

Urgency Fee-Based Income of Banking Industries in The New Normal Era

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Article Info:

Abstract

Keywords:

Banking;
Credit;
Profit;
Third-Party Funds;
Bad Debt;

Artikel History:

Received : 13-05-2024

Revised : 20-05-2024

Accepted : 21-05-2024

Article DOI :

<http://dx.doi.org/>

This study aims to analyze the net profit growth of the banking sector based on their core business, namely credit growth and growth in third-party fundraising in the period before the Covid 19 pandemic and during the Covid-19 pandemic. Meanwhile, bad debt growth is a moderating variable factor. The method used in this study is quantitative with moderating regression analysis with a sample of 34 banks. The results of this study are in the period before the Covid-19 pandemic and during the Covid-19 pandemic, where the growth of third-party funds had a positive and significant effect on net profit growth, credit growth moderated by bad debt growth had a positive and significant effect on net profit growth, growth in third-party funds moderated by the growth of bad debt has a positive and significant effect on net profit growth. However, there are differences in the effect of credit growth on net profit growth in the period before the Covid-19 pandemic, which has a positive and significant effect. Meanwhile, during the Covid-19 pandemic, credit growth had an insignificant positive effect on net profit growth. In addition, based on the determination test, during the Covid-19 pandemic, the influence of credit growth, third-party funds growth, and bad debt were not the main contributors to net profit growth. This is because, during the Covid-19 pandemic, bank profit growth was dominated by fee-based income. The implication of this research is to identify bank business prospects in the new normal period, which is dominated by fee-based income, so the banking industry must invest in developing digital banking to increase its profit. This study identifies that the banking industry's business in the new normal era has excellent prospects if it can change its business strategy from credit to fee-based income.

How to cite : Nugroho, L., Mor, S., Putra, Y. M., Ishak, B. P., & Nurhasanah. (2024). Urgency Fee Based Income of Banking Industries in The New Normal. *Social and Economic Bulletin*, 1(1), 46-61. <https://ejournal.bacadulu.net/index.php/sebi/article/view/18>



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INTRODUCTION

The banking industry has an essential role in supporting a country's economy. In fact, according to Lay (2020), Muniarty et al. (2020), and Nugroho et al. (2022), banks are the locomotive in moving other financial industries. The good intermediation function of the banking sector will increase economic growth in the country, whereas good credit distribution to the public will have implications for increasing working capital and investment in the community so that business activities will increase. In addition, increased business activities will increase the community's welfare so that people can save their funds in banks (Jannah & Nugroho, 2019). During the current Covid-19 pandemic, the phenomenon has disrupted all segment business activities in the community, both in the micro-segment, small segment, medium segments, and corporate business segments (Nugroho et al., 2020; Yu et al., 2021). The impact of the Covid 19 pandemic is the decline in business and commercial activities due to restrictions on mobility from the public due to the authorities' policies to mitigate the massive spread of the Covid-19 virus. The restriction of community mobility has resulted in the closure of commercial activities, such as restrictions on operating hours of shops, restaurants, and public transportation (Gray, 2020; Safitri et al., 2020). The decline in business and commercial activities resulted in decreased operating income, causing the business to lose money and even go bankrupt (Larue, 2020). Several facts that illustrate the condition that the COVID-19 pandemic that has occurred since the end of December 2019 has disrupted business activities: (i) Closing of several outlets from well-known retail stores in Indonesia such as Matahari, Giant, Ramayana, Centro (Sandi, 2021); (ii) 50% of MSMEs in Indonesia are headed for bankruptcy, and 1000 companies are threatened with bankruptcy and have applied for a postponement of debt installment (Damayanti, 2021); (iii) Also, based on a survey conducted by the Indonesian Ministry of Manpower, there are 88% of potential companies experiencing a decline in income all over Indonesia (Barenbang, 2020).

Another phenomenon that has occurred due to the Covid-19 pandemic is the decline in household consumption based on a survey of 12,216 households throughout Indonesia during the period October 2020-November 2020 conducted by the consulting agency Smeru (Nazara et al., 2021): (i) 3 out of 4 households experienced a decrease in income; (ii) 1 in 2 household heads have changed jobs from the formal sector in the informal sector; (iii) 1 in 2 households no longer can save; (iv) 9 out of 10 family businesses experience a business interruption.

