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Banking Stock Performance in the Conventional Banking Industry: An Examination Before and During Covid-19 Pandemic

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ABSTRACT

The Covid-19 pandemic significantly impacted various economic sectors, including the banking industry, as a vital component of financial markets. Stock performance reflects a company's financial health and market perception, measured through stock returns. However, the extent to which the pandemic affected the stock performance of conventional banking companies in Indonesia remains underexplored, creating a critical research gap. This study aims to analyze and compare the stock performance of conventional banking companies listed on the Indonesia Stock Exchange (IDX) before and during the Covid-19 pandemic. Secondary data were collected from the stock returns of banking companies, covering the pre-pandemic period (2017–2019) and the pandemic period (2020–2022). Using purposive sampling, 39 companies were selected from a population of 44. The Wilcoxon Signed Rank Test was applied to test the hypothesis using SPSS 26 software. The findings reveal no statistically significant differences in stock performance between the pre-pandemic and pandemic periods ($Z = -1.234$, $p = 0.217$). These results highlight the resilience of Indonesia's conventional banking industry amidst the Covid-19 crisis.

ARTICLE INFO

Keywords:
Stock Performance, Banking, Stock Returns

Introduction

The COVID-19 pandemic has become one of the most challenging phases for various countries with high positive case numbers, including Indonesia. Its impacts are felt not only in the health sector but also significantly affect the economic and social sectors. Social restriction policies and regional quarantines have limited economic activities, disrupting the circulation of goods and services. This situation has persisted for a considerable time, leading to a decline in economic growth in regions with positive COVID-19 cases (Chaplyuk et al., 2021). Indonesia implemented the Community Activity Restrictions Enforcement (PPKM) policy at various levels across the country. In 2020, Indonesia experienced an economic recession with recorded growth of minus 2.07%, marking its second recession after the crisis in 1998 (Badan Pusat Statistik, 2022). This recession undoubtedly impacted performance across various sectors.

Many sectors were affected by policies that closed access to prevent the spread of COVID-19. One of the sectors that felt the impact is the banking industry (Pratomo & Ramdani, 2021; Salmita, 2024). According Otoritas Jasa Keuangan (2020), the performance of conventional banking in Indonesia was significantly impacted by the COVID-19 pandemic. The function of channeling funds to the public declined alongside the drop in credit demand due to sluggish economic activities throughout 2020. According to Rachman & Khomsiyah, (2022), there are three potential risks faced by the banking sector during the COVID-19 pandemic. First, small and medium-sized enterprises (SMEs) struggled to repay their loans. Second, the risk of non-performing loans (NPLs) increased if borrowers could not meet their payment obligations. Third, liquidity risk could affect the banking cash flow if debtors failed to fulfill their obligations.

In addition to the operational activities of the banking industry, stock trading in the financial sector also faced significant challenges. As one of the economic drivers, Indonesia's capital market experienced a sharp decline during the pandemic (Asbaniar & Setiawan, 2021). Investor concerns about stock price movements increased, especially because stock trading carries high risks and returns. The elasticity of stock prices is heavily influenced by market sentiment as well as domestic and global economic conditions, which during the pandemic exhibited high volatility. At the Indonesia Stock Exchange (IDX), the Composite Stock Price Index (IHSG) recorded a 22% decline since the beginning of 2020. This decline in IHSG also affected large-cap stocks in the LQ45 index, where all stocks experienced a downturn. This reflects the pandemic's impact on investor sentiment. The largest decline in stock prices occurred in PT Waskita Karya (WSKT), which fell by up to 59.6% since the beginning of the year, while PT Bank Central Asia (BBCA) experienced the smallest decline of 16.83% (Jayani DH, 2020).

Stock performance is a dominant factor influencing an individual's investment decisions. Stock performance is part of the assessment of a company's performance using the market value of its outstanding shares. A company's performance can be assessed by the return on its stocks over a specific period (Permana et al., 2022). The performance of banking stocks is a primary concern, given that these stocks are a vital component of the Composite Stock Price Index (IHSG) at the Indonesia Stock Exchange (IDX). This stock performance not only reflects the bank's financial condition but also market confidence in the bank's ability to manage risks arising from economic uncertainties.

Research conducted by (Fajar, 2020) indicated that sharia stocks measured by return methods had a lower average than conventional stocks. However, Mann-Whitney U-Test results showed no significant difference between the two in the manufacturing sector of the IDX. Research by Nurmasari (2020) revealed a significant difference in stock prices before and after the announcement of the first COVID-19 case in Indonesia, where stock prices declined compared to before the COVID-19 cases emerged. Meanwhile, the volume of stock transactions also showed significant differences. The transaction volume after the announcement showed an increasing value, and research byHutauruk (2021) indicated differences in the situation before and after the COVID-19 pandemic regarding the volatility of LQ45 stock prices at the Indonesia Stock Exchange. Overall, there has been a decline in LQ45 stock prices at the Indonesia Stock Exchange, reaching -6.11% after the pandemic occurred in 2020 compared to the situation before the COVID-19 pandemic in 2019. However, most previous studies have focused on the manufacturing sector or stock indices in general, thus paying less attention to the banking sector, particularly in the context of stock performance during the pandemic.

