

CHAPTER I

INTRODUCTION

A. Background

The establishment of Islamic bank in Indonesia was the answer for the Muslim need to have their own financial institution that is in line with the Islamic principles. Shariah bank, unlike conventional, applied profit loss sharing mechanisms which void any discrimination toward its customer's economic capabilities, therefore, its accessibility in shortly spreading widely (Martono, 2004:111)

The existence of Muammalat Bank in Indonesia, as the highest Muslim population in the world, will contribute highly to the monetary economy and real sectors since this bank serve as financial intermediary which not only connect the Muslim parties who have excess fund but also have not. By investing their money in the shariah bank, the investors will help those who want to develop their business yet at the same time they dealt with the transaction suit to the shariah compliances.

Conventional banks were suffered from the monetary crisis, in contrast, shariah banks resistance to it and almost do not influence by those shocks, it was believed that anti interest system covered the banks from the crises.

The strong durability without using riba is one of many factors that make shariah banking still exist even though the economic crisis hit at that time. So shariah banking becomes one of industries which have the big impact to Indonesia economic. By keeping the performance quality in banking sector, it will make people more trusting to the shariah bank, and then economic growth will increase.

As an important financial institution in economy, it is necessary to control the quality of bank performance by banking regulator. One indicator to assess the quality is by seeing the bank profitability (Stiawan, 2009:1).

Profitability as a reference in measuring the amount of profit becomes so important to know whether the company has been running its business efficiently. Efficiency of business can be known after comparing the profit with total asset (Dewi, 2010:22).

One of indicator that used to measure the profitability is Return on Asset (ROA). ROA is ratio that measures the ability of bank to earn profit as a whole (Martono, 2004:84). According to Meythi, ROA is important because Central Bank (Bank Indonesia) as supervisor more concerned to asset based on society fund (Stiawan, 2009:20). By increasing amount of ROA make the profitability which achieved by bank become greater then bank will get better position in the term of asset utilization (Dendawijaya on Dewi, 2010:22).

Research about factors that influence the level of profitability have been done to many researcher, one is the research which conducted by Adi

Stiawan in 2009. In the research, Stiawan using macroeconomic factor which are inflation and Gross Domestic Product (GDP), market share and bank characteristic which measure by Capital Adequacy Ratio (CAR), Financing Deposit Ratio (FDR), Non Performing Finance (NPF), *Operational Cost per Operational Income* (BOPO) and SIZE to determine the effect on the profitability of shariah banks in Indonesia. Stiawan using Islamic banking as sample then he explain that inflation and GDP does not affect the profitability of shariah bank because the result of research, theoretically tend to be more in line with the theory of pure Islamic economy which explains that the Islamic economy prefers the circulation of money in the real sector. Actually, this is contradict to the research of Dwijayanthi and Naomi (2009:95) which explain that inflation give the negative impact to profitability because inflation make the bank reluctant to raise capital to finance its production so it increased the risk of bank which influence the amount of profit. According to Rivai, shariah bank much invests in real sector will ultimately be affected because of declining the economic activity of society due to inflation (Stiawan, 2009:72).

According to Islamic economist, inflation has bad impact to economy because it will debilitate spirit and attitude of saving money in society, the increasing of shopping tendency especially for non-primary and luxury goods (Adiwarman Karin, 2007:139).

The relation between GDP and banking where GDP is relate with saving. Meanwhile, the most activity bank is to collect the society fund and

distribute that fund (invest) then profit from investment that would later become part of shariah bank profitability (Stiawan, 2009:19). When the income of society increases, many people who have surplus money save their money to bank, then bank can distribute it well into real sector

Another factor that influence the profitability of shariah bank is the financial performance which measured by financial ratios are capital ratio (CAR), financing ratio (FDR), financing risk (NPF) and efficiency ratio (BOPO). According to Dewi's research in 2010, ratios of CAR and FDR do not influence ROA in shariah bank, while ratios of NPF and BOPO influence negatively to ROA. The other side, Bambang was conducted research in 2010 stated that FDR ratio influence positively to ROA.

CAR is a variable that influence profitability based on the relation with the level of risk bank or capital capabilities which can reduce the emergence of risk so by increasing CAR ratio, it will reduce the problem of bank. This research has similar result with the research from Stiawan (2009:75) and Prastiyaningtyas (2010:74) which explain that CAR ratio has positive influence to ROA. However this is contradict with the result research from Dewi (2010:V) which explain that CAR had no influence to profitability of bank.

FDR is important ratio to profitability, if ratio of FDR has higher amount it will make liquidity of bank become low due to large amount of financing distribution so bank will get profit from it. This research is similar result to Stiawan (2009:75), Pramuka (2010:77). However, this explanation

is contradicted with the result research from Nurkhosidah (2009:79) which explain that FDR had no influence to profitability.