On the other hand, due to the Covid-19 pandemic, the banking industry, which functions to mobilize public funds for productive purposes, is also threatened by a decline in income. This is because the household sector's ability to pay installment obligations has decreased and their ability to pay them has been reduced if they become bank debtors. However, the Deposit Insurance Institution (LPS), in a press release delivered by LPS Chair Purbaya Yudhi Sadewa, stated that the banking sector still can survive and is under control during the Covid-19 pandemic (Yuliharto, 2021). Furthermore, the bank's core business is to collect third-party funds from the public and channel them back in the form of credit. Thus, the primary income from banks is from lending, so banks will be very concerned about non-performing loans that can occur, especially during the current Covid-19 pandemic. In addition, according to Alberti & Varon Garrido (2017) and Matoenji et al. (2021), one of the leading financial indicators in analyzing the sustainability of a business is profit. Therefore, to convince investors of their investments and the public of their savings during the current COVID-19 pandemic, bank management

must implement effective strategies so that bank profits remain positive and experience growth (Rahmayati, 2021; Utami et al., 2021). Therefore, during the Covid-19 pandemic, whether the main banking products, namely fundraising and lending, can effectively improve bank performance is not yet known. In addition, according to Soekapdjo et al. (2018) and Ihwanudin et al. (2020), financing quality is also one of the factors that moderate the decline in bank income because banks have to bear losses from funds channeled in the form of credit that customers cannot repay following predetermined conditions.

Furthermore, the research gap in this study relates to the main product of banks in running their business is the collection of funds from the public which is then channeled back in the form of credit so that it can generate profit growth. However, during the Covid-19 pandemic, the potential growth of third-party funds and lending did not affect profit growth due to the growth of bad-quality loans. The increase in credit growth with bad quality during the Covid-19 pandemic has the potential to be higher than the credit growth with bad quality in the period before the Covid-19 pandemic due to the decline in people's income which has an impact on the decline in the repayment capacity of creditors.

Furthermore, based on the phenomena above, the formulation of the problem in this study includes: (i) Does credit growth affect net profit growth in the period before the Covid-19 pandemic?; (ii) Does the growth of third party funds affect the growth of net profit in the period before the Covid-19 pandemic?; (iii) Does credit growth moderated by bad debt growth affect net profit growth in the period before the Covid-19 pandemic?; (iv) Does the growth of third party funds moderated by the growth of bad debt affect net profit growth in the period before the Covid-19 pandemic?; (v) Does credit growth affect net profit growth during the Covid-19 pandemic?; (vi) Does the growth of third party funds affect the growth of net profit during the Covid-19 pandemic?; (vii) Does credit growth moderated by bad debt growth affect net profit growth during the Covid-19 pandemic?; (viii) Does the growth of third party funds moderated by the growth of bad debt affect net profit growth during the Covid-19 pandemic?.

Based on the formulation of the problem, this study aims to analyze the determination of the net profit growth of the banking industry in the period before the Covid-19 pandemic and during the Covid-19 pandemic. The net profit growth used in this study is determined by lending and third-party fundraising. In addition, this study also uses the variable growth of non-performing loans as a moderating variable. Therefore, the originality of this research is to analyze the net profit growth of the banking industry during the Covid-19 pandemic from a core business perspective (credit and third-party funds) by considering the risk (bad debt) exposed in the bank.

LITERATURE REVIEW

The theory that forms the basis for this research is agency theory, first revealed by Jensen & Meckling (1976). This theory explains the relationship between the owner of the company (principal) and the company's manager (agency). Therefore, the company manager will run and manage the company based on the vision and mission of the principal. Moreover, regarding Petersen (1993), five main elements in agency theory explain the relationship between principals and agents in the company, which include (i) There are several related issues between principals and agents such as laziness, reliability, trustworthiness; (ii) Actions taken by agents can affect the outcome desired by the principal; (iii) There are factors that are not predictable on the agent's action so that it can

