Analysis of The Factors that Affecting Islamic Bank Profitability (Empirical Study on Islamic Bank in Indonesia Period 2012-2014)

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Abstract

Islamic Banking is one sector that has the potential to compete in the ASEAN Economy Community. As the country with the largest muslim population in the world, Indonesia has the potential to be the center of the development of Islamic banking and finance industy in ASEAN and the world. However, these advantages still can be maximized by islamic banking in Indonesia to obtain higher profitability.

This research aims to analyze the influence of murabaha financing, Non Performing Finance and Financing to Deposit Ratio to profitability Islamic banks in Indonesia that are projected by Return on Assets. The population in this study is the Islamic Banks in Indonesia. Sample selection technique used is purposive sampling and obtained nine Islamic Banks with a period of study in 2012-2014. Methods of data analysis in this research is panel data regression analysis using Eviews software version 8.

The results showed that murabaha financing, Non Performing Finance and Financing to Deposit Ratio simultaneously has significant effect on profitability. While partially, murabaha financing no significant effect on profitability, Non Performing Finance significant negative effect on profitability, and Financing to Deposit Ratio significant positive effect on profitability.

Keywords: Murabaha Financing, Non Performing Finance (NPF), Financing to Deposit Ratio (FDR), Profitability, Return on Assets (ROA)

1. Introduction

ASEAN Economic Community (AEC) is a realization of the ultimate goal of economic integration adopted in the ASEAN Vision 2020. This means that MEA will establish a system of free trade between ASEAN countries. This policy has been planned in advance, but because of the urgent need, especially in terms of bilateral cooperation and the strengthening of the ASEAN countries against foreign products it is referred MEA implementation at the latest by 2015. The aim is to improve the economic stability in the ASEAN region, so that MEAs are expected to be able to overcome the problems in the economic field between ASEAN countries.

Indonesia is one of the countries that are part of the MEA, so that Indonesia must be ready to face the era of free economy like AEC. Indonesia must merge the territorial limits of the country in a free market that is expected to be the backbone of the economy in Asia after China. The whole industry will be competing in the MEA market, for that Indonesia needs to make improvements in it industries, particularly industries that have the potential compared to other countries that can compete and be accepted by the other ASEAN countries. One of the industries that have the potential according to Bank Indonesia deputy governor, Dr. Halim Alamsyah (2012) is the

Islamic banking industry. According to Law No. 21 of 2008 on Perbank Sharia, Islamic Banking is the bank running their business based on Sharia Principles and by type consisting of Islamic Banks and Public Islamic Bank Financing or called BPRS. The Syariah principle is a principle of Islamic law in banking activities that have authority in setting the fatwa in the field of sharia.

Islamic banking in Indonesia has huge growth potential. As the country with the largest Muslim population in the world, Indonesia has the potential to be the center of the development of Islamic banking and finance industry, in ASEAN and the world. These advantages, still can not be maximized by Islamic Banks in Indonesia to obtain higher profitability. As well as other business entities, profitability is one indicator of the performance of the entity that is expected to be achieved Islamic Banks. According to Kasmir (2012: 196) profitabiltias ratio is the ratio to assess the company's ability to make a profit. This ratio also provides a measure of the effectiveness of management of a company.

Return on Assets (ROA) is a profitability ratio. According to Kasmir (2012: 201) ROA is a ratio showing results (return) on the amount of assets used in the company. In addition, ROA provides a better measure for the profitability of the company because it shows the effectiveness of management in using assets to generate revenue. Relevant profitability analysis used in researching the banking profitibalitas is ROA. According to Meythi (2005: 259) The reason for the use of ROA due to Bank Indonesia as manager and supervisor of banking assets are more concerned with funds from the public. Besides, ROA is the most objective measurement method that is based on accounting data provided and the amount of ROA may reflect the results of a series of corporate policies, especially banking.

In the period 2012-2014, almost all Islamic Banks ROA decreased every year. The decline in ROA Islamic Banks showed that less than maximum utilization of the advantages possessed by Indonesia as the country with the largest Muslim population in the world which will provide greater potential for Islamic Banks in doing the collection and distribution of funds. Therefore, the need for an analysis of the factors affecting the profitability Islamic Banks. In this study, the factors to be studied are financing murabaha, Non Performing Finance (NPF), and Financing to Deposit Ratio (FDR).

