

CHAPTER I

INTRODUCTION

A. Research Background

1. The Growth of Islamic Banks in Indonesia

Banking institutions have very important role to support the economic system in a country. Banks are institutions finance that is a place for individuals, business entities private sector, state-owned enterprises, even government agencies keep their funds through various services provided by banking institutions (Lestari, 2015).

Banks are identical with the interest used in a transaction. To avoid the transactions with an interest system, Islam introduced the principles of Islamic *muamalah* which is the establishment of Islamic banks. With the presence of Islamic banks, it is hoped that it will be an alternative solution to the problem between bank interest conflicts and usury.

In Islamic finance, money interest is categorized as *riba*, which means haram.

According to Q.S Al-Baqarah Verse 275:

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يُفُومُونَ إِلَّا كَمَا يُفُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا
الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ
وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

The meaning: "People who eat usury cannot stand but are like a person who is possessed by a demon because he is insane. That is because they say that buying and selling is the same as usury. Even though Allah has made buying and selling legal and forbidden usury. Whoever gets a warning from his Lord, then he stops, then what he has obtained before becomes his and his business (up to) Allah. Whoever repeats, then they are residents of hell, they are eternal in it.

Based on the verse above, it explains people who eat *riba* that making usury transactions by taking or receiving excess over capital from people in need by exploiting their needs, they live in anxiety that are spiritually unsettled, always confused, and in uncertainty, because their minds and hearts are always on matter and its additions. That is what they will experience in the world, while in the hereafter they will be raised from the grave in a state of staggering, not knowing the direction they are going to take and will receive a painful punishment.

OJK (Otoritas Jasa Keuangan / Financial Service Authority) stated on the website that Indonesia is the most Muslim populated country, and Indonesia has efforts to establish non-*riba* alternative banks have started to emerge, this has begun to spread to many countries such as Indonesia where interest-free banks operate in line with conventional banks. Reported from the official website of the OJK, in 1990 the MUI (Majelis Ulama Indonesia/Indonesian Ulema Council) formed a team to establish an Islamic bank in Indonesia, as a result of the work of the MUI team, the establishment of the first Islamic bank in

Indonesia is PT Bank Muamalat Indonesia which established on the 1st November 1991 and officially operated on 1st May 1992.

The growth of Islamic banks in Indonesia has become a measurement of the success of the Islamic Economy in Indonesia, which can be seen from the success of Bank Muamalat Indonesia in facing the monetary crisis that occurred in 1998 where at that time many conventional banks in Indonesia were drowned (Nofinawati, 2016).

The establishment of the legal basis officially allowed by Bank Indonesia for Islamic banking which refers to Law No.10 of 1998 consist of two banking systems in Indonesia (Dual Banking System), namely the Conventional banking system and the Islamic banking system. It was greeted positively by banks in Indonesia and consistently developed.

In Indonesia, the prospect of Islamic bank is getting brighter and more promising. Islamic banks are believed to continue to grow and develop in the future.

From year to year, Islamic banks continues to show its progress to compete with conventional banks, it can be seen that from table 1.1, it was taken from OJK's Islamic Banking Statistic Report:

Table 1. 1
The Growth of Islamic Banks in Indonesia 2018 – 2021

Banks	2018	2019	2020	Feb 2021
Islamic Banks Full Flagged	14	14	14	14
Islamic Window	20	20	20	20
Islamic Rural Banks	167	164	163	163

Source: Islamic Banks Statistic by OJK (<https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah/Pages/Statistik-Perbankan-Syariah---Februari-2021.aspx>)

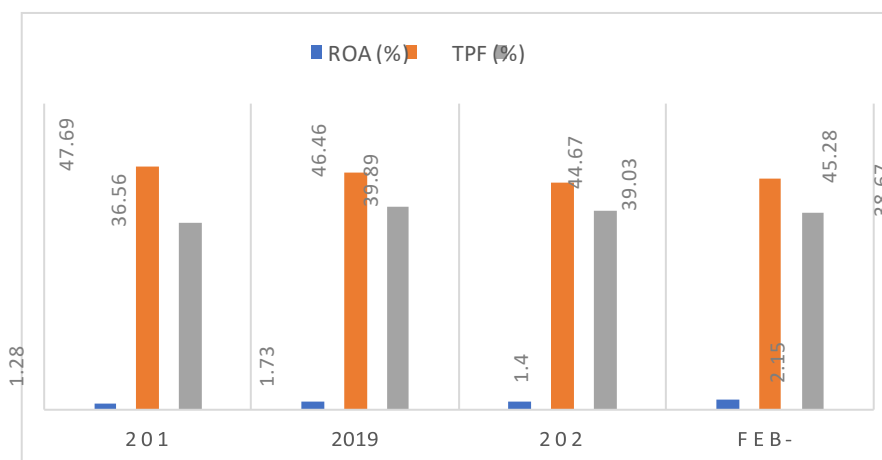
Based on table 1.1, it shows that the growth of banks in Indonesia especially for Islamic Banks Full Flagged and Islamic Window is quite stable from year to year, although in 2019 Islamic Rural Banks had decreased from 167 to 164 but this will be expected to continue to rise in the following year.

