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# The Impact Of Covid-19 On Islamic Banking In Indonesia During The Pandemic Era

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**Abstract** - The impact of COVID-19 on Islamic banking can be analysed into three possible risks, such as financing risks, impairment of assets, and tightening the profit-sharing system. Compared to conventional banks, Islamic banking is more flexible in meeting the economic crisis caused by the COVID-19 pandemic. Basically, the national banking system had predicted trouble due to the COVID-19 epidemic. On the other hand, Islamic banks are at an advantage with the theory of profit-sharing, thus increasing its effectiveness in dealing with crises. Islamic banks' dominance throughout these challenging times is undoubtedly an excellent opportunity to strengthen their *market share*. Besides, Islamic banks can face risks, such as providing loans, deteriorating asset quality, and tightening profit sharing. Therefore, Islamic banks must understand these risks to ensure their plans during the COVID-19 pandemic. Admittedly, performing restricted expansion into the digital share is a challenging decision that should be practised by Islamic banks. In view of the recent pandemic, this study aimed to analyse the three risks faced by Islamic banking in Indonesia.

**Keywords:** COVID-19; Islamic banking; financing; assets; profit-sharing

## 1. Introduction

The expansion of Islamic banks is a sign of their renewal. In general, almost all sectors label their products as 'Sharia', and banking is no exception. Considering the approved Sharia banking law in 1992, the liveliness of Sharia banking in Indonesia has accelerated unexpectedly with the 2008 global financial crisis. Simultaneously, a new law on Sharia banking was established. The Financial Services Authority (2019) reported 202 Islamic financial institutions consisting of 14 Islamic commercial banks, 168 Islamic Sharia credit banks, and 20 Islamic business units. The progress in Islamic banking has considerably increased in terms of quantity, but there is uncertainty on how it plays a role in Indonesia's economic development.

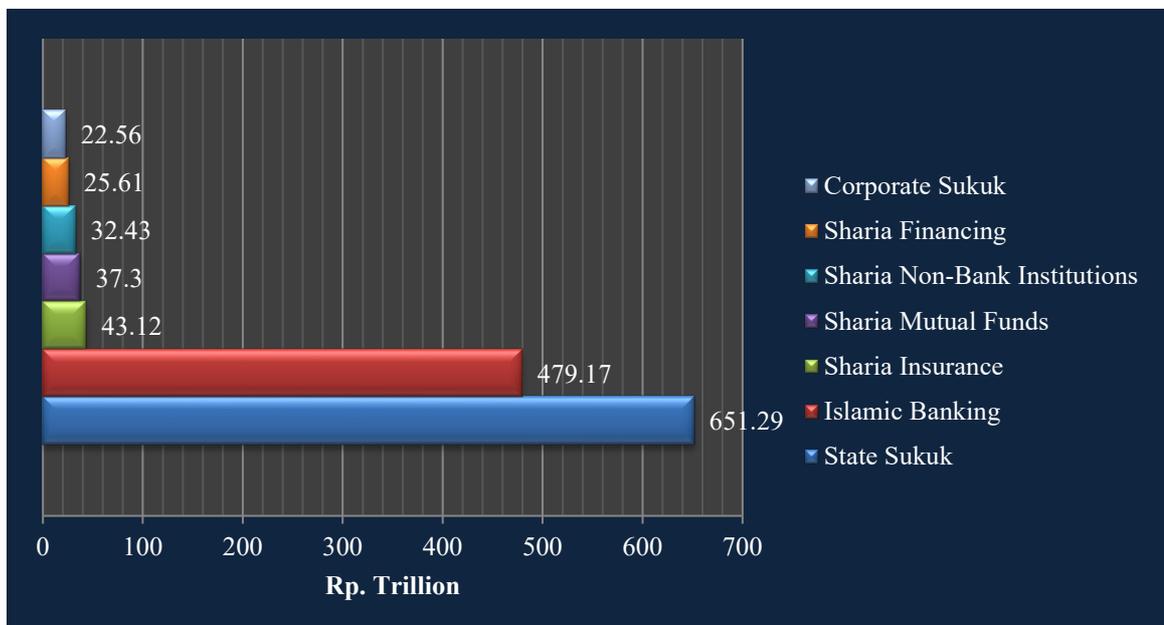
According to the Financial Services Authority (OJK) data (2019), the total recorded profit of Sharia Commercial Banks amounted to 3,442 billion in 2016, 4,032 billion in 2017, and 5,757 billion in 2018. As of September 2019, the profit of Sharia Commercial Banks amounted to 7,833 billion. The data shows that Islamic commercial banks are quite

promising as the benefits increase, but in terms of numbers, do not expect anything at the macro-scale.

Additionally, in terms of profit and loss, the OJK (2019) recorded 952 million in 2016 and 2,962 billion in 2019. As of December 2016, the earning assets were 3.50% and 3.57% in 2017 and 2018. Notably, the data presented fluctuations. OJK (2019) also reported the contribution of Islamic commercial banks in terms of financing (or in conventional banks known as lending), where the total funding in 2016 relinquished 177,482 billion with an NPF level of 7,834. Conversely, in 2017, the total financing was 189,789 billion, with an NPF level of 9,030. Meanwhile, the overall funding in 2018 is 202,298 with an NPF level of 6,597. From the various funding provided, the portion or user of financing is dominated by the MSME sector with total funding of 248 billion in 2016, 286 billion in 2017, 320 billion in 2018, and 344 billion in September 2019. The arrangement of a financing is valid, whereby it expands yearly although the amount is far from the intended amount, the role of Islamic banking slowly contributes to it.

