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Assessing the Profitability of Islamic Commercial Banks in Indonesia Through the Islamicity Show Index

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Abstract: Islamicity Show Index as a quantify in evaluating the show of Islamic banking. The Islamicity Show Index in this study includes looking at the Profit Sharing Ratio (PSR), Equitable Distribution Ratio (EDR) and Islamic Income Ratio (IsIR) ratios.. Therefore, this study to evaluate the impact of Profit Sharing Ratio (PSR), Equitable Distribution Ratio (EDR) and Islamic Income Ratio (IsIR) on Profitability. This type of research is a quantitative research. This research is based on the financial reports of all Islamic Commercial Banks (BUS) registered with the Financial Services Authority (OJK) for 2014-2023, totaling 14 BUS. Sampling in this research used purposive sampling so that a total sample of 5 Islamic banks for the 2014-2023 period, the total sample is 50 financial statements of Islamic banks. The results of the study found that Profit Sharing Ratio (PSR) has a negative effect on profitability, while the Equitable Distribution Ratio (EDR) and Islamic Income Ratio (IsIR) have no effect on profitability.

Keywords: Islamicity Show Index; Profit Sharing Ratio (PSR); Equitable Distribution Ratio (EDR); Islamic Income Ratio (IsIR); Profitabilitas.

A. Introduction

Islamic banks are well-known interest-free banks. Characteristics of the profit-sharing system of Islamic banking is an alternative banking system that is beneficial between the community and the bank, investment ethics and avoids speculation in the financial sector (Bello & Abubakar, 2014).

Offer a variety of banking products and services through a more diverse financial system. Sharia banking, as a component of the Islamic finance scheme, is also chosen for purposes such as upholding justice, cleaning up usury, gharar, maysir and other objectives stipulated by Sharia (Alhammedi et al., 2020).

The emergence of transaction activities between Islamic and conventional banking is unavoidable, because conventional financial institutions still dominate all transactions in all countries (Hidayah et al., 2019). Acquisition of unlawful funds from interest from credit transactions, income from businesses that are predominately interest-bearing loans, income from gambling, alcohol, immoral goods and crime (Firmansyah et al., 2022).

The Fatwa of the MUI National Sharia Council (DSN) explains that non-Sharia transactions involve traditional financial institutions such as traditional banks and insurance companies that invest in issuers (companies) that have an interest in them



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(Badri, 2019). Debt greater than company equity to Ribawi financial institutions, gambling or prohibited businesses or suppliers of harmful goods and services (Prasetyo, 2017). Therefore, sharia banking must be measured against sharia objectives to find out whether its operational implementation is in line with sharia principles (Nugroho et al., 2019).

The growth of total assets of Islamic banks in Indonesia has grown significantly. These developments can be seen in the following figure:

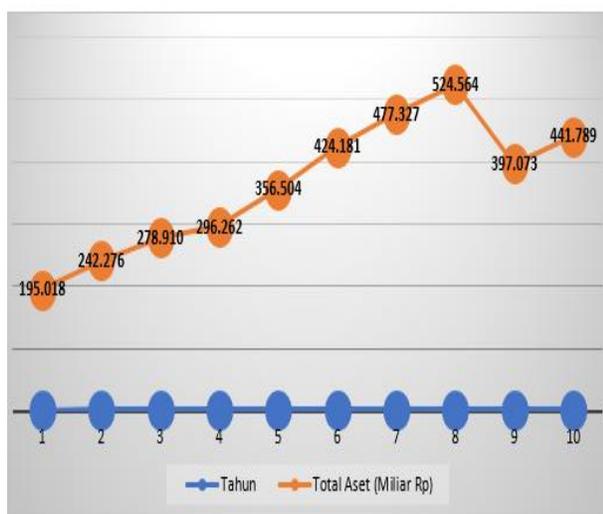


Figure 1. Development of Total Assets of Islamic Banking in Indonesia

Source: Sharia Banking Statistics (processed, 2024)

The strong growth of Islamic banking wealth is influenced by an increase in the acquisition and distribution of assets managed by Islamic banks. This shows that public trust in Islamic banks is increasing because Islamic banks are believed to be able to manage funds deposited by the public. Even though Islamic bank finance has experienced a decline in 2020 due to the Covid-19 pandemic which is threatening the world.

The development of Islamic banking must be balanced with the show of Islamic

banks whose are disclosed through their financial reports based on Islamic values. Financial show is one of the fundamental determinants of a company's financial health. In Islamic banks can be examined using profitability through Return on Assets (ROA) (Azmy, 2018).

Return on Assets (ROA) which is used to quantify the capability of bank supervision to generate profits (profit) as a whole (Suhendro, 2018). This theory states that a company is not a company that acts solely for itself, but must be able to provide benefits to all of the company's stakeholders (Tanjung & Wahyudi, 2019).

