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Effect of Capital Adequacy Ratio, Non-Performing Financing, Financing to Deposit Ratio, and Operational Expenses on Operational Income on the Profitability of Sharia Banking in Indonesia (2016-2020)

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ABSTRACT

The aim of this research is to analyze effect of capital adequacy ratio, non performing financing, financing to deposit ratio, and operational expenses on operational income on the profitability of Sharia Banking in Indonesia from 2016 to 2020. This research uses quantitative research methods. Population in this study is Sharia Commercial Bank registered with Bank Indonesia obtained from Sharia Banking Statistics via the Financial Services Authority website from 2016 to 2020. Sample used in this research is Sharia Commercial Bank which have been registered with Bank Indonesia since 2014, with using financial reports and Sharia Banking statistics found on the Financial Services Authority website. So, sample in this research is 12 Sharia Commercial Bank. The model used to test this hypothesis is a multiple regression analysis model. The research results show that capital adequacy ratio has a positive and significant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Non performing financing has a negative and insignificant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Financing to deposit ratio has a positive and insignificant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Operational expenses on operational income have a negative and significant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020.

Keywords: Capital Adequacy Ratio, Non-Performing Financing, Financing to Deposit Ratio, Operational Expenses on Operational Income, Profitability

INTRODUCTION

In the current era, especially in Indonesia, where the majority of the population is Muslim, there is a major potential for the Sharia Banking industry to be able to develop and be able to compete with conventional banks. As a country with the largest Muslim population in the world, since the 1980s, it has started pioneering efforts to establish Islamic banks to fulfill demand from the public who need alternative banking services that comply with Islamic sharia. Sharia Banking or finance is finance based on the principles of Islamic law originating from the Al-Qur'an and Hadith (Ismail, 2016).

In the 2016-2020 period, every year there is an increase in profits in the Sharia Banking industry. Especially in 2018, there is a very drastic increase in profits from the previous year, where in 2018 the profits of Sharia commercial banks are around Rp3,806,000,000,000, and in 2019 there is an increase in profit, namely around Rp1,206,000,000,000. Likewise, in 2020, there is an increase in profit, namely Rp1,430,000,000,000. Looking at the profit increase table from the sample of Islamic Commercial Banks taken, it can be seen that every year there is an increase in profits from year to year, so the overall accumulated profit of Islamic Commercial Banks increases every year.

In 2019, Indonesia's total sharia financial assets reached US$99 billion, an increase from US$86 billion the previous year. This increase in total assets places Indonesia in 7th position with the largest total sharia financial assets in the world. The biggest increase is in the Sharia Banking sector with an increase of US$10 billion from the previous year's US$28 billion to US$38 billion, followed by an increase in sukuk from US$51 billion to US$57 billion. In all sharia financial sectors, including Sharia Banking, sharia insurance, other sharia non-bank financial institutions outside of takaful, sukuk and sharia mutual funds, Indonesia ranks in the top ten in terms of total assets. This data shows that Indonesia is one of the countries that will become a reference in terms of sharia finance.

Meanwhile, for the development of the sharia financial industry in Indonesia, the authority to issue sharia fatwas rests with the National Sharia Council (DSN), which is formed by the Indonesian Ulema Council (MUI), which stands independently. In Indonesia, the emergence of the Sharia Banking system is a transition from conventional banking (Zahra et al., 2018).

The development of Sharia Banks cannot be separated from measuring its profitability. The profitability measurement used to predict the prospects of a company is by paying attention to the profit growth rate. The ratios used to assess the level of profitability include return on assets (ROA). ROA measures a company's ability to generate profits by using the total assets owned by the company after adjusting for the costs to fund these assets (Muhammad, 2014).

According to Kasmir (2014:201) return on assets defines a ratio that shows the results of the number of assets used in the company.

Return on assets describes the extent to which the company's assets can generate profits. According to Kasmir (2014:201) return on assets is defined as a ratio that shows the results on the number of assets used in the company.

Apart from return on assets, non-performing financing and operational expenses on operational income can also affect profitability. According to Syaifullah (2020), the ratio of operational expenses to operational income is often called the operational efficiency ratio. This ratio is used to measure the ability of bank management to control operational costs to operational income. The smaller the ratio of operational expenses to operational income, the more efficient the Islamic bank is in paying the bank's operational costs.

The aim of this research is to analyze effect of capital adequacy ratio, non performing financing, financing to deposit ratio, and operational expenses on operational income on the profitability of Sharia Banking in Indonesia from 2016 to 2020.

RESEARCH METHODS

This research uses quantitative research methods. Quantitative research is scientific research that systematically examines parts and phenomena and their relationships. Quantitative data is data presented in the form of numbers (Andanika, 2017). The aim of quantitative research is to develop and use systematic models, theories and hypotheses related to the phenomena that occur. Quantitative research is a type of research that produces discoveries that can be achieved using statistical procedures or other means of quantification (Sujarweni, 2015).

