

Can the Islamic Performance Index Improve the Financial Health of Islamic Commercial Banks?

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ABSTRACT

This study aims to test the hypothesis of the Islamicity performance index (IPI) variable on Financial Health (KF) as a dependent variable. The data analysis method uses descriptive analysis and data analysis used is the panel data regression technique and Moderated Regression Analysis (MRA) with the Eviews 9 application. The results of the study indicate that the Islamic income ratio (IIR) and zakat performance ratio (ZPR) variables have a positive and significant effect on the financial health of Islamic commercial banks, while the Islamic income ratio (IIR) variable has no effect on the financial health (KF) of Islamic commercial banks.

Keywords: *Islamic performance index, Sharia supervisory council, financial health, intellectual capital*

INTRODUCTION

The growth of Islamic Banks shows an indicator of slowdown. This is shown by the decline in the total number of offices in Islamic General Banks. The delay is caused by the ratio contained in financial health which generally occurs in various Islamic General Banks in Indonesia (Syafriada & Aminah, 2015). Meanwhile, according to OJK, the decline in the quality of Islamic Banks was caused by financing at Islamic Banks only reaching 3.3% or IDR 9.4 trillion compared to a total of IDR 286.8 trillion in December 2017 to IDR 296.2 trillion in June 2018 (OJK, 2022).

Bank health assessments are certainly important to carry out because they have a vital function in every economic activity in society (Febrianti, 2021). The level of health of Islamic banks does not have to be focused solely on profits but must also pay attention to management principles that are in line with sharia aspects (Inayah, 2020).

Regulatory changes in the financial sector and lack of compliance with sharia rules and principles can also be challenges for Islamic commercial banks. Banks must always monitor regulatory changes and ensure compliance with Islamic banking rules set by the supervisory authority. Non-compliance with sharia principles can negatively affect the financial health of the bank (Novita, 2019).

It is important for Islamic Commercial Banks in Indonesia to address and manage these issues well through the implementation of effective risk management. This needs to be supported by strict monitoring of asset quality and liquidity, compliance with sharia principles and Islamic banking regulations, and innovation in products in the form of services or services in fulfilling customer desires (Abdul Rohim & Kurniawan, 2023).

Based on the sharia aspect of enterprise theory, accountability is responsibility towards Allah SWT. This theory was initiated by Hameed et al. (2004), This theory is used to determine the use of Islamic values as variables in Islamic financial institutions. Specifically, the sharia aspect of enterprise theory instills social concepts by institutions such as justice, accountability and fairness.

The implications of this theory are revealed in the study by Felani et al. (2020) tentang Islamicity performance index (IPI). Islamicity performance index (IPI) is a parameter of Islamic Bank activities which is divided into two aspects, namely the Islamic Disclosure Index and the Islamic Performance Index (Yusnita, 2019). The Islamicity Performance Index (IPI) is an index to estimate the extent to which a Sharia Bank or financial institution applies sharia principles in its operations.

There are various studies that explain the effect of the Islamicity Performance Index (IPI) on the health of Islamic banks. Study by Prihanoto (2022) explains the effect of IPI on the financial health of Indonesian Islamic General Banks with Islamic Corporate Governance as a moderating variable. Another study from Putri et al. (2022) shows the effect of Intellectual capital which moderates the impact of IPI on financial health, the impact of IPI is assessed through indicators, namely the Islamic income ratio, Zakat Performance Ratio and Profit sharing ratio.

In the Profit Sharing Ratio (PSR) variable, the study of Putri & Gunawan (2019), Siswanti et al. (2021), Nurmawati et al. (2020) either Falikhatun & Assegaf (2012) explains that the Profit Sharing Ratio (PSR) has a significant impact on the financial health of Islamic Banks. In contrast to the findings Astuti et al. (2019) either Ismail (2022) which shows that there is no relationship between PSR and the financial health of Islamic Banks.

Study of Prasaja (2018), Destiani et al. (2021), Makruflis (2018) along Falikhatun & Assegaf, (2012) explaining the impact of Islamic income ratio on the financial health of Islamic banking. However, the results are contrary to the studies conducted Sabirin, (2021) and Mayasari (2020).

Study of Destiani et al. (2021) Rahmaniar & Ruhadi (2020) and Mayasari (2020) explains that the Zakat Performance Ratio has an impact on the financial performance of Islamic Banks. Meanwhile, a study from Fajar et al. (2022) and Fadila Balangger et al. (2017) shows the opposite result which has no impact at all.