Based on data that obtained from the financial statements of each Islamic Banks, ROA at each Islamic Banks almost always decreased during the years 2012-2014. The decrease in the ROA and the increase of murabaha financing every year in almost all Islamic Banks during the years 2012-2014, NPF tend to fluctuate over the years 2012-2014, and FDR tend to fluctuate over the years 2012-2014.

The purpose of this research is to determine the financing murabaha, NPF, FDR, and ROA Sharia padaBank the period 2012-2014, to determine the effect of murabaha financing, the ratio of Non Performing Finance (NPF), and Finance to Deposit Ratio (FDR) effect on profitability Islamic Banks in Indonesia simultaneously in the period 2012-2014, to determine the effect on profitability of murabaha financing partially in Indonesia Islamic Banks in the period 2012-2014, to determine the effect of the NPF profitabiltias Indonesia Islamic Banks in the period 2012-2014, and to determine the effect on the profitability FDR Islamic Banks di partial in Indonesia 2012-2014.

2. Literature Review

2.1. Profitability

According to Kasmir (2012: 196) profitabilty ratio is the ratio to assess the company's ability to make a profit. This ratio also provides a measure of the effectiveness of management of a company. One is profitability ratios Return on Assets (ROA). According to Kasmir (2012: 201) ROA is a ratio showing results (return) on the amount of assets used in the company. In addition, ROA provides a better measure for the profitability of the company because it shows the effectiveness of management in using assets to generate revenue. Meythi (2005: 259) argue that the use of ROA due to Bank Indonesia as manager and supervisor of banking assets are more concerned with funds from the public. Besides, ROA is the most objective measurement method that is based on accounting data provided and the amount of ROA may reflect the results of a series of corporate policies, especially banking. According to Annex 14 of Bank Indonesia Circular Letter No. 13/30 / DPNP 2011. ROA can be expressed mathematically by the following formula.

$$ROA = \frac{Earning\ before\ tax}{Average\ total\ assets}$$

2.2 Murabaha Financing

Murabaha financing or bai 'al-murabaha by Antonio (2011: 101) is selling goods at the original price with the added advantage that is agreed upon. In bai 'al-murabaha, the seller must notify the product price that he bought and determining a level of profit as enhancements. According to Mahardika (2015: 147) murabaha instrument is also called the cost plus margin, a financing instrument. The use of this instrument requires that the Islamic banks to inform customers of the asset price and margin imposed.

2.3 Non Performing Financing (NPF)

According to Rivai, et al. (2013: 618) NPF is not smooth financing or financing in which the debtor does not meet the requirements of the agreement, for example, the requirement regarding the principal loan repayment, an increase in margin deposits, increased collateral, and so forth. According to Mahardika (2015: 179), there are two kind of NPF, that is NPF Net and NPF Gross. NPF Net, is the ratio between the total financing problems of financing and considering the allowance for uncollectible. Meanwhile, Gross NPF is the ratio between the total financing problems of financing regardless of allowance for uncollectible. Allowance for uncollectible is a provision has been formed to anticipate their financing problems. Therefore, NPF Gross shows a comparison of financing problems regardless of allowance for uncollectible estimates made by the bank. The formula used to calculate the non-performing loan (NPL) Gross Gross or NPF under Annex 14 of Bank Indonesia Circular Letter No. 13/30 / DPNP 2011 are as follows.

$$NPF\ Gross = \frac{Non\ performing\ loan}{Total\ loan}$$

2.4 Financing to Deposit Ratio (FDR)

According to Mahardika (2015: 180) FDR is the ratio between the amount of funds disbursed in the lending sector with funds collected on the funding side. This ratio measures the level of distribution of funds in the lending sector by using funds raised on the funding side. FDR is calculated based on Annex 14 of Bank Indonesia Circular Letter No. 13/30 / DPNP years 2011yang mathematically be written by the following formula.

$$FDR = \frac{Credit}{Third\ Party\ Fund}$$

2.5 Rational Framework

2.5.1 The Effect of Murabaha Financing on Profitability Islamic Bank in Indonesia

According to Antonio (2011: 101) bai 'al-murabaha is selling goods at the original price with the added advantage that is agreed upon. In bai 'al-murabaha, the seller must notify the product price that he bought and determining a level of profit as enhancements. Islamic Banks acting as the seller, while the buyer acts as a client. Terssebut agreed additional advantage is the return to the Islamic Banks of murabaha financing which has disalurkannya. This is an additional benefit that is expected to increase profits Islamic Banks, so that will contribute to improving the profitability Islamic Banks.

