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Determinants of Islamic Commercial Bank Performance in Indonesia

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Abstract

As financial intermediary institutions, banks have a strategic role in driving the economy, so bank performance must be appropriately maintained. This study aims to analyze the effect of third-party funds and working capital financing of Islamic commercial banks on the performance of Islamic commercial banks in Indonesia. The quantitative research method was used, and multiple linear regression tests were conducted. The data type used is secondary data from 2015 to 2022, with a sample of 13 Islamic commercial banks in Indonesia. The data was obtained from BI and OJK reports published on https//www.ojk.go.id. The study results indicate that third-party funds do not affect Indonesia's ROA of Islamic commercial banks. Working capital financing significantly affects the ROA of Islamic commercial banks in Indonesia. Moreover, if together, third-party funds and working capital financing significantly affect the ROA of Islamic commercial banks in Indonesia. Third-party funds do not affect the ROA of Islamic general banks because the operational costs (BOPO) borne by Islamic general banks are included in the very high category. Therefore, to increase ROA, banks must apply the principle of prudence and valid calculations when carrying out banking operations and financing.

Keywords Islamic Commercial Banks; Islamic Bank Performance; Return on Assets Islamic commercial banks

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1. INTRODUCTION

Banks are essential in the economy as financial intermediaries, so bank performance must always be maintained (Rizal & Humaidi, 2021). The performance of Islamic banking in Indonesia has increased. This is proven by the end of 2022, the market share of Indonesian Islamic banking reached 7.09 percent. The Financial Services Authority (OJK) recorded Islamic banking assets in Indonesia of IDR 802.26 trillion by the end of 2022. This figure grew 15.63 percent annually compared to its value in the same period last year.

Meanwhile, Islamic banking financing was recorded at IDR 508.07 trillion at the end of 2022. This figure grew 20.44 percent annually compared to the previous year's period. However, it turns out that the market share of Islamic banking in Indonesia is still relatively small compared to conventional banking (Respati, 2023). (6131) (6131) (Placeholder1) (Edy, 2015)

The market share consists of 13 Islamic Commercial Banks (BUS), 20 Islamic Business Units (UUS), and 167 Islamic People's Financing Banks (*Statistik Perbankan Syariah*, 2023). This achievement must continually be improved because it is far from the target. The performance of Islamic banking must be improved so that in 2023, the Islamic financial market share of 20% can be achieved (Sebayang, 2023) because the financial sector's performance can influence economic growth. The better the performance of banks in collecting and distributing funds, the more the economy will develop (Levine, 1997).

The banking sector makes a real contribution to the economy because it can encourage working capital and investment levels (Suretno & Bustam, 2020). This can be done by financing business actors to turn the wheels of the community's economy, ultimately increasing the national economy (Fadhila, 2015). This emphasizes the importance of maintaining banking performance. Banks must be able to maintain public trust by maintaining sound financial performance because the majority of funds managed by banks are community savings funds (Hamdani et al., 2018).

Classical, Solow and Schumpeter's theories explain that capital drives the economy (Inma Fatmawati, 2015; Rinaldi Syahputra, 2017). The primary function of Islamic banks is to fundraise and distribute funds. Fundraising is measured by the Third Party Funds (DPK) variable, and fund distribution is measured by the Working Capital Financing variable (PMK). At the same time, the performance of Islamic banks is based on return on assets (ROA). Return on Assets (ROA) is an indicator used to measure a bank's ability to generate profits from managing its assets. The greater the ROA of a bank, the greater the level of profit achieved by the bank (Otoritas Jasa Keuangan, 2014).

Third-party funds are funds collected by banks from the wider community, consisting of demand deposits, deposits, certificates of deposit, savings, and other forms (Astutiningsih & Baskara, 2019). Working Capital Financing is a financing facility provided to individual customers, business entities, or legal entities for working capital needs (Litriani, 2017). The following is data from the Third Party Fund, Working Capital Financing, and ROA of Islamic Commercial Banks 2015-2022 (Billion Rupiah).

