



The Influence of Capital, Sensitivity, Diversification, Competition and Pandemic on Stability of Islamic Banking

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ARTICLE INFO

Article history:

Received 2 Januari 2024
Revised 15 Februari 2024
Accepted 30 Maret 2024
Available online
<http://journal.uaindonesia.ac.id/index.php/JSE>

Keywords:

Stability, Capital, Sensitivity, Diversification, Pandemic

Turabian style in citing this article: [citation Heading]

Niken Septiani; Fuad Hasyim; Rais Sani Muharrami" The Influence of Capital, Sensitivity, Diversification, Competition and Pandemic on Stability of Islamic Banking " *Journal of Sharia Economics* 6, No. 1 June: 60-76. 2024.

ABSTRACT

Banking stability is an essential factor to measure the level of bank health. This study aims to determine the factors that influence the level of stability of Islamic Banking during the COVID-19 pandemic. ZScore provides bank stability measurement. This study uses the panel data regression analysis method with the OLS approach. Data are taken from the financial statement release of Islamic commercial banks from the first quarter of 2018 to the fourth quarter of 2022, using a purposive sampling technique and processed with E-Views 10 statistical application. The number of sampled banks was 10 banks from 13 populations. The panel data regression processing result concluded that the capital variable significantly positively affects bank stability. The sensitivity, diversification, competition, and pandemic variables do not significantly affect bank stability.

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INTRODUCTION

Banking is a financial intermediary because its economic activities involve collecting and providing funds to various parties (Miswanto et al., 2022). In the intermediary stage, banks act as financial intermediaries or often play an essential role in society's financial circulation to support economic activity growth. In addition, one of the banking system's essential values is the community's trust. The complexity is seen in the completeness of the bank's business activities (Putri et al., 2022). So, in carrying out their operational activities, Islamic banks must follow the principles of Sharia. It includes the principles of justice and balance, utility, and

universalism so that in the performance of contractual transactions, it is prohibited to carry out gharar, maysir, and usury in Islamic banks (Ajizah & Widarjono, 2023). According to Anjom & Faruq (2023), Islamic banks aim to increase profits through risk-sharing, profit-and-loss sharing, and fair participation financing.

It is essential to explore the banking sector of the economy due to its prominent and substantial role at the country level, especially in Indonesia, because it has a close relationship between economic growth and the financial health of banks and its essential role in the country's economic development. As one of the most important economic institutions, bank regulators must constantly monitor the performance of the financial system. Banks must consider numerous factors, such as capital adequacy, asset quality, profitability, market competition, and other relevant conditions, to ensure their ongoing financial stability. This shows that the stability of Islamic banking is an efficient financial system. According to Aulia & Rani (2021), efficiency can be a banking performance measurement tool that measures the allocation level, technical and overall efficiency. In order to find out whether the financial performance of the bank is healthy or not, it is necessary to measure the financial performance. The health of the bank's financial performance can be checked from the bank's financial statements (Miswanto et al., 2022)

In March 2020, the outbreak of the Covid-19 pandemic led to a decline in profitability. The pandemic disrupted operational risk due to the government's "social distancing" policy, encouraging everyone to stay home (Ichsan et al., 2021). Consequently, it had a detrimental effect on several industries, including banking, resulting in slowed financing growth and an increased risk of bad debt as numerous individuals lost their jobs. The Covid-19 pandemic has negatively affected the national economy (Suretno, 2020). Nevertheless, Kumparan.com reported that Islamic banks in Indonesia remained stable during the pandemic, citing Khoirunnisa (2020).

This situation is also supported by the research of Nugroho et al. (2021), who found that the COVID-19 pandemic did not significantly reduce the ratio in the financial statements but did not increase it in terms of financial performance. The average CAR ratio in 2020 was 20.62%, which shows that the capital aspect is in good condition and exceeds the minimum standard. The minimum standard set by the BIS (Bank for International Settlements) is 8% (Almunawwaroh & Marlina, 2018). The excellent capital adequacy of the banks makes it possible to deal with the risks of losses that will occur. Islamic banks will create new strategies and appropriate risk mitigation and be more careful in their operational activities to survive during the pandemic (Ajizah & Widarjono, 2023).