NPF is ratio that measures the bank's ability to manage the risk of financing problem. The impact of higher amount in NPF ratio is customer cannot return the fund from financing activity so the bank will did not get profit from it. The higher ratio indicates the bad quality of financing. This research has similar result with research of Stiawan (2009:75), Dewi (2010:39), Nurkhosidah (2009:79) and Pramuka (2010:78).

BOPO is ratio that used to measure the efficiency of bank operational. The higher ratio indicates the low ability of bank to press the operational cost, therefore the BOPO ratio influence negatively to ROA which similar to research of Stiawan (2009:75), Nurkhosidah (2009:80), Wiyas Putra (2011:41), Yuliani (2007:35) and Prastiyaningtyas (2010:74).

In fact, factors that influence profitability of bank is contradict with the theory as shown in the following table:

Table 1.1

Macroeconomic Condition and Shariah Banking Ratios

Year	Inflation (%)	GDP (Billion)	CAR (%)	FDR (%)	NPF (%)	BOPO (%)	ROA (%)
2008	10.30	2,082,457	12.81	103.65	1.42	81.75	1.42
2009	4.89	2,178,851	10.77	89.70	4.01	84.39	1.48
2010	5.13	2,314,458	16.25	89.67	3.02	80.54	1.67
2011	5.38	2,464,676	23.49	127.71	6.11	76.31	2.67
2012	4.27	2,618,139	24.69	125.85	6.60	79.3	2.68

Source: Islamic Banking Statistic January 2013, Bank Indonesia.

In table 1.1, there are some data which is contradicted with the available theory. Actually, the increasing of inflation in 2011 (0.25%) influence positively to ROA which increased by 1 %, therefore, this case is inconsistent with the inflation theory which states that inflation will reduce the bank profitability.

Actually, CAR ratio in 2009 which decrease about 2.04% had influence negatively to profitability of bank which increased by 0.06%. It is certainly different with the theory which state that by higher CAR ratio will make bank problem is low and so bank will have good performance

FDR ratio in 2009 which decreased by 13.95% has influence negatively to the increasing of bank profitability by 0.06%. This is contrary to the theory which state that by higher FDR ratio will make higher finance distribution then bank get profit from this activity.

NPF ratio in 2011 which increased by 3.09% has influence the increasing profitability in amount of 1%. This case is contradict with theory which state that higher NPF make the profitability become low due to spending cost operational which indicate to losses in later

BOPO ratio in 2012 which increased by 2.99% has influence positively to increasing of profitability in amount of 0.01%. This case is different opinion with the theory which states that by low ratio will increase the profitability.

Based on this background, researcher interest to do some research in the title: “The Analysis of Factors that Influence Profitability in Shariah

Bank in Indonesia (Case Study of listed Shariah Bank in Bank Indonesia from 2008-2012)

B. Research Question

Based on this background, the research questions are:

1. Does Inflation, Non Performing Finance (NPF) and Operational Cost per Operational Income (BOPO) influence negatively to the profitability of shariah banks?
2. Does Gross Domestic product (GDP), Capital Adequacy Ratio (CAR), Financing Deposit Ratio (FDR) influence positively to the profitability of shariah banks?

C. Limitation

Based on background in the above, researcher limit the scope of discussion to prevent the wide discussion

1. The object research is Muamalat Indonesia Bank, Shariah Mandiri Bank and Mega Shariah Bank.
2. Variable research in this case is factors that influence profitability of shariah bank, namely inflation, Gross Domestic Product (GDP), Capital Adequacy Ratio (CAR), Financing Deposit Ratio (FDR), Non Performing Financing (NPF) and Operational Cost per Operational Income (BOPO)
3. Research data in the period of 2008 - 2012.

D. Research Objective

Based on research question, the aim research can be elaborated as follows:

1. To determine the influence of Inflation, Non Performing Finance (NPF) and Operational Cost per Operational Income (BOPO) influence negatively to the profitability of shariah banks.
2. To determine the influence Gross Domestic product (GDP), Capital Adequacy Ratio (CAR), Financing Deposit Ratio (FDR) influence positively to the profitability of shariah banks.

E. Research Significant

The benefit from this research namely:

1. For researcher:

Researcher can improve the analysis skill then they create scientific result and expect that this research useful for people especially for who want make research about the factors that influence the profitability of shariah bank

2. For banking:

The benefit of research to shariah banking is the research become reference for them to increase the profitability

3. For next researcher:

The result of this research can add insight and knowledge of reader and hope this research can be reference for the further research who want research the factors that influence the shariah bank profitability.