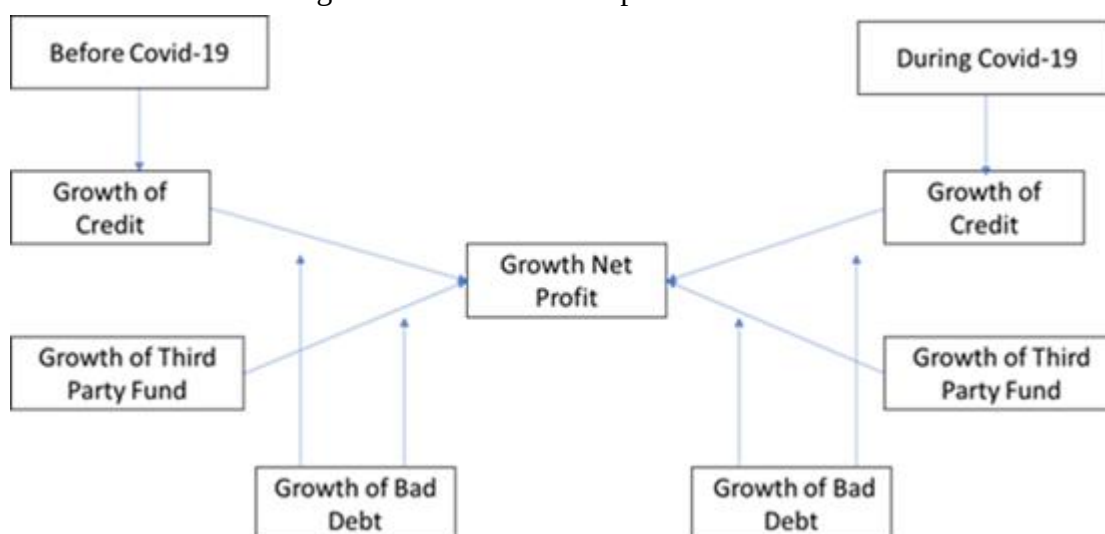
have an impact on the outcome; (iv) There are limitations in producing outcomes, and (v) There is information asymmetry.

The current Covid-19 pandemic is an external condition that cannot be controlled by bank management but disrupts the business activities of these banking customers (Igan et al., 2022). The disruption of business activities from bank customers resulted in a potential decline in profit growth (Ichsan et al., 2021). This is because customers with bank loans will experience potential difficulties paying the installments. After all, they experience a decrease in income. On the other hand, banks can also experience difficulties collecting third-party funds as a source of bank funds to provide credit. The potential difficulty in collecting third-party funds in the community is due to the decreased ability to save from banks. Therefore, when related to this research, banking institutions also have a vision, mission, and outcomes that focus on the principal desires so the impact is the agent's commission is stated in a business plan approved by the principal (Joyce, 2001; Tosi & Gomez-Mejia, 1989). One of the commitments in bank business plans from agents is to increase profits in each period because company profits can increase the welfare of both agents (bank management) and principals (investors) (Utomo, 2011; Vania et al., 2018). Furthermore, achieving profit following the commitment becomes the focus of stakeholder monitoring of the bank to maintain the reputation (Kusi et al., 2018; Yusuf et al., 2022).

In addition, the bank's primary business is to distribute credit to the public in return for interest income on the loans that have been distributed. Therefore, the main profit contribution to the banking industry is income from loans disbursed. Therefore, banks must analyze the feasibility of lending to mitigate potential risks early on and predictably (Berger & Udell, 2007; Naumenkova et al., 2020). According to Nugroho & Malik (2020), the purpose of the feasibility analysis is to provide confidence to creditors in lending their funds based on several criteria, which include: (i) To provide confidence that the debtor will be willing to repay the loan following its commitments based on the creditor's knowledge of the reputation and character of the debtor; (ii) Assure that the collateral given to the debtor to the creditor is in the form of assets or deposits; (iii) Analyze the feasibility of the debtor's financial condition for its ability to repay the loan. The feasibility analysis is based on the information submitted by the debtor to the creditor, assuming that the information and data submitted by the debtor are the actual data. In other words, the prospective debtor conveys the information and data honestly. Nevertheless, adequate risk mitigation carried out by internal banks so that the influence of credit growth, growth of third-party funds, and moderating variables of bad debt growth should have the same impact on the net profit growth of the banking industry, both in the period before the Covid-19 pandemic and during the Covid-19 pandemic.