Hamed (2004) develop Islamicity Show Index calculations as a method that can evaluate bank show not only from a financial perspective, but also to evaluate Islamic principles practiced in Islamic banking. Some of them are reviewed from the Profit Sharing Ratio (PSR), Equity Distribution Ratio (EDR) and Islamic Income Ratio (IsIR).

Profit Sharing Ratio(PSR) is a ratio that seeks information about the capacity of Islamic banks for meet their company's profit sharing goals (Purwati, 2022). The PSR of Islamic banks shows the ability to distribute money to more productive sectors. When the PSR increases, it will determine the income and profits generated by the bank (Sari & Aisyah, 2022) and impact on the growth of financial show.

Growth in financial show will have implications for increasing Return On Assets (ROA), supporting research results Pudyastuti (2018) and Nurdin & Suyudi (2019) found that *Profit Sharing Ratio* (PSR) have a significant effect on increasing profitability. Unlike the results of research Indrayani & Anwar (2022) found that the Profit Sharing Ratio (PSR) has impact on lowering profitability. Then filed:

H1: Profit Sharing Ratio (PSR) has a positive and significant effect on profitability.

Equitable Distribution Ratio (EDR) is used to measure what percentage of income is distributed to stakeholders, according to the amount of money spent on qardh and gifts, staff costs, dividend payments to shareholders, and the bank itself (Rahmani et al., 2020). For each of these, the amount distributed is calculated as total income minus zakat and taxes. This ratio shows the average size of the income distribution for various stakeholders. Improved financial show increases profitability which has an impact on ROA (Return On Assets) growth.

Supporting research Setiawan et al., (2021), the *Equitable Distribution Ratio* (EDR) had a significant positive effect Profit. Contrary to research findings Rahmaniar (2020), *Equitable Distribution Ratio* (EDR) has a significant negative impact on profitability. Whereas *Equitable Distribution Ratio* (EDR) has no effect on profitability by Nurdin & Suyudi (2019). Then filed:

H2: *Equitable Distribution Ratio* (EDR) has a positive and significant effect on profitability.

Islamic Income Ratio (IsIR) is a ratio that calculates the percentage of halal revenue in total sales (Rahmani et al., 2020). The value of halal profit can be determined from the profit received as Mudharib from the supervision of Islamic Bank funds (Suryadi et al., 2020).

Improved financial show increases profitability which has an impact on ROA (Return On Assets) growth through high halal income and efficiency of Islamic banking. Support research Indrayani & Anwar (2022), *Islamic Income Ratio* (IsIR) concludes that the *Islamic Income Ratio* (IsIR) has significant effect on increasing profitability. Meanwhile Faith & Umiyati (2022), *Islamic income ratio* (IsIR) has no impact on profitability. Then filed:

H3: *Islamic Income Ratio* (IsIR) has a positive and significant effect on profitability.

Therefore, based on the phenomena and results of previous research which found conflicting results regarding the effect of *Profit Sharing Ratio* (PSR), *Equitable Distribution Ratio* (EDR) and *Islamic Income Ratio* (IsIR) on profitability, it is important for researchers to understand this to be re-examined There are several aspects that can affect the rate of return on investment (ROA) of Islamic banking in Indonesia.

B. Materials and Methods

This type of research is a descriptive quantitative method that purpose to impact of *Profit Sharing Ratio* (PSR) (X1), *Equitable Distribution Ratio* (EDR) (X2) and *Islamic Income Ratio* (IsIR) (X3) on *Return On Assets* (ROA) (Y).

This research is based on the financial reports of all Islamic Commercial Banks (BUS) registered with the Financial Services Authority (OJK) for 2014-2023, totaling 14 BUS. Although in research purposive sampling and the criteria used are as follows:

- 1) Islamic bank accounts released consecutively between 2014 and 2023 are profitable
- 2) Present related information needed by this research.

Table 1. List of Samples

No	Name of Islamic Bank
1	Muamalat
2	Mega Syariah
3	Syariah BCA
4	Panin Dubai Syariah
5	Bukopin Syariah
Total Sample 5 x 10 years = 50 samples	

The analysis tool is Eviews 12, which has an econometric model that works as a panel data regression analysis model that is selected from the three models above, namely the interaction model, the fixed effect model and the random model.

C. Result and Discussion

Table 2. Chow test results

Effect Test	Statistics	Df	Prob.
Cross-section F	1618	50,21	0.0000
Chi-square cross-sections	44,325	50	0.0000

Source : Output Eviews V.12

The Chow test in table 2 found that the Chi-Square probability percentage was 0.000, whose mode the hypothesis is accepted. The fixed effect model is used in this research because the fixed effect model is selected using the Chow test. After completing the Chow test, the next step is to look at the results of the Hausman test.

