**COMPARISON OF THE PERFORMANCE OF SHARIA BANKS AND CONVENTIONAL BANKS**

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**Abstract**

This study aims to find out and analyze the significant differences between the performance of conventional banks and Islamic banks and to find out and analyze which banking performance is better between Islamic and conventional banking. This study uses a qualitative descriptive method using secondary data. From the results of the study there is a significant difference between conventional banking and Islamic banking such as the absence of interest in Islamic banking considering that interest is forbidden in Islamic law as usury. Furthermore, in terms of risk in conventional credit, the customer still has to pay the full loan and interest as previously agreed. Both when the business makes a profit or loss while sharia credit if the contract used is capital sharing,

Keywords: ***Islamic Bank, Conventional Bank***

**1. INTRODUCTION**

The banking industry in Indonesia has a very important role in the economy. Bank is one of the financial institutions that have an important role in the economy of a country as a financial intermediary institution. This is because banking is one of the financial systems that functions as a Financial Intermediary, namely an institution that has a role to bring together owners and users of funds as well as institutions that function to facilitate payment traffic (Indonesian Association of Accountants 2002: 31.1). Banks must operate efficiently on a macro and micro scale. As a financial institution, banks need to maintain their performance in order to operate optimally. Bank performance (financial condition) is one of the factors that must be considered by banks in order to continue to survive. The bank's financial performance is part of the bank's overall performance. The bank's overall performance is an illustration of the achievements of the bank in its operations, both in terms of finance, marketing, fundraising and distribution, technology, and human resources. Currently there are two types of banks based on operational activities, namely conventional banks and Islamic banks. Therefore this study aims to find out and analyze the significant differences between the performance of conventional banks and Islamic banks and to find out and analyze which banking performance is better between Islamic and conventional banking. both regarding the aspects of finance, marketing, collection and distribution of funds, technology, and human resources. Currently there are two types of banks based on operational activities, namely conventional banks and Islamic banks. Therefore this study aims to find out and analyze the significant differences between the performance of conventional banks and Islamic banks and to find out and analyze which banking performance is better between Islamic and conventional banking. both regarding the aspects of finance, marketing, collection and distribution of funds, technology, and human resources. Currently there are two types of banks based on operational activities, namely conventional banks and Islamic banks. Therefore this study aims to find out and analyze the significant differences between the performance of conventional banks and Islamic banks and to find out and analyze which banking performance is better between Islamic and conventional banking.

**2. LITERATURE REVIEW**

# 2.1. Indonesian Banking

Bank Indonesia (BI) is the idea of ​​forming a circulation bank for the Dutch East Indies which was sparked before the departure of the Commissioner General of the Dutch East Indies Mr. CT Elout to the Dutch East Indies. The financial conditions in the Dutch East Indies were considered to have required order and regulation of the payment system in the form of a bank institution. At the same time, the business community in Batavia, Dutch East Indies, had urged the establishment of a banking institution to fulfill their business interests. However, this idea only started to materialize when King Willem I issued a Power of Attorney to the Commissioner General of the Dutch East Indies on December 9, 1826. The letter authorized the Dutch East Indies Government to establish a bank based on a timed special authority, or commonly called Oktroi.

# 2.2.Conventional Banks

The definition of a bank according to Law no. 10 of 1999 concerning amendments to Law no. 7 of 1992 concerning banking is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms in order to improve the standard of living of the people at large. In Indonesia, by type, banks consist of Commercial Banks and Rural Banks. In Article 1 paragraph 3 of Law No. 10 of 1998 it states that commercial banks are banks that carry out business activities conventionally or based on sharia principles which in their activities provide services in payment traffic. Conventional banks can be defined as in the sense of commercial banks in article 1 paragraph 3 of Law no. 10 of 1998 by eliminating the phrase "and or based on sharia principles", namely banks that carry out conventional business activities which in their activities provide services in payment traffic. Commercial (conventional) banks are the most circulating banks in Indonesia. Commercial banks have the most complete service delivery activities and can operate throughout Indonesia (Kasmir, 2004).

# 2.3.Sharia Bank

Islamic bank is a type of banking which is everything related to Islamic banks and Islamic business units, including institutions, business activities, as well as methods and processes in carrying out their business activities. With regard to Islamic banks, there are two concepts in Islamic religious law, namely: the prohibition of using the interest system, because interest (usury) is unlawful. As a substitute for interest, a profit-sharing system is used. The principles that apply to Islamic Banks:

1. Financing based on the principle of profit sharing (mudharabah).
2. Financing based on the principle of equity participation (musharakah).
3. The principle of buying and selling goods by obtaining profit (murabahah).
4. Capital goods financing based on pure lease without choice (ijara).
5. The option of transferring ownership of goods leased from the bank by another party (ijarah wa iqtina).

**3. RESEARCH METHODS**

The method used in this study is a qualitative descriptive method which aims to reveal facts about the comparison of the performance of Islamic banking with conventional banking. The data source used is secondary data, namely data from books, banking and other literature.

