



Figure 1.1 - Daily and cumulative number of cases reported in Indonesia, as of March 10th 2021

<https://covid19.go.id/>

It can be seen from the graph that as of March 10th 2021, there are 1,398,578 total confirmed cases COVID-19 cases with an average of 6,392 cases per-day, compared to the reported 6,813 cases per day in the previous week. Another highlight of the day is that the Government of Indonesia reported a total of 37,932 deaths with new 175 death cases, a total of 1,216,433 recovered cases, and also a total of 7,586,800 of people tested from 510 districts all across the 34 provinces in Indonesia (WHO, 2020b).

This outbreak is worldwide seriously affecting public health and lead national economy to a decline phase in the same time. Responding this crisis, nations worldwide established regulations that are health-related, e.g., implementing self-quarantines and lockdown, obliged health protocols and physical distancing, intensive tests that are conducted to trace and control the virus from spreading, and also economic stimulus. In order to contain the spread of the virus, many countries worldwide have restricted movements and implemented partial or even a full lockdown. The International Air Transport Association reported that over 156 countries have established travel ban, denying entry proscribing visas, imposing necessary quarantine, and over 104 countries had entirely closed (IATA, 2020). The IMF predicts that the world economy will decrease into 5%. Globally, the containment measure had caused a declining of commodity price, the falling of the volume of global trade by 17.7% (EIU, 2020), contraction in global real sector, and also disruptions towards economic activity. Global GDP is expected to decline by 2.1%, while developing countries' expected decline on GDP is by 2.5% and high-income countries by 1.9%. GDP losses expected in the East Asia Pacific (EAP) countries to its maximum amount due to their direct impact on tourisms and relatively deep integration through trade: Cambodia (3.2%), Singapore (2.1%), Hong Kong SAR, China (2.3%), Thailand (3%), Vietnam (2.7%) and Malaysia (2.1%) (Maliszewska et al., 2020)

The Indonesian Government had projected Indonesia's Economy 2020 to grow 5.3%, meanwhile after COVID-19 disrupted the nation, the economy

growth is projected as much as -0.4% until 1.0%. It is reported that this economic correction had caused 5.23+ millions of inhabitants lived in unemployment and 5.71+ millions of inhabitants lived in poverty (Badan Kebijakan Fiskal, 2020).

In Indonesia, the authorities has applied a few regulations to mitigate the effect of COVID-19 such as the establishment of task forces for rapid health responses (Djalante et al., 2020). Sectors experienced hard hit are transportation and storage (falling by 30% by June 2020, YoY), accommodation and restaurants (falling 22%), business services, wholesale and retail trade, and manufacturing. The establishment of regulation by government and institutions had given so much limitations on population mobility.

With the lockdown policies effective everywhere, it stops overall economic activities either temporarily or closed down forever, sending home employees to either work from home or results in lay-offs. UNICEF (2020) mentioned that through an online survey, it is found that 55% of men and 57% of women in Indonesia had lost their job due to the pandemic, even though they have worked before the crisis enters. Customers are most likely tend to be unable or perhaps unwilling to pay products or services. These consequences will eventually affect firm's overall performances. Some industries or sectors which produces primary needs, groceries and pharmacies experienced higher supply and demand. In the same time, this event creates opportunities for high-tech industries. On the contrary, some other sectors such as tourism, restaurant and hotel experienced

lower supply and demand. Business which moves in providing financial services do also likely to be affected.

According to the Jakarta Stock Industrial Classification (JASICA), there are nine sectors of industrial classifications in Indonesia. Finance is one of the sector included in JASICA, and it is classified into sub-sectors, which are: (1) Bank, (2) Multifinance Institution, (3) Securities Company, (4) Insurance, (5) Investment Fund / Mutual Fund and (6) others. We cannot deny that the Finance sector – specifically the multifinance institution sub-sector – is affected by the presence of COVID-19.

In terms of sustaining and supporting the national economy and wellbeing of the Indonesian society both private and professional life, the role of multifinance institution in Indonesia is growing massively. According to the multifinance institution statistic, there is a total of 184 multifinance companies in Indonesia until 2019. The amount of the financial receivables of the multifinance institutions had constantly increased in years and have reached Rp.469, 32 trillion at 2019 (OJK, 2019). Through the years, multifinance institution has developed into various kinds of activity financing focus accordingly to the market's demand. It is proven that the multifinance institution has given benefits to parties all across the nation in terms of financing service such as credit loan. Credit loan can be given to fulfill numerous business activities. Those business activities are such as; (1) Investment Financing, (2) Working Capital Financing, (3) Multipurpose Financing, (4) Other Financing

based on OJK's (stands for *Otoritas Jasa Keuangan* or known as the Indonesia's Financial Service Authority, the regulatory of the Minister of Finance) approval, and (5) Financing Based on Sharia Principles.

The Central Bureau of Statistics mentioned that Indonesia's economy 2020 experienced contraction by 2.07% (c-o-c) (BPS, 2020b) compared to the previous year. Meanwhile, the multifinance institution gained largely of its capital from bank loans and obligation issuance. When economies are creamed, banks tend to be more selective in giving credits in the middle of perceptions of high credit risks. Another pressure also came from different countries responding to government's regulations responding to COVID-19. Indonesia's country policy responding to COVID-19 is by making a delay in payments (International Labor Organization, 2020). However, the liquidity pressure is possible since customers are allowed to postpone principle payments. Meanwhile, banks are not allowed to postpone deposits to depositors in maturity.

