

The Effect of Islamic Financial Ratio of Profitability

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Abstract—This study aims to determine the influence of Islamic income ratio, profit sharing financing ratio, profit sharing funding ratio and zakat performance ratio to the profitability of Islamic bank in Indonesia. This study uses model of multiple linear regression hypothesis test data panel. The population in this study is 12 Islamic bank which listed in Bank of Indonesia (BI) year 2013-2016. The sample in this study based on purposive sampling technique, selected 8 Islamic bank in Indonesia that publish annual financial statements in 2013-2016. Data used in this study is secondary data form. The study results proved: (1) Islamic income ratios significantly influence profitability Islamic bank in Indonesia; (2) Profit Sharing Financing Ratio significantly influences the profitability of Islamic bank in Indonesia; (3) Profit Sharing Funding Ratio not significantly affects the profitability of Islamic bank in Indonesia and (4) Zakat Performance Ratio no significant effect to the health of Islamic bank in Indonesia.

Keywords—*islamic finance ratio; islamic bank*

I. INTRODUCTION

The major challenge of today's sharia banks is how to maintain and enhance these positive trends and maintain the trust of stakeholders by increasing the loyalty of customers without forgetting the elements of sharia in the form of regulations related to sharia principles. Sharia banking financial performance also needs to be measured in addition to measure by conventional methods. But also must be measured from the purpose of sharia, so it can be known whether the performance of the banking or *muamalah* activities who run in accordance with the principles of sharia Bank Indonesia Regulation number. The implementation of Islamic principles in Islamic finance includes the prohibition of usury, the prohibition of fraud (*Tadlis*), the avoidance of speculation (*gharar*), the prohibition of gambling (*maysir*), the investment involves the pigs, Liquor and pornography. The prohibition is intended to improve fairness in business transactions. One way of measuring organizational performance is through ratio, but the development of current banking performance measurement methods tends to be materialistic by ignoring the spiritualistic aspect, in the sense that there are not many ratios that can be used to measure the performance of financial institutions Islam.

The tendency of accumulating public funds in sharia banking from period to period makes the financial services sector to experience liquidity that accumulate (over liquidity) as happened in conventional banking. Consequently, a number of Islamic banks have begun to adopt a strategy to anticipate

this problem by opening a service unit that facilitates public access to financing [1]. Previous study on Islamic banks has focused only on the conceptual concept of interest free financing [2]. Issues related to the sustainability of Islamic bank and the ability of banks to mobilize savings, manage risks and facilitate transactions (intermediary) are less attention in the literature. Few studies have focused on the implications of bank policy to leave interest [3]. But few have examined the influence of Islamic finance ratio on the profitability of Islamic bank. As a result, the incompleteness of available data is a constraint for study to conduct a comprehensive analysis of Islamic banks in the last three decades [4]. Empirical study conducted to date has resulted in incomplete conclusions [5]. Studies in Indonesia associated with banks show that there are several factors that affect the increase in profitability.

This study uses the ratio of Islamic financial ratios in measuring variables that affect the profitability of sharia banks. This study aims to get a complete picture of whether Islamic financial ratios can affect the level of bank profits, especially Sharia Bank. Small market share by Sharia Bank is a problem that must be studied as comprehensive with scientific based. This study is expected to cover the gap faced by Bank Sharia in Indonesia.

Based on the background above the subject matter of this study are: Is Islamic Income ratio, Profit Sharing Financing ratio, Profit Sharing Funding ratio, Zakat Performance ratio affects the profitability of sharia banking in Indonesia period 2013-2016?

II. METHOD

The strategy used in this study is a casual associative study strategy, the study aims to determine the relationship between the events that occur or influence between two or more variables.