Therefore, based on the literature review above, the conceptual research framework is illustrated:

Figure 1. Research Conceptual Framework



Referring to Figure 1 above, the development of the hypothesis in this study is as follows:

1. Credit growth has an effect on net profit growth before the Covid-19 pandemic;
2. The growth of third-party funds affects the growth of net profit before the Covid-19 pandemic;
3. Credit growth moderated by bad debt growth affected net profit growth before the Covid-19 pandemic;
4. The growth of third-party funds moderated by bad debt growth affected net profit growth before the Covid-19 pandemic;
5. Credit growth has an effect on net profit growth during the Covid-19 pandemic;
6. The growth of third-party funds has an effect on net profit growth during the Covid-19 pandemic;
7. Credit growth moderated by bad debt growth affected net profit growth during the Covid-19 pandemic;
8. Credit growth moderated by bad debt growth affected net profit growth during the Covid-19 pandemic.

METHODS

This research is a type of research with a quantitative approach, wherein these statistical study tools are used to test hypotheses that have been formulated following existing theories. This study uses cross-sectional data, a type whose value is taken at a specific time (one shoot time) within the appropriate limits of specific measurement attributes. In contrast, the data source is secondary data from parties or institutions that have used or published it. This study uses two independent variables, namely credit growth (X_1) and third-party fund-TPF growth (X_2), the dependent variable is net profit growth (Y), and the moderating variable is bad debt growth (Z). The population in this study is commercial banks listed on the Indonesia Stock Exchange. The sample used in this study is 34 banks with a research period during 2019-2020, where the data used for 2019 uses quarter III and IV data (before the pandemic Covid-19), and 2020 data for the third and fourth quarters (during the pandemic Covid-19). Before testing the causality

hypothesis, use the classical assumption test as a normality test to determine whether the model is BLUE (Best, Linear, Unbiased, Estimate). The data analysis technique used in the study is divided into two analyses, namely:

1. Paired t-test samples are used to perform different tests of two paired samples. The paired samples were the same subjects but subjected to different treatments, and the model was used to analyze research variables before and during the Covid 19 pandemic. Criteria in decision making:
 - If the significant value is > 0.05 , then H_0 is accepted, or H_a is rejected (there is no difference);
 - If the significant value is < 0.05 , H_0 is rejected, or H_a is accepted (there is a difference).
2. Moderated Regression Analysis is used to determine the magnitude of the influence of independent variables and the interaction of independent variables with moderating variables against dependent variables. The equation model is as follows:
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 * Z + \beta_4 X_2 * Z + \varepsilon \quad (1)$$

Simultaneous hypothesis test F test in this test is used to gain simultaneous influence or know the feasibility of the research model. The decision based on F test testing is as follows:

- If $F_{\text{calculates}} \geq F_{\text{table}}$, or $p\text{-value} \leq \alpha 5\% (0.05)$, then independent variables are simultaneously considered influential and/or modeled in the study and are considered to be able to predict changes in independent variables;
- If $F_{\text{calculates}} < F_{\text{table}}$, or $p\text{-value} \geq \alpha 5\% (0.05)$, then the independent variable is simultaneously considered to have no effect, and/or the model of the study is considered unable to predict changes to the dependent variables.

Partial hypothesis testing is a question of partially understanding the effect of independent variables on the dependent variables. Decisions based on the t-test are as follows:

- If $t_{\text{calculates}} \geq t_{\text{table}}$ or $p\text{-value} \leq \alpha 5\% (0.05)$, then the independent variable is partially considered to have a significant effect on the dependent variable;
- If $t_{\text{calculates}} < t_{\text{table}}$ or $p\text{-value} \geq \alpha 5\% (0.05)$, then the partially independent variable is considered to have no significant effect on the dependent variable.

RESULT AND DISCUSSION

Result

Normality Test

Normal tests are performed to determine normally distributed errors and produce good estimates. The normality test is conducted using Shapiro-Wilk with decision criteria if the Prob value > 0.05 , then the data is the normal distribution. The following table presents the results of variable data normality tests before and during the Covid-19 pandemic:

Table 1. Normality Test before Covid-19

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
residual_~19	68	0.97168	1.702	1.155	0.12403

Based on Table 1 above, the prob value of $0.124 > 0.05$ follows the decision-making criteria, which means that the research variable data before the Covid-19 pandemic is the normal distribution.

Table 2. Normality Test during Covid-19

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
residual_~19	68	0.97926	1.247	0.479	0.31609

Based on table 2 above, the prob value of $0.316 > 0.05$ follows the decision-making criteria, which means that the data of research variables during the covid-19 pandemic is the normal distribution.