In addition, it is also possible to see the evolution of the return on assets of Islamic commercial banks from 2018 to 2022. The highest percentage occurred in

February 2021 at 2.15%, and the lowest in January 2018 at 0.42%. The profitability of banks can be projected through the ROA ratio. The ROA ratio can be used to measure banks' health to generate profit (profit) by utilizing their assets (Almunawwaroh & Marlina, 2018). The higher the ROA ratio, the more influential the bank utilizes its capital to generate profit. According to (Shahriar et al., 2023), an increase in bank profitability will promote banking stability so that the level of financial stability of banks will be maintained.

Research on bank stability has been conducted in diverse countries with varying stability determinants. Sari & Sudarmawan (2023) study investigated the use of institutional quality factors to uphold the stability of Islamic banking in Southeast Asia. Similarly, Kamran et al. (2019) researched bank stability using risk, capital, and audit quality factors in a sample of all commercial banks in Pakistan. Putri et al. (2022) utilized competition and profitability factors alongside four control variables to analyze a sample of commercial banks listed on the Indonesia Stock Exchange. Kasri & Azzahra (2020) assessed the effect of exchange rate factors, financial inclusion, asset returns, and financing growth on bank performance. Kim et al. (2020) investigated the impact of diversification on bank stability in OECD countries. Researchers Anjom & Faruq (2023) utilized bank-specific, bank industry-specific, and macroeconomic factors of Islamic banks in Bangladesh.

LITERATURE REVIEW

Stability

The stability of banks is essential to policymakers in both the developed and the developing world. Policymakers and regulators are developing new strategies to improve bank stability in a crisis (Kasri & Azzahra, 2020). Banks with good institutional quality lead to optimal performance and thus impact profitability, encouraging bank stability. In the theory described by Bikker & Bos (2008) about profitability. In his book "Bank Performance: A Theoretical and Empirical Framework for the Analysis of Profitability, Competition, and Efficiency,". The book explains how banks maximize profits and shows several models that can be used to calculate them. According to Shahriar et al. (2023), Ganefi et al. (2021), dan Sari & Sudarmawan (2023), bank stability can be predicted by the Z-score value. The Z-score is calculated by adding the return on assets and the capital adequacy ratio during a specific time frame and comparing it to the standard deviation of the return on assets during that period.

$$Z - Score_{i,t} = \frac{ROA_{i,t} + CAR_{i,t}}{\sigma ROA_{i,t}}$$

Capital

Measuring the Capital Adequacy Ratio (CAR) is crucial in managing a bank. The pandemic impacts the CAR ratio, which is considered vulnerable because there are problems with credit risk, which is expected to continue swaying. However, according to Javid & Alalawi (2018), CAR indicates the ability of banks to withstand shocks ranging from loss problems to solvency. Based on the theory described by Bikker & Bos (2008), internal variables affect bank stability.

Based on the Bank for International Settlements (BIS) provisions, banks must provide at least 8% minimum capital, which is used as a more effective banking supervision tool (Almunawwaroh & Marlina, 2018) so that it can absorb the losses that occur in the bank. Many banks choose a capital level higher than the minimum regulation to maintain the bank's health and get a higher rating, which guarantees the bank's stability. According to the research conducted by Ajizah & Widarjono (2023), Ketaren & Haryanto (2020), and Ganefi et al. (2021) show that the CAR variable has a significant positive effect on stability. Based on a book by Muhammad (2017), it is determined that CAR is the ratio between capital and risk assets. Thus, the formula is obtained:

$$CAR_{i,t} = \frac{Equity_{i,t}}{ATMR_{i,t}} \times 100$$

H1: Capital (CAR) has a positive effect on the stability of Islamic Commercial Banks.

Sensitivity

Sensitivity refers to the response of interest rates to changes in a bank's assets and liabilities. Yunianti & Nurdin (2019) define the gap as the difference between Rate-Sensitive Assets (RSA) and Rate-Sensitive Liabilities (RSL) when interest rates change. This gap may have a positive impact on profit increase. According to Bikker & Bos (2008) theory, the relationship between sensitivity (GAP) and stability is essential. If the gap increases, RSA increases significantly more than RSL. Rising interest rates lead to more substantial income than costs, increasing profits. The GAP Ratio can be employed to project asset and liability management activities. According to Mulyani (2020) and Yunianti & Nurdin (2019) research, the GAP ratio significantly impacts profitability. As Darwis (2019) outlines in their book, the formulation of GAP is as follows:

$$GAP_{i,t} = \frac{RSA_{i,t} - RSL_{i,t}}{Total Asset_{i,t}} \times 100$$

H2: Sensitivity (GAP) has a positive effect on the Stability of Islamic Commercial Banks.

