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THE EFFECT OF FINANCIAL PERFORMANCE, EXTERNAL FACTORS, AND OPERATIONAL RATIO ON CAR RATIO OF SHARIA COMMERCIAL BANKS IN INDONESIA

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Abstract

Capital becomes an important part of a bank, even to determine the bank is healthy or not is assessed from its capital ratio. Likewise, sharia banks in Indonesia are growing rapidly in this modern era. The maximum use of capital in profit-sharing financing is believed to be more a leverage than investments such as sukuk and others. The growth of sharia banking in Indonesia is considered slow when compared to growth in foreign countries, while Indonesia as the largest Muslim population in the world has greater potential than other countries. The monetary climate and the lack of capital that enter sharia banks are believed to be the cause of the slow growth of sharia banking in Indonesia. In this study I found that ROE of 0.1% and Inflation of 0.466% had a positive effect on the CAR ratio, while GDP was 0.431% and BOPO was 0.116% with negative effect on the CAR ratio.

Keywords: **Banks; sharia; car; gdp; roe.**

1. Introduction

Sharia banking or what is known in the West as Islamic Banking is a banking system in which the implementation uses the principles of Islamic law regulated in the Al-Quran. Banking that is guided by Islamic law is known as a Sharia Bank. Sharia banking has a fundamental difference with conventional banking, although the main task of banks is as a financial intermediary between parties that have surplus funds and those who need funds (deficit units) as well as institutions that facilitate the flow of funds. payment traffic. In addition, the bank is also an industry that in its business activities relies on public trust so that the level of health of the bank should be maintained.

One characteristic that makes sharia banks different from conventional banks is the absence of interest on loans (usury) and all investment sectors against everything that is unclean such as alcohol companies, gambling, and others. This sharia principle has been applied for a long time, but in this Modern Age sharia banking appeared in formal institutions around the 20th century where sharia banks and sharia institutions were established in various foreign countries.

Sharia banking in Indonesia has grown increasingly after seeing empirical evidence that sharia banking, in the world and Indonesia, are not so affected by the monetary crisis experienced by many countries including Indonesia itself. The monetary crisis has made many banks liquidated in Indonesia and also experienced globally by other banks in the world affected by the monetary crisis. Islamic banks have proven that the system implemented in Islamic banking can guarantee the welfare of banks and the public as customers while maintaining bank assets and customers in difficult situations.

The global crisis experienced by many countries in the year 2008 which shows the fragility of modern economic systems that exist today cannot provide certainty about the welfare and sustainability of conventional banking, Islamic financial institutions again prove their resilience from the crisis. Islamic financial institutions remain stable and provide benefits, convenience and security for their shareholders, holders of securities, borrowers and depositors in Islamic banks

Banks that are always able to maintain their performance well, especially the level of good liquidity, then the possibility of the value of shares of the relevant bank on the secondary market and the amount of funds from third parties that have been collected will increase. The increase in the value of shares and the amount of third party funds is one indicator of increasing public trust in the bank concerned (Azwir, 2006). Trust and loyalty of the fund owner to the bank is a very helpful factor and makes it easier for the bank management to develop a good business strategy. Conversely, the fund owners who lack trust in the bank concerned are also very thin, this is very unfavorable for the bank concerned because the owners of these funds can withdraw funds at any time and transfer them to other banks (Azwir, 2006). According to the 1999 Decree of the Director of Bank Indonesia, five aspects of assessment were used to assess banking financial performance, namely the CAMELS Rating System.

Capital Adequecy	(Capital)	***C***
Asset Quality	(Asset Quality)	***A***
Management Ability	(Management Quality)	***M***
Earning Ability	(Rentability)	***E***
Liquidity Ability	(Liquidity)	***L***
Sensitisity to Market Risk	(Sensitivity to market risk)	***S***

With increasing business complexity and risk profile, banks need to identify problems that may arise from bank operations. For banks, the final results of the assessment of the condition of the bank are used as a means of determining future business strategies, while for Bank Indonesia it is used as a means of establishing and implementing strategies for Indonesian banking supervision (Jakarta: BI, 2004)

The soundness of the bank is the result of a qualitative assessment of various aspects that affect the condition or performance of a bank through an assessment of capital factors, asset quality, management, profitability, liquidity and sensitivity to market risk (Jakarta: BI, 2004).

2. Literature Review

A. Sharia Bank

Before we discuss the notion of sharia banks, it needs to be understood that many figures give opinions on the meaning of Islamic banks, so that one assumes differently. Broadly speaking, the notion of sharia banks is a banking institution which in principle adheres to Islamic law. However, for more details, refer to some figures in describing the notions of Islamic banks.

