MODEL OF SHARIA BANK PROFITABILITY DETERMINATION FACTORS BY MEASURING INTERNAL AND EXTERNAL VARIABLES

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Abstract

The study examines the influence of internal and external factors on profitability as proxied by Return on Assets (ROA), a study on Islamic Commercial Banks for the 2016-2020 period. In the theory of profitability, there are 2 factors that affect bank profitability, namely internal factors and external factors. Internal factors in this study are BOPO (Operating Expenses to Operating Income), Non-Performing Financing (NPF), Financial to Deposit Ratio (FDR) and external factors in this study are inflation and the money supply. Profitability is one of the most important factors in a company, including Islamic financial institutions, in this case Islamic banks. Thus, every company must pay attention to the company's profitability ratios. Islamic banks are financial institutions that just started to emerge in the late 90s and have a very high level of competition with conventional banks. For this reason, the study aims to look at the financial performance of Islamic banks in Indonesia through the level of profitability they have had for the last 5 years. The sample selection used purposive sampling method. The samples are the monthly financial statements of Islamic commercial banks in Indonesia in 2016-2020. The data will be processed using SPSS software with multiple regression. The results state that inflation as an external factor does not have a significant effect on the profitability of Islamic Commercial Banks as measured by the Return on Assets (ROA) ratio with a significance level of 0.628 and the money supply has a significant effect on ROA. While the BOPO, NPF and FDR variables as internal factors have a significant effect on ROA.

Keywords: ROA, BOPO, NPF, FDR

INTRODUCTION

Islamic banks are growing and developing very rapidly both in Muslim countries and in non-Muslim countries, ranging from Asian, Australia, Africa, Gulf countries to Europe and America with total assets of US$2.293 trillion (GIFR, 2016). Indonesia as a country with the largest Muslim population in the world has the potential to develop Islamic banks in order to provide financial transaction services in accordance with Sharia principles. The banking system in Indonesia adheres to a dual financial system, namely the conventional and sharia banking systems. Based on Islamic banking statistical data, the number of Islamic banks in Indonesia until 2020 consists of 33 Sharia Commercial Banks in Indonesia and 1 Sharia Commercial Bank abroad, 28 Sharia business units and 163 sharia BPRs spread throughout Indonesia (OJK, 2021 Sharia Banking Statistics, January 2021).

Banking is one of the joints of the economy that plays an important role in the progress and economic growth of a country. Likewise with Islamic banks. The growth of Islamic banks is currently felt to have increased; this can be seen by the increasing total assets of Islamic banks. In addition, the increasing number of Islamic banks in Indonesia also shows that Islamic banks are experiencing very good growth.

Islamic banks can survive in unfavorable economic conditions not only due to operational activities of Islamic banks that do not use usury, moreover that Islamic banks have provided the best service to customers, in this case the Indonesian people, so that customer confidence is higher in Islamic banks. existing in Indonesia.

The existence of Islamic banks in Indonesia must be maintained properly so that people do not switch to other banks. Maintaining the stability of the level of profitability is one of the most important things in maintaining the existence of Islamic banks. Good profitability shows that the financial performance of Islamic banks is also good. Therefore, profitability can be maintained, stable and tends to increase, there are several things that must be considered related to the financial ratios of Islamic banks, among others, Liquidity Ratio, Non-Performing Loan (NPL), Financing to Deposit Ratio (FDR), Operational Expenses Operating Income, working capital activity ratio, Current Adequacy Ratio and others. In addition, there are external factors that can affect bank profitability, namely the inflation rate and Gross Domestic Product (GDP) (Sodiq, 2016)

Table 1
Development of the Number of Islamic Commercial Banks in Indonesia

Description	2016	2017	2018	2019	2020
Bank Amount	12	12	14	14	14

Source: www.bps.go.id

The table above shows that the number of Islamic commercial banks tends to increase from year to year. The number of Islamic commercial banks in 2016 was 12 banks which then increased in 2018. In 2018 Islamic Commercial Banks (BUS) increased to 2, so the number of BUSs in 2018 was 14. The number of Islamic commercial banks lasted until 2020.

