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ANALYSIS OF FINANCIAL PERFORMANCE AFFECTING MARKET SHARE OF SHARIA BANKING IN INDONESIA

[*1]Nasuha, Amalia

[*1]*Faculty of Economics and Business, Universitas Brawijaya, Malang, Indonesia*

*Note: * Indicates corresponding author*

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[*]Corresponding Author
Email: amalia.nasuha@gmail.com

ABSTRACT

The trapped market share faced by sharia banking raises questions because the regulator's target is not achieved in projecting the market share. This study examines the effects of financial performance which includes the ROA, FDR, BOPO, NPF, and Conventional Commercial Bank Loans against the Sharia Banking market share in Indonesia. The data used are 108 monthly data from 2010 to 2018. The data was obtained from the publication of the Financial Services Authority of Islamic Banking Statistics and Indonesian Banking Statistics.

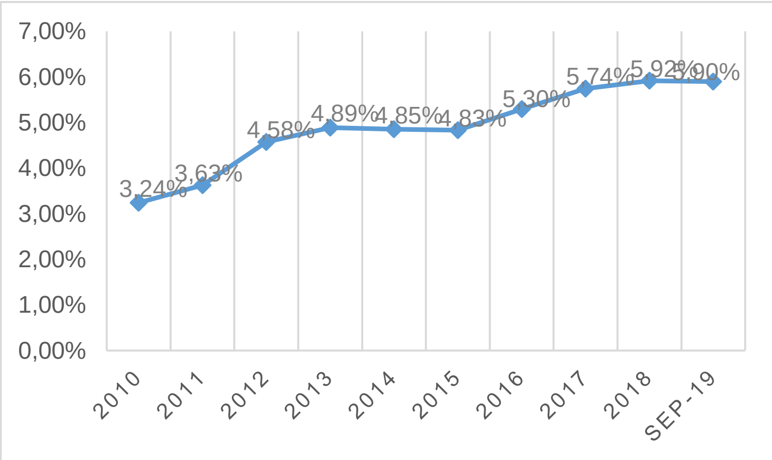
INTRODUCTION

In a number of periods of Indonesia's Islamic banking growth plan, among other things, the regulator targeted the Islamic banking market share to reach 5% in 2008, the growth of Indonesia's sharia financial industry penetrated 20% in 2023, the increased commitment of commercial banks to develop Islamic banking services reached a minimum share above 10% of conventional commercial bank assets by 2019. These targets can certainly be achieved through acceleration and periodic evaluation programs so that their achievements can be measured.

The sharia banking sector which is developing earlier now has 14 sharia commercial banks (*bank umum syariah*, BUS), 20 sharia business units (*unit usaha syariah*, UUS), and 165 sharia people's credit banks (*bank perkreditan rakyat syariah*, BPRS). The total assets of BUS and UUS as of July 2019 reached IDR481,2 trillion or 5.87 percent of the total Indonesian banking assets of IDR8.258,8 trillion.

However, in the midst of various advances in institution, regulation and infrastructure that have taken place in the national banking industry, there are still two underlying debates that are the small sharia banking market share or known as 5% of the trapped market share and the weak competitiveness of sharia bank in the national banking environment. Sharia banking market share which was targeted to reach 5 percent in 2008 can only be realized in 2016.

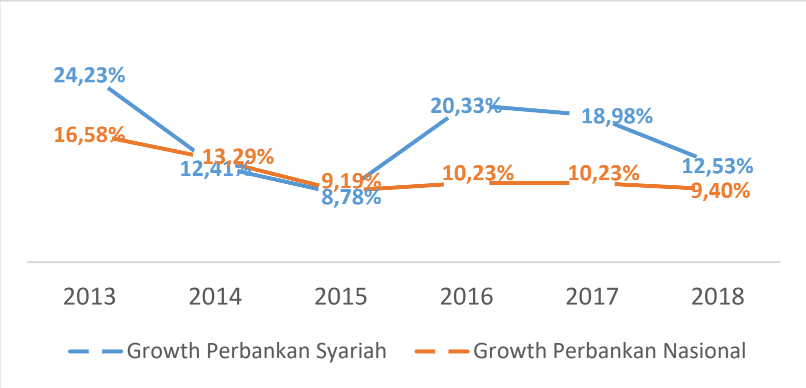
Figure 1. The Development of Sharia Banking Market Share, 2010-2019



Source: OJK (financial services authority of Indonesia), 2010-2019 (data processed)

If examined from the growth of the sharia banking market share of national banks, the chart of the sharia banking market share in the last five years is above the national growth. This shows that the percentage of Islamic banking market share seems slow.