Population is a generalized area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn (Erlina, 2011). Population in this study is Sharia Commercial Bank registered with Bank Indonesia obtained from Sharia Banking Statistics via the Financial Services Authority website from 2016 to 2020. Sample used in this research is Sharia Commercial Bank which have been registered with Bank Indonesia since 2014, with using financial reports and Sharia Banking statistics found on the Financial Services Authority website. Researchers use purposive sampling techniques in taking research samples, namely the technique of determining samples with certain considerations (Sugiyono, 2016). Indeed, currently there are 14 Sharia Commercial Bank that have been listed with Bank Indonesia, but only 12 Sharia Commercial Bank have been listed since 2014. So, sample in this research is 12 Sharia Commercial Bank.

The model used to test this hypothesis is a multiple regression analysis model. The data analysis carried out is quantitative data expressed in y numbers in the calculations using statistical methods assisted by the Eviews data program. Parsial (t) test aims to show how far the influence of an independent variable individually is in explaining variations in the dependent variable (Ghozali and Ratmono, 2017). t test is used to determine whether in the regression model the independent variable partially has a significant effect on the dependent variable. This test is carried out to see the influence of the dependent variable partially by drawing conclusions by looking at the prob. value (p-value) which is compared with the significant value (5%/0.05).

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is used to determine the description of data in terms of the maximum value, minimum value, average value and standard deviation value. In this research, the variables used in calculating descriptive statistics are the value of asset increase, capital adequacy ratio (CAR), non performing financing (NPF), financing to deposit ratio (FDR), operational expenses on operational income (BOPO) and profitability (ROA).

It is known that the minimum value of CAR is 11.51000, namely the car ratio owned by Bank Panin Syariah in 2017 and the ROA value in 2017 is 11.51%, while the maximum value of CAR is 241.7400, namely the car ratio owned by Maybank Syariah which occurred in 2019 and the ROA value of Maybank Syariah in 2019 is 15.36%, which increased from the previous year. The average value of CAR is 37.21556, while the standard deviation value of CAR is 53.55943.

It is known that the minimum value of NPF is 0.0000, namely the NPF ratio owned by Maybank Syariah which occurred in 2017 and 2018, while the ROA value from that year is 5.50% and 0.12%, while the maximum value of NPF is 43.99, namely the NPF ratio. owned by Maybank Syariah which occurred in 2016, while the ROA value in 2016 is -9.51%, this means that the higher the NPF value, the effect on the ROA value, where the higher the NPF value, the lower the ROA ratio. The average value of NPF is 5.724167, while the standard deviation value of NPF is 7.419513.

It is known that the minimum value of FDR is 68.5170, namely the FDR ratio owned by Bank Muamalat Indonesia which occurred in 2019 and the value of the ROA ratio in 2019 is 0.05% which has decreased, this means that the lower the FDR, the more it will affect the ROA value. while the maximum value of FDR is 148.2600, namely the FDR ratio owned by Maybank Syariah which occurred in 2018 and the ROA value of Maybank Syariah is 0.12. This means that increasing the FDR ratio will have a positive effect on the ROA value. The average value of FDR is 90.20510, while the standard deviation value of FDR is 12.37887.

It is known that the minimum value of BOPO is 58.0700, namely the BOPO ratio owned by Bank BTPN Syariah which occurred in 2019 and the ROA value of Bank BTPN Syariah is 13.58% which has increased, while the maximum value of BOPO is 217.4000, namely the BOPO ratio owned by Panin Syariah Bank which occurred in 2017 and the ROA value in 2017 is -10.17, which decreased from the previous year. This means that increasing BOPO will have a negative effect on ROA. The average value of BOPO is 94.66556, while the standard deviation value of BOPO is 24.73563.

It is known that the minimum value of ROA is -20.1300, namely the ROA ratio owned by Maybank in 2015, the ROA ratio owned by Maybank Syariah so that there is a minus due to the decrease in assets that occurred, the BOPO and NPF ratios increased and are classified as high, exceeding the health standards set by Bank Indonesia thus causing a decrease and negative Maybank Syariah ROA ratio, while the maximum value of ROA is 15.36, namely the ROA ratio owned by Maybank Syariah which occurred in 2019. The average value of ROA is 1.119861, while the standard deviation value of ROA is 5.100969.

Hypothesis Test

In hypothesis testing, using multiple linear regression analysis of panel data, partial (t) effect test analysis will be carried out and the statistical values of t test coefficients are presented in Table below:

Table 1. Statistical Value of t Test Based on REM Model Multiple Linear Regression Test

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 05/15/22 Time: 17:59				
Sample: 2015 2020				
Periods included: 6				
Cross-sections included: 12				
Total panel (balanced) observations: 72				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.029413	0.007971	3.690176	0.0005
X2	-0.045889	0.065856	-0.696805	0.4883
X3	0.006109	0.033703	0.181249	0.8567
X4	-0.152631	0.019208	-7.946367	0.0000
C	14.18577	2.918124	4.861265	0.0000
R-squared	0.696657	Mean dependent var		1.119861
Adjusted R-squared	0.678547	S.D. dependent var		5.100969
S.E. of regression	2.892088	Akaike info criterion		5.028750
Sum squared resid	560.3994	Schwarz criterion		5.186851
Log likelihood	-176.0350	Hannan-Quinn criter.		5.091690
F-statistic	38.46803	Durbin-Watson stat		1.707722
Prob(F-statistic)	0.000000			