Table 1.1

Third-Party Fund, Working Capital Financing, ROA of Islamic Commercial Banks (Billion Rupiah)

No	Year	DPK (M)	PMK (M)	ROA (%)
1	2015	174.895	63.640	0,49
2	2016	206.407	68.420	0,63
3	2017	238.393	72.188	0,63
4	2018	257.606	72.425	1,28
5	2019	288.978	79.986	1,73
6	2020	322.853	80.965	1,40
7	2021	355.421	77.660	1,55
8	2022	429.029	84.244	2,00

Source: https//www.ojk.go.id

Third-party funds (DPK) have a very significant influence on the bank's Return on Assets (ROA) because DPK is one of the primary sources of bank funding (Kuncoro et al., 2020). ROA is a ratio that measures how efficiently a bank uses its assets to generate profits (Rizal & Rofiqo, 2020). Working capital financing significantly impacts the bank's Return on Assets (ROA) because this type of financing is one of the leading products banks rely on to generate income (Jatmiko & Agustin, 2018). Working capital financing is a short-term loan given to companies to finance daily operational needs, such as purchasing raw materials, paying employee salaries, or covering other operational costs (Arifin, 2018).

This is based on previous research conducted by Gani, Bahari, and Rizal (Gani & Bahari, 2021; Rizal, 2022), which discusses the performance of Islamic banks in Malaysia and Indonesia. This study is different from previous studies because it focuses on the Influence of Third Party Funds and Working Capital Financing on the Performance (Return on Assets) of Islamic Commercial Banks in Indonesia from 2015 to 2022, after the transfer of supervision of Islamic banking in Indonesia from BI to OJK.

2. METHODS

This study uses a quantitative research method because the data used are in the form of numbers analyzed using statistics (Sugiono, 2010). This study aims to determine the influence between variables in the population. The research variables used are as follows: The dependent variable (Variable Y) is Return on Assets (ROA). The independent variable (variable X) is the third-party fund variable (DPK) and working capital financing (PMK).

The primary function of Islamic banks is to fundraise and distribute funds. Fundraising is measured by the Third Party Funds (DPK) variable, and fund distribution is measured by the Working Capital Financing variable (PMK). At the same time, the performance of Islamic banks is based on return on assets (ROA). Return on Assets (ROA) is an indicator used to measure a bank's ability to generate profits from managing its assets. The greater the ROA of a bank, the greater the level of profit achieved by the bank (Otoritas Jasa Keuangan, 2014).

The type of data used in this study is secondary data in the form of monthly data from January 2015 to December 2022. The population and sample of this study are 13 Islamic commercial banks in Indonesia. The type and source of data used are secondary data in the form of monthly reports from the Financial Services Authority and the Central Statistics Agency from the website ojk.go.id. The selection of this data, considering data availability and the number of observations of 84 (data), is considered representative. The data obtained is then processed using the SPSS analysis tool by conducting Hypothesis tests, Individual Parameter Significance Tests, Simultaneous Significance Tests, and Determination Coefficients (R2).

In this study, the path analysis method is used to test the influence of intervening variables. Path analysis is an extension of multiple linear regression analysis; path analysis uses regression analysis to estimate the causal relationship between variables (causal) previously determined based on theory; the arrows will show the relationship between variables.

The equation in this model consists of two stages, namely:

$$Y_1 = b_1 X_1 + b_2 X_2 + e_1$$

Description:

Y_1 : ROA Ratio

α : Constant

β_1,β_2,β_3, : Regression Coefficient of Each Variable

X_1: Third Party Funds (DPK)

X_2 : Working Capital Financing (PMK)

e : *Standar Eror*

3. FINDINGS AND DISCUSSION

3.1. Determination Coefficient Test

The coefficient of determination (R2) explains the percentage of the dependent variable that can be explained by the independent variables simultaneously. This coefficient of determination shows how much influence the independent variable has on the dependent variable.

The coefficient of determination value can be seen in the following table:

Table 2. Determination Coefficient test results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	,930[a]	,865	,855	,20195[a]

Predictors: (Constant), PMK, DPK
Dependent Variable: ROA
Source: SPSS Output Data (processed data)

The output results in the table show that the determination coefficient value (Adjusted R^2) is 0.855, which means that 85.5 percent of the dependent variable (ROA) can be explained by the independent variables (DPK and PMK). In comparison, other variables outside this study explain the remaining 14.5 percent.

3.2. Simultaneous Significance Test (F statistic test)

The F statistical test shows whether all independent variables intended in the regression model simultaneously influence the dependent variable. The following are the results of the F test presented in the following table:

Table 3. F Statistic Test Results

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7,066	2	3,533	86,626	,000[b]
Residual	1,101	27	,041		
Total	8,167	29			

Dependent Variable : ROA
Predictors : (Constant), PMK, DPK.
Source: SPSS Output Data (processed data)

From the results of the F test, it can be seen that the independent variables significantly influence the dependent variable. This can be proven from the calculated F value of 86.626 with a significance value of 0.000. Because the significance value is much smaller than 0.05, the regression model can be used to predict ROA, or it can be said that DPK and PMK together significantly influence ROA.