Diversification

The approach aimed at increasing profits involves diversification. One of the ways to achieve this is by expanding the business network and opening new business lines within the parent company's line of business and its subsidiaries (Anggraeni & Saputri, 2020). Research by Kim et al. (2020) indicates that moderate diversification levels increase banking stability, whereas excessive diversification can lead to losses. Asset diversification relates to the range of financial services that banks offer. Asset diversification in banking institutions can generate long-term value. Fadli (2019) contends that diversification positively impacts banking by enhancing performance and mitigating bank risk.

According to Bikker & Bos (2008), asset diversification is closely linked to bank stability since the banking industry, like other industries, constantly competes to enhance firm value. Asset diversification is a vital strategy widely used to obtain peace. The diversity of financial services can improve the bank's competitiveness, eventually creating corporate value and fostering long-term customer relationships. Expanding financial products is an effective strategy for gaining a competitive advantage and enhancing profitability (Aryani & Bestari, 2021). Ganefi et al. (2021) state that diversification can positively affect bank stability, particularly for banks with significant market power. Thus, diversification is crucial in boosting profits and ensuring bank stability. Furthermore, Fang et al. (2019) suggest that various asset diversification factors can impact bank profitability. Asset diversification is quantified using the modified Herfindahl Hirschman Index (HHI) identified by Nguyen (2018).

$$ADIV_{i,t} = 1 - \left(\left(\frac{CLOAN_{i,t}}{EA_{i,t}} \right)^2 + \left(\frac{IBLOAN_{i,t}}{EA_{i,t}} \right)^2 + \left(\frac{SEC_{i,t}}{EA_{i,t}} \right)^2 + \left(\frac{OTHEREA_{i,t}}{EA_{i,t}} \right)^2 \right)$$

H3: Diversification (ADIV) has a positive effect on the Stability of Islamic Commercial Banks.

Competition

Competition in one industry entails competing for the same objective to attain market superiority. There are two types of market competition: perfect and imperfect. A sector comprising numerous industries is classified as a perfectly competitive market and vice versa (Rakhmat & Panuluh, 2021). In the banking industry, competition strives to attract as many customers as possible by offering attractive

rates of return for fund collection and distribution. The pandemic has prompted banks to increase profitability by enhancing performance and existing systems. Competing in the banking industry, as with any other sector, means bolstering efficiency, fostering innovation, and creating diverse products.

According to the theory outlined by Bikker & Bos (2008), competition and stability are closely linked in the banking industry. Diversification of banks creates competition for profits, which can negatively impact stability. As Azmi et al. (2019) pointed out, competition and diversification substitute for stability. Moreover, Goetz (2018) argues that increased competition positively impacts banks' risk reduction after mergers and acquisitions. In perfect competition, banks strive to maximize profits by minimizing costs. However, in imperfect competition, banks aim to maximize profits while incurring costs that are not minimized (Rakhmat & Panuluh, 2021). The level of competition can be determined using the Lerner Index (Sarpong-Kumankoma et al., 2018).

$$\text{Index Lerner}_{i,t} = \frac{TR_{i,t} - TC_{i,t}}{TR_{i,t}}$$

H4: Competition (Lerner Index) has a positive effect on the Stability of Islamic Commercial Banks.

Pandemic

The global economy has been significantly impacted by the COVID-19 pandemic, leading to economic inhibiting factors affecting people's livelihoods. It is essential to understand these effects in order to develop effective strategies to mitigate their impact. The COVID-19 pandemic has significantly affected the banking industry, particularly Islamic commercial banks in Indonesia. Based on the theory described by Bikker & Bos (2008), the COVID-19 pandemic impacts bank income, particularly in Islamic banks that rely on financing and funding activities. Due to the pandemic, these essential activities are disrupted, and many people are laid off and unable to repay their debts, which leads to bad credit risks. This dire situation significantly affects the bank's profitability and can lead to instability. The COVID-19 pandemic is a projection marked as a Dummy variable. Where "0" proxies are before the pandemic and "1" proxies are after the pandemic. (Ekananda, 2015).

Before Pandemic = 0

After Pandemic = 1

H5: The Pandemic (Dummy) has a negative effect on the Stability of Islamic Commercial Banks.

