Innovative and Sustainable Performance of Islamic Bank: Comparing the Financial Ratios between Two Different Organizations in Indonesia

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Abstract

The law that requires every UUS to change into a BUS by 2023 is the background for this research. Financial indicators show that UUS performance is better than BUS so, through this research, the authors will compare the financial performance of Islamic Banks which were previously in the form of UUS, and after changing their business entity to BUS. Currently, in Indonesia, there is thirteen BUS that previously had UUS status. The sampling in this investigation used a purposive sampling technique with two criteria so that two samples were obtained, namely Bank BJB Syariah and Bank BNI Syariah. The observation period was carried out for seven years when the status was UUS and eight years after becoming a BUS. The source of data in this study comes from the financial statements of each bank which contain the ratio of PPAP, FDR, NOM, ROA, and BOPO. This comparative study uses the Mann-Whitney U test non-parametric test analysis technique. The comparative study conducted concluded that there were differences in financial performance before and after the spin-off for the FDR and BOPO ratios, while the PPAP, NOM, and ROA ratios were not found to be different.

Keywords: *BUS, UUS, Spin-off, Indonesia*

INTRODUCTION

Islamic banking in Indonesia successfully demonstrated its strength during the Asian financial crisis in 1997 and the global recession in 2008. The negative interest income (negative spread) that caused many conventional banks to be liquidated was not experienced by Islamic banking, which does not recognize the principle of interest in its operations. (Marimin, 2015)

After the Asian financial crisis in 1998, Islamic banking began to develop rapidly in Indonesia in line with the issuance of Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking. The law accommodated a dual banking system that allowed conventional banks to provide Islamic financial services. The presence of Law Number 21 of 2008 on Islamic Banking further strengthens the existence of Islamic Banking in Indonesia.

The banking system in Indonesia is detailed in Law Number 21 of 2008. The conventional banking system can be in the form of Conventional Commercial Banks (BUK) and Rural Banks (BPR) while the Islamic banking system consists of Islamic Commercial Banks (BUS), Islamic People's Financing Banks (BPRS), and Conventional Commercial Banks that facilitate Islamic financial services through Sharia Business Units (UUS).

Article 68 paragraph 1 of Law No. 21 of 2008 regulates changes in the way Islamic banks conduct their business. The UUS must immediately transform into a BUS (spin-off) if its wealth value has reached at least 50% of the wealth of its parent entity or no later than 2023.

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The above situation has led us to focus this paper on comparing the financial performance of UUS that spin-off into BUS. This study will compare the financial performance data of UUS for seven years (2004-2010) and BUS for eight years (2010-2017). The financial performance indicators used include PPAP, FDR, NOM, ROA, and BOPO ratios.

RESEARCH METHODS

The investigation began by analyzing the financial overview of Islamic banking which can be obtained on the website of the Financial Services Authority of the Republic of Indonesia (www.ojk.go.id) or the website of the bank authority concerned, specifically www.bjbsyariah.co.id for Bank BJB Syariah while for Bank BNI Syariah it can be through its official website at www.bnisyariah.co.id.

The population includes all Sharia Business Units that have transferred rights and obligations (spin-off). The population referred to in this study are thirteen BUSs that have carried out the spin-off process and/or transfer of rights and obligations. The sampling procedure used is purposive sampling (based on specific criteria). Referring to the set of criteria, the samples that meet the criteria are Bank Negara Indonesia Syariah (BNI Syariah) and Bank Jabar Banten Syariah (BJB Syariah).

This comparative study uses quantitative data consisting of financial ratios including PPAP, FDR, NOM, ROA and BOPO on BUS and UUS. The data source comes from the publication of BUS and UUS financial reports on each Islamic banking official website. Based on the source, this article uses secondary data.

This study uses a data collection strategy in the form of documentation techniques. This strategy is a type of examination led by collecting archives, reports or organizational records related to research material. Before testing, the data was first handled with the Kolmogorov-Smirnov normality test to decide the nature of the data. If the data was parametric, the Mann-Whitney U Test was conducted. If non-parametric data was encountered, an Independent Sample t-Test was conducted.

Monetary execution is the proportion of monetary accomplishments that involve budgetary reports as a reason for estimation. Provision for loss of earning assets (PPAP) is a mandatory provision, set at a certain level of the liability balance by considering the quality grouping of profitable resources according to BI guidelines (PBI number 5/9/PBI/2003). Finance to Deposit Ratio (FDR) This is a useful proportion to measure the organization of how much funding is provided by how many open assets and how much personal capital is utilized. (Kasmir, 2015).

