

Determination of Sharia Banking Profitability in Indonesia

Nur Rif'ah Islamiyah^{1*}, Muchriana Muchran², Linda Arisanty Razak³

^{1,2,3}Universiy of Muhammadiyah Makassar, Jl. Sultan Alauddin No.259, Kota Makassar, Sulawesi Selatan, 90222, Indonesia.

nurifahislamiya24@gmail.com

*) corresponding author

ARTICLE INFO

Article history

Received 10 March 2024

Revised 20 August 2024

Accepted 25 September 2024

Keywords

FDR;
Murabahah;
Musyarakah;
Profitability;
Shariah bank.

ABSTRACT

The purpose of this study is to analyze the determinants of profitability in Islamic banking in 2018-2021 which are listed on the IDX. The factors tested in this study are murabaha, musyarakah, financing deposit ratio, and bank size. The data used is secondary data obtained from www.idx.co.id. The sample for this study used four Islamic banking companies and were selected by purposive sampling. The analytical method used in this study shows that the murabahah, musyarakah and bank size variables have no significant effect because they cannot be used as a measure to increase profitability, what is needed is an increase in income. Meanwhile, financing deposit ratio has a significant effect on profitability because the higher the financing deposit ratio within certain limits, the higher the profitability.

This is an open access article under the CC-BY-SA license



1. Introduction

Currently, the Islamic banking industry in Indonesia is showing more advanced development, because there is a rapid increase due to public interest in Islamic banking. Islamic banking has its own strategy level to improve the Indonesian economy. Because Islamic banking is a form of national-scale banking business that will help or contribute to the Indonesian economy.

Islamic banking has experienced quite positive growth in terms of assets, the growth of disbursed financing (PYD) is as large as and Party Funds continue to experience growth every year even though they have not been able to compete with Islamic banking. The type of financing channeled by Islamic banking to the public can provide profitability and Islamic banks are expected to contribute to helping increase overall economic growth. This growth will not be separated from financing agreement products or investments from sharia banking which are increasingly recognized by the wider community. In connection with sharia banking products, it is very important to maintain the benefit of Muslims both for life in this world and in the hereafter. There is a clear contract. Islamic banking does not recognize the addition of interest, hence the profits are obtained from profit sharing with business actors who use funds from Islamic banking and investment from Islamic banking itself[1].

To get an important position in advancing the economy, Islamic banking must maintain the products offered or good performance so that they can show high profitability values and

indicate a healthy company[2]. The profitability of Islamic banks is measured using *Return On Assets* (ROA) due to their association with assets where funding activities in the Islamic banking industry are very closely related to the ownership of assets in the Islamic bank concerned while the independent variables are taken from internal factors, namely the factor of financing products issued by Islamic banking including *murabaha*, *musyarakah*, financing deposit ratio (FDR) and bank size are used as determining factors to determine how much influence they have on profitability. Of course the *murabaha*, *musyarakah*, *fd*r and bank size variables are related to the *Shariah Enterprise Theory* because the concept of accountability does not only lead to *stakeholders* but also to society based on Islamic Sharia because Allah is a source of trust and a resource owned by *stakeholders*. Islamic banking has the goal of benefiting from several operational activities that are mutually agreed upon and not in conflict with Islamic law, therefore Islamic banking is one of the business entities in the *Profit Oriented I* category.

Indonesia has fourteen sharia banks, but only four are listed on the Indonesian stock exchange, namely PT Bank Aladdin Syariah Tbk (BANK), PT Bank Syariah Indonesia Tbk (BRIS), PT Bank BTPN Syariah Tbk (BTPS), and PT Bank Panin Dubai Syariah Tbk (PNBS).