This research is essential because the Islamic banking system in Indonesia is quite attractive with its different characteristics as a learning material. The COVID-19 pandemic caused a wave of economic crises, resulting in the stability of Islamic banks. Therefore, knowing the sustainability of system resilience in Islamic banking is interesting. This research assesses the influence of capital, sensitivity, diversification, competition, and pandemic, including the COVID-19 pandemic as a dummy variable, on the stability of Islamic commercial banks.

METHOD

This type of research is secondary data using financial statement data from the first quarter of 2018 to the fourth quarter of 2022. Data was obtained from the official website of OJK (Otoritas Jasa Keuangan). It used the E-Views 10 data processing application statistical method. Sampling is done using a purposive sampling technique. Sampling criteria: (a) banks including Islamic commercial banks, (b) available quarterly financial reports from 2018-2022, (c) banks offering at least two types of financing. The study's population consisted of all 13 Islamic commercial banks. The samples that met the criteria were 10 banks. The panel data regression method was utilized for data analysis, combining two times data sets, specifically time series and cross-section. The selection of panel data regression model is tested, including Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the appropriate regression model between the Fixed Effect Model (FEM), Random Effect Model (REM), and Common Effect Model (CEM), then also the Classical Assumption Test, R-Squared Determinant Test, F-Test and t-Test.

The formulation of the Panel Data Regression model is as follows:

$$ZScore_{i,t} = \alpha + \beta_1 CAR_{i,t} + \beta_2 GAP_{i,t} + \beta_3 ADIV_{i,t} + \beta_4 IL_{i,t} + \beta_5 DUMMY PANDEMIC_{i,t} + e$$

Description:

$ZScore_{i,t}$: Stability

α : Constant Number

β : Variable Coefficient

$CAR_{i,t}$: Capital Adequacy Ratio

$GAP_{i,t}$: Sensitivity

$ADIV_{i,t}$: Diversification

$IL_{i,t}$: Competition

$DUMMY\ PANDEMIC_{i,t}$: Pandemic

e: Confounding Error

RESULTS AND DISCUSSION

Selection of Panel Data Regression Model

The aim of selecting a panel data regression model is to determine the optimal model standard and identify the factors that impact Stability (ZScore) in panel data regression analysis. Three regression models are available, namely Fixed Effect Model (FEM), Random Effect Model (REM), and Common Effect Model (CEM) (Ghozali & Ratmono, 2020).

Chow Test

The selection between the Common Effect Model (CEM) or the Fixed Effect Model (FEM) requires performing the Chow Test. Choosing the CEM model is more appropriate if the significance value exceeds 0.05. Conversely, if the significance value is below 0.05, the FEM model should be chosen (Hasyim, 2021).

Table. 1 Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	20.353893	(9,185)	0.0000
Cross-section Chi-square	137.645959	9	0.0000

Source: Author's data, processed (2023)

Based on the results table of the Chow Test, it is apparent that the probability value (Prob.) is 0.0000, which is lower than the significance level of 0.05. Therefore, we can conclude that the Fixed Effect Model (FEM) was chosen for this test.

Hausman Test

The Hausman Test is utilized to choose between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The REM model is preferred if the significance value is higher than 0.05. If the significance value is lower than 0.05, the FEM model is preferred (Hasyim, 2021).

Table. 2 Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.
 Source: Author's data, processed (2023)

According to the Hausman Test table, the probability value (Prob.) is 1.0000, indicating that it is larger than the significance level of 0.05. Consequently, the Random Effect Model (REM) model was used in this test. However, an invalid cross-section variance test in the Hausman Test results caused the Hausman Test statistics to become zero and were therefore disregarded. This statement suggests that non-random variables and the lack of evidence indicating random effects on variables make conducting the Lagrange Multiplier Test unnecessary.

The Chow Test and Hausman Test results showed that the Fixed Effect Model (FEM) is the optimal panel data regression model. The FEM model can be re-estimated utilizing the Ordinary Least Squares (OLS) method.

Classical Assumption Test

Based on Basuki & Yuliadi (2014) theory, the Ordinary Least Squared (OLS) approach for panel data regression requires only the multicollinearity and heteroscedasticity tests and not all classical assumption tests.

Multicollinearity Test

Tabel. 3 Multicollinearity Test Result

	CAR	GAP	ADIV	IL	DUMMY_PANDEMIC
CAR	1.000000	0.032392	0.042555	-0.078481	0.118990
GAP	0.032392	1.000000	0.038953	0.002050	-0.119165
ADIV	0.042555	0.038953	1.000000	0.002704	0.105364
IL	-0.078481	0.002050	0.002704	1.000000	-0.060580
DUMMY_PAND					
EMIC	0.118990	-0.119165	0.105364	-0.060580	1.000000

Source: Author's data, processed (2023)

The multicollinearity test assesses linear relationships between independent variables in a regression model. There must be no multicollinearity present in the regression model. Table 3 displays the correlation matrix between the regressor variables. Following Ekananda (2015), a correlation value above 0.90 suggests high

multicollinearity.