Nevertheless, the Financial Services Authority (FSA) showed the fullness of the national Islamic financial industry until May 2019 of 11.25%, with a 13.98% decrease at the end of 2018. The financial regulator blueprints the value of the Islamic capital market up to the same period, reaching Rp 727.08 trillion, Industri Keuangan Non-Bank (IKNB) of Rp 100.49 trillion, and total banking assets of Rp 484.62 trillion. Currently, the Sharia banking market share reaches 5.85% of the overall banking industry. In order to preserve the fullness of Islamic banking, it is essential to produce a roadmap of Islamic banking to answer strategic issues, such as technology and digitalisation. The effect of technology and HR (Human Resources) competition is discussed in this study within the context of technological opportunities and digitalisation.

Figure 1.0: Sharia Financial Industry Assets as of January 2019



Sources: Financial Services Authority

The Islamic finance industry in Indonesia has improved over the years. According to the OJK, the total assets of the Sharia financial industry relinquished Rp 1,291.48 trillion as of January 2019. The value of these assets has increased by Rp 25.5 trillion compared to in

September 2018, which amounted to Rp 1,265.97 trillion. The Sharia financial industry asset was dominated by the state of Sukuk with the amount of IDR 651.29 trillion (50.4%). In the second place, Islamic banking assets amounted to 479.17 trillion (37.1%). In the third position, Islamic insurance assets reached Rp 43.12 trillion (3.34%). As for the fourth position, Islamic mutual funds were valued at Rp 37.3 trillion (2.89%), followed by Sharia non-bank institutions assets valued at Rp 32.43 trillion (2.5%). Meanwhile, Sharia financing was valued at Rp 25.61 trillion (1.99%), and corporate Sukuk were valued at Rp 22.56 trillion (1.78%). The prudence of the assets of the Islamic financial industry does not involve the market capitalisation of Islamic shares deserving Rp 3,861.7 trillion.

The global performance of Sharia banking was again tested with the COVID-19 pandemic that surged across the world, where all sectors supporting the country's economy experienced a hit, including Indonesia. From March to May of 2020, Islamic banking experienced quite severe problems, such as the termination of financing to customers. Moreover, the impact of Indonesia's gross domestic product (GDP) growth in the first quarter of 2020 fell to 2.97% compared to the first quarter of 2018. These changes in economic behaviour showed an increase in poverty and unemployment, thus requiring more social safety net funds. The expenditure and financing budget for handling the impact of COVID-19 include allocating health funds amounting to Rp75 trillion, the social safety net of Rp110 trillion, tax incentives and stimulus for Small and Medium Enterprises (SMEs) of Rp70.1 trillion, and the economic recovery of 150 trillion.

In the Sharia microfinance sector, the impact could be seen in the deterioration in liquidity and members deposit withdrawals, impeded repayment of financing due to decreased income and blocked production which impeded the distribution of raw materials and products. Therefore, the accepted policy recommendations are relaxation for funding, liquidity bailout, provision of new working capital, companion of the Sharia Microfinance Institution (IKMS), recapitalisation of Sharia cooperatives, tax relief, and social assistance for members of the IKMS.

Notably, eight items were affected in the Islamic banking sector, i.e., financing growth, Financing to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR), liquidity, Net Interest Margin (NIM), asset quality, operations, and customer relationships. Due to this fact, regulators have issued policies, such as the OJK restructuring credit and relaxing the submission of periodic reports, wherein Bank Indonesia gave a 50 basis points (bps) rate reduction to 4.5%. Meanwhile, the Indonesia Deposit Insurance Corporation has reduced the payment of insurance premiums starting from July 2020. Islamic banks are very vulnerable to liquidity shocks due to low care deposits and high cost of funds. The profit-sharing funding-based product, Islamic banks already have natural hedging where the cost of funds adjusts to the income of Islamic banks. On another note, the positive side of COVID-19 towards Sharia economy and finance is it created the opportunity for the emergence of values, positive encouragement, increased religious awareness, promoting the importance of the *halal* and *thoyyib* lifestyle, increased business opportunities (*e-commerce*), positioning and implementation the Islamic banking, and Sharia economic integration models.

In the Sharia non-bank financial services sector, the average loss experienced by the insurance industry globally is 35% of market capitalisation. The challenges faced by this sector include claim operations, pricing/underwriting, customer support operations, loss estimation/actuarial reserving, marketing, and legal-wise. With the aims to overcome the impact of COVID-19 in the Islamic financial industry (especially Sharia non-bank commercial service institutions), a policy was implemented to utilise the OJK

countercyclical policy accurately, servicing premium and reserve calculations (estimated losses), conferring responsibility for limiting premium payments, strengthening internal systems focus on stability, solvability, cashflow, and strengthening the digital methods.

This study investigates the impacts faced by the banking sector, especially Islamic banking and how management in Islamic banking makes policies to maintain bank performance.

## **2. Literature Review**

Due to the novelty of COVID-19, there is still insufficient research on the impact of this pandemic which has affected banks worldwide, including Indonesia. Before COVID-19, there were several viruses such as HIV SARS in the 2000s, the H1N1 Flu 2009, Ebola 2014, and the Zika virus in 2016. At present, COVID-19 has hampered various sectors. Looking at some of the epidemics that occur in the world, the banking sector, including Islamic banking, has forwarded many regulations so that the performance of Islamic banking remains functional during this pandemic.

The crisis in Indonesia that transpired during the Covid-19 pandemic differs from those in 1998 and 2008. In the times before the epidemic occurred, the world economic growth, including Indonesia in early 2020, was admittedly better than last year. Nevertheless, when the COVID-19 outbreak started December 2019 in the city of Wuhan, China, the entire world economy, including the financial markets, collapsed. The first step to solving this crisis is building infrastructure inside the hospital, including personal protective equipment (PPE), doctors, nurses, and health workers. China is a country that contributes to 20% of the global component supply. If China fails to produce, the global production would also be affected, resulting in a problem called supply shock. For example, Indonesia cannot make goods because the components come from China. At the same time, China, as a product centre in Asia, demands raw materials and supporting materials from various Asian countries. China also requires imports of palm oil and coal from Indonesia. If China experiences an outbreak, there is automatically no more demands for the goods from Indonesia. This event declined the prices of the two products due to the inadequacy of exports to China and decreased need.