Bank Indonesia refers more to ROA (Return on Assets) than ROE (Return on Equity) to determine the level of performance or bank soundness. BI prioritizes the profitability of a bank as measured by assets whose funds mostly come from public deposits so that ROA is considered more representative of measuring bank profitability (Munir, 2016).

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Table 2
Development of Islamic Bank Financial Ratios (BUS and UUS) and Macroeconomic Conditions

Indicator	**2016**	**2017**	**2018**	**2019**	**2020**
ROA	0.63%	0.63%	1.28%	1.73%	1.40%
NPF	4.42%	4.76%	3.26%	3.23%	3.13%
BOPO	96.22%	94.91%	89.18%	84.45%	85.55%
FDR	85.99%	79.61%	78.53%	77.91%	76.36%
Inflation	6.96%	3.79%	4.30%	8.38%	8.36%

Source: www.ojk.go.id

Based on Bank Indonesia regulations, financial ratios are categorized as healthy if: (1) ROA ratio > 1.22%, (2) CAR ratio > 8 %, (3) NPF ratio < 5 %, (3) BOPO ratio < 93.52 %, (4) FDR < 94.75%. Table 2 shows that the ROA ratio in the last five years tends to increase. The 2016-2020 NPF ratio is fairly good because it can be controlled at a level below 5%. As with the NPF ratio, the FDR ratio also tends to be good because the value is still below 94%. The BOPO ratio fluctuates every year, however in 2016 and 2017 the BOPO value is under attention because the value of this ratio is above 93%. These data indicate that the financial performance of Islamic banks in the last 5 years tends to increase.

The inflation rate in 2016 – 2020 tends to increase due to a relatively high increase in volatile food and administered prices inflation, with the highest increases in 2019 and 2020. Margin or profit becomes very important for the company. To see the financial condition of a company, it can be seen from the published financial statements. The company's profitability will be maintained and stable if other supporting ratios are also considered properly. This condition applies to all companies, both manufacturing companies and service companies in which there are Islamic financial institutions, namely Islamic banks. Researchers feel the need to do this because the development of Islamic banks from year to year is getting better when viewed from the number of banks. The level of competition between Islamic and conventional banks is increasingly visible because the Indonesian people, especially Muslims, have known that Islam forbids usury which in fact exists in conventional banks. If so, the financial condition of Islamic banks in Indonesia should increase. So, it is very necessary to conduct this research related to the level of profitability of Islamic banks.

REVIEW OF LITERATURE

Islamic bank is a business institution that has a profit-oriented goal. Islamic banks that function as mediating institutions must be able to carry out operational activities as well as possible in order to obtain maximum profits. One of the profitability ratios used to measure the level of profitability of Islamic banks is the Return on Assets ratio. Return On Assets n ratio is used to measure the effectiveness of management in managing the amount of profit earned by the bank. ROA is used to determine the bank's ability to manage assets to generate maximum profit (Sudarsono, 2017)

Return on Assets is a ratio that shows the results (return) on the number of assets used in the company (Kasmir, 2010). Return on Assets is a ratio used to measure how much net profit will be generated from each rupiah of funds that will be embedded in total assets (Hery, 2016). Earning Power of Total investment (Rate of return and total assets/ROA) is the ratio used to measure the ability of the capital invested in all assets to generate net profit (Sujarweni, 2017).

Based on the definition above, it can be concluded that Return on Assets is the ratio used by the company to assess the level of net income to the company's total assets. In this study, profitability is measured using ROA. This is because Bank Indonesia in measuring the soundness of banks uses profitability as measured by assets. The amount of ROA can be measured by the formula: (Assofi & Hani, 2017)

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\ \%$$

Return on Assets can be used as an indicator to find out how capable the company is in obtaining optimal profits from the position of its activities. The greater the change in Return on Assets (ROA) indicates the greater fluctuations in management's ability to generate profits (Hafiz et al., 2019).