The results of the multicollinearity test in Table 3 indicate that the correlation among the independent variables in the model does not exceed the 0.90 threshold. Therefore, there is no linear relationship among the independent variables in the panel data regression model, as shown by the multicollinearity test conducted in this study.

Heteroskedasticity Test

Tabel. 4 Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.257776	0.142565	1.808124	0.0722
CAR	-0.055501	0.336926	-0.164728	0.8693
GAP	-0.268148	0.313606	-0.855047	0.3936
ADIV	0.110027	0.214962	0.511844	0.6094
IL	-0.057399	0.038578	-1.487872	0.1385
DUMMY_PANDEMIC	0.142897	0.079617	1.794805	0.0743

Source: Author's data, processed (2023)

Heteroskedasticity is the presence of residual inequality in all regression models. This study utilizes the Glejser test to measure the existence of heteroskedasticity in the regression model (Basuki & Yuliadi, 2014). The dependent variable in the Glejser method is the absolute residual variable (RESABS) (Hasyim, 2021). The variable's p-value must exceed the alpha level of 0.05 to pass this test. The research findings indicate that the p-values of the variables in the regression model are above the 0.05 alpha level. Therefore, the research data is not affected by heteroscedasticity.

The Panel Data Regression Model

Tabel 5. The Panel Data Regression Model

Dependent Variable: Z_SCORE
Method: Panel Least Squares
Date: 09/27/23 Time: 14:40
Sample: 2018Q1 2022Q4
Periods included: 20
Cross-sections included: 10
Total panel (balanced) observations: 200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.705803	0.184214	3.831432	0.0002
CAR	85.27054	0.435355	195.8645	0.0000
GAP	0.179296	0.405222	0.442464	0.6587
ADIV	-0.013359	0.277760	-0.048097	0.9617
IL	0.059012	0.049848	1.183835	0.2380
DUMMY_PANDEMIC	0.038903	0.102877	0.378152	0.7058

Effects Specification

Source: Author's data, processed (2023)

The equation for the panel data regression model was obtained from the research results:

$$\mathbf{Z_SCORE = 0.705803478585 + 85.270537743 *CAR + 0.179296426998 *GAP - 0.013359405701 *ADIV + 0.0590115339932 *IL + 0.0389029096705 *DUMMY_PANDEMIC + [CX=F].}$$

R-Squared Determinant Test

The R-Squared Determinant Test is necessary to determine how much the combined ability of independent variables affects the dependent variable. The data analysis produced an R-Squared value of 0.996677 or 99.6%, indicating that Capital, Sensitivity, Diversification, Competition, and Pandemic variables collectively influence the stability of Islamic commercial banks by 99.6%. Only 0.4% can be attributed to other factors not included in the regression model.

F-Test

The F-test is used to quantify the influence of the independent variables on the dependent variable. Processing the data yielded an F-statistic of 3963.070, with a probability level below 0.05 ($0.000000 < 0.05$). As a result, it can be concluded that H_0 is rejected and H_a is accepted. Capital, sensitivity, diversification, competition, and pandemic variables jointly impact the stability of Islamic commercial banks.

t-Test

The t-Test measures the impact of each independent variable on the dependent variable. Basuki & Yuliadi (2014) provide parameters for the partial test. If the sig value > 0.05 , then H_0 is accepted, and H_a is rejected; if the sig value < 0.05 , then H_0 is rejected, and H_a is accepted.

The t-Test results of each independent variable on the dependent variable are presented as follows:

The Influence of Capital on the Stability of Islamic Commercial Banks

The partial test results on the capital variable yielded a probability value of $0.0000 < 0.05$. Concerning the test parameters, H_0 is rejected, while H_a is accepted. Consequently, the study suggests that a bank's capital adequacy ratio substantially impacts Islamic commercial banks' stability.

The maintenance of bank health is thought to be heavily impacted by the level of capital adequacy. Good management of capital can also enhance bank efficiency. Optimizing the amount of capital can mitigate all potential risks leading to losses. Losses resulting from the financial crisis during the Covid-19 pandemic can be overcome. This study aligns with Ketaren & Haryanto (2020) findings, indicating that the Capital Asset Ratio (CAR) has a significant, positive impact on the stability of banks that go public and list on the IDX.