Furthermore, the growth of Islamic Banks can be captured in several studies. According studies by Nurbaiti (2016) that the growth of Islamic Banks can be measured by using the profitability ratio which is one of the profitability ratios is Return on Assets (ROA), this study argue that this ratio is used for measuring management ability in making a profit or overall profit. Another studies by Firdausi (2016) asserted that the growth of Islamic Banks can be seen from Third-Parties Funds (TPF) that are the most important source of funds for activities operations in a bank and as the measurement of the success of the bank

if it is able to finance operations from this source of funds. Additionally, studied by Sudarsono (2017) mentioned that the higher the bank's ability to manage financing, the lower the Non-Performing Financing (NPF) of the bank. If the NPF is lower, than banks are able to maximize profits from financing.

Table 1. 2

The Growth of Islamic Banking System in Indonesia 2018 – 2021



Source: Islamic Banks Statistic by OJK (*Statistik Perbankan Syariah*, n.d.) (<https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah/Pages/Statistik-Perbankan-Syariah---Februari-2021.aspx>)

Based on the table 1.2, it can be seen that the development of Islamic banks will continue to increase and have a high opportunity of having an increase in ROA from year to year. In 2019 Islamic banks had an increase of 0.45% from 2018, although they had decreased from 2019 to 2020, but in 2021 ROA again increased by 0.75%, from 1.40% to 2.15 %. This is considered quite good in the development of Islamic

banks, the higher the ROA of Islamic banking, the higher the bank's profitability ratio in terms of asset use.

Not only has ROA increased, but from the table 1.2, that there was an TPF in 2019 of 47,69% and 45,28% in the February 2021. However, the TPF itself had experienced a decrease in 2020, where in 2020 the TPF was decreased to 44,67% but, in February 2021 the TPF was increase from 44,67% to 45,28%. A decrease of this decline is considered not to be bigger than the increase in the previous year so that it has the potential to increase in the next month of 2021. TPF which has increased is considered to have a positive impact apart from the high trend of saving in the midst of a pandemic, this is also due to the lack of demand for credit. As a result, in terms of funding supply, such as current liquidity, it can be said that it is at the freest level.

Based on the study of Sudarsono (2017) financing also become a measurement of bank performance. From table 1.2, it shows that the financing also increased from year to year which is in the 2019 increase from 36,56% to 39,89% and in the 2020 it reached 39,03%. However, in the February 2021 the total of financing starts decrease to 38,67%, even though the decrease is quite small but it can give an effect of bank's growth and it is expected to continue to potentially increase.

Even though the growth of Islamic banks in Indonesia is considered promising enough to continue to grow from year to year, there is challenge that still have to be faced by Islamic banks. Reported from OJK Snapshot Islamic Banking Indonesia March 2020, the market share of Islamic banks in Indonesia still tends to stagnate that is 5.99%, which is still far from being able to compete with conventional banks. Therefore, the KNEKS (Komite Nasional Ekonomi dan Keuangan Syariah/National Committee for Islamic Economics and Finance) is working to develop a strategy to strengthen Islamic banks with a focus on enlarging the assets of the Islamic banking industry, and by this committee, it will be able to achieve an economic of scale that is sufficient to compete with the conventional banking industry.

To achieve the development of Islamic Banks and Islamic market share in Indonesia, various alternative strategies and proposed interventions have been studied, not only focusing on expectations of government involvement in the development of Islamic banking but also focusing on efficiency and creating new products and services to be able to attract customers' interest in choosing a bank that is in accordance with market needs that are in line with Islamic and not against the Islamic principles.

2. The Growth of Islamic Banks in Aceh

The growth of the Islamic Banks in Aceh shows quite encouraging conditions from year to year, it can be seen from the growth of Islamic banking, although it is slow but grows positively from year to year. Based on the Islamic Banking Statistic Report from OJK, that the Islamic banks in Aceh was growing well from 2011 until 2020.

The growth of Islamic economics and finance in Aceh Province has progressed very fast since the birth of *Qanun* (Regional Regulation) No.11 / 2018 concerning Islamic Financial Institutions (LKS). The presence of this *Qanun* / regional regulation on Islamic Financial Institutions (LKS) strengthens the implementation of Islamic economic development in Aceh and adds local revenue where the conversion process of Bank BPD Aceh to Bank Aceh Syariah is the culminating point. The conversion of Bank Aceh Syariah, which is the first BPD conversion process in Indonesia, has pushed the market share of national Islamic banking assets out of the market trap of 5% (Komite Nasional Ekonomi dan Keuangan Syariah, 2020).