The research examines the variables that can affect the profitability of Islamic banks with the profitability indicator, namely ROA. The variables that affect ROA are grouped into two factors, namely internal factors and external factors with the following explanation:

External Factors

External factors are factors that come from outside the company in this case are Islamic commercial banks. In this study, the external factors are inflation and the money supply.

Inflation

Inflation is an economic condition in which prices generally increase over a long period of time. Temporary price increases such as price increases during the Eid period are not considered inflation, because after the Eid period, prices may fall again. Inflation in general can occur because the money supply is more than needed. Inflation is an economic phenomenon that can never be completely eliminated. The efforts made are usually only limited to reducing and controlling it. In general, the cause of inflation

is too large public demand that cannot be served by production capacity and rising prices for raw materials or rising wages (Linzzy Pratami Putri, 2015).

Inflation is a general increase in prices. High and erratic inflation rates will disrupt Islamic banking activities. This is due to the decline in real interest rates. The level of inflation is very influential on the level of profitability of Islamic banks. This statement is supported by research that has been carried out by Novien in 2019 (Rialdy, 2021).

The measurement standards used in the study are:

$$\frac{\text{IHK (t)} - \text{IHK (t} - 1)}{\text{IHK (t} - 1)} \text{ x } 100\%$$

Money is a medium of exchange in conducting economic transactions. The existence of money in the midst of society is very necessary considering its function as a medium of exchange that can move the economy. However, if too much money is spread, it will also have a bad impact on the economy. For this reason, the government, in this case the Central Bank, is required to maintain the stability of the distribution of money in the market.

The central bank controls the money supply indirectly by changing the monetary base and the ratio of reserve deposits. To that end, the central bank has three monetary policy instruments, namely Open Market Operation (OMO), Discount Rate Policy (DRP) and Margin Reserve Requirement (MRR). In making policies, the Central Bank is independent as the sole authority in the monetary sector, so the policies adopted will have a positive impact on the economy in general through the money market, and must also have a major impact on the real sector as the main driver of economic activity. (RS, 2015).

Amount of Money Supply

In addition to inflation, the money supply will also affect profitability. The money supply has a domino effect for every company, be it bank or non-bank. Therefore, the company must maintain the stability of operational activities so that it does not have a significant effect on profitability.

Internal Factor

Internal factors are factors that come from within the company in this case are Islamic commercial banks. In this study several factors are included in the internal factors,

namely Operating Costs to Operating Income (BOPO), Non-Performing Financing (NPF) and Financing to Deposit Ratio (FDR).

Operating Cost to Operating Income (BOPO)

Operational Cost to Operating Income (BOPO) is a ratio that measures bank operational efficiency in an effort to minimize operational ratios. Operational ratios derived from operational losses that the bank's operating cost structure affects the decline in profits and allows for failure of hopes and products offered. The lower the Operational Cost to Operating Income (BOPO), it means the more efficient the bank's performance in controlling its operational costs, with the existence of cost efficiency, the profit obtained by the bank will be even greater (Sari & Monica, 2016).

Operating Expenses to Operating Income or abbreviated BOPO is a profitability ratio company which compares operating expenses with income operational. BOPO can see how much the company's ability to manage its operational expenses. The more swollen the operational expenses, the worse the management of the company.

As explained above, BOPO has the aim of being a benchmark for how effective a company is in managing its assets operating costs. The BOPO ratio which tends to increase indicates that the company is not able to manage its operational costs, while the smaller the BOPO, the more effective the company is in managing their operational costs.

