The Effect Of Car, Nom, Profit- Loss Sharing Financing And Liquidity On Profitability In Islamic Commercial Banks And Islamic Business Units In Indonesia

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Abstract: *This aims of this study is to determine the effect of CAR, NOM, profit- loss sharing financing and liquidity on ROA in Islamic commercial banks and Islamic business units in Indonesia. The results of evaluations using SPSS 25 show CAR, profit sharing financing and liquidity show no significant effect on ROA in Islamic commercial banks and Islamic business units in Indonesia, while NOM has a significant effect on ROA in Islamic commercial banks and Islamic business units in Indonesia.*

Keywords: CAR, NOM, Profit-Loss Sharing, Liquidity, ROA

Introduction

The presence of Islamic banking was initially triggered by the desire of Muslims for financial services based on syariah principles which are expected to avoid the practice of ribha, maysir, gharar and other practices deemed incompatible with Islamic principles. In addition, there were also demands from Muslims to organize a more Islamic economy because they were triggered by the current economic system that ignores ethics, morals and religion, causing frequent economic crises.

The fundamental difference between Islamic banks and conventional banks lies in the main focus of profit maximization, if conventional banks put more emphasis on the benefits of capital owners (shareholder values), while Islamic banks emphasize more on maximizing the public interest (stakeholder value). The act of emphasizing the benefits of capital owners is believed to be increasingly ignoring the interests of the community and the environment, causing an imbalance in the distribution of income and social welfare that can push the widening of the poverty gap.

In general, the development of Islamic banks in Indonesia is quite promising, in quantity until mid-2018, there are 13 Islamic commercial banks, 21 Islamic business units and 168 Islamic people's financing banks with total assets of Rp. 444.43 trillion, while third party funds which can be collected are Rp. 348, 38 trillion and channeled Rp. 303.54 trillion. However, the quality of the market share of Islamic banks is far below that of conventional banks, until mid-2018, the market share of Islamic banks is only 5.7%, while the remaining 94.3% is controlled by conventional banks. This is very unfortunate considering the number of Indonesian Muslims who have reached more than 207 million people (87.18%).

As an intermediary institution, Islamic banks must also be able to channel third party funds collected to generate profits and bring benefits to their customers. In addition, Islamic banks must also be able to utilize existing assets to generate profits. According to research conducted by (Ramlan & Adnan, 2016), Islamic banks have higher profitability compared to conventional banks, because Islamic banks are considered to be more risk averse and more transparent in their operations. Data on asset growth, financing disbursed and third party funds in Islamic banks can be seen in the following table.

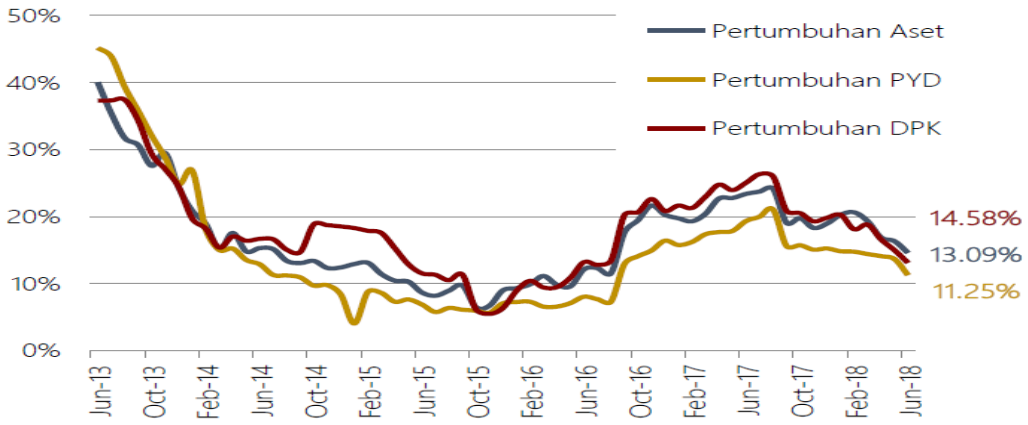

Figure 1. Syariah Bank Assets, PYD and DPK Growth

Source: www.ojk.go.id

The graph shows that since 2013, the trend of asset growth, financing disbursed and third party funds has decreased quite sharply despite an increase in mid-2017 but in 2018 has declined again. While the profitability data of Islamic banks can be seen in the following figure.