Reported from Bank Aceh Syariah's website, the conversion of Bank Aceh Syariah has positively encouraged the growth of Islamic banking in Indonesia since 2016. So far, Bank Aceh Syariah has shown positive growth, in terms of assets, TPF and financial performance.

Table 1. 3
The Growth of Islamic banking system in Bank Aceh Syariah 2011-2020

Indicators	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (in billion IDR)	13,05	13,48	14,25	16,39	18,59	18,76	22,61	23,10	25,120	25,5
Third-Parties Funds (TPF) (in billion IDR)	10,06	10,67	11,74	12,03	14,15	14,43	18,50	18,39	20,92	21,6
Financing (in billion IDR)	9,19	9,59	10,20	11,11	11,89	12,21	12,85	13,24	14,36	15,3

Source: Annual Report PT. Islamic Aceh Bank Year 2011-2020 (*Laporan Tahunan*, n.d)

Based on table 1.3, it shows that the growth of Bank Aceh Syariah continues to rise from year 2011 to 2020, the total Assets in 2019-2020 increased by 1.43%. Furthermore, in terms of Bank Aceh Syariah's TPF also shows an increase in 2020 which is from Rp. 20,92 trillion to Rp. 21,6 trillion which increased by 3.10%. And also, for the financing indicator it shows an increase in 2020 from Rp. 14,36 trillion to Rp. 15,3 trillion which increased by 6,38%. This is considered quite good in the growth of Islamic banks, the higher the total assets, TPF and financing indicator of Islamic banking, the higher the bank's profitability ratio.

In the midst of the Covid-19 pandemic conditions, Islamic Aceh Bank has successfully passed 2020 with performance achievements continuing to grow positively and the data above is evidenced by the achievement of several key financial indicators in the closing book period of December 31, 2020. Bank Aceh Syariah continues to make improvements in running its business which is not only required to generate profit commercially but it is also required to apply Islamic values. By becoming an Islamic banking, Bank Aceh Syariah will compete and maintain its image in an effort to strengthen the bonds of trust between customers and partners.

However, based on data obtained from the 2020 Islamic Banking Snapshot published by the OJK in 2020, Aceh remains a province that is ranked fourth out of The 10 provinces with the largest Islamic banking assets in Indonesia, amounting to 4.91% after DKI Jakarta, West Java and East Java.

Reported from the *Kompas.com* website, Aceh Province is known as *Seramoe Mekkah* (Veranda of Mecca/*Serambi Mekkah*). With a Muslim-majority province, the issue of *fiqiyah* clearly states that usury is haram. While studies by Kismawadi & Al Muddatstsir (2018) reported that the most Indonesian people,

especially Muslim in Aceh, do not understanding well the practices that exist in Islamic banks, both in the form of business activities, products and services of Islamic banks.

After reviewing the phenomenon of this study regarding the growth of Islamic Banks in Indonesia and the growth of Islamic Banks in Aceh especially Bank Aceh Syariah, it shows that the increase of performance can be seen from the ROA, TPF and Financing in the period of 2011-2020. However, the development of Bank Aceh Syariah in Aceh still dominated with Bank Aceh Syariah and BSI (Bank Syariah Indonesia), the study needs to be discussed to ensure that Aceh people choose Islamic Banks as financial intermediary. Even though the data shows increase from year to year, Islamic banks still faced the challenge to compete with conventional banks which is the market share only about 6,51% on the December 2020 as compared with conventional banks is about 93,49% (Reported from Snapshot by OJK on December 2020). This study will be examined some factors such as, Return on Assets (ROA), Return on Equity (ROE), and Capital Adequacy Ratio (CAR). This study attempts to capture the performance of Bank Aceh Syariah.

B. Research Questions

From the background that has been outlined above, the problem of research is:

1. Does the ROA has a positive significant influence on TPF in the Bank Aceh Syariah?
2. Does the ROE has a positive significant influence on TPF in the Bank Aceh Syariah?
3. Does the CAR has a positive significant influence on TPF in the Bank Aceh Syariah?

C. Research Purposes

Related to the formulation of the above problems, the objectives of this research are to have empirical evidence of:

1. The ROA has a positive significant influence on TPF in the Bank Aceh Syariah.
2. The ROE has a positive significant influence on TPF in the Bank Aceh Syariah.
3. The CAR has a positive significant influence on TPF in the Bank Aceh Syariah.

D. Research Benefits

The following are the expected benefits of the research carried out:

1. **Authors**

As an Accounting student, this study will increase the knowledge and see the phenomena in Islamic banking that are applied with the knowledge gained by researchers during college.

2. Academic Literature

This study expected to enhance the literature in some discussion and new insight regarding Islamic Banking studies. Additionally, this study gives new discussion in the area of Islamic Banking in Aceh.

3. Future Studies

This study is expected to add experience and insight for future researchers to find out how to improve the performance of Bank Aceh Syariah through the variables studied.

4. Islamic Banking Practitioners

This study could be used as a reference for Islamic bank practitioners to improve socialization can attract public interest.