Presently, the ratio of the value of exports to Indonesia's GDP is only 32%. Hence, the only thing that could stimulate the economy is domestic exports. If local exports are affected, the economy will also be affected. Based on current data, Indonesia's economy only increased by 2.97% in the first quarter, and if the COVID-19 ends in June, economic recovery could be expanded to the state before the pandemic.

Nonetheless, the current global situation is still severe, as various countries must perform social distancing or lockdown to break the COVID-19 chain. The principle of economic exercise is a market that exchanges goods and services transactions, physically and virtually/online. It is assumed that all businesses that demand bringing people together physically will be interested, such as the tourism industry, hospitality, manufacturing, and other businesses that cannot be done virtually/online. Furthermore, people were instructed to stay at home or practise social distancing, which results in the inability to work to meet their daily needs. To meet their needs, people should give social support not because they are vulnerable, but due to their lack of income or inability to work.

In fact, the scale of social safeguard should be more extensive than the well-being of the poor. Management options that should be implemented by the government are to serve the

community in the form of social protection, such as through cash assistance (BLT), cash transfers, conditional cash transfers, and cash for training. Consequently, the government established a Pre-Employment card program to be used by people who were laid off or unemployed from the pandemic. People generally do not favour job training that is carried out online as they deem it as pointless. This fact shows the need for a selection device on who deserves or does not deserve to be used as a benchmark, whether they have the right to be given Direct Cash Assistance funds. Essentially, the government provides relief for companies that cannot pay taxes, payments or credit, and employee payrolls.

The spread of COVID-19 can be seen from two different economic perspectives, namely demand and supply. On the demand view, the state of the COVID-19 pandemic decreases the consumption sector, travel and transportation activities, and increases transportation and trade costs. On the supply view, what ensued was a contraction in worker/labour productivity, decreased investment and funding activities, and splitting of the global supply chain (*global value chain*).

On the consumption view, the pattern of public consumption due to the spread of COVID-19 automatically improved. People will choose not to travel and instead increase the effectiveness of necessities which is crucial in view of the restrictions on human movement. Overall, the rate of consumption will contribute to distorted prices due to the high costs of transportation and logistics of goods.

In the production phases, several major sectors in Indonesia were also affected by the spread of COVID-19, especially the manufacturing industry. Generally, the development in this sector is considered significant to the Indonesian economy (19-20 per cent), wherein the products from the manufacturing industry have contributed significantly to Indonesia's total exports, which is over 70 per cent. The performance of the manufacturing industry in Indonesia is expected to deteriorate, along with the increasing cases of COVID-19. This fact is because the majority of manufacturing industries in Indonesia still depend on imports, one of which comes from China. The production activities in China is also concerning due to COVID-19 cases. It should be noted that the structure of Indonesia's imports is overshadowed by raw/auxiliary materials with figures reaching above 70 per cent. The Simalakama fruit contributes to the structures of these exports and imports, which could significantly impact the performance of the manufacturing industry in Indonesia.

Undoubtedly, the impact of COVID-19 is significant on the Indonesian economy. As mentioned above, the slowdown in the performance of the manufacturing industry, brought by the slowing global economy has an impact on demand decline, automatically decreasing Indonesia's export performance. For the next few quarters, China seems to be experiencing economic contraction where production activities and productivity are likely to reduce by 20-25 per cent. Therefore, the China economy is assumed to only grow in the range of 5 per cent, which will significantly impact Indonesia's trade performance this year. The global supply chain will be disrupted due to China's economic perversion from COVID-19. Hence, Indonesia needs to find sources of raw materials or capital goods from other countries, although it is inaccessible, and the price is higher. China's economic slowdown should also be a drive for Indonesia to optimise its potential in the country. Indonesia is expected to become an alternative production hub that could contribute to the global supply chain.

Regarding the affairs of the Sharia banking industry, the emergence of Sharia banking in Indonesia fascinates Indonesian people who want their financial transactions to follow

Sharia. Although Indonesia is different from neighbouring countries where the government initiated the emergence of their Islamic finance industry, the growth of Islamic banks in Indonesia is not straightforward because the support of the government is still very wanting. In early 2019 after 28 stands, the market share of Islamic banks in Indonesia have only reached 5 per cent. That is inversely comparable to its neighbouring country Malaysia, where the present market share of Islamic banking in Malaysia has reached 35 per cent more. Moreover, the State Bank of Malaysia has set a target by the end of 2020, where the market share of Islamic banking in the twin tower country is at 40 per cent. Likewise, compared with Oman, they have just started their Islamic banking operations in early January 2013 based on the Royal Decree No. 69 in 2012, where their Islamic banking market share had reached 14 per cent in early 2020. On top of that, the Bank Central Oman targets the Islamic banking market share at 10 per cent in 2021.

Islamic banks are unique compared to conventional banks. The main difference between conventional and Islamic banking is the ban of usury (interest) in Islamic banking. As a replacement for the interest mechanism, Islamic banks implement a system of profit-sharing, buying and selling, and leasing. This uniqueness provides Islamic banks with several advantages when compared to conventional banks. In large Islamic banks, the ratio agreed upon at the start of the contract is in the profit-sharing system, which distinguishes it from conventional banks. Interest rates in conventional banks changes according to interest rates in Bank Indonesia (BI). Whereas in Islamic banks, the profit-sharing is applied by the agreement at the beginning of the contract.