This study presents the Islamicity performance Index (IPI) on the financial health of Islamic commercial banks in Indonesia through Intellectual capital as a moderating variable. The IPI variable in this study is described through 3 proxies, namely Profit sharing ratio (PSR), Zakat performance ratio (ZPR) and Islamic income ratio (IICR).

Through the discussion above, the following research hypotheses can be drawn:

- 1) Does the Profit Sharing ratio affect the Financial Health of Islamic Commercial Banks?
- 2) Does the Zakat Performance Ratio affect the Financial Health of Islamic Commercial Banks?
- 3) Does the Islamic income ratio affect the Financial Health of Islamic Commercial Banks?

METHOD

The study uses a type of quantitative method used as a financial parameter to conduct hypothesis testing which is then summarized into information (Sekaran & Bougie, 2016). The form of data is secondary related to the annual financial report released in the form of Sharia Bank data. The population of this study is Sharia Bank data recorded at Bank Indonesia with a total of 13 Sharia Bank units including Aceh Syariah, Panin Dubai Syariah, Mega Syariah, Muamalat, BRK Syariah, Victoria Syariah, BJB Syariah and BCA Syariah.

Financial Health

Financial health is measured through the Capital Adequacy Ratio (CAR), Non-Performing Finance (NPF), Operational Efficiency Ratio (OER), and Short Term Mismatch (STM) as measuring tools for assessing the financial health of Islamic commercial banks. The measurement of bank health figures through CAR, NPF, OER, and STM is based on the results of financial data calculations. The next step after determining the credit rating is the weighting adjusted to the credit figures in each sample. The table presents information on the weight of the credit figures from the financial factor assessment.

Tabel 1. Financial Factor Assessment Weight

Information	Weight (%)
Capitalization (CAR)	25
Asset quality (NPF)	50
Profitability (OER)	10
Liquidity (STM)	15

Source: SEOJK Nomor 10/SEOJK.03/2014

In obtaining the value that has been calculated by multiplying the credit numbers made, in obtaining the weighted value, the credit value is multiplied by the weight. Financial Health Estimation is the total of four aspects after being multiplied by the weighting. Financial health parameters can be formulated as follows:

$$KF = (AK\ CAR \times 25\%) + (AK\ NPF \times 50\%) + (AK\ OER \times 10\%) + (AK\ STM \times 15\%)$$

Information :

KF = Bank's financial health

AK CAR = Figures from CAR Credit

AK NPF = Figures from NPF Credit

AK OER = Figures from OER Credits

AK STM = Figures from STM Credit

The measurement of the financial health variable in this study is in accordance with the rules of POJK Number 8/POJK.03/2014 concerning the Assessment of the Health Level of Islamic Commercial Banks and Islamic Business Units. The POJK also regulates the various ratios used. The financial ratios are found to differ from the observer ratio, supporting ratio and main ratio. Quantitative evaluation of aspects of capital, asset quality, liquidity and profitability is found in SEOJK Number 10/SEOJK.03/2014 concerning the Assessment of the Health Level of Islamic Commercial Banks and Islamic Business Units.

Islamic Performance Index

Islamicity Performance Index (IPI) is a performance assessment parameter of a sharia bank that is able to present aspects that are materialistic and aspects from a spiritual perspective that exist in Sharia Banks. This study in describing the IPI value uses three types of variables including:

- 1) Profit sharing ratio

Profit Sharing Ratio (PSR) which is a financing activity from the profit sharing of a Sharia Bank with musyarakah and mudharabah contracts. The calculation concept is:

$$PSR = \frac{\text{Mudharabah} + \text{Musyarakah}}{\text{Total Financing}}$$

- 2) Zakat performance ratio

The use of the value of the Zakat performance ratio (ZPR) is measured by the net asset value where Islamic Banks with high assets are certainly required to pay out zakat in greater amounts. The calculation formula is:

$$\text{ZPR} = \frac{\text{Zakat}}{\text{Net Asset}}$$

3) Islamic income ratio

Islamic income ratio (IIR) has a function in calculating all income (halal and non-halal) in Islamic Banks. Basically, non-halal income is in the annual report of Islamic Banks with the calculation concept, namely:

$$\text{IIR} = \frac{\text{Halal Income}}{\text{Halal Income} + \text{Non Halal Income}}$$

DISCUSSION

Panel data regression is performed to analyze the impact of independent to dependent variables individually. The test shows the following test results:

Tabel 2. Fixed Effect Model (FEM) Test Results

	C	X1 (PSR)	X2 (IIR)	X3 (ZPR)
t-statistik	-0.42283	2.468.188	0.552208	-4.124.944
Prob	0.6745	0.0175	0.5836	0.0002

Source: Data processed using Eviews 9

X1. The Effect of Profit Sharing Ratio on the Financial Health of Islamic Commercial Banks

Based on this test, the FEM model shows that the Profit Sharing Ratio (PSR) has a coefficient estimate of 18.05010 and a t-statistic probability value of 0.0175 < α 0.05 so that H0 is accepted where the variable X1 PSR has a partial positive and significant impact on the variable Y Financial Health.