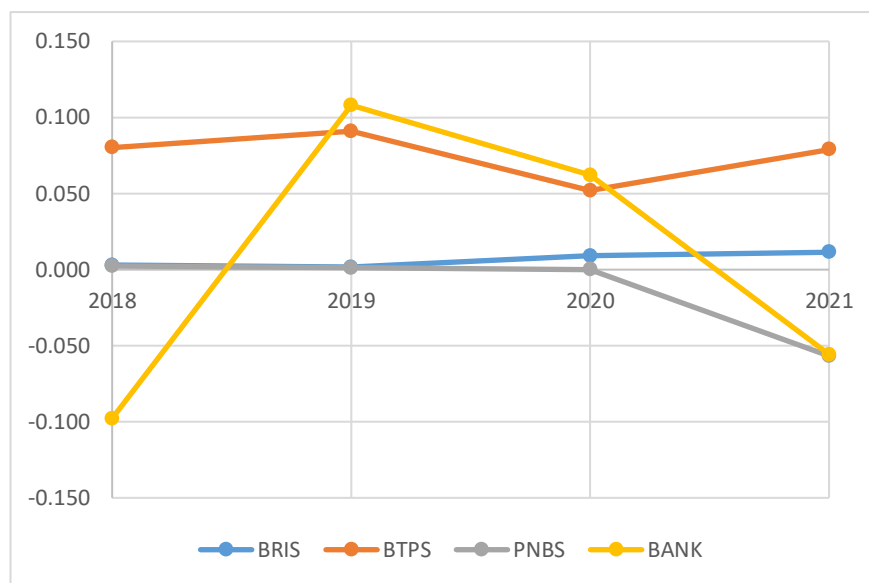


Figure 1. Return On Assets Sharia Banking on the Indonesia Stock Exchange
Source: Processed data, 2021 (Indonesian stock exchange, www.idx.co.id)

It can be interpreted from Figure 1, that there is an indicator of bank profits in getting an increase. It can be judged from BRIS's Return On Assets from 2018 0.003 that has decreased in 2019 0.002 and 2021-2022 has experienced a slight increase. BTPS from 2018 with the number 0.080 experienced an increase in 2019 0.091, and experienced a slight decrease in 2020 of 0.052 and a slight increase in 2021 of 0.079. PNBS from 2018 of 0.002 continued to decrease until 2021 to -0.057. And the Bank from 2018 decreased -0.098, 2019 increased to 0.108 so that in 2021 it decreased again -0.056. This phenomena raises the question whether Islamic banking financing products cause an increase or decrease in the value of profitability.

2. Method

Shariah Enterprise Theory states that the underlying thing for each concept determination is Allah SWT as the creator of all sources on this earth[3]. Enterprise theory is considered the most appropriate theory in sharia accounting because this theory contains the values of justice, truth, trust, and accountability. The basic principle of *Shariah Enterprise Theory* is that it can bring benefit to Stockholders, Stakeholders, Communities and the Natural Environment without leaving the important obligation to pay zakat as an implementation of worship to Allah SWT [4]. Determination coefficient measures how far the model's ability to explain the variation of the independent variable on the dependent variable, either partially or simultaneously. The coefficient of determination is used to test the goodness-fit of the regression model[5].

Profitability can be interpreted as the ability of a company, institution or organization to gain profit or profit from its business activities. Profitability is the main source of capital income which measures financial performance and expresses a bank's competitive position in the banking market. Meanwhile, profitability is the end result of several policies on decisions made by the company [6]. Islamic Banks are banks whose activities must comply with sharia principles and whose operations do not charge interest or receive interest from customers as compensation paid from customers. Because what the customer pays must be in accordance with the contract agreement between the customer and the bank [7].

According to the Financial Services Authority (OJK 2021) *Murabahah* is a financing agreement in the form of a sale and purchase transaction of an item in the amount of the acquisition price of the item plus a margin agreed by the parties, where the seller informs the buyer in advance of the acquisition price. *Murabahah* is a contract or agreement to buy and sell goods with a medium of exchange by making predetermined additions (resale of stated profit). *Musyarakah* is a cooperation contract between two or more parties for a business in which each party contributes with an agreement to get benefits and risks shared together[8]. The financing to deposit ratio (FDR) illustrates the extent to which the size of the bank fulfills the obligation to return depositors who withdraw funds with the amount of financing as a source of liquidity[9]. If the funds channeled to Islamic banks are higher in the form of financing, the ability of Islamic banks to provide loans will be higher and this will have an impact on income that generates profits in Islamic banks.

Company size can affect operational activities, especially data that is measured from the size of an asset (*Asset*) used to carry out the company's operational activities. Meanwhile, that a company that has a large size will be a driving force in presenting a high level of profitability compared to a small company size, because with a large size the company will be assessed more thoroughly and viewed critically by investors. Explanatory Research approach which explains and aims to present a complete picture of a phenomenon that you want to test with respect to the problem you want to study. Explanatory research is a research method that intends to explain the position of the variables studied and the influence between the independent variables (*Murabahah*, *Musyarakah*, FDR and Bank Size) and the independent variables (profitability)[10].

This approach is used in research with a quantitative approach. This research was conducted at the Indonesian stock exchange (IDX) which has an address at the IDX Investment Gallery at the University of Muhammadiyah Makassar which provides information on company or organization financial statements that can be accessed through the official website of the Indonesian stock exchange, www.idx.co.id. The following are the four Islamic banks which are the research samples, including the following:

Table 1. Sample Data

No	Company name	Year
1	PT Bank Syariah Indonesia Tbk	2018-2021
2	PT Bank BTPN Syariah Tbk	2018-2021
3	PT Bank Panin Syariah Tbk	2018-2021
4	PT Bank Aladdin Syarah	2018-2021

Source : secondary data, www.idx.co.id

3. Results and Discussions

Based on Table 2 on the statistical test results, the amount of data on the variable is 16. Of the three Islamic banking companies listed on the Indonesia Stock Exchange in 2018-2021. From table 4.21 it can be seen that the profitability obtained by the company is a minimum of -0.097 while the maximum value is 0.108. This shows that the profitability (ROA) of Islamic banking companies listed on the Indonesia Stock Exchange for this study is between -0.097 to 0.108 and the average value is 0.018 with a standard deviation of 0.057.