This study addresses this research gap by focusing on the stock performance of conventional banking in Indonesia before and during the Covid-19 pandemic. It offers a novel contribution by analyzing significant differences in stock performance during these periods, utilizing stock return data from banking companies listed on the Indonesia Stock Exchange (IDX). The objective of this study is to examine whether the Covid-19 pandemic significantly impacted the stock performance of the banking sector while providing insights into the sector's resilience in facing economic uncertainties. The hypothesis tested is that there are significant differences in the stock performance of conventional banking between the pre-pandemic and pandemic periods.

Literatures Review

Portfolio Concept

The concept of a portfolio emerges when an individual or investor allocates funds to more than one type of investment instrument. A portfolio is not limited to two distinct types of investments but may also involve deposits or two different stocks (Hutauruk, 2021). Portfolio theory is an approach to constructing and managing an investment portfolio by considering the relationship among various assets. This theory was developed by Harry Markowitz in 1952 and is explained in his book, *Portfolio Selection: Efficient Diversification of Investments*. Modern portfolio theory focuses on two main factors: the expected return and risk. In this theory, investors are considered rational and are assumed to select portfolios that offer maximum returns with minimal risk (Riska & Sosrowidigdo, 2024).

Stocks

Stocks are among the most popular capital market instruments for investors due to their potential to provide attractive returns. Stocks are represented in certificates that state the nominal value, company name, and the rights and obligations assigned to each holder (Fahmi, 2020). According to Raharjo (2006), stocks are securities that serve as proof of ownership or participation of an individual or institution in a company. In general terms, stocks represent proof of equity participation in a company's ownership. Wijaya & Amelia (2017) define stocks as paper certificates that declare the owner's stake in the issuing company. Stocks are divided into two types:

1. **Common Stock**: This type of stock represents ownership claims over a company's earnings and assets. Common stockholders have limited liability, meaning that in the event of bankruptcy, the maximum loss they bear is the amount of their investment.
2. **Preferred Stock**: This type combines characteristics of both bonds and common stock. Preferred stock can provide fixed income (similar to bond interest) but, under certain conditions, may not yield the desired returns. Preferred stock shares characteristics with bonds in terms of priority claims on earnings and assets, fixed dividends, callable rights, and the possibility of conversion to common stock.

Stock Price

Stock price refers to the closing price of a stock on the exchange at the end of each trading day (Medan, 2014). According to Jogiyanto (2010), stock prices are classified into three types:

1. **Nominal Price**: This is the value listed on the stock certificate and determined by the issuer to assess the value of each issued share. The nominal price is significant as it often serves as the basis for minimum dividends.
2. **Initial Price**: This is the stock price when first listed on the stock exchange. Typically, the initial price is set by the underwriter and the issuer, determining the price at which the issuer's stock will be offered to the public.
3. **Market Price**: This is the trading price between investors in the secondary market, after the stock has been listed. The market price reflects the issuing company's value as transactions in the secondary market rarely involve price negotiations between the investor and the issuing company. The prices reported daily in newspapers or other media are the market prices.

Stock Performance

Stock performance is a measure of investment returns achieved through the management of a company's stock, reflecting the company's financial health. Assessing stock performance is crucial to understanding how well the stock has developed (Permana et al., 2022). Stock performance is an achievement measurement obtained from a company's stock management and reflects the financial health of the company. Stock performance can be observed through stock returns and abnormal returns.

Stock Return

Stock return is the profit earned by an investor from their stock investment. Stock returns can be actual returns, which have already occurred, or expected returns, which are anticipated to materialize in the future (Jogiyanto, 2010). The return on stock is the amount of profit investors can obtain. Stock returns consist of two types, namely dividends and capital gains. Capital gain is the profit earned when the selling price of a stock is higher than its purchase price. Meanwhile, dividends represent a portion of the company's net profits distributed to shareholders (Nurmasari, 2020).

Hypotheses Development

As a result of the COVID-19 pandemic, the global economic sector has undergone significant changes, impacting stock market performance, as shown in studies by Permana et al., (2022), as well as the operational performance of banking institutions, as researched by Nasution & Kamal (2021). These changes are evident across various stock instruments, including conventional stocks, which have been influenced by economic conditions both before and during the pandemic. Based on this, the hypothesis proposed is:

H: There is a difference in the performance of conventional bank stocks before and during the COVID-19 pandemic.