Moderated Regression Analysis

In hypothesis testing, the coefficient of determination will be analyzed, simultaneous influence testing (F test), and partial influence testing (t-test) for data before the covid-19 pandemic and during the covid-19 pandemic. The following are presented the results of Moderated Regression Analysis based on data that has been processed:

Table 3. Moderated Regression Analysis Before Covid-19

Source	SS	df	MS	Number of obs	=	68
Model	44.7633421	4	11.1908355	F(4, 63)	=	11.32
Residual	62.2662858	63	.988353743	Prob > F	=	0.0000
				R-squared	=	0.4182
				Adj R-squared	=	0.3813
Total	107.029628	67	1.59745713	Root MSE	=	.99416

NI	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Credit	.0712008	.0227951	3.12	0.003	.0256484 .1167532
TPF	.2011505	.0846283	2.38	0.021	.0320344 .3702666
CreditBD	.3102558	.1276689	2.43	0.018	.0551298 .5653818
TPFBD	.1451766	.046101	3.15	0.003	.0530511 .2373021
_cons	.8572815	.5763665	1.49	0.142	-.2944951 2.009058

Based on Table 3 above, the value of Prob is known. By $0.000 < 0.05$, it can be concluded that all independent variables, namely credit growth (X_1), TPF growth (X_2), and the interaction of credit growth (X_1) and bad debt growth (Z), as well as the interaction of TPF growth (X_2) and bad debt growth (Z), have an effect simultaneously with net income growth (Y) with an influence of 41.82%. These results also show a partial hypothesis or t-test, following the results of a summary of partial hypothesis testing with decision criteria if sig value < 0.05 H_0 is rejected:

Table 4. Partial Hypothesis Test before Covid-19

Hypothesis	Sig.	Decision
Credit → Net Income	0.003	Reject H ₀
TPF → Net Income	0.021	Reject H ₀
Credit*BD → Net Income	0.018	Reject H ₀
TPF*BD → Net Income	0.003	Reject H ₀

According to Table 4 above, credit growth had a positive and significant effect on profit growth before the Covid-19 pandemic, and the growth of third-party funds also had a significant and significant effect on profit growth in the period before the Covid-19 pandemic. In addition, credit growth moderated by bad debt also had a positive and significant effect on the growth of banking profits in the period before the Covid-19 pandemic. On the other hand, the growth of third-party funds moderated by bad debt positively affected profit growth before the Covid-19 pandemic.

The following presented the results of Moderated Regression Analysis based on data that has been processed for variable data during the Covid-19 pandemic:

Table 5. Moderated Regression Analysis During Covid-19

Source	SS	df	MS	Number of obs	=	68
Model	214.269517	4	53.5673791	F(4, 63)	=	7.99
Residual	422.377189	63	6.70439983	Prob > F	=	0.0000
				R-squared	=	0.3366
				Adj R-squared	=	0.2944
Total	636.646706	67	9.50218964	Root MSE	=	2.5893

NI	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
Credit	1.270984	1.525987	0.83	0.408	-1.778458 4.320427
TPF	8.939936	2.733094	3.27	0.002	3.478283 14.40159
CreditBD	.0398842	.0181229	2.20	0.031	.0036685 .0760998
TPFBD	.5029356	.2003285	2.51	0.015	.1026111 .9032601
_cons	1.330362	1.179834	1.13	0.264	-1.027348 3.688071

Based on Table 5 above, the value of Prob is known $0,000 < 0.05$, it can be concluded that all independent variables, namely credit growth (X_1), TPF growth (X_2), and credit growth interaction (X_1) with bad debt growth (Z) and TPF growth interaction (X_2) with Bad Debt growth (Z) have an effect simultaneously on Net Income (Y) with an influence of 33.66%. These results also show a partial hypothesis or t-test, following a summary of partial hypothesis testing with decision criteria if sig value. < 0.05 H₀ is rejected:

Table 6. Partial Hypothesis Test during Covid-19

Hypothesis	Sig.	Decision
Credit → Net Income	0.408	Accepted H ₀
TPF → Net Income	0.002	Rejected H ₀
Credit*BD → Net Income	0.031	Rejected H ₀
TPF*BD → Net Income	0.015	Rejected H ₀

Referring to Table 6 above, credit growth has had a positive and insignificant effect on profit growth during the Covid-19 pandemic. However, the growth of third-party funds has had a positive and significant effect on profit growth during the Covid-19 pandemic. In addition, credit growth moderated by bad debt also had a positive and significant effect on the growth of banking profits during the Covid-19 pandemic. On the other hand, the growth of third-party funds moderated by bad debt had a positive effect and significantly affected profit growth during the Covid-19 pandemic.