The Influence of Sensitivity on the Stability of Islamic Commercial Banks

The results of the sensitivity variable partial test indicate a probability value of $0.6587 > 0.05$, leading to the acceptance of H_0 and rejection of H_a , demonstrating that interest rate changes in bank assets and liabilities have no impact on the stability of Islamic commercial banks.

The difference between assets and liabilities regarding interest rates does not compromise the stability of Islamic banks. According to the calculated data, the management gap is zero. The zero gap position happens when the ratio of Rate Sensitive Assets (RSA) to Rate Sensitive Liabilities (RSL) is at 1 (Darwis, 2019). This implies that this condition does not increase interest rates, which could lead to decreased bank profits. According to Ryu et al. (2020), the sensitivity response in banking is contingent upon the capital structure. If the provided capital is maximized and surpasses the Bank for International Settlements (BIS) standards, then sensitivity does not impact bank stability.

The Influence of Diversification on the Stability of Islamic Commercial Banks

The analysis conducted on the diversification variable yielded a probability value of $0.9617 > 0.05$. As a result, H_0 is accepted, while H_a is rejected. Therefore, it can be deduced that the diversity factor of the bank's asset portfolio does not significantly impact the overall stability of Islamic commercial banks.

The low asset values of Islamic banks and lack of competition with conventional

banks before their establishment are why diversification does not affect Islamic bank stability. Hence, it has no impact on acquiring Islamic bank profits. However, diversification activities resulting in low yields can be detrimental to the performance of banks already losing money (Al-kayed & Aliani, 2020). According to Kim et al. (2020), a moderate level of diversification can enhance bank stability. However, excessive or inadequate levels of diversification may harm bank stability.

The Influence of Competition on the Stability of Islamic Commercial Banks

Based on the test parameters, the partial results for the competition variable indicate a probability value of $0.2380 > 0.05$. Therefore, H_0 is accepted, and H_a is rejected, concluding that the competition factor does not significantly impact the stability of Islamic commercial banks within the banking sector.

Based on the calculated data, the Lerner Index is 0, indicating that the bank operates in a perfectly competitive market and does not possess any market power. Market power is generally considered a measure of bank performance efficiency. Albaity et al. (2019) increased competition within the banking sector pressures financial institutions to operate efficiently. Less efficient banks may be ousted by competitors with better efficiency. Less efficient banks may be ousted by competitors with better efficiency. Less efficient banks may be ousted by competitors with better efficiency. Competing banks can have a systemic impact, leading to a collapse that spreads to other banks. According to Fang et al. (2019), companies collude for profits when low competition levels affect banking profitability.

The Influence of the Pandemic on the Stability of Islamic Commercial Banks

The test results for the pandemic variable revealed a probability value of $0.7058 > 0.05$, prompting the acceptance of H_0 and rejection of H_a based on the test parameters. Consequently, it can be concluded that the state factor does not significantly impact the stability of Islamic commercial banks during the pandemic.

The pandemic has had no impact on the profits and stability of banks. The policies and strategies implemented by regulators have successfully preserved banking stability. Capital management to mitigate risks arising from the pandemic can be tackled. As per Nugroho et al. (2021) research, there was no discernible reduction in banking performance before and during the pandemic. Research by Elnahass et al. (2021) indicates that the typical bank's performance can uphold bank stability to mitigate risk during the Covid-19 pandemic.

CONCLUSION

Based on the research findings, it is concluded that variable capital (CAR) has a significant positive impact on the stability of Islamic commercial banks. However, the variables of sensitivity (GAP), diversification (ADIV), competition (IL), and pandemic (DUMMY PANDEMIC) have no significant impact on the stability of Islamic commercial banks. Following the Bikker & Bos (2008) theory, it has been demonstrated that the capital adequacy factor may optimize profits for Islamic banks. The more bank capital utilized, the greater the potential for maximum profits, which promotes banking stability.

The research has limitations as only a few variables, such as capital, sensitivity, diversification, competition, and pandemic variables, are used. Many other bank performance indicators like BOPO, NIM, NPF, audit quality, and various macroeconomic indicators, including GDP growth, exchange rates, interest rates, and inflation, are yet to be included. Future studies should aim to broaden the scope by incorporating additional variables and research samples to assess the level of stability.

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