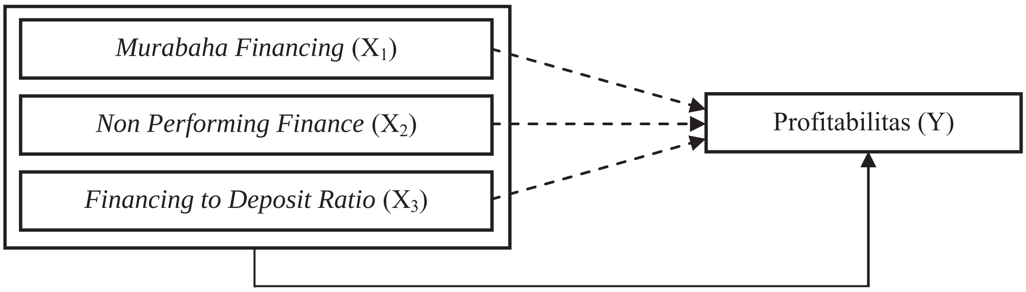
2.5.2 The Effect Non Performing Finance on Profitability Islamic Bank in Indonesia

According to Rivai, et al. (2013: 618) Non Performing Finance (NPF) is a non-current financing or financing in which the debtor does not meet the requirements of the agreement, for example, the requirement regarding the principal loan repayment, an increase in margin deposits, increased collateral, and so forth. According to Mahardika (2015: 179) the higher the NPF indicates the high level of financing problems and also indicates the poor quality of the process of channeling Islamic bank financing. Therefore Kasmir (2012: 76) said that the higher this ratio the more bad quality credit bank is causing the number of non performing loans grew, and therefore the bank should bear the losses in its operations that affect the decline in earnings (profitability) obtained by banks.

2.5.3 The Effect Financing to Deposit Ratio on Profitabilitas Islamic Bank in Indonesia

According to Mahardika (2015: 180), FDR (Financing to Deposit Ratio) is the ratio between the amount of funds disbursed in the lending sector with funds collected on the funding side. This ratio measures the level of distribution of funds in the lending sector by using funds raised on the funding side. According to Mulyono (1995: 101) in Wardiah (2013: 298) FDR high ratio indicates that a bank lends all his funds (loan-ups). Thus, the distribution of funds that had enabled Islamic Banks in order to obtain higher profitability derived from profits from the distribution of funds.

Based on the things that has researchers pointed out earlier, it can be described as follows research framework.



Keterangan:

Simultaneously effect
Partial effect

Fig. 1. Rational Framework

2.6 The Research Hyphothesis

Based on the theory and framework described previously, the research hypothesis can be formulated as follows:

H_1 = Murabahah Financing, Non Performing Finance dan Financing to Deposit Ratio simultaneously have significant effect on the profitability of Islamic Bank Indonesia in 2012-2014.

H_2 = M*urabaha* Financing partialy have significant effect on the profitability of Islamic Bank Indonesia in 2012-2014.

H_3 = *Non Performing Finance* partialy have significant effect on the profitability of Islamic Bank Indonesia in 2012-2014.

H_4 = *Financing to Deposit Ratio* partialy have significant effect on the profitability of Islamic Bank Indonesia in 2012-2014.

3. Research Methodology

The population in this study is 11 Islamic Banks which is registered in Bank Indonesia in 2012-2014. The sampling technique used in this study are non probability sampling using purposive sampling. Criteria for selection of samples in this study are : (1) Islamic Banks registered in Bank Indonesia 2012-2014; (2) The Islamic Banks that issued audited financial statements for the period 2012-2014, in order to obtain 9 Islamic Banks with a 3-year study period. Based on these results, this study used a sample of 27 units.

Data analysis techniques used in this research is descriptive statistical analysis and panel data regression analysis with methods common effect. The equation of panel data regression model in this study are:

$$\boxed{Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}}$$

Explanation:

i	= firm	X_1	= murabahah financing
t	= time	X_2	= non performing finance
β_0	= intercept coefficient	X_3	= financing to deposit ratio
β_x	= slope coefficient	e	= disturbances
Y	= profitability		

4. Result

Based on the testing that was done, the panel data regression methods suitable for use in this research is a method common effect. Here is presented the results of the test methods common effect.