The quantity of profit from an Islamic bank depends on the benefit realised from the bank, where the ratio increases along with the improvement in earnings of the Islamic bank. The situation is different from conventional banks, where the interests earned by conventional bank customers increases even though the bank is getting high or low profits. In ingenuous language, if in reasonable economic conditions the Islamic bank arranges a significant profit from the distribution of financing because the business customers are likewise competent, the saver customers will also get a real benefit as it uses a profit-sharing system. Conversely, if the economic conditions are not good, such as the impact of the COVID-19 pandemic, which results in a decrease in income, the bank should provide profit-sharing to depositors, which will be adjusted.

### **3. Methodology of Study**

This study uses a qualitative method to capture value or view representation by experts and practitioners of Islamic banking. Besides, qualitative research is a process or effort to understand scientific problems based on a complex overall picture, through information reported from the informant's viewpoint performed in natural situations (Sugiyono, 2005: 1). Additionally, this method is applied to review the literature from various writings, research documents, and previous studies that follow the theme of this study.

### **4. Result and Discussion**

Notably, there was excellent news for the growth of Indonesian Islamic banking which appeared at the end of October 2019. The banks have shown a 5 per cent growth in the market share since 2014. As of October 2019, the Indonesian Islamic banking market share passed the 6 per cent figure (around IDR 513 trillion) based on data from the Financial

Services Authority (OJK). Most importantly, the common factor of managing this market share is to enhance the growth of Islamic banking assets in the Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) units by 10.15 per cent compared to Rp 499.98 trillion.

In terms of financing growth, Islamic banks could accomplish a double-digit growth of 10.52 per cent compared to Rp 345.28 trillion and an increase in third-party funds (DPK) to Rp 402.36 trillion. Currently, the Sharia banking market share in Indonesia is dominated by 14 BUS (around 65 per cent), 32 per cent of the Sharia banking market share is controlled by 20 UUS, and the base is controlled by 165 Sharia Rural Banks (BPRS).

Figure 2.0: Islamic Bank Assets



Source : Financial Services Authority

The total assets of Islamic banks in November revealed an amount of IDR 400 trillion for the first time. Besides, OJK noted that Islamic banks' assets in November 2017 grew as much as 12.6% to Rp 401.45 trillion from its final position in the previous year.

Although there was considerable growth of Sharia banking over the past five years, Sharia banking experienced a downturn in 2020 due to COVID-19. Certain large cities have imposed Large Scale Social Restrictions (PSBB) to reduce the spread of this virus. As a result, many offices, shops, and factories must perform work from home (WFH) or stop operating temporarily.

Furthermore, the Indonesian government has announced a stimulus package worth Rp 405 trillion to deal with the impact of the expense of this virus. To strengthen the central government, OJK also issued Regulation of Financial Services Authority (POJK) No. 11 / POJK.03 / 2020 to provide relaxation for banking customers, including Sharia banking. This flexibility could be seen in the ease of the restructuring and rescheduling process for customers affected by COVID-19, particularly micro, SMEs, or non-SMEs customers. The next financing, which would be under Rp 10 billion, demands the policies of various Islamic bank. This financing is particularly for customers linked to the tourism, transportation, hospitality, trade, processing and mining sectors.

Before the spread of the coronavirus in Indonesia, Islamic banking was expected to continue to record double-digit growth. Nevertheless, the current situation demands Islamic banks to start developing their growth points due to the impact of COVID-19. Additionally, Islamic

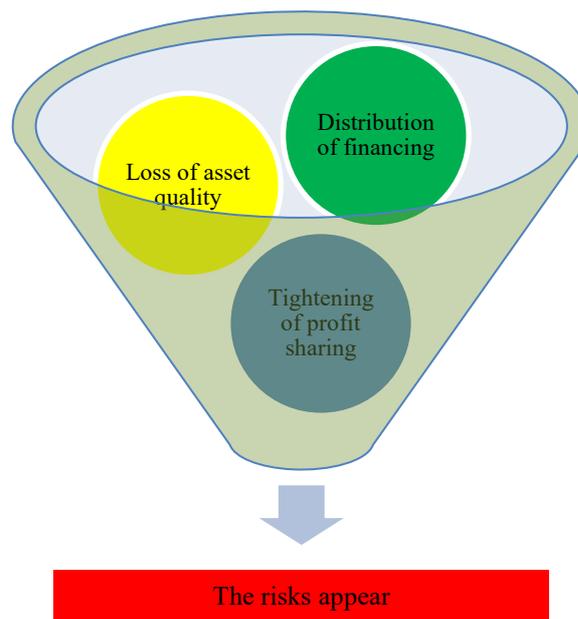
banking requires the best solutions to its customers, such as restructuring, additional financing periods, or providing a grace period of 3-6 months in the future. These solutions enable customers affected by this virus to view Sharia-compliant banks as a solution to economic pressure.

On top of that, Islamic banking should view this pandemic as a platform to transform and improve, especially from the aspect of digital services. Digital payment that could provide transparency for customers to perform all transactions in one application is a must-have for Islamic banking. It could be observed that many Islamic banks have invested billions, even trillions in improving their digital services.

The next challenge is how Islamic banking could turn this crisis into an opportunity for new financing in sectors directly related to medical devices, such as hospital beds, masks, hospital ventilators, test kits, vaccines, hospital equipment, etc. In addition to helping medical staff, these devices could withstand the spread of COVID-19. Therefore, it is time for Islamic banking to start revising their strategies, changing their budgeting, and planning undesirable things in the future if the spread of this virus is prolonged to the end.

Three risks are looming over the banking industry during the COVID-19 pandemic, namely financing, a deterioration in asset quality, and tightening profit-sharing.