The word bank comes from the word Banque in French, and from the word Banco in Italian, which means a chest or a cupboard or a bench. The word crate or cupboard implies a function as a place to store valuable objects, such as gold, diamond chests, money chests and so on. According to Heri Sudarsono, in general the notion of Islamic banks is a financial institution whose principal business is providing credit and other services in the payment traffic and circulation of money operating in accordance with sharia principles. therefore, the bank's business will always be related to money issues which are its main merchandise.

Sharia banks or known as Islamic banks have an operating system in which they do not rely on interest. Islamic banks, or commonly referred to as interest-free banks, can be said to be financial or banking institutions that their operational and products are developed based on the Al-Quran and the Hadith of the Prophet SAW. Or in other words, Islamic banks are financial institutions whose main business is providing financing and other services in the payment traffic and circulation of money whose operations are adjusted to the principles of Islamic law. (Karnaen Perwataatmadja and M. Syafe 'i Antonio).

B. CAR

Capital Adequacy Ratio (CAR) is the basis for assessing capital ratios in the context of the level of health that is owned by each bank. The amount of CAR is measured through the ratio between own capital to Risk Weighted Assets (RWA). Since the crisis period until now CAR has become the main reference in determining the health of banks (SK Dir BI, April 1999), the Governor of Bank Indonesia officially announced the implementation of the Indonesian Banking Architecture (API), which is a blueprint for future national banking direction and order. One of the API programs is to require minimum capital for commercial banks (including BPD) to Rp. 100 billion with a minimum CAR of 8% no later than 2010

According to Dendawijaya (2003), the higher the value of CAR indicates that the bank has sufficient capital to support its needs and to bear the risks posed including credit risk. Bank capital conditions were relatively stable during the second semester of 2010 at the level of 16-17%. At the end of the second semester of 2010, banking CAR was 16.97%, down from 17.4% in the first semester of 2010. The decline in CAR was mainly due to an increase in the average Risk Weighted Assets (RWA) that exceeded the increase in average capital in the second semester of 2010. The average capital at the end of the second semester of 2010 rose only 5.66% while the average RWA for the period same increase of 18.29%. The total banking capital as of December 2010 reached Rp330 trillion while banking ATMR reached Rp1,944.30 trillion. (Financial Stability Review, 2011)

C. Profitability

Sharia Profitability is the ability of a company to generate profits and measure the level of operational efficiency and efficiency in using its assets (Chen, 2004). According to Petronila and Mukhlasin (2003) profitability is a picture and management performance in managing the company. Measurement of profitability can use several indicators such as operating profit, net income, return on investment / assets, and return on owner's equity.

According to Balanchandher, bank profitability is determined by factors that can be controlled by management and factors beyond management's control. The factors that can be controlled by management are the factors that describe the management policies and decisions of the bank itself, such as fund raising, capital management, liquidity management, and cost management. While the factors beyond management's control include environmental factors and bank characteristics, environmental factors include market structure, regulation, inflation, interest rates, and market growth. The characteristics of banks include: company size and ownership.

According to M. Kabir Hassan (2002), the level of bank profitability is influenced by several factors both internal and external. Some of these factors are bank characteristics, macro indicators, taxation, financial structure, asset quality, capital, and liquidity.

D. National income

Gross Domestic Product is all goods and services produced by the people in a country in a certain period, including the goods and services produced by foreigners who are domiciled or working in that country. The findings of the previous study indicate that national income has a positive influence on the profitability of Islamic banks, including in research conducted by Samir Abderrazek Srairi (2009).

National income can be used as an illustration of the structure and function of the economy as a whole, macroeconomic analysis in the success of an economy will tend to view consumers or households as units and companies as business sectors, actors in the public sector, both at the local and central levels. The magnitude also includes national output, aggregate consumption and investment expenditures, national savings, the level of general prices and inflation, unemployment and employment, currency exchange rates, balance of payments, government budgets, interest rates, demand for money, money supply , and so forth.

Job opportunities, price stability, and economic growth are often planned as national development goals to prevent inflation and try to encourage economic growth. The economic success of a nation can also be seen from the results of the calculation of national income and national products. National income is an important measure of economic performance both short and long term. National products such as the amount of research and new innovations found and developed. These innovations make it possible for the emergence of new industries that can affect the acceleration of economic growth, both in the short and long term.

E. Inflation

Inflation is the tendency of prices to increase in general and continuously. The price increase of only one or two items cannot be called inflation unless the increase extends (or results in an increase) to other goods. Research conducted by Hassan and Bashir (2002) shows that inflation has a negative influence on the profitability of Islamic banks. There are several theories about inflation, namely as follows:

a) Quantity Theory

This theory is the oldest theory that addresses inflation, but in its development this theory has been refined by economists at the University of Chicago, so this theory is also known as the monetaryist model. This theory emphasizes the role of the money supply and the expectations of the public regarding the increase in prices against the emergence of inflation.