Table 1 The Result of Common Effect Model

Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/22/16 Time: 15:21
Sample: 2012 2014
Periods included: 3
Cross-sections included: 9
Total panel (balanced) observations: 27

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.064762	0.050534	-1.281549	0.2128
LNMRBH	0.002133	0.001719	1.240514	0.2273
NPF	-0.282156	0.115996	-2.432467	0.0232
FDR	0.024953	0.006241	3.998231	0.0006

R-squared	0.465036	Mean dependent var	0.013978
Adjusted R-squared	0.395258	S.D. dependent var	0.010407
S.E. of regression	0.008093	Akaike info criterion	-6.659584
Sum squared resid	0.001507	Schwarz criterion	-6.467608
Log likelihood	93.90439	Hannan-Quinn criter.	-6.602500
F-statistic	6.664523	Durbin-Watson stat	1.140055
Prob(F-statistic)	0.002113		

Source: Output Eviews 8

Table 2 can be formulated based on panel data regression model which explains the influence of murabaha financing, Non Performing Finance and Financing to Deposit Ratio in Commercial Bank Syariah 2012-2014, nam
ely:

$$ROA = -0{,}064762 + 0{,}002133\ LNMRBH - 0{,}282156\ NPF + 0{,}024953\ FDR + e$$

4.1 F Test

In this study the F test was used to test the simultaneously effect of variable financing murabaha, Non Performing Financing, and Financing to Deposit Ratio on profitability Islamic Banks that projected by Return on Assets with a probability value that is used 0.05. According to the table 2 can be seen the value of Prob (F-Statistics) generated amounted to 0.002113 <0.05. Based on these results we can conclude that H_0 rejected and Ha accepted, which means financing murabaha, Non Performing Financing, and Financing to Deposit Ratio simultaneously have significant effect on profitability Islamic Banks.

4.2 T Test

In this research, the partial test of the effect of each variable murabaha financing, Non Performing Financing, and Financing to Deposit Ratio as the independent variable on profitability that projected by Return on Assets (ROA) as dependent variable. Based on the test results in Table 2 it can be concluded as follows:

1. Probability value (T-statistic) murabaha financing (LNMRBH) is equal to 0.2273. Probability value (T-Statistics) shows that Probability (T-statistic)> 0.05 and the value T calculated at 1.240514 to the T table of 2.06866 obtained from T Table using a significance limit of 0,050 and df = 23 (df = nk = 27-4 = 23, where n

is the number of observations or samples forming regression and k is the number of independent and dependent variables). It shows that the value of T $_{calculated}$ < T $_{table}$, then in accordance with criteria decision-making can be concluded that Ho received and explain murabaha financing partially have no significant effect on profitability.

2. Probability value (T-statistic) Non Performing Finance (NPF) amounted to 0.0232. Probability value (T-Statistics) shows that Probability (T-statistic) <0.05 and value T calculated at 2.432467 to the T table of 2.06866 obtained from T Table using a significance limit of 0,050 and df = 23. It shows that the value of T $_{calculated}$ > T $_{table}$, then in accordance with criteria decision-making can be concluded that Ho rejected and explain Non Performing Finance partially have significant effect on profitability.
3. Probability value (T-statistic) Financing to Deposit Ratio (FDR) was 0.006. Probability value (T-Statistics) shows that Probability (T-statistic) <0.05 and value T calculated at 3.998231 to the T table of 2.06866 obtained from T Table using a significance limit of 0,050 and df = 23. It shows that the value of T $_{calculated}$> T $_{table}$, then in accordance with krietria decision-making can be concluded that Ho rejected and explain Financing to Deposit Ratio partially have significant effect on profitability.

4.3 Coefficient of Determination (R^2)

The coefficient of determination describes the proportion of dependent variable explained by the independent variables together. According to the table 4.8 obtained adjusted R-Squared value of 0.395258 or 39.53%. The value indicates that the independent variables can explain the dependent variable of 39.53%, while the remaining 60.47% is explained by other factors. According Ghozali (2011: 97), coefficient determination means approaching one independent variable provide almost all the information needed to predict the variation of the dependent variable.

5. Conclusion

Based on panel data regression analysis, showed that simultaneous financing murabaha, Non Performing Finance and Financing to Deposit Ratio significant effect on profitability. Partially, murabaha financing does not have a significant effect on profitability, Non Performing Finance significant negative effect on profitabiilitas and Financing to Deposit Ratio significant positive effect on profitability.

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