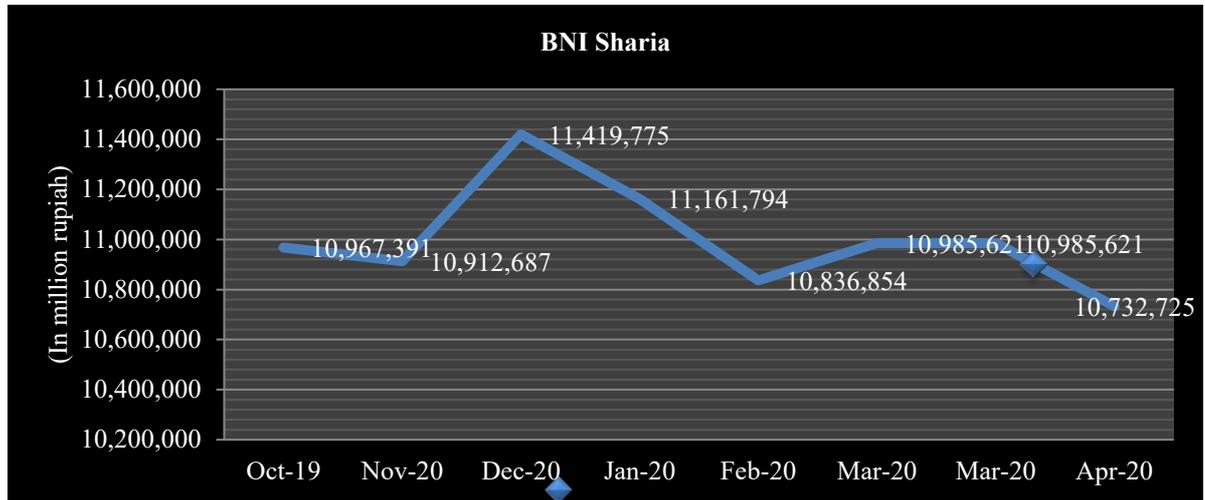
Figure 3.0: The risks appear over during COVID-19



For the first risk, particularly financing, Islamic banks and conventional banks could experience the same contingencies. Islamic banks and conventional banks could encounter a slowdown in credit (funding). As for the other risk, i.e., the decline in asset quality, Islamic banks and conventional banks are helped by the establishment of POJK No.11 / POJK.03 / 2020. The POJK preference supports Islamic banks and conventional banks in preparation to pay for earning assets losses. Islamic banks are predicted to have an advantage over conventional banks in the third risk, namely tightening profit-sharing margins. This advantage is due to Islamic banks' use of a profit-sharing system. In a profit-sharing scheme, the situation of the balance sheet of the Islamic banks throughout the crisis due to the

COVID-19 pandemic is flexible due to the number of posts reserved for the profit-sharing payment, which also decreases with the decrease in income obtained by Islamic banks. This situation differs from conventional banks where when interest credit income declines, a reduction does not follow it in interest costs for depositors, which presents an unreasonable problem of conventional banks.

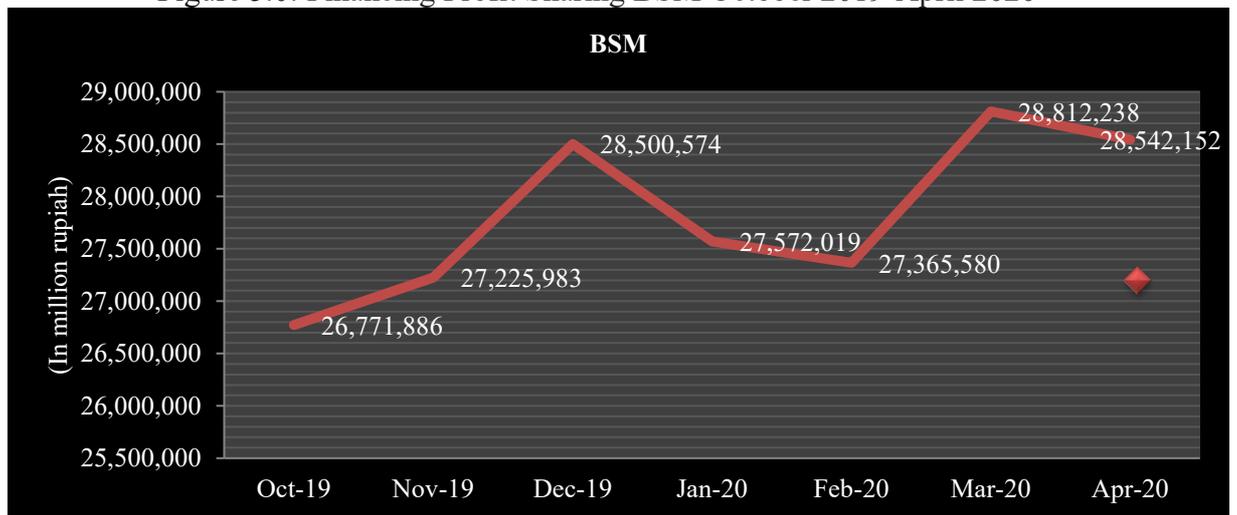
Figure 4.0: Financing Profit-sharing Bank Negara Indonesia (BNI) Sharia October 2019-April 2020



Source : Financial Report BNI Sharia

The graph above shows the BNI Sharia profit-sharing financing before and after the COVID-19 pandemic. December 2019 displayed the highest funding profit-sharing of Rp. 11,419,775 (in millions). After the COVID-19 epidemic in April 2020, there was a decrease of Rp. 10,732,725 (in millions). Therefore, there is an effect of COVID-19 even on the small share of profit-sharing financing.