Population of the study is the Islamic bank in Indonesia totally 13 Islamic Bank, among others: *PT. Bank Muamalat Indonesia, PT. Bank Victoria Sharia, Bank BRI Sharia, B.P.D West Java, Banten Sharia, Bank BNI Sharia, Bank Sharia Mandiri, Bank Sharia Mega Indonesia, Panin Sharia Bank, PT. Bank Sharia Bukopin, PT. BCA Sharia, PT. Maybank Sharia Indonesia, BJB Sharia, BTN Sharia.*

In the sampling using the technique of purposive sampling with the following characteristics: 1) Banks that have gone public, 2) Has published its financial reports to the Financial

Services Authority, the period 20013-2016, 4) Operate nationally in Indonesia (not Bank and Bank Mixed). Based on those criteria's, from a total population of 11 Islamic banks, Islamic banks only 8 to meet the bank's criteria. *PT Bank Sharia BRI, PT Bank Sharia Mandiri, PT Bank Sharia Bukopin, PT Bank Mega Sharia, PT. Bank Muamalat Indonesia, Bank BNI Sharia, PT. BCA Sharia, and Bank Panin Sharia*. The data used is secondary data obtained from the annual report of Bank Sharia obtained from Bank Indonesia (BI) and the Financial Services Authority (FSA). The variables operational definition is:

A. Return on Asset (ROA)

Return on Asset (ROA) is used to measure the effectiveness of a company in generating profits by utilizing its assets ROA is the ratio between profit after tax to total assets [5]. The greater the ROA shows the performance of the company the better, because the rate of return the greater. ROA of a bank can be calculated by the formula:

$$ROA = \frac{\text{Profit before tax}}{\text{Total Asset}} \times 100\% \quad (1)$$

B. Islamic Income Ratio

Islamic income ratio is income derived from investments in accordance with the principles of sharia [6]. The ratio of the Islamic income ratio shows the percentage of how much halal income is earned compared to total revenue including total Islamic income plus non-halal income. Islamic income ratio can be calculated by the formula:

$$IsIR = \frac{\text{Islam income}}{\text{Total income}} \times 100\% \quad (2)$$

Islamic Income Ratio is income derived from investments in accordance with the principles of sharia. Islamic banks only receive revenues from halal sources. The ratio of the Islamic Income Ratio shows the percentage of how much halal income is earned compared to total revenue including total Islamic income plus non-halal income. Based on Haron's assumptions that factors affecting profitability in Islamic banks are the same as conventional banks, the Islamic income ratio is assumed to be the same as the net interest margin, so if the Islamic income ratio increases it will likely increase profitability. This is because Islamic income ratio is the income of sharia bank which is according to sharia principle that is income derived from *mudharabah* and *musyarakah* financing, where if this income increase it will have chance to increase profitability [6]. The study shows positive between Islamic income ratio and the profitability of sharia banking, among others [3,6,7] which proved the influence of Islamic income ratio on bank profitability. It can be concluded that the ratio of Islamic income ratio has a positive effect with the health of sharia banking. So the first hypothesis 1 is Islamic Income Ratio (IsIR) has a significant positive effect on the profitability of sharia banking [8].

C. Profit Sharing Financing Ratio

Profit sharing financing ratio is a financing based on sharia principles [9]. The ratio for calculating profit sharing from

Islamic bank financing includes *Mudharabah* and *Musyarakah*. Profit sharing financing ratio can be calculated by the formula:

$$PFR = \frac{\text{Payment Mudharabah} + \text{Musyarakah}}{\text{Total Payment}} \times 100\% \quad (3)$$

Profit sharing financing ratio (PFR) is a financing based on sharia principles. Profit sharing financing ratio based on sharia principles is the provision of money or bills equivalent based on an agreement or agreement between the bank and another party requiring the party financed to refund the money or the bill after a certain period of time in return or profit sharing. According to Law No. 10 1998 [10]. Based on the assumptions found by Sudin et al., [5] that factors affecting profitability in sharia banks are the same as conventional banks, if Profit sharing financing ratio is assumed to be equal to loan deposit ratio in a conventional bank then if Profit sharing financing ratio increases will likely increase profitability. This is because profit sharing financing ratio is financing the appropriate sharia principles in which if the financing is increased it will likely increase profitability.