Third-party funds (DPK) have a very significant influence on the bank's Return on Assets (ROA) because DPK is one of the primary sources of bank funding (Kuncoro et al., 2020). ROA is a ratio that measures how efficiently a bank uses its assets to generate profits (Rizal & Rofiqo, 2020). Working capital financing significantly impacts the bank's Return on Assets (ROA) because this type of financing is one of the leading products banks rely on to generate income (Jatmiko & Agustin, 2018).

Working capital financing is a short-term loan given to companies to finance daily operational needs, such as purchasing raw materials, paying employee salaries, or covering other operational costs (Arifin, 2018). So, it can be concluded that the DPK and PMK variables significantly affect the ROA of Islamic commercial banks in Indonesia. This is supported by previous research (Thoyyibah & Fitri, 2024) that shows that DPK and PMK significantly affect ROA.

3.3. Multiple Linear Regression Test

Multiple regression analysis is used when there is an assumption of a linear relationship between the dependent variable and its explanatory variables.

Table 3. Multiple Linear Regression Analysis Results

Coefficients[a]

Model	Unstandardized Coefficients	Unstandardized Coefficients	Standar dized Coefficients	t	Sig.
	B	Std. Error	Beta		
1(Constant)	-2,415	,747		-3,231	,003
DPK	2,537E-6	,000	,362	1,736	,094
PMK	4,170E-5	,000	,582	2,791	,010

Dependent Variable: ROA
Source: SPSS Output Data (processed data)

From the t-test results, it can be seen that the t-value of DPK is 1.736, with a significance value of 0.94. Because the significance value is more significant than 0.05 (α = 5 percent), it can be concluded that there is no significant influence between the DPK variable and ROA. Thus, it can be concluded that DPK does not affect ROA. The t-value of PMK is 2.791, with a significance value of 0.010. Because the significance value is less than 0.05 (α = 5 percent), it can be concluded that there is a significant influence between the PMK variable and ROA. Thus, it can be concluded that PMK has a positive and significant effect on ROA.

3.4. The Influence of Third-Party Funds on Return on Assets of Islamic Commercial Banks in Indonesia

Third-party funds do not have a significant effect on ROA, meaning that the large amount of funds successfully collected by the bank from the public does not automatically increase the profit obtained by the bank because the profit obtained by the bank is due to the level of financing that has been carried out. The lower financing by Islamic banks means that the bank cannot utilize the funds obtained optimally, impacting the bank's profit. Because financing at banks provides the most outstanding results (profits) compared to other products (Hakim, 2020).

The average Operating Expense / BOPO of Islamic Commercial Banks during the study was 89.50 percent, included in the very unhealthy category and included in the fifth rank (*SEBI No.13/24/DPNP Tentang Penilaian Kesehatan Bank Umum*, 2011). On the other hand, banks must also be able to run operations properly and smoothly, of course, with the consequences of the costs attached. This emphasizes that DPK does not have a significant effect on ROA. The results of this study are supported by research conducted by Anisa Sri Rahayu, Andri Indrawan, and Ade Sudarma, which states that DPK does not affect ROA (Rahayu et al., 2021).

3.5. The Influence of Working Capital Financing on Return on Assets of Islamic Commercial Banks in Indonesia

Working capital financing significantly impacts the bank's Return on Assets (ROA) because this type of financing is one of the leading products banks rely on to generate income. Working capital financing is the primary banking source for obtaining profits; if the bank distributes more financing, the bank's profit will increase. Therefore, the financing quality must be maintained with great care so that problematic financing does not occur (Ilyas, 2019).

Moreover, working capital financing is included in financing in the productive sector, which is more effective in driving the economy and community welfare (Risal, 2019). Based on this, it is clear that working capital financing affects the ROA of Islamic commercial banks. Sayid Aulia Taslim and Suppaemi, Nugroho, and Baharuddin support this study's results, which state that PMK affects ROA (Taslim, 2021).

4. CONCLUSION

Based on the results of the analysis, third-party funds do not affect the ROA of Islamic banks in Indonesia. Working capital financing significantly affects the ROA of Islamic banks in Indonesia. Moreover, if together, third-party funds and working capital financing significantly affect the ROA of Islamic banks in Indonesia. Third-party funds do not affect the ROA of Islamic banks, which can be caused by the high operational burden (BOPO). The BOPO of Islamic banks during the research period was very unhealthy. Therefore, to increase ROA, banks must be careful in carrying out operations and financing to maintain operational burdens adequately.

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