Figure 5.0: Financing Profit Sharing BSM October 2019-April 2020

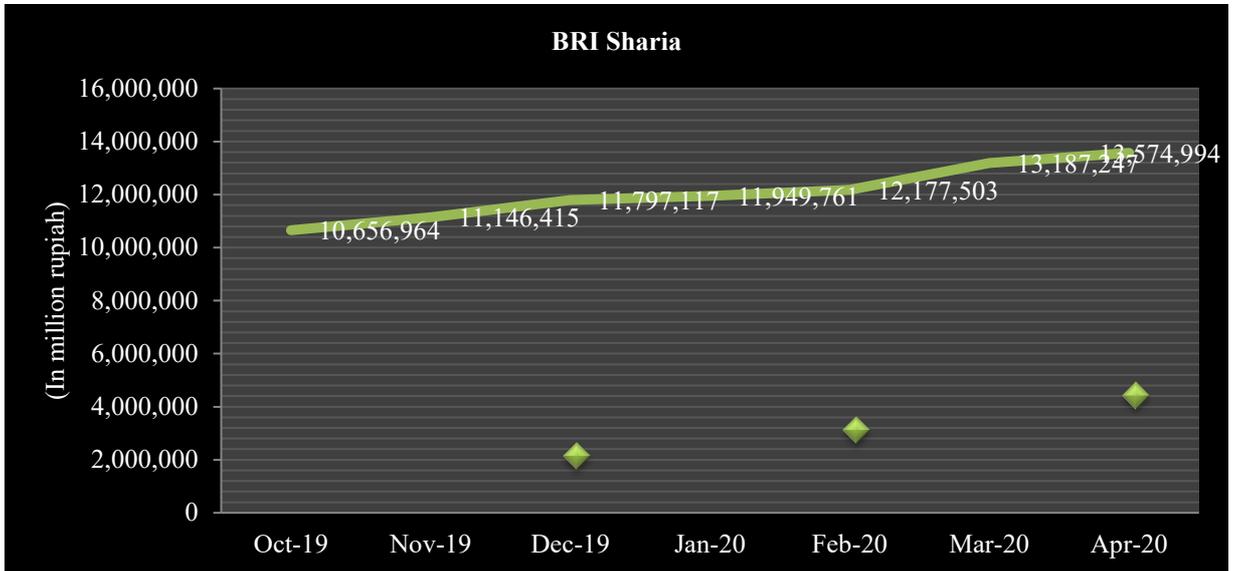


Source : Financial Report BSM

BSM is an Islamic bank in Indonesia that has good performance compared to other Islamic banks. Moreover, it can be seen that BSM profit-sharing financing has reached 25 million rupiahs (in millions), indicating that financing in BSM is good and can compete with the conventional banking system. In addition, March 2020 recorded the highest profit-sharing financing compared to the previous month, wherein the COVID-19 pandemic in March 2020

in Indonesia was still impactful and effective. The graph above also shows that BSM has quite a good performance and can adapt to the current COVID-19 pandemic, even though April 2020 showed a drop of Rp. 270,086 (in millions).

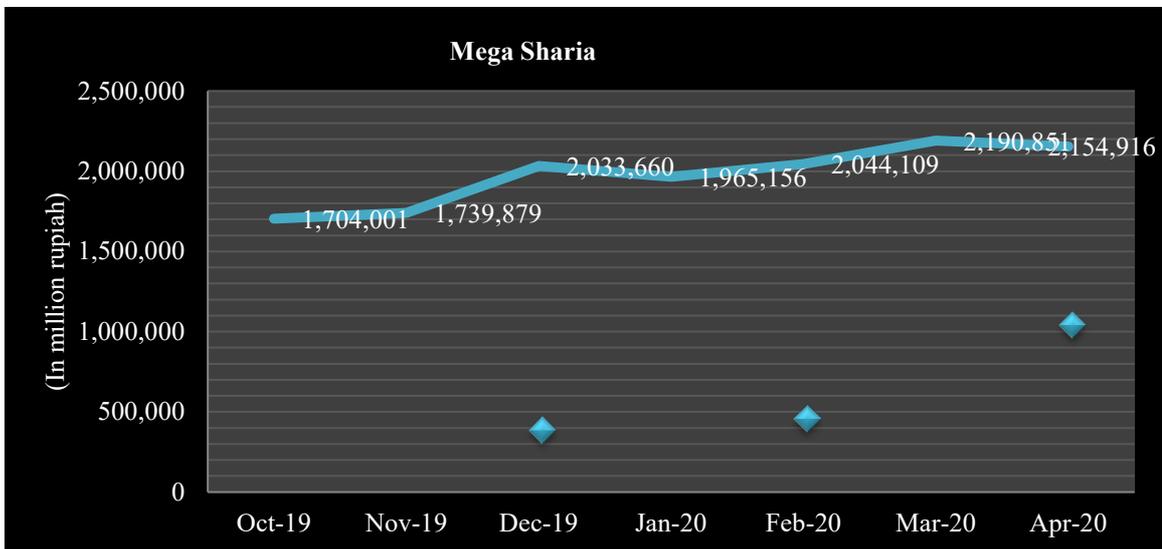
Figure 6.0: Financing Profit Sharing BRI Sharia October 2019-April 2020



Source : Finacial Report BRI Sharia

The graph above illustrates that BRI Sharia's profit-sharing financing performance is stable from October 2019 to April 2020, there has always been an increase, although just slightly. Notably, there was still a monthly increase before and after the COVID-19 pandemic.