Financing to Deposit Ratio (FDR)

Financing to Deposit Ratio (FDR) is a measurement that shows time deposits, demand deposits, savings, and others that are used to fulfill customer loan applications. The higher the FDR, the company's profit will increase (assuming the bank is able to channel credit effectively, so the number of bad loans will be small) (Rosidah, 2017). The higher the FDR indicates the bank is more aggressive in placing its funds on credit, on the contrary, the smaller the FDR, the lower the bank's profits. If the bank can distribute all the funds raised, the bank will benefit, but if the bank does not distribute the funds, the bank will also be exposed to the risk of losing the opportunity to make a profit. A high FDR ratio indicates that banks lend almost all of their funds. That is, the greater the funds spent in financing, the higher the FDR, and the possibility of a non-performing financing risk is also higher (Rosidah, 2017).

Non-Performing Financing (NPF)

Non-Performing Financing (NPF) is a ratio that compares total non- performing loans to total loans disbursed in the form of a percentage. The lower the level of the NPF ratio, the lower the level of non-performing loans, which means the better the condition of the bank and vice versa, the higher the level of the NPF ratio, the greater the credit risk borne by the bank.

Non-Performing Financing (NPF) is a ratio that shows the level of non-performing financing found in Islamic banking. A large increase in NPF can cause problems for the health of banks, therefore banks are required to always maintain credit that is not in a high NPF position (Pradesyah, 2017). The higher the NPF ratio of an Islamic bank indicates that the bank has high Non- Performing Financing as well. This will automatically result in a decrease in the level of profitability of Islamic banks.

RESEARCH METHOD

The research method used is a quantitative research method with the research object of Islamic commercial banks in Indonesia. This study uses secondary data taken from the OJK website. The sampling technique used is a non-random selection technique (purposive sampling). The sample in this study is the monthly financial statements of Islamic commercial banks in Indonesia. This research variable consists of independent variables consisting of internal variables and external variables. The internal variables consist of the BOPO ratio, FDR fan NPF while the external variables consist of inflation and the amount in circulation. Then the dependent variable in this study is the profitability ratio proxied by Return on Assets (ROA).

ROA = - 1BOPO - 2 NPF + 3 FDR - 4 Inf + 5 JUB Where:

ROA = Return on Assets

BOPO = Operating Expenses to Operating Income

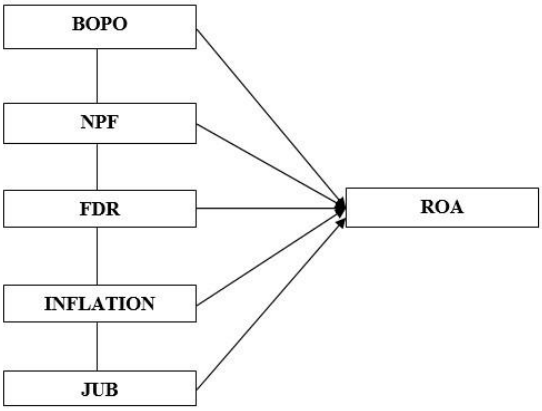
NPF = Net Performing Finance

FDR = Financing to Deposit Ratio

Inf = Inflation

JUB = Total Money Supply

Figure 1
Conceptual Framework



The conceptual framework is the theoretical concepts or variables used in research that is built from research results that describe the relationship and influence between variables. In this study, BOPO, NPF, FDR, Inflation and JUB are independent variables and ROA is the dependent variable. Based on the conceptual framework, the hypotheses of this research are:

H_1 : BOPO has a significant effect on ROA at Indonesian Islamic Banks

H_2 : NPF has a significant effect on ROA at Indonesian Islamic Banks

H_3 : FDR has a significant effect on ROA at Indonesian Islamic Banks

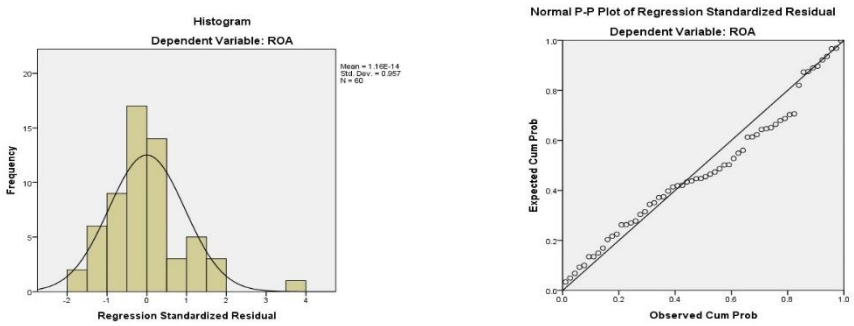
H_4 : Inflation has a significant effect on ROA at Indonesian Islamic Banks