Figure 2. Sharia Banking Growth vs. National Banking Growth



Source: OJK, 2013-2018 (data processed)

Market share is a percentage ratio between the total assets of sharia banking and the total assets of national banks (Purboastuti, 2015). The ability to increase the market share shows the success of banking performance (Aminah *et al*, 2019). Bank Indonesia in Bank Indonesia Regulation No. 6/10/PBI/2004 and Bank Indonesia Circular No. 6/23/DPNP concerning the Rating System for Commercial Banks uses the CAMELS indicator to assess banking performance, namely Capital, Assets, Management, Earning, Liquidity, and Sensitivity to Market Risk. Many previous studies used independent variables in the form of banking financial performance ratios as a measurement of market share achievement.

Saputra (2014) explains the ROA, CAR, FDR, NPF, and REO ratio can represent CAMELS in analyzing banking finance, which the results are ROA, CAR, and FDR have a significant positive impact on market share growth, while NPF and REO have a negative effect on the market share growth. Purboastuti, *et al* (2015) found that the DPK, ROA, and FDR variable had a positive effect while the NPF and ratio had a negative effect on the market share of Islamic banking in Indonesia. The study from Rahman, *et al* (2018) shows that market share responds positively to several bank financial variables, namely BOPO, CAR, ROA, and FDR, while NPF has a negative effect on the market share. Meanwhile, Arif and Yuke (2019) found in their research that the ratio of bad loans (NPF), bank operational ratios (REO), the level of margin deposits of Islamic banks, and the interest rates of conventional bank deposits have an impact on the market share of sharia banks. While, the profitability ratio (ROA) and liquidity (FDR) do not have an impact on the market share. Aminah, *et al* (2015) found that the ROA variable had a positive influence on market share, while NPL and BOPO had a negative effect. On the other hand, FDR does not have a significant impact on the market share.

From some of these studies, the researcher found that there were different results from the FDR liquidity variable whose effects are analyzed on the market share. Arif and Yuke (2019) and Aminah *et al* (2015) analyze that the liquidity ratio calculated using the FDR ratio shows the result that it has no effect on the market share. While in several other research results, the FDR has a positive influence on the market share of sharia banking. This study will analyze one of the variable effects, FDR and also several other financial variables, namely ROA, BOPO, NPF, and Conventional Commercial Bank Credit. The researcher uses Conventional Commercial Bank Credit as a control variable or as a controller so that other independent variable is not affected by factors outside the studied variable.

LITERATURE REVIEW

Performance measurement is the qualification and efficiency and effectiveness of the company in operating its business during the accounting period. The performance appraisal, according to Srimindarti (2006), is a determination of operational, organizational and employee effectiveness based on periodically determined targets, standards and criteria. James C. Van Horne quoted from Kasmir (2008) defines financial ratio as index that connects two accounting numbers and is obtained by dividing one number by another number. According to Irawati (2005) financial ratio can be interpreted as an analysis technique in the field of financial management that is used as a measure of financial condition in a company in a certain period.

According to Tandelilin (2010), ROA illustrates the extent to which the ability of assets owned by the company can generate profits. Minimum ROA standard from Bank Indonesia Regulation No. 6/9/PBI/2004 is 1.5%.

LDR/FDR is a ratio that measures the ability of bank to meet short-term liabilities (can be called liquidity) by dividing total loans to total Third Party Funds (TPF). The provision on the LDR safe limit of banking institutions has been set in Bank Indonesia Regulation 17/11/PBI/2015 dated 25 June 2015 concerning Amendments to Bank Indonesia Regulation Number 15/15/PBI/2013 concerning Statutory Reserves for Commercial Banks in Rupiahs and Foreign Currencies for Conventional Commercial Banks. The upper limit of LFR or safe LDR is 92 percent with the lower limit at 78 percent.