Methods

This research uses quantitative data. It relies on secondary data in the form of stock and financial report data of conventional banks listed on the Indonesia Stock Exchange (IDX). The study period includes the years 2017-2019 for the pre-COVID-19 period and 2020-2022 for the COVID-19 period. The COVID-19 pandemic was declared over on June 21, 2023, through Presidential Decree of the Republic of Indonesia Number 17 of 2023 concerning the Termination of the Coronavirus Disease 2019 (COVID-19) Pandemic Status in Indonesia. The sampling technique used is purposive sampling with the following criteria:

Table 1. Population and Sample of the Research

No.	Sample Selection Criteria	Number of Companies
	Population Size	44
1.	Conventional banks listed on the Indonesia Stock Exchange (IDX) starting from 2017	(1)
2.	Research data is not fully available	(4)
Research Sample		39
Total Sample During the Observation Period		117

Source: Research Data, 2024

The data analysis techniques used in this study include descriptive statistics and classical assumption tests, specifically the Kolmogorov-Smirnov normality test. Based on the results of the normality test, the data in this study did not follow a normal distribution. Therefore, the Wilcoxon Signed Rank Test was chosen for hypothesis testing. The selection of the Wilcoxon Signed Rank Test is justified as it is a non-parametric test suitable for data that do not meet the assumption of normal distribution. Data analysis was performed using SPSS software version 26. Performance is measured using Stock Return with the following formula:

$$\text{Stock Return } = \frac{Pit - Pit-1}{Pit-1}$$

Explanation:

R_t = Stock Return

P_1 = Stock Price at Period t

P_{t-1} = Stock Price Before Period t

Results

Descriptive Statistics

Based on the test results, the descriptive statistics are presented in Table below:

Table 2. Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
2017-2019	117	0,2574	1,54942	-0,58	15,83
2020-2022	117	0,7794	4,33975	-0,86	43,97

Source: Research Data, 2024

Based on the descriptive statistics table above, it can be seen that each period, 2017-2019 and 2020-2022, consists of 117 observations. In the 2017-2019 period, the mean is 0.2574 with a standard deviation of 1.54942, a minimum value of -0.58, and a maximum value of 15.83. In the 2020-2022 period, the mean increases to 0.7794 with a larger standard deviation of 4.33975, a minimum value of -0.86, and a maximum value of 43.97.

Overall, the data from the 2020-2022 period indicates a significant increase in the average compared to the 2017-2019 period. However, this increase is also accompanied by a substantial rise in the standard deviation, indicating greater data variation. This suggests that during the pandemic, stock performance was more volatile and exhibited greater variation compared to the pre-pandemic period. Additionally, the range of data values is wider in the 2020-2022 period, with a lower minimum value and a much higher maximum value compared to the 2017-2019 period. The higher maximum value during the pandemic suggests that some stocks may have experienced significant spikes, possibly as a result of substantial changes in the economic and regulatory environment during Covid.

Normality Test

In the context of this research, a normality test was conducted to evaluate the distribution of the stock performance data of conventional banks before and during the COVID-19 pandemic. The normality test is performed to ensure that the obtained data follows a normal distribution. Based on the test results, the normality test was conducted using the Kolmogorov-Smirnov method, as presented in Table 3 below:

Tabel 3. One-Sample Kolmogorov-Smirnov Test

		2017-2019	2020-2022
N		117	117
Normal Parameters[a,b]	Mean	0,2574	0,7794
	Std. Deviation	1,54942	4,33975

Most Extreme Differences	Absolute	0,317	0,369
	Positive	0,317	0,369
	Negative	-0,303	-0,353
Test Statistic		0,317	0,369
Asymp. Sig. (2-tailed)		0,000	0,000

Source: SPSS Output, 2024

The results of the Kolmogorov-Smirnov One-Sample Test for the periods 2017-2019 and 2020-2022 indicate that each period has 117 observations. The normality parameters show that the mean for the period 2017-2019 is 0.2574 with a standard deviation of 1.54942, while for the period 2020-2022, the mean increases to 0.7794 with a standard deviation of 4.33975. The largest difference in data distribution is indicated by an absolute value of 0.317 for the period 2017-2019 and 0.369 for the period 2020-2022.

The positive value of the largest extreme difference is equal to the absolute value, while the negative values are -0.303 for 2017-2019 and -0.353 for 2020-2022. The test statistics for the period 2017-2019 is 0.317, and for the period 2020-2022, it is 0.369, with both showing an asymptotic significance (2-tailed) of 0.000. This result indicates that the data distribution in both periods does not follow a normal distribution, as evidenced by the very small significance values (0.000). Since the data from these variables do not follow a normal distribution, it is considered unsuitable for parametric statistical testing, particularly for the paired sample t-test. Therefore, an alternative method using non-parametric statistics, specifically the Wilcoxon test, is employed.