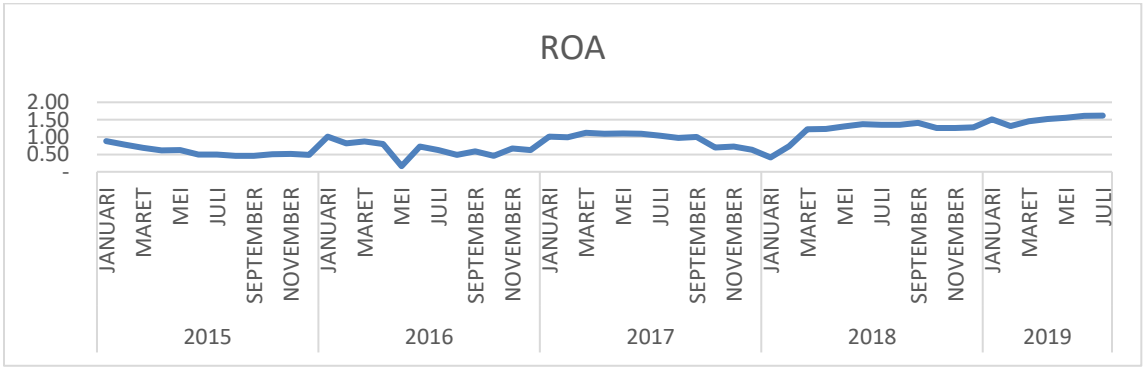

Figure 2. Syariah Bank Profitability Data

Source: www.ojk.go.id

Although based on Figure 1 there is a declining trend in the assets of Islamic banks, but in Figure 2 it appears that the profitability of Islamic banks has experienced a fairly stable upward trend. Bank profitability is determined by factors that can be controlled by management and factors outside management's control. Factors that can be controlled by management are factors that describe the policies and decisions of the bank's management itself, such as fund raising, capital management, liquidity management and cost management. While factors outside management's

control include environmental factors and bank characteristics, environmental factors include market structure, regulation, inflation, interest rates, and market growth. (Chalifah & Sodiq, 2015)

This research was conducted to analyze the effect of Capital Adequacy Ratio (CAR), Net Operating Margin (NOM), Profit-loss Sharing and Liquidity Financing Ratio on Profitability in Islamic commercial banks and Islamic business units in Indonesia. So the results of this study are expected to contribute to banking practitioners, policy makers, financial companies, and to the academic world.

Literature Review

The Relationship between CAR and Profitability

Capital is one of the significant factors in developing a company and can be a guarantee when a loss occurs, the higher the CAR value, the better the ability of the bank concerned to bear the risk, besides the bank having sufficient capital, the profit rate will also be higher. Some studies that analyze the relationship between CAR and profitability include (Harianto, 2017), (Ariyani, 2010), (Ben Salah Mahdi & Boujelbene Abbes, 2018), (Agustiningrum, 2013), (Hakiim, 2016), (Yusuf, 2017) , and (M, Ali, & Habbe, 2012).

The Relationship between NOM and Profitability

Net operating margin (NOM) shows the ability of banks to generate revenue from profit sharing margins by looking at the ability of banks to distribute financing. The higher the NOM obtained by a bank, the higher bank revenue will be as well as profitability. Some studies that analyze the relationship between NOM and profitability include (Joseph, 2017) and (M et al., 2012).

The Relationship between Profit-Loss Sharing Financing and Profitability

In Islam, profit-loss sharing financing is an ideal financing, because it is profit-loss sharing so that both investors and borrowers have the same responsibility for the business carried out. The higher the profit sharing financing should be able to increase the profitability of the company. Some studies that analyze the relationship between profit sharing financing and profitability include (Fadhila, 2015), (Permata, 2014), (Chalifah & Sodiq, 2015), (Rahayu, Husaini, & Azizah, 2016), (Rahman, 2011), (Ben Salah Mahdi & Boujelbene Abbes, 2018), (Yulianto, 2014), and (Warninda, Ekaputra, & Rokhim, 2019).