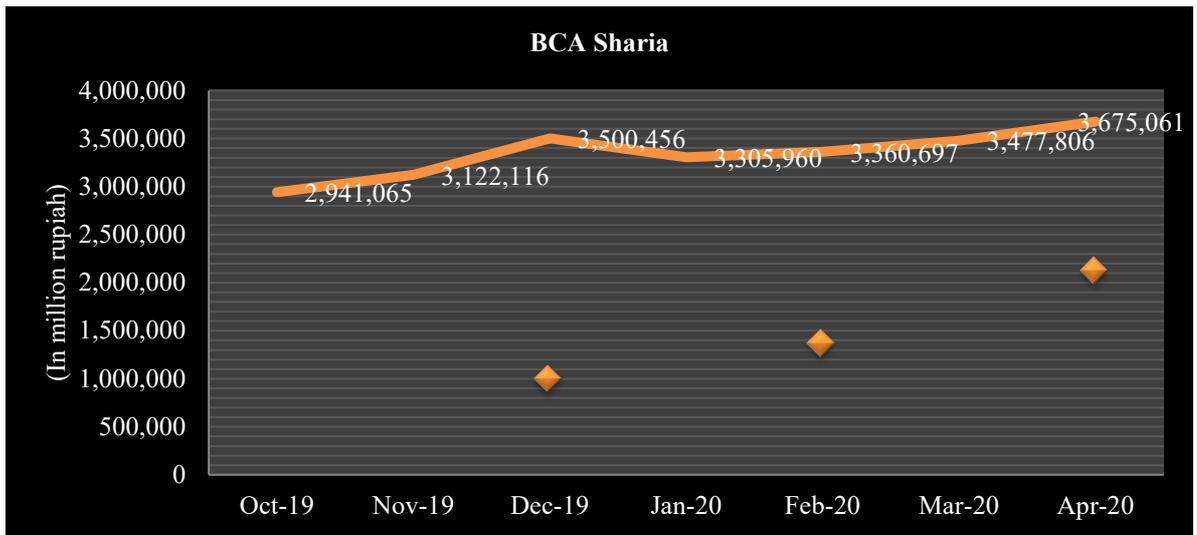
Figure 7.0: Financing Profit Sharing Mega Sharia October 2019-April 2020



Source : Finacial Report Mega Sharia

From the graph above, there is a fluctuation in Bank Mega Sharia's profit-sharing financing between October 2019 to April 2020. Nevertheless, the company's performance remains outstanding. In March 2020, the financing sharing for Bank Mega Sharia was valued at Rp. 2,190,851 (in millions), meaning that the performance of Bank Mega Sharia was still well maintained during the COVID-19 pandemic.

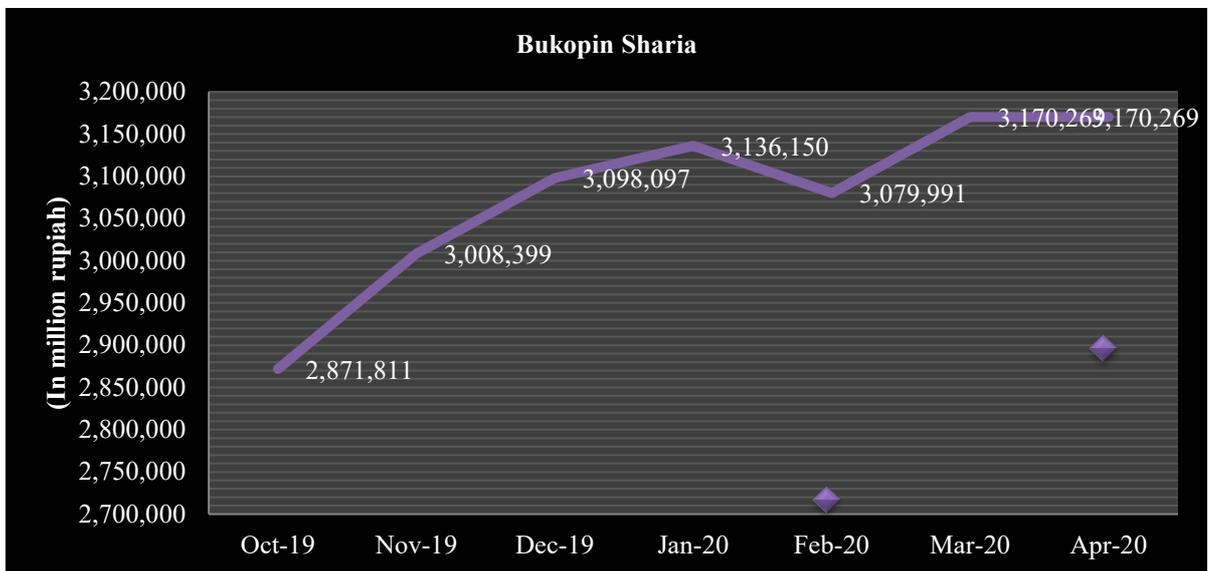
Figure 8.0: Financing Profit Sharing BCA Sharia October 2019-April 2020



Source : Finacial Report BCA Sharia

BCA Sharia is still in a position of maintained performance throughout 2020. Nevertheless, there are still many cases of COVID-19 in Indonesia, even some provinces are implementing PSBB to decrease the spread of this virus. Hence, BCA Sharia has made several attempts and policies to survive in the world of Islamic banking, and it has maintained a positive trend during 2020, given its profit-sharing financing.