The essence of this theory is as follows:

1. Inflation can only occur if there is an increase in the volume of money in circulation, both currency and demand.

2. The inflation rate is also determined by the rate of increase in the money supply and by the expectations of the public regarding future price increases.

b) Keynesian Model

The rationale for this inflation model from Keynes is that inflation occurs because people want to live beyond the limits of their economic capacity, thus causing the people's effective demand for goods (aggregate demand) to exceed the amount of goods available (aggregate supply), resulting in an inflationary gap. This limited amount of inventory (aggregate supply) occurs because in the short term production capacity cannot be developed to compensate for the increase in aggregate demand. Therefore, similar to the views of monetarists, these Keynesian models are more widely used to explain the phenomenon of inflation in the short term.

F. BOPO

BOPO or Operational Efficiency Ratio is a comparison between total operating costs and total operating income. This ratio is used to measure the level of efficiency and ability of banks to carry out their operations (Dendawijaya, 2003). The higher the BOPO ratio, the bank's performance will decrease. Likewise, vice versa, the lower the level of the BOPO ratio means the better the performance of the bank's management (Riyadi, 2006).

The success of the bank is based on a quantitative assessment of bank profitability that can be measured using the ratio of operational costs to operational income (Kuncoro and Suhardjono, 2002). This is due to each increase in operations will be due to the decline in pre-tax profits and ultimately will reduce profits or profitability (ROA) of the bank concerned. According to Dendawijaya (2001) based on Bank Indonesia regulations the amount of normal BOPO ranges from 94% -96%

3. Research Methods

The variables in this study are divided into two, namely the dependent variable (dependent) and the independent variable (free). The dependent variable in this study is CAR Islamic banks. While the independent variables in this study are Profitability that is proxied by ROE, macroeconomic conditions that are proxied by national income, inflation, and BOPO

This research is quantitative research using time series data. Research data is obtained from the Sharia Banking Statistics document issued by Bank Indonesia. Based on data tabulation and complete information from the document. Research Location is Syariah Mandiri Bank which is used as research sample. Bank Indonesia and IDX are also used as the location of research to perfect the financial report data issued by the two government institutions, so that Bank Syariah Mandiri data and financial reports are expected to be collected perfectly. The time of the study focused on the Bank Syariah Mandiri financial statements and the period of research is the first quarter of 2010 until the fourth quarter of 2014.

Data analysis was performed using descriptive statistics and inferential statistics, to analyze the profile of research data using descriptive statistics, while to test hypotheses, inferential statistical analysis (Regression and Multiple Correlation) was used with the help of SPSS software (Statistical Package for Social Science) version 22.

RESEARCH VARIABLES		
Variables	Explanations	Sources
variabel dependen		
Capital Adequacy Ratio (CAR)	Bank capital adequacy percentage	Sharia Banking Statistics (OJK)
variabel independen		
Return on Equity (ROE)	Percentage of net income after tax to total equity	Sharia Banking Statistics(OJK)
National Income (GDP)	Percentage of cumulative growth rate of Gross Domestic Product according to business field	National Central Statistics Agency data report
Inflation	Inflation Percentage	Indonesian Monetary Policy Report - Bank Indonesia
BOPO	Sharia Bank BOPO percentage published by OJK	Sharia Banking Statistics (OJK)

Table 1: Research Variables

Based on the theoretical description above, it can be compiled and illustrated in the framework as follows:

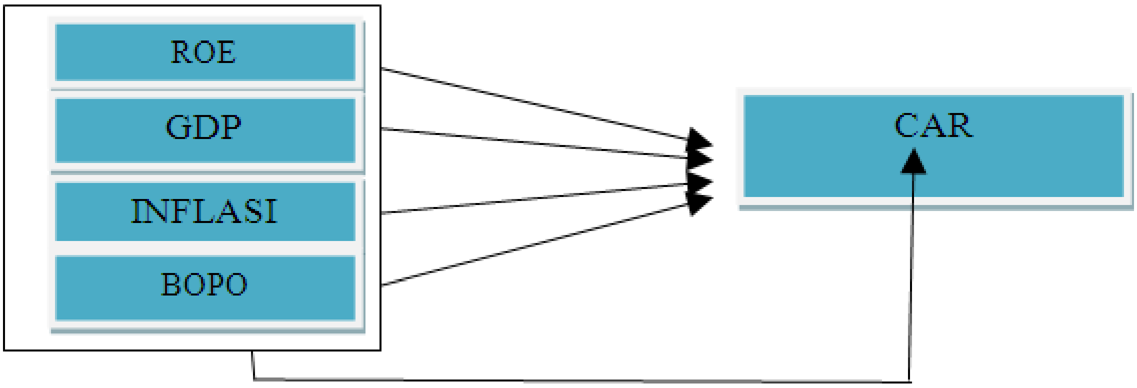

Fig 1: Research Framework

4. Discussion

a) In **F test**

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5,951	4	1,488	11,119	,004[b]
	Residual	,937	7	,134		
	Total	6,888	11			

a. Dependent Variable: CAR

b. Predictors: (Constant), BOPO, GDP, INFLASI, ROE

The F Test Table shows that the calculated F value is 11.119 with the level (sig) 0.004 or can be a significance value of 0.004 smaller than the probability value of 0.005.