BOPO is a ratio that describes the

efficiency of bank in carrying out its activities. BOPO is a ratio that describes the efficiency of bank in carrying out its activities. The banking regulator has made a BOPO benchmark based on bank groups. If not compliant, the bank is prohibited from its branch expansion. The BOPO benchmark for business group commercial banks (*bank umum kelompok usaha*, BUKU) I, a maximum of 85%. BUKU II ranges 78%-80%, BUKU III 70-75% and BUKU IV 65%-60%.

NPF is the ratio used in calculating credit or financing risks. According to Bank Indonesia Regulation Number 13/1/PBI/2011 the risk profile is an assessment of inherent risk and the quality of the implementation of risk management in bank operations carried out on 8 (eight) risks namely, credit, market, liquidity, operational, legal, strategic, compliance and reputation risk. In BI Regulation No 15/2/PBI/2013 it is stated that NPL/NPF cannot be more than 5% of total loans.

Credit comes from the Latin language that is *credere* which means ‘to believe’. According to Banking Law Number 10 of 1998, loans granted by banks can be defined as the provision of money or bills which can be equaled, based on loan agreements or agreements between banks and other parties that require borrower parties to repay their debts after a period of time by giving interest. Credit is a financial facility that allows a subject to get money from a bank to be used and returned within a certain period.

In a number of studies on the market share of sharia banking, the sharia banking market share is formulated as a percentage of sharia banking assets against total national banking assets (Purboastuti, 2015). This study is limited to using data from Sharia Commercial Banks and Sharia Business Units as the Sharia Banking variable. It is because both of them can carry out collection, distribution, and payment traffic services. Meanwhile, BPRS (Sharia People's Financing Bank) is not included in sharia banking in this study because there is a business activity that cannot be carried out by BPRS, namely providing services in payment traffic.

Kotler (2006) defines market share as the amount of sales that competitors have in the relevant market. **Griffith & Reenen (1999)** defines market share as "the company's sales divided by total industry sales," meaning that market share is the ratio of the company's total sales compared to the total sales of similar industries. **Baroes (2009) in Jaelani's study (2017) interpreted** that market share is the size of the market that can be controlled by a company whose calculations are expressed as a percentage.

METHODOLOGY AND RESULT

The sample in this study is the data of Sharia Commercial Banks and Sharia Business Units consisting of ROA, FDR, BOPO, NPF, Conventional Bank Loans, Sharia Banking Total Assets, and Total National Banking Assets taken monthly for nine years from 2010 to 2018. So, the total sample is one hundred and eight data.
This study uses multiple regression tests with the classic assumption test being performed first. In the classic assumption test, normal detection of data is performed using the Skewness and Kurtosis test. To see whether the data is normally distributed or not, it can be seen from the value of prob> chi2. Then, to find out the interrelationship among the independent variables, multicollinearity testing is used, namely by looking at the value of VIF and tolerance (1/VIF). Meanwhile, to analyze the confounding factors that have the same variations or not, heteroscedasticity testing is used. In this study the Brefch Pagan Godfrey test was used.

Based on the results of testing classic assumptions in this study it was found that the data studied were normally distributed, by fulfilling the overall classical assumption test, namely the normality test for probchi> chi2 values above 0.05. Heteroscedasticity test shows results above 0.05, that is 0.233, which means that there is no heteroscedasticity problem. For multicollinearity test, VIF value is smaller than 10 and tolerance value (1/VIF) is greater than 0.1, so it can be concluded that there is no multicollinearity problem.

For multiple regression testing, the F test and the T test were carried out. The F test result is a Prob> F = 0.0000. Because the significant value is smaller than 0.05, it can be concluded that simultaneously the independent variable influences the dependent variable.