The NOM ratio measures productive assets' ability to generate profits (SE BI number 9/24 / BPbS). The Return on Assets (ROA) ratio is designed as an indicator of the company's success in generating profits. Operating Expenses to Operating Income Ratio (BOPO) is used to see how operating costs are compared to income.

RESEARCH RESULTS

Description of PPAP Ratio Variable

Table 1. Condition of PPAP ratio of BUS and UUS

PPAP ratio (in per cent)			
No	UUS	No	BUS
1	1.55	1	1.35
2	1.38	2	1.31
3	2.01	3	2.00
4	2.60	4	1.44
5	2.44	5	1.81
6	2.55	6	2.44
7	2.90	7	9.79
8	1.33	8	13.69
9	2.10	9	2.02

10	2.81	10	1.68
11	1.77	11	1.33
12	1.92	12	1.45
13	2.85	13	1.50
14	2.81	14	1.90
		15	2.28
		16	2.03
Mean	2.22	Mean	3.00

The average PPAP ratio of UUS is 2.22 while the average ratio of BUS is 3.00. PPAP ratios that are closer to 1 are considered to have better performance.

Description of FDR Ratio Variable

Table 2. Condition of FDR ratio of BUS and UUS

FDR ratio (in per cent)			
No	UUS	No	BUS
1	241.62	1	122.43
2	292.35	2	79.76
3	186.76	3	88.06
4	180.55	4	97.15
5	229.59	5	84.06
6	121.69	6	104.75
7	135.24	7	98.73
8	87.77	8	91.03
9	97.43	9	68.93
10	100.73	10	78.6
11	100.10	11	84.99
12	102.98	12	97.86
13	78.25	13	92.60
14	75.60	14	91.94
		15	84.57
		16	80.21
Mean	145.05	Mean	90.35

The average FDR ratio of UUS is 145.05 while the average ratio of BUS is 90.35. The FDR ratio set by BI is in the range of 78-92%.

Description of NOM Ratio Variable

Table 3. Condition of NOM ratio of BUS and UUS

NOM ratio (in per cent)			
No	UUS	No	BUS
1	2.36	1	8.29
2	3.89	2	7.84
3	5.86	3	7.41
4	4.51	4	6.65
5	4.05	5	8.34
6	4.86	6	(2.45)
7	0.75	7	(27.84)
8	3.32	8	(7.41)
9	0.54	9	5.07
10	1.19	10	8.07
11	0.93	11	11.03
12	1.00	12	9.51
13	-4.41	13	0.48

14	0.84	14	0.67
		15	1.01
		16	0.76
Mean	2.12	Mean	2.34

The average NOM ratio of UUS is 2.12% while the average ratio of BUS is 2.34%. BI Circular Letter number 9/24 / BPbS stipulates that profitability is very high if NOM> 3%, and rentability is categorized as low if NOM ≤ 1.5.

Description of ROA Ratio Variable

Table 4. Condition of ROA ratio of BUS and UUS

ROA ratio (in per cent)			
No	UUS	No	BUS
1	1.66	1	0.72
2	3.35	2	1.23
3	4.43	3	0.67
4	3.82	4	0.91
5	3.13	5	0.72
6	3.16	6	0.25
7	0.63	7	(8.09)
8	2.93	8	(5.69)
9	0.51	9	0.61
10	0.95	10	1.29
11	0.76	11	1.48
12	0.86	12	1.37
13	-3.89	13	1.27
14	0.67	14	1.43
		15	1.44
		16	1.31
Mean	1.64	Mean	0.06

The average ROA ratio of UUS is 1.64% while the average ratio of BUS is 0.06%. ROA is categorized as rank 1 if > 1.5% If ROA is in the range of 0-0.5%, it is categorized as rank 4.

Description of BOPO Ratio Variable

Table 5. Condition of BOPO ratio of BUS dan UUS

BOPO ratio (in per cent)			
No	UUS	No	BUS
1	73.95	1	90.33
2	68.14	2	84.07
3	53.90	3	90.62
4	60.61	4	85.76
5	59.52	5	91.01
6	58.18	6	98.78
7	75.20	7	122.77
8	51.73	8	134.63
9	93.39	9	88.28
10	86.82	10	87.86
11	85.40	11	85.39
12	85.20	12	83.94
13	161.58	13	89.80
14	67.01	14	89.63
		15	86.88

		16	87.62
Mean	77.19	Mean	93.59

The average BOPO ratio of UUS is 77.19% while the average BOPO ratio of BUS is 93.59%. The average ratio of BOPO BUS which is higher than BOPO UUS means that UUS is more efficient than BUS in its operations.