H_5 : JUB has a significant effect on ROA at Indonesian Islamic Banks

RESULTS AND DISCUSSION

Classic Assumption Test

Figure 2
Data Normality Test: **Histogram and Normal P-Plot**



By looking at the histogram graph display and the normal p-plot graph, it can be concluded that the histogram graph provides a distribution pattern that is close to normal. In the histogram graph, it can be seen that the spread of the data resembles an inverted bell, although there are some that are outside the bell line. Histogram resembling a bell shows the data is normally distributed. Meanwhile, on the normal p-plot graph, it can be seen that the points spread around the diagonal line and the distribution follows the direction of the diagonal line. These two graphs show that the regression model is feasible because it fulfills the assumption of data normality.

Multicollinearity Test

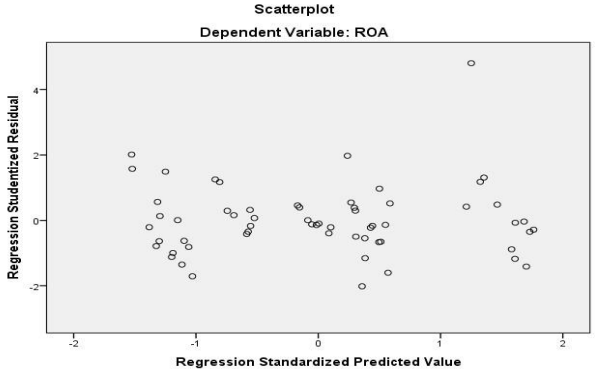
One way to see whether the regression model is affected by multicollinearity can be seen from the tolerance value which is smaller than 0.1 and the inflation factor (VIF) which is greater than 10. If this happens, it can be stated that the regression model is affected by multicollinearity disorders. (Duwi Priyano, 2019).

Table 3
Collinearity Statistics
Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	BOPO	.228	4.383
	NPF	.115	8,675
	FDR	.204	4,909
	INF	.969	1.032
	JUB	.198	5.054

Dependent Variable: ROA

Figure 3
Heteroscedasticity Test: Scatterplot



Through the scatterplot graph, it can be seen that a regression model has heteroscedasticity or not. If there is a certain pattern in the graph, it indicates that heteroscedasticity has occurred. From Figure 3 it can be seen that the points spread randomly and are spread both above and below the number 0 on the Y axis. It can be concluded that there is no heteroscedasticity in the regression model in this study.

Hypothesis Testing

Model Test with Coefficient of Determination R Square (R2)

Regression analysis is a type of parametric analysis that can provide a basis for predicting and analyzing variance. While the purpose of regression analysis in general is to determine the regression line based on the value of the constant and the resulting regression coefficient, to look for a joint correlation between the dependent variable and to test the significance of the effect between the independent variable and the dependent variable. From the results of the multiple regression tests carried out, the following summary model output is obtained:

Table 4
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967a	.934	.928	.17196

Predictors: (Constant), JUB, INF, FDR, BOPO, NPF
Dependent Variable: ROA

R square (R2) shows the coefficient of determination. This figure will be converted into percent, meaning the percentage contribution of the influence of the independent variable to the dependent variable. The R2 value obtained is 0.934 or 93.4%, meaning that the dependent variable on Return on Assets (ROA) can be explained by the independent variables, namely BOPO, NPF, FDR, inflation and JUB. While the remaining 6.6% is explained by other variables outside the research variables used.