Table 1. Simultaneous Test Results (Test F)

Source	SS	df	MS
Model	0.007796379	5	0.001559276
Residual	0.000312537	102	0.000003064
Total	0.008108916	107	0.000075784

Number of obs = 108
F (5,102) = 508.89
Prob > F = 0.0000
R-squared = 0.9615
Adj R-squared = 0.9596
Root MSE = 0.00175

Multiple linear regression analysis in this study was conducted to determine the relationship between the variables X_1 (ROA) X_2 (FDR) X_3 (BOPO) X_4 (NPF) X_5 (KREDITBUK) to Y (MS). The regression model is described as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

Table 2. Multiple Regression Test Results

Independent Var	Coef.	Std. Err	t	P>|t|	[95% Conf. Interval]	
ROA (X1)	-0.0670274	0.0563726	-1.19	0.237	-0.1788422	0.0447873
FDR (X2)	0.0008394	0.0037691	0.22	0.824	-0.0066367	0.0083154
BOPO (X3)	-0.017869	0.0050381	-3.55	0.001	-0.027862	-0.007876
NPF (X4)	-0.172669	0.0335535	-5.15	0	-0.2392222	-0.1061158
KREDITBUK (X5)	0.0257902	0.0006447	40	0	0.0245115	0.027069
_cons	-0.3282155	0.0114705	-28.61	0	-0.3509672	-0.3054638

Based on the table 2 regression result, the research regression equation can be arranged as follows: MS_t = - 0.3282155 - 0.0670274 ROA + 0.0008394 FDR - 0.017869 BOPO - 0.172669 NPF + 0.0257902 KREDITBUK. Assuming the other independent variables are constant, each variable is explained as follows: 1) Every 1% increase in ROA will reduce MS by -0.0670274%; 2) Every 1% increase in FDR will increase MS by 0.0008394%; 3) Every 1% increase in BOPO will decrease MS by -0.017869%; 4) Every 1% increase in NPF will decrease MS by -0.172669%; 5) Every 1% increase KREDITBUK will increase MS by 0.0257902%.

Based on the T test results, it is obtained the value of P> t of the independent variables which can be described as follows: 1) The Return On Asset (ROA) variable has no effect on the market share. The insignificance of ROA on market share can be due to the fact that in the 10 years of the study period, many were still below the BI standard of 1.5%. The highest ROA percentage was only obtained at 2.5% in January 2013. Banks that can maintain high and stable ROA values will be attractive to the market. 2) Financing to Deposit Ratio (FDR) has no influence on the market share. FDR above 100 occurred at the end of 2012 and throughout 2013 caused sharia banks to provide external funds (interbank loans) to meet their financing needs. The value of the FDR is not beneficial for sharia banking because it is faced with inefficiency from the burden that must be paid to the owner of the third party funds, while also being exposed to credit risk. The market does not respond if the high FDR has a thin profit especially risky.

Meanwhile, three other independent variables obtain significant or influential results, with the following explanation: 3) Operational Costs Operating Income (*Biaya Operasional Pendapatan Operasional*, BOPO) Variable shows a negative influence on market share. The market in Indonesia is a rational market where it continues to look for products at competitive prices. Public preference for banks will be high because banks specifically manage their funds well in order to get good returns. The ability of sharia banking in carrying out efficiency is highly considered by the public and increases public confidence. 4) Non Performing Financing (NPF) shows a negative influence on market share. NPF of sharia banking which is quite high causes a decrease in profitability. Though, the main income of the banking business is from channeling financing. Such conditions can lead to loss of opportunities to earn revenue and adversely affect the market share. 5) Commercial Bank Credit (KREDITBUK) distribution has a negative effect on market share. In this study, conventional bank loans with their own risks do not interfere with the growth of sharia bank market share. Or, in other words, there is a profitable market user competition for sharia banking.

CONCLUSION

Based on the test results, it is obtained that simultaneously the ROA, FDR, BOPO, and NPF variables have an influence on market share. Meanwhile, the partial test results show that the ROA and FDR variables have no effect on market share. These results are due to the unstable percentage ratio in the 108 months of the study. Meanwhile, BOPO and NPF variables have a negative effect because increasing the ratio can reduce profits. While BUK Credit shows the results of a positive influence on the market share. BUK credit growth has triggered competition in the growth of the market for sharia banking.

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