Table 2. Descriptive Statistical Test Results

	ROA_Y	MUR_X1	MUS_X2	FDR_X3	SIZE_X4
Mean	0.018171	13.02768	0.345007	1.015491	17.96597
Median	0.005973	0.628587	0.279590	0.765471	17.09265
Maximum	0.108023	199.8467	0.957159	6.467995	23.39200
Minimum	-0.097777	0.000000	0.000000	0.000000	13.40289
Std. Dev.	0.057752	49.82014	0.385646	1.495538	3.577659
Skewness	-0.253251	3.614356	0.606180	3.267215	0.355661
Kurtosis	2.361151	14.06475	1.801224	12.61039	1.860062
Jarque-Bera	0.443115	116.4553	1.937920	90.03893	1.203625
Probability	0.801270	0.000000	0.379478	0.000000	0.547818
Sum	0.290740	208.4429	5.520119	16.24786	287.4556
Sum Sq. Dev.	0.050029	37230.69	2.230846	33.54952	191.9947
Observations	16	16	16	16	16

Source: *Software Eviews 12*

This study uses estimated regression model using data panel. This can be done with three approaches including the Common effect Model, Fixed effect model, and Random Effect Model. The results were carried out using the common effect model in the table above, there is one variable that looks significant with a = 5% with an adjusted *R squared* value of

0.344656. With a probability value (*F-statistic*) of 0.068543 it means that the model is not significant. Based on the results of the fixed effect model test show that there are no significant variables with $\alpha = 5\%$. Next, the value of the adjusted *R squared* is 0.655964 with a probability value (*F-Statistic*) of 0.029894 and a Durbin-Watson Stat value of 2.476342. And then, Based on it can be seen that there is one variable that shows a significance with $\alpha = 5\%$ with an adjusted *R squared* value of 0.344656. then the probability value (*F-Statistic*) is 0.068543 and the Durbin-Watson Stat value is 1.372468.

There are several tests that can be carried out, namely: Chow test which chooses between common effect vs Fixed Effect, Hausman test by choosing between Fixed effect vs Random effect and lastly Langrange Multiplier Test which chooses between Random effect vs common effect. Based on test F test, it can be seen that the prob. Namely $0.0015 < 0.05$, it can be concluded that the most appropriate model is the Fixed Effects model. In the calculation, it can be seen that the prob. It is $0.0074 < 0.05$ based on the Hausman test, so it can be concluded that the Fixed effect model is the most appropriate than the Random effect model. Because the results obtained are Fixed effect, it is necessary to do the Langrange Multiplier test. Based on, it shows that the value of prob. Breush-pagan is $0.2831 > 0.05$ so it can be concluded that the selected model is Common Effect (CE).

Table 3. T Test (*t-test*)

Sample: 2018 2021
 Periods included: 4
 Cross-sections included: 5
 Total panel (unbalanced) observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.044121	0.160605	-0.274716	0.7886
MUR_X1	0.000174	0.000249	0.701014	0.4979
MUS_X2	-0.123222	0.095933	-1.284454	0.2254
FDR_X3	-0.020254	0.008555	-2.367585	0.0373
SIZE_X4	0.006852	0.010480	0.653812	0.5267

Source: Software Eviews 12

Based on normality test result, it above the value of probability JB of $0.540335 > 0.05$ indicates a greater prob value so that it can be concluded that the residual is normal distribution. From the multicollinarity test results, it can be seen that the correlation coefficient of each variable is less than 1, so it can be concluded that there are no symptoms of multicollinearity. Furthermore, Autocorrelatin test can be seen in the table above the probability value of $0.0027 > 0.05$, it can be concluded that there is no autocorrelation problem. In the heteroscedasticity test, the probability value of *Chi-Square* is 0.3154 greater than α 0.05, it can be concluded that there is no heteroscedasticity problem.

