbah*) which according to Islam is legitimate. Sharia banking calculates profit sharing namely by dividing the net profit from the business or investment that has been carried out. The amount of profit for the bank and the customer has been decided when the contract will be sign. Therefore, there is no confusion and argument between both parties.

Due to this reason, student has interested to analyse and compare whether Sharia bank or Conventional bank is better and is there any

difference between those banks (Bank Mandiri Syariah, Bank Negara Indonesia Syariah, and PT. Bank Rakyat Indonesia Syariah).

The banks use in this research is top three government bank in Indonesia, which shown in the table below:

Table 1.2 Top 5 bank in Indonesia based on asset and capital

NO.	BANK	TOTAL ASSET	TOTAL CAPITAL
1	PT. BANK RAKYAT INDONESIA, TBK	1,216,323,558	183,259,376
2	PT. BANK MANDIRI, TBK	1,035,916,523	176,014,506
3	PT. BANK CENTRAL ASIA, TBK	814,559,087	155,092,468
4	PT. BANK NEGARA INDONESIA, TBK	744,421,643	109,608,722
5	PT. BANK TABUNGAN NEGARA, TBK	301,346,488	40,723,232

Source: Bali Analisa Kinerja Data (2018)

Based on this results, PT Bank Rakyat Indonesia, Tbk, PT Bank Mandiri, Tbk, PT Bank Central Asia is top three in term on asset and capital, but since researcher tool government bank only as a sample, PT Bank Central Asia is not include in the research therefore it replace by PT Bank Negara Indonesia. This study will compare the financial performance of banks which has Sharia branches which is Bank Mandiri, Bank Mandiri Syariah, Bank Negara Indonesia and Bank Negara Indonesia Syariah. In term of Sharia, Bank Mandiri Syariah has been established in Indonesia in 1999 which is the second oldest of Sharia bank in Indonesia, while Bank BRI Syariah has been established in Indonesia in 2008 and Bank BNI Syariah in 2010.

This analysis will compare which bank have better financial performance based on financial statement from 2013-2017. Good financial performance will have distinct advantage for the Banks's image. To maximize profits, one of the ways is by further improving the bank's financial performance.

With good financial performance, it will invite investors swiftly to finance or invest wealth in the bank. Fulfilment of performance standards based on the ratio set by Bank Indonesia as the central bank also becomes

an important thing that must be fulfilled inevitably by bank in order to gain high trust from the customer and can be stated whether the bank is healthy or should liquidated by the Central Bank.

Based on the explanation above, the researcher will analyze financial performance analysis of Sharia bank and conventional bank to find out if there is any difference of financial performance, thus the researcher writes it in this research entitled **“Financial Performance Analysis of Sharia Bank and Conventional Bank (Comparative Study of PT Bank Mandiri Tbk, PT Bank Syariah Mandiri, PT BNI Tbk, PT BNI Syariah, PT BRI Tbk, And PT BRI Syariah)”**.

1.2 PROBLEM LIMITATION

Due to limitation of resources, the problem limitations in this research are:

1. The Banks used for both Sharia and conventional are PT Bank Mandiri Tbk., PT Bank Syariah Mandiri, PT Bank Negara Indonesia Tbk., PT Bank Negara Indonesia Syariah, PT Bank Rakyat Indonesia Tbk., and PT Bank Rakyat Indonesia Syariah.
2. The data used to measure bank performance is based on the Bank's financial publication report for the period 2013-2017 from bank's official websites.
3. Variable uses in this study is based on Liquidity ratio (Quick Ratio, Loan Deposit Ratio, Loan Asset Ratio, and Non-performing Loan), Profitability ratio (Return on Asset, Return on Equity, Net Profit Margin, and Operational Costs Operational Income), and Solvency Ratio (Capital Adequacy Ratio and Debt Equity Ratio).
4. This analysis is to measure the banks performance through financial factors and do not analysis though non-financial factor. Financial ratio uses in this study are only three types due to limitation of student. Management and market risk of the banks will not be analysing due to limitation of the data.

1.3 PROBLEM FORMULATION

Based on background of the study above, the problem of formulation of this topic is as follow:

1. What is the different between Sharia Bank and Conventional Bank according to the financial performance?

1.4 OBJECTIVE OF THE RESEARCH

According to background and the problem formulation that stated above, this research objectives is:

1. To know the difference of financial ratio in Sharia Bank and Conventional bank.

1.5 BENEFIT OF THE RESEARCH

Benefits that can be obtained from this research are:

1.5.1 THEORITICAL BENEFIT

This research is expected to be useful as a source of information and references to enable further research on topics that are related, whether it is continuing or complementary.

1.5.2 PRACTICAL BENEFIT

- a. For the Company

This research is expected to contribute information to the management of the company in determining policies, especially concerning finance and other policies based on financial ratios.

- b. For Investors

This research is expected to be used as contribute information for investors to make decisions in determining investment.

- c. For Researcher

Increase insight and knowledge that has been obtained on this research especially about financial performance.

1.6 SYSTEMS OF WRITING

To simplify the writing of this *Skripsi*, a systems of writing is arranged which consists of five chapters with the following details:

CHAPTER I : INTRODUCTION

This chapter consists of background, problem limitation, problem formulation, objective of the research, benefit of the research, and systems of writing.

CHAPTER II : LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter briefly describes the theoretical background include the discussion of understanding and difference of Sharia banks and Conventional banks, also discuss about theory of bank performance measurement in calculating bank financial ratios. Besides that, this chapter also consists of previous research, hypothesis development, research model and framework of thinking.

CHAPTER III : RESEARCH METHODOLOGY

In this chapter, there are research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

In this chapter, the result of this research are presented in the form of Sharia banks (PT Bank Mandiri Tbk, PT BNI Tbk, PT BRI Tbk) and Conventional banks (PT Bank Syariah Mandiri, PT BNI Syariah, PT BRI Syariah) financial performance.

CHAPTER V : CONCLUSION

This chapter will conclude the problem formulation based on the analysis that have been done, implication, and recommendation.