Partial Test with t test

The ttest can be seen from the coefficient table which aims to determine the magnitude of the influence of each independent variable individually on the dependent variable. The t-test is needed to test how much the independent variables namely BOPO, NPF, FDR, inflation and JUB partially affect the dependent variable ROA.

Table 5
Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8081	1.023		7.903	.000
	BOPO	-.033	.011	-.222	-3.041	.004
	NPF	-.601	.061	-1.011	-9,842	.000
	FDR	.003	.005	.043	3.550	.004
	INF	.105	.094	.040	1.118	.268
	JUB	-1.160E-6	.000	-.363	-4.634	.000

Dependent Variable: ROA

Results

If t count < t table: Ha is rejected and H0 is accepted, that is, the independent variable has no significant effect on the dependent variable.

If t count > t table: Ha is accepted and H0 are rejected, that is, the independent variable has a significant effect on the dependent variable.

From the coefficient table above, we can create a new table to make it easier to see the results of the Ttest partial test.

Table 6
Ttest Partial Test Results

No	Variable	Tcount		Ttable
1	BOPO	-3.042	>	2.036
2	Non-Performing Financing (NPF)	-9,842	>	2.036
3	Finance to Deposit Ratio (FDR)	3.550	>	2.036
4	Inflation	1.118	<	2.036
5	JUB	-4.634	>	2.036

The t table value can be seen in the t table. The table can be seen with degrees of freedom (df) = nk, where n is the number of samples and k is the number of independent variables, then 60 – 5 = 55 with a 95% confidence level (α/2 = 0.05/2 = 0.025) then the t table value obtained is 2.036. So, from the table above it can be obtained that:

BOPO -3,042 > 2,036 then Ha is accepted while H0 was rejected, meaning that the BOPO variable had a partially significant effect on the ROA variable. This is evidenced by a significance level of 0.004.

NPF -9,842 > 2,036 then H0 is rejected and Ha is accepted, meaning that the Non-Performing Financing (NPF) variable has a partially significant effect on the ROA variable with a significance level of 0.000.

FDR 3.550 > 2.036 then H0 is rejected and Ha is accepted, meaning that the Finance to Deposit Ratio (FDR) variable has a partially significant effect on the ROA variable with a significance level of 0.004.

Inflation 1.118 <2.036 then H0 is accepted and Ha is rejected, meaning that the inflation variable does not have a partially significant effect on the ROA variable with a significance level of 0.268.

JUB -4.634 > 2.036 then H0 is rejected and Ha is accepted, meaning that the Finance to Deposit Ratio (FDR) variable has a partially significant effect on the ROA variable with a significance level of 0.000.

Simultaneous Test with f test

Simultaneous test with f-test is a statistical test that aims to determine the effect of the independent variables together on the dependent variable. The f-test can be seen from the Anova table below:

Table 7
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22,702	5	4,540	153.545	.000b
	Residual	1,597	54	.030		
	Total	24,299	59			

Dependent Variable: ROA
Predictors : (Constant), JUB, INF, FDR, BOPO, NPF

By using a 95% confidence level, = 5%, df 1 (number of variables - 1) or 6-1 = 5 and df 2 (nk-1) or 60 – 5 – 1 = 54 (n is the number of data and k is number of dependent variables). The results obtained for ftable are 2.39. The test criteria are as follows:

H0 is accepted if f count f table

H0 is rejected if f count > f table.

From the ANOVA table above, it shows that the p-value is 0.000 <0.05, which means it is significant. Then the f count obtained is 153.545 and the f table obtained is 2.39. This means that f count 153.545 > f table 2.2.39 then Ha is accepted and H0 is rejected, namely that the independent variables BOPO, NPF, FDR, Inflation and JUB jointly affect the dependent variable ROA.