"This proves that there is a significant influence between ROE, GDP, Inflation, Interest Rates, and BOPO on CAR or Simultaneously (together) ROE, GDP, Inflation, Interest Rates, and BOPO significantly towards CAR

b). T Test

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21,800	4,824		4,519	,003
	ROE	,017	,048	,100	,362	,728
	GDP	-1,958	1,441	-,431	-1,359	,216
	INFLASI	,236	,125	,466	1,886	,101
	BOPO	-,015	,023	-,116	-,634	,546

a. Dependent Variable: CAR

The t-test (PARTIAL) statistical test shows:

1. Effect of ROE (x1) on CAR (Y)

   ROE has a significance value (Sig.) 0.728 in the Coefficientsa table with a value of α (significant degree) 0.05, which means 0.728> 0.05 or there is no significant effect of ROE on the dependent variable (CAR).

2. Effect of GDP (x2) on CAR (Y)

   GDP has a significance value (Sig.) 0.216 in the Coefficientsa table with a value of α (significance degree) 0.05 which means 0.216> 0.05 or There is a significant effect of National Income (GDP) on the dependent variable (CAR)

3. Effect of Inflation (x3) on CAR (Y)
   Inflation has a significance value (Sig,) 0.101 with a value of α (significance degree) 0.05 which means 0.101> 0.05 or there is no significant influence between Inflation on (CAR).

4. BOPO (x4) to CAR (Y)
The interest rate has a significant value (Sig,) 0.546 with a value of α (significance degree) 0.05, which means 0.546> 0.05 or there is no significant influence between the interest rate on (CAR).

c) Determinant Coefficient (R2)

Table 4:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,930[a]	,864	,786	,36580

a. Predictors: (Constant), BOPO, GDP, INFLASI, ROE

Determination test shows that Adjusted R Square 0.864 shows that ROE, GDP, Inflation, and BOPO affect 86.4% of CAR and the remaining 13.6% is influenced by other variables not examined.

d) Analysis of Multiple Linear Regression

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21,800	4,824		4,519	,003
	ROE	,017	,048	,100	,362	,728
	GDP	-1,958	1,441	-,431	-1,359	,216
	INFLASI	,236	,125	,466	1,886	,101
	BOPO	-,015	,023	-,116	-,634	,546

a. Dependent Variable: CAR

The multiple linear regression test results show that:

1. Value (constant) indicates a value of 21.800 means that if the value of the independent variable (free) zero then the value of the dependent variable (dependent) amounted to 21.800 in this case if the ROE ratio, GDP, inflation, and ROA is worth 0.00 (zero), the CAR will increased by 21.8% (rounding)

2. ROE variable value shows a positive sign valued at 0.100, which means that every increase of 1 (one) value on the ROE variable value in this case increases 1% CAR ratio will increase the value of variable Y (CAR Ratio) by 0.1%

3. The value of the GDP variable shows a negative sign valued at -0.431 meaning that every increase of 1 (one) value in the GDP variable in this case increases 1% the ratio of GDP will decrease the value of variable Y (ROE ratio) by 0.431%

4. The value of the Inflation variable also shows a positive sign rated at 0.466, which means that every increase of 1 (one) value in the Inflation variable will increase the value of variable Y, in this case every 1% increase in the Inflation Ratio (CAR) of 0.466%.

5. The value of the BOPO variable shows a negative sign of 0.116, which means that every increase of 1 (one) value in the Inflation variable will increase the value of variable Y, in this case every increase of 1% the Inflation Ratio will decrease (CAR) by 0.116%

5. Conclusion

Based on the tests that have been conducted, it can be concluded that ROE has a positive effect on the CAR ratio of sharia banking. This study also found that GDP has a negative effect on the CAR ratio of Sharia Banks, besides that in this study found that the inflation rate has a positive effect on the CAR ratio of sharia banks, and tests have found that BOPO has a negative effect on the CAR ratio of sharia banks in Indonesia. So that it can be concluded that ROE and inflation increase capital in sharia banks in Indonesia so that the level of ROE and inflation must be maintained properly.

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