Relationship between Liquidity and Profitability

Liquidity measures the ability of companies to meet their short-term obligations, companies with sufficient liquidity can increase company profitability. Some studies that analyze the relationship between liquidity and profitability include (Yusuf, 2017), (Hakiim, 2016), (Ariyani, 2010), (Harianto, 2017), (Ben Salah Mahdi & Boujelbene Abbes, 2018), (Yulianto, 2014) , (Agustiningrum, 2013), (Hassan, Khan, & Paltrinieri, 2019), and (M et al., 2012).

Method

This research is an associative research. This research data uses secondary data, namely capital adequacy ratio (CAR), net operating margin (NOM), profit-loss sharing financing, liquidity (short term mismatch) and profitability (ROA) of all sharia commercial banks and sharia business units in Indonesia. The data is in the form of time series data from January 2015 to July 2019 published by the official website of the financial services authority www.ojk.go.id. Data analysis in this study used multiple linear regressions modeling with the help of SPSS 25 software.

Result

Classic assumption test

The classic assumption test is a prerequisite test for the use of a regression model, the first classic assumption test is the normality data test, and based on the results of data processing the results are obtained:

Table 1: Normality Test

			Unstandardized Residual
N			55
Monte Carlo Sig. (2-tailed)	Sig.		,255[d]
	99% Confidence Interval	Lower Bound	,103
		Upper Bound	,406

Source: data processed, 2019

The results of the normality test in table 1 show that the residual value is spread normally because the sig value of 0.255 is greater than 0.05, so it can be concluded if the normality assumption is met.

Table 2: Multicollinearity Test

Model		Collinearity Statistics Tolerance	VIF	Information
1	(Constant)			
	CAR	,332	3,010	multikolinierity does not occur
	NOM	,308	3,245	multikolinierity does not occur
	Financing	,709	1,410	multikolinierity does not occur
	Liquidity	,826	1,211	multikolinierity does not occur

a. Dependent Variable: ROA

Source: data processed, 2019

The multicollinearity test results in table 2 show that all independent variables have tolerance values greater than 0.1 and the value of variance inflation factor (VIF) that is smaller than 10, so it can be concluded that there are no symptoms of multicollinearity.

Table 3: Heteroscedasticity Test

Model		t	Sig	Information
1	(Constant)	-1,361	,180	
	CAR	-1,874	,067	Heteroscedasticity does not occur
	NOM	1,422	,161	Heteroscedasticity does not occur
	Financing	1,175	,084	Heteroscedasticity does not occur
	Liquidity	-,779	,440	Heteroscedasticity does not occur

a. Dependent Variable: RES_2

Source: data processed, 2019

The results of the heteroscedasticity test in table 3 that uses the glacier test show that all independent variables have significant values which is greater than 0.05, so it can be concluded that there are no symptoms of heteroscedasticity in the model.

Table 4: Autocorrelation Test

Durbin Watson's value	DW tabel	Information
1,807	1,724-DW-2,276	No autocorrelation occurred

Source: data processed, 2019

The results of the autocorrelation test in table 4 show the durbin watson value of 1.807 which is either in the dU- (4-dU) interval or is at 1.724 to 2.227, it can be concluded if there are no autocorrelation symptoms.

Multiple Linear Regression Analysis

The linear regression equation model used in this study is as follows:

ROA = α + β1CAR + β2NOM + β3 Financing Profit Sharing + β4 Liquidity + e

The results of data processing can be seen in the following table.

Table 5: Linear Regression

Model		Unstandardized Coefficients B	Std. Error
1	(Constant)	,085	,094
	CAR	,003	,002
	NOM	,852	,011
	Financing	-,003	,003
	Liquidity	,000	,000

a. Dependent Variable: ROA

Source: data processed, 2019

Based on table 5, we obtain the following regression equation:

ROA = 0.085 + 0.003 CAR + 0.852NOM - 0.003 Profit Sharing Funding + 0,000 liquidity

Hypothesis testing

Table 6: Hypothesis Test

Variabel	t sum	Sig	t tabel	Information
CAR	1,400	,168	2,007	Positive and insignificant effect
NOM	75,602	,000	2,007	Positive and significant effect
Profit Sharing Funding	-1,065	,292	-2,007	Negative and insignificant effect
Liqudity	,712	,479	2,007	Positive and insignificant effect