The Effect of Internal Variables on the Profitability of Islamic Banks

Some of the internal factors that affect the profitability of Islamic banks in this study are Operating Costs to Operating Income (BOPO), Financing to Deposit Ratio (FDR) and Financing to Deposit Ratios.

BOPO is used to measure the ability of bank management in controlling operating costs to operating income. Banks that are categorized as healthy have a maximum BOPO ratio between 94-96 percent (Bank Indonesia Circular No. 6/23/DPNP 2004). The value of BOPO owned by Islamic banking for the last five years (2016-2020) has a good value which is in the range of 80%-90%. Therefore, it is natural that the results of this study state that the BOPO ratio has a significant effect on the profitability of Islamic banks in Indonesia. BOPO value that is too high will adversely affect the performance of Islamic banks which can automatically reduce the level of profitability. If the BOPO ratio is too high, the bank is considered inefficient in carrying out its operations.

In addition to BOPO, FDR and NPF variables in this study also have a significant effect on profitability. FDR, known as the Loan to Deposit Ratio (LDR) in conventional banks are a ratio that shows the bank's ability to pay short-term obligations. FDR describes the performance of Islamic banks in utilizing and distributing third party funds to customers in need with the aim of obtaining profits and being able to return depositors' funds which will be withdrawn at any time. If the higher the FDR value of Islamic banks, this indicates that the more third-party funds are channeled and the higher the profitability of Islamic banks with a note that Islamic banks can minimize credit risk that will occur. Based on BI regulations, the value of a good FDR ratio is between 80%-100%. However, Islamic banks must also maintain the value of this ratio so that it is neither too high nor too low. The FDR value in this study was 75%-100%. This value indicates that the FDR is too high at a certain

period in Islamic banking. However, this did not last long and Islamic banks were able to manage their operational activities well so that the FDR value could return to normal and provide a good influence on profitability.

The high third-party funds disbursed will provide credit risk to Islamic banking. Non-Performing Financing (NPF) is a ratio that shows Non-Performing Financing in Islamic banking. The occurrence of this problematic financing can be caused by internal and external factors of the company. One of the internal factors is that the marketing team is not optimal in conducting a financing analysis before deciding whether or not the customer is eligible for financing. While external factors include the inability of customers to pay due to economic conditions. A good NPF value is below 5%. The average NPF value in this study is below 5% and this means that the NPF ratio of Islamic banking in Indonesia is well maintained.

Effect of External Variables on Profitability

The money supply and inflation are external factors that affect the level of profitability as measured by Return on Assets (ROA). The money supply has a positive impact on the profitability of Islamic banking. The more money there is in the market, the more people's ability to save will increase. It means that third party funds in banking will increase. The increase in third party funds will be utilized by Islamic banks as well as possible by channeling them back to financing customers. Thus, if the bank distributes TPF properly to financing customers, the bank will benefit from managing these funds. This is in accordance with the results of research which states that the money supply has a significant influence on the profitability of Islamic banks. Inflation is an economic phenomenon that has a domino effect on all sides of people's lives, including Islamic banking. However, in the study inflation has no effect on profitability. It can happen because inflation which causes real interest rates to rise does not have an impact on the profitability of Islamic banks. Islamic banks in carrying out their operational activities use the principle of loss and profit sharing instead of using the principle of interest.

CONCLUSION

Based on the research results that have been described, the conclusion in this study are independent variables consisting of internal factors, namely BOPO, NPF, FDR and

external factors, namely the amount of money in circulation that has a significant effect on Return on Assets (ROA). Meanwhile, the external variable, namely inflation, has no significant effect on Return on Assets (ROA).

After the analysis and research results have been carried out, the suggestions that are taken into consideration include, among others, to maintain the level of profitability of Islamic commercial banks, Islamic banks should pay attention to the NPF value by conducting an accurate financing analysis for each customer who will apply for financing in order to avoid bad credit which can ultimately increase the value of the loan. NPF. Islamic commercial banks must pay attention to productive customers when distributing third party funds in the form of financing so that bank profitability is maintained.

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