Some studies have shown the impact of COVID-19 on macro level; such as the impact of COVID-19 on Stock Prices (He et al., 2020), crude oil market and stock market during the COVID-19 Pandemic (Zhang & Hamori, 2021), the exchange rate volatility response towards COVID-19 (Feng et al., 2021), and the steam coal markets (Parra et al., n.d.). A study also investigated the impact of COVID-19 in firm level (Shen et al., 2020a).

This research is a development of the research done by Shen (2020a) and is conducted by examining changes in multifinance institution's financial performance before and during COVID-19 pandemic with the quantitative approach to investigate whether the multifinance institution subsector is positively or negatively affected by COVID-19 pandemic. This research had also narrowed the scope of research into one focus which is the Multifinance Institution subsector that are listed in the Indonesia Stock Exchange.

According to (SEOJK Nomor 1 /SEOJK.05/2016, 2016), the health of financial institution in Indonesia is measured through its Capital, Quality of Financing Receivables, Rentability, and Liquidity. This research is going to determine the impact of COVID-19 towards the performance in terms of Rentability and the Quality of Financing Receivables that are before and during the virus outbreak, with assumption that the other two which are Capital and Liquidity are not affected. The ratio of Rentability is expressed in ROA, ROE, BOPO, and NIM. While the Quality of Financing Receivables is expressed in NPF. These ratios are then used as proxies of financial performance as the dependent variable in this research.

The research by Shen (2020a) had used *moderating variable* which are Investment Growth and Total Revenue in order to quantify the mechanism of COVID-19. The research focused on the regression analysis and found that COVID-19 outbreak reduced revenues which ultimately led to lower

performance, this signifying that increasing investment and revenues would reduce the negative impact of COVID-19. However, investment growth or known as growth rate of fixed asset is less liquid compared to current asset and is proven by the study conducted by Demir (2005) that shows current assets may have the ability to minimize negative impact when uncertainty rises such as risks, volatility, and higher interest rates. Therefore, the writer decided to remove Investment growth variables with assumptions that it does not have any influence in minimizing the impact of COVID-19. The writer also decided to remove the total revenue as moderating variable since the purpose of this research is to determine the difference of financial performance in terms of rentability and the quality of financing receivable that lies in before the outbreak and during the outbreak of COVID-19 Pandemic.

The result of the research is expected to be able to give relevant information to various stakeholders, managers, investors, analysts, and others in making financial decisions. Of these background and explanation, the writer have interest in researching about **“The Impact of COVID-19 towards The Financial Performance of The Multifinance Institutions Listed in Indonesia Stock Exchange (IDX)”**.

1.2 Problem Identification

According to the background explained previously, then the main problem in this research is:

Is there any difference of the financial performance of the Multifinance Institution sub-sector listed in Indonesia Stock Exchange (IDX) before and during the outbreak of COVID-19 Pandemic?

1.3 Research Scope and Limitation

The research scope and limitation is necessary in order to prevent distend discussion and to set clear boundaries. In this research, the scope and limitations are as follows:

1. This research is using time span that is set from 2019 - 2020 which financial performance as the dependent variable is measured in terms of its Rentability and Quality of Financing Receivables.
2. To measure Rentability, it is used *Return on Asset (ROA)*, *Return on Equity (ROE)*, *Cost-to Income Ratio (BOPO)*, and *Net Interest Margin* as proxies.
3. To measure the Quality of Financing Receivables, it is used the *Non-Performing Financing (NPF)*.

1.4 Research Objective

As for the objectives of the study are as follows: To know whether there is difference of the financial performance of the Multifinance Institution listed in Indonesia Stock Exchange (IDX) before and during the outbreak of COVID-19 Pandemic.

1.5 Research Benefit

The benefits advanced through this research are expected as follows:

1. For the writer herself, the result of this research can be used as a reference in understanding proxies affecting the financial performance.
2. For academicians and next researcher, the result of this research is expected to enhance and broaden knowledge, understanding, and as an academic reference for the further research.
3. For managers, investors, financial practitioners and external parties, the result of this research is expected to become basic consideration in making financial and investment decision during COVID-19 pandemic.

1.6 Research Systematic

In order to picture a brief overview of the writing of this proposal, thus it is necessarily to include the research systematics which are as follows:

1. CHAPTER 1 INTRODUCTION

This chapter contains the background of the research which are research background, problem identification, research scope and limitation, research objective, research benefit, and research systematic.

2. CHAPTER 2 CRITICAL LITERATURE REVIEW

This chapter contains the critical literature review which includes theories that are correlated with the research and previous studies that are used by the writer as a reference and for hypotheses development.

3. CHAPTER 3 RESEARCH METHODOLOGY

This chapter contains type and source of data used by the writer, data collection method, and how the writer process the data.

4. CHAPTER 4 DATA ANALYSIS AND DISCUSSION

This chapter is going to describe a brief overview of the selected companies. The data obtained will be processed in this chapter, and the result of the data were analyzed and discussed.

5. CHAPTER 5 CONCLUSION AND SUGGESSTION

This chapter contains of conclusions and weaknesses of the research.

Then suggestions for further research or for parties engaged in related fields that are expected to be useful in the future.