The study shows a positive relationship between profit sharing financing ratio with the profitability of sharia bank such as [3,6,7] which proved the influence of profit sharing financing ratio on profitability of sharia bank. So it can be concluded that profit sharing financing ratio positively affects the profitability of sharia banking. So the second hypothesis Profit sharing financing ratio (PFR) has a significant effect on the profitability of sharia banking.

D. Profit Sharing Funding Ratio

Profit sharing funding ratio is a fundraising based on sharia principles. The ratio to calculate the profit sharing of funds raised by Islamic banks such as the accumulation of *mudharabah* and *musyarakah* funds can be calculated by the formula:

$$PDR = \frac{\text{Collection of revenue-sharing funds}}{\text{Total fundraising}} \times 100\% \quad (4)$$

Profit sharing funding ratio is a division of profit-sharing funds based on sharia principles. According to Law Number 10 of 1998. Profit sharing funding ratio in sharia banking is done through *mudharabah* contract. Based on the assumptions found that factors affecting profitability in sharia banks are the same as conventional banks [5]. If the Profit Sharing Funding Ratio is assumed to be the same as third party funds (DPK) in conventional banks, will likely increase profitability. This is because Profit sharing funding ratio is a collection of deposit funds and customer deposits in accordance with sharia principles where if these funds increase it will likely increase profitability. Study shows a positive relationship between Profit sharing funding ratio and sharia banking performance, among others [5,6,8] which successfully proves the influence of Profit sharing funding ratio on the performance of sharia banking. So it can be concluded that Profit Sharing Funding Ratio has a positive effect with the performance of sharia banking So the third hypothesis is profit sharing Funding Ratio (PDR) has a significant effect on the profitability of sharia banking [7].

E. Zakat Performance Ratio

Zakat performance ratio is the ratio of the use of zakat on net worth (total assets minus total liabilities) is used as a denominator for this ratio to reflect the financial performance of Islamic banks [9]. Zakat performance ratio can be calculated by the formula:

$$ZPR = \frac{\text{Zakat}}{\text{Net Asset}} \times 100\% \quad (5)$$

Zakat performance ratio is net worth (total assets minus total liabilities) is used as a denominator for this ratio to reflect the financial performance of sharia banks. If zakat performance ratio increases then the profitability of sharia banking decreases because zakat performance ratio is a deduction from profit sharia banks so that when zakat is increased then will have the opportunity to reduce the profitability of sharia banks.

The study shows a positive relationship between zakat performance ratio and the performance of sharia bank, among others [9], which successfully proves the effect of zakat performance ratio on the performance of sharia banking [9]. So it can be concluded that zakat performance ratio has a positive effect with the performance of sharia bank. So the fourth hypothesis is Zakat performance ratio (ZPR) has a significant effect on the profitability of sharia bank.

III. RESULTS AND DISCUSSION

Normality test in this test using Jarque-Bera (J-B) test, with Jarque-Bera (J-B) value $<\chi^2$ table and probability value > 0.05 , it can be said that the data is normally distributed. Normality test results show that the result of a Jarque-Bera (J-B) of 4,202 $<7,814$ (Jarque-Bera $<\chi^2$ table) and a probability value of 0.1223 > 0.05 . Thus, it can be concluded that the data is normally distributed. Multicollinearity test between variables can be identified by using correlation value between independent variables. If the correlation value <0.80 then there is no multicollinearity problem.

The test results show that the correlation value between independent variables is less than 0.80, it can be concluded that there is no problem multicollinearity between independent variables in regression model. Autocorrelation test is done with Durbin Waston (DW-Test) test. Based on the results of autocorrecting tests obtain Durbin Watson (DW) value of 1.9476 while the value dU is 1.7323 and the upper limit value (4-dU) of 2.267. Thus the DW values are between dl and du ($dU \leq DW \leq 4-dU$). Based on these results, it can be concluded that there is no autocorrelation in the regression model. Heteroscedasticity test was performed by glejser test. Based on the results of glajer test is the probability value of significance above the level of confidence 5%. So it can be concluded that regression model is free from heteroscedasticity.