**4. RESULTS AND DISCUSSION**

**4.1.Differences in Performance of Islamic Banks and Conventional Banks**

# Viewed from the financial statements

1. Starting with the accounting equation for Islamic banks, namely assets = liabilities + unrestricted investment + equity, while in conventional banks, namely assets = debt + capital, here it can be seen that there is an additional unrestricted investment in the form of unrestricted investment funds (mudharabah muthiaqah) consisting of mudharobah savings and mudharobah deposits.
2. Accounts for sale and purchase accounts receivable at Islamic banks consist of murabahah receivables, salam receivables, isthisna receivables, qardh receivables, while for conventional banks the account names are trade receivables.
3. There are differences in the standard concept of Islamic bank balance sheets:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Asset side** |  | **Passive side** |
| 1.  2. | Receivables from sale and purchase of mudharabah greetings. other isthisna  Financing  Mudharabah  Musyarakah | 1.  2.  3. | Third-party funds  giro wadiah  Wadiah savings  Wadiah deposits  Unrestricted investment  Mudharabah savings  Muarabah deposits  equity |

1. In addition to the financial statements, the reports are the same (balance sheet, profit and loss statement, reports on changes in equity and cash flow as conventional banks, but for Islamic banks, there are several additional financial reports for Islamic banks, such as reports on sources and uses of ZIS funds as zakat infaq sadaqah which will be channeled through qard while not at conventional banks, reports on the source and use of qardh funds here are Islamic banks as carriers of social functions there are also reports on changes in investment funds that are not bound here banks as sharia agents

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1. In conventional banks there are no qard loans, namely giving assets to other people that can be billed or asked for back, lending without expecting anything in return and not a commercial transaction.
2. There is a distribution of profit sharing because the goals of Islamic banks are based on profit sharing, buying and selling and leasing.
3. In the income statement of Islamic vs conventional banks, there are differences, namely

|  |  |
| --- | --- |
| **Islamic Bank** | **Conventional Banks** |
| 1. Net interest income 2. Operating expense 3. operating profit | 1. Operating income for sharia activities a. income from distribution of funds b. operational income |
| 1. Non-operating income 2. Non operating expense 3. Profit after tax 4. income tax 5. Net profit | other   1. Profit sharing for unrestricted fund investors 2. Operating income after profit sharing distribution for   unrestricted fund investors   1. Provision for asset losses 2. burden estimate loss Andcontingencies 3. other operating expenses 4. Operational profit(loss). 5. Non-operating income 6. Non operating expense 7. Net profit |

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**4.2.Viewed from the Credit System**

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| --- | --- |
| **Agreement** | In terms of the agreement or contract system, the conventional credit agreement is a loan. So the borrower must return the loan and also pay the loan interest that has been set by the bank before.  Whereas Islamic credit interest in this case is usury, so Islamic system banks do not apply it. Islamic banks adhere to the main principle of no usury  Therefore sharia credit uses one of the following contracts:  1. Purchase and sale contract (murabahah) |
|  | 1. Leasing contract (ijarah wa iqtina) 2. Capital sharing contract (Mutantaqishah deliberation) |
| **Halal**  **Nope** | In conventional banks, there is an interest system, which of course is forbidden in Islamic sharia and in lending, you are not asked about the use of money, even though money can be used for negative things and contrary to religious values. Whereas in Islamic credit the principle is without usury. And when borrowing money, the purpose of using the money must be explained in detail  277 |
| **Risk** | In conventional credit, the customer still has to pay the full loan and interest as previously agreed. Both when the business is profitable or at a loss  Meanwhile, sharia credit if the contract used is capital sharing, then when the customer experiences a loss in his business, the bank will share in the loss according to the amount of initial capital that has been agreed upon. |
| **Product** | One that is the difference is the issue of loans or  loans related to religious activities such as Hajj and Umrah. Islamic banks have their own special products |

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# In terms of savings

|  |  |
| --- | --- |
| **conventional** | **Sharia** |
| * Using the principles of banking economics * Providing interest benefits as a benefit for funds deposited by customers. * The amount of interest has also been determined from the start, so that customers can find out the amount of interest benefits that will be obtained. * The interest earned is not affected by the economic situation faced by the bank providing the savings. | Using the syariah principle as the basis for carrying out banking activities, in this case savings.  There is no interest, because according to Islamic law, interest is said to be usury, which is unlawful.  Using profit-sharing benefits in exchange for interest, so that in practice it does not violate Islamic sharia norms.  The provision of benefits from profit sharing itself depends on and is adjusted to the policies of the administering bank. However, the amount can fluctuate because it is influenced by bank conditions.  Therefore the benefits obtained by customers are uncertain, if the administering bank is in good and productive condition then the results obtained are also proportional to the benefits received obtained by the bank. |

**5. CONCLUSIONS AND SUGGESTIONS**

**5.1. CONCLUSION**

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From the results of the study it can be concluded that:

1. From a profit standpoint, conventional banks are better off with a fixed interest systemthe economic situation faced by the bank providing the savings does not affect the customer's savings.

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1. Viewed from the side of Islamic law, of course Islamic banks have the advantage of a profit-sharing system and the absence of interest as a matter of usurywhich is unlawful.
2. In terms of risk dIn conventional credit, the customer still has to pay the full loan and interest as previously agreed. Both when the business is profitable or at a loss, while sharia credit, if the contract used is capital sharing, then when the customer experiences a loss in his business, the bank will share in the loss according to the amount of initial capital that has been agreed upon.

# 5.2. SUGGESTIONS

1. For people who want to invest their wealth according to Islamic law, of course Islamic banks are the best choice in investing their wealth, but for people who prioritize profits and reduce risk, conventional banks are of course the first choice.
2. For banking business actors, it is hoped that they will continue to socialize the products they produce, especially Islamic banking, which are still largely unknown to the Indonesian public in particular.

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