Normality Tests

This study uses the Kolmogorov-Smirnov test tool, which can be used for large and limited amounts of information. (Oktaviani, 2014). The α value requirement applied in this study is 0.05, which means that when the sig. > 0.05 it can be concluded that the data is normally distributed and concluded otherwise if sig. <0.05 This study uses the Kolmogorov-Smirnov test tool, which can be used for large and limited amounts of information. (Oktaviani, 2014). The α value requirement applied in this study is 0.05, which means that when the sig. > 0.05 it can be concluded that the data is normally distributed and concluded otherwise if sig. < 0.05

Based on the results of the normality test, the sig. (2-tailed) is 0.000 for all ratios compared? The result of sig. (2-tailed) <0.05 states that in this test the data is not normally distributed. The non-parametric statistical Independent Sample t-Test (Mann Whitney U Test) is the appropriate difference test with the data distribution above.

t-Tests

Based on the Mann-Whitney t-test, it is known that Sig. (2-tailed) of each PPAP, NOM, and ROA variable is above 0.05, meaning that there is no difference in financial performance before and after the spin-off so H0 is accepted and the alternative hypothesis is rejected. The ratios of FDR = 0.009 and BOPO = 0.001 indicate that the performance of the spin-off Islamic banks has a large difference in the FDR and BOPO variables of the banks, so this study accepts H0 and rejects H1.

DISCUSSION

Comparison Ratio of PPAP

The study found an Asymp. Sig. (2-tailed) PPAP is 0.157 which means sig. (0.157) > α (0.05) was used to conclude that there is no significant difference in the financial performance of UUS which spins off into BUS in terms of the ratio of PPAP to productive assets. These results are in line with Kurniasari's (2015) previous study which also revealed differences in financial performance in terms of PPAP ratios on BUS and UUS.

The average ratio of PPAP to productive assets of UUS 2.22% and BUS 3.00% indicates the better financial performance of UUS. The low average value of the ratio of PPAP to productive assets of UUS indicates that the quality of productive assets channelled by UUS tends to be classified as current even though it is not exactly at 1%. The average ratio of PPAP to productive assets indicates that BUS sets aside more of its productive assets to guarantee the productive assets channelled.

Comparison Ratio of FDR

The results of this study found Asymp. Sig. (2-tailed) FDR = 0.01 so it can be written sig. (0.01) < α (0.05) which means that there are differences in the financial performance of UUS which spin off into BUS in terms of the FDR ratio. Based on the results of hypothesis testing with the Mann-Whitney U Test, this study accepts Ha-2 proposed by the author and rejects H0. Supeni and Ruspita's research (2019) also revealed results found by the author.

The results of simple regression analysis show that the average value of FDR BUS is more liquid than the average value of FDR UUS. The illiquidity of UUS, which on average exceeds 100%, shows that UUS distributes greater financing than the third-party funds raised. The meaning of the average FDR ratio of BUS of 90.35% is that of the total third-party funds collected, Islamic banks channel 90.35% for various financing instruments.

Comparison Ratio of NOM

The results of data analysis found Asymp. Sig. (2-tailed) NOM of 0.262 which means sig. (0.262) > α (0.05) was used so it is concluded that there is no significant difference in the financial performance of UUS which spins off into BUS in terms of the NOM ratio. This study rejects Ha-3 proposed by the author and accepts H0. The research results from the aspect of the NOM ratio follow the study by Supeni and Ruspita (2019).

The average NOM ratio of UUS is 2.12% and 2.34% for the average NOM ratio of BUS, which means that from 100% of the productive assets of an Islamic bank when it has the status of UUS it can generate 2.12% profit-sharing income while when it becomes a BUS the ability to generate profit sharing income increases by 0.22% to 2.34%. The difference in the average NOM ratio of BUS and UUS of 0.22% was concluded to be statistically insignificant after hypothesis testing using the Mann-Whitney difference test tool. The higher average NOM ratio of BUS indicates that the financial performance of Islamic banks after spin-off is better in managing their productive assets to generate profit-sharing income.