This is relevant to the theory Hameed et al., (2004) Profit sharing ratio or profit sharing ratio aims to see the amount of profit sharing scheme carried out by Islamic banks in their distribution, namely mudharabah and musyarakah. The calculation formulation is obtained by comparing the results of the combination of mudharabah and musyarakah financing distribution for all financing that has been distributed. If Islamic banks are able to achieve a high profit sharing ratio value, Islamic banks place profit sharing financing as the main channel in financing distribution. On the other hand, achieving a high profit sharing value can trigger an increase in the financial health of Islamic banks.

Thus, the higher the amount of profit sharing is a sign that there is an increase in income obtained by Islamic banks and ultimately, has an impact on the financial health of the bank. The results of this study support research conducted by Prihanoto, (2022), Sabirin, (2021) Nurmawati et al., (2020) Afandi & Haryono (2022) dan Putri, (2019). They stated that the profit sharing ratio has a significant positive effect on the financial health of Islamic commercial banks. The higher the amount of profit sharing is a sign that there is an increase in income and profit obtained by Islamic banks. Profit sharing with Islamic principles inherent in Islamic commercial banks can also be an answer to customer doubts about the extent to which Islamic banks consistently uphold Islamic principles.

X2. The effect of the Islamic income ratio on the Financial Health of Islamic Commercial Banks

In the Islamic income ratio (IIR) has a coefficient value of -335.8734 and the estimated probability of t-statistic is $0.5836 > \alpha 0.05$ so that H_0 is rejected which explains the variable X2 IIR partially has no significant impact on the variable Y Financial health (KF).

This is not relevant to the theory put forward by Hameed et al., (2004) that the Islamic income ratio can increase the level of financial health of Islamic banking so that compliance with sharia principles is better. But the results of this study support research conducted by Sabirin, (2021) dan Mayasari (2020).

The Islamic income ratio has no effect on financial health due to the existence of income received by the bank other than as mudharib or non-halal income that cannot be avoided by Islamic Commercial Banks.

X3. The Effect of Zakat Performance Ratio on the Financial Health of Islamic Commercial Banks

In the Zakat performance ratio (ZPR), the coefficient value is -767.047 and the t-statistic probability is $0.0002 < \alpha 0.05$, so H_0 is accepted and shows that the variable X3 ZPR has a partial positive and significant impact on the variable Y Financial Health.

The results of this study support research conducted by Rahmaniar & Ruhadi (2020), Fatmala dan Wirman (2021), Afdani dan Haryono (2022) dan Destiani et al. (2021). Sharia enterprise theory states that the responsibility in running an entity is not only to the owner of the company, but also to a wider group of stakeholders including Allah. Zakat itself is an excess of wealth that must be paid by every Muslim, therefore if the net assets of a bank are high, the zakat paid by the bank is also high. Financial reports are indeed very much needed by stakeholders. Because all company activities can be seen through financial reports.

When associated with the zakat performance ratio, financial health can be measured by how much Islamic banks distribute zakat from net assets. This is relevant to the theory put forward by Hameed et al. (2004) that Zakat Performance Ratio is an important factor that can contribute to achieving good financial health. The greater the Zakat Performance Ratio can increase bank profits, assuming the bank can channel its funds well. Normatively, if a bank performs zakat periodically, it will increase profitability because investment in the afterlife is the best investment so that financial health will improve well.

CONCLUSION

Based on the results of data processing on the proposed hypothesis, it can be concluded that the Profit sharing ratio (PSR) and Zakat performance ratio (ZPR) have a significant influence on the financial health of Islamic commercial banks in Indonesia. Thus, when Islamic banking can achieve high Profit sharing ratio (PSR) and Zakat performance ratio (ZPR) values, this will have an impact on increasing the financial health of Islamic commercial banks. On the other hand, empirical results show that the Islamic income ratio (IIR) does not have a significant influence on the financial health of Islamic commercial banks in Indonesia.

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