Discussion

Effect of Credit Growth on Net Profit Growth before The Covid-19 Pandemic

Following the statistical analysis results in Table 3 above, it is known that credit growth has a significant and positive effect on net profit growth in the banking industry. This shows that before the Covid-19 pandemic, the banking industry was actively running its business because macroeconomic conditions and community mobility were still expected. The good external conditions allow banks to channel their credit with measurable risk.

Effect of Credit Growth on Net Profit Growth during The Covid-19 Pandemic

Following the statistical analysis results in Table 5 above, it is known that credit growth has no significant effect on net profit growth in the banking industry. This shows that during the Covid-19 pandemic, banks were prudent in extending their credit. According to Barua & Barua (2021) and Li et al. (2021), the bank is refocusing its business to distribute the lending to segments with little impact during the Covid-19 pandemic. Such lending is provided to the civil servant segment. Therefore, the bank lending business in other segments during the Covid-19 pandemic will continue and generate profit even though it is not as aggressive as before the Covid-19 pandemic.

Effect of Third-Party Fund Growth on Net Profit Growth before The Covid-19 Pandemic

Moreover, according to Table 3 above, it is known that the growth of third-party funds (TPF) has a positive and significant effect on the growth of net profit from the banking sector. This is because, before the Covid-19 pandemic, people could still set aside their income to be stored in banks. Furthermore, before the Covid-19 pandemic, economic conditions were still conducive, so the household sector had excess funds to save in the banking industry (Pedauga et al., 2022; Suprpty et al., 2021).

Effect of Third-Party Fund Growth on Net Profit Growth during The Covid-19 Pandemic

Regarding Table 5 above, it is known that the growth of third-party funds (TPF) has a positive and significant effect on net profit growth from the banking sector. This is because, during the Covid-19 pandemic, people did not take their savings, especially the middle and upper classes. On the other hand, low-income people do not have significant savings in the banking industry (Afoukane et al., 2021). Therefore, the motivation of the middle and upper classes to save in banks with deposit products is to replace high-risk investment instruments with low-risk instruments, namely deposits, during uncertain

conditions, such as during the current Covid-19 pandemic.

The Effect of Credit Growth with Bad Debt Growth as A Moderation Variable on Net Profit Growth before The Covid-19 Pandemic

The statistical results in Table 3 above show that credit growth moderated by the growth of bad debt has a positive and significant effect on banking income growth. In the before-COVID-19 period, external economic conditions, such as economic growth, supported the banking sector's credit demand growth. On the other hand, internally, the bank also has risk acceptance criteria tools and the ability to analyze the feasibility of suitable credit applications. Therefore, according to the statistical results in Table 3, credit growth balanced by low non-performing loans positively and significantly impacts the banking industry's net profit growth.

The Effect of Credit Growth with Bad Debt Growth as A Moderation Variable on Net Profit Growth during The Covid-19 Pandemic

During the current Covid-19 pandemic, lending to the banking sector is experiencing a slowdown. However, to maintain its performance, the bank continues to channel financing to segments that have low risk. During the current Covid-19 pandemic, the segments with low risk are those with a fixed income and are employees of state companies. In addition, during the current Covid-19 pandemic, the regulator also supports the relaxation of incentive policies for credit restructuring to change their status to performance loans immediately (Mightyn et al., 2022). Therefore, based on Table 5 above, credit growth moderated by bad debt growth has a positive and significant impact on net profit growth in the banking industry.