Based on the result of determination coefficient test is obtained value of adjust R2 equal to 21.49%. This means 21.49% of variations in, Islamic Income Ratio (IsIR), Profit Sharing Financing Ratio (PFR), Profit Sharing Funding Ratio (PDR), Zakat performance ratio (ZPR). while 78,51% of Return On Asset can be influenced by other factors not included in this study. Based on regression estimation method

between Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM) and model selection of regression equation with chow test, hausman test and lagrange multiplier test, common effect model (CEM) is chosen for equation Linear regression of panel data. Model estimation obtained from Fixed Effect Model can be written as follows:

$$ROA_{it} = 0,3546 + 0,4387 \text{ ISIR}_{it} + 0,0352 \text{ PFR}_{it} + 0,0328 \text{ PDR}_{it} - 81,9782 \text{ ZPR}_{it}$$

Based on the results of t test, then the decision can be taken as follows: The ISIR variable has a probability value of 0.0135 greater than the significance of 0.05 ($0.0135 < 0.05$), so H_0 Rejected which means ISIR has a positive effect on profitability.

The first hypothesis assuming that the Islamic Income Ratio (ISIR) has an effect on the acceptable ROA, because of the result of t test of variable ISIR has a probability value of 0.0135 smaller than the significance of 0.05, meaning that if Islamic Income increases then profitability will also be predicted to increase. This is consistent with [4,5,7] study which proved the effect of Profit Sharing Funding Ratio on the performance of sharia banking. So it can be concluded that Profit Sharing Funding Ratio positively affect the profitability of sharia banking.

Furthermore, PFR variable has probability value equal to 0,0224 bigger than significance 0,05 ($0,0224 < 0,05$) so H_0 be accepted. It has a partial meaning that the PFR variable has no effect on ROA.

The second hypothesis which assumes that profit sharing financing Ratio (PFR) has a positive effect on ROA is acceptable, because from the result of t test the variable of ISIR has probability value equal to variable PFR has probability value equal to 0,0224 smaller than significance 0,05 meaning if profit sharing financing ratio increases then profitability also increases. This is consistent with [3,5,10] study which has proven the effect of profit sharing financing ratio on the performance of sharia banking. So it can be concluded that Profit Sharing Financing Ratio positively affect the profitability of sharia banks.

Meanwhile, the PDR variable has a probability value of 0.0705 greater than the significance of 0.05 ($0.0705 > 0.05$) and so H_0 be accepted. It has a partial meaning that the PDR variable has no effect on ROA.

The third hypothesis which assumes that Profit Sharing Funding Ratio (PDR) has positive effect on ROA is not proven, because from t test result PDR variable has probability value equal to 0,0705 bigger than significance 0,05 ($0,0705 > 0,05$) Which means the PDR has no effect on ROA. This is inconsistent with [3,5,10] study which proved the effect of Profit Sharing Funding Ratio on the performance of sharia banking. So it can be concluded that Profit Sharing Funding Ratio positively affect the profitability of sharia banks.

On the other hand, the ZPR variable has a probability value of 0.0965 greater than the significance of 0.05 ($0.0965 > 0.05$)

and so H_0 be rejected. It has a partial meaning that the ZPR variable has no effect on ROA.

The fourth hypothesis assuming that Zakat Performance Ratio (ZPR) has negative effect to ROA is not proven, because from the test result t ZPR variable has probability value equal to 0,0965 bigger than significance 0,05 ($0,0965 > 0,05$) Which means ZPR has no effect on ROA. This happens is estimated due to the low awareness of sharia banks to maximize zakat from its net profit [9].

IV. CONCLUSION

The result of this study shows that Islamic finance ratio indicated by Islamic Income Ratio and Profit Sharing Financing Ratio can affect the profitability of sharia bank. This means that the higher sharia banks earn income and channel the financing according to sharia it will have a chance to get high profitability.

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