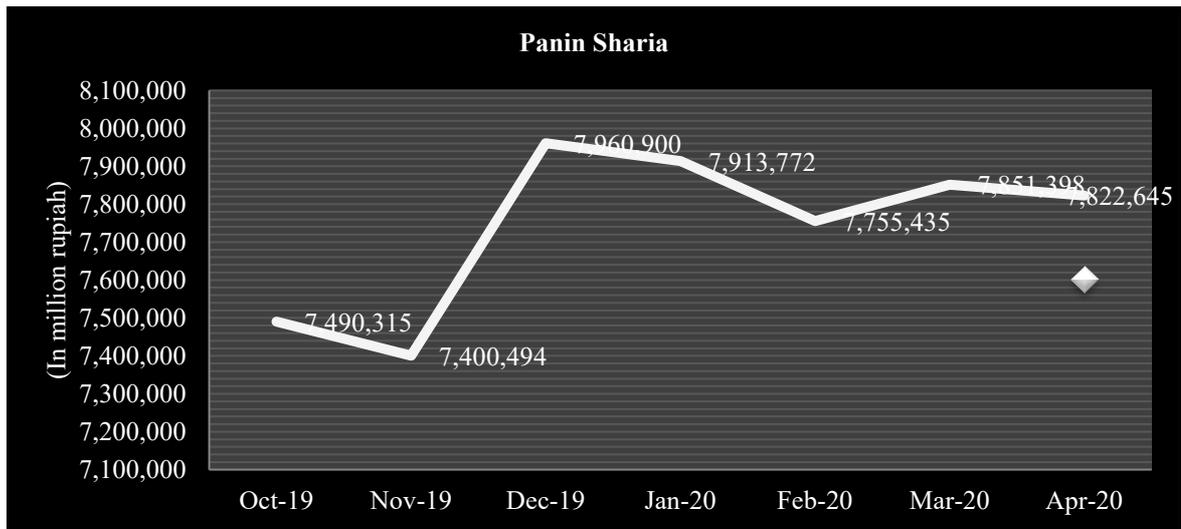
Figure 9.0: Financing Profit Sharing Bukopin Sharia October 2019-April 2020



Source : Finacial Report Bukopin Sharia

Bukopin Sharia is similarly interesting because the trend of increased financing for the results is good from October 2019 to January 2020. There was also a decline in February 2020 which rose again in the subsequent month during the COVID-19 pandemic.

Figure 10: Financing Profit Sharing Bank Panin Sharia October 2019-April 2020



Source : Financial Report Panin Sharia

Additionally, Bank Panin Sharia extends to manage the performance of Islamic banking even though there was a decline in November 2019, which increased dramatically in December 2019. Despite that, it still retained the performance of its profit-sharing financing in 2020.

From the explanations above and based on several Islamic banks in Indonesia, it can be explained that the performance of profit-sharing financing in Islamic banking continues consistently despite the COVID-19 pandemic during 2020. The PSBB implemented in practically every region of Indonesia does not mean Islamic banks has failed its customers as the management had focused on the current economy. Based on observations, the OJK has established Islamic banking policies in Indonesia and published several strategies to survive the outbreak of COVID-19. Thus, the OJK has afforded a stimulus for the national economy as a countercyclical policy on the impact of the spread of COVID-19. In addition to conventional banks, Islamic banks also set a rule to provide a unique approach to financing customers affected by COVID-19.

Besides, BNI Sharia banks afford relief (restructuring) in the form of late payments to customers affected by COVID-19. The structure of the restructuring support depends on the conditions and type of business of the customers. The restructuring could also facilitate customers in paying their obligations. This financing restructuring policy is established due to the spread of the COVID-19 pandemic, impacting customer performance and capacity to increase financing risk. This situation has the potential to disorder banking performance and financial system resistance. On top of that, this restructuring welfare policy applies to all customers in the consumer, productive, micro or BNI iB Hasanah Card segment. Customers eligible to receive proper handling for restructuring are those who are directly or indirectly affected by the spread of COVID-19, following specific guidelines.

In the COVID-19 pandemic, several potential risks are faced by the banking sector, including credit risk, market risk, operational risk. Credit risk is the risk due to failure of customers or other parties to meet the obligations of banks via agreements. In conventional banks, it is called credit, whereas, in Islamic banks, it is better known as financing. During the pandemic, many bank customers experienced job losses due to social distancing and the implementation

of WFH in their companies. As a result of this phenomenon, they do not have the income to pay for credit/financing. Naturally, this situation impacts the strike in credit/financing applications that transpire in Islamic banks and conventional banks.

The other risk is market risk, which is the risk where the balance sheet position changes in market prices created by exchange rates or interest rates. In this case, it concerns the tightening of net interest margins. In this type of risk, Islamic banks are more preferred because Islamic banks do not use the interest policy but instead use the profit-sharing arrangement. Therefore, seeing the current situation of the COVID-19 pandemic, the balance sheet of the Islamic bank will be flexible following changes in revenue sharing because income also changes. In contrast to conventional banks that utilise the interest system, if there is a decrease in interest income, credit is not followed by a reduction in interest costs for customers. This fact creates a critical problem for conventional banks.

Thirdly, operational risk is the risk experienced by Islamic banks and conventional banks in the form of an operational slowdown. The slowing of operations includes front office restrictions, restrictions on customers coming to banks, cuts in operating hours, and even branch closures by several Islamic banks.

Based on the risks that arise during the COVID-19 pandemic, the Islamic bank substrate is very good at dealing with this problem. They have grabbed opportunities to survive these threats to increase the market share of Islamic banking. One of them is by increasing digital marketing. The internet has become an essential tool that enables them to keep communicating and performing educational, business and social activities.

## **5. Conclusion**

From the above explanations, it can be concluded that COVID-19 in Indonesia has provided different impacts that could prosecute the national economic system. Meanwhile, Islamic banking also gets affected by the spread of COVID-19. Almost every Islamic banking has made various policies aside from stimulus assistance from the government. OJK has issued a National Economic Stimulus Policy as Countercyclical Policy due to the impact of the spread of COVID-19. The banking sector is one sector that was highly affected. Unusually with the policy compared to the postponement of instalment payments for customers, which is an effort by the government to guarantee people's livelihood during the pandemic.

Also, there was the issue of the banking industry experiencing a liquidity crunch that could cause a crisis in the banking sector. Liquidity crunch is when the supply of cash coming into banks decreases dramatically; simultaneously, the demand becomes even higher. This kind of situation is caused by customers unable to pay their debts or obligations to the bank. This situation is a result of the weakening of the people's economy due to the people's income being reduced. Accordingly, the supply of cash available in banks declines. In the meantime, banks still have to pay off operational costs and pay the profit-sharing ratio to the owner of third-party funds (DPK).

### **Disclosure Statement**

No potential conflict of interest was reported by the authors.

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