Source: EViews 10 Software Processing Results

The research results show that capital adequacy ratio (X_1) has a positive and significant effect on the profitability (Y) of Sharia Banking in Indonesia from 2016 to 2020. Capital adequacy ratio (CAR) is a ratio that shows capital adequacy, namely the amount of capital needed to cover the risk of loss arising from risky assets. In accordance with Bank Indonesia Regulation Number 10/15/PBI/2008 article 2 paragraph 1, banks in Indonesia are required to provide minimum capital of 8% of risk-weighted assets (RWA). CAR value describes the increasingly high capital condition of the bank, therefore the bank is increasingly able to bear the risk of any risky financing or productive assets so that the bank has more freedom in providing financing to third parties. The greater the financing provided to third parties, the greater the income the bank will receive, which will then increase the bank's profitability (ROA). So it will be concluded that the higher CAR, the higher the profitability (ROA) of a bank.

Non performing financing (X_2) has a negative and insignificant effect on the profitability (Y) of Sharia Banking in Indonesia from 2016 to 2020. Non performing financing (NPF) is a financial ratio that is related to the amount of risk experienced by a bank. In this case, what is meant by credit risk is the possibility of failure to pay and non-repayment of financing received by customers. The higher the NPF at a bank means that the bank has financing risks borne by the bank. So the greater the NPF of a bank will cause the bank's profitability (ROA) to decrease.

Financing to deposit ratio (X_3) has a positive and insignificant effect on the profitability (Y) of Sharia Banking in Indonesia from 2016 to 2020. Financing to deposit ratio (FDR) or what is usually called the financing ratio provided by the bank, with third party funds successfully collected by the bank. According to the agreement in the Indonesian Sharia Banking Association (Asbisindo), the ideal FDR is in the range of 80% to a maximum of 90% which is considered a healthy FDR ratio. If a bank has an FDR ratio of 75% (below the ideal standard) then it can mean that the bank only distributes 75% of all funds collected. On the other hand, if the FDR ratio reaches more than 100%, it can be said that the bank has exceeded the ideal limit set by Asbisindo. FDR is calculated from financing divided by third party funds which have been successfully collected so that the distribution of financing is also high, high financing can also produce high profits, thereby increasing the company's profitability.

Operational expenses on operational income (X_4) have a negative and significant effect on the profitability (Y) of Sharia Banking in Indonesia from 2016 to 2020. Operational expenses on operational income (BOPO) are a financial ratio used to measure the level of efficiency and effectiveness of a bank in carrying out its operational activities. This BOPO ratio measures the ability of operational income to cover operational costs. From this BOPO value, the performance condition of the bank concerned can be seen.

CONCLUSION AND SUGGESTION

The research results show that capital adequacy ratio has a positive and significant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Non performing financing has a negative and insignificant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Financing to deposit ratio has a positive and insignificant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020. Operational expenses on operational income have a negative and significant effect on the profitability of Sharia Banking in Indonesia from 2016 to 2020.

Based on the results of the analysis, as for the implications of what the researchers have done, namely those expressed in the form of suggestions given through the research results in order to get better results, the researchers provide the following suggestions:

1.For Sharia Commercial Banks

Sharia commercial banks are expected to be able to optimize financial performance, especially profitability, optimize the distribution of third party funds or pay attention to the value of the financing to deposit ratio, which many sharia commercial banks are not good at managing third party funds, and banks must also always maintain or manage them well. The risk of financing distributed by sharia commercial banks must reduce the risk of uncollectible financing, in this case the value of non-performing financing can decrease every year. With better financial and operational management carried out, it will attract public interest in becoming customers of sharia commercial banks to entrust their funds to sharia commercial banks and of course it will increase investor interest in investing their funds in sharia commercial banks.

2.For Academics

It is hoped that academics can use it as a reference for further research with more in-depth and detailed studies. Apart from that, it is hoped that the campus will add more references in the form of research journals in the development of sharia banking.

3.For Future Research

This research has limitations, namely that similar research that supports it is considered to be minimal. The lack of previous research on Islamic banking objects makes research results inconsistent. It would be better for future research to look for more similar research with the same object. Further research can also add variables that have a big influence on profitability. For future researchers, it is hoped that future researchers can use statistical tests, path analysis with regression, structural equation modeling tests to see the effect of increasing assets, capital adequacy ratio, financing to deposit ratio, and operational expenses on operational income on profitability. It is recommended that future researchers add independent variables that influence profitability not only (capital adequacy ratio, non-performing financing, financing to deposit ratio, and operational expenses on operational income).

Declaration by Authors

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