The Effect of The Growth of Third-Party Funds with Bad Debt Growth as A Moderation Variable on Net Profit Growth before The Covid-19 Pandemic

In the period before the Covid-19 pandemic, banks were able to carry out business activities to collect funds from the public by keeping non-performing loans at a relatively low level because the bank had a comprehensive credit distribution feasibility analysis which included: (i) There was confidence that the debtor would be willing to repay the loan under its commitment based on the creditor's knowledge of the reputation and character of the debtor; (ii) There is a guarantee that is given to the debtor to the creditor in the form of assets or deposits so that the debtor has the motivation to settle his obligations; (iii) Analysis of the feasibility of the debtor's financial condition with his ability to repay the loan. The feasibility analysis is based on the information submitted by the debtor to the creditor, assuming that the information and data submitted by the debtor are actual data (Arafah & Nugroho, 2016). Therefore, referring to the statistical results in Table 3 above, the growth of third-party funds moderated by bad debt positively and significantly impacted the growth of banking net profits before the Covid-19 pandemic.

The Effect of The Growth of Third-Party Funds with Bad Debt Growth as A Moderation Variable on Net Profit Growth during The Covid-19 Pandemic

The growth of third-party funds during the Covid-19 pandemic has generally stagnated. However, the decline in the growth of fund-raising activities was not unlike the decline in lending. This is because people still do not dare to make new investments

during the Covid-19 pandemic and place their money in the safest investment instrument, deposits. On the other hand, lending by banks is also mitigated by implementing a risk-scoring system to assist bank management in approving credit applications (Nugroho et al., 2018). Thus, during the current Covid-19 pandemic, banks have been able to select which sectors and segments are most exposed to the Covid-19 pandemic so that credit quality is well maintained. Therefore, according to Table 5, the growth of third-party funds moderated by bad debt positively and significantly impacts banking net profits during the Covid-19 pandemic. Nevertheless, this research indicates the potency of using Artificial Intelligence (AI) to reduce the probability of loan default risk in the banking sector (Mor et al., 2022).

The difference in Determination of Net Profit Growth During The Covid-19 Pandemic with before The Covid-19 Pandemic

Determining the variable credit growth, the growth of third-party funds, and the growth of bad debt before the Covid-19 pandemic had a more significant influence on net profit growth in the banking industry than during the Covid-19 pandemic. Before the Covid-19 pandemic, the determination of the variation of credit growth, growth of third-party funds, and growth of bad debt on net profit growth was 41.82% (table 3). Furthermore, during the Covid-19 pandemic, the variables of credit growth, fund growth, and bad debt growth on the banking industry's net profit growth fell to 33.66% (table 5). The deployment of AI tools will be convenient for raising the level of assets, reducing nonperforming assets, and increasing the efficiency of banks, especially in the public sector (Mor & Gupta, 2021). Thus, during the covid pandemic, profit growth from the banking sector no longer relies on main businesses such as lending and raising funds but comes from fee-based income. The source of fee-based income is from banking services such as remittances, internet banking, and mobile banking. Therefore, in the future, the bank's business prospects will be better if the bank has prepared information technology infrastructure as a digital-based bank. In the current new ordinary, people need services based on information technology and computers that aim to speed up services, reduce physical contact, and are digital-based.

CONCLUSION

This study identifies that the banking industry's business in the new normal era has excellent prospects if it can change its business strategy from credit to fee-based income. As for getting optimal fee-based income, banks must change their services to digital banks. This is because, in this study, it was known that the determination of credit growth, cost growth, and bad debt growth on the growth of the banking industry's net profit in the period before and during the COVID-19 pandemic did not again become the most dominant portion of profit growth. Thus, banks must implement applicable innovations to create products and services that generate fee-based income. In addition, if the bank focuses on fee-based income, it can avoid business on risky assets to reduce the costs it will incur to cover a loan that the debtor cannot repay.

On the other hand, during the new normal, banks must also implement flex time and work from home to prevent the spread of COVID-19. This strategy can also reduce transportation costs, so banks must effectively issue unnecessary costs. Policymakers should prioritize responsible innovation, as pointed out by Kopala et al. (2023), and encourage intrapreneurship and collaboration for knowledge transfer, as suggested by

Mor et al. (2024). Further, banking correspondent and mobile payment models of microcredit may promote the growth of banking activities and financial inclusion in the economy (Kumari & Mor, 2021; Mor & Ashta, 2023). Future research could explore how deploying AI and entrepreneurship in the banking sector could lead to higher profits, growth, and lower bad debt. Further, a researcher compares the banking sector's progress across three scenarios: Scenario 1 (pre-pandemic period), Scenario II (pandemic period), and Scenario III (post-pandemic period) to investigate the crucial factors using longitudinal data.

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