Table 3. Hausman Test Results

Effect Test	Chi-sq statistics	Chi-sqdf	Prob.
Cross-section F	10,416	4	0.0002

Source : Output Eviews V.12

Cross-sectional probability. F in table 3 is 0.0002 (0.0002 <0.05) so it is interpret that the fixed effect model is over suitable for use in this study.

The panel data regression model for the random effect can be seen in the test results in Table 4 below:

Table 4 Regression Results of Panel Data Model Random Effects

Variable	coefficient	Std. Error	t statistics	Prob.
R Square d	0.430516			
Adjusted R Squared	0.310547			
C	3.317194	9.153432	7.365781	0.0000
Profit Sharing Ratio (PSR)	-	-	-	-
	1.162365	0.310694	3.013590	0.0004

Equitable Distribution Ratio (EDR)	0.138367	0.851786	1.678441	0.1654
Islamic Income Ratio (IsIR)	0.173476	0.314445	1.361354	0.1427

Adjusted R-squared value was found to be 0.310547 or 31.05% meaning that the Profit Sharing Ratio, Equitable Distribution Ratio and Islamic income ratio has a relationship with profitability of 31.05%. While 68.95% is influenced by other variables not included in this research. Then the regression model parallel in this research is as follows.

$$\text{Profitability} = 3.31794 - 1.162365 \text{ PSR} + 0.138367 \text{ EDR} + 0.173476 \text{ IsIR} + e$$

Discussion

Profit Sharing Ratio (PSR) was found to have a significant negative effect on ROA with a probability value of 0.0004 so that hypothesis one was rejected. The higher the Profit Sharing Ratio (PSR), the lower the profitability of Islamic banking. Provision of financing that creates a negative relationship between financing and financial show requires high vigilance on the part of the Bank. The company's profitability decreases with the percentage of profit sharing financing increases because the percentage of non-performing loans increases.

The results of this study support previous research by combining research Indrayani & Anwar (2022) And Nawangsari et al., (2022) argues that the profit sharing ratio (PSR) has impact a negative on profitability. Islamic banking dividend financing fails to maximize revenue growth resulting in a decrease in the value of ROA. While research Pudyastuti (2018) And Nurdin & Suyudi (2019), Profit Sharing Ratio (PSR) have a impact on profitability.

Equitable Distribution Ratio (EDR) was found to have no significant effect on profitability (ROA) with a probability

percentage of 0.1678441 so that the second hypothesis was rejected. An increase in the Equitable Distribution Ratio is not related to profitability (ROA), this is because the allocation of Islamic Banks to the distribution of dividends, payment of employee salaries and benevolence funds does not affect the assessment of shareholders and customers of profitability.

Nurdin & Suyudi (2019) support the results that the Equitable Distribution Ratio (EDR) has no effect on profitability. Temporary Rahmaniar (2020) And Setiawan et al., (2021) found that the Equitable Distribution Ratio (EDR) is significantly positive on profitability. It is also different from the research results Rahmaniar (2020) found that the Equitable Distribution Ratio (EDR) has a significant negative effect on profitability.

Islamic Income Ratio (IsIR) has no significant effect on profitability (ROA) with a probability value of 0,1427 so the third hypothesis is rejected. This means that an increase in Islamic investment by Islamic banks shows an increase in Islamic income earned but is not related to the high and low profitability of Islamic banking. This is because the non-halal income received by Islamic banks is in the form of fines, interest, and others. does not count as income but becomes a source of charitable funds and other social funds to be used as donations or payments, Qardulhasan loans and others. forwarded to commercial institutions, so it does not impact on profitability.

Faith & Umiyati (2022) and Afandi & Haryono (2022) support of this results that *Islamic Income Ratio* (IsIR) has no effect on profitability. However, the results are different from the results of the study Indrayani & Anwar (2022) that the Islamic Income Ratio (IsIR) had a positive and significant effect on profitability. The findings are different Felani et al., (2020) that the Islamic income ratio is negatively significant to profitability.

D. Conclusion

Based on the results of the description and analysis that has been carried out in this study, the following conclusions are obtained:

1. *Profit Sharing Ratio*(PSR) has a significant negative impact on profitability (ROA). The higher the Profit Sharing Ratio (PSR) will affect the lower profitability of Islamic banking.
2. *Equitable Distribution Ratio*(EDR) has no significant impact on profitability (ROA). This means that increasing the Equitable Distribution Ratio does not guarantee an increase in profitability.
3. *Islamic Income Ratio*(IsIR) has no significant effect on profitability (ROA). This means that the increase in Islamic investment by Islamic banks does not impact the high or low profitability of Islamic banking.

Suggestion

It is better for future researchers to add independent variables and dependent variables that can affect financial show, or use variables that are not used in this study to look for new variables that can improve financial show.

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