Comparison Ratio of ROA

The findings by comparing the ROA ratio before and after the spin-off concluded to reject Ha-4 proposed by the author. This study found Asymp. Sig. (2-tailed) ROA = 0.140 which means sig. (0.140) > α (0.05) which is determined, so it is considered that financial performance in terms of the ROA ratio of UUS which spins off into BUS is not significantly different. The comparison conducted by Hisyam and Septiarini (2016) is consistent with the results of this research comparison. The results of this study are not supported by several previous studies including Kurniasari (2015), and Kuncoro and Yulianto (2018).

The average ROA of UUS is 1.64% while BUS is 0.06% or 1.58% lower than the average ROA of UUS. The average difference of 1.58% cannot be concluded to be statistically significant (not significant) using the Mann-Whitney U Test. Average ROA. The higher average ROA of UUS means that the financial performance of UUS is better in terms of the level of profitability realized and in terms of the use of assets is also considered better. (Kurniasari, 2017).

Comparison Ratio of BOPO

The results of data analysis found Asymp. Sig. (2-tailed) BOPO of 0.002 which means sig. (0.002) < α (0.05) is used to conclude that there is a significant difference in the financial performance of UUS which spins off into BUS in terms of the BOPO ratio. This study accepts Ha-5 proposed by the author and rejects H0.

The results of this study from the aspect of the BOPO ratio are in line with the findings of Kuncoro and Yulianto (2018) who also concluded that there are significant differences in financial performance in terms of the BOPO ratio between BUS and UUS. Conversely, Hisyam and Septiarini's (2016) findings do not support this study's findings.

The average BOPO ratio of UUS is 77.19% while BUS is 93.59% or 16.4% higher than the BOPO ratio of UUS. The average difference of 16.4% can be concluded to be statistically significant. The average BOPO of UUS of 77.19% can be interpreted that to obtain an operating income of 1 UUS must bear operating expenses of 0.7719. The greater BOPO shows the worse efficiency of the company due to the lack of ability to reduce expenses in obtaining certain revenues. Based on BI Regulation No.9/24/BPBS, the average BOPO ratio of UUS of 77.19% can be categorized as very efficient while the average BOPO of BUS of 93.59% is categorized as ranked five (inefficient). Increasing BOPO shows the bank's ability to manage its operations better (Aprilia and Handayani, 2018).

RESEARCH DISCUSSION

The subjects in this study focused on Islamic Banks, which separated their business from their parent by using a pure spin-off method, which meant that there were not many changes in the financial structure and intervention in running the BUS. Until this research was compiled, in Indonesia, there was only two BUS that carried out the pure spin-off method. There are no previous studies that the authors have encountered that specifically compare the financial performance of BUS by considering the pure spin-off method in its sampling.

The time interval compared in this study is wider, so the data collected is more varied than in previous studies. This will affect the results more comprehensively. The variables in this study will conclude that the performance of Islamic banking comprehensively includes the quality of its productive assets, the level of liquidity, profitability, profitability, and efficiency achieved by BUS after carrying out a pure spin-off. The results of this study are interesting to be discussed and developed into further research because it is found that although UUS is ranked 1 in terms of efficiency and BUS is ranked 5, UUS liquidity is more volatile (illiquid) than BUS, which is considered more liquid.

For academics, these results are expected to make a scientific contribution to the development of further research on the study of Islamic banking financial performance. For practitioners of Islamic banking, it is expected that this information can be considered in formulating a business plan related to changes in the form of business. Policymakers are expected to consider the results of this research in formulating further regulations or reviewing the 2023 spin-off obligation policy so that Islamic banking in Indonesia can continue to develop in a more advanced direction.

The fact that no UUS is capable of owning a minimum of 50% of its parent assets amid the approaching deadline for UUS status in Indonesia has made many parties conduct in-depth investigations on this issue. One of the most interesting things to investigate is the financial performance of UUS which has separated its business from its parent to become a BUS. In that case, this research becomes relevant and interesting to read. Academics will view this research as a new reference for developing research that compares the financial performance of UUS and BUS with the pure spin-off method.

CONCLUSION

Banks are faced with very diverse opportunities and challenges in conducting spin-offs. The opportunity for freedom to develop business and increase the market share of Islamic banking is not an easy matter, banks that will spin off are faced with the challenge of operational expenses and a lot of core capital (Rongiyati, 2015). The stagnant increase in market share at 5% is evidence of the failure of Bank Indonesia's projections for Islamic banking so it is important to review the spin-off policy. (Al Arif, 2014). This paper has reviewed and compared the results as shown in the last section. The next challenge would be how to manage the challenge ahead by directing Islamic banking to perform sustainable financial management.

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