Source: data processed, 2019

Based on testing the hypothesis in table 6, the conclusions can be drawn:

Effect of Capital Adequacy Ratio (CAR) on Profitability (ROA)

T test results for CAR show a calculated t value of 1,400 <t table 2,007, and a sig value of 0.168> 0.05 so it can be concluded if the capital adequacy ratio (CAR) has a positive and not significant effect on profitability (ROA) at Islamic Commercial Banks and Sharia Business Unit in Indonesia. These results are in line with the results of research conducted by (Hakim, 2016), (Harianto, 2017), and (Agustiningrum, 2013), but not in line with the results of research (Yusuf, 2017), (Ariyani, 2010), and (M et al., 2012). This result can be caused by the operational Islamic banks not optimizing the existing capital, besides the OJK regulation which requires Islamic banks to have a minimum CAR of 8% resulting in Islamic banks always striving to have their CAR in accordance with the provisions.

Effect of Net Operating Margin (NOM) on Profitability (ROA)

T test results for NOM show t count value of 75.602> t table 2.007, and sig value of 0.000 <0.05, so it can be concluded if the net operating margin (NOM) has a positive and significant effect on profitability (ROA) at Islamic Commercial Banks and Sharia Business Unit in Indonesia. These results are in line with the results of research conducted by (Yusuf, 2017) and (M et al., 2012). Increasing the distribution of financing to customers encourages an increase in Islamic bank revenue, the higher the NOM value, the higher the margin level, the high margin level will encourage capital owners to develop the productive sector which will ultimately increase the profitability of the company.

Effect of Profit-loss Sharing Financing on Profitability (ROA)

T test results for profit-loss sharing financing show the t value of -1.065> -2.007, and a sig value of 0.292, so it can be concluded if the profit-loss sharing financing has a negative and not significant effect on profitability (ROA) at Islamic Commercial Banks and Sharia Business Units in Indonesia. These results are not in line with the results of research conducted by (Fadhila, 2015), (Permata, 2014), (Chalifah & Sodiq, 2015), (Rahayu et al., 2016), (Rahman, 2011), and (Yulianto, 2014). Profit-loss sharing financing turns out to have a negative impact on the profitability of Islamic banks, the higher the profit-sharing based financing, the lower the ROA generated. The cause of the negative relationship between profit sharing financing and ROA can be due to customers who get financing does not necessarily return it in the first year, but also sometimes there are customers who are stuck in the return.

Effect of Liquidity on Profitability (ROA)

T test results for liquidity show the t value of 0.712 <t table 2.007, and sig value of 0.479> 0.05, so it can be concluded if liquidity has a positive and not significant effect on profitability (ROA) at Islamic Commercial Banks and Sharia Business Units in Indonesia. These results are in line with the results of research conducted by (Hakiim, 2016), (Ariyani, 2010), and (Harianto, 2017), but not in line with the results of research (Yusuf, 2017), (Yulianto, 2014), and (M et al., 2012). A positive but not significant liquidity relationship can be interpreted that if liquidity increases, profitability will increase but the increase is quite small because to increase liquidity more liquid funds must be reserved so that they cannot be used to generate profits.

Coefficient of Determination

The coefficient of determination indicates the ability of the model in explaining the dependent variable, the results of data processing gives the result of adjusted R square of 0.997 or 99.7%. This figure shows that if the model's ability to explain the ROA variable is 99.7%, the remaining 0.3% is explained by other variables outside this research model.

Conclusion

From the results of observations and analysis of the data that has been done, CAR, Profit Sharing Funding and liquidity have insignificant effect on ROA in Islamic commercial banks and Islamic business units in Indonesia, while NOM has a significant effect on ROA in Islamic commercial banks and Islamic business units in Indonesia. The insignificant effect of CAR on ROA is due to less than optimal Islamic banks in using capital due to OJK regulations which require a mandatory minimum reserve of 8%. Profit sharing financing also has insignificant effect because in general the profit-sharing based financing customers do not directly return their loans in the same period, so we need modeling that can explain the relationship in time series data such as vector autoregressive models. Not significant effect liquidity can be caused because this study uses short term mismatch data included in the secondary reserve as liquidity data, so it is less ideal when compared to the use of FDR which is commonly proxied as liquidity.

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