Wilcoxon Test

Based on the test results, the Wilcoxon test results are presented in Table 4 below:

Tabel 4. Wilcoxon Test

	2020-2022 – 2017-2019
Z	-0.420^{b}
Asymp. Sig. (2-tailed)	.675

Source: SPSS Output, 2024

The Wilcoxon test is a form of non-parametric statistical testing. This test was conducted on all research samples to compare stock performance before and during the COVID-19 pandemic. In the Wilcoxon test table above, the significance value is 0.675, leading to the rejection of H1. A Wilcoxon significance value above 0.05 indicates that there is no significant difference in stock performance before and during the Covid-19 pandemic.

Therefore, it can be interpreted that there is no impact of the Covid-19 pandemic conditions on stock performance in the conventional banking industry.

Discussion

Conventional banking, which operates based on interest principles, focuses on increasing profits through various financial products such as deposits, loans, and investments. Conventional banks have greater flexibility in offering products and services, including engaging in transactions that involve interest, speculation, and uncertainty. Their primary income comes from loan interest, with various investment and loan products that are not bound by Sharia principles. This product diversification offers flexibility to customers and allows banks to reach diverse market segments. Additionally, international exposure opens growth opportunities in global markets.

A statistical analysis of conventional banking stock performance before and during the COVID-19 pandemic was conducted to examine data distribution and the impact between these time periods. The results of hypothesis testing, using a non-parametric method such as the Wilcoxon Ranks Test, showed no significant difference in the distribution of conventional banking stock performance between the pre-pandemic and pandemic periods. This reflects the effectiveness of risk management in the banking sector, where the process of identifying, measuring, and developing strategies to prevent and mitigate risks has been successfully implemented. With good risk management, banks were able to maintain performance stability despite the uncertainty brought by the pandemic (Salmita, 2023).

These findings align with research by (Fajar 2020), which stated that there was no significant difference in returns between Sharia and conventional stocks in the manufacturing sector on the Indonesia Stock Exchange. However, these results contrast with research by (Permana et al., 2022), which showed a difference in Indonesian stock performance before and during the COVID-19 pandemic. This was evident from the Paired Sample t-test results, indicating a difference in Indonesian stock performance before and during the pandemic. During the pandemic, the Jakarta Composite Index (JCI) experienced a decline.

The findings indicating no significant difference in conventional banking stock performance before and during the COVID-19 pandemic are supported by various factors reflecting their resilience. Banks with high ESG (environmental, social, and governance) scores demonstrated better resilience, underscoring the importance of these factors in their performance (Danisman, 2022). Analysis in Indonesia shows that banks like BBCA managed to maintain their stock prices during the pandemic thanks to effective management strategies. The stability of the CAR before and during the pandemic indicates conservative risk management policies and strong capital. CAR is one of the factors that can affect banking stock prices and is an important indicator of a bank's financial health and stability, often noted by investors. Despite economic pressure, the government's credit restructuring policy helped stabilize banks' NPL, thus preventing drastic changes in stock performance. The stability of the LDR indicates banks' ability to manage liquidity effectively, thanks to efficient liquidity management and monetary policy support. Although ROE may be affected by decreased profits and increased operating costs, the impact was not significant enough to affect stock performance on a large scale. The combination of stable CAR, NPL, and LDR, along with well-managed ROE, enabled the stability of banking stock performance in Indonesia during the COVID-19 pandemic (Seto & Septianti 2021). Additionally, research by (Salmita 2024) indicates that, during the COVID-19 pandemic, banks tended to employ income smoothing techniques to maintain a good performance image for investors. Income smoothing is an effort to neutralize the uncertain financial environment. Globally, the financial system demonstrated remarkable resilience despite facing economic downturns and market turmoil in March 2020.

Conclusion

This study aims to analyze the comparison of conventional banking stock performance before and during the COVID-19 pandemic. Based on the analysis of stock return data from the periods 2017-2019 (pre-pandemic) and 2020-2022 (during the pandemic), it can be concluded that there was an increase in the average stock return during the pandemic period compared to the pre-pandemic period.

However, the results of the Wilcoxon test indicate that this difference is not statistically significant, suggesting that the observed changes might be due to chance and do not reflect a meaningful difference. Additionally, normality testing results show that the data from both periods are not normally distributed. Further Wilcoxon testing confirms that there is no significant difference in the distribution of stock performance data between the pre-pandemic and pandemic periods. Overall, the findings of this study indicate that the COVID-19 pandemic did not have a significant impact on the performance of conventional banking stocks in Indonesia.

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