Table 4. Determination Coefficient Test Results

R-squared	0.519414	Mean dependent var	0.018171
Adjusted R-squared	0.344656	S.D. dependent var	0.057752
S.E. of regression	0.046752	Akaike info criterion	-3.037610
Sum squared resid	0.024043	Schwarz criterion	-2.796176
Log likelihood	29.30088	Hannan-Quinn criter.	-3.025246
F-statistic	2.972184	Durbin-Watson stat	1.485582
Prob(F-statistic)	0.068543		

Source: Software Eviews 12

Based on the test results in Table 3, the research results are as follows: 1) the effect of *murabahah* on profitability has a significance value of 0.497 greater than 0.05, meaning that *murabahah* has no significant effect on profitability. It can be concluded that *Murabahah* had no significant effect on profitability.; 2) the effect of *Musyarakah* on profitability has a significance value of 0.2254 greater than 0.05, meaning that *musyarakah* has no significant effect on profitability; 3) the effect of FDR on profitability has a significance value of 0.0373, less than 0.05, meaning that FDR has a significant effect on profitability. It can be concluded that FDR has a negative and significant effect on profitability; 4) the effect of bank size on profitability has a significant value of 0.5267 greater than 0.05, meaning that bank size has no significant effect on profitability. It is concluded that bank size has no significant effect on profitability.

Based on table 4, the Adjusted *R-Squared* is 0.344656, which means *the percentage* influence of the independent variable on the dependent variable. This means that 34% of the capital structure can be explained by *Murabahah*, *Musyarakah*, FDR and bank size while the remaining 66% is explained by other variables that are not included in this study.

4. Conclusion

Based on the research that has been done, the results of data analysis and the discussion described in the discussion regarding the determination of profitability of Islamic banking, it can be concluded as follows. *Murabaha* has no significant effect on profitability. This is because *murabahah* financing with the buying and selling principle has not been able to make a significant contribution to profitability. *Musyarakah* has no significant effect on profitability. This is because the risk of *Musyarakah* financing is large enough that it can affect profitability. The greater the value of the *musyarakah* distributed will not guarantee that *the Return On Assets* will increase. *Musyarakah* has not been able to optimize the ability of Islamic banking to generate profit. FDR has a significant effect on profitability. This is because the management can manage funds from the public to be distributed so as to generate income. As the FDR increases, the profit also increases as measured by ROA. Bank size has no significant effect on profitability. This is because the growth of Islamic banking cannot be expected and is in accordance with OJK standards so that bank size has no effect on profitability.

This study provides some contributions relating to the practice of Islamic bank financing. Since *murabaha* financing has been found to lack significant contribution to profitability, Islamic banks may need to reassess their *murabaha* structures. *Musyarakah* financing has substantial risk implications, therefore banks could develop robust risk management frameworks which could increase due diligence processes and enhancing skills in project evaluation to ensure investments yield positive results. Finally, the significant positive relationship between FDR and profitability indicates that effective fund allocation is crucial. Banks should place effort in a better matching of funding sources with investment opportunities to maximize returns.

References:

- [1] Simanjuntak BA, Tanjung F, Nasution R. Sejarah pariwisata: menuju perkembangan pariwisata Indonesia. Yayasan Pustaka Obor Indonesia; 2017

- [2] Antonio, M. (2001). *SHARIA BANK: From Theory to Practice*. Jakarta: HUMAN Echo
- [3] Fitri, S. (2023). Analysis of the Factors Influencing the Level of Non-Performing Financing (NPF) at Indonesian Sharia Commercial Banks for the 2015-2021 period. *Journal of Business Economics Informatic*, 5, 232–239
- [4] Ghazali, I. (2018). *Multivariate Analysis Application with IBM SPSS Program*. Semarang: Diponegoro University Publishing Agency
- [5] Hartati, D. S. (2021). Pengaruh Pembiayaan Mudharabah, Musyarakah, dan Ijarah Terhadap Profitabilitas Bank Umum Syariah Di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 7 (1), 235
- [6] Ismail. (2011). *Syariah banking*. Jakarta: Kencana Pranada Media
- [7] Medina Almunawwaroh, R. (2018). THE INFLUENCE OF CAR, NPF AND FDR ON BANK PROFITABILITY. *Journal of Islamic Economics and Finance*, 1-18
- [8] Sanjaya, R. (2018). Profitability Analysis in Assessing Financial Performance at PT. Taspen (Persero) Meda. *Udayana University Management E-Journal*, 2(profitability analysis in assessing financial performance at PT Taspen (Persero) Medan), 278–293
- [9] Slamet, M. (2001). Enterprise Theory dalam Kontraksi Akuntansi Syariah. *Fakultas Ekonomi Universitas Brawijaya*
- [10] Sugiyono. (2017). *Quantitative Research Methods, Qualitative, and R&D*. Bandung: Alfabeta, CV
- [11] Triyuwono, I. (2006). *Perspektif, Metodologi, dan Teori Akuntansi Syariah*. Jakarta: PT